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BEFORE THE ARIZONA CORPORATION

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- BOB STUMP – Chairman
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- SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF
 UNS ELECTRIC, INC. FOR THE
 ESTABLISHMENT OF JUST AND
 REASONABLE RATES AND CHARGES
 DESIGNED TO REALIZE A REASONABLE
 RATE OF RETURN ON THE FAIR VALUE
 OF THE PROPERTIES OF UNS ELECTRIC,
 INC. DEVOTED TO ITS OPERATIONS
 THROUGHOUT THE STATE OF ARIZONA
 AND FOR RELATED APPROVALS.

Docket No. E-04204A-12-0504

Arizona Corporation Commission

DOCKETED

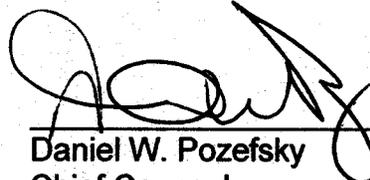
JUN 28 2013

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NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Testimony of Robert B. Mease and William A. Rigsby, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 28th day of June, 2013.



 Daniel W. Pozefsky
 Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 28th day
3 of June, 2013 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 28th day of June, 2013 to:

7 Lyn Farmer
8 Chief Administrative Law Judge
9 Hearing Division
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

10 Janice Alward, Chief Counsel
11 Legal Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

13 Steve Olea, Director
14 Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

16 Michael W. Patten
17 Roshka, DeWulf & Patten PLC
18 One Arizona Center
19 400 E. Van Buren, Suite 800
20 Phoenix, AZ 85004

19 Bradley S. Carroll
20 Kimberly Ruht
21 UNS Electric, Inc.
22 88 E. Broadway, MS HQE910
23 P.O. Box 711
24 Tucson, Arizona 85702

Robert Metli
Munger Chadwick, P.L.C.
2398 E. Camelback Road, Suite 240
Phoenix, AZ 85016

Eric Lacey
Brickfield, Burchette, Ritts & Stone, P.C.
1025 Thomas Jefferson St., NW, 8th Floor
West Tower
Washington, DC 20007

By Cheryl Fraulob
Cheryl Fraulob

UNS ELECTRIC, INC.

DOCKET NO. E-04204A-12-0504

DIRECT TESTIMONY

OF

ROBERT B. MEASE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 28, 2013

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EXECUTIVE SUMMARY

1
2 UNS Electric, Inc. ("UNSE" or "Company") is a Class A public utility and is
3 a wholly owned operating subsidiary of UNS Energy Corporation. UNSE
4 is an electric utility serving approximately 91,000 retail customers in both
5 Mohave and Santa Cruz Counties. UNSE also sells electricity to other
6 utilities and power marketing entities in the western United States.
7

8 On December 31, 2012, the Company filed a general rate application
9 requesting a revenue increase of \$7.5 million or approximately a 4.6
10 percent increase over test year adjusted revenues of \$164.0 million.
11 Based on the Company's proposed filing the average residential customer
12 would see their monthly bill increase from \$82.51 to \$86.15, a monthly
13 increase of \$3.64. RUCO's review and analysis of the rate application has
14 identified a test-year proposed revenue decrease, however, RUCO is not
15 proposing a rate reduction at this time.
16

17 The Company is also proposing an Original Cost Rate Base (OCRB) of
18 \$216.6 million and a Rate of Return of 8.87% while RUCO is proposing an
19 OCRB of \$208.6 million and a Rate of Return of 7.13%.
20

21 UNSE is also seeking approval of (1) Lost Fixed Cost Recovery
22 Mechanism ("LFCR") related to the Arizona Corporation Commission's
23 ("ACC") Renewal Energy Standard ("REST") rules and Electric Energy
24 Efficiency ("EE") rules; (2) a transmission cost adjustment mechanism; (3)
25 a new approach to funding cost effective demand side management and
26 energy efficiency programs; (4) modifications to its Purchased Power and
27 Fuel Adjustment Clause ("PPFAC"); (5) modifications to its rate design; (6)
28 modification to its Tariff, Rules and Regulations and other existing
29 compliance requirements.
30
31
32
33

1 **INTRODUCTION**
2

3 **Q. Please state your name, position, employer and address.**

4 A. My name is Robert B. Mease. I am Associate Chief of Accounting and
5 Rates employed by the Residential Utility Consumer Office ("RUCO")
6 located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.
7

8 **Q. Please state your educational background and qualifications in the**
9 **utility regulation field.**

10 A. Appendix 1, which is attached to this testimony, describes my educational
11 background, work experience and regulatory matters in which I have
12 participated. In summary, I joined RUCO in October of 2011. I graduated
13 from Morris Harvey College in Charleston, WV and attended Kanawha
14 Valley School of Graduate Studies. I am a Certified Public Accountant
15 and currently licensed in the state of West Virginia. My years of work
16 experience include serving as Vice President and Controller of Energy
17 West, Inc. a public utility and energy company located in Great Falls,
18 Montana. While with Energy West I had responsibility for all utility filings
19 and participated in several rate case filings on behalf of the utility. As
20 Energy West was a publicly traded company listed on the NASDAQ
21 Exchange I also had responsibility for all filings with the Securities and
22 Exchange Commission.
23
24

1 **Q. Please state the purpose of your testimony.**

2 **A.** The purpose of my testimony is to present RUCO's recommendations
3 regarding UNSE's application for determination of the current fair value of
4 its utility plant and property and for a permanent increase in its rates and
5 charges passed on to ratepayers for utility services.

6
7 **Q. Please describe your work effort on this project.**

8 **A.** I reviewed financial data provided to me by the Company and performed
9 analytical procedures necessary to understand the Company's filing as it
10 relates to operating income, rate base, the overall revenue requirement for
11 the Company and future rate design that the Company is proposing. My
12 recommendations are based on this completed analytical work.
13 Procedures performed include the in-house formulation and analysis of
14 this data, the review and analysis of the Company's responses to RUCO's
15 data requests, a review of data responses to the Commission Staff as well
16 as other intervening parties, and a review of prior ACC dockets related to
17 UNSE filings.

18
19 **Q. Can you please identify the exhibits that you are sponsoring?**

20 **A.** Yes, I am sponsoring schedules RBM-1 through and including RBM-17.

21

22

1 **Q. Please summarize the adjustments to rate base and operating**
2 **income issues addressed in your testimony.**

3 **A. My testimony addresses the following issues:**

4
5 **RATE BASE ADJUSTMENT SUMMARY**

6 Rate Base Adjustment No. 1 – Gross Utility Plant in Service

7 RUCO is recommending a reduction of Gross Utility Plant in Service by
8 \$8,662,369 as a result of RUCO's proposed reduction to Company
9 proposed Post Test Year Plant.

10
11 Rate Base Adjustment No. 2 – Accumulated Depreciation

12 RUCO is recommending a reduction in Accumulated Depreciation related
13 directly to its proposed reduction in Post Test Year Plant. In addition,
14 RUCO is recommending an additional reduction in Accumulated
15 Depreciation resulting from the Company's proposal to calculate a Net
16 Negative Salvage ("NNS") rate for inclusion in calculating depreciation
17 expense. In total RUCO is recommending a reduction in Accumulated
18 Depreciation of \$783,111. (See also RUCO's Operating Expense
19 Adjustment Nos. 6)

20
21 Rate Base Adjustment No. 3 – Allowance For Working Capital

22 Cash Working Capital should be increased by \$104,000 based on
23 adjustments to several operating expense accounts.

1 **OPERATING INCOME ADJUSTMENT SUMMARY**

2 Operating Income Adjustment No. 1 – Payroll Expense

3 RUCO is recommending a \$107,467 reduction in payroll expenses.
4 RUCO does not agree with the methodology employed by the Company in
5 its calculation of the test year adjustment.

6
7 Operating Income Adjustment No. 2 – Payroll Tax Expense

8 RUCO is recommending a reduction in payroll tax expense of \$9,238 as a
9 result of reducing payroll expenses. (See Operating Income Adjustment
10 No. 1).

11
12 Operating Income Adjustment No.3 – Incentive Compensation Adjustment

13 RUCO believes that all incentives paid to employees should be split
14 between the shareholders and ratepayers. The proposed adjustment
15 reduces operating expenses by \$51,518. The calculation also includes an
16 adjustment for payroll taxes associated with the reduction in incentive
17 compensation.

18
19 Operating Income Adjustment No. 4 – Officers and Directors Insurance

20 RUCO believes that officers and directors insurance expense should be
21 the responsibility of the shareholder as well as the ratepayer and should
22 be shared equally. RUCO's proposal reduces the Company's operating
23 income by \$44,188.

1 Operating Income Adjustment No. 5 – Injuries and Damages

2 RUCO is recommending a reduction in injuries and damages of \$323,333.

3 Included in the Company's three year averaging was an extraordinarily
4 large expense of \$1 million that appears to be a one-time charge.

5
6 Operating Income Adjustment No. 6 – Depreciation Expense

7 RUCO is recommending that test year depreciation expense be reduced
8 by \$546,885 as a result of RUCO's proposed reduction in post-test year
9 plant. RUCO is also recommending that test-year depreciation expense
10 be reduced by \$90,125 related to RUCO's proposal to eliminate the NNS
11 calculation on the Company's generating assets.

12
13 Operating Income Adjustment No. 7 – Rate Case Expense

14 The Company's request for the recovery of rate case expense is
15 excessive and should not be borne entirely by UNSE's ratepayers. RUCO
16 is proposing that Company rate case expense of \$400,000 be approved
17 by the Commission.

18
19 Operating Income Adjustment No. 8 – Property Tax Expense

20 RUCO proposes an adjustment to property tax expense, of \$106,515 is as
21 a result of the proposed reduction in the Company's plant assets.

1 Operating Income Adjustment No. 9 – Income Tax Expense

2 RUCO is proposing that current year's income tax expense be increased
3 by \$564,570.

4
5 **REVENUE REQUIREMENTS**

6 **Q. Please summarize the results of RUCO's analysis of the Company's**
7 **filing and identify RUCO's recommended revenue increase,**
8 **operating income requirement as well as the Company's Original**
9 **Cost Rate Base (OCRB) and Fair Value Rate Base (FVRB).**

10 **A. RUCO is recommending no increase in revenues based on the results of**
11 **RUCO's analysis as follows:**

12 <u>000's</u>	<u>UNSE</u>	<u>RUCO</u>
13 Inc. (Dec) in gross revenue	\$ 7,522	(\$ 2,718)
14 Increase in revenues required	4.59%	(1.66%)

15
16 RUCO is recommending operating income levels as follows:

17 <u>000's</u>	<u>UNSE</u>	<u>RUCO</u>	<u>DIFF.</u>
18 Required operating income	\$ 19,214	\$ 13,726	(\$ 5,488)

19
20 RUCO is recommending OCRB and FVRB as follows:

21 <u>000's</u>	<u>UNSE</u>	<u>RUCO</u>	<u>DIFF.</u>
22			
23 Original Cost Rate Base	\$ 216,575	\$ 208,653	(\$ 7,922)
24 Fair Value Rate Base	\$ 286,326	\$ 275,819	(\$ 10,507)

1 **RATE BASE ADJUSTMENT DETAILS**

2 **Q. Can you please explain your determination of the FVRB as shown on**
3 **Schedule RBM-1?**

4 A. RUCO's determination of the FVRB consists of three elements. First, the
5 value of the OCRB was restated to reflect RUCO's adjustments to the rate
6 base elements. Second, the value of RCND (Reconstruction Cost New
7 less Depreciation) was computed by multiplying RUCO's adjusted OCRB
8 by the ratio of the Company's OCRB to its RCND as filed. Third, the
9 FVRB was computed on an equally weighted basis (50/50 split) between
10 RUCO's OCRB and RUCO's re-computed RCND.

