Q CAN YOU DESCRIBE AGAIN WHY A THREE- TO FIVE-YEAR GROWTH RATE CAN EXCEED A LONG-TERM SUSTAINABLE GROWTH RATE?

A Yes. A three- to five-year growth rate can exceed a long-term sustainable growth rate for several reasons including the following: (1) the utility's capital program and rate base are growing at an abnormally high level; (2) a company's growth in earnings is above a depressed level of earnings; and/or (3) altering dividend payout ratio targets can create temporary acceleration or decline in short-term growth.

As discussed above, while short-term accelerated earnings growth rates may be a reasonable expectation for relatively short periods of time, it is not reasonable to expect that accelerated short-term growth can be sustained indefinitely. That is the flaw of Mr. Hevert's DCF studies. He derives DCF estimates based on accelerated short-term growth rates that he assumes can be sustained over an indefinite period of time. This simply is not a rational outlook, and it produces an excessive DCF return estimate.

Q CAN MR. HEVERT'S DCF ANALYSES BE REVISED TO REFLECT A REASONABLE LONG-TERM SUSTAINABLE GROWTH RATE?

A Yes. Mr. Hevert's DCF studies can be revised to reflect the short-term growth rate estimates that will be realized over the period they were designed to reflect, five years, and the growth rate after that eventually would converge down to a lower sustainable long-term rate of growth. This can be accomplished by using a multi-stage growth DCF analysis. The multi-stage growth DCF model can reflect abnormally high short-term growth, followed by a decline to a lower growth rate that can be sustained over a long-term period.

Q HOW WOULD MR. HEVERT'S CONSTANT GROWTH DCF MODEL CHANGE IF A MULTI-STAGE DCF MODEL IS PERFORMED?

A As shown on my Exhibit MPG-19, using *The Blue Chip Financial Forecasts'* GDP growth forecast of 4.9% (average of 5.0% and 4.8%) and Mr. Hevert's inputs as developed on his Exhibit RBH-1, will reduce his DCF return estimate for his proxy group from 10.45% to 9.57%. The results are summarized in Table 5 below.

TABLE 5

Hevert Multi-Stage DCF Analysis

Description	Hevert Mean[1] (1)	Revised Estimate[2] (2)
Mean		
30-Day Average Stock Price	10.30%	9.40%
90-Day Average Stock Price	10.51%	9.63%
180-Day Average Stock Price	10.55%	9.67%
Average	10.45%	9.57%

Sources:
[1]Hevert Direct at 5.
[2]Exhibit MPG-19.

Q PLEASE DESCRIBE THE ISSUES YOU TAKE WITH MR. HEVERT'S CAPM ANALYSES.

A My major concern with Mr. Hevert's CAPM analysis is his inflated market risk premium estimates.

Q PLEASE DESCRIBE MR. HEVERT'S MARKET RISK PREMIUMS.

A Mr. Hevert developed three market risk premium estimates. The first one is DCF-derived market risk premiums of 9.87% (Bloomberg) and 9.71% (*Value Line*),

which is based on market DCF returns of 13.03% less the current 30-year Treasury bond yield of 3.16%. (Hevert Direct, Exhibit RBH-5).

The second one is based on *Value Line* capital price appreciation of 50%, which produces a market risk premium of 9.71%, based on a market return of 12.87% less the current 30-year Treasury bond yield of 3.16%.

The third market risk premium (referred to as the Sharpe market risk premium) of 7.04% is based on one historical market risk premium estimate of 6.70%, adjusted for the difference in long-term historical and current market volatility. (*Id.*, page 1).

Q WHAT ISSUES DO YOU HAVE WITH MR. HEVERT'S DCF-DERIVED AND TOTAL MARKET RISK PREMIUM ESTIMATES?

A Mr. Hevert's DCF-derived and total market risk premiums are based on market returns of approximately 13.03% and 12.87%, which consist of a growth rate component of approximately 10.70% and a dividend yield of approximately 2.20%. As discussed above, the DCF model requires a long-term sustainable growth rate. Mr. Hevert's sustainable market growth rate of approximately 10.70% is far too high to be a rational outlook for sustainable long-term market growth. This growth rate is more than two times the growth rate of the U.S. GDP long-term growth outlook of 4.9%. Indeed, it is even about twice Mr. Hevert's flawed and overstated GDP growth projection.

As a result of this unreasonable long-term market growth rate estimate, Mr. Hevert's market DCF returns are inflated and not reliable. Consequently, Mr. Hevert's 9.87% (Bloomberg) and 9.71% (*Value Line*) market risk premiums are inflated and not reliable.

Q IS THERE INFORMATION ON ACTUAL ACHIEVED CAPITAL APPRECIATION FOR THE MARKET INDEX USED BY MR. HEVERT?

A Yes. Morningstar estimates the actual capital appreciation for the S&P 500 over the period 1926 through 2012 to have been 5.6% to 7.5%.[37] While I do not endorse the use of a historical growth rate to draw assessments of the market's forward-looking growth rate outlooks, this data can be used to show how unreasonable and inflated are the market return estimates produced by Mr. Hevert. Specifically, using the highest historical arithmetic average growth rate of 7.5%, and an expected dividend yield of 2% as estimated by Mr. Hevert, would suggest a forward-looking market DCF return estimate of 9.5%. Further, simply observing the geometric and arithmetic average historical market risk premium also shows these estimates to be reasonable, and Mr. Hevert's estimated DCF return on the market of approximately 13% to be excessive. Specifically, historically, the geometric and arithmetic average return on the market has ranged from 9.8% to 11.8%.

Virtually all historical data shows that Mr. Hevert's 13% projected return on the market is excessive and produces an inflated market risk premium.

Q PLEASE DESCRIBE MR. HEVERT'S SHARPE MARKET RISK PREMIUM.

A Mr. Hevert's Sharpe market risk premium is 7.04%. He maintains that his Sharpe market risk premium adjusts the historical market risk premium to reflect the difference between historic and expected market volatility. He adjusts the historical market risk premium of 6.7% by the expected market volatility of 21.20%, relative to historical market volatility of 20.18%.[38] He measures expected market volatility using

[37] 2013 Ibbotson *SBBI Valuation Yearbook* at 23.
[38] Exhibit RBH-5.

the Chicago Board Options Exchange's ("CBOE") volatility index of settlement prices of futures on the CBOE's one-month volatility index.

As shown on his Exhibit RBH-5, page 1, using this relative comparison of market volatility, he adjusts the historical market risk premium of 6.70% to 7.04%, by the ratio of expected market volatility of 21.20%, to historical market volatility of 20.18% (6.70% x (21.20% ÷ 20.18%)).

Q DO YOU BELIEVE THAT MR. HEVERT'S SHARPE RATIO EXPECTED MARKET RISK PREMIUM PRODUCES RELIABLE RESULTS?

A No. The returns on equity determined in this proceeding will be in effect for several years into the future. In significant contrast, Mr. Hevert is measuring expected market volatility for a relatively short six-week time period in 2012. This relatively short historic period of time does not prove that market volatility in the long term will be different from long-term volatility in the past. Mr. Hevert's analysis, which is based on such a short term, is not useful in estimating a fair return for Sharyland in this case. It simply is not designed to estimate long-term investors' cost of capital requirements.

Q WHY IS MR. HEVERT'S PROPOSAL TO MEASURE A MARKET RISK PREMIUM BASED ON SIX WEEKS OF MARKET VOLATILITY NOT USEFUL IN ESTIMATING A FAIR RETURN ON EQUITY FOR SHARYLAND IN THIS PROCEEDING?

A Mr. Hevert's Sharpe ratio market risk premium does not capture the return expectations of long-term utility investors. Rather, it reflects the short-term investment outlooks of short-term trading investors or speculators looking to react to mis-valuations in the marketplace. Indeed, the entire analysis is based on derivative futures valuation data rather than directly on stock price data. As such, the Sharpe

market risk premium does not measure long-term stock investment outlooks and requirements, and it does not produce a fair return on equity estimate for Sharyland.

Q CAN MR. HEVERT'S CAPM ANALYSIS BE REVISED TO REFLECT A MORE REASONABLE MARKET RISK PREMIUM?

A Yes. Using (1) Mr. Hevert's risk-free rates of 3.16%, 3.30% and projected rate of 5.10% (Exhibit RBH-7); (2) published Bloomberg and *Value Line* beta estimates of 0.70 and 0.719,[39] respectively; and (3) the 6.70% Morningstar market risk premium described above, Mr. Hevert's CAPM would be in the range of 7.85% to 9.92%.[40]

Q PLEASE DESCRIBE MR. HEVERT'S BOND YIELD PLUS RISK PREMIUM.

A As shown on Exhibit RBH-8, Mr. Hevert constructs a risk premium return on equity estimate based on the premise that equity risk premiums are inversely related to interest rates. He estimates an average electric risk premium of 4.42% and a current, near-term and long-term risk premium over Treasury bond yields of 3.16%, 3.30% and 5.10% over the period January 1980 to March 2013, respectively. Then he applies a regression analysis to the current, near-term and long-term projected Treasury bond yields of 3.16%, 3.30% and 5.10% to produce an average electric risk premium of 7.09%, 6.96% and 5.67%, respectively. Thus, he calculates return on equity estimates of 10.25%, 10.26% and 10.77%, respectively.

[39] Hevert Direct, Exhibit RBH-7.

[40] 3.16% + 0.70 x 6.70% = 7.85%; 3.30% + 0.70 x 6.70% = 7.99%; 5.10% + 0.70 x 6.70% = 9.79%; 3.16% + 0.72 x 6.70% = 7.98%; 3.30% + 0.72 x 6.70% = 8.12%; 5.10% + 0.72 x 6.70% = 9.92%.

Q IS MR. HEVERT'S BOND YIELD PLUS RISK PREMIUM METHODOLOGY REASONABLE?

A No. Mr. Hevert's contention that there is a simplistic inverse relationship between equity risk premiums and interest rates is not supported by academic research. While academic studies have shown that, in the past, there has been an inverse relationship among these variables, researchers have found that the relationship changes over time and is influenced by changes in perception of the risk of bond investments relative to equity investments, and not simply changes to interest rates.[41]

In the 1980s, equity risk premiums were inversely related to interest rates, but that was likely attributable to the interest rate volatility that existed at that time. As such, when interest rates were more volatile, the relative perception of bond investment risk increased relative to the investment risk of equities. This changing investment risk perception caused changes in equity risk premiums.

In today's marketplace, interest rate volatility is not as extreme as it was during the 1980s.[42] Nevertheless, changes in the perceived risk of bond investments relative to equity investments still drive changes in equity premiums. However, a relative investment risk differential cannot be measured simply by observing nominal interest rates. Changes in nominal interest rates are heavily influenced by changes to inflation outlooks, which also change equity return expectations. As such, the relevant factor needed to explain changes in equity risk premiums is the relative changes to the risk of equity versus debt securities investments, and not simply changes in interest rates.

[41] "The Market Risk Premium: Expectational Estimates Using Analysts' Forecasts," Robert S. Harris and Felicia C. Marston, *Journal of Applied Finance*, Volume 11, No. 1, 2001 and "The Risk Premium Approach to Measuring a Utility's Cost of Equity," Eugene F. Brigham, Dilip K. Shome, and Steve R. Vinson, *Financial Management*, Spring 1985.

[42] "The Risk Premium Approach to Measuring a Utility's Cost of Equity," Eugene F. Brigham, Dilip K. Shome, and Steve R. Vinson, *Financial Management*, Spring 1985, at 44.

Importantly, Mr. Hevert's analysis simply ignores investment risk differentials. He bases his adjustment to the equity risk premium exclusively on changes in nominal interest rates. This is a flawed methodology; it does not produce accurate or reliable risk premium estimates.

Q DO YOU HAVE ANY OTHER COMMENTS CONCERNING MR. HEVERT'S RISK PREMIUM ANALYSES?

A Yes. Mr. Hevert's use of only projected long-term Treasury yields is not appropriate because the accuracy of those projections could be highly problematic. However, to limit the issues with Mr. Hevert's studies and considering the low interest rate environment today, I will not take issue with his use of long-term projected Treasury bond yields.

Q CAN MR. HEVERT'S BOND YIELD PLUS RISK PREMIUM STUDY BE USED TO PRODUCE A MORE REASONABLE RETURN ON EQUITY ESTIMATE FOR SHARYLAND?

