

WILLIAM E. AVERA

FINCAP, INC.
Financial Concepts and Applications
Economic and Financial Counsel

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Summary of Qualifications

Ph.D. in economics and finance; Chartered Financial Analyst (CFA[®]) designation; extensive expert witness testimony before courts, alternative dispute resolution panels, regulatory agencies and legislative committees; lectured in executive education programs around the world on ethics, investment analysis, and regulation; undergraduate and graduate teaching in business and economics; appointed to leadership positions in government, industry, academia, and the military.

Employment

Principal,
FINCAP, Inc.
(Sep. 1979 to present)

Financial, economic and policy consulting to business and government. Perform business and public policy research, cost/benefit analyses and financial modeling, valuation of businesses (almost 200 entities valued), estimation of damages, statistical and industry studies. Provide strategy advice and educational services in public and private sectors, and serve as expert witness before regulatory agencies, legislative committees, arbitration panels, and courts.

*Director, Economic Research
Division,*
Public Utility Commission of Texas
(Dec. 1977 to Aug. 1979)

Responsible for research and testimony preparation on rate of return, rate structure, and econometric analysis dealing with energy, telecommunications, water and sewer utilities. Testified in major rate cases and appeared before legislative committees and served as Chief Economist for agency. Administered state and federal grant funds. Communicated frequently with political leaders and representatives from consumer groups, media, and investment community.

Manager, Financial Education,
International Paper Company
New York City
(Feb. 1977 to Nov. 1977)

Directed corporate education programs in accounting, finance, and economics. Developed course materials, recruited and trained instructors, liaison within the company and with academic institutions. Prepared operating budget and designed financial controls for corporate professional development program.

Lecturer in Finance,
The University of Texas at Austin
(Sep. 1979 to May 1981)
Assistant Professor of Finance,
(Sep. 1975 to May 1977)

Taught graduate and undergraduate courses in financial management and investment theory. Conducted research in business and public policy. Named Outstanding Graduate Business Professor and received various administrative appointments.

Assistant Professor of Business,
University of North Carolina at
Chapel Hill
(Sep. 1972 to Jul. 1975)

Taught in BBA, MBA, and Ph.D. programs. Created project course in finance, Financial Management for Women, and participated in developing Small Business Management sequence. Organized the North Carolina Institute for Investment Research, a group of financial institutions that supported academic research. Faculty advisor to the Media Board, which funds student publications and broadcast stations.

Education

Ph.D., Economics and Finance,
University of North Carolina at
Chapel Hill
(Jan. 1969 to Aug. 1972)

Elective courses included financial management, public finance, monetary theory, and econometrics. Awarded the Stonier Fellowship by the American Bankers' Association and University Teaching Fellowship. Taught statistics, macroeconomics, and microeconomics.

Dissertation: *The Geometric Mean Strategy as a Theory of Multiperiod Portfolio Choice*

B.A., Economics,
Emory University, Atlanta, Georgia
(Sep. 1961 to Jun. 1965)

Active in extracurricular activities, president of the Barkley Forum (debate team), Emory Religious Association, and Delta Tau Delta chapter. Individual awards and team championships at national collegiate debate tournaments.

Professional Associations

Received Chartered Financial Analyst (CFA) designation in 1977; Vice President for Membership, Financial Management Association; President, Austin Chapter of Planning Executives Institute; Board of Directors, North Carolina Society of Financial Analysts; Candidate Curriculum Committee, Association for Investment Management and Research; Executive Committee of Southern Finance Association; Vice Chair, Staff Subcommittee on Economics and National Association of Regulatory Utility Commissioners (NARUC); Appointed to NARUC Technical Subcommittee on the National Energy Act.

Teaching in Executive Education Programs

University-Sponsored Programs: Central Michigan University, Duke University, Louisiana State University, National Defense University, National University of Singapore, Texas A&M University, University of Kansas, University of North Carolina, University of Texas.

Business and Government-Sponsored Programs: Advanced Seminar on Earnings Regulation, American Public Welfare Association, Association for Investment Management and Research, Congressional Fellows Program, Cost of Capital Workshop, Electricity Consumers Resource Council, Financial Analysts Association of Indonesia, Financial Analysts Review, Financial Analysts Seminar at Northwestern University, Governor's Executive Development Program of Texas, Louisiana Association of Business and Industry, National Association of Purchasing Management, National Association of Tire Dealers, Planning Executives Institute, School of Banking of the South, State of Wisconsin Investment Board, Stock Exchange of Thailand, Texas Association of State Sponsored Computer Centers, Texas Bankers' Association, Texas Bar Association, Texas Savings and Loan League, Texas Society of CPAs, Tokyo Association of Foreign Banks, Union Bank of Switzerland, U.S. Department of State, U.S. Navy, U.S. Veterans Administration, in addition to Texas state agencies and major corporations.

Presented papers for Mills B. Lane Lecture Series at the University of Georgia and Heubner Lectures at the University of Pennsylvania. Taught graduate courses in finance and economics for evening program at St. Edward's University in Austin from January 1979 through 1998.

Expert Witness Testimony

Testified in over 300 cases before regulatory agencies addressing cost of capital, regulatory policy, rate design, and other economic and financial issues.

Federal Agencies: Federal Communications Commission, Federal Energy Regulatory Commission, Surface Transportation Board, Interstate Commerce Commission, and the Canadian Radio-Television and Telecommunications Commission.

State Regulatory Agencies: Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Missouri, Nevada, New Mexico, Montana, Nebraska, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

Testified in 42 cases before federal and state courts, arbitration panels, and alternative dispute tribunals (89 depositions given) regarding damages, valuation, antitrust liability, fiduciary duties, and other economic and financial issues.

Board Positions and Other Professional Activities

Audit Committee and Outside Director, Georgia System Operations Corporation (electric system operator for member-owned electric cooperatives in Georgia); Chairman, Board of Print Depot, Inc. and FINCAP, Inc.; Co-chair, Synchronous Interconnection Committee, appointed by Public Utility Commission of Texas and approved by governor; Appointed by Hays County Commission to Citizens Advisory Committee of Habitat Conservation Plan, Operator of AAA Ranch, a certified

organic producer of agricultural products; Appointed to Organic Livestock Advisory Committee by Texas Agricultural Commissioner Susan Combs; Appointed by Texas Railroad Commissioners to study group for *The UP/SP Merger: An Assessment of the Impacts on the State of Texas*; Appointed by Hawaii Public Utilities Commission to team reviewing affiliate relationships of Hawaiian Electric Industries; Chairman, Energy Task Force, Greater Austin-San Antonio Corridor Council; Consultant to Public Utility Commission of Texas on cogeneration policy and other matters; Consultant to Public Service Commission of New Mexico on cogeneration policy; Evaluator of Energy Research Grant Proposals for Texas Higher Education Coordinating Board.

Community Activities

Board of Directors, Sustainable Food Center; Chair, Board of Deacons, Finance Committee, and Elder, Central Presbyterian Church of Austin; Founding Member, Orange-Chatham County (N.C.) Legal Aid Screening Committee.

Military

Captain, U.S. Naval Reserve (retired after 28 years service); Commanding Officer, Naval Special Warfare Engineering (SEAL) Support Unit; Officer-in-Charge of SWIFT patrol boat in Vietnam; Enlisted service as weather analyst (advanced to second class petty officer).

Bibliography

Monographs

Ethics and the Investment Professional (video, workbook, and instructor's guide) and *Ethics Challenge Today* (video), Association for Investment Management and Research (1995)

"Definition of Industry Ethics and Development of a Code" and "Applying Ethics in the Real World," in *Good Ethics: The Essential Element of a Firm's Success*, Association for Investment Management and Research (1994)

"On the Use of Security Analysts' Growth Projections in the DCF Model," with Bruce H. Fairchild in *Earnings Regulation Under Inflation*, J. R. Foster and S. R. Holmberg, eds. Institute for Study of Regulation (1982)

An Examination of the Concept of Using Relative Customer Class Risk to Set Target Rates of Return in Electric Cost-of-Service Studies, with Bruce H. Fairchild, Electricity Consumers Resource Council (ELCON) (1981); portions reprinted in *Public Utilities Fortnightly* (Nov. 11, 1982)

"Usefulness of Current Values to Investors and Creditors," *Research Study on Current-Value Accounting Measurements and Utility*, George M. Scott, ed., Touche Ross Foundation (1978)

"The Geometric Mean Strategy and Common Stock Investment Management," with Henry A. Latané in *Life Insurance Investment Policies*, David Cummins, ed. (1977)

Investment Companies: Analysis of Current Operations and Future Prospects, with J. Finley Lee and Glenn L. Wood, American College of Life Underwriters (1975)

Articles

"Should Analysts Own the Stocks they Cover?" *The Financial Journalist*, (March 2002)

- "Liquidity, Exchange Listing, and Common Stock Performance," with John C. Groth and Kerry Cooper, *Journal of Economics and Business* (Spring 1985); reprinted by National Association of Security Dealers
- "The Energy Crisis and the Homeowner: The Grief Process," *Texas Business Review* (Jan.-Feb. 1980); reprinted in *The Energy Picture: Problems and Prospects*, J. E. Pluta, ed., Bureau of Business Research (1980)
- "Use of IFPS at the Public Utility Commission of Texas," *Proceedings of the IFPS Users Group Annual Meeting* (1979)
- "Production Capacity Allocation: Conversion, CWIP, and One-Armed Economics," *Proceedings of the NARUC Biennial Regulatory Information Conference* (1978)
- "Some Thoughts on the Rate of Return to Public Utility Companies," with Bruce H. Fairchild in *Proceedings of the NARUC Biennial Regulatory Information Conference* (1978)
- "A New Capital Budgeting Measure: The Integration of Time, Liquidity, and Uncertainty," with David Cordell in *Proceedings of the Southwestern Finance Association* (1977)
- "Usefulness of Current Values to Investors and Creditors," in *Inflation Accounting/Indexing and Stock Behavior* (1977)
- "Consumer Expectations and the Economy," *Texas Business Review* (Nov. 1976)
- "Portfolio Performance Evaluation and Long-run Capital Growth," with Henry A. Latané in *Proceedings of the Eastern Finance Association* (1973)
- Book reviews in *Journal of Finance* and *Financial Review*. Abstracts for *CFA Digest*. Articles in *Carolina Financial Times*.

Selected Papers and Presentations

- "Economic Perspective on Water Marketing in Texas," 2009 Water Law Institute, The University of Texas School of Law, Austin, TX (Dec. 2009).
- "Estimating Utility Cost of Equity in Financial Turmoil," SNL EXNET 15th Annual FERC Briefing, Washington, D.C. (Mar. 2009)
- "The Who, What, When, How, and Why of Ethics," San Antonio Financial Analysts Society (Jan. 16, 2002). Similar presentation given to the Austin Society of Financial Analysts (Jan. 17, 2002)
- "Ethics for Financial Analysts," Sponsored by Canadian Council of Financial Analysts: delivered in Calgary, Edmonton, Regina, and Winnipeg, June 1997. Similar presentations given to Austin Society of Financial Analysts (Mar. 1994), San Antonio Society of Financial Analysts (Nov. 1985), and St. Louis Society of Financial Analysts (Feb. 1986)
- "Cost of Capital for Multi-Divisional Corporations," Financial Management Association, New Orleans, Louisiana (Oct. 1996)
- "Ethics and the Treasury Function," Government Treasurers Organization of Texas, Corpus Christi, Texas (Jun. 1996)
- "A Cooperative Future," Iowa Association of Electric Cooperatives, Des Moines (December 1995). Similar presentations given to National G & T Conference, Irving, Texas (June 1995), Kentucky Association of Electric Cooperatives Annual Meeting, Louisville (Nov. 1994), Virginia, Maryland, and Delaware Association of Electric Cooperatives Annual Meeting, Richmond (July 1994), and Carolina Electric Cooperatives Annual Meeting, Raleigh (Mar. 1994)