11
12 **Q. Can you elaborate on the adjustments RUCO is proposing to the**
13 **OCRB?**

14 A. Yes. I will describe each of the adjustments that RUCO is recommending
15 to the OCRB as filed by the Company.

16
17 Rate Base Adjustment No. 1 – Post-Test Year Plant

18 **Q. Can you please explain the Company's proposed adjustment to rate**
19 **base and their request to include post-test year plant?**

20 A. Yes. The Company is proposing to include \$14.4 million in post-test year
21 plant and is broken down into two separate components. The first being
22 described as Post-Test Year Plant – Renewable, \$5.7 million and the
23 remaining \$8.7 million described as Post-Test Year Plant in Service.

1 **Q. Does RUCO agree with the Company's Proposal?**

2 A. RUCO agrees with the Company's request to include the renewable plant
3 but takes exception to the remaining post-test year plant.

4

5 **Q. Why does RUCO agree with the inclusion of renewable plant in post-**
6 **test year additions?**

7 A. RUCO believes that Company's investment in renewable energy projects
8 and/or products are conforming to the renewable energy standard as
9 required by the Arizona Corporation Commission and exceptions should
10 be made in these special cases.

11

12 **Q. Why does RUCO take exception to the remaining plant being**
13 **included in rate base?**

14 A. RUCO does not believe that these ordinary routine types of investments in
15 plant assets require extra ordinary post-test year treatment. RUCO also
16 opposes these types of post-test year inclusions on the basis that it would
17 violate the basic principles of ratemaking and would result in a mismatch
18 with test year revenues, expenses and rate base.

19

20 **Q. Has UNSE requested post-test year plant be included in prior rate**
21 **cases?**

22 A. Yes. The Company requested the inclusion of post-test year plant in the
23 last rate case and was denied. As described in Decision No. 71914:

1 "Pro forma adjustments are defined in Arizona Administrative Code
2 ("A.A.C.") R14-2-103(A)(3)(i) as adjustments to actual test year
3 results and balances to obtain a normal or more realistic
4 relationship between revenues, expenses and rate base."
5

6 "We find that UNSE has not demonstrated that these plant
7 investments are anything other than ordinary, routine investments
8 in plant required to be made by a utility to maintain its service and
9 reliability. To allow these post-test year investments into rate base
10 would distort the level of investment needed to provide adequate
11 and reliable service to UNSE's customers during the test year and
12 would not reflect a "normal or more realistic relationship between
13 revenues, expenses and rate base."
14

15
16 **Q. In summary can you again explain RUCO's position on the**
17 **Company's request to include post-test year plant as part of rate**
18 **base?**

19 **A. Yes. RUCO proposes the inclusion of Post –Test Year Renewable Plant**
20 **while further recommending the exclusion of Post-Test Year Plant In**
21 **Service.**

22
23 Rate Base Adjustment No. 2 – Accumulated Depreciation

24 **Q. What adjustments has RUCO recommended to the Company's**
25 **Accumulated Depreciation accounts?**

26 **A. RUCO is recommending two adjustments; totaling \$637,010 to the**
27 **Company's proposed test year accumulated depreciated balance. The**
28 **first adjustment for \$546,885 represents a reduction to accumulated**
29 **depreciation based on RUCO's proposal to eliminated Post-Test Year**
30 **Plant In Service. RUCO's second adjustment of \$90,125 relates to**

1 RUCO's recommendation to reverse the increase in depreciation resulting
2 from the NNS calculation on the Company's generating assets.

3
4 **Q. Why is RUCO not in agreement with the NNS adjustment the**
5 **Company is proposing for its generating assets?**

6 A. First of all, there was no depreciation study completed in this rate filing. In
7 the last rate case filing a depreciation study was performed, and the
8 outcome identified a recorded depreciation reserve of \$194,357,557 and a
9 corresponding computed reserve of \$185,594,056. The excess reserve
10 was to be amortized over the weighted-average remaining life of the
11 assets in each category.

12
13 **Q. What is the significance of this \$8,763,501 difference between the**
14 **book reserve and the computed reserve as calculated in the last**
15 **depreciation study?**

16 A. Basically this difference indicates that the ratepayer had paid an excessive
17 amount in their rates over the years and the Company had over-collected
18 too much in rates to recover their annual depreciation expense.

19
20 **Q. Why is this important in this rate case?**

21 A. By increasing the annual depreciation rates for the Company's generating
22 assets UNSE will continue to collect more in depreciation expense

1 recovery than should be allowed and the imbalance between book reserve
2 and actual reserve will again continue to increase.

3
4 Rate Base Adjustment No. 3 – Allowance for Working Capital

5 **Q. Is RUCO recommending an adjustment to the Company's calculation**
6 **of working capital?**

7 A. RUCO is proposing a reduction in UNSE's cash working capital
8 requirements by \$103,790. RUCO's adjustments result from reducing the
9 Company's proposed operating expenses that have a direct effect on
10 working capital requirements.

11
12 **OPERATING INCOME ADJUSTMENT DETAILS**

13 **Q. Is RUCO recommending changes to the Company's proposed test**
14 **year operating revenues and expenses?**

15 A. Yes. The Company proposed numerous adjustments to its historical test
16 year operating income. RUCO analyzed the Company's adjustments and
17 proposed several changes. In addition, RUCO is recommending
18 additional adjustments based on data requests provided by UNSE.
19 RUCO's adjustments to operating income are explained as follows.

1 Operating Income Adjustment No. 1 – Payroll Expense

2 **Q. Did UNSE make test year adjustments related to payroll increases?**

3 A. Yes. UNSE calculated payroll increases and included a test year
4 adjustment.

5
6 **Q. Does RUCO agree with the calculation and can you explain the
7 methodology used by UNSE in calculating wage increases?**

8 A. No. RUCO does not agree with the method used. The Company took the
9 average Operation and Maintenance total wages for years 2011 and 2012,
10 and then calculated a 2.65 percent increase for years 2013 and 2014. The
11 total calculated increase for both years 2013 and 2014 were then included
12 as a test year adjustment. RUCO takes the position that including a
13 second year of anticipated increases is too far removed from the test year
14 to be included as an adjustment and is recommending that the calculated
15 increase of \$107,467, computed as the increase for year 2014, be
16 removed from test year adjustments.

17
18 Operating Income Adjustment No. 2 – Payroll Tax Expense Adjustment

19 **Q. Why is RUCO making an adjustment for payroll tax expenses?**

20 RUCO is recommending a reduction in payroll tax expense of \$9,238
21 resulting from the proposed reduction of payroll expenses, \$107,467.

22

1 **Q. Is RUCO recommending any other adjustments to payroll tax**
2 **expenses?**

3 A. No.

4
5 Operating Income Adjustment No. 3 – Incentive Compensation Expense

6 **Q. Can you please explain operating income adjustment 4?**

7 A. RUCO believes that all incentives paid to employees should be split
8 between the shareholders and ratepayers. UNSE excluded 50 percent of
9 the incentive payment made to officers but maintained 100 percent of
10 payments to all other employees. The Commission's normal practice is to
11 approve the sharing of incentive payments between shareholders and
12 ratepayers. (See UNS Gas, Inc. Decision No. 70011, UNS Electric
13 Decision No. 70011 and Southwest Gas Decision No. 70665) In addition,
14 there is no assurance that incentive payments included as a test year
15 adjustment will be paid out in future years as they are based on
16 performance.

17
18 **Q Can you identify incentive plans available to employees of UNSE?**

19 A. All TEP non-union employees, including officers, participate in UNS's
20 short-term incentive Performance Enhancement Plan (PEP) which is tied
21 to annual compensation. The structure determines eligibility for certain
22 bonus levels by measuring UNS's performance as it impacts investors,
23 customers, community/environment and employees.

1 **Q. Has the Company included long-term incentive plan payments in the**
2 **test year adjustments?**

3 A. No. The Company has not included long-term incentive plan payments
4 as an adjustment.

5

6 Operating Income Adjustment No. 4 – Officers and Directors Insurance

7 **Q. Can you please explain RUCO's adjustment to Officers and Directors**
8 **Insurance Expense?**

9 A. RUCO believes that Officers & Directors Liability Insurance expense is the
10 type of expense that should be shared equally between ratepayers and
11 shareholders. RUCO has reduced test year ACC Jurisdictional operating
12 expenses by \$44,528 representing a 50/50 split between the shareholder
13 and the ratepayer.

14

15 **Q. Why does RUCO believe this expense should be equally shared?**

16 A. Officers & Directors Liability Insurance is primarily for the purpose of
17 protecting officers and directors from potential lawsuits. In many cases
18 these lawsuits are from irate shareholders. Benefits paid out under this
19 insurance coverage provides cash available to shareholders that would
20 have been paid by the Company had the Company not had such liability
21 insurance coverage in place. It also provides the Company with the ability
22 to attract and retain qualified directors and officers as they are relieved
23 from personal liability when making decisions on behalf of the Company.

1 **Q. Has the ACC approved a 50/50 sharing of Director's & Officers (D&O)**
2 **Insurance expense in past rate case filings?**

3 A. The adjustment representing a 50/50 sharing of D&O insurance was
4 proposed in Southwest Gas Corporation's most recent rate case (Docket
5 No.G-01151A-10-0458). This case resulted in a settlement adopted in
6 Decision No. 72723 which incorporated the proposed sharing of the D&O
7 expense on a 50/50 percent basis.

8

9 Operating Income Adjustment No. 5 – Injuries and Damages

10 **Q. Has RUCO proposed an adjustment to the Company's normalization**
11 **of injuries and damages?**

12 A. Yes, RUCO is recommending a reduction to UNSE's normalization of this
13 account. The Company used a three year period and calculated average
14 injuries and damages as a test year expense. In year one of the three
15 year period an extraordinary one million dollar expenditure was included.

16

17 **Q. Is averaging allowed for rate making purposes in calculating**
18 **adjustments to expense accounts?**

19 A. Yes, averaging is acceptable but extraordinary expenses should not be
20 included. Extraordinary expenses inflate test year expenses as is the
21 case in the filing.