A Yes. Mr. Hevert's equity risk premium average of 4.42% applied to the Treasury bond yields of 3.16%, 3.30% and 5.10%, will produce a risk premium return estimate in the range of 7.50% to 9.50%. While I agree with Mr. Hevert that this estimate is significantly low because it is influenced by the current low-cost interest environment, I find his attempt to increase the average equity risk premium by applying the notion of an inverse relationship inappropriate.

Q DID MR. HEVERT ALSO OFFER AN ASSESSMENT OF CURRENT MARKET CONDITIONS IN SUPPORT OF HIS RECOMMENDED RETURN ON EQUITY?

A Yes. At pages 38 through 47 of his direct testimony, Mr. Hevert describes several factors that, he suggests, gauge investor sentiment, including the relationship between the dividend yield of proxy group companies and Treasury yields, incremental credit spreads, yield spreads, and stock price performance. He concludes that these metrics indicate that current levels of instability and risk aversion are significantly higher than the levels observed prior to the recent recession.

Q DO YOU BELIEVE THAT MR. HEVERT'S USE OF THESE MARKET SENTIMENTS SUPPORTS HIS FINDINGS THAT SHARYLAND'S MARKET COST OF EQUITY IS CURRENTLY 10.75%?

A No. Indeed, in many instances Mr. Hevert's analysis simply ignores market sentiments favorable toward utility companies and instead lumps utility investments in with general corporate investments. A fair analysis of utility securities shows that the market generally regards utility securities as low-risk investment instruments and supports the finding that utilities' cost of capital is very low in today's marketplace.

Q WHAT IS THE MARKET SENTIMENT FOR UTILITY INVESTMENTS?

A The market sentiment toward utility investments, rather than just general corporate investments, is that the market is placing high value on utility securities recognizing their low risk and stable characteristics.

For example, this is illustrated by my Exhibit MPG-14, under column 11, which shows the spread between "A" rated utility bond yields and "Aaa" rated corporate bond yields. Currently, the spread is less than one-half of 1 percentage point. This is a relatively low spread over the 33-year time horizon. Indeed, current spreads of

utility versus high-grade corporate bond yields are at the lowest level they have been in most periods over the last 33 years. This is also reflective of the spreads between "Baa" utility bond yields relative to "Baa" corporate bond yields. Currently, utility bonds are trading at a premium to corporate bonds. This has been largely the case during the significant market turbulence that has occurred over the last five to eight years. However, over longer periods of time, utility bond yields on average trade at parity to a premium to corporate "Baa" rated bond yields. The current strong utility bond valuation is an indication of the market's sentiment that utility bonds have lower risk than general corporate bonds, and are generally regarded as a safe haven by the investment industry.

Also, Mr. Hevert observes that utility bond yields are high relative to current Treasury bond yields. This abnormal yield spread is primarily caused by the flight to quality which has significantly enhanced Treasury bond valuations, and has in turn widened the Treasury yield spread to utility dividends. Nevertheless, utility stocks have maintained relatively robust valuations and relatively stable dividend yields.

Further, other measures of utility stock valuations also support a robust market for utility stocks. As shown on my Exhibit MPG-20, utility valuation measures – e.g., price-to-earnings ratio and market price to cash flow ratio – show that stock valuation measures for the proxy group are robust. For example, for the electric proxy group, the current 2012 price-to-earnings ratio and cash flow ratios are comparable to the 12-year average of this ratio.

For all these reasons, direct assessments of valuation measures and market sentiment toward utility securities support the credit rating agencies' findings, as quoted above, that the utility industry is largely regarded as a low-risk, safe haven investment. All of this supports my findings that utilities' market cost of equity is very low in today's very low cost capital market environment.

Q DOES MR. HEVERT OBSERVE CREDIT METRIC SPREADS IN SUPPORT OF HIS RETURN ON EQUITY RECOMMENDATIONS?

A Yes. Mr. Hevert observes credit bond spreads during the period January 2010 through January 2013 in support of his recommendations. He also observes Treasury versus dividend yield spreads.[43]

Q DO THESE FACTORS DEMONSTRATE THAT UTILITIES' CAPITAL COSTS HAVE NOT DECREASED RECENTLY?

A No. As shown on my Exhibit MPG-14, utility bond yield spreads did increase particularly during market turbulence around 2008 through 2010, but have since reverted back to more normal average levels experienced over the last 30 years. Further, a comparison of "Baa" corporate bond yields relative to utility bond yields shows that utility bond yields are being priced at a premium to corporate bonds indicating the market's acceptance of utilities as low-risk investments. On average, corporate and utility bond yields are about the same. Further, as I outline above in my testimony, utility price performance and utility dividend yields have been relatively robust. Utility stock prices have outperformed the markets during down markets, and have trailed the markets during recoveries but have still performed very well over the time period. Dividend yields are keeping track with declines in market interest rates, but utilities are affordable and maintaining a relatively low level of earnings payout. Hence, utility stock prices are stable, utility dividends yields are competitive, utility dividend payments are relatively affordable, at payout ratios in the low 60% area. All of this supports the robust nature of the DCF return estimates in this proceeding, and is clear evidence that electric utilities' current market cost of capital, along with all other forms of capital costs in this market, is very low.

[43]Hevert Direct Testimony at 42-43.

1 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2 A Yes, it does.

Qualifications of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Managing Principal with Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Masters Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission ("ICC"). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the Staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return, financial integrity, financial modeling and related issues. I also supervised the development of all Staff analyses and testimony on these same issues. In addition, I supervised the Staff's review and recommendations to the Commission concerning utility plans to issue debt and equity securities.

In August of 1989, I accepted a position with Merrill-Lynch as a financial consultant. After receiving all required securities licenses, I worked with individual investors and small businesses in evaluating and selecting investments suitable to their requirements.

In September of 1990, I accepted a position with Drazen-Brubaker & Associates, Inc. ("DBA"). In April 1995, the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and Staff. Since 1990, I have performed various analyses and sponsored testimony on cost of capital, cost/benefits of utility mergers and acquisitions, utility reorganizations, level of operating expenses and rate base, cost of service studies, and analyses relating to industrial jobs and economic development. I also participated in a study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals ("RFPs") for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have participated in rate cases on rate

design and class cost of service for electric, natural gas, water and wastewater utilities. I have also analyzed commodity pricing indices and forward pricing methods for third party supply agreements, and have also conducted regional electric market price forecasts.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the Federal Energy Regulatory Commission and numerous state regulatory commissions including: Arkansas, Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.

A I earned the designation of Chartered Financial Analyst ("CFA") from the CFA Institute. The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and equity valuation and professional and ethical conduct. I am a member of the CFA Institute's Financial Analyst Society.

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Sharyland Utilities

Rate of Return

Line	Description	Weight[1] (1)	Cost[2/1] (2)	Weighted Cost (3)
1	Long-Term Debt	60.00%	**4.21%**	2.53%
2	Common Equity	40.00%	**9.35%**	3.74%
3	**Total**	**100.00%**		**6.27%**

Source:
[1]Gorman Direct at 3.
[2]Exhibit MPG-3.

Sharyland Utilities

SDTS Actual Capital Structure

Line	Description	As of December 31, 2012 Total Capitalization (1)	Capital Structure (2)
1	Members' Capital	$ 367,434	
2	Remove Goodwill	(83,391)	
3	**Net Members' Capital**	**284,043**	39.2%
4	Long-Term Debt	440,315	60.8%
5	**Total**	**$ 724,358**	100.0%

Source:
Audit Report attached to the Direct Testimony of David A. White,
BATES Stamp 326.

Sharyland Utilities

Transmission and Distribution Peer Comparison

Line	Company	Credit Rating and Outlook				
		2012	2011	2010	2009	2008
1	AEP Texas Central Co.	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--
2	AEP Texas North Co.	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--
3	CenterPoint Energy Houston Electric LLC	BBB+/Stable/--	BBB+/Stable/--	BBB/Stable/--	BBB/Negative/--	BBB/Stable/--
4	Oncor Electric Delivery Co. LLC	BBB+/Stable/--	BBB+/Stable/--	BBB+/Stable/--	BBB+/Stable/--	BBB+/Stable/--
5	Texas-New Mexico Power Co.	BBB-/Stable/--	BB/Positive/--	BB-/Stable/--	BB-/Stable/--	BB-/Negative/--

Source:
Standard & Poor's: RatingsDirect: CreditStats; Electric Utilities--U.S, August 30, 2013.

ETI RFI 2-42
ATTACHMENT 3

Exhibit MPG-3

Sharyland Utilities

Embedded Cost of Debt

Dollars in Thousands

Line	Issuance	Long-Term Debt Balances (1)	Weight (2)	Cost Rate (3)	Weighted Cost Rate (4)
1	Senior secured notes - $53.5 Million	$ 49,488	11.11%	7.25%	0.81%
2	Senior secured notes - $110.0 Million	108,505	24.36%	6.47%	1.58%
3	Senior secured term loan - $10.0 Million	4,375	0.98%	3.75%	0.04%
4	Senior secured notes - $60.0 Million	60,000	13.47%	5.04%	0.68%
5	Senior secured credit facilities - $667.0 Million	223,000	50.07%	2.22%	1.11%
6	Total	$ 445,368	100.00%		4.21%

Source:
Audit Report attached to the Direct Testimony of David A. White, BATES Stamp 339.

Sharyland Utilities

Consensus Analysts' Growth Rates

Line	Company	Zacks		SNL		Reuters		Average of Growth
		Estimated Growth %[1]	Number of Estimates	Estimated Growth %[2]	Number of Estimates	Estimated Growth %[3]	Number of Estimates	Rates
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	American Electric Power	3.87%	N/A	4.00%	5	4.06%	7	3.98%
2	Cleco Corp.	8.00%	N/A	N/A	N/A	N/A	0	8.00%
3	Duke Energy	3.69%	N/A	3.60%	3	3.85%	7	3.71%
4	Empire District Electric	3.00%	N/A	3.00%	1	3.00%	1	3.00%
5	Great Plains Energy Inc.	6.49%	N/A	6.20%	3	6.43%	3	6.37%
6	Hawaiian Electric	2.40%	N/A	2.40%	1	3.70%	2	2.83%
7	IDACORP, Inc.	4.00%	N/A	N/A	N/A	N/A	N/A	4.00%
8	Northeast Utilities	7.85%	N/A	8.10%	3	7.19%	6	7.71%
9	Otter Tail Corp.	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10	Pepco Holdings	5.02%	N/A	4.80%	5	3.82%	5	4.55%
11	Pinnacle West Capital	4.59%	N/A	4.60%	5	4.72%	4	4.64%
12	PNM Resources, Inc	7.77%	N/A	7.80%	3	6.43%	3	7.33%
13	Portland General	5.90%	N/A	5.90%	2	6.22%	4	6.01%
14	Southern Co.	4.44%	N/A	4.10%	4	4.54%	6	4.36%
15	Westar Energy	3.37%	N/A	2.50%	3	2.50%	3	2.79%
16	**Average**	**5.03%**	**N/A**	**4.75%**	**3**	**4.71%**	**4**	**4.95%**

Sources:
[1] Zacks Elite, http://www.zackselite.com/, downloaded on September 24, 2013.
[2] SNL Interactive, http://www.snl.com/, downloaded on September 24, 2013.
[3] Reuters, http://www.reuters.com/, downloaded on September 24, 2013.