- "Information Superhighway Warnings: Speed Bumps on Wall Street and Detours from the Economy," Texas Society of Certified Public Accountants Natural Gas, Telecommunications and Electric Industries Conference, Austin (Apr. 1995)
- "Economic/Wall Street Outlook," Carolinas Council of the Institute of Management Accountants, Myrtle Beach, South Carolina (May 1994). Similar presentation given to Bell Operating Company Accounting Witness Conference, Santa Fe, New Mexico (Apr. 1993).
- "Regulatory Developments in Telecommunications," Regional Holding Company Financial and Accounting Conference, San Antonio (Sep. 1993)
- "Estimating the Cost of Capital During the 1990s: Issues and Directions," The National Society of Rate of Return Analysts, Washington, D.C. (May 1992)
- "Making Utility Regulation Work at the Public Utility Commission of Texas," Center for Legal and Regulatory Studies, University of Texas, Austin (June 1991)
- "Can Regulation Compete for the Hearts and Minds of Industrial Customers," Emerging Issues of Competition in the Electric Utility Industry Conference, Austin (May 1988)
- "The Role of Utilities in Fostering New Energy Technologies," Emerging Energy Technologies in Texas Conference, Austin (Mar. 1988)
- "The Regulators' Perspective," Bellcore Economic Analysis Conference, San Antonio (Nov. 1987)
- "Public Utility Commissions and the Nuclear Plant Contractor," Construction Litigation Superconference, Laguna Beach, California (Dec. 1986)
- "Development of Cogeneration Policies in Texas," University of Georgia Fifth Annual Public Utilities Conference, Atlanta (Sep. 1985)
- "Wheeling for Power Sales," Energy Bureau Cogeneration Conference, Houston (Nov. 1985).
- "Asymmetric Discounting of Information and Relative Liquidity: Some Empirical Evidence for Common Stocks" (with John Groth and Kerry Cooper), Southern Finance Association, New Orleans (Nov. 1982)
- "Used and Useful Planning Models," Planning Executive Institute, 27th Corporate Planning Conference, Los Angeles (Nov. 1979)
- "Staff Input to Commission Rate of Return Decisions," The National Society of Rate of Return Analysts, New York (Oct. 1979)
- "Discounted Cash Life: A New Measure of the Time Dimension in Capital Budgeting," with David Cordell, Southern Finance Association, New Orleans (Nov. 1978)
- "The Relative Value of Statistics of Ex Post Common Stock Distributions to Explain Variance," with Charles G. Martin, Southern Finance Association, Atlanta (Nov. 1977)
- "An ANOVA Representation of Common Stock Returns as a Framework for the Allocation of Portfolio Management Effort," with Charles G. Martin, Financial Management Association, Montreal (Oct. 1976)
- "A Growth-Optimal Portfolio Selection Model with Finite Horizon," with Henry A. Latané, American Finance Association, San Francisco (Dec. 1974)
- "An Optimal Approach to the Finance Decision," with Henry A. Latané, Southern Finance Association, Atlanta (Nov. 1974)

- "A Pragmatic Approach to the Capital Structure Decision Based on Long-Run Growth," with Henry A. Latané, Financial Management Association, San Diego (Oct. 1974)
- "Growth Rates, Expected Returns, and Variance in Portfolio Selection and Performance Evaluation," with Henry A. Latané, Econometric Society, Oslo, Norway (Aug. 1973)

DIVIDEND YIELD

		(a)	(b)	
	<u>Company</u>	<u>Price</u>	<u>Dividends</u>	<u>Yield</u>
1	Alliant Energy	\$ 41.17	\$ 1.70	4.1%
2	Ameren Corp.	\$ 32.07	\$ 1.54	4.8%
3	American Elec Pwr	\$ 38.81	\$ 1.84	4.7%
4	CenterPoint Energy	\$ 20.00	\$ 0.79	4.0%
5	Cleco Corp.	\$ 35.92	\$ 1.09	3.0%
6	CMS Energy	\$ 20.64	\$ 0.84	4.1%
7	DTE Energy Co.	\$ 51.36	\$ 2.32	4.5%
8	Edison International	\$ 39.75	\$ 1.29	3.2%
9	Entergy Corp.	\$ 68.58	\$ 3.32	4.8%
10	FirstEnergy Corp.	\$ 44.65	\$ 2.20	4.9%
11	Great Plains Energy	\$ 20.74	\$ 0.83	4.0%
12	Hawaiian Elec.	\$ 25.51	\$ 1.24	4.9%
13	IDACORP, Inc.	\$ 40.18	\$ 1.20	3.0%
14	Integrus Energy Group	\$ 51.48	\$ 2.72	5.3%
15	ITC Holdings Corp.	\$ 73.07	\$ 1.38	1.9%
16	OGE Energy Corp.	\$ 51.50	\$ 1.52	3.0%
17	Pepco Holdings	\$ 19.44	\$ 1.08	5.6%
18	PG&E Corp.	\$ 40.42	\$ 1.82	4.5%
19	Pinnacle West Capital	\$ 45.93	\$ 2.10	4.6%
20	Portland General Elec.	\$ 29.41	\$ 1.06	3.6%
21	PPL Corp.	\$ 29.41	\$ 1.40	4.8%
22	Pub Sv Enterprise Grp	\$ 33.22	\$ 1.37	4.1%
23	SCANA Corp.	\$ 42.21	\$ 1.94	4.6%
24	Sempra Energy	\$ 53.08	\$ 1.92	3.6%
25	TECO Energy	\$ 18.33	\$ 0.85	4.6%
26	Westar Energy	\$ 27.09	\$ 1.28	4.7%
	Average			4.2%

(a) Average of closing prices for 30 trading days ended Nov. 30, 2011.

(b) www.valueline.com (retrieved Nov. 17, 2011).

GROWTH RATES

	(a)	(a)	(b)	(c)	(e)
	Dividend	Earnings Growth			br+sv
<u>Company</u>	<u>Growth</u>	<u>V Line</u>	<u>IBES</u>	<u>Zacks</u>	<u>Growth</u>
1 Alliant Energy	6.0%	7.0%	4.9%	6.5%	5.6%
2 Ameren Corp.	-3.0%	-2.0%	-3.4%	4.0%	2.5%
3 American Elec Pwr	4.0%	4.5%	4.0%	4.0%	5.0%
4 CenterPoint Energy	3.0%	3.0%	6.2%	5.9%	4.1%
5 Cleco Corp.	9.5%	6.0%	3.0%	7.0%	4.2%
6 CMS Energy	14.0%	7.0%	5.9%	5.5%	4.8%
7 DTE Energy Co.	4.0%	4.5%	3.4%	4.2%	3.5%
8 Edison International	2.0%	-1.0%	3.2%	5.0%	4.7%
9 Entergy Corp.	2.5%	1.5%	-2.3%	2.0%	5.1%
10 FirstEnergy Corp.	0.5%	0.5%	2.8%	1.0%	5.9%
11 Great Plains Energy	0.0%	6.0%	4.1%	6.5%	2.5%
12 Hawaiian Elec.	1.0%	11.0%	13.5%	8.6%	5.0%
13 IDACORP, Inc.	4.0%	4.0%	4.5%	4.7%	4.8%
14 Integrys Energy Group	0.0%	9.0%	9.4%	4.5%	3.1%
15 ITC Holdings Corp.	5.5%	14.0%	18.0%	15.0%	14.0%
16 OGE Energy Corp.	4.0%	6.5%	8.2%	6.8%	7.0%
17 Pepco Holdings	1.0%	2.5%	7.5%	4.0%	2.6%
18 PG&E Corp.	4.5%	6.0%	1.5%	4.3%	6.0%
19 Pinnacle West Capital	1.5%	6.0%	5.6%	5.3%	3.3%
20 Portland General Elec.	3.0%	7.5%	5.9%	5.0%	4.2%
21 PPL Corp.	3.5%	7.0%	3.4%	12.2%	8.5%
22 Pub Sv Enterprise Grp	1.5%	1.0%	1.4%	2.0%	7.1%
23 SCANA Corp.	2.0%	3.0%	4.5%	4.2%	5.0%
24 Sempra Energy	9.0%	3.5%	7.0%	7.0%	6.1%
25 TECO Energy	4.5%	10.5%	5.4%	4.7%	5.7%
26 Westar Energy	3.0%	8.5%	5.1%	6.1%	4.9%

(a) The Value Line Investment Survey (Sep. 23, Nov. 4, & Nov. 25, 2011).

(b) www.finance.yahoo.com (Retrieved Dec. 13, 2011).(c) www.zacks.com (retrieved Dec. 13, 2011).

(d) See Exhibit WEA-4.

DCF COST OF EQUITY ESTIMATES

	<u>Company</u>	(a) <u>Dividend</u>	(a) <u>Earnings Growth</u>			(a) <u>br+sv</u>
		<u>Growth</u>	<u>V Line</u>	<u>IBES</u>	<u>Zacks</u>	<u>Growth</u>
1	Alliant Energy	10.1%	11.1%	9.0%	10.6%	9.7%
2	Ameren Corp.	1.8%	2.8%	1.4%	8.8%	7.3%
3	American Elec Pwr	8.7%	9.2%	8.8%	8.7%	9.7%
4	CenterPoint Energy	7.0%	7.0%	10.2%	9.9%	8.0%
5	Cleco Corp.	12.5%	9.0%	6.0%	10.0%	7.2%
6	CMS Energy	18.1%	11.1%	10.0%	9.6%	8.9%
7	DTE Energy Co.	8.5%	9.0%	8.0%	8.7%	8.0%
8	Edison International	5.2%	2.2%	6.4%	8.2%	7.9%
9	Entergy Corp.	7.3%	6.3%	2.6%	6.8%	10.0%
10	FirstEnergy Corp.	5.4%	5.4%	7.7%	5.9%	10.9%
11	Great Plains Energy	4.0%	10.0%	8.1%	10.5%	6.5%
12	Hawaiian Elec.	5.9%	15.9%	18.3%	13.5%	9.8%
13	IDACORP, Inc.	7.0%	7.0%	7.5%	7.7%	7.8%
14	Integrus Energy Group	5.3%	14.3%	14.7%	9.8%	8.4%
15	ITC Holdings Corp.	7.4%	15.9%	19.9%	16.9%	15.8%
16	OGE Energy Corp.	7.0%	9.5%	11.2%	9.8%	10.0%
17	Pepco Holdings	6.6%	8.1%	13.1%	9.6%	8.2%
18	PG&E Corp.	9.0%	10.5%	6.0%	8.8%	10.5%
19	Pinnacle West Capital	6.1%	10.6%	10.2%	9.9%	7.9%
20	Portland General Elec.	6.6%	11.1%	9.5%	8.6%	7.8%
21	PPL Corp.	8.3%	11.8%	8.1%	17.0%	13.3%
22	Pub Sv Enterprise Grp	5.6%	5.1%	5.5%	6.1%	11.3%
23	SCANA Corp.	6.6%	7.6%	9.1%	8.8%	9.6%
24	Sempra Energy	12.6%	7.1%	10.6%	10.6%	9.7%
25	TECO Energy	9.1%	15.1%	10.0%	9.3%	10.4%
26	Westar Energy	7.7%	13.2%	9.8%	10.8%	9.7%
Average (b)		9.4%	10.7%	9.7%	10.0%	9.5%

(a) Sum of dividend yield (page 1) and respective growth rate (page 2).

(b) Excludes highlighted figures.

BR+SV GROWTH RATE

	Company	(a)		(a)		b	r	(b)		(c)	(d)			br+sv
		EPS	DPS	2015	BVPS			Factor	Adjusted r		s	y	sv	
1	Alliant Energy	\$3.60	\$2.10		\$30.15	41.7%	11.9%	1.0192	12.2%	5.1%	0.0143	0.3653	0.52%	5.6%
2	Ameren Corp.	\$2.50	\$1.54		\$36.00	38.4%	6.9%	1.0174	7.1%	2.7%	0.0105	(0.2000)	-0.21%	2.5%
3	American Elec Pwr	\$3.75	\$2.10		\$36.00	44.0%	10.4%	1.0282	10.7%	4.7%	0.0104	0.2421	0.25%	5.0%
4	CenterPoint Energy	\$1.35	\$0.90		\$12.00	33.3%	11.3%	1.0468	11.8%	3.9%	0.0041	0.4000	0.17%	4.1%
5	Cleco Corp.	\$2.75	\$1.60		\$28.50	41.8%	9.6%	1.0269	9.9%	4.1%	0.0007	0.1857	0.01%	4.2%
6	CMS Energy	\$1.75	\$1.10		\$15.00	37.1%	11.7%	1.0334	12.1%	4.5%	0.0118	0.3023	0.36%	4.8%
7	DTE Energy Co.	\$4.25	\$2.70		\$46.50	36.5%	9.1%	1.0187	9.3%	3.4%	0.0066	0.1913	0.13%	3.5%
8	Edison International	\$3.25	\$1.40		\$40.25	56.9%	8.1%	1.0212	8.2%	4.7%	-	(0.0063)	0.00%	4.7%
9	Energy Corp.	\$7.00	\$3.60		\$65.00	48.6%	10.8%	1.0275	11.1%	5.4%	(0.0103)	0.2571	-0.27%	5.1%
10	FirstEnergy Corp.	\$3.75	\$2.30		\$37.25	38.7%	10.1%	1.0602	10.7%	4.1%	0.0833	0.2158	1.80%	5.9%
11	Great Plains Energy	\$1.75	\$1.10		\$23.50	37.1%	7.4%	1.0231	7.6%	2.8%	0.0235	(0.1463)	-0.34%	2.5%
12	Hawaiian Elec.	\$2.00	\$1.30		\$18.00	35.0%	11.1%	1.0279	11.4%	4.0%	0.0363	0.2653	0.96%	5.0%
13	IDACORP, Inc.	\$3.30	\$1.50		\$39.20	54.5%	8.4%	1.0261	8.6%	4.7%	0.0069	0.0776	0.05%	4.8%
14	Integrus Energy Group	\$4.00	\$2.72		\$41.75	32.0%	9.6%	1.0122	9.7%	3.1%	0.0028	0.1211	0.03%	3.1%
15	ITC Holdings Corp.	\$5.50	\$1.70		\$35.75	69.1%	15.4%	1.0584	16.3%	11.2%	0.0434	0.6237	2.71%	14.0%
16	OGE Energy Corp.	\$4.00	\$1.80		\$33.75	55.0%	11.9%	1.0385	12.3%	6.8%	0.0076	0.3571	0.27%	7.0%
17	Pepco Holdings	\$1.65	\$1.16		\$21.20	29.7%	7.8%	1.0226	8.0%	2.4%	0.0240	0.1167	0.28%	2.6%
18	PG&E Corp.	\$4.25	\$2.20		\$38.00	48.2%	11.2%	1.0360	11.6%	5.6%	0.0183	0.2000	0.37%	6.0%
19	Pinnacle West Capital	\$3.50	\$2.30		\$39.25	34.3%	8.9%	1.0272	9.2%	3.1%	0.0270	0.0765	0.21%	3.3%
20	Portland General Elec.	\$2.25	\$1.20		\$25.75	46.7%	8.7%	1.0211	8.9%	4.2%	0.0030	(0.0300)	-0.01%	4.2%
21	PPL Corp.	\$3.00	\$1.70		\$26.00	43.3%	11.5%	1.0774	12.4%	5.4%	0.1019	0.3067	3.12%	8.5%
22	Pub Sv Enterprise Grp	\$3.25	\$1.45		\$26.00	55.4%	12.5%	1.0315	12.9%	7.1%	(0.0000)	0.3500	0.00%	7.1%
23	SCANA Corp.	\$3.50	\$2.10		\$37.25	40.0%	9.4%	1.0444	9.8%	3.9%	0.0518	0.2158	1.12%	5.0%
24	Sempra Energy	\$5.50	\$2.50		\$52.25	54.5%	10.5%	1.0354	10.9%	5.9%	0.0061	0.2536	0.16%	6.1%
25	TECO Energy	\$1.75	\$1.05		\$13.25	40.0%	13.2%	1.0293	13.6%	5.4%	0.0076	0.3837	0.29%	5.7%
26	Westar Energy	\$2.40	\$1.44		\$23.45	40.0%	10.2%	1.0218	10.5%	4.2%	0.0343	0.2183	0.75%	4.9%