22

23

1 **Q. What adjustment is RUCO proposing?**

2 A. RUCO has proposed a \$323,333 reduction in test-year injuries and
3 damages expense.

4

5 Operating Income Adjustment No. 6 – Depreciation Expense

6 **Q. Please explain RUCO's proposed adjustments to the Company's**
7 **test-year depreciation expense as filed.**

8 A. RUCO is recommending two adjustments; totaling \$637,010 to the
9 Company's proposed test year accumulated depreciated balance. The
10 first adjustment for \$546,885 represents a reduction to accumulated
11 depreciation based on RUCO's proposal to eliminated post-test year plant.
12 RUCO's second adjustment of \$90,125 relates to RUCO's
13 recommendation to reverse the increase in depreciation resulting from the
14 NNS calculation on the Company's generating assets. (See Rate Base
15 Adjustment No. 2).

16

17 Operating Income Adjustment No. 7 – Rate Case Expense

18 **Q. Please explain your adjustment to Rate Case Expense.**

19 A. The Company has proposed recovery of \$500,000 for rate case expenses
20 for outside services and requests to amortize this expense over a two and
21 one-half year period. RUCO believes the Company's proposed rate case
22 expense is not reasonable, and should be reduced when compared with

1 rate case expense in prior rate case submissions that have been
2 approved by the Commission

3

4 **Q. Has RUCO proposed an adjustment to UNSE's level of rate case**
5 **expense to be recovered from ratepayers?**

6 A. Yes. RUCO proposes a more reasonable level of rate case expense of
7 \$400,000 and further proposes an amortization period of three years
8 rather than the two and one-half years being proposed by the Company.

9

10 **Q. How did RUCO arrive at its adjustment to rate case expense?**

11 A. RUCO compared the Company's proposed level of rate case expense to
12 rate case expense that was approved in other rate cases before the
13 Commission. Based on this review, RUCO believes that the Company's
14 request is not reasonable in this case and should be reduced to a more
15 reasonable level.

16

17 **Q. What other cases did RUCO review?**

18 A. RUCO reviewed the last two UNS Gas cases (Decision No. 73142, Issued
19 May, 1, 2012; and Decision No. 71623, issued April 14, 2010). The
20 amount approved by the Commission was \$400,000 and \$300,000
21 respectively. Also, in the most recent UNS Electric rate case filing the
22 Commission approved rate case expense recovery of \$300,000 (Decision
23 No. 70360, issues May 27, 2008).

1 Operating Income Adjustment No. 8 – Property Tax Expense

2 **Q. Does RUCO accept the Company’s methodology in calculating**
3 **property tax expense?**

4 A. Yes. The method used by the UNSE in this rate case to calculate property
5 taxes is consistent with prior cases as filed and has been accepted by the
6 Commission.

7
8 **Q. Why is RUCO making an adjustment to the Company’s property**
9 **taxes as filed?**

10 A. RUCO is proposing a reduction in gross plant in service by \$8,770,462, as
11 discussed in Rate Base Adjustment No. 1. As a consequence of
12 excluding plant from rate base the property taxes associated with the
13 proposed reduction in plant is also reduced. The reduction in allowable
14 property taxes based on the recalculated expense is \$106,515.

15
16 Operating Income Adjustment No. 9 – Income Tax Expense

17 **Q. Has RUCO made an adjustment to Income Tax Expense as filed by**
18 **the Company?**

19 A. Yes. RUCO has adjusted this expense based upon the methodology that
20 is used in all rate applications reviewed by RUCO.

21
22

1 **Q. Can you explain the method utilized in calculating income tax**
2 **expense both for the test year adjustment as well as the method**
3 **used in calculating the tax effects of proposed revenue adjustments?**

4 A. When calculating income tax expense for rate making purposes RUCO
5 begins with operating income before taxes and from that amount will
6 deduct Arizona income taxes due and interest synchronization. (Interest
7 synchronization is calculated as follows: Adjusted ACC Jurisdictional Rate
8 Base X Weighted Cost of Debt) The two results, Arizona income taxes
9 and interest synchronization, are multiplied by the statutory Federal
10 Income Tax Rate. In this case RUCO has used 34 percent as the
11 statutory Federal Income Tax Rate.

12
13 **Q. When applying this methodology to the RUCO's proposed test year**
14 **operating income what was the result?**

15 A. There is an income tax expense increase of \$564,570 proposed by RUCO
16 which increases the Company's operating expenses.

17
18 **Q. Was there an adjustment to income tax expense after RUCO's final**
19 **revenue requirement was determined in this rate filing?**

20 A. Yes. The decrease in income tax expense related to RUCO's adjusted
21 revenue requirement is \$1,054,335.

22

23

1 **PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE– (“PPFAC”)**

2 **Q. Does UNSE currently have a PPFAC in place?**

3 A. Yes. UNSE currently has a PPFAC in place and Commission Decision
4 No. 70360, May 27, 2008, approved the current PPFAC mechanism
5 through which it recovers or refunds its purchased power and fuel
6 expenses.

7
8 **Q. Can you explain the basic concept of the PPFAC?**

9 A. The PPFAC is a mechanism approved by the Commission that allows the
10 Company to recover its purchased power and fuel expenses. The
11 allowable expenses to be recovered in the PPFAC include fuel and
12 purchased power costs incurred to provide service to retail customers as
13 well as direct costs of contracts used for hedging the system fuel and
14 purchased power. The specific cost components include FERC accounts:
15 501 - Fuel and Steam; 547 - Fuel Other Production; 555 - Purchased
16 Power; and 565 - Wheeling - Transmission of Electricity by Others.

17
18 Specific dates are identified for filing updates to the forward and true up
19 components and for the PPFAC rate with all component calculations,
20 including supporting data. UNSE also has the ability to request an
21 adjustment for the forward component at any time during the year should
22 an extraordinary event occur. Finally, short-term wholesale sales revenue

1 recorded in FERC Account 447 is credited back to customers through the
2 PPFAC.

3

4 **Q. Has the Company proposed any changes to the PPFAC in this rate**
5 **application?**

6 A. Yes. The Company is proposing to (1) eliminate the base fuel rate and
7 recover all fuel and purchased power costs through the PPFAC; (2)
8 develop multiple PPFAC rates to differentiate between on-peak and off-
9 peak, winter and summer voltage levels at which customers receive
10 service; (3) add several additional costs that would be recovered through
11 the PPFAC. These additional costs include any credit costs and broker
12 fees associated with power supply and procurement, and recovery of
13 future greenhouse gas costs

14

15 **Q. Does RUCO agree with including these changes being proposed by**
16 **the Company?**

17 A. No. RUCO does not agree with making changes to the PPFAC at this time
18 for the following reasons:

19

20 Additional Costs to be Included in PPFAC

21 RUCO does not believe adding other costs to the PPFAC adjustor add
22 value to the ratepayer at this time. Costs related to broker fees and credit

1 expenses is immaterial and should remain as part of O&M expenses in
2 base rates.

3
4 Eliminate the Base Fuel Rate and Recover All Fuel and Purchased Power
5 Costs Through the PPFAC

6 In the past the Commission has consistently found it in the public interest
7 to have a portion of purchased power and fuel costs remain in base rates.
8 Having a portion of fuel costs embedded in base rates creates an
9 appropriate sharing of risk between both the shareholder and ratepayer.
10 Under UNSE's proposal, all risk is shifted to the ratepayer and there is no
11 incentive to contain purchased power and fuel costs.

12
13 **Q. Is UNSE proposing additional adjustor mechanisms in this rate case**
14 **submission?**

15 A. Yes. The Company has proposed two new adjustor mechanisms. The
16 first adjustor is a Lost Fixed Cost Recovery ("LFCR") mechanism and the
17 second adjustor is a Transmission Cost Adjustor ("TCA") mechanism.
18 UNSE is also proposing a new way to determine the energy efficiency
19 program costs that will be recovered through UNSE's existing Demand
20 Side Management Surcharge ("DSMS").

21
22
23

1 **LOST FIXED COST RECOVERY MECHANISM – (“LFCR”)**

2 **Q. Is UNSE proposing a revenue decoupling mechanism?**

3 A. Yes. UNSE is requesting a LFCR to recover kWh sales that are lost as a
4 result of complying with the Commission’s EE Rules and REST Rules.
5 The mechanism is designed to recover lost margins (non-fuel) due to
6 reductions in kWh sales as a result of these programs. “The LFCR that
7 the Company is requesting is very similar to the Commission-approved
8 mechanisms in the APS, TEP and UNS Gas rate cases that were decided
9 in recent rate case decisions.”¹

10
11 **Q. Can you please explain how the LFCR will work as proposed by the
12 Company?**

13 A. In summary, the LFCR will work as follows:

- 14 (1) Quantify the lost level of kWh sales by class from EE programs;
15 (2) Quantify the lost level of kWh sales by class from DG and net metering
16 programs; (3) Adjust for any residential customers who have chosen to
17 contribute to the lost margins in the form of a fixed option; (4) Price the
18 lost kWh sales in each class by the tail block margin rate if no Demand
19 Charge is in place for that rate class, or the per kWh rate plus one half of
20 the value of the Demand Charges for the class if Demand Charges are in
21 place for that class; (5) Compare the total dollars recovered from the last
22 year based on actual sales and determine if any over or under collection

¹ See Mr. DeConcini’s testimony page 12

1 has occurred; (6) Add any carryover from the prior year (amount that the
2 prior year's year-over-year increase was in excess of 2 percent of total
3 revenues) and any over or under collection from the prior year;

4 (7) Compare this total to the total estimated retail revenues for the
5 Company; (8) Carryover any amount the year over year increase is in
6 excess of 2 percent; (9) Add in the prior year's allowed amount to the
7 allowed amount for the current year and divide this amount by the
8 forecasted total sales for the Company to determine the per kWh rate
9 application for the subsequent year; and (10) Submit these calculations
10 and the proposed tariffs to the Commission by May 15 of each year for an
11 anticipated effective date of July1.

12
13 **Q. Will UNSE's LFCR mechanism provide an "opt-out" provision for**
14 **residential ratepayers?**

15 **A.** Yes. Residential ratepayers will have the option of choosing a fixed
16 monthly charge if they prefer not to be charged the variable rate based on
17 kWh usage. The Company has proposed a fixed monthly option of \$2.50
18 in months where usage is less than 2,000 kWh and will be an incremental
19 increase to \$6.50 for the months when usage exceeds 2,000 kWh.

1 **Q. Has UNSE proposed an annual LFCR incremental cap that can be**
2 **passed through to affected ratepayers?**

3 A. Yes. The Company has proposed an annual 2 percent year-over-year cap
4 based on total Company revenues that will be applied to the adjustment.
5 Any amount in excess of the 2 percent year-over-year cap will be
6 deferred, with interest, for collection until the first future adjustment period
7 in which including such costs would not cause the annual increase to
8 exceed the 2 percent cap. The Company intends to calculate a per kWh
9 rate that will be applied to all customer classes as an energy rate. Since
10 the EE and DG related losses are cumulative, the prior years accumulated
11 losses will be added to the current year's allowed losses for purposes of
12 determining the allowed kWh rate. But no individual year's increase will
13 exceed 2 percent.