Sharyland Utilities

Constant Growth DCF Model
(Consensus Analysts' Growth Rates)

Line	Company	13-Week AVG Stock Price[1] (1)	Analysts' Growth[2] (2)	Annualized Dividend[3] (3)	Adjusted Yield (4)	Constant Growth DCF (5)
1	American Electric Power	$44.48	3.98%	$1.96	4.58%	8.56%
2	Cleco Corp.	$46.63	8.00%	$1.45	3.36%	11.36%
3	Duke Energy	$68.12	3.71%	$3.12	4.75%	8.46%
4	Empire District Electric	$22.39	3.00%	$1.00	4.60%	7.60%
5	Great Plains Energy Inc.	$22.99	6.37%	$0.87	4.03%	10.40%
6	Hawaiian Electric	$25.66	2.83%	$1.24	4.97%	7.80%
7	IDACORP, Inc.	$49.64	4.00%	$1.52	3.18%	7.18%
8	Northeast Utilities	$42.25	7.71%	$1.47	3.75%	11.46%
9	Otter Tail Corp.	$28.67	N/A	$1.19	N/A	N/A
10	Pepco Holdings	$19.56	4.55%	$1.08	5.77%	10.32%
11	Pinnacle West Capital	$55.98	4.64%	$2.18	4.07%	8.71%
12	PNM Resources, Inc	$22.69	7.33%	$0.66	3.12%	10.46%
13	Portland General	$30.07	6.01%	$1.10	3.88%	9.88%
14	Southern Co.	$43.21	4.36%	$2.03	4.90%	9.26%
15	Westar Energy	$31.97	2.79%	$1.36	4.37%	7.16%
16	**Average**	**$36.95**	**4.95%**	**$1.48**	**4.24%**	**9.19%**
17	**Median**					**8.99%**

Sources:
[1] SNL Financial, downloaded on September 24, 2013.
[2] Exhibit MPG-4.
[3] *The Value Line Investment Survey*, August 2, August 23, and September 20, 2013.

Sharyland Utilities

Payout Ratios

Line	Company	Dividends Per Share		Earnings Per Share		Payout Ratio	
		2012	Projected	2012	Projected	2012	Projected
		(1)	(2)	(3)	(4)	(5)	(6)
1	American Electric Power	$1.88	$2.30	$2.98	$3.75	63.09%	61.33%
2	Cleco Corp.	$1.30	$2.00	$2.70	$3.50	48.15%	57.14%
3	Duke Energy	$3.03	$3.35	$3.71	$5.00	81.67%	67.00%
4	Empire District Electric	$1.00	$1.20	$1.32	$1.70	75.76%	70.59%
5	Great Plains Energy Inc.	$0.86	$1.20	$1.35	$2.00	63.70%	60.00%
6	Hawaiian Electric	$1.24	$1.30	$1.68	$1.75	73.81%	74.29%
7	IDACORP, Inc.	$1.37	$1.90	$3.37	$3.65	40.65%	52.05%
8	Northeast Utilities	$1.32	$1.80	$1.89	$3.25	69.84%	55.38%
9	Otter Tail Corp.	$1.19	$1.30	$1.05	$2.00	113.33%	65.00%
10	Pepco Holdings	$1.08	$1.16	$1.24	$1.70	87.10%	68.24%
11	Pinnacle West Capital	$2.67	$2.60	$3.50	$4.25	76.29%	61.18%
12	PNM Resources, Inc	$0.58	$1.08	$1.31	$2.15	44.27%	50.23%
13	Portland General	$1.08	$1.25	$1.87	$2.25	57.75%	55.56%
14	Southern Co.	$1.94	$2.30	$2.67	$3.25	72.66%	70.77%
15	Westar Energy	$1.32	$1.52	$2.15	$2.70	61.40%	56.30%
16	**Average**	**$1.46**	**$1.75**	**$2.19**	**$2.86**	**68.63%**	**61.67%**

Source:
The Value Line Investment Survey, August 2, August 23, and September 20, 2013.

Sharyland Utilities

Sustainable Growth Rate

Line	Company	3 to 5 Year Projections: Dividends Per Share (1)	Earnings Per Share (2)	Book Value Per Share (3)	Book Value Growth (4)	ROE (5)	Adjustment Factor (6)	Adjusted ROE (7)	Payout Ratio (8)	Retention Rate (9)	Internal Growth Rate (10)	Sustainable Growth Rate (11)
1	American Electric Power	$2.30	$3.75	$38.00	3.91%	9.87%	1.02	10.06%	61.33%	38.67%	3.89%	4.22%
2	Cleco Corp.	$2.00	$3.50	$31.75	5.03%	11.02%	1.02	11.29%	57.14%	42.86%	4.84%	4.88%
3	Duke Energy	$3.35	$5.00	$63.75	1.89%	7.84%	1.01	7.92%	67.00%	33.00%	2.61%	2.64%
4	Empire District Electric	$1.20	$1.70	$19.50	2.90%	8.72%	1.01	8.84%	70.59%	29.41%	2.60%	3 19%
5	Great Plains Energy Inc.	$1.20	$2.00	$25.00	2.82%	8.00%	1.01	8.11%	60.00%	40.00%	3.24%	3.26%
6	Hawaiian Electric	$1.30	$1.75	$20.75	4.97%	8.43%	1.02	8.64%	74.29%	25.71%	2.22%	5.05%
7	IDACORP, Inc.	$1.90	$3.65	$43.45	4.38%	8.40%	1.02	8 58%	52.05%	47.95%	4.11%	4.25%
8	Northeast Utilities	$1 80	$3.25	$34.75	3.39%	9.35%	1.02	9.51%	55.38%	44.62%	4.24%	4.38%
9	Otter Tail Corp.	$1.30	$2.00	$18.00	4.52%	11.11%	1.02	11.36%	65.00%	35.00%	3.97%	5.98%
10	Pepco Holdings	$1 16	$1.70	$21.50	2.15%	7.91%	1.01	7.99%	68.24%	31.76%	2.54%	2.56%
11	Pinnacle West Capital	$2.60	$4.25	$43.25	3.62%	9.83%	1.02	10.00%	61.18%	38.82%	3.88%	4.40%
12	PNM Resources, Inc	$1.08	$2.15	$23.60	3.31%	9.11%	1.02	9.26%	50.23%	49.77%	4.61%	4.62%
13	Portland General	$1.25	$2.25	$26.75	3.18%	8.41%	1.02	8.54%	55.56%	44.44%	3.80%	4.88%
14	Southern Co.	$2 30	$3.25	$25.75	4.07%	12.62%	1.02	12.87%	70.77%	29.23%	3.76%	5.23%
15	Westar Energy	$1.52	$2.70	$29.65	5.31%	9.11%	1 03	9.34%	56.30%	43.70%	4.08%	4.60%
16	**Average**	**$1.75**	**$2.86**	**$31.03**	**3.70%**	**9.32%**	**1.02**	**9.49%**	**61.67%**	**38.33%**	**3.63%**	**4.28%**

Sources and Notes:
Cols. (1), (2) and (3): *The Value Line Investment Survey*, August 2, August 23, and September 20, 2013.
Col. (4): [Col. (3) / Page 2 Col. (2)] ^ (1/5) - 1.
Col. (5): Col. (2) / Col. (3).
Col. (6). [2 * (1 + Col. (4))] / (2 + Col. (4)).
Col. (7): Col. (6) * Col. (5).
Col. (8): Col. (1) / Col. (2).
Col. (9): 1 - Col. (8).
Col. (10): Col. (9) * Col (7).
Col. (11): Col. (10) + Page 2 Col. (9).

Sharyland Utilities

Sustainable Growth Rate

Line	Company	13-Week Average Stock Price[1] (1)	2012 Book Value Per Share[2] (2)	Market to Book Ratio (3)	Common Shares Outstanding (in Millions)[2] 2012 (4)	Common Shares Outstanding (in Millions)[2] 3-5 Years (5)	Growth (6)	S Factor[3] (7)	V Factor[4] (8)	S * V[5] (9)
1	American Electric Power	$44.48	$31.37	1.42	485.67	505.00	0.78%	1.11%	29.48%	0.33%
2	Cleco Corp.	$46.63	$24.84	1.88	60.36	60.50	0.05%	0.09%	46.73%	0.04%
3	Duke Energy	$68.12	$58.04	1.17	704.00	710.00	0 17%	0.20%	14.79%	0.03%
4	Empire District Electric	$22.39	$16.90	1.32	42.48	46.50	1.82%	2.42%	24.51%	0.59%
5	Great Plains Energy Inc.	$22.99	$21.75	1.06	153.53	156.00	0.32%	0.34%	5.39%	0.02%
6	Hawaiian Electric	$25.66	$16.28	1.58	97.93	124.50	4.92%	7.75%	36.55%	2.83%
7	IDACORP, Inc.	$49.64	$35.07	1.42	50.16	51.00	0.33%	0.47%	29.34%	0.14%
8	Northeast Utilities	$42.25	$29.41	1 44	314.05	319.00	0.31%	0.45%	30.39%	0.14%
9	Otter Tail Corp.	$28.67	$14.43	1.99	36.17	40.00	2.03%	4.04%	49.66%	2.01%
10	Pepco Holdings	$19.56	$19.33	1.01	230.02	255.00	2.08%	2.11%	1.17%	0.02%
11	Pinnacle West Capital	$55.98	$36.20	1.55	109.74	115.00	0.94%	1.45%	35.33%	0.51%
12	PNM Resources, Inc	$22.69	$20.05	1.13	79.65	80.00	0.09%	0.10%	11.62%	0.01%
13	Portland General	$30.07	$22.87	1.31	75.56	89.50	3.44%	4.53%	23.95%	1.08%
14	Southern Co.	$43.21	$21.09	2.05	867.77	930.00	1.39%	2.86%	51.19%	1.46%
15	Westar Energy	$31.97	$22.89	1.40	126.50	135.00	1.31%	1.83%	28.40%	0.52%
16	**Average**	**$36.95**	**$26.03**	**1.45**	**228.91**	**241.13**	**1.33%**	**1.98%**	**27.90%**	**0.65%**

Sources and Notes:

[1] SNL Financial, downloaded on September 24, 2013.

[2] *The Value Line Investment Survey*, August 2, August 23, and September 20, 2013.

[3] Expected Growth in the Number of Shares, Column (3) * Column (6).

[4] Expected Profit of Stock Investment, [1 - 1 / Column (3)].

Sharyland Utilities

Constant Growth DCF Model
(Sustainable Growth Rate)

Line	Company	13-Week AVG Stock Price[1] (1)	Sustainable Growth[2] (2)	Annualized Dividend[3] (3)	Adjusted Yield (4)	Constant Growth DCF (5)
1	American Electric Power	$44.48	4.22%	$1.96	4.59%	8.81%
2	Cleco Corp.	$46.63	4.88%	$1.45	3.26%	8.14%
3	Duke Energy	$68.12	2.64%	$3.12	4.70%	7.34%
4	Empire District Electric	$22.39	3.19%	$1.00	4.61%	7.80%
5	Great Plains Energy Inc.	$22.99	3.26%	$0.87	3.91%	7.17%
6	Hawaiian Electric	$25.66	5.05%	$1.24	5.08%	10.13%
7	IDACORP, Inc.	$49.64	4.25%	$1.52	3.19%	7.44%
8	Northeast Utilities	$42.25	4.38%	$1.47	3.63%	8.01%
9	Otter Tail Corp.	$28.67	5.98%	$1.19	4.41%	10.39%
10	Pepco Holdings	$19.56	2.56%	$1.08	5.66%	8.23%
11	Pinnacle West Capital	$55.98	4.40%	$2.18	4.07%	8.46%
12	PNM Resources, Inc	$22.69	4.62%	$0.66	3.04%	7.66%
13	Portland General	$30.07	4.88%	$1.10	3.84%	8.72%
14	Southern Co.	$43.21	5.23%	$2.03	4.94%	10.17%
15	Westar Energy	$31.97	4.60%	$1.36	4.45%	9.05%
16	**Average**	**$36.95**	**4.28%**	**$1.48**	**4.23%**	**8.50%**
17	**Median**					**8.23%**

Sources:

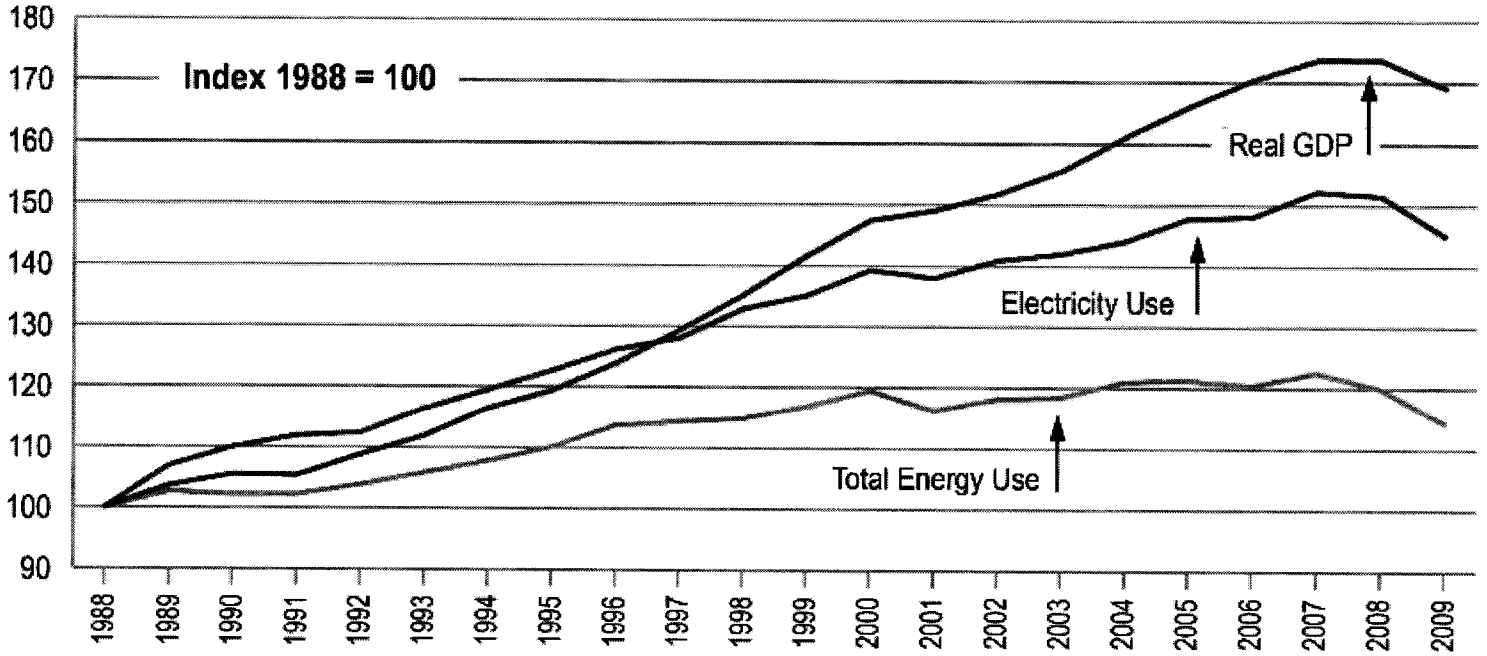
[1] SNL Financial, downloaded on September 24, 2013.

[2] Exhibit MPG-7, page 1 of 2.

[3] *The Value Line Investment Survey*, August 2, August 23, and September 20, 2013

Sharyland Utilities

Electricity Sales Are Linked to U.S. Economic Growth



Note:
1988 represents the base year. Graph depicts increases or decreases from the base year.

Sources:
U.S. Department of Energy, Energy Information Administration.
Edison Electric Institute, http://www.eei.org.

Sharyland Utilities

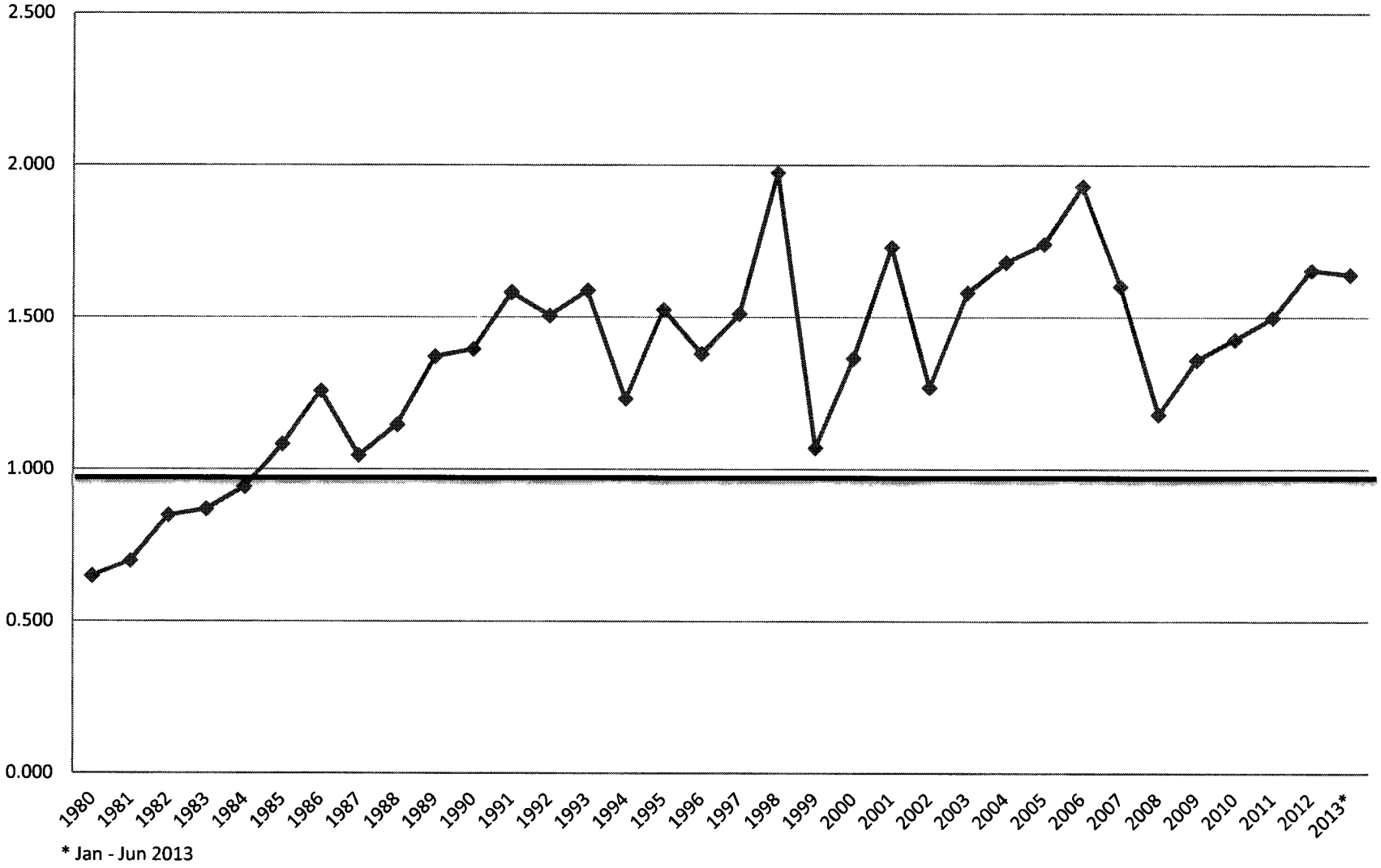
Multi-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1] (1)	Annualized Dividend[2] (2)	First Stage Growth[3] (3)	Second Stage Growth Year 6 (4)	Year 7 (5)	Year 8 (6)	Year 9 (7)	Year 10 (8)	Third Stage Growth[4] (9)	Multi-Stage Growth DCF (10)
1	American Electric Power	$44.48	$1.96	3.98%	4.13%	4.28%	4.44%	4.59%	4.75%	4.90%	9.26%
2	Cleco Corp.	$46.63	$1.45	8.00%	7.48%	6.97%	6.45%	5.93%	5.42%	4.90%	8.86%
3	Duke Energy	$68.12	$3.12	3.71%	3.91%	4.11%	4.31%	4.50%	4.70%	4.90%	9.36%
4	Empire District Electric	$22.39	$1.00	3.00%	3.32%	3.63%	3.95%	4.27%	4.58%	4.90%	9.06%
5	Great Plains Energy Inc.	$22.99	$0.87	6.37%	6.13%	5.88%	5.64%	5.39%	5.15%	4.90%	9.25%
6	Hawaiian Electric	$25.66	$1.24	2.83%	3.18%	3.52%	3.87%	4.21%	4.56%	4.90%	9.35%
7	IDACORP, Inc.	$49.64	$1.52	4.00%	4.15%	4.30%	4.45%	4.60%	4.75%	4.90%	7.92%
8	Northeast Utilities	$42.25	$1.47	7.71%	7.24%	6.78%	6.31%	5.84%	5.37%	4.90%	9.25%
9	Otter Tail Corp.	$28.67	$1.19	N/A	N/A	N/A	N/A	N/A	N/A	4.90%	N/A
10	Pepco Holdings	$19.56	$1.08	4.55%	4.61%	4.66%	4.72%	4.78%	4.84%	4.90%	10.57%
11	Pinnacle West Capital	$55.98	$2.18	4.64%	4.68%	4.72%	4.77%	4.81%	4.86%	4.90%	8.92%
12	PNM Resources, Inc	$22.69	$0.66	7.33%	6.93%	6.52%	6.12%	5.71%	5.31%	4.90%	8.46%
13	Portland General	$30.07	$1.10	6.01%	5.82%	5.64%	5.45%	5.27%	5.08%	4.90%	9.01%
14	Southern Co.	$43.21	$2.03	4.36%	4.45%	4.54%	4.63%	4.72%	4.81%	4.90%	9.67%
15	Westar Energy	$31.97	$1.36	2.79%	3.14%	3.49%	3.85%	4.20%	4.55%	4.90%	8.80%
16	**Average**	**$36.95**	**$1.48**	**4.95%**	**4.94%**	**4.93%**	**4.92%**	**4.92%**	**4.91%**	**4.90%**	**9.12%**
17	**Median**										**9.15%**

Sources:
[1] SNL Financial, downloaded on September 24, 2013.
[2] *The Value Line Investment Survey*, August 2, August 23, and September 20, 2013.
[3] Exhibit MPG-4.
[4] *Blue Chip Financial Forecasts,* June 1, 2013 at 14.

Sharyland Utilities

Common Stock Market/Book Ratio



* Jan - Jun 2013

Sharyland Utilities

Equity Risk Premium - Treasury Bond

Line	Year	Authorized Electric Returns[1] (1)	Treasury Bond Yield[2] (2)	Indicated Risk Premium (3)
1	1986	13.93%	7.80%	6.13%
2	1987	12.99%	8.58%	4.41%
3	1988	12.79%	8.96%	3.83%
4	1989	12.97%	8.45%	4.52%
5	1990	12.70%	8.61%	4.09%
6	1991	12.55%	8.14%	4.41%
7	1992	12.09%	7.67%	4.42%
8	1993	11.41%	6.60%	4.81%
9	1994	11.34%	7.37%	3.97%
10	1995	11.55%	6.88%	4.67%
11	1996	11.39%	6.70%	4.69%
12	1997	11.40%	6.61%	4.79%
13	1998	11.66%	5.58%	6.08%
14	1999	10.77%	5.87%	4.90%
15	2000	11.43%	5.94%	5.49%
16	2001	11.09%	5.49%	5.60%
17	2002	11.16%	5.43%	5.73%
18	2003	10.97%	4.96%	6.01%
19	2004	10.75%	5.05%	5.70%
20	2005	10.54%	4.65%	5.89%
21	2006	10.36%	4.99%	5.37%
22	2007	10.36%	4.83%	5.53%
23	2008	10.46%	4.28%	6.18%
24	2009	10.48%	4.07%	6.41%
25	2010	10.34%	4.25%	6.09%
26	2011	10.22%	3.91%	6.31%
27	2012	10.01%	2.92%	7.09%
28	2013[3]	9.80%	3.14%	6.66%
29	**Average**	**11.34%**	**5.99%**	**5.35%**

Sources:
[1] Regulatory Research Associates, Inc., *Regulatory Focus,* Jan. 85 - Dec. 06, and July 9, 2013, excluding the VA cases, which are subject to a 200 basis point adjustment for certain generation assets.
[2] St. Louis Federal Reserve: Economic Research, http://research.stlouisfed.org/. The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.
[3] The data includes the period Jan - June 2013.