DCF MODEL - UTILITY PROXY GROUP

Exhibit WEA-4
Page 2 of 2

BR+SV GROWTH RATE

	Company	2010			2015			Chg	2015 Price			Common Shares		
		Eq Ratio	Tot Cap	Com Eq	Eq Ratio	Tot Cap	Com Eq		High	Low	Avg.	M/B	2010	2015
								Equity						Growth
1	Alliant Energy	49.5%	\$5,841	\$2,891	51.5%	\$6,805	\$3,505	3.9%	\$55.00	\$40.00	\$47.50	1.575	110.89	116.00
2	Ameren Corp.	50.9%	\$15,185	\$7,729	53.5%	\$17,200	\$9,202	3.5%	\$35.00	\$25.00	\$30.00	0.833	240.40	256.00
3	American Elec Pwr	46.7%	\$29,184	\$13,629	50.5%	\$35,800	\$18,079	5.8%	\$55.00	\$40.00	\$47.50	1.319	480.81	500.00
4	CenterPoint Energy	26.2%	\$12,199	\$3,196	31.5%	\$16,200	\$5,103	9.8%	\$25.00	\$15.00	\$20.00	1.667	424.70	430.00
5	Cleco Corp.	48.5%	\$2,718	\$1,318	58.0%	\$2,975	\$1,726	5.5%	\$40.00	\$30.00	\$35.00	1.228	60.53	60.70
6	CMS Energy	29.5%	\$9,473	\$2,795	35.5%	\$11,000	\$3,905	6.9%	\$25.00	\$18.00	\$21.50	1.433	249.60	260.00
7	DTE Energy Co.	48.7%	\$13,811	\$6,726	48.0%	\$16,900	\$8,112	3.8%	\$70.00	\$45.00	\$57.50	1.237	169.43	174.00
8	Edison International	44.3%	\$23,861	\$10,570	43.0%	\$30,400	\$13,072	4.3%	\$50.00	\$30.00	\$40.00	0.994	325.81	325.81
9	Entergy Corp.	42.1%	\$20,166	\$8,490	42.5%	\$26,300	\$11,178	5.7%	\$100.00	\$75.00	\$87.50	1.346	178.75	172.00
10	FirstEnergy Corp.	40.5%	\$21,124	\$8,555	46.5%	\$33,600	\$15,624	12.8%	\$55.00	\$40.00	\$47.50	1.275	304.84	418.22
11	Great Plains Energy	49.2%	\$5,868	\$2,887	48.5%	\$7,500	\$3,638	4.7%	\$25.00	\$16.00	\$20.50	0.872	135.71	155.00
12	Hawaiian Elec.	54.3%	\$2,733	\$1,484	53.0%	\$3,700	\$1,961	5.7%	\$30.00	\$19.00	\$24.50	1.361	94.69	108.00
13	IDACORP, Inc.	50.7%	\$3,020	\$1,531	51.0%	\$3,900	\$1,989	5.4%	\$50.00	\$35.00	\$42.50	1.084	49.41	51.00
14	Integritys Energy Group	56.8%	\$5,119	\$2,907	54.5%	\$6,025	\$3,284	2.5%	\$55.00	\$40.00	\$47.50	1.138	77.35	78.30
15	ITC Holdings Corp.	30.9%	\$3,614	\$1,117	35.0%	\$5,725	\$2,004	12.4%	\$110.00	\$80.00	\$95.00	2.657	50.72	55.00
16	OGE Energy Corp.	49.2%	\$4,653	\$2,289	49.5%	\$6,800	\$3,366	8.0%	\$60.00	\$45.00	\$52.50	1.556	97.60	100.00
17	Pepco Holdings	51.0%	\$8,292	\$4,229	52.0%	\$10,200	\$5,304	4.6%	\$30.00	\$18.00	\$24.00	1.132	225.08	250.00
18	PG&E Corp.	49.3%	\$22,863	\$11,271	53.5%	\$30,200	\$16,157	7.5%	\$55.00	\$40.00	\$47.50	1.250	395.23	425.00
19	Pinnacle West Capital	54.7%	\$6,729	\$3,681	54.0%	\$8,950	\$4,833	5.6%	\$50.00	\$35.00	\$42.50	1.083	108.77	123.00
20	Portland General Elec.	47.0%	\$3,390	\$1,593	48.0%	\$4,100	\$1,968	4.3%	\$30.00	\$20.00	\$25.00	0.971	75.32	76.50
21	PPL Corp.	39.8%	\$20,621	\$8,207	49.5%	\$36,000	\$17,820	16.8%	\$45.00	\$30.00	\$37.50	1.442	483.39	680.00
22	Pub Sv Enterprise Grp	55.2%	\$17,452	\$9,634	55.0%	\$24,000	\$13,200	6.5%	\$45.00	\$35.00	\$40.00	1.538	505.97	505.90
23	SCANA Corp.	47.1%	\$7,854	\$3,699	49.5%	\$11,650	\$5,767	9.3%	\$55.00	\$40.00	\$47.50	1.275	127.00	155.00
24	Sempra Energy	49.6%	\$18,186	\$9,020	51.0%	\$25,200	\$12,852	7.3%	\$80.00	\$60.00	\$70.00	1.340	240.45	246.00
25	TECO Energy	40.8%	\$5,318	\$2,170	47.5%	\$6,125	\$2,909	6.0%	\$25.00	\$18.00	\$21.50	1.623	214.90	220.00
26	Westar Energy	46.4%	\$5,181	\$2,404	46.0%	\$6,500	\$2,990	4.5%	\$35.00	\$25.00	\$30.00	1.279	112.13	128.00

(a) The Value Line Investment Survey (Sep. 23, Nov. 4, & Nov. 25, 2011).

(b) Computed using the formula $2 \times (1+5\text{-Yr. Change in Equity}) / (2+5\text{ Yr. Change in Equity})$.

(c) Product of average year-end "r" for 2015 and Adjustment Factor.

(d) Product of change in common shares outstanding and M/B Ratio.

(e) Computed as $1 - B/M$ Ratio.

(f) Product of total capital and equity ratio.

(g) Five-year rate of change.

(h) Average of High and Low expected market prices divided by 2014-16 BVPS.

NON-UTILITY PROXY GROUP

	(a)	Growth Rates					Cost of Equity Estimates				
		EPS					EPS				
		DPS	V-Line	IBES	Zacks	IBES	DPS	V-Line	IBES	Zacks	IBES
Company	Yield	(a)	(a)	(b)	(c)	(d)	(e)	(e)	(e)	(e)	(e)
1 Abbott Labs.	3.55%	5.5%	8.5%	9.3%	8.0%	18.2%	9.1%	12.1%	12.8%	11.6%	21.8%
2 Amgen	1.93%	0.0%	7.5%	7.6%	8.8%	11.0%	10.8%	9.4%	9.5%	10.7%	12.9%
3 AT&T Inc.	5.94%	3.5%	7.5%	4.1%	6.2%	4.8%	9.4%	13.4%	10.1%	12.1%	10.8%
4 Automatic Data Proc.	2.73%	6.5%	7.5%	11.1%	10.3%	10.5%	9.2%	10.2%	13.9%	13.0%	13.2%
5 Bard (C.R.)	0.88%	5.5%	8.5%	10.5%	10.9%	20.3%	9.4%	11.4%	11.8%	11.8%	21.1%
6 Baxter Int'l Inc.	2.27%	7.0%	9.5%	9.5%	9.3%	16.3%	9.3%	11.8%	11.8%	11.6%	16.5%
7 Becton, Dickinson	2.09%	10.5%	9.0%	9.0%	9.2%	9.2%	12.6%	11.1%	11.0%	11.3%	11.3%
8 Bristol-Myers Squibb	4.00%	3.5%	8.0%	0.3%	1.5%	8.3%	7.5%	12.0%	11.5%	14.7%	13.4%
9 Brown-Forman 'B'	1.72%	5.0%	8.5%	9.8%	13.0%	11.7%	8.7%	10.2%	11.5%	14.7%	13.4%
10 Church & Dwight	1.53%	20.5%	10.5%	11.4%	11.8%	12.5%	22.0%	12.0%	12.9%	13.3%	14.0%
11 Coca-Cola	2.74%	9.5%	10.0%	8.0%	8.0%	10.3%	12.2%	12.7%	10.7%	10.7%	13.1%
12 Colgate-Palmolive	2.67%	10.5%	10.5%	9.0%	8.8%	6.3%	13.2%	13.2%	11.6%	11.5%	9.0%
13 ConAgra Foods	3.79%	6.0%	7.5%	7.1%	8.0%	6.7%	9.8%	11.3%	10.9%	11.8%	10.5%
14 Costco Wholesale	1.13%	8.0%	9.0%	13.3%	13.5%	8.6%	9.1%	10.1%	14.5%	14.6%	9.7%
15 Everest Re Group Ltd.	2.11%	0.5%	5.5%	10.0%	15.0%	7.4%	2.6%	7.6%	12.1%	17.1%	9.5%
16 Gen'l Mills	3.18%	10.5%	8.5%	7.9%	8.0%	9.0%	13.7%	11.7%	11.1%	11.2%	12.2%
17 Heinz (H.J.)	3.54%	5.0%	8.5%	8.0%	8.0%	14.3%	8.5%	12.0%	11.5%	11.5%	17.9%
18 Hormel Foods	1.94%	12.5%	10.0%	9.5%	9.3%	10.0%	14.4%	11.9%	11.4%	11.2%	11.9%
19 Johnson & Johnson	3.48%	7.0%	5.0%	5.9%	6.0%	8.7%	10.5%	8.5%	9.4%	9.5%	12.2%
20 Kellogg	3.12%	7.0%	8.5%	8.8%	9.0%	14.4%	10.1%	11.6%	12.0%	12.1%	17.5%
21 Kimberly-Clark	3.94%	3.5%	7.0%	5.8%	6.7%	12.4%	7.4%	10.9%	9.7%	10.6%	16.3%
22 Kraft Foods	3.27%	6.0%	8.5%	10.5%	8.0%	5.7%	9.3%	11.8%	13.8%	11.3%	8.9%
23 McCormick & Co.	2.26%	7.0%	14.5%	8.4%	9.0%	20.5%	9.3%	16.8%	10.6%	11.3%	22.8%
24 McDonald's Corp.	2.99%	9.5%	9.0%	10.0%	9.6%	9.4%	12.5%	12.0%	13.0%	12.6%	12.4%
25 McKesson Corp.	0.94%	13.5%	9.5%	14.0%	12.2%	12.6%	14.4%	10.4%	15.0%	13.1%	13.5%
26 PepsiCo, Inc.	3.32%	5.0%	9.5%	8.9%	8.0%	11.3%	8.3%	12.8%	12.2%	11.3%	14.7%
27 Pfizer, Inc.	4.03%	3.0%	10.5%	3.2%	5.0%	8.7%	7.0%	14.5%	7.2%	9.0%	12.7%
28 Procter & Gamble	3.22%	10.5%	10.0%	8.8%	9.0%	5.9%	13.7%	13.2%	12.0%	12.2%	9.1%
29 Raytheon Co.	4.16%	11.5%	5.5%	9.0%	9.0%	7.4%	15.7%	9.7%	13.2%	13.2%	11.5%
30 Sherwin-Williams	1.78%	7.5%	11.0%	10.5%	10.9%	14.5%	9.3%	12.8%	12.3%	12.7%	16.3%
31 Smucker (J.M.)	2.50%	8.0%	9.5%	6.8%	8.0%	7.3%	10.5%	12.0%	9.3%	10.5%	9.8%
32 Sysco Corp.	3.91%	4.0%	8.5%	6.9%	9.0%	13.2%	7.9%	12.4%	10.8%	12.9%	17.1%
33 Verizon Communic.	5.18%	2.0%	6.0%	10.1%	5.8%	6.8%	7.2%	11.2%	15.3%	11.0%	12.0%
34 Walgreen Co.	2.64%	20.5%	11.5%	9.4%	11.0%	5.3%	23.1%	14.1%	12.0%	13.6%	7.9%
35 Wal-Mart Stores	2.53%	13.0%	8.5%	9.0%	12.6%	7.4%	15.5%	11.0%	11.5%	15.1%	9.9%
Average (f)							10.6%	11.7%	11.7%	12.0%	11.8%

(a) www.valueinvesting.com (retrieved Nov. 2, 2011).