14
15 **Q. Has the Company estimated the initial impact on ratepayers in the**
16 **LFCR mechanism is approved by the Commission?**

17 A. Yes. The Company has estimated that the initial impact on customer
18 billings will be \$0.001426 per kWh effective July 1, 2014. (Lost margins
19 are estimated at \$2.5 million cumulative for years 2012 and 2013). If the
20 year 2013 were considered separately the adjustment would be
21 \$0.000585 per kWh which would be less than the 2 percent cap.

22

1 **Q. What has been RUCO's position on adjustor mechanisms in past rate**
2 **applications?**

3 A. RUCO has opposed adjustor mechanisms in many rate applications in the
4 past. However, RUCO has also recommended that adjustors be approved
5 by the Commission when the circumstances warrant. For example,
6 RUCO agreed with the Arsenic Cost Recovery Mechanism ("ACRM")
7 when the Federal Government changed the level of acceptable arsenic
8 contained in water. RUCO has agreed with a LFCR with an "opt out" in
9 the recent APS and UNS gas cases. Given that the Commission has
10 mandated that UNSE comply with certain Energy Efficiency programs a
11 partial adjustor mechanism is appropriate provided that the customer have
12 the option to "opt out."

13
14 **Q. Does RUCO agree with LFCR as proposed by UNSE?**

15 A. RUCO agrees with the concept of the LFCR mechanism as proposed by
16 UNSE with several changes. Again, RUCO has agreed to this limited form
17 of adjustor mechanism to meet the Commission's Energy Efficiency
18 Standard going forward because of the ratepayer's option to a fixed
19 monthly rate.

20
21
22

1 **Q. Does RUCO agree with the two percent cap on total company annual**
2 **revenues as proposed by the Company?**

3 A. No. RUCO believes that a two percent cap is high and a more appropriate
4 cap should be set at one percent, including the first year the adjustor goes
5 into place. A one percent cap has been approved by the Commission in
6 Decisions related to APS, UNS Gas and most recently the TEP decision.
7 Any amount in excess of the one percent would be deferred for collection
8 until the first future period in which such costs would not cause the annual
9 increase to exceed the cap. Interest would be calculated on the deferred
10 balance at the one-year Nominal Treasury Constant Maturities rate
11 contained in the Federal Reserve Statistical Release H-15 and will be
12 adjusted annually.

13
14 **Q. Does RUCO agree with the Company's "opt-out" provision as**
15 **proposed by the Company?**

16 A. No, RUCO agrees with the concept of an "opt-out" provision as it provides
17 rate stability and provides a better price signal to encourage reduced
18 consumption. However, RUCO believes that the Company's proposed
19 cost of the "opt-out" provision presents an excessive burden to residential
20 ratepayers. The average bill for residential ratepayers is \$83.00 and
21 compared to the lowest "opt-out" provision of \$2.50 in months where
22 usage is less than 2,000 kWh, the increase to the average ratepayer, for
23 the LFCR mechanism would be approximately 3 percent. RUCO believes

1 that a maximum increase for the “opt-out” provision should be no more
2 than one percent.

3
4 **Q. Has RUCO reviewed the Plan of Administration (“POA”) as proposed**
5 **by UNSE?**

6 **A.** Yes. RUCO has reviewed the POA and is proposing two changes. The
7 first change to the POA is the reporting dates to the Commission. RUCO
8 believes that submitting Compliance Reports by May 15th of each year
9 and expecting a turn around by July 1st doesn’t provide the ACC Staff with
10 sufficient time for review. A later date in the year should be identified.

11
12 The second change that RUCO proposes to the POA is in Section 3,
13 LFCR ANNUAL INCREMENTAL CAP. The Company has proposed that
14 in the first year of implementing the adjustor the cap should be more than
15 the cap in future years. RUCO recommends a one percent cap for all
16 years in going forward including the initial year of implementation.

1 TRANSMISSION COST ADJUSTMENT MECHANISM ("TCA")

2 **Q. Can you please explain The Transmission Cost Adjustment**
3 **Mechanism ("TCA") as proposed by the Company?**

4 A. The TCA will provide UNSE with the timely recovery of transmission costs
5 associated with serving retail customers at the level approved by FERC.²
6 UNSE's proposed base rates include a transmission component based on
7 the Company's OATT (Open Access Transmission Tariff). The FERC
8 approved OATT rates are designed to recover transmission costs from
9 users of the Company's transmission facilities. The OATT rates are
10 recalculated and reset annually through a FERC-approved formula using
11 data contained in the Company's FERC Form 1 filing. As described in Mr.
12 DeConcini's testimony the TCA will enable UNSE to recover future
13 changes in the OATT rate. Also, the TCA may reduce the frequency of,
14 and need to file general rate cases, thereby reducing the impact on
15 customers and reducing the amount of Commission resources expended
16 on UNSE rate filings and related issues.

17
18 **Q. Has the Commission approved this type of adjustor mechanism in**
19 **past rate cases?**

20 A. The Commission initially approved a TCA for APS in Decision No. 67744
21 and modified the TCA process for APS in Decision No. 73183.

22

² See Mr. DeConcini's testimony page 15

1 Q. **Does RUCO agree with this adjustor mechanism?**

2 A. RUCO would not oppose this adjustor if the Commission decides to
3 implement this mechanism.

4

5 ENERGY EFFICIENCY RESOURCE PLAN ("EERP")

6 Q. **Can you please describe the Energy Efficiency Resource Plan,
7 ("EERP") that the Company is proposing?**

8 A. UNSE proposes a 3 year plan period commencing January 1, 2014
9 through and including December 31, 2016 with a budget of approximately
10 \$23 million covering the 3 year period. Rather than adding the recovery of
11 this DSM/EE investment to base rates, the Company proposes that the EE
12 Resource Plan use the DSMS for recovery of the approved DSM/EE
13 program. The EERP capitalizes the program costs of the Plan and
14 amortizes recovery over a 4 year period. The Company is further
15 proposing that the authorized Rate of Return plus a 200 basis point
16 premium be added to the cost of equity and applied to the amount spent
17 on the EE programs and recover it over the same 4 year period. The
18 EERP creates a regulatory asset for recovery of the revenues spent on EE
19 programs.

20

21 UNSE's proposal includes a Plan of Administration that includes a Societal
22 Cost Test Template that UNSE would use to determine cost effectiveness.

23 It also authorizes UNSE to select and administer DSM/EE programs it

1 independently determines to be cost effective over the three years of the
2 EERP consistent with the approved annual budget.

3
4 **Q. What is RUCO's proposal regarding UNSE's EERP?**

5 A. RUCO opposes the EERP because it is not in the best interest of
6 ratepayers for the following reasons:

- 7 1. By capitalizing program costs and applying carrying costs, the
8 ratepayers may end up paying more for the EE programs than if
9 these costs were expensed.
- 10 2. The rate of return plus 200 basis points premium that is applied to
11 the DSM/EE program costs constitutes a performance incentive
12 that is not based on actual performance and rewards spending over
13 the EE savings.
- 14 3. The 3 year term unnecessarily binds future Commissions to
15 spending levels and program structure.
- 16 4. The EERP eliminates significant Commission oversight as there are
17 no annual adjustments required. The budgets and DSMS will have
18 been determined in advance in this rate case based on the
19 scheduled investment from January, 2014 through December 31,
20 2016.

21

1 **Q. Is UNSE's proposal and RUCO's recommendations very similar to**
2 **those as proposed in TEP's most recent rate case under Docket No.**
3 **12-0291?**

4 A. Yes. The Company's as well as RUCO's proposals are basically the
5 same.

6
7 **Q What was final outcome regarding the TEP EERP as filed?**

8 A. On February 4, 2013, Staff of the Arizona Corporation filed a copy of a
9 proposed settlement agreement ("Settlement Agreement"). TEP, RUCO
10 ACC Staff and other intervenors to the case are signatories to the
11 Settlement Agreement. After weighing all of the evidence presented
12 during a subsequent hearing in the case, the Administrative Law Judge
13 issued a Recommended Opinion and Order ("ROO") on May 17, 2013
14 adopting the settlement agreement. During the regular open meeting held
15 on June 11, 2013, the ACC Commissioners adopted an amended to the
16 ROO. The Commissioners final decision kept the existing energy
17 efficiency programs in place under the current cost recovery mechanism
18 and ordered the establishment of a generic docket to study energy
19 efficiency programs and other methods of recovery.

20
21
22

1 **Q. Based on the ACC Commissioners decision in the latest TEP rate**
2 **filing, what recommendation is RUCO proposing in this case?**

3 A. RUCO is recommending that the Company's EERP, as filed, be rejected
4 at this time and that their existing energy efficiency programs be
5 maintained and kept in place. Once the study is completed, and a final
6 decision has been made by the Commission, than UNSE can move
7 forward with the Commission's approved energy efficiency programs
8 including the approved methods of recovery.

9

10 **Q. Does this conclude your testimony?**

11 A. Yes.

ROBERT B. MEASE, CPA
Education and Professional Qualifications

EDUCATION

Bachelors Degree Business Administration / Accounting - Morris Harvey College.

Attended West Virginia School of Graduate Studies and studied Accounting and Public Administration

Attended numerous courses and seminars for Continuing Professional Educational purposes.

WORK EXPERIENCE

Controller

Knives of Alaska, Inc., Diamond Blade, LLC., and Alaska Expedition Company.

Financial Manager / CFO

All Saints Camp & Conference Center

Energy West, Inc.

Vice President, Controller

- Led team that succeeded in obtaining a \$1.5 million annual utility rate increase
- Coached accountants for proper communication techniques with Public Service Commission, supervised 9 professional accountants
- Developed financial models used to negotiate an \$18 million credit line
- Responsible for monthly, quarterly and annual financial statements for internal and external purposes, SEC filings on a quarterly and annual basis, quarterly presentations to Board of Directors and shareholders during annual meetings, coordinated annual audit
- Communication with senior management team, supervised accounting staff and resolved all accounting issues, reviewed expenditures related to capital projects
- Monitored natural gas prices and worked with senior buyers to ensure optimal price obtained

Junkermier, Clark, Campanella, Stevens

Consulting Staff

- Established a consulting practice that generated approximately \$160k the first year of existence
- Prepared business plan and projections for inclusion in clients financing documents
- Prepared written reports related to consulting engagements performed
- Developed models used in financing documents and made available for other personnel to use
- Performed Profit Enhancement engagements
- Participated during audit of large manufacturing client for two reporting years

Prior to 1999, held various positions: TMC Sales, Inc. as **Vice President / Controller**, with American Agri-Technology Corporation as **Vice President / CFO** and with Union Carbide Corporation as **Accounting Manager**. (Union Carbide was a multi-national Fortune 500 Company that was purchased by Dow Chemical)

PROFESSIONAL AFFILIATIONS

Member - Institute of Management Accountants

Member - American Institute of CPA's

Past Member –WV Society of CPA's and Montana Society of CPA's

RESUME OF RATE CASE AND REGULATORY PARTICIPATION WITH RUCO

<u>Utility Company</u>	<u>Docket No.</u>
Arizona Water Company (Eastern Group)	W-01445A-11-0310
Pima Utility Company	W-02199A-11-0329 et al.
Tucson Electric Power Company	E-01933A-12-0291
Arizona Water Company	W-01445A-12-0348