Sharyland Utilities

Equity Risk Premium - Utility Bond

Line	Year	Authorized Electric Returns[1] (1)	Average "A" Rated Utility Bond Yield[2] (2)	Indicated Risk Premium (3)
1	1986	13.93%	9.58%	4.35%
2	1987	12.99%	10.10%	2.89%
3	1988	12.79%	10.49%	2.30%
4	1989	12.97%	9.77%	3.20%
5	1990	12.70%	9.86%	2.84%
6	1991	12.55%	9.36%	3.19%
7	1992	12.09%	8.69%	3.40%
8	1993	11.41%	7.59%	3.82%
9	1994	11.34%	8.31%	3.03%
10	1995	11.55%	7.89%	3.66%
11	1996	11.39%	7.75%	3.64%
12	1997	11.40%	7.60%	3.80%
13	1998	11.66%	7.04%	4.62%
14	1999	10.77%	7.62%	3.15%
15	2000	11.43%	8.24%	3.19%
16	2001	11.09%	7.76%	3.33%
17	2002	11.16%	7.37%	3.79%
18	2003	10.97%	6.58%	4.39%
19	2004	10.75%	6.16%	4.59%
20	2005	10.54%	5.65%	4.89%
21	2006	10.36%	6.07%	4.29%
22	2007	10.36%	6.07%	4.29%
23	2008	10.46%	6.53%	3.93%
24	2009	10.48%	6.04%	4.44%
25	2010	10.34%	5.46%	4.88%
26	2011	10.22%	5.04%	5.18%
27	2012	10.01%	4.13%	5.88%
28	2013[3]	9.80%	4.20%	5.60%
29	**Average**	**11.34%**	**7.39%**	**3.95%**

Sources:

[1] Regulatory Research Associates, Inc., *Regulatory Focus,* Jan. 85 - Dec. 06, and July 9, 2013, excluding the VA cases, which are subject to a 200 basis point adjustment for certain generation assets.

[2] Mergent Public Utility Manual, Mergent Weekly News Reports, 2003. The utility yields for the period 2001-2009 were obtained from the Mergent Bond Record. The utility yields from 2010-2011 were obtained from http://credittrends.moodys.com/.

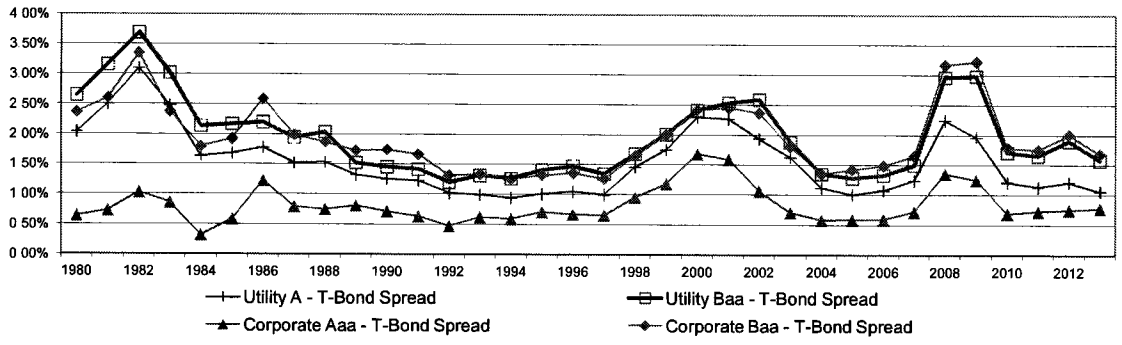
[3] The data includes the period Jan - June 2013.

Sharyland Utilities

Bond Yield Spreads

			Public Utility Bond				Corporate Bond				Utility to Corporate	
Line	Year	T-Bond Yield[1] (1)	A[2] (2)	Baa[2] (3)	A-T-Bond Spread (4)	Baa-T-Bond Spread (5)	Aaa[1] (6)	Baa[1] (7)	Aaa-T-Bond Spread (8)	Baa-T-Bond Spread (9)	Baa Spread (10)	A - Aaa Spread (11)
1	1980	11.30%	13.34%	13.95%	2.04%	2.65%	11.94%	13.67%	0.64%	2.37%	0.28%	1.40%
2	1981	13.44%	15.95%	16.60%	2.51%	3.16%	14.17%	16.04%	0.73%	2.60%	0.56%	1.78%
3	1982	12.76%	15.86%	16.45%	3.10%	3.69%	13.79%	16.11%	1.03%	3.35%	0.34%	2.07%
4	1983	11.18%	13.66%	14.20%	2.48%	3 02%	12.04%	13.55%	0.86%	2.38%	0.65%	1.62%
5	1984	12.39%	14.03%	14.53%	1.64%	2.14%	12.71%	14.19%	0.32%	1.80%	0.34%	1.32%
6	1985	10.79%	12.47%	12.96%	1.68%	2.17%	11.37%	12.72%	0.58%	1.93%	0.24%	1.10%
7	1986	7 80%	9.58%	10.00%	1.78%	2.20%	9.02%	10.39%	1.22%	2.59%	-0.39%	0.56%
8	1987	8.58%	10.10%	10.53%	1.52%	1.95%	9.38%	10.58%	0.80%	2.00%	-0.05%	0.72%
9	1988	8.96%	10.49%	11.00%	1.53%	2.04%	9.71%	10.83%	0.75%	1.87%	0.17%	0.78%
10	1989	8.45%	9.77%	9.97%	1.32%	1.52%	9.26%	10.18%	0.81%	1.73%	-0.21%	0.51%
11	1990	8.61%	9.86%	10.06%	1.25%	1.45%	9.32%	10.36%	0.71%	1.75%	-0.29%	0.54%
12	1991	8.14%	9.36%	9.55%	1.22%	1.41%	8.77%	9.80%	0.63%	1.67%	-0.25%	0.59%
13	1992	7.67%	8.69%	8.86%	1.02%	1.19%	8.14%	8.98%	0.47%	1.31%	-0.12%	0.55%
14	1993	6.60%	7.59%	7.91%	0 99%	1.31%	7.22%	7.93%	0.62%	1.33%	-0.02%	0.37%
15	1994	7.37%	8.31%	8.63%	0.94%	1.26%	7.96%	8.62%	0.59%	1.25%	0.01%	0.35%
16	1995	6.88%	7.89%	8.29%	1.01%	1.41%	7.59%	8.20%	0.71%	1.32%	0.09%	0 30%
17	1996	6.70%	7.75%	8.17%	1.05%	1.47%	7.37%	8.05%	0.67%	1.35%	0.12%	0.38%
18	1997	6.61%	7.60%	7.95%	0.99%	1.34%	7.26%	7.86%	0.66%	1.26%	0.09%	0.34%
19	1998	5.58%	7.04%	7.26%	1.46%	1.68%	6.53%	7.22%	0.95%	1.64%	0.04%	0.51%
20	1999	5.87%	7.62%	7.88%	1.75%	2.01%	7.04%	7.87%	1.18%	2.01%	0.01%	0.58%
21	2000	5.94%	8.24%	8.36%	2.30%	2.42%	7.62%	8.36%	1.68%	2.42%	-0.01%	0.62%
22	2001	5.49%	7.76%	8.03%	2.27%	2.54%	7.08%	7.95%	1.59%	2.45%	0.08%	0.68%
23	2002	5.43%	7.37%	8.02%	1.94%	2.59%	6.49%	7.80%	1.06%	2.37%	0.22%	0.88%
24	2003	4.96%	6.58%	6.84%	1.62%	1.89%	5.67%	6.77%	0.71%	1.81%	0.08%	0.91%
25	2004	5.05%	6.16%	6.40%	1.11%	1.35%	5.63%	6.39%	0.58%	1.35%	0.00%	0.53%
26	2005	4.65%	5.65%	5.93%	1.00%	1.28%	5.24%	6.06%	0.59%	1.42%	-0.14%	0.41%
27	2006	4.99%	6.07%	6.32%	1.08%	1.32%	5.59%	6.48%	0.60%	1.49%	-0.16%	0.48%
28	2007	4.83%	6.07%	6.33%	1.24%	1.50%	5 56%	6.48%	0.72%	1.65%	-0.15%	0.52%
29	2008	4.28%	6.53%	7.25%	2.25%	2.97%	5.63%	7.45%	1.35%	3.17%	-0.20%	0.90%
30	2009	4.07%	6.04%	7.06%	1.97%	2.99%	5.31%	7.30%	1.24%	3.23%	-0.24%	0.72%
31	2010	4.25%	5.46%	5.96%	1.21%	1.71%	4.94%	6.04%	0.69%	1.79%	-0.08%	0.52%
32	2011	3.91%	5.04%	5.56%	1.13%	1.65%	4.64%	5.66%	0.73%	1.75%	-0.10%	0.40%
33	2012	2.92%	4.13%	4.83%	1.21%	1.91%	3.67%	4.94%	0.75%	2.01%	-0.11%	0.46%
34	2013[3]	3.14%	4.20%	4.72%	1 06%	1.58%	3.92%	4.82%	0.78%	1.68%	-0.10%	0.28%
35	**Average**	**7.05%**	**8.60%**	**9.01%**	**1.55%**	**1.96%**	**7.87%**	**8.99%**	**0.82%**	**1.94%**	**0.02%**	**0.73%**

Yield Spreads
Treasury Vs. Corporate & Treasury Vs. Utility



Sources:
[1] St. Louis Federal Reserve: Economic Research, http://research.stlouisfed.org/.
[2] Mergent Public Utility Manual, Mergent Weekly News Reports, 2003. The utility yields for the period 2001-2009 were obtained from the Mergent Bond Record. The utility yields from 2010-2011 were obtained from http://credittrends.moodys.com/.
[3] The data includes the period Jan - June 2013.

Sharyland Utilities

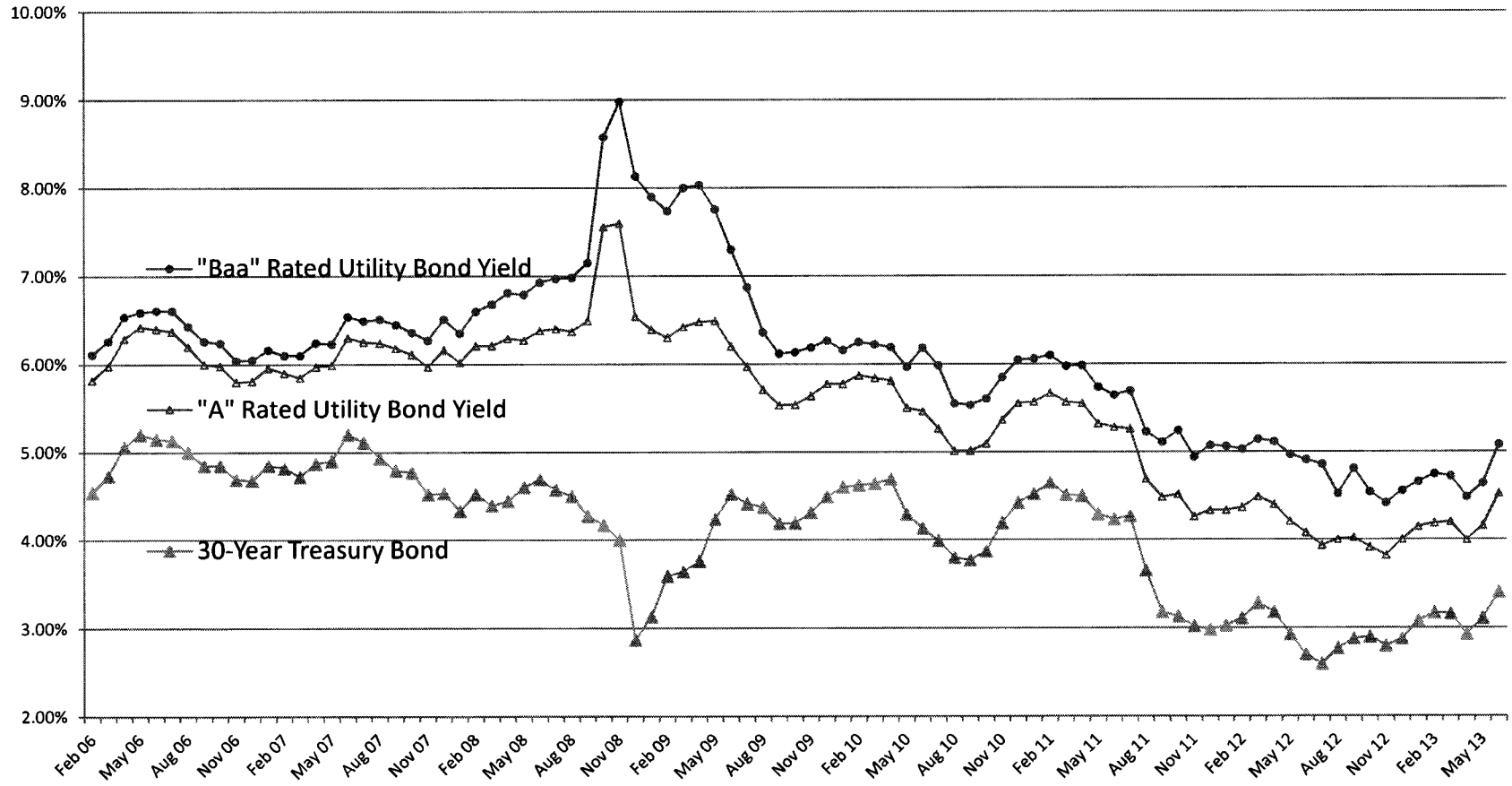
Treasury and Utility Bond Yields

Line	Date	Treasury Bond Yield[1] (1)	"A" Rated Utility Bond Yield[2] (2)	"Baa" Rated Utility Bond Yield[2] (3)
1	09/20/13	3.77%	4.79%	5.27%
2	09/13/13	3.84%	4.85%	5.37%
3	09/06/13	3.87%	4.86%	5.37%
4	08/30/13	3.70%	4.67%	5.17%
5	08/23/13	3.80%	4.79%	5.32%
6	08/16/13	3.86%	4.83%	5.39%
7	08/09/13	3.63%	4.61%	5.17%
8	08/02/13	3.69%	4.63%	5.18%
9	07/26/13	3.61%	4.62%	5.13%
10	07/19/13	3.56%	4.62%	5.12%
11	07/12/13	3.64%	4.76%	5.28%
12	07/05/13	3.68%	4.82%	5.38%
13	06/28/13	3.52%	4.67%	5.23%
14	**Average**	**3.71%**	**4.73%**	**5.26%**
15	**Spread To Treasury**		**1.02%**	**1.55%**

Sources:
[1] St. Louis Federal Reserve: Economic Research, http://research.stlouisfed.org.
[2]http://credittrends.moodys.com/.