(b) www.finance.yahoo.com (retrieved Nov. 3, 2011).

(c) www.zacks.com (retrieved Nov. 7, 2011).

(d) See Exhibit WEA-6.

(e) Sum of dividend yield and respective growth rate.

(f) Excludes highlighted figures.

NON-UTILITY PROXY GROUP

		(a)		(a)		(b)		(c)		(d)		(e)		
	Company	EPS	DPS	2015	BVPS	b	r	Factor	Adj.r	br	s	y	sv	br+sv
1	Abbott Labs.	\$6.00	\$2.20	\$20.50	\$20.50	63.3%	29.3%	1.0341	19.2%	19.2%	(0.0120)	0.7842	-0.94%	18.2%
2	Amgen	\$7.10	\$1.20	\$45.45	\$45.45	83.1%	15.6%	1.0478	16.4%	13.6%	(0.0442)	0.5868	-2.59%	11.0%
3	AT&T Inc.	\$3.35	\$2.00	\$25.80	\$25.80	40.3%	13.0%	1.0273	13.3%	5.4%	(0.0126)	0.4267	-0.54%	4.8%
4	Automatic Data Proc.	\$3.60	\$1.68	\$20.20	\$20.20	53.3%	17.8%	1.0601	18.9%	10.1%	0.0050	0.7552	0.38%	10.5%
5	Bard (C.R.)	\$8.25	\$0.90	\$38.85	\$38.85	89.1%	21.2%	1.0703	22.7%	20.2%	0.0003	0.7410	0.02%	20.3%
6	Baxter Int'l Inc.	\$6.35	\$1.60	\$19.80	\$19.80	74.8%	32.1%	1.0420	33.4%	25.0%	(0.1148)	0.7600	-8.73%	16.3%
7	Becton, Dickinson	\$8.00	\$2.50	\$37.70	\$37.70	68.8%	21.2%	1.0342	21.9%	15.1%	(0.0829)	0.7043	-5.84%	9.2%
8	Bristol-Myers Squibb	\$2.65	\$1.54	\$11.65	\$11.65	41.9%	22.7%	1.0207	23.2%	9.7%	(0.0202)	0.7088	-1.43%	8.3%
9	Brown-Forman B	\$5.15	\$1.60	\$24.05	\$24.05	68.9%	21.4%	1.0456	22.4%	15.4%	(0.0516)	0.7251	-3.74%	11.7%
10	Church & Dwight	\$3.10	\$0.72	\$19.70	\$19.70	76.8%	15.7%	1.0403	16.4%	12.6%	(0.0015)	0.6248	-0.09%	12.5%
11	Coca-Cola	\$5.60	\$2.80	\$20.45	\$20.45	50.0%	27.4%	1.0372	28.4%	14.2%	(0.0469)	0.8260	-3.87%	10.3%
12	Colgate-Palmolive	\$7.50	\$3.20	\$11.20	\$11.20	57.3%	67.0%	1.0588	70.9%	40.7%	(0.3710)	0.9253	-34.33%	6.3%
13	ConAgra Foods	\$2.40	\$1.10	\$15.45	\$15.45	54.2%	15.5%	1.0239	15.9%	8.6%	(0.0367)	0.5246	-1.93%	6.7%
14	Costco Wholesale	\$4.70	\$1.10	\$33.80	\$33.80	76.6%	13.9%	1.0246	14.2%	10.9%	(0.0344)	0.6781	-2.34%	8.6%
15	Everest Re Group Ltd.	\$14.00	\$2.00	\$180.00	\$180.00	85.7%	7.8%	1.0359	8.1%	6.9%	(0.0119)	0.4118	0.49%	7.4%
16	Gen'l Mills	\$3.40	\$1.60	\$14.30	\$14.30	52.9%	23.8%	1.0481	24.9%	13.2%	(0.0561)	0.7400	-4.15%	9.0%
17	Heinz (HJ.)	\$4.80	\$2.30	\$20.65	\$20.65	52.1%	23.2%	1.0758	25.0%	13.0%	0.0179	0.7335	1.31%	14.3%
18	Hormel Foods	\$2.25	\$0.80	\$15.10	\$15.10	64.4%	14.9%	1.0508	15.7%	10.1%	(0.0019)	0.6225	-0.12%	10.0%
19	Johnson & Johnson	\$6.20	\$2.91	\$35.95	\$35.95	53.1%	17.2%	1.0524	18.1%	9.6%	(0.0148)	0.6114	-0.91%	8.7%
20	Kellogg	\$5.20	\$2.15	\$9.90	\$9.90	58.7%	52.5%	1.0400	54.6%	32.0%	(0.1998)	0.8835	-17.65%	14.4%
21	Kimberly-Clark	\$6.60	\$3.00	\$20.00	\$20.00	54.5%	33.0%	1.0236	33.8%	18.4%	(0.0769)	0.7895	-6.07%	12.4%
22	Kraft Foods	\$3.25	\$1.60	\$32.40	\$32.40	50.8%	10.0%	1.0478	10.5%	5.3%	0.0081	0.4109	0.33%	5.7%
23	McCormick & Co.	\$5.30	\$1.44	\$23.20	\$23.20	72.8%	22.8%	1.0783	24.6%	17.9%	0.0328	0.7790	2.56%	20.5%
24	McDonald's Corp.	\$6.80	\$3.25	\$18.40	\$18.40	52.2%	37.0%	1.0179	37.6%	19.6%	(0.1225)	0.8327	-10.20%	9.4%
25	McKesson Corp.	\$8.05	\$1.20	\$50.75	\$50.75	85.1%	15.9%	1.0501	16.7%	14.2%	(0.0301)	0.5386	-1.62%	12.6%
26	PepsiCo, Inc.	\$6.20	\$2.34	\$26.75	\$26.75	62.3%	23.2%	1.0621	24.6%	15.3%	(0.0509)	0.7816	-3.98%	11.3%
27	Pfizer, Inc.	\$2.10	\$1.12	\$11.25	\$11.25	46.7%	18.7%	1.0025	18.7%	8.7%	(0.0007)	0.5909	-0.04%	8.7%
28	Procter & Gamble	\$5.95	\$3.00	\$32.85	\$32.85	49.6%	18.1%	1.0334	18.7%	9.3%	(0.0507)	0.6715	-3.40%	5.9%
29	Raytheon Co.	\$6.25	\$2.50	\$41.40	\$41.40	60.0%	15.1%	1.0306	15.6%	9.3%	(0.0426)	0.4658	-1.98%	7.4%
30	Sherwin-Williams	\$7.50	\$2.20	\$31.50	\$31.50	70.7%	23.8%	1.0671	25.4%	18.0%	(0.0481)	0.7200	-3.47%	14.5%
31	Smucker (J.M.)	\$7.50	\$2.32	\$64.70	\$64.70	69.1%	11.6%	1.0268	11.9%	8.2%	(0.0224)	0.4249	-0.95%	7.3%
32	Sysco Corp.	\$2.90	\$1.20	\$12.35	\$12.35	58.6%	23.5%	1.0617	24.9%	14.6%	(0.0186)	0.7530	-1.40%	13.2%
33	Verizon Communic.	\$3.40	\$2.12	\$19.00	\$19.00	37.6%	17.9%	1.0328	18.5%	7.0%	(0.0018)	0.6833	-0.12%	6.8%
34	Walgreen Co.	\$4.10	\$1.50	\$20.30	\$20.30	63.4%	20.2%	1.0121	20.4%	13.0%	(0.1085)	0.7100	-7.70%	5.3%
35	Wal-Mart Stores	\$6.00	\$2.20	\$24.20	\$24.20	63.3%	24.8%	1.0025	24.9%	15.7%	(0.1210)	0.6877	-8.32%	7.4%

NON-UTILITY PROXY GROUP

Company	Common Equity			2015 Price			(g)	Common Shares			(f)
	2010	2015	Chg.	High	Low	Avg.		2010	2015	Growth	
1 Abbott Labs.	\$22,388	\$31,500	7.1%	\$100.00	\$90.00	\$95.00	4.634	1,553.00	1,535.00	-0.26%	
2 Amgen	\$23,944	\$38,625	10.0%	\$120.00	\$100.00	\$110.00	2.420	932.00	850.00	-1.83%	
3 AT&T Inc.	\$111,956	\$147,060	5.6%	\$50.00	\$40.00	\$45.00	1.744	5,911.10	5,700.00	-0.72%	
4 Automatic Data Proc.	\$5,479	\$10,000	12.8%	\$90.00	\$75.00	\$82.50	4.084	492.00	495.00	0.12%	
5 Bard (C.R.)	\$1,632	\$3,300	15.1%	\$165.00	\$135.00	\$150.00	3.861	84.97	85.00	0.01%	
6 Baxter Int'l Inc.	\$6,567	\$10,000	8.8%	\$90.00	\$75.00	\$82.50	4.167	580.73	505.00	-2.76%	
7 Becton, Dickinson	\$5,435	\$7,655	7.1%	\$140.00	\$115.00	\$127.50	3.382	229.82	203.00	-2.45%	
8 Bristol-Myers Squibb	\$15,638	\$19,230	4.2%	\$45.00	\$35.00	\$40.00	3.433	1,699.30	1,650.00	-0.59%	
9 Brown-Forman 'B'	\$2,060	\$3,250	9.5%	\$95.00	\$80.00	\$87.50	3.638	144.99	135.00	-1.42%	
10 Church & Dwight	\$1,871	\$2,800	8.4%	\$60.00	\$45.00	\$52.50	2.665	142.40	142.00	-0.06%	
11 Coca-Cola	\$31,003	\$45,000	7.7%	\$130.00	\$105.00	\$117.50	5.746	2,292.00	2,200.00	-0.82%	
12 Colgate-Palmolive	\$2,675	\$4,820	12.5%	\$165.00	\$135.00	\$150.00	13.393	494.85	430.00	-2.77%	
13 ConAgra Foods	\$4,924	\$6,255	4.9%	\$35.00	\$30.00	\$32.50	2.104	442.27	405.00	-1.75%	
14 Costco Wholesale	\$10,829	\$13,855	5.1%	\$115.00	\$95.00	\$105.00	3.107	433.51	410.00	-1.11%	
15 Everest Re Group Ltd.	\$6,284	\$9,000	7.5%	\$140.00	\$115.00	\$127.50	0.708	54.43	50.00	-1.68%	
16 Gen'l Mills	\$5,403	\$8,740	10.1%	\$60.00	\$50.00	\$55.00	3.846	656.50	610.00	-1.46%	
17 Heinz (H.J.)	\$3,183	\$6,800	16.4%	\$85.00	\$70.00	\$77.50	3.753	321.28	329.00	0.48%	
18 Hormel Foods	\$2,407	\$4,000	10.7%	\$45.00	\$35.00	\$40.00	2.649	265.96	265.00	-0.07%	
19 Johnson & Johnson	\$56,579	\$95,600	11.1%	\$100.00	\$85.00	\$92.50	2.573	2,738.10	2,660.00	-0.58%	
20 Kellogg	\$2,158	\$3,220	8.3%	\$95.00	\$75.00	\$85.00	8.586	365.60	325.00	-2.33%	
21 Kimberly-Clark	\$5,917	\$7,490	4.8%	\$105.00	\$85.00	\$95.00	4.750	406.90	375.00	-1.62%	
22 Kraft Foods	\$35,942	\$58,000	10.0%	\$60.00	\$50.00	\$55.00	1.698	1,748.10	1,790.00	0.47%	
23 McCormick & Co.	\$1,463	\$3,205	17.0%	\$115.00	\$95.00	\$105.00	4.526	133.10	138.00	0.73%	
24 McDonald's Corp.	\$14,634	\$17,500	3.6%	\$120.00	\$100.00	\$110.00	5.978	1,053.60	950.00	-2.05%	
25 McKesson Corp.	\$7,220	\$11,925	10.6%	\$120.00	\$100.00	\$110.00	2.167	252.00	235.00	-1.39%	
26 PepsiCo, Inc.	\$21,476	\$40,000	13.2%	\$135.00	\$110.00	\$122.50	4.579	1,581.00	1,495.00	-1.11%	
27 Pfizer, Inc.	\$87,813	\$90,000	0.5%	\$30.00	\$25.00	\$27.50	2.444	8,012.00	8,000.00	-0.03%	
28 Procter & Gamble	\$61,439	\$85,775	6.9%	\$110.00	\$90.00	\$100.00	3.044	2,838.50	2,610.00	-1.66%	
29 Raytheon Co.	\$9,754	\$13,250	6.3%	\$85.00	\$70.00	\$77.50	1.872	359.00	320.00	-2.27%	
30 Sherwin-Williams	\$1,609	\$3,150	14.4%	\$125.00	\$100.00	\$112.50	3.571	107.02	100.00	-1.35%	
31 Smucker (J.M.)	\$5,292	\$6,920	5.5%	\$125.00	\$100.00	\$112.50	1.739	114.17	107.00	-1.29%	
32 Sysco Corp.	\$3,828	\$7,100	13.2%	\$55.00	\$45.00	\$50.00	4.049	588.38	575.00	-0.46%	
33 Verizon Communic.	\$38,575	\$53,580	6.8%	\$65.00	\$55.00	\$60.00	3.158	2,828.10	2,820.00	-0.06%	
34 Walgreen Co.	\$14,400	\$16,250	2.4%	\$75.00	\$65.00	\$70.00	3.448	938.61	800.00	-3.15%	
35 Wal-Mart Stores	\$68,542	\$70,245	0.5%	\$85.00	\$70.00	\$77.50	3.202	3,516.00	2,900.00	-3.78%	