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	2 of 2	GROSS REVENUE CONVERSION FACTOR, INCOME TAX CALCULATION
RBM-2		RATE BASE (OCRB, RCND, and FVRB) - ACC JURISDICTIONAL
RBM-3	1 of 3	ORIGINAL COST RATE BASE - ACC JURISDICTIONAL
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RBM-4		RATE BASE ADJUSTMENT NO. 1 - GROSS UTILITY PLANT IN SERVICE
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RBM-7	1 of 2	SUMMARY - OPERATING INCOME STATEMENT - ACC JURISDICTIONAL
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RBM-14		OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE
RBM-15		OPERATING INCOME ADJUSTMENT NO. 7 - RATE CASE EXPENSE
RBM-16		OPERATING INCOME ADJUSTMENT NO. 8 - PROPERTY TAX EXPENSE
RBM-17		COST OF CAPITAL

REVENUE REQUIREMENT
ACC JURISDICTIONAL
(Thousands of Dollars)

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY RCND	(C) COMPANY FAIR VALUE	(D) RUCO ORIGINAL COST	(E) RUCO RCND	(F) RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 216,575	\$ 356,077	\$ 286,326	\$ 208,654	\$ 342,986	\$ 275,820
2	Adjusted Operating Income (Loss)	14,608	14,608	14,608	15,388	15,388	15,388
4	Current Rate Of Return (Line 3 / Line 1)	6.75%	4.10%	5.10%	7.37%	4.49%	5.58%
6	Required Operating Income (Line 13 X Line 1)	\$ 19,214	\$ 19,214	\$ 19,214	\$ 13,726	\$ 13,726	\$ 13,726
8	Weighted Average Cost of Capital	8.35%	8.35%	8.35%	7.13%	7.13%	7.13%
10	Fair Value Adjustment	0.52%	-2.96%	-1.64%	-0.55%	-3.13%	-2.15%
11	Required Rate of Return	8.87%	5.40%	6.71%	6.58%	4.00%	4.98%
12	Operating Income Deficiency (Line 7 - Line 3)	\$ 4,606	\$ 4,606	\$ 4,606	(1,661)	(1,661)	(1,661)
13	Gross Revenue Conversion Factor (Schedule RBM-1, page 2)	1.6333	1.6333	1.6333	1.6366	1.6366	1.6366
14	Increase In Gross Revenue Requirement (Line 15 X Line 17)	\$ 7,522	\$ 7,522	\$ 7,522	(2,718)	\$ (2,718)	\$ (2,718)
15	Adjusted Test Year Revenue	\$ 163,981	\$ 163,981	\$ 163,981	\$ 163,981	\$ 163,981	\$ 163,981
16	Proposed Annual Revenue Requirement (Line 19 + Line 21)	\$ 171,503	\$ 171,503	\$ 171,503	\$ 161,263	\$ 161,263	\$ 161,263
17	Required Percentage Increase In Revenue (Line 19 / Line 21)	4.59%	4.59%	4.59%	-1.66%	-1.66%	-1.66%
18	Rate Of Return On Common Equity	10.50%	10.50%	10.50%	8.16%	8.16%	8.16%

References:

Columns (A) Thru (C): Company Schedule A-1, C-1 and D-1
Column (D): Schedules RBM-1, Page 2, RBM-2, RBM-7 and RBM-17
Column (E): Schedule RBM-2, Column (F)
Column (F): Average of Column (D) + Column (E) / 2

GROSS REVENUE CONVERSION FACTOR, INCOME TAX CALCULATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
<i>Calculation of Gross Revenue Conversion Factor:</i>				
1	Revenue	100.00%		
2	Uncollectible Factor	0.3196%		
3	Revenues (L1 - L2)	99.6804%		
4	Combined Federal and State Income Tax (Line 23)	38.5764%		
5	Subtotal (L3 - L4)	61.1039%		
6	Revenue Conversion Factor (L1 / L5)	1.636555		
7				
8				
<i>Calculation of Effective Tax Rate:</i>				
9				
10	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
11	Arizona State Income Tax Rate	6.9340%		
12	Federal Taxable Income (Ln 10 - Ln 11)	93.0660%		
13	Applicable Federal Income Tax Rate (Col. (C), L51)	34.0000%		
14	Effective Federal Income Tax Rate (Ln 12 x Ln 13)	31.6424%		
15	Combined Federal and State Income Tax Rate (Ln 11 + Ln 14)		38.5764%	
16				
17				
18	Required Operating Income (Sch. RBM-1, Col. (D) Ln 7)	\$ 13,726		
19	Adjusted Test Year Operating Income (Loss) (Sch. RBM-1, Col. (D), Ln 3)	15,388		
20	Required Increase in Operating Income (Ln 18 - Ln 19)		\$ (1,662)	
21				
22	Income Taxes on Recommended Revenue (Col. (C), Ln 48)	\$ 4,887		
23	Income Taxes on Test Year Revenue (Col. (A), Ln 48)	5,943		
24	Required Increase in Revenue to Provide for Income Taxes (Ln 22 - Ln 23)			(1,055)
25				
26	Recommended Revenue Requirement (Sch. RBM-1, Col. (D), Ln 23)	\$ 163,981		
27	Uncollectible Rate (Ln 2)	0.3196%		
28	Uncollectible Expense on Recommended Revenue (Ln 26 x Ln 27)	\$ 524		
29	Adjusted Test Year Uncollectible Expense (Sch. RBM-4, Col. (A), Ln 3)	\$ 518		
30	Required Increase in Revenue to Provide for Uncollectible Exp. (Ln 28 - L 29)			6
31				
32				
33				
<i>Calculation of Income Tax:</i>				
34				
35	Revenue (Sch. RBM-7, Col. (C) or (E) Ln 6)	\$ 163,981		\$ 161,263
36	Operating Expenses Excluding Income Taxes (Sch RBM-7, Col.(C) or (E) Ln 15 + Ln 13)	\$ 142,651		\$ 142,651
37	Synchronized Interest (Col. (A) Ln 58)	\$ 5,926		\$ 5,926
38	Arizona Taxable Income (L35 - L36 - L37)	\$ 15,405		\$ 12,687
39	Arizona State Income Tax Rate	6.9340%		6.9340%
40	Arizona Income Tax (Ln 38 x Ln 39)	\$ 1,068		\$ 880
41	Federal Taxable Income (L42 - L44)	\$ 14,336		\$ 11,807
42	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ -		\$ -
43	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -		\$ -
44	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -
45	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -
46	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -
47	Total Federal Income Tax	\$ 4,874		\$ 4,008
48	Combined Federal and State Income Tax (L44 + L51)	5,943		4,887
49				
50				
51				
52				
53				
54				
<i>Synchronized Interest Calculation</i>				
55				
56	Rate Base	\$ 208,654		
57	Weighted Average Cost of Debt (RBM-17)	2.84%		
58	Calculated Interest Cost	\$ 5,926		

**RATE BASE (OCRB, RCND and FVRB)
ACC JURISDICTIONAL
(Thousands of Dollars)**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB	(B) COMPANY RCND	(C) COMPANY FVRB	(D) OCRB/RCND % DIFF.	(E) RUCO OCRB	(F) RUCO RCND	(G) RUCO FVRB
1	Gross Utility Plant In Service	\$ 535,855	\$ 947,024	\$ 741,440	176.73%	\$ 527,193	\$ 931,715	\$ 729,454
2	Accumulated Depreciation	(234,964)	(442,733)	(338,849)	188.43%	(234,327)	(441,533)	(337,930)
3	Net Utility Plant In Service	300,891	504,291	402,591		292,866	490,182	391,524
4								
5	Citizens Acquisition Discount	(80,856)	(149,521)	(115,189)	184.92%	(80,856)	(149,521)	(115,189)
6	Less: Accu Amort Citizens Acq Discount	(28,773)	(54,324)	(41,549)	188.80%	28,773	54,324	41,549
7	Net Citizens Acquisition Discount	(52,083)	(95,197)	(73,640)		(52,083)	(95,197)	(73,640)
8								
9	Total Net Utility Plant	248,808	409,094	328,951	164.42%	240,783	395,899	318,341
10								
11	Deductions:							
12	Cust. Advances For Const.	(7,616)	(9,038)	(8,327)	118.67%	(7,616)	(9,038)	(8,327)
13	Customer Deposits	(6,224)	(6,224)	(6,224)	100.00%	(6,224)	(6,224)	(6,224)
14	Other (ITC)	(2,855)	(2,855)	(2,855)	100.00%	(2,855)	(2,855)	(2,855)
15	Acc. Deferred Income Taxes	(22,010)	(41,372)	(31,691)	187.97%	(22,010)	(41,372)	(31,691)
16	Total Deductions	(38,705)	(59,489)	(49,097)		(38,705)	(59,489)	(49,097)
17								
18	Allowance - Working Capital	6,472	6,472	6,472	100.00%	6,576	6,576	6,576
19								
20	Regulatory Assets	-	-	-	100.00%	-	-	-
21								
22	Regulatory Liability	-	-	-	100.00%	-	-	-
23								
24								
25	TOTAL TEST YEAR RATE BASE	\$ 216,575	\$ 356,077	\$ 286,326		\$ 208,654	\$ 342,986	\$ 275,820

References:
Columns (A) (B) (C): Company Schedule B-1
Column (D): Column (B) / Column (A)
Column (E): Schedule RBM-3 page 1, Column (C)
Column (F): Column (D) X Column (E)
Column (G): Average Of Column (E) + Column (F) / 2

ORIGINAL COST RATE BASE - ACC JURISDICTIONAL

LINE NO.	DESCRIPTION	(A) COMPANY FILED AS OCRB	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED AS OCRB
1	Gross Utility Plant In Service	535,855	(8,662)	527,193
2	Accumulated Depreciation	(234,964)	637	(234,327)
3	Net Utility Plant In Service	300,891	(8,025)	292,866
4				
5	Citizens Acquisition Discount	(80,856)	-	(80,856)
6	Less: Accu Amort Citizens Acq Discount	(28,773)	-	(28,773)
7	Net Citizens Acquisition Discount	(52,083)	-	-
8				
9	Total Net Utility Plant	248,808	(8,025)	240,783
10				
11	Deductions:			
12	Cust. Advances For Const.	(7,616)	-	(7,616)
13	Customer Deposits	(6,224)	-	(6,224)
14	Def'd Credit - Cont'd Plt & Retm't Oblig.	(2,855)	-	(2,855)
15	Acc. Deferred Income Taxes	(22,010)	-	(22,010)
16	Total Deductions	(38,705)	-	(38,705)
17				
18	Allowance - Working Capital	6,472	\$ 104	6,576
19				
20	Regulatory Assets	-	-	-
21				
22	Regulatory Liability	-	-	-
23				
24				
25	TOTAL OCRB	\$ 216,575	\$ (7,921)	\$ 208,654

References:

Column (A): - Company Schedule B-2. Also see RBM-3 page 2 Col. A
Column (B): - RUCO Adjustments - See RBM-3 page 2, Columns (B) thru (E)
Column (C): - Sum Of Columns (A) and (B)

ORIGINAL COST RATE BASE WITH RUCO ADJUSTMENTS
(Thousands of Dollars)

Line No.	DESCRIPTION	ACC-Jurisdiction					
		(A) Company Adjusted OCRB As Filed	(B) Rate Base Adjustment No. 1 Remove Post-Test-Year Plant	(C) BLANK	(D) Rate Base Adjustment No. 2 Working Capital	(E) RUCO Total Adjustments Recommended	(F) RUCO Adjusted OCRB Recommended Balances
1	Gross Utility Plant in Service	\$ 535,855	\$ (8,662)	\$ -	\$ -	\$ (8,662)	\$ 527,192
2	Accumulated Depreciation	(234,964)	637			637	(234,327)
3	Net Utility Plant in Service	\$ 300,891	\$ (8,025)	\$ -	\$ -	\$ (8,025)	\$ 292,865
4	Citizens Acquisition Discount	\$ (80,856)	\$ -	\$ -	\$ -	\$ -	\$ (80,856)
	Accumulated Amortization - Citizens Acquisition Discount	28,773	-	-	-	-	28,773
5	Net Citizens Acquisition Discount	\$ (52,083)	\$ -	\$ -	\$ -	\$ -	\$ (52,083)
	Total Net Utility Plant	\$ 248,808	\$ (8,025)	\$ -	\$ -	\$ (8,025)	\$ 240,782
6	Customer Advances for Construction	\$ (7,616)	\$ -	\$ -	\$ -	\$ -	\$ (7,616)
7	Customer Deposits	(6,224)					(6,224)
8	Other - Investment Tax Credits ("ITC")	(2,855)					(2,855)
9	Accumulated Deferred Income Taxes ("ADIT")	(22,010)					(22,010)
	Total Deductions	\$ (38,705)	\$ -	\$ -	\$ -	\$ -	\$ (38,705)
12	Allowance for Working Capital	\$ 6,472	\$ -	\$ -	\$ 104	\$ 104	\$ 6,576
13	Regulatory Assets	-	-	-	-	-	-
	Regulatory Liabilities	-	-	-	-	-	-
15	Total Original Cost Rate Base	\$ 216,575	\$ (8,025)	\$ -	\$ 104	\$ (7,921)	\$ 208,653

REFERENCES:
Column (A) See RBM-3 of 3
Column (B) See RBM-4
Column (D) See RBM-5
Column (E) See Column (B) through (D)

ORIGINAL COST RATE BASE STATEMENT WITH COMPANY ADJUSTMENTS - ACC JURSDICTIONAL
(Thousands of Dollars)

LINE NO.	DESCRIPTION	(A) COMPANY OCRB PRIOR TO ADJUSTMENTS	(B) Acquisition Discount Adjustment	(C) PTY Plant Renewable	(D) PTY Plant in Service	(E) Accu Deferred ITC	(F) Accu Deferred Income Taxes	(G) BLANK	(H) BLANK	(I) Working Capital	(J) Total Adjustments	(K) COMPANY OCRB AFTER ADJUSTMENTS
1	Gross Utility Plant in Service	\$ 521,438	-	5,755	8,662	-	-	-	-	-	\$ 14,417	\$ 535,855
2	Accumulated Depreciation	(233,617)	-	(584)	(783)	-	-	-	-	-	(1,347)	(234,964)
3	Net Utility Plant in Service	287,821	-	5,191	7,879	-	-	-	-	-	13,070	300,891
4	Citizens Acquisition Discount	(88,764)	7,908	-	-	-	-	-	-	-	7,908	(80,856)
5	Less: Accu Amort Citizens Acq Dist	(31,987)	2,814	-	-	-	-	-	-	-	2,814	(28,773)
6	Net Citizens Acquisition Discount	(57,177)	5,094	-	-	-	-	-	-	-	5,094	(52,083)
7	Total Net Utility Plant	230,644	5,094	5,191	7,879	-	-	-	-	-	18,164	248,808
8	Deductions:											
9	Cust. Advances For Const.	(7,616)	-	-	-	-	-	-	-	-	-	(7,616)
10	Customer Deposits	(6,224)	-	-	-	-	-	-	-	-	-	(6,224)
11	Other (ITC)	(1,441)	-	-	-	(1,414)	-	-	-	-	(1,414)	(2,855)
12	Acc. Deferred Income Taxes	(21,155)	-	-	-	-	(855)	-	-	-	(855)	(22,010)
13	Total Deductions	(36,436)	-	-	-	(1,414)	(855)	-	-	-	(2,269)	(38,705)
14	Allowance - Working Capital	11,366	-	-	-	-	-	-	(4,894)	-	(4,894)	6,472
15	Regulatory Assets	-	-	-	-	-	-	-	-	-	-	-
16	Regulatory Liability	-	-	-	-	-	-	-	-	-	-	-
17	TOTAL OCRB	\$ 205,574	\$ 5,094	\$ 5,191	\$ 7,879	\$ (1,414)	\$ (855)	\$ -	\$ -	\$ (4,894)	\$ 11,001	\$ 216,575

References:
Column (A) thru Column (K) - Company Schedule B-2

**RATE BASE ADJUSTMENT NO. 1 AND 2
POST TEST YEAR PLANT / ACCUMULATED DEPRECIATION**

	(A) Company Proposed	(B) RUCO Proposed	(C) RUCO Adjustment
1 Company Post Test Year Plant Depreciation	\$ 546,885	\$ -	\$ 546,885
2			-
3 Company Calculation for NNS Included in	2,480,327.30	2,390,202	90,125
4 Depreciation Expense (See RBM-14, page 2)			
5	<u>\$ 3,027,212</u>	<u>\$ 2,390,202</u>	
6 TOTAL ACCUMULATED DEPRECIATION ADJ.			<u>\$ 637,010</u>

**Company's Calculation Post Test Year
Depreciation Expense**

Plant Acct	Total Adjusted	Depreciation Including NNS Rate	Depreciation Calculated for 12 months
E303 Miscellaneous Intangible Plant	\$ 28,968	0.0667	\$ 1,932
E343 Prime Movers	2,886	0.0270	78
E344 Generators	(284,715)	0.0245	(6,976)
E360 Land & Land Rights	1,664	-	-
E362 Station Equipment	550,807	0.0384	21,151
E364 Poles, Towers, & Fixtures	2,044,274	0.0388	79,318
E365 Overhead Conductors & Devices	(99,862)	0.0392	(3,915)
E366 Underground Conduit	12,275	0.0366	449
E367 Underground Conductors & Devices	(789,775)	0.0427	(33,723)
E368 Line Transformers	3,381,684	0.0445	150,485
E370 Meters	324,358	0.0301	9,763
E373 Street Lights and Signal Systems	32,150	0.0387	1,244
E390 Structures & Improvements	2,008,633	0.0260	52,224
E391 Office Furniture & Equipment	560,773	0.2000	112,155
E392 Transportation Equipment	856,008	0.1838	157,334
E393 Stores Equipment	34,064	0.0303	1,032
E394 Tools, Shop, & Garage Equipment	44,172	0.0345	1,524
E396 Power Operated Equipment	4,924	0.0653	322
E397 Communication Equipment	57,172	0.0435	2,487
	<u>\$ 8,770,462</u>		<u>\$ 546,885</u>
38 Generation	\$ (145,639)		
39 Distribution	5,457,574		
40 General	3,458,527		
41 Total Company	<u>\$ 8,770,462</u>		
ACC Jurisdictional	<u>\$ 8,662,369</u>		

References:

Columns (A), (B),(C), Lns 9 thru 33 Company Schedule Post Test Year Depreciation

RATE BASE ADJUSTMENT NO. 3
ALLOWANCE FOR WORKING CAPITAL
(Thousands of Dollars)

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>REFERENCE</u>	<u>(A)</u> <u>AMOUNT</u>
1	Cash Working Capital Per UNSE	UNSE SCH. B-5, Page 1	\$ (3,919)
2	Cash Working Capital Per RUCO	SCH RBM-6 Ln 33	\$ (3,815)
3	Adjustment	Line 2 - Line 1	<u>\$ 104</u>
4			
5	Fuel Inventory Per UNSE	UNSE SCH. B-5, Page 1	\$ -
6	Fuel Inventory Per RUCO	UNSE SCH. B-5, Page 1	\$ -
7	Adjustment	Line 6 - Line 5	\$ -
8			
9	Materials And Supplies Per UNSE	UNSE SCH. B-5, Page 1	\$ 9,467
10	Materials And Supplies Per RUCO	UNSE SCH. B-5, Page 1	<u>\$ 9,467</u>
11	Adjustment	Line 10 - Line 9	<u>\$ -</u>
12			
13	Prepayments Per UNSE	UNSE SCH. B-5, Page 1	\$ 924
14	Prepayments Per RUCO	UNSE SCH. B-5, Page 1	<u>\$ 924</u>
15	Adjustment	Line 14 - Line 13	<u>\$ -</u>
16			
17	TOTAL ADJUSTMENT - WORKING CAPITAL	Sum Lines 3, 7, 11, 15)	<u><u>\$ 104</u></u>

ALLOWANCE FOR WORKING CAPITAL
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY TEST YEAR AS FILED	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days	(E) Exp Lag Days	(F) Net Lag Days	(G) Lead Lag Factor	(H) Cash Working Capital Requirements	
OPERATING EXPENSES										
Non-Cash Expenses:										
1	Bad Debts Expense	518	-	-	-	-	-	-	-	
2	Depreciation	24,288	-	-	-	-	-	-	-	
3	Amortization	(3,647)	-	-	-	-	-	-	-	
4	Deferred Income Taxes	6,313	-	-	-	-	-	-	-	
5	Total Non-Cash Expenses	27,472	-	-	-	-	-	-	-	
Other Operating Expenses:										
6	Salaries & Wages	3,958	(107)	3,851	35.59	23.33	12.26	0.0336	129	
7	Incentive Pay	118	(52)	66	35.59	267.00	(231.41)	(0.6340)	(42)	
8	Purchased Power	77,622	-	77,622	35.59	33.79	1.80	0.0049	383	
9	Transmission Other	8,853	-	8,853	35.59	40.67	(5.08)	(0.0139)	(123)	
10	Meter Reading	839	-	839	35.59	33.67	1.92	0.0053	4	
11	Customer Records & Coll Exp	2,108	-	2,108	35.59	34.94	0.65	0.0018	4	
12	Office Supplies and Expenses	1,305	-	1,305	35.59	50.89	(15.30)	(0.0419)	(55)	
13	Injuries and Damages	691	(323)	368	35.59	70.52	(34.93)	(0.0957)	(35)	
14	Pensions and Benefits	1,908	-	1,908	35.59	51.37	(15.78)	(0.0432)	(82)	
15	Support Services	1,306	-	1,306	35.59	44.77	(9.18)	(0.0252)	(33)	
16	Property Taxes	5,583	(107)	5,476	35.59	213.00	(177.41)	(0.4861)	(2,662)	
17	Payroll Taxes	401	(9)	392	35.59	19.87	15.72	0.0431	17	
18	Current Income Taxes	-	-	-	35.59	41.42	(5.83)	(0.0160)	-	
19	Interest on Customer Deposits	10	-	10	35.59	182.50	(146.91)	(0.4025)	(4)	
20	Other O&M Expenses	11,352	(44)	11,308	35.59	41.21	(5.62)	(0.0154)	(174)	
21										
22	Total Other Operating Exp.	\$ 116,054	\$ (643)	\$ 115,411					\$ (2,673)	
23										
24	Other Cash Working Capital Elements:									
25	Interest on Long-Term Debt	7,175	-	7,175	35.59	70.48	-34.89	-0.095589	(686)	
26	Rev. Taxes and Assessments	15,293	-	15,293	35.59	49.43	-13.84	-0.037918	(580)	
27										
28		\$ 22,468	\$ -	\$ 22,468					\$ (1,266)	
29										
30	TOTAL CASH WORKING CAPITAL	\$ 165,994	\$ -	\$ 137,879		Total Company			(3,919)	
31						ACC Jurisdictional			\$ (3,815)	
32										
33										
34	References:									
35	Column (A): - Company Schedule B-5									
36	Column (B): RUCO Operating Income Adjustments (See RBM-8)									
37	Column (C): Column (A) + (B)									
38	Column (D): Company Schedule B-5, Page 3									
39	Column (E): Column (C) X Column (D)									