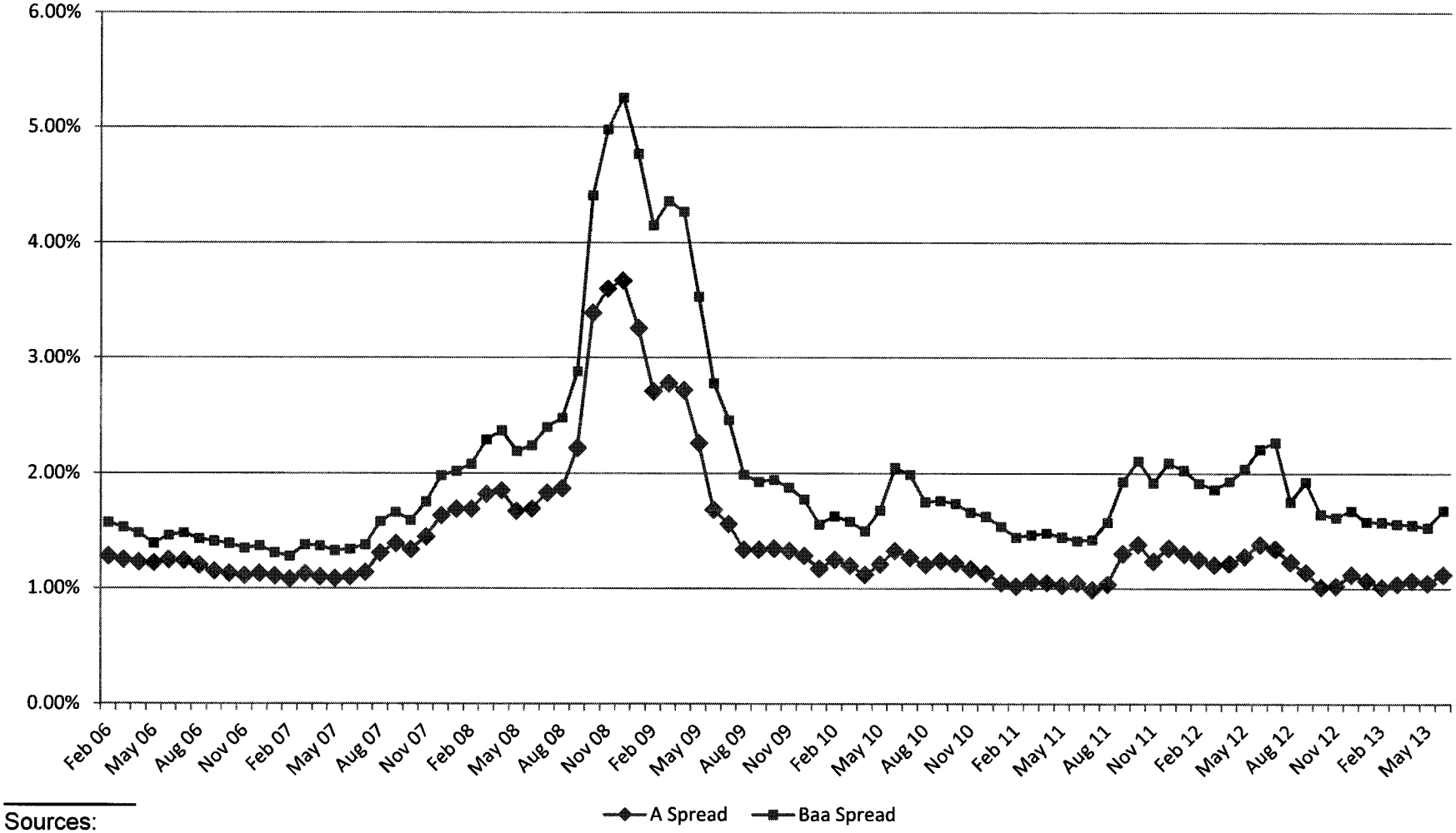
Sharyland Utilities

Trends in Bond Yields



Sources:
Merchant Bond Record.
www.moodys.com, Bond Yields and Key Indicators.
St. Louis Federal Reserve: Economic Research, http://research.stlouisfed.org/

Yield Spread Between Utility Bonds and 30-Year Treasury Bonds



Sources:
Merchant Bond Record.
www.moodys.com, Bond Yields and Key Indicators.
St. Louis Federal Reserve: Economic Research, http://research.stlouisfed.org/

Sharyland Utilities

Value Line Beta

Line	Company	Beta
1	American Electric Power	0.70
2	Cleco Corp.	0.65
3	Duke Energy	0.60
4	Empire District Electric	0.70
5	Great Plains Energy Inc.	0.80
6	Hawaiian Electric	0.70
7	IDACORP, Inc.	0.70
8	Northeast Utilities	0.75
9	Otter Tail Corp.	0.90
10	Pepco Holdings	0.75
11	Pinnacle West Capital	0.70
12	PNM Resources, Inc	0.95
13	Portland General	0.75
14	Southern Co.	0.55
15	Westar Energy	0.75
16	**Average**	**0.73**

Source:
The Value Line Investment Survey,
August 2, August 23, and September 20, 2013.

Sharyland Utilities

CAPM Return

Line	Description	Market Risk Premium
1	Risk-Free Rate[1]	4.20%
2	Risk Premium[2]	6.70%
3	Beta[3]	0.73
4	**CAPM**	**9.09%**

Sources:

[1] *Blue Chip Financial Forecasts*; September 1, 2013, at 2.

[2] Morningstar, Inc. *Ibbotson SBBI 2013 Classic Yearbook* at 88, and Morningstar, Inc. *Ibbotson SBBI 2013 Valuation Yearbook* at 54 and 66.

[3] Exhibit MPG-16.

Sharyland Utilities

Hevert Revised Constant Growth DCF Analysis
(30-Day Average Stock Price)

Line	Company	Stock Price (1)	Annualized Dividend (2)	Low EPS Growth Rate (3)	Expected Dividend Yield (4)	Low DCF ROE (5)	Average EPS Growth Rate (6)	Expected Dividend Yield (7)	Average DCF ROE (8)	High EPS Growth Rate (9)	Expected Dividend Yield (10)	High DCF ROE (11)
1	American Electric Power Company, Inc.	$47.05	$1.88	3.38%	4.06%	7.44%	3.91%	4.07%	7.99%	4.50%	4.09%	8.59%
2	Cleco Corporation	$44.73	$1.35	3.00%	3.06%	6.06%	6.00%	3.11%	9.11%	8.00%	3.14%	11.14%
3	Duke Energy Corporation	$69.80	$3.06	3.83%	4.47%	8.30%	4.12%	4.47%	8.59%	4.50%	4.48%	8.98%
4	Empire District Electric Company	$21.70	$1.00	3.00%	4.68%	7.68%	4.25%	4.71%	8.96%	5.50%	4.74%	10.24%
5	Great Plains Energy Inc.	$22.43	$0.87	5.73%	3.99%	9.72%	6.44%	4.00%	10.45%	7.10%	4.02%	11.12%
6	Hawaiian Electric Industries, Inc.	$27.25	$1.24	3.30%	4.63%	7.93%	6.22%	4.69%	10.91%	9.00%	4.76%	13.76%
7	IDACORP, Inc.	$47.31	$1.52	2.00%	3.24%	5.24%	3.33%	3.27%	6.60%	4.00%	3.28%	7.28%
8	Northeast Utilities	$42.06	$1.47	6.50%	3.61%	10.11%	7.20%	3.62%	10.82%	8.04%	3.64%	11.68%
9	NV Energy, Inc.	$19.85	$0.76	3.13%	3.89%	7.02%	8.57%	3.99%	12.56%	11.50%	4.05%	15.55%
10	Otter Tail Corporation	$29.70	$1.19	5.00%	4.11%	9.11%	10.33%	4.21%	14.55%	20.00%	4.41%	24.41%
11	Pepco Holdings, Inc.	$20.53	$1.08	4.50%	5.38%	9.88%	5.08%	5.39%	10.48%	6.00%	5.42%	11.42%
12	Pinnacle West Capital Corporation	$56.26	$2.18	6.50%	4.00%	10.50%	7.07%	4.01%	11.08%	7.50%	4.02%	11.52%
13	PNM Resources, Inc.	$22.66	$0.66	8.35%	3.03%	11.38%	11.22%	3.08%	14.29%	16.00%	3.15%	19.15%
14	Portland General Electric Company	$29.66	$1.08	4.43%	3.72%	8.15%	5.17%	3.74%	8.91%	5.58%	3 74%	9.32%
15	Southern Company	$45.21	$1.96	4.50%	4.43%	8.93%	4.76%	4.44%	9.20%	4.98%	4.44%	9.42%
16	Westar Energy, Inc.	$31.77	$1.36	5.00%	4.39%	9.39%	5.96%	4.41%	10 37%	6.50%	4.42%	10.92%
17	**Average**	**$38.02**	**$1.46**	**4.51%**	**4.04%**	**8.55%**	**6.23%**	**4.08%**	**10.30%**	**8.04%**	**4.11%**	**12.15%**
18	**Median**			**4.47%**	**4.03%**	**8.62%**	**5.98%**	**4.04%**	**10.41%**	**6.80%**	**4.07%**	**11.13%**

Source:
Exhibit RBH-4, Page 1.