(a) www.value-line.com (retrieved Nov. 2, 2011).

(b) Computed using the formula $2^{(1+5 \text{ Yr. Change in Equity})/(2+5 \text{ Yr. Change in Equity})}$.

(c) Product of year-end "Y" for 2015 and Adjustment Factor.

(d) Product of change in common shares outstanding and M/B Ratio.

(e) Computed as $1 - \text{B/M Ratio}$.

(f) Five-year rate of change.

(g) Average of High and Low expected market prices divided by 2015 BVPS.

CURRENT BOND YIELDSMarket Rate of Return

Dividend Yield (a)	2.5%	
Growth Rate (b)	<u>11.0%</u>	
Market Return (c)		13.5%

Less: Risk-Free Rate (d)

Long-term Treasury Bond Yield	<u>3.0%</u>	
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<u>Market Risk Premium (e)</u>	10.5%	
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<u>Utility Proxy Group Beta (f)</u>	<u>0.74</u>	
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<u>Risk Premium (g)</u>	7.8%	
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Plus: Risk-free Rate (d)

Long-term Treasury Bond Yield	<u>3.0%</u>	
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Unadjusted CAPM (h)	10.8%	
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Size Adjustment (i)	<u>0.81%</u>	
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Implied Cost of Equity (j)	<u>11.6%</u>	
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- (a) Weighted average dividend yield for the dividend paying firms in the S&P 500 from www.valueline.com (retrieved Nov. 2, 2011).
- (b) Weighted average of IBES earnings growth rates for the dividend paying firms in the S&P 500 (retrieved Nov. 15, 2011).
- (c) (a) + (b)
- (d) Average yield on 30-year Treasury bonds for November 2011 from the Federal Reserve Board at http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y20.txt.
- (e) (c) - (d).
- (f) www.valueline.com (retrieved Nov. 17, 2011).
- (g) (e) x (f).
- (h) (d) + (g).
- (i) *Morningstar*, "Tbbotson SBBI 2011 Valuation Yearbook," at Table 7-5 (2011).
- (j) (h) + (i).

CAPM - UTILITY PROXY GROUP

Exhibit WEA-7

Page 2 of 2

PROJECTED BOND YIELDSMarket Rate of Return

Dividend Yield (a)	2.5%	
Growth Rate (b)	<u>11.0%</u>	
Market Return (c)		13.6%

Less: Risk-Free Rate (d)

Projected Long-term Treasury Bond Yield	<u>4.3%</u>	
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Market Risk Premium (e)

9.2%

Utility Proxy Group Beta (f)0.74Risk Premium (g)

6.8%

Plus: Risk-free Rate (d)

Projected Long-term Treasury Bond Yield	<u>4.3%</u>	
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Unadjusted CAPM (h)		11.2%
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Size Adjustment (i)	<u>0.81%</u>	
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Implied Cost of Equity (j)12.0%

(a) Weighted average dividend yield for the dividend paying firms in the S&P 500 from www.valueline.com (retrieved Nov. 2, 2011).

(b) Weighted average of IBES earnings growth rates for the dividend paying firms in the S&P 500 (retrieved Nov. 15, 2011).

(c) (a) + (b)

(d)

Average projected 30-year Treasury bond yield for 2012-2015 based on data from the Value Line Investment Survey, *Forecast for the U.S. Economy* (Nov. 25, 2011), IHS Global Insight, *U.S. Economic Outlook* at 25 (Dec. 2011), Blue Chip Financial Forecasts, Vol. 30, No. 12 (Dec. 1, 2011).

(e) (c) - (d).

(f) www.valueline.com (retrieved Nov. 17, 2011).

(g) (e) x (f).

(h) (d) + (g).

(i) *Morningstar*, "Ibbotson S&P 2011 Valuation Yearbook," at Table 7-5 (2011).

(j) (h) + (i).

ELECTRIC UTILITY RISK PREMIUM

Exhibit WEA-8

Page 1 of 4

CURRENT BOND YIELDS

Current Equity Risk Premium

(a) Avg. Yield over Study Period	9.01%
(b) November 2011 Average Utility Bond Yield	<u>4.37%</u>
Change in Bond Yield	-4.64%
(c) Risk Premium/Interest Rate Relationship	<u>-0.4095</u>
Adjustment to Average Risk Premium	1.90%
(a) Average Risk Premium over Study Period	<u>3.36%</u>
Adjusted Risk Premium	5.26%

Implied Cost of Equity

(b) November 2011 BBB Utility Bond Yield	4.93%
Adjusted Equity Risk Premium	<u>5.26%</u>
Risk Premium Cost of Equity	10.19%

- (a) Exhibit WEA-8, page 3.
- (b) Moody's Investors Service, www.credittrends.com.
- (c) Exhibit WEA-8, page 4.

ELECTRIC UTILITY RISK PREMIUM

Exhibit WEA-8

Page 2 of 4

PROJECTED BOND YIELDS**Current Equity Risk Premium**

(a) Avg. Yield over Study Period	9.01%
(b) Projected Avg. Utility Bond Yield 2012-15	<u>6.34%</u>
Change in Bond Yield	-2.67%
(c) Risk Premium/Interest Rate Relationship	<u>-0.4095</u>
Adjustment to Average Risk Premium	1.09%
(a) Average Risk Premium over Study Period	<u>3.36%</u>
Adjusted Risk Premium	4.45%

Implied Cost of Equity

(b) Projected BBB Utility Bond Yield 2012-15	6.80%
Adjusted Equity Risk Premium	<u>4.45%</u>
Risk Premium Cost of Equity	11.25%

(a) Exhibit WEA-8, page 3.

(b) Projected yield on utility bonds for 2012-15 based on data from IHS Global Insight, *U.S. Economic Outlook* at 25 (Dec. 2011), Energy Information Administration, *Annual Energy Outlook 2011* (Apr. 26, 2011), and Moody's Investors Service at www.credittrends.com.

(c) Exhibit WEA-8, page 4.

ELECTRIC UTILITY RISK PREMIUM

Exhibit WEA-8

Page 3 of 4

AUTHORIZED RETURNS

Year	(a)	(b)	Risk Premium
	Allowed ROE	Average Utility Bond Yield	
1974	13.10%	9.27%	3.83%
1975	13.20%	9.88%	3.32%
1976	13.10%	9.17%	3.93%
1977	13.30%	8.58%	4.72%
1978	13.20%	9.22%	3.98%
1979	13.50%	10.39%	3.11%
1980	14.23%	13.15%	1.08%
1981	15.22%	15.62%	-0.40%
1982	15.78%	15.33%	0.45%
1983	15.36%	13.31%	2.05%
1984	15.32%	14.03%	1.29%
1985	15.20%	12.29%	2.91%
1986	13.93%	9.46%	4.47%
1987	12.99%	9.98%	3.01%
1988	12.79%	10.45%	2.34%
1989	12.97%	9.66%	3.31%
1990	12.70%	9.76%	2.94%
1991	12.55%	9.21%	3.34%
1992	12.09%	8.57%	3.52%
1993	11.41%	7.56%	3.85%
1994	11.34%	8.30%	3.04%
1995	11.55%	7.91%	3.64%
1996	11.39%	7.74%	3.65%
1997	11.40%	7.63%	3.77%
1998	11.66%	7.00%	4.66%
1999	10.77%	7.55%	3.22%
2000	11.43%	8.09%	3.34%
2001	11.09%	7.72%	3.37%
2002	11.16%	7.53%	3.63%
2003	10.97%	6.61%	4.36%
2004	10.75%	6.20%	4.55%
2005	10.54%	5.67%	4.87%
2006	10.36%	6.08%	4.28%
2007	10.36%	6.11%	4.25%
2008	10.46%	6.65%	3.81%
2009	10.48%	6.28%	4.20%
2010	<u>10.34%</u>	<u>5.56%</u>	<u>4.78%</u>
Average	12.38%	9.01%	3.36%

(a) Major Rate Case Decisions, Regulatory Focus, Regulatory Research Associates; *UtilityScope*
Regulatory Service, Argus.

(b) Moody's Investors Service.

REGRESSION RESULTS**SUMMARY OUTPUT**

<i>Regression Statistics</i>	
Multiple R	0.9007749
R Square	0.8113955
Adjusted R Square	0.8060068
Standard Error	0.0052509
Observations	37

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.004151593	0.004152	150.5735	3.1021E-14
Residual	35	0.000965016	2.76E-05		
Total	36	0.005116609			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.0705528	0.003129538	22.54415	1.99E-22	0.06419946	0.07690607	0.064199459	0.076906074
X Variable 1	-0.4094964	0.033371508	-12.2708	3.1E-14	-0.47724424	-0.34174854	-0.477244236	-0.341748544

EXPECTED EARNINGS APPROACH

Exhibit WEA-9

Page 1 of 1

UTILITY PROXY GROUP

	(a)	(b)	(c)
<u>Company</u>	<u>Expected Return on Common Equity</u>	<u>Adjustment Factor</u>	<u>Adjusted Return on Common Equity</u>
1 Alliant Energy	12.0%	1.019234	12.2%
2 Ameren Corp.	7.0%	1.01744	7.1%
3 American Elec Pwr	10.5%	1.028248	10.8%
4 CenterPoint Energy	11.5%	1.046754	12.0%
5 Cleco Corp.	9.5%	1.02692	9.8%
6 CMS Energy	12.5%	1.033447	12.9%
7 DTE Energy Co.	9.0%	1.018735	9.2%
8 Edison International	8.0%	1.021238	8.2%
9 Entergy Corp.	11.5%	1.027496	11.8%
10 FirstEnergy Corp.	10.0%	1.060154	10.6%
11 Great Plains Energy	7.5%	1.023109	7.7%
12 Hawaiian Elec.	10.5%	1.027867	10.8%
13 IDACORP, Inc.	8.5%	1.026143	8.7%
14 Integrys Energy Group	9.5%	1.012171	9.6%
15 ITC Holdings Corp.	15.5%	1.058387	16.4%
16 OGE Energy Corp.	12.0%	1.038541	12.5%
17 Pepco Holdings	7.5%	1.022648	7.7%
18 PG&E Corp.	11.5%	1.035992	11.9%
19 Pinnacle West Capital	9.0%	1.027227	9.2%
20 Portland General Elec.	9.0%	1.021118	9.2%
21 PPL Corp.	12.0%	1.077376	12.9%
22 Pub Sv Enterprise Grp	12.5%	1.031487	12.9%
23 SCANA Corp.	9.0%	1.044369	9.4%
24 Sempra Energy	10.5%	1.035388	10.9%
25 TECO Energy	14.0%	1.029328	14.4%
26 Westar Energy	10.0%	1.021815	10.2%
Average (d)			10.7%

(a) The Value Line Investment Survey (Sep. 23, Nov. 4, & Nov. 25, 2011).