SUMMARY OPERATING INCOME STATEMENT - ACC JURISDICTIONAL
(Thousands of Dollars)

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJM'TS	(C) RUCO TEST YEAR AS ADJ'D	(D) RUCO PROPOSED ACC JURID'L	(E) RUCO RECOM'D ACC JURID'L
1	Operating Revenues:					
2	Electric Retail Revenues	\$ 162,190	\$ -	\$ 162,190	\$ (2,718)	\$ 159,472
3	Sales for Resale	-	-	-	-	-
4	Other Operating Revenue	1,791	-	1,791	-	1,791
5						
6	TOTAL OPERATING REVENUES	163,981	-	163,981	(2,718)	161,263
7						
8	Operating Expenses:					
9	Fuel, Purchased Power and Trans	100,337	-	100,337	-	100,337
10	Other Operations and Maintenance Exp	20,717	(590)	20,127	-	20,127
11	Depreciation and Amortization	18,534	(637)	17,897	-	17,897
12	Taxes Other than Income Taxes	4,407	(118)	4,289	-	4,289
13	Income Taxes	5,378	565	5,943	(1,054)	4,887
14	Rounding Differences	-	-	-	-	-
15	TOTAL OPERATING EXPENSES	149,373	(780)	148,593	(1,054)	147,538
16						
17	OPERATING INCOME (LOSS)	\$ 14,608	\$ 780	\$ 15,388	\$ (1,663)	\$ 13,726

References:

Column (A) Per Company Filing
Column (B) Schedule RBM-8
Column (E) Schedule RBM-1 page 2

References:

Column (A): Company Schedule C-1
Column (B): Testimonies, RLM & MDC And Schedule RLM-8, Pages 1 Thru 6
Column (C): Column (A) + Column (B)
Column (D): Column (C) X Jurisdictional Factor
Column (E): See Schedule RLM-1
Column (F): Column (D) + Column (E)

OPERATING INCOME STATEMENT - ACC JURISDICTIONAL-RUCO ADJUSTMENTS

(Thousands of Dollars)

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Adj. 1 Payroll Expense RBM-9	(C) Adj. 2 Payroll Tax Expense RBM-10	(D) Adj. 3 Incentive Comp. RBM-11	(E) Adj. 4 Directors & Officers Ins. RBM-12	(F) Adj. 5 Injuries & Damages RBM-13	(G) Adj. 6 Depreciation Expense RBM-14	(H) Adj. 7 Rate Case Expense RBM-15	(I) Adj. 8 Prop. Tax Expense RBM-16	(J) Adj. 9 Income Tax Expense RBM-1(12)	(K) Total Adjustments	(L) RUCO as Recommended
1	Operating Revenues:												
2	Electric Retail Revenues	\$ 162,190											\$ 162,190
3	Sales for Resale	1,791											1,791
4	Other Operating Revenue												
5													
6	TOTAL OPERATING REVENUES	163,981											163,981
7	Operating Expenses:												
8	Fuel, Purchased Power and Trans	100,337											100,337
9	Other Operations and Maintenance Exp	20,717											20,717
10	Depreciation and Amortization	18,534	(107)		(50)	(44)		(65)				(590)	17,897
11	Taxes Other than Income Taxes	4,407		(9)	(2)		(637)		(107)			(118)	4,289
12	Income Taxes	5,378									565	565	5,943
13	Rounding Differences												
14	TOTAL OPERATING EXPENSES	149,373	(107)	(9)	(52)	(44)	(637)	(65)	(107)		565	(780)	148,593
15													
16													
17	OPERATING INCOME (LOSS)	\$ 14,608	\$ 107	\$ 9	\$ 52	\$ 44	\$ 323	\$ 65	\$ 107	\$ 107	\$ (565)	\$ 780	\$ 15,388

References:
Column (A) Per Company Filing
Column (B) Schedule RBM-8
Column (E) Schedule RBM-1 page 2

OPERATING INCOME STATEMENT - ACC JURISDICTIONAL - COMPANY ADJUSTMENTS
(Thousands of Dollars)

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ARRA Grant	(C) Customer & Weather Adj	(D) PPFAC Adj	(E) REST & DSM	(F) Payroll Expense	(G) Payroll Tax	(H) Pension & Benefits
1	Operating Revenues:								
2	Electric Retail Revenues	\$ 168,523	\$ -	\$ (8,421)	\$ 2,088	\$ -	\$ -	\$ -	\$ -
3	Sales for Resale	-	-	-	-	-	-	-	-
4	Other Operating Revenue	11,188	(286)	-	-	(9,293)	-	-	-
5	TOTAL OPERATING REVENUES	179,711	(286)	(8,421)	2,088	(9,293)	-	-	-
6	Operating Expenses:								
7	Fuel, Purchased Power and Trans	91,837	-	(3,198)	2,088	(669)	-	-	-
8	Other Operations and Maintenance Exp	27,785	(286)	-	-	(7,676)	213	-	53
9	Depreciation and Amortization	16,747	-	-	-	-	-	-	-
10	Taxes Other than Income Taxes	4,215	-	-	-	(22)	-	18	-
11	Income Taxes	10,952	-	-	-	-	-	-	-
12	Rounding Differences	-	-	-	-	-	-	-	-
13	TOTAL OPERATING EXPENSES	151,536	(286)	(3,198)	2,088	(8,367)	213	18	53
14	OPERATING INCOME (LOSS)	\$ 28,175	\$ -	\$ (5,223)	\$ -	\$ (926)	\$ (213)	\$ (18)	\$ (53)

References:
See Company Schedules C-2 pages 1-8

OPERATING INCOME STATEMENT - ACC JURISDICTIONAL - COMPANY ADJUSTMENTS
(Thousands of Dollars)

LINE NO.	DESCRIPTION	(H)	Retiree Med	(H)	Rate Case Exp	(H)	Bad Debt Exp	(H)	Depre Exp	(H)	Property Taxes	(H)	Incentive Comp	(H)	Injuries Damages	(H)	Member Ship / Dues
1	Operating Revenues:																
2	Electric Retail Revenues	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
3	Sales for Resale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Other Operating Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5																	
6	TOTAL OPERATING REVENUES																
7																	
8	Operating Expenses:																
9	Fuel, Purchased Power and Trans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other Operations and Maintenance Exp	58	75	(20)	-	-	-	-	-	100	313	(9)	-	-	-	-	-
11	Depreciation and Amortization	-	-	-	706	-	-	-	-	-	-	-	-	-	-	-	-
12	Taxes Other than Income Taxes	-	-	-	-	-	-	-	-	192	4	-	-	-	-	-	-
13	Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Rounding Differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	TOTAL OPERATING EXPENSES	58	75	(20)	706	192	104	313	(9)	(104)	(313)	(9)					
16																	
17	OPERATING INCOME (LOSS)	\$	(58)	\$	(75)	\$	20	\$	(706)	\$	(192)	\$	(104)	\$	(313)	\$	9

References:
See Company Schedules C-2 pages 1-8

OPERATING INCOME STATEMENT - ACC JURISDICTIONAL - COMPANY ADJUSTMENTS
(Thousands of Dollars)

LINE NO.	DESCRIPTION	(H) Bldg Alloc	(H) Service Fees	(H) Post Test Yr Depre	(H) Remed Exp	(H) Income Taxes	OATT	(H) Total Adjust	(H) Test Yr Adjusted
1	Operating Revenues:								
2	Electric Retail Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6,333)	\$ 162,190
3	Sales for Resale	-	-	-	-	-	-	-	\$ -
4	Other Operating Revenue	-	182	-	-	-	-	(9,397)	\$ 1,791
5									
6	TOTAL OPERATING REVENUES	-	182	-	-	-	-	(15,730)	163,981
7									
8	Operating Expenses:								
9	Fuel, Purchased Power and Trans	-	-	-	-	-	10,279	8,500	\$ 100,337
10	Other Operations and Maintenance Exp	282	-	-	(171)	-	-	(7,068)	\$ 20,717
11	Depreciation and Amortization	-	-	1,081	-	-	-	1,787	\$ 18,534
12	Taxes Other than Income Taxes	-	-	-	-	-	-	192	\$ 4,407
13	Income Taxes	-	-	-	-	(5,574)	-	(5,574)	\$ 5,378
14	Rounding Differences	-	-	-	-	-	-	-	\$ -
15	TOTAL OPERATING EXPENSES	282	-	1,081	(171)	(5,574)	10,279	(2,163)	149,373
16									
17	OPERATING INCOME (LOSS)	(282)	182	(1,081)	171	5,574	(10,279)	(13,567)	\$ 14,608