Sharyland Utilities

Hevert Revised Constant Growth DCF Analysis
(90-Day Average Stock Price)

Line	Company	Stock Price (1)	Annualized Dividend (2)	Low EPS Growth Rate (3)	Expected Dividend Yield (4)	Low DCF ROE (5)	Average EPS Growth Rate (6)	Expected Dividend Yield (7)	Average DCF ROE (8)	High EPS Growth Rate (9)	Expected Dividend Yield (10)	High DCF ROE (11)
1	American Electric Power Company, Inc.	$44.59	$1.88	3.38%	4.29%	7.67%	3.91%	4.30%	8.21%	4.50%	4.31%	8.81%
2	Cleco Corporation	$42.31	$1.35	3.00%	3.24%	6.24%	6.00%	3.29%	9.29%	8.00%	3.32%	11.32%
3	Duke Energy Corporation	$66.75	$3.06	3.83%	4.67%	8.50%	4.12%	4.68%	8.80%	4.50%	4.69%	9.19%
4	Empire District Electric Company	$20.98	$1.00	3.00%	4.84%	7.84%	4.25%	4.87%	9.12%	5.50%	4.90%	10.40%
5	Great Plains Energy Inc.	$21.25	$0.87	5.73%	4.21%	9.94%	6.44%	4.23%	10.67%	7.10%	4.24%	11.34%
6	Hawaiian Electric Industries, Inc.	$26.22	$1.24	3.30%	4.81%	8.11%	6.22%	4.88%	11.09%	9.00%	4.94%	13.94%
7	IDACORP, Inc.	$45.03	$1.52	2.00%	3.41%	5.41%	3.33%	3.43%	6.77%	4.00%	3.44%	7.44%
8	Northeast Utilities	$40.31	$1.47	6.50%	3.77%	10.27%	7.20%	3.78%	10.97%	8.04%	3.79%	11.83%
9	NV Energy, Inc.	$18.97	$0.76	3.13%	4.07%	7.20%	8.57%	4.18%	12.74%	11.50%	4.24%	15.74%
10	Otter Tail Corporation	$26.88	$1.19	5.00%	4.54%	9.54%	10.33%	4.66%	14.99%	20.00%	4.87%	24.87%
11	Pepco Holdings, Inc.	$19.86	$1.08	4.50%	5.56%	10.06%	5.08%	5.58%	10 66%	6.00%	5.60%	11.60%
12	Pinnacle West Capital Corporation	$53.38	$2.18	6.50%	4.22%	10.72%	7.07%	4.23%	11.29%	7.50%	4.24%	11.74%
13	PNM Resources, Inc.	$21.46	$0.66	8.35%	3.20%	11.55%	11.22%	3.25%	14.46%	16.00%	3.32%	19.32%
14	Portland General Electric Company	$28.23	$1.08	4.43%	3.91%	8.34%	5.17%	3.92%	9.09%	5.58%	3.93%	9.51%
15	Southern Company	$44.02	$1.96	4.50%	4.55%	9.05%	4.76%	4.56%	9.32%	4.98%	4.56%	9.54%
16	Westar Energy, Inc.	$30.00	$1.36	5.00%	4.65%	9.65%	5.96%	4.67%	10.63%	6.50%	4.68%	11.18%
17	**Average**	**$36.27**	**$1.46**	**4.51%**	**4.25%**	**8.75%**	**6.23%**	**4.28%**	**10.51%**	**8.04%**	**4.32%**	**12.36%**
18	**Median**			**4.47%**	**4.25%**	**8.78%**	**5.98%**	**4.26%**	**10.64%**	**6.80%**	**4.28%**	**11.33%**

Source:
Exhibit RBH-4, Page 2.

Sharyland Utilities

Hevert Revised Constant Growth DCF Analysis
(180-Day Average Stock Price)

Line	Company	Stock Price (1)	Annualized Dividend (2)	Low EPS Growth Rate (3)	Expected Dividend Yield (4)	Low DCF ROE (5)	Average EPS Growth Rate (6)	Expected Dividend Yield (7)	Average DCF ROE (8)	High EPS Growth Rate (9)	Expected Dividend Yield (10)	High DCF ROE (11)
1	American Electric Power Company, Inc.	$43.86	$1.88	3.38%	4.36%	7.74%	3.91%	4.37%	8.28%	4.50%	4.38%	8.88%
2	Cleco Corporation	$42.20	$1.35	3.00%	3.25%	6.25%	6.00%	3.30%	9.30%	8 00%	3.33%	11.33%
3	Duke Energy Corporation	$66.02	$3.06	3.83%	4.72%	8.55%	4.12%	4.73%	8.85%	4.50%	4.74%	9.24%
4	Empire District Electric Company	$21.19	$1.00	3.00%	4.79%	7.79%	4.25%	4.82%	9.07%	5.50%	4.85%	10.35%
5	Great Plains Energy Inc.	$21.62	$0.87	5.73%	4.14%	9.87%	6.44%	4.15%	10.60%	7.10%	4.17%	11.27%
6	Hawaiian Electric Industries, Inc.	$26.62	$1.24	3.30%	4.74%	8.04%	6.22%	4.80%	11.02%	9.00%	4.87%	13.87%
7	IDACORP, Inc.	$43.98	$1.52	2.00%	3.49%	5.49%	3.33%	3.51%	6.85%	4.00%	3.53%	7.53%
8	Northeast Utilities	$39.54	$1.47	6.50%	3.84%	10.34%	7.20%	3.85%	11.05%	8.04%	3.87%	11.91%
9	NV Energy, Inc.	$18.56	$0.76	3.13%	4.16%	7.29%	8.57%	4.27%	12.84%	11.50%	4.33%	15.83%
10	Otter Tail Corporation	$25.22	$1.19	5.00%	4.84%	9.84%	10.33%	4.96%	15.30%	20.00%	5.19%	25.19%
11	Pepco Holdings, Inc.	$19.62	$1.08	4.50%	5.63%	10.13%	5.08%	5.64%	10.73%	6.00%	5.67%	11.67%
12	Pinnacle West Capital Corporation	$53.00	$2.18	6.50%	4.25%	10.75%	7.07%	4.26%	11.33%	7.50%	4.27%	11.77%
13	PNM Resources, Inc.	$21.19	$0.66	8.35%	3.24%	11.59%	11.22%	3.29%	14.51%	16.00%	3.36%	19.36%
14	Portland General Electric Company	$27.71	$1.08	4.43%	3.98%	8.41%	5.17%	4.00%	9.17%	5.58%	4.01%	9.59%
15	Southern Company	$45.03	$1.96	4.50%	4.45%	8.95%	4.76%	4.46%	9.22%	4.98%	4.46%	9.44%
16	Westar Energy, Inc.	$29 85	$1.36	5.00%	4.67%	9.67%	5.96%	4.69%	10.65%	6 50%	4.70%	11.20%
17	**Average**	**$35.95**	**$1.46**	**4.51%**	**4.28%**	**8.79%**	**6.23%**	**4.32%**	**10.55%**	**8.04%**	**4.36%**	**12.40%**
18	**Median**			**4.47%**	**4.30%**	**8.75%**	**5.98%**	**4.32%**	**10.62%**	**6.80%**	**4.36%**	**11.30%**

Source:
Exhibit RBH-4, Page 3.

Sharyland Utilities

Summary of Hevert Multi-Stage DCF Model

Line	Description	Hevert (1)	Corrected DCF Results (2)
	Multi-Stage DCF Models		
1	30-Day Average Stock Price	10.30%	9.40%
2	90-Day Average Stock Price	10.51%	9.63%
3	180-Day Average Stock Price	10.55%	9.67%
4	**Average**	**10.45%**	**9.57%**

Sources:
Hevert Direct at 5.
Exhibit MPG-19, pages 2-4.

Sharyland Utilities

Hevert Multi-Stage Growth DCF Model
30-Day Average Stock Price

Line	Company	13-Week AVG Stock Price[1] (1)	Annualized Dividend[1] (2)	First Stage Growth[1] (3)	Second Stage Growth Year 6 (4)	Year 7 (5)	Year 8 (6)	Year 9 (7)	Year 10 (8)	Third Stage Growth[2] (9)	Multi-Stage Growth DCF (10)
1	American Electric Power Company, Inc.	$47.05	$1.88	3.91%	4.08%	4.24%	4.41%	4.57%	4.74%	4.90%	8.83%
2	Cleco Corporation	$44.73	$1.35	6.00%	5.82%	5.63%	5.45%	5.27%	5.08%	4.90%	8.29%
3	Duke Energy Corporation	$69.80	$3.06	4.12%	4.25%	4.38%	4.51%	4.64%	4.77%	4.90%	9.28%
4	Empire District Electric Company	$21.70	$1.00	4.25%	4.36%	4.47%	4.58%	4.68%	4.79%	4.90%	9.54%
5	Great Plains Energy Inc.	$22.43	$0.87	6.44%	6.18%	5.93%	5.67%	5.41%	5.16%	4 90%	9.38%
6	Hawaiian Electric Industries, Inc.	$27.25	$1.24	6.22%	6.00%	5.78%	5.56%	5.34%	5.12%	4.90%	10.07%
7	IDACORP, Inc.	$47.31	$1.52	3.33%	3.59%	3.85%	4.12%	4.38%	4.64%	4.90%	7.93%
8	Northeast Utilities	$42.06	$1.47	7.20%	6.82%	6.43%	6.05%	5.67%	5.28%	4.90%	9.13%
9	NV Energy, Inc.	$19.85	$0.76	8.57%	7.96%	7.35%	6.74%	6.12%	5.51%	4.90%	9.92%
10	Otter Tail Corporation	$29.70	$1.19	10.33%	9.43%	8.52%	7.62%	6.71%	5.81%	4.90%	10.71%
11	Pepco Holdings, Inc.	$20.53	$1.08	5.08%	5.05%	5.02%	4.99%	4.96%	4.93%	4.90%	10.48%
12	Pinnacle West Capital Corporation	$56.26	$2.18	7.07%	6.71%	6.35%	5.99%	5.62%	5.26%	4.90%	9.55%
13	PNM Resources, Inc.	$22.66	$0.66	11.22%	10.17%	9.11%	8.06%	7.01%	5.95%	4.90%	9.41%
14	Portland General Electric Company	$29.66	$1.08	5.17%	5.13%	5.08%	5.04%	4.99%	4.95%	4.90%	8.78%
15	Southern Company	$45.21	$1.96	4.76%	4.78%	4.81%	4.83%	4.85%	4.88%	4.90%	9.41%
16	Westar Energy, Inc.	$31.77	$1.36	5.96%	5.78%	5.61%	5.43%	5.25%	5.08%	4.90%	9.69%
21	**Average**	**$36.12**	**$1.42**	**6.23%**	**6.01%**	**5.78%**	**5.56%**	**5.34%**	**5.12%**	**4.90%**	**9.40%**
22	**Median**										**9.41%**

Sources:
[1] Exhibit RBH-1, Page 1.
[2] *Blue Chip Financial Forecasts,* June 1, 2013 at 14.

Sharyland Utilities

Hevert Multi-Stage Growth DCF Model
90-Day Average Stock Price

Line	Company	13-Week AVG Stock Price[1] (1)	Annualized Dividend[1] (2)	First Stage Growth[1] (3)	Second Stage Growth Year 6 (4)	Year 7 (5)	Year 8 (6)	Year 9 (7)	Year 10 (8)	Third Stage Growth[2] (9)	Multi-Stage Growth DCF (10)
1	American Electric Power Comp	$44.59	$1.88	3.91%	4.08%	4.24%	4.41%	4.57%	4.74%	4.90%	9.05%
2	Cleco Corporation	$42.31	$1.35	6.00%	5.82%	5.63%	5.45%	5.27%	5.08%	4.90%	8.49%
3	Duke Energy Corporation	$66.75	$3.06	4.12%	4.25%	4.38%	4.51%	4.64%	4.77%	4.90%	9.48%
4	Empire District Electric Compar	$20.98	$1.00	4.25%	4.36%	4.47%	4.58%	4.68%	4.79%	4.90%	9.70%
5	Great Plains Energy Inc.	$21.25	$0.87	6.44%	6.18%	5.93%	5.67%	5.41%	5.16%	4.90%	9.62%
6	Hawaiian Electric Industries, In	$26.22	$1.24	6.22%	6.00%	5.78%	5.56%	5.34%	5.12%	4.90%	10.27%
7	IDACORP, Inc.	$45.03	$1.52	3.33%	3.59%	3.85%	4.12%	4.38%	4.64%	4.90%	8.09%
8	Northeast Utilities	$40.31	$1.47	7.20%	6.82%	6.43%	6.05%	5.67%	5.28%	4.90%	9.31%
9	NV Energy, Inc.	$18.97	$0.76	8.57%	7.96%	7.35%	6.74%	6.12%	5.51%	4.90%	10.15%
10	Otter Tail Corporation	$26.88	$1.19	10.33%	9.43%	8.52%	7.62%	6.71%	5.81%	4.90%	11.28%
11	Pepco Holdings, Inc.	$19.86	$1.08	5.08%	5.05%	5.02%	4.99%	4.96%	4.93%	4.90%	10.67%
12	Pinnacle West Capital Corporat	$53.38	$2.18	7.07%	6.71%	6.35%	5.99%	5.62%	5.26%	4.90%	9.79%
13	PNM Resources, Inc.	$21.46	$0.66	11.22%	10 17%	9.11%	8.06%	7 01%	5.95%	4.90%	9.65%
14	Portland General Electric Comp	$28.23	$1.08	5.17%	5.13%	5.08%	5.04%	4.99%	4.95%	4.90%	8.98%
15	Southern Company	$44.02	$1.96	4.76%	4.78%	4.81%	4.83%	4.85%	4.88%	4.90%	9.53%
16	Westar Energy, Inc.	$30.00	$1.36	5.96%	5.78%	5.61%	5.43%	5.25%	5.08%	4.90%	9.97%
21	**Average**	**$34.39**	**$1.42**	**6.23%**	**6.01%**	**5.78%**	**5.56%**	**5.34%**	**5.12%**	**4.90%**	**9.63%**
22	**Median**										**9.63%**

Sources:
[1] Exhibit RBH-1, Page 2.
[2] *Blue Chip Financial Forecasts,* June 1, 2013 at 14.