(b) Adjustment to convert year-end return to an average rate of return from Exhibit WEA-4.

(c) (a) x (b).

(d) Excludes highlighted figures.

BOOK VALUE CAPITAL STRUCTURE

Exhibit WEA-10

Page 1 of 1

UTILITY PROXY GROUP

	Company	At Fiscal Year-End 2010 (a)			Value Line Projected (b)		
		Debt	Preferred	Common Equity	Debt	Other	Common Equity
1	Alliant Energy	46.3%	4.2%	49.5%	45.5%	3.0%	51.5%
2	Ameren Corp.	47.1%	0.0%	52.9%	45.5%	1.0%	53.5%
3	American Elec Pwr	55.1%	0.2%	44.7%	49.5%	0.0%	50.5%
4	CenterPoint Energy	74.7%	0.0%	25.3%	68.5%	0.0%	31.5%
5	Cleco Corp.	51.7%	0.0%	48.2%	42.0%	0.0%	58.0%
6	CMS Energy	71.7%	0.0%	28.3%	64.0%	0.5%	35.5%
7	DTE Energy Co.	49.9%	2.1%	48.0%	52.0%	0.0%	48.0%
8	Edison International	51.9%	3.8%	44.3%	53.5%	3.5%	43.0%
9	Entergy Corp.	54.8%	1.6%	43.6%	56.5%	1.0%	42.5%
10	FirstEnergy Corp.	62.3%	0.0%	37.7%	53.5%	0.0%	46.5%
11	Great Plains Energy	54.0%	0.6%	45.4%	51.0%	0.5%	48.5%
12	Hawaiian Elec.	47.3%	1.2%	51.5%	46.0%	1.0%	53.0%
13	IDACORP, Inc.	51.2%	0.0%	48.8%	49.0%	0.0%	51.0%
14	Integrus Energy Group	47.6%	0.0%	52.4%	45.0%	0.5%	54.5%
15	ITC Holdings Corp.	69.1%	0.0%	30.9%	65.0%	0.0%	35.0%
16	OGE Energy Corp.	49.6%	0.0%	50.4%	50.5%	0.0%	49.5%
17	Pepco Holdings	46.6%	0.0%	53.4%	48.0%	0.0%	52.0%
18	PG&E Corp.	50.4%	1.1%	48.5%	45.5%	1.0%	53.5%
19	Pinnacle West Capital	49.3%	0.0%	50.7%	46.0%	0.0%	54.0%
20	Portland General Elec.	53.1%	0.0%	46.9%	52.0%	0.0%	48.0%
21	PPL Corp.	59.9%	0.0%	40.1%	50.0%	0.5%	49.5%
22	Pub Sv Enterprise Grp	48.1%	0.0%	51.9%	45.0%	0.0%	55.0%
23	SCANA Corp.	54.8%	0.0%	45.2%	50.5%	0.0%	49.5%
24	Sempra Energy	50.2%	0.5%	49.2%	49.0%	0.0%	51.0%
25	TECO Energy	59.4%	0.0%	40.6%	52.5%	0.0%	47.5%
26	Westar Energy	54.3%	0.4%	45.3%	54.0%	0.0%	46.0%
	Average	54.3%	0.6%	45.1%	51.1%	0.5%	48.4%

(a) Company Form 10-K and Annual Reports.

(b) The Value Line Investment Survey (Sep. 23, Nov. 4, & Nov. 25, 2011).

ELECTRIC OPERATING COS.

	Company	Long-term Debt	Preferred Stock	Common Equity
1	AEF Texas Central Co.	54.9%	0.4%	44.7%
2	AEF Texas North Co.	54.3%	0.3%	45.4%
3	Ameren Illinois Co.	41.2%	0.0%	58.8%
4	Appalachian Power Co.	55.6%	0.3%	44.1%
5	Arizona Public Service Co.	47.9%	0.0%	52.1%
6	Atlantic City Electric Co.	48.5%	0.4%	51.1%
7	CenterPoint Energy Houston Electric, LLC	73.5%	0.0%	26.5%
8	Cleco Power	53.1%	0.0%	46.9%
9	Cleveland Elec. Illuminating Co.	58.4%	0.0%	41.6%
10	Columbus Southern Power Co.	49.2%	0.0%	50.8%
11	Consumers Energy Co.	52.1%	0.5%	47.4%
12	Delmarva Power & Light Co.	47.6%	0.0%	52.4%
13	Detroit Edison Co.	52.1%	0.0%	47.9%
14	Entergy Arkansas Inc.	53.4%	3.6%	43.1%
15	Entergy Gulf States Louisiana LLC	51.2%	0.3%	48.5%
16	Entergy Louisiana LLC	45.8%	2.5%	51.6%
17	Entergy Mississippi Inc.	51.5%	3.1%	45.3%
18	Entergy New Orleans Inc.	44.2%	5.2%	50.6%
19	Entergy Texas Inc.	50.8%	0.0%	49.2%
20	Hawaiian Electric Co.	43.5%	1.4%	55.0%
21	Idaho Power Co.	53.4%	0.0%	46.6%
22	Indiana Michigan Power Co.	54.1%	0.2%	45.7%
23	International Transmission Co.	40.0%	0.0%	60.0%
24	Interstate Power & Light	45.4%	6.4%	48.2%
25	ITC Great Plains	38.8%	0.0%	61.2%
26	ITC Midwest	40.0%	0.0%	60.0%
27	Jersey Central Power & Light Co.	40.8%	0.0%	59.2%
28	Kansas City Power & Light	47.0%	0.0%	53.0%
29	Kansas Gas & Electric	43.0%	0.0%	57.0%
30	Kentucky Power Co.	55.8%	0.0%	44.2%
31	Kentucky Utilities Co.	47.0%	0.0%	53.0%
32	Louisville Gas & Electric Co.	41.4%	0.0%	58.6%
33	Metropolitan Edison Co.	40.7%	0.0%	59.3%
34	Michigan Elec. Transmission Co.	39.1%	0.0%	60.9%
35	Ohio Edison Co.	55.6%	0.0%	44.4%
36	Ohio Power Co.	46.1%	0.3%	53.6%
37	Oklahoma Gas & Electric Co.	39.2%	0.0%	60.8%
38	Pacific Gas & Electric Co.	49.2%	1.1%	49.7%
39	Pennsylvania Electric Co.	55.4%	0.0%	44.6%
40	Portland General Elec.	53.1%	0.0%	46.9%
41	Potomac Electric Power Co.	51.9%	0.0%	48.1%
42	PPL Electric Utilities Corp.	43.1%	7.3%	49.6%
43	Public Service Co. of Oklahoma	53.4%	0.3%	46.3%
44	Public Service Electric & Gas Co.	49.2%	0.0%	50.8%
45	San Diego Gas & Electric	51.5%	1.2%	47.4%
46	South Carolina Electric & Gas	46.3%	0.0%	53.7%
47	Southern California Edison Co.	45.3%	5.5%	49.2%
48	Southwestern Electric Pwr Co.	51.4%	0.1%	48.4%
49	Tampa Electric Co.	49.0%	0.0%	51.0%
50	Toledo Edison Co.	60.3%	0.0%	39.7%
51	Union Electric Co.	48.8%	0.0%	51.2%
52	Upper Peninsula Power Co.	37.1%	0.0%	62.9%
53	Westar Energy	38.1%	0.6%	61.4%
54	Wisconsin Power & Light	43.1%	2.4%	54.5%
55	Wisconsin Public Service Corp.	42.3%	2.5%	55.2%
	Average	48.5%	0.8%	50.7%

Source: Company Form 10-K Reports and FERC Form-1 Reports.

UTILITY PROXY GROUP

	Company	At Fiscal Year-End 2010 (a)			Value Line Projected (b)		
		(a)	(b)	(c)	(a)	(b)	(c)
		Long-term Debt	Preferred	Common Equity	Long-term Debt	Other	Common Equity
1	Alliant Energy	38.5%	3.5%	58.0%	35.1%	2.3%	62.5%
2	Ameren Corp.	51.3%	0.0%	48.7%	49.9%	1.1%	49.0%
3	American Elec Pwr	48.1%	0.2%	51.7%	42.7%	0.0%	57.3%
4	CenterPoint Energy	57.7%	0.0%	42.3%	56.3%	0.0%	43.7%
5	Cleco Corp.	43.0%	0.0%	57.0%	37.0%	0.0%	63.0%
6	CMS Energy	59.4%	0.0%	40.6%	55.5%	0.4%	44.1%
7	DTE Energy Co.	46.4%	1.9%	51.7%	46.8%	0.0%	53.2%
8	Edison International	47.9%	3.5%	48.6%	53.6%	3.5%	42.9%
9	Entergy Corp.	46.0%	1.3%	52.7%	49.2%	0.9%	49.9%
10	FirstEnergy Corp.	53.8%	0.0%	46.2%	47.5%	0.0%	52.5%
11	Great Plains Energy	54.3%	0.6%	45.1%	54.3%	0.5%	45.1%
12	Hawaiian Elec.	37.1%	0.9%	61.9%	38.8%	0.8%	60.3%
13	IDACORP, Inc.	45.8%	0.0%	54.2%	46.9%	0.0%	53.1%
14	Integrus Energy Group	39.4%	0.0%	60.6%	42.0%	0.5%	57.6%
15	ITC Holdings Corp.	44.3%	0.0%	55.7%	41.6%	0.0%	58.4%
16	OGE Energy Corp.	34.2%	0.0%	65.8%	39.5%	0.0%	60.5%
17	Pepco Holdings	48.5%	0.0%	51.5%	44.9%	0.0%	55.1%
18	PG&E Corp.	37.6%	0.8%	61.6%	40.1%	0.9%	59.0%
19	Pinnacle West Capital	42.4%	0.0%	57.6%	44.1%	0.0%	55.9%
20	Portland General Elec.	52.4%	0.0%	47.6%	52.7%	0.0%	47.3%
21	PPL Corp.	49.3%	0.0%	50.7%	41.2%	0.4%	58.4%
22	Pub Sv Enterprise Grp	34.3%	0.0%	65.7%	34.8%	0.0%	65.2%
23	SCANA Corp.	45.5%	0.0%	54.5%	44.4%	0.0%	55.6%
24	Sempra Energy	41.8%	0.4%	57.7%	41.8%	0.0%	58.2%
25	TECO Energy	45.2%	0.0%	54.8%	40.5%	0.0%	59.5%
26	Westar Energy	49.7%	0.4%	49.9%	47.8%	0.0%	52.2%
Average		45.9%	0.5%	53.6%	45.0%	0.4%	54.6%

- (a) Debt outstanding computed by multiplying long-term debt ratio by total book capital, both as reported by The Value Line Investment Survey (Sep. 25, Nov. 4, & Nov. 25, 2011).
- (b) Balance of other long-term capital not accounted for in long-term debt and common equity ratios
- (c) Market value of common equity computed by multiplying stock price by the number of common shares outstanding, both as reported by The Value Line Investment Survey (Sep. 25, Nov. 4, & Nov. 25, 2011).

PUC DOCKET NO. 40020

APPLICATION OF LONE STAR	§	BEFORE THE
TRANSMISSION, LLC FOR	§	
AUTHORITY TO ESTABLISH	§	PUBLIC UTILITY COMMISSION
INTERIM AND FINAL RATES	§	
AND TARIFFS	§	OF TEXAS

DIRECT TESTIMONY

OF

RICHARD B. CRIBBS

ON BEHALF OF

LONE STAR TRANSMISSION, LLC

January 9, 2012

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RICHARD B. CRIBBS, WITNESS FOR
LONE STAR TRANSMISSION, LLC

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EXECUTIVE SUMMARY OF RICHARD B. CRIBBS

As the accounting witness in this case, I sponsor the books and records of Lone Star Transmission, LLC ("Lone Star" or the "Company"), which have been prepared in accordance with the requirements of the Public Utility Commission of Texas ("Commission"). My testimony supports the calculation of the interim and final wholesale transmission cost of service. My testimony also sponsors the interim and final wholesale transmission cost of service ("WTS") Rate Schedules as well as the Ad Valorem Tax Rider and Rate Case Expense Rider. I also sponsor all of the accounting schedules and co-sponsor schedules used in the calculation of the wholesale transmission cost of service.

My testimony and supporting materials:

- substantiate that the Company's accounting of costs and rate base is reasonable and necessary;
- itemize and explain adjustments to the rate periods and determine the final requested amounts in my testimony and exhibits;
- support interim revenue requirements of \$18,367,001, which equate to an annual wholesale transmission rate of \$/MW of \$299.29;
- support final revenue requirements of \$140,104,460, which equate to an annual wholesale transmission rate of \$/MW of \$2,282.99; and
- support the proposed rate schedules and tariffs.

As shown in my testimony and exhibits, the Company's filing supports establishing interim and final rates charged to Texas wholesale transmission customers, specifically the Electric Reliability Council of Texas ("ERCOT"), as reflected on the attached interim and final WTS Rate Schedules. I recommend that the Commission approve the cost of service filing as requested.