References:
See Company Schedules C-2 pages 1-8

**OPERATING EXPENSE ADJUSTMENT NO. 1
PAYROLL EXPENSE ADJUSTMENT**

ACCT	ACCOUNT DESCRIPTION	(A) Total	(B) Percent of Ln 34 Col A	(C) Percent of Year One Increase	(D) UNS Increase Calculated	(E) RUCO ADJUSTMENT	
1	0548	Generation Expense	19,189	0.513%	537	1,089	551
2	0557	Production Exp. - Oher	1,158	0.031%	32	66	33
3	0562	Trans-Station Expense	50,387	1.348%	1,411	2,859	1,448
4	0563	Trans-Overhead Line Exp	9,451	0.253%	265	536	272
5	0566	Trans-Misc Other Exp	127	0.003%	4	7	4
6	0581	Dist-Load Dispatching	428,600	11.462%	12,000	24,318	12,318
7	0583	Dist-Overhead Line Exp	131,418	3.515%	3,680	7,457	3,777
8	0584	Dist-Underground Line Exp	199,112	5.325%	5,575	11,297	5,723
9	0585	Dist-Light/Signal Exp	285	0.008%	8	16	8
10	0586	Dist-Meter Expenses	410,578	10.980%	11,496	23,296	11,800
11	0587	Dist-Customer Install Exp	57,365	1.534%	1,606	3,255	1,649
12	0588	Dist-Misc Expense	5,574	0.149%	156	316	160
13	0901	Cust Accounting Supervision	94,722	2.533%	2,652	5,374	2,722
14	0902	Meter Reading Expense	104,925	2.806%	2,938	5,953	3,016
15	0903	Cust Rec/Collection Exp	375,579	10.044%	10,516	21,310	10,794
16	0908	Customer Assistance Exp	29,209	0.781%	818	1,657	839
17	0909	Informational/Instrct Adv Exp	16,509	0.442%	462	937	474
18	0910	Misc Cust Service	997	0.027%	28	57	29
19	0920	A&G Salaries	775,508	20.740%	21,713	44,002	22,289
20	0925	Injuries & Damages	11,692	0.313%	327	663	336
21	0926	Pensions & Benefits	6,629	0.177%	186	376	191
22	0930	General Advertising Exp	1,057	0.028%	30	60	30
23	0553	Maint Gen & Elect Plant	167,238	4.473%	4,682	9,489	4,807
24	0554	Maint of Misc Other Rwr Gen Plant	33,282	0.890%	932	1,888	957
25	0570	Trans-Maint Stn Equip	2,769	0.074%	78	157	80
26	0571	Trans-Maint of OH Lines	15,905	0.425%	445	902	457
27	0592	Dist-Maint Stn Equip	267,653	7.158%	7,494	15,186	7,692
28	0593	Dist-Maint of OH Lines	422,815	11.308%	11,838	23,990	12,152
29	0594	Dist-Maint if UG Lines	41,387	1.107%	1,159	2,348	1,189
30	0595	Dist-Maint Line Transformers	27,112	0.725%	759	1,538	779
31	0596	Dist-Mnt Light/Signals	30,972	0.828%	867	1,757	890
32							
33			<u>\$ 3,739,206</u>	<u>100%</u>	<u>\$ 104,693</u>	<u>\$ 212,160</u>	
34							

RUCO Proposed Adjustment \$ 107,467

35

36

37

**Total Company
WAGES CHARGED**

38

39

YEAR

TO O&M

40

2011

4,024,126

41

2012

4,121,575

42

\$ 8,145,701

43

44

2 Year Average

\$ 4,072,851

45

46

Average Wage Increase

2.65%

**ACC Jurisdictional
At 97%**

47

Ln 44 X Ln 46

Wage Increase Year 1

\$ 107,931

\$ 104,693

E-45 X 97%

48

Wages End of Year 1

\$ 4,180,781

49

Average Wage Increase

2.65%

50

Ln 48 X Ln 49

Wage increase Year 2

\$ 110,791

\$ 107,467

E-48 X 97%

51

Total Wage Increase

52

For 2 Years

218,721

\$ 212,160

References:

Columns (A) and (B); Company UDR 1.01 Schedules
Columns (C) through (E); RUCO calculations.

**OPERATING INCOME ADJUSTMENT NO. 2
PAYROLL EXPENSE ADJUSTMENT - CALCULATIONS**

	(A)
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
Company Payroll Adjustment - ACC Jurisdictional	\$ 212,160
Company Payroll Tax Adjustment - ACC Jurisdictional	\$ 18,238
Percentage Adjustment	<u>8.60%</u>
RUCO CALCULATED - Payroll Adjustment - See RBM-9	\$ 104,693
Percentage Used for Payroll Tax	<u>8.60%</u>
RUCO CALCULATED - Payroll Tax	<u>\$ 9,000</u>
RUCO Adjustment to Payroll Tax Expense	<u>\$ 9,238</u>

References:

Column (A) Lns 2 through 6; Company UDR 1.01 Schedules
Column (A) Lns 10 through 17; RUCO Calculated Adjustments

**OPERATING EXPENSE ADJUSTMENT NO. 3
INCENTIVE ADJUSTMENT**

Line No.	DESCRIPTION	(A) COMPANY PROPOSED	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Adjustment for Incentive	\$ 106,222	\$ 53,111	\$ 53,111
2				
3	UNS Allocation Percentage			0.97
4				
5	Total RUCO Adjustment to ACC Jurisdictional	<u>\$ 106,222</u>	<u>\$ 53,111</u>	<u>\$ 51,518</u>
6				
7				
8				
9	Company Proposed	\$ 106,222		
10	Split between Ratepayers and Shareholder	50%		
11	RUCO Adjustment - Total Company	\$ 53,111		

References:

Column (A) See TEP Data Response 1.60 Incentive Expense
Columns (B) and (C) RUCO calculations

**OPERATING EXPENSE ADJUSTMENT NO. 4
OFFICERS AND DIRECTORS INSURANCE**

Line No.	DESCRIPTION	(A) COMPANY PROPOSED	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	925 Officers and Directors Liability Insurance	\$ 91,109	\$ 45,555	\$ 45,555
2				
3	UNS Allocation Percentage			0.97
4				
5	Total RUCO Adjustment to ACC Jurisdictional	\$ 91,109	\$ 45,555	\$ 44,188
6				
7				
8				
9	Company Proposed	\$ 91,109		
10	Split between Ratepayers and Shareholder	50%		
11	RUCO Adjustment - Total Company	\$ 45,555		

References:

Column (A) See TEP Data Response 1.60 Insurance Expense
Columns (B) and (C) RUCO calculations

**OPERATING INCOME ADJUSTMENT NO. 5
INJURIES AND DAMAGES**

UNSE Adjustment to Injuries & Damages		(A)	(B)	(C)	(D)
<u>Account Description</u>	<u>6/30/2010</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>Average for 3 Years</u>	
Workers' Compensation	\$ 23,433	\$ 22,509	\$ 49,838	\$ 31,927	
Workers' Compensation	160	(31,796)	(28,347)	(19,994)	
Injuries & Damages	1,000,000	-	-	333,333	
Total for Three Year Period	\$ 1,023,593	\$ (9,287)	\$ 21,491	\$ 345,266	
Company Average for 3 years	\$ 345,266	Column (D) Ln 7			
Expenses for Test Year	\$ 21,491	Column (C) Ln 7			
Company Adjustment Using 3 Year Average	\$ 323,775	Column (A) Ln 10 - Ln 12			
ACC Jurisdictional	97%				
ACC Jurisdictional Adjustment	\$ 313,061	PER COMPANY'S Calculation			
RUCO's Adjustment to Injuries & Damages					
<u>Account Description</u>	<u>6/30/2010</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>Average for 3 Years</u>	
Workers' Compensation	\$ 23,433	\$ 22,509	\$ 49,838	\$ 31,927	
Workers' Compensation	160	(31,796)	(28,347)	(19,994)	
Injuries & Damages	1,000,000	-	-	333,333	
RUCO Reduction in Injuries and Damages	(1,000,000)	-	-	(333,333)	
Total for Three Year Period	\$ 23,593	\$ (9,287)	\$ 21,491	\$ 11,932	
RUCO does not believe that the Injuries and damages expense for \$1,000,000 incurred at year ending June 30, 2010 should be included in the calculation for the the three year period. The expense is extraordinary in nature and should be excluded.					
RUCO'S Average for 3 years	\$ 11,932	Column (D) Ln 29			
Expenses for Test Year	\$ 21,491	Column (C) Ln 29			
Company Adjustment Using 3 Year Average	\$ (9,559)	Column (A) Ln 36 + Ln 38			
ACC Jurisdictional	97%				
ACC Jurisdictional Adjustment	\$ (10,272)	PER RUCO's Calculation			
TOTAL RUCO ADJUSTMENT	\$ (323,333)	Line Column (A) Ln 18 + Column (A) Ln 44			

References:
Columns (A) through (D) Lines 3 through 18 provided by Company
in UDR 1.01 Workpaper Schedules.

Columns (A) through (D) Lines 21 through 47 RUCO calculations

**OPERATING EXPENSE ADJUSTMENT NO. 6
DEPRECIATION EXPENSE - POST TEST YEAR PLANT**

	(A) Company <u>Proposed</u>	(B) RUCO <u>Proposed</u>	(C) RUCO <u>Adjustment</u>
1 Company Post Test Year Plant Depreciation	\$ 546,885	\$ -	\$ 546,885
2			
3 Company Calculation for NNS Included in	2,480,327.30	2,390,202	90,125
4 Depreciation Expense (See RBM-14, page 2)			
5	<u>\$ 3,027,212</u>	<u>\$ 2,390,202</u>	<u>\$ 637,010</u>
6			
7			
8			

**Company's Calculation Post Test Year
Depreciation Expense**

Plant Acct		Total Adjusted	Depreciation Including NNS Rate	Depreciation Calculated for 12 months
15 E303	Miscellaneous Intangible Plant	\$ 28,968	0.0667	\$ 1,932
16 E343	Prime Movers	2,886	0.0270	78
17 E344	Generators	(284,715)	0.0245	(6,976)
18 E360	Land & Land Rights	1,664	-	-
19 E362	Station Equipment	550,807	0.0384	21,151
20 E364	Poles, Towers, & Fixtures	2,044,274	0.0388	79,318
21 E365	Overhead Conductors & Devices	(99,862)	0.0392	(3,915)
22 E366	Underground Conduit	12,275	0.0366	449
23 E367	Underground Conductors & Devices	(789,775)	0.0427	(33,723)
24 E368	Line Transformers	3,381,684	0.0445	150,485
25 E370	Meters	324,358	0.0301	9,763
26 E373	Street Lights and Signal Systems	32,150	0.0387	1,244
27 E390	Structures & Improvements	2,008,633	0.0260	52,224
28 E391	Office Furniture & Equipment	560,773	0.2000	112,155
29 E392	Transportation Equipment	856,008	0.1838	157,334
30 E393	Stores Equipment	34,064	0.0303	1,032
31 E394	Tools, Shop, & Garage Equipment	44,172	0.0345	1,524
32 E396	Power Operated Equipment	4,924	0.0653	322
33 E397	Communication Equipment	57,172	0.0435	2,487
34				
35		<u>\$ 8,770,462</u>		<u>\$ 546,885</u>
36				
37				
38	Generation	(145,639)		
39	Distribution	5,457,574		
40	General	3,458,527		
41		<u>8,770,462</u>		

References:

Columns (A), (B),(C), Lns 9 thru 33 Company Schedule Post Test Year Depreciation

**OPERATING EXPENSE ADJUSTMENT NO. 6
DEPRECIATION EXPENSE - NET NEGATIVE SALVAGE**

<u>Acct. No.</u>	<u>Account Description</u>	(A) <u>Depre. Expense Using NNS Rates</u>	(B) <u>Depre. Expense No NNS Rates</u>	(C) <u>Depre. Expense Difference</u>
1	341 Structures & Improvements	\$ 109,968	\$ 105,714	\$ 4