Sharyland Utilities

Hevert Multi-Stage Growth DCF Model
180-Day Average Stock Price

Line	Company	13-Week AVG Stock Price[1] (1)	Annualized Dividend[1] (2)	First Stage Growth[1] (3)	Second Stage Growth Year 6 (4)	Year 7 (5)	Year 8 (6)	Year 9 (7)	Year 10 (8)	Third Stage Growth[2] (9)	Multi-Stage Growth DCF (10)
1	American Electric Power Comp	$43.86	$1.88	3.91%	4.08%	4.24%	4.41%	4.57%	4.74%	4.90%	9.12%
2	Cleco Corporation	$42.20	$1.35	6.00%	5.82%	5.63%	5.45%	5.27%	5.08%	4.90%	8.50%
3	Duke Energy Corporation	$66.02	$3.06	4.12%	4.25%	4.38%	4.51%	4.64%	4.77%	4.90%	9.53%
4	Empire District Electric Compar	$21.19	$1.00	4.25%	4.36%	4.47%	4 58%	4.68%	4.79%	4.90%	9.65%
5	Great Plains Energy Inc.	$21.62	$0.87	6.44%	6.18%	5.93%	5.67%	5.41%	5.16%	4.90%	9.54%
6	Hawaiian Electric Industries, In	$26.62	$1.24	6.22%	6.00%	5.78%	5.56%	5.34%	5.12%	4.90%	10.19%
7	IDACORP, Inc.	$43.98	$1.52	3.33%	3.59%	3.85%	4.12%	4.38%	4.64%	4.90%	8.17%
8	Northeast Utilities	$39.54	$1.47	7 20%	6.82%	6.43%	6.05%	5.67%	5.28%	4.90%	9.40%
9	NV Energy, Inc.	$18.56	$0.76	8.57%	7.96%	7.35%	6.74%	6.12%	5.51%	4.90%	10.26%
10	Otter Tail Corporation	$25.22	$1.19	10.33%	9.43%	8.52%	7.62%	6.71%	5.81%	4.90%	11.68%
11	Pepco Holdings, Inc.	$19.62	$1.08	5.08%	5.05%	5.02%	4.99%	4.96%	4.93%	4.90%	10.74%
12	Pinnacle West Capital Corporat	$53.00	$2.18	7.07%	6.71%	6.35%	5.99%	5.62%	5.26%	4.90%	9.83%
13	PNM Resources, Inc.	$21.19	$0.66	11.22%	10.17%	9.11%	8.06%	7.01%	5.95%	4.90%	9.70%
14	Portland General Electric Comp	$27.71	$1.08	5.17%	5.13%	5.08%	5.04%	4.99%	4.95%	4.90%	9.06%
15	Southern Company	$45.03	$1.96	4.76%	4.78%	4.81%	4.83%	4.85%	4.88%	4.90%	9.43%
16	Westar Energy, Inc.	$29.85	$1.36	5.96%	5.78%	5.61%	5.43%	5.25%	5.08%	4.90%	10.00%
21	**Average**	**$34.08**	**$1.42**	**6.23%**	**6.01%**	**5.78%**	**5.56%**	**5.34%**	**5.12%**	**4.90%**	**9.67%**
22	**Median**										**9.60%**

Sources:
[1] Exhibit RBH-1, Page 3.
[2] *Blue Chip Financial Forecasts,* June 1, 2013 at 14.

Sharyland Utilities

Valuation Metrics

Price to Earnings (P/E) Ratio [1]

Line	Company	12-Year Average	2013 [2]	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1	American Electric Power	12 87	13.60	13.77	11.92	13 42	10.03	13.06	16 27	12.91	13 70	12 42	10.66	12.68
2	Cleco Corp	14 59	16 90	15.03	13.25	12.27	13.21	14.09	19.58	17.32	15.05	13.76	12.39	12.25
3	Duke Energy	15.35	16.80	17.46	13.76	12 69	13.32	17.28	16.13	N/A	N/A	N/A	N/A	N/A
4	Empire District Electric	17 82	15 10	15.76	15.76	16.75	14.34	17.26	21.70	15.92	24.50	24.81	15.83	16.18
5	Great Plains Energy	14 90	14 00	15.53	16 11	12 10	16.03	20 55	16.35	18.30	13 96	12 59	12.23	11.09
6	Hawaiian Elec.	18.20	17.40	15.81	17.09	18.59	19.79	23 16	21.57	20.33	18 27	19 18	13 76	13.47
7	IDACORP, Inc.	15.56	16.00	12.41	11.54	11 83	10.20	13 93	18 19	15 07	16 70	15.49	26 51	18 88
8	Northeast Utilities	17.23	16 80	19.86	15.35	13.42	11.96	13 66	18.75	27.07	19.76	20.77	13.35	16.07
9	Otter Tail Corp	25.70	20 00	21.75	47.48	55.10	31 16	30 06	19.02	17 35	15 40	17 34	17 77	16 01
10	Pepco Holdings	14.99	18 20	15.62	16 73	14.04	13 69	12 24	18.15	18 06	14 91	13.57	13 36	11 26
11	Pinnacle West Capital	14 98	16 40	14.35	14.60	12.57	13.74	16.07	14.93	13.69	19.24	15.80	13.96	14.43
12	PNM Resources	17.47	17 10	14.97	14 53	14.05	18.09	NMF	35.65	15.57	17.38	15.02	14.73	15.08
13	Portland General	15.22	17.40	13.98	12.37	12.00	14.40	16 30	11.94	23.35	N/A	N/A	N/A	N/A
14	Southern Co.	15.49	16.30	16.97	15.85	14.90	13.52	16.13	15.95	16.19	15 92	14.68	14.83	14 63
15	Westar Energy	14.21	14.10	13.43	14 78	12.96	14.95	16 96	14 10	12.18	14.79	17.44	10 78	14.02
16	Average	16.31	16.41	15.78	16.74	16.44	15.23	17.20	18.55	17 38	16.89	16 37	14.63	14.31

Market Price to Cash Flow (MP/CF) Ratio [1]

Line	Company	12-Year Average	2013 [2/a]	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
17	American Electric Power	5.71	7 08	6.18	5.46	5.54	4.71	5.71	6.84	5.54	6.07	5.50	4.69	5.19
18	Cleco Corp.	7.11	8.49	7.51	6 50	5.49	6.15	6 45	9 61	8 96	7 73	7 08	5.24	6.10
19	Duke Energy	7.23	8.23	9.53	6 56	6.01	5.96	7 13	7.16	N/A	N/A	N/A	N/A	N/A
20	Empire District Electric	7.72	7 24	6.97	6.43	6.88	6.23	6.94	8.78	8.17	9.20	9.60	8.22	7.93
21	Great Plains Energy	6.17	5 86	6.09	5 74	4.49	5.06	7 71	7.13	7.68	6 70	6.52	5 92	5.14
22	Hawaiian Elec.	7.75	7 89	8.05	7 73	7.81	6.95	9 10	7.95	8.47	8 29	8.44	6 12	6.20
23	IDACORP, Inc.	7.22	8.21	7.16	6 75	6.67	5.31	7 10	8.23	7.73	7 55	7.15	7.27	7.53
24	Northeast Utilities	5.25	7 88	9.30	6.99	4.97	4.61	4.12	6.18	6.02	3.55	3.78	2.85	2.75
25	Otter Tail Corp	8.88	9.52	8.43	9 04	8 07	8 01	11 65	9.53	8.66	8 18	9 01	8 13	8 33
26	Pepco Holdings	6 22	6 69	6.03	6.35	5.86	5.15	6.66	8.41	6.92	6.05	5 34	4.74	6.46
27	Pinnacle West Capital	5.45	6 96	6 34	5.80	5.65	3.84	4 19	4.76	4.48	7 48	5 88	4.80	5 21
28	PNM Resources	6.45	6.60	5.80	4.94	4.58	4.53	7.10	10 67	7.50	7 62	6 84	5.55	5.72
29	Portland General	5 08	6.09	5 08	4 86	4 13	4 63	4.81	5 34	5.74	N/A	N/A	N/A	N/A
30	Southern Co.	8.21	8.67	8.75	8.22	7.79	7 08	8.18	8 62	8 47	8.41	8 28	8.28	7 83
31	Westar Energy	6 00	7.31	6 71	6.67	5 51	5 32	7.09	6 88	5 81	7.00	6 54	4 24	2 94
32	Average	6.70	7.51	7.20	6 54	5 96	5 57	6.93	7 74	7.15	7.22	6 92	5 85	5 95

Sources:

[1] *The Value Line Investment Survey Investment Analyzer Software,* downloaded on June 27, 2013.

[2] *The Value Line Investment Survey,* August 2, August 23, and September 20, 2013.

Note:

[a] Based on the average of the high and low price for 2013 and the projected 2013 cash flow per share, published in The Value Line Investment Survey, August 2, August 23, and September 20, 2013.

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for Rate Increase by Gulf Power Company	**Docket No. 130140-EI**

Direct Testimony and Exhibits of

Michael P. Gorman

On behalf of

Federal Executive Agencies

October 16, 2013

BRUBAKER & ASSOCIATES, INC.

Project 9823

Table of Contents to

the Direct Testimony of Michael P. Gorman

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for Rate Increase by Gulf Power Company	**Docket No. 130140-EI**

Direct Testimony of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Managing Principal of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing in this proceeding on behalf of the Federal Executive Agencies ("FEA").

Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A My testimony will address Gulf Power Company's ("Gulf Power" or "Company") overall rate of return including return on equity, capital structure and embedded debt cost.

SUMMARY

Q PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATIONS.

A I recommend the Florida Public Service Commission ("Commission") award Gulf Power a return on common equity of 9.45%, which is at the approximate midpoint of my estimated range of 9.10% to 9.85% (Exhibit MPG-1), and an overall rate of return of 4.74%.

My recommended return on equity and proposed capital structure will provide Gulf Power with an opportunity to realize cash flow financial coverages and balance sheet strength that conservatively support Gulf Power's current bond rating. Consequently, my recommended return on equity represents fair compensation for Gulf Power's investment risk, and it will preserve the Company's financial integrity and credit standing.

I will also respond to Gulf Power witness Dr. James H. Vander Weide's proposed return on equity of 11.50%. His recommended return includes a leverage adjustment of 70 basis points and flotation cost adder of about 24 basis points. For the reasons discussed below, Dr. Vander Weide's recommended return on equity is excessive and should be rejected.

Q HOW DID YOU ESTIMATE GULF POWER'S CURRENT MARKET COST OF EQUITY?

A I performed three versions of the Discounted Cash Flow ("DCF") model, Risk Premium ("RP") study, and Capital Asset Pricing Model ("CAPM") to a proxy group of publicly traded companies that have investment risk similar to Gulf Power. Based on these assessments, I estimate Gulf Power's current market cost of equity to be 9.45%.

Electric Utility Industry Market Outlook

Q PLEASE DESCRIBE THIS SECTION OF YOUR TESTIMONY.

A I begin my estimate of a fair return on equity for Gulf Power by reviewing the market's assessment of electric utility industry investment risk, credit standing, and stock price performance in general. I used this information to gauge the market's perception of the risk characteristics of electric utility investments in general, which is then used to produce a refined estimate of the market's return requirement for assuming investment risk similar to Gulf Power's utility operations.

Based on the assessments described below, I find the credit rating outlook of the industry to be strong and supportive of the industry's financial integrity, the industry has ample access to low-cost capital to support rate base investments, and electric utilities' stocks have exhibited strong and stable price performance over the last several years.

Moreover, the electric utility industry in general is in a large capital expenditure portion of its cycle, which is creating significant demands for external capital in order to support large capital improvement programs. Credit rating