DIRECT TESTIMONY OF RICHARD B. CRIBBS

I. POSITION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A. My name is Richard B. Cribbs. My business address is 700 Universe Blvd., Juno Beach, Florida 33408. I am Treasurer for Lone Star and the Controller of NextEra Energy Resources, LLC ("NEER"). Lone Star is an affiliated company of NEER and utilizes the shared accounting services of NEER.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of Lone Star.

Q. WHAT ARE YOUR RESPONSIBILITIES AS THEY RELATE TO LONE STAR?

A. I have overall responsibilities for the accounting books and records of Lone Star, including external financial reporting, financial accounting, regulatory accounting, property accounting, revenue accounting, accounts payable and remittance processing. As such, I am responsible for ensuring that the Company is staffed appropriately and has processes and systems in place to meet its financial and regulatory accounting and reporting requirements. In addition, I am responsible for creating and implementing internal accounting controls.

1 **Q. WHAT ARE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL**
 2 **QUALIFICATIONS AND PREVIOUS WORK EXPERIENCE?**

3 A. I received a Bachelor of Science degree from Mars Hill College in 1990 and
 4 became a licensed CPA in the state of Florida in 1996. My major fields of study
 5 were Accounting and Business Administration. Prior to joining NEER, I was
 6 employed by Harcourt Inc. from 1997 to 2001. During that time, I held various
 7 positions in cost accounting, financial reporting and audit. I held various
 8 leadership positions, including the position of manager of consolidations,
 9 reporting, budgeting and forecasting. I joined NEER in 2001 as Regional
 10 Controller. I assumed my current position with NEER in 2007.

11

12 **II. PURPOSE OF DIRECT TESTIMONY**

13 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
 14 **PROCEEDING?**

15 A. I present the wholesale cost of service that supports the Company's request for
 16 interim rates and the wholesale cost of service that supports the final rates the
 17 Company is requesting once its entire Competitive Renewable Energy Zones
 18 ("CREZ") transmission line is placed into service. I also discuss the process
 19 undertaken to prepare the schedules included in the rate filing package, and I
 20 sponsor the rate schedules and other tariffs proposed by the Company. My
 21 calculations of the wholesale cost of service have been prepared as required under
 22 the applicable portions of Commission Rule 25.231 and the Investor Owned

Utility Transmission & Distribution Cost of Service Rate Filing Package ("RFP"),
as adjusted in light of the specific circumstances of this case.

Specifically, Lone Star requests that the Commission establish interim and final
rates as summarized below:

	Proposed Rate	Rate Base¹	Cost of Service²	Effective Date
Interim	\$299.29	\$56,366,304	\$18,367,001	April 1, 2012, or such date as Navarro substation is placed into service
Final	\$2,282.99	\$750,306,494	\$140,104,460	April 1, 2013, or such time as all plant is placed into service

**Q. HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH
YOUR TESTIMONY?**

A. Yes. I have prepared and sponsor the exhibits listed in the Table of Contents.

**Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR
DIRECT SUPERVISION?**

A. Yes.

¹ Section V of my testimony describes the Company's proposed Rate Base. Rate Base includes: (1) Electric Plant in Service; (2) General Plant in Service; (3) Communications Plant in Service; (4) Accumulated Depreciation and Amortization; (5) Cash Working Capital; (6) Prepayments; (7) Materials & Supplies; (8) Accumulated Deferred Federal Income Taxes; and (9) Reserves.

² Section VII of my testimony describes the Company's proposed Cost of Service. Cost of Service includes: (1) Operation and Maintenance Expenses, including Administrative and General Expenses; (2) Depreciation and Amortization; (3) Taxes Other Than Federal Income Tax; (4) Federal Income Taxes; and (5) Return on Invested Capital.

1 **Q. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES?**

2 A. Yes. Consistent with the context of my testimony, I sponsor or co-sponsor the
3 schedules listed in the Table of Contents, including all accounting schedules
4 supporting the revenue requirements underlying the Company's interim and final
5 rate requests. I have also included on Exhibit RBC-1 a listing of cost of service
6 schedules that are included in the Commission's RFP but are not applicable to this
7 transmission-only filing.

8

9 **Q. HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF**
10 **OTHER WITNESSES?**

11 A. Although I sponsor or co-sponsor all of the accounting schedules, in general, the
12 specific numbers used in the calculations are drawn from and supported by other
13 Lone Star witnesses. These witnesses demonstrate that all of the costs and
14 expenses used in calculating the interim and final rates are just and reasonable.
15 Lone Star witness Michael Grable identifies those witnesses and their respective
16 responsibilities in his direct testimony, and explains the Company's proposed
17 true-up filing, which will ensure that the final rates are adjusted to reflect only the
18 actual costs of capital investment. Mr. Grable and Lone Star witness David
19 Turner also explain and support the Company's request for interim rates.

III. SUMMARY OF LONE STAR'S RATE REQUEST

Q. WHAT IS THE RATE PERIOD USED TO CALCULATE THE INTERIM REVENUE REQUIREMENT?

A. The interim revenue requirements are based on a rate period of April 1, 2012 through March 31, 2013.

Q. WHAT PLANT IS APPLICABLE TO THE INTERIM RATE PERIOD?

A. The proposed interim rates are based on the capital investment in Phase I facilities, which are scheduled to be placed into service in or before April 2012. Mr. Turner describes these facilities in his direct testimony.

Q. WHAT EFFECTIVE DATE DOES THE COMPANY PROPOSE FOR IMPLEMENTING INTERIM RATES?

A. Lone Star asks that interim rates become effective April 1, 2012, or such time as the Navarro Substation is placed in service.

Q. WHAT IS THE RATE PERIOD USED TO CALCULATE FINAL REVENUE REQUIREMENTS?

A. The final revenue requirements are based on a representative rate period of April 1, 2013 through March 31, 2014.

1 **Q. WHAT IS THE EFFECTIVE DATE FOR FINAL RATES PROPOSED BY**
2 **LONE STAR?**

3 A. Lone Star proposes that final rates become effective when all assets associated
4 with its CREZ line have been placed into service, which is expected in or before
5 April 2013.

6
7 **Q. WHAT PLANT IS APPLICABLE TO THE FINAL RATE PERIOD?**

8 A. The final revenue requirements reflect the Company's entire actual and projected
9 capital investment in its CREZ facilities. Mr. Turner and Lone Star witness
10 Daniel Mayers describe these facilities in more detail in their direct testimony. As
11 part of the true-up filing described by Mr. Grable, final rates will be adjusted to
12 reflect the final, actual capital investment in these facilities.

13
14 **Q. HOW HAVE REVENUE REQUIREMENTS AND RELATED**
15 **INFORMATION BEEN PREPARED AND DOCUMENTED FOR THIS**
16 **FILING?**

17 A. My testimony, supporting schedules and other cost of service information have
18 been prepared in accordance with the Public Utility Regulatory Act ("PURA"),
19 and follow the RFP instructions adopted by the Commission on April 2, 2003, as
20 adjusted to accommodate the specific circumstances of this case. The Company's
21 witness testimony, cost of service schedules, and supporting workpapers
22 document and support the assumptions and calculations for all amounts included
23 in the RFP.

1 **Q. HAS LONE STAR EXCLUDED ANY EXPENSES FROM ITS COST OF**
2 **SERVICE CALCULATIONS?**

3 A. Yes. Commission Rule 25.231 requires that expenses for legislative advocacy
4 and similar types of activities be excluded from cost of service. No amounts
5 related to these items have been included in the operating expenses for either rate
6 period. Charitable contributions, dues and certain advertising expenses included
7 in operating expenses were identified to ensure compliance with Commission
8 Rule 25.231(b)(1)(E) for both the interim and final rate requests. These amounts
9 are shown on Schedules II-D.2.3 (interim) and II-D.2.3 (final).

10

11 **Q. THROUGHOUT YOUR TESTIMONY, YOU REFER TO VARIOUS**
12 **“FERC ACCOUNTS” AND TO THE “UNIFORM SYSTEM OF**
13 **ACCOUNTS.” PLEASE EXPLAIN THESE CONCEPTS.**

14 A. The Federal Energy Regulatory Commission (“FERC”) Uniform System of
15 Accounts is prescribed for public utilities and licensees subject to the provisions
16 of the Federal Power Act. The Uniform System of Accounts prescribes
17 accounting classifications and instructions by which public utilities achieve
18 uniform accounting records for use in financial reporting, ratemaking, and other
19 regulatory needs and are found and defined in the Code of Federal Regulations
20 18 – Conservation of Power and Water Resources, Subchapter C – Accounts,
21 Federal Power Act, Part 101 – Uniform System of Accounts. The Commission, in
22 Commission Rule 25.72(a), requires that the Company keep its books in
23 accordance with the Uniform System of Accounts. Consistent with this

1 requirement, Lone Star keeps its books in accordance with the Uniform System of
2 Accounts, and those FERC accounts have been provided on the required
3 schedules accompanying this filing.

4
5 **IV. TOTAL REVENUE REQUIREMENTS**

6 **Q. WHAT ARE THE TOTAL REVENUE REQUIREMENTS FOR THE**
7 **INTERIM AND FINAL RATE PERIODS THAT LONE STAR REQUESTS**
8 **THAT THE COMMISSION APPROVE IN THIS PROCEEDING?**

9 A. Lone Star requests that the Commission approve total revenue requirements of
10 \$18,367,001 for the interim rate period and \$140,104,460 for the final rate period
11 as shown on Schedule I-A-1 (interim) and Schedule I-A-1 (final), respectively.

12
13 **V. RATE BASE**

14 **Q. WHAT AMOUNT OF RATE BASE IS THE COMPANY REQUESTING?**

15 A. The Company's requested interim and final rates are predicated on a rate base of
16 \$56,366,304 and \$750,306,494, respectively. The individual components of rate
17 base are described below and itemized on Schedule II-B (interim) and Schedule
18 II-B (final). Messrs. Turner and Mayers describe and support the reasonableness
19 of the Company's capital investment.

1 **A. Electric Plant in Service**

2 **Q. PLEASE DESCRIBE ELECTRIC PLANT IN SERVICE ("EPIS").**

3 A. EPIS is the Company's total capitalized expenditures for assets used and useful
4 for the transmission of electricity and includes the substations and transmission
5 lines.

6
7 **Q. HOW WAS EPIS DETERMINED?**

8 A. EPIS was calculated following the components of construction instructions in the
9 Uniform System of Accounts. Beginning with booked amounts at September 30,
10 2011, construction expenditures were assigned to appropriate FERC accounts,
11 with capitalized administrative and general ("A&G") expenses, property taxes,
12 and allowance for funds used during construction ("AFUDC") being
13 correspondingly allocated. A&G expenditures were expensed or capitalized
14 based on the proportion of total capital expenditures in service, with property
15 taxes being expensed or capitalized based on the amount of plant in service. Prior
16 to Lone Star's issuance of debt, AFUDC was calculated using 50% debt/50%
17 equity capital structure ratios and the blended cost of debt of Next Era Energy
18 Capital Holdings, Inc., which was providing the debt. After the Company's debt
19 issuance, AFUDC was calculated using 48% debt/52% equity capital structure
20 ratios, a cost of debt of 4.79%, and Lone Star's requested return on equity of 11%.

1 **Q. WHAT ARE THE EPIS AMOUNTS INCLUDED IN THIS FILING?**

2 A. The Company's request for interim rates is based on the average EPIS during the
3 interim rate period of \$59,069,376, as shown on Schedule II-B-1 (interim). The
4 Company's request for final rates is based on the average EPIS during the final
5 rate period of \$783,950,201, as shown on Schedule II-B-1 (final).

6

7 **Q. IN WHICH FERC ACCOUNTS IS EPIS INCLUDED?**

8 A. EPIS is included in FERC Accounts 301 through 386.

9

10 **B. General Plant in Service**

11 **Q. PLEASE DESCRIBE GENERAL PLANT IN SERVICE ("GPIS").**

12 A. GPIS reflects the total capitalized expenditures for other assets used and useful by
13 the Company that are for general purposes. GPIS includes office furniture and
14 equipment, transportation equipment and stores equipment.

15

16 **Q. WHAT IS THE AMOUNT OF GPIS INCLUDED IN THIS FILING?**

17 A. The Company's request for interim rates is based on average GPIS of \$297,044,
18 as shown on Schedule II-B-2 (interim). The Company's request for final rates is
19 based on average GPIS of \$360,869, as shown on Schedule II-B-2 (final).

20

21 **Q. IN WHICH FERC ACCOUNTS ARE GPIS INCLUDED?**

22 A. GPIS is included in FERC Accounts 388 through 398 excluding account 397,
23 which is Communications Plant in Service ("CPIS").

1 **C. Communications Plant in Service**

2 **Q. PLEASE DESCRIBE CPIS.**

3 A. CPIS consists primarily of computer networks, telephone and radio equipment,
4 personal computers and hardware infrastructure. These assets are necessary to
5 support personnel communications and software applications between the
6 Company's sites across the Local and Wide Area Networks and Internet
7 applications.

8

9 **Q. WHAT CPIS AMOUNTS ARE INCLUDED IN THIS FILING?**

10 A. The Company's request for interim rates is based on average CPIS of \$209,603,
11 as shown in Schedule II-B-3 (interim). The Company's request for final rates is
12 based on average CPIS of \$229,758, as shown in Schedule II-B-3 (final).

13

14 **Q. IN WHAT FERC ACCOUNTS ARE CPIS INCLUDED?**

15 A. CPIS is included in FERC Account 397.

16

17 **D. Accumulated Depreciation and Amortization**

18 **Q. WHAT IS THE AMOUNT OF ACCUMULATED DEPRECIATION AND**
19 **AMORTIZATION INCLUDED IN THIS FILING?**

20 A. As detailed by FERC Account on Schedule II-B-5 (interim), Accumulated
21 Depreciation and Amortization for the interim rate period April 1, 2012 to March
22 31, 2014 is \$1,240,012 (EPIS of \$1,171,623 and GPIS including CPIS of
23 \$68,389). For the final rate period ending March 31, 2015, Accumulated

Depreciation and Amortization is shown on Schedule II-B-5 (final) and totals \$12,421,672 (EPIS of \$12,281,670 and GPIS including CPIS of \$140,002). In both instances, Accumulated Depreciation and Amortization is the average balance during the rate period.

E. Other Rate Base Items

Q. WHAT OTHER ITEMS HAVE BEEN ACCOUNTED FOR IN RATE BASE?

A. Included in operating expenses are amounts designed to accrue an Injury and Damages Reserve and a Maintenance Reserve. The average balances that accrue in these reserve accounts during the respective rate periods were used to reduce rate base.

Q. WHAT AMOUNT OF RESERVE FOR INJURIES AND DAMAGES WAS DEDUCTED FROM RATE BASE?

A. The average balances in the Reserve for Injuries and Damages of \$867,923 during the interim rate period and \$4,036,016 during the final rate period are shown on Schedule II-B-7 (interim) and Schedule II-B-7 (final), respectively. As described in the direct testimony of Lone Star witnesses Robert Hughes and Jeanne Camp, these reserve balances result from projected accruals for property and general liability claims for losses expected to be incurred. Mr. Hughes and Ms. Camp further discuss the basis for the appropriate level of self-insurance reserves.

1 **Q. WHAT AMOUNT OF MAINTENANCE RESERVE WAS DEDUCTED**
2 **FROM RATE BASE?**

3 A. As described in the direct testimony of Mr. Turner, the Maintenance Reserve
4 consists of amounts accrued beginning with the implementation of final rates. As
5 explained by Mr. Turner, the purpose of the maintenance reserve is to fund
6 greater than normal maintenance expenses. As shown on Schedule II-B-7 (final),
7 the average balance in the Maintenance Reserve during the final rate period is
8 \$142,500.

9
10 **F. Materials & Supplies**

11 **Q. WHAT IS THE AMOUNT OF MATERIALS & SUPPLIES ("M&S")**
12 **INCLUDED IN RATE BASE?**

13 A. The average M&S balances during the interim and final rate periods, as
14 prescribed by the RFP instructions, are \$22,769, and \$32,000, respectively. M&S
15 amounts are recorded in FERC Account 154 and are shown in Schedules II-B-8
16 (interim) and II-B-8 (final) and are sponsored by Mr. Turner.

17
18 **G. Cash Working Capital**

19 **Q. WHAT AMOUNT IS INCLUDED IN RATE BASE FOR CASH WORKING**
20 **CAPITAL ("CWC")?**

21 A. A Lead-lag Study was performed for this filing by Lone Star witness Jay Joyce.
22 The amount of CWC included in rate base for interim rates is a negative \$295,724

1 and for final rates is a negative \$4,740,830, as shown on Schedules II-B-9
2 (interim) and II-B-9 (final), respectively.

3
4 **H. Prepayments**

5 **Q. WHAT TYPES OF EXPENSES ARE INCLUDED IN PREPAYMENTS?**

6 A. Prepayments are prepaid property insurance premiums as reflected in FERC
7 Account 165.

8
9 **Q. WHAT AMOUNTS FOR PREPAYMENTS ARE INCLUDED IN RATE**
10 **BASE?**

11 A. The amount of Prepayments included in the Company's requested rate base is
12 based on a 13-month average and for interim rates is \$39,213, and for final rates
13 is \$61,713, as shown on Schedules II-B-10 (interim) and II-B-10 (final),
14 respectively. These amounts are sponsored by Mr. Turner.

15
16 **I. Accumulated Deferred Federal Income Taxes**

17 **Q. WHAT IS THE AMOUNT OF ACCUMULATED DEFERRED FEDERAL**
18 **INCOME TAXES ("ADFIT") THAT SERVE TO REDUCE RATE BASE?**

19 A. The Company's request for interim rates reflects an average ADFIT balance
20 during the interim rate period of (\$868,041), and its requested final rates reflect an
21 average ADFIT balance during the final rate period of (\$12,987,029). ADFIT
22 amounts recorded to FERC Accounts 282 and 283, net of FERC Account 190, are

1 shown on Schedules II-B-7 (interim) and II-B-7 (final), respectively. Lone Star
2 witness Brian Murphy further discusses Lone Star's ADFIT.

3
4 **J. True-Up of Capital Investment**

5 **Q. PLEASE DESCRIBE LONE STAR'S PROPOSAL TO TRUE-UP CAPITAL**
6 **INVESTMENT.**

7 A. As explained in Mr. Grable's testimony, Lone Star asks the Commission to set
8 final rates in this proceeding subject to a true-up adjustment to reflect actual
9 capital costs incurred. The true-up mechanism for capital investment will ensure
10 that the investment included in Lone Star's rates reflect Lone Star's actual
11 investment.

12
13 **VI. RATE OF RETURN**

14 **Q. WHAT CAPITAL STRUCTURE DOES THE COMPANY USE TO**
15 **CALCULATE ITS RATE OF RETURN?**

16 A. As described in detail in the direct testimony of Lone Star witness Aldo Portales,
17 the Company requests a direct capital structure of 48% debt and 52% equity for
18 interim and final rates.

1 Q. WHAT RATE OF RETURN IS USED TO CALCULATE THE
2 COMPANY'S REQUESTED INTERIM AND FINAL REVENUE
3 REQUIREMENTS?

4 A. The rate of return used to calculate the Company's requested interim and final
5 rates are based on the capital structure identified above. In addition, as discussed
6 by Mr. Portales, the Company used a cost of debt of 4.7943% during the interim
7 rate period and a cost of debt of 6.1062% for the final rate period. A cost of
8 equity of 11%, as recommended by Lone Star witness Dr. William Avera was
9 also used. Based upon these recommendations, I calculated rates of return of
10 8.0213% and 8.6510% for the interim and final rate periods, respectively, as
11 shown on Schedule II-C-2.1 (interim) and Schedule II-C-2.1 (final).
12

13 VII. COST OF SERVICE

14 A. Operation and Maintenance Expenses

15 Q. WHAT O&M EXPENSES ARE INCLUDED IN REVENUE
16 REQUIREMENTS?

17 A. The O&M expenses requested by the Company to be included in interim revenue
18 requirements total \$6,374,000 and are detailed by FERC Account on Schedule II-
19 D-1 (interim). The O&M expenses included in revenue requirements for final
20 rates total \$7,683,000 and are presented by FERC Account on Schedule II-D-1
21 (final).

1 **B. Administrative and General Expenses**

2 **Q. WHAT A&G EXPENSES ARE INCLUDED IN REVENUE**
3 **REQUIREMENTS?**

4 A. Interim and final revenue requirements include A&G expenses reflected in FERC
5 Accounts 920 through 935, which consist of the salaries of officers, executives
6 and other employees, office supplies, outside services, property insurance, injuries
7 and damages, pensions and benefits, rents, miscellaneous general and
8 maintenance of general plant. The A&G expenses requested by the Company that
9 are included in interim revenue requirements total \$2,156,000 and are detailed
10 according to FERC Account on Schedule II-D-2 (interim). The A&G expenses
11 included in revenue requirements for final rates total \$10,765,000 and are
12 presented by FERC Account on Schedule II-D-2 (final).

13
14 **Q. DO YOU SUPPORT ANY SPECIFIC CLASSES OF AFFILIATE**
15 **EXPENSE INCLUDED IN A&G EXPENSES?**

16 A. I do. I support the reasonableness and necessity of the Accounting and Finance
17 Services provided to Lone Star by its affiliate NEER and the related costs.

18
19 **Q. WHAT SERVICES DOES NEER ACCOUNTING AND FINANCE**
20 **PROVIDE TO LONE STAR?**

21 A. NEER Accounting and Finance provides a variety of accounting services utilized
22 by Lone Star including, but not limited to, support for regulatory, property, and

1 financial accounting; accounts payable and remittance processing; cash
2 management; and financial reporting.
3

4 **Q. HOW MUCH OF LONE STAR'S O&M REQUEST IN THIS CASE**
5 **RELATES TO NEER ACCOUNTING AND FINANCE SERVICES?**

6 A. The projected cost for the NEER Accounting and Financing Services is \$12,218
7 in interim rates as referenced in V-K-1B and \$205,369 in final rates as referenced
8 in V-K-1B. Please refer to Lone Star witness Cheryl Dietrich's direct testimony
9 for a more detailed description of billing methodologies and the bases for these
10 costs.
11

12 **Q. ARE THESE SERVICES DUPLICATED BY LONE STAR OR ANY**
13 **OTHER AFFILIATE?**

14 A. No, these are unique services only provided to Lone Star by NEER Accounting
15 and Finance and are not duplicated by any other affiliate or Lone Star.
16

17 **Q. ARE THE ACCOUNTING AND FINANCE SERVICES PROVIDED BY**
18 **NEER ESSENTIAL TO LONE STAR'S OPERATIONS?**

19 A. Yes, the functions performed by NEER Accounting and Finance for Lone Star are
20 required of any large publicly traded holding company. By relying on NEER to
21 provide the majority of its accounting and finance services, Lone Star gains
22 efficiencies by having access to full accounting services without having to hire
23 full-time staff.

1 **C. Depreciation and Amortization**

2 **Q. WHAT DEPRECIATION EXPENSES ARE INCLUDED IN REVENUE**
3 **REQUIREMENTS?**

4 A. Depreciation expense for the respective rate periods is calculated consistent with
5 Commission Rule 25.231(b)(1)(B) on Schedules II-E-1 (interim) and II-E-1
6 (final). The Company's depreciation expense for the interim rate period is
7 \$2,393,084 (EPIS of \$1,677,859 and \$647,947 and GPIS including CPIS of
8 \$67,278), and for the final rate period is \$19,739,850 (EPIS of \$19,015,955 and
9 \$647,947 and GPIS including CPIS of \$75,948). The depreciation rates used to
10 calculate depreciation expense are described and supported in the direct testimony
11 of Lone Star witness Dane Watson.

12
13 **Q. WHAT AMOUNT OF AMORTIZATION EXPENSE IS INCLUDED IN**
14 **REVENUE REQUIREMENTS?**

15 A. Amortization expense on assets such as intangibles, software and land rights is
16 included in Schedules II-E-1 (interim) and II-E-1 (final). The amortization
17 expense for the interim rate period is \$17,440 and for the final rate period is
18 \$212,945. The rates used to calculate amortization expense are also addressed in
19 the direct testimony of Mr. Watson.

1 **D. Federal Income Taxes**

2 **Q. PLEASE DESCRIBE THE CALCULATION OF FEDERAL INCOME**
3 **TAXES INCLUDED IN THE PROPOSED INTERIM AND FINAL**
4 **REVENUE REQUIREMENTS.**

5 **A.** Federal income taxes have been calculated consistent with PURA and
6 Commission rules as discussed in the direct testimony of Mr. Murphy. Based on
7 the Company's requested return on invested capital for each rate period, federal
8 income tax expense for the interim rate period is \$1,736,082, and for the final rate
9 period is \$23,109,440. Please refer to the direct testimony of Mr. Murphy and
10 Schedules II-E-3 (interim) and II-E-3 (final) for detailed information on the
11 federal income tax calculations.

12
13 **E. Taxes Other Than Federal Income Tax**

14 **Q. WHAT TAXES OTHER THAN INCOME TAXES ("OTHER TAXES")**
15 **ARE INCLUDED IN REVENUE REQUIREMENTS?**

16 **A.** Other Taxes include employment-related taxes, ad valorem taxes and the Texas
17 State Franchise Tax, all of which are recorded in FERC Account 408. As shown
18 on Schedule II-E-2 (interim) and Schedule II-E-2 (final), a total of \$1,169,109 in
19 Other Taxes has been included in revenue requirements for the interim rate period
20 and \$13,685,501 for the final rate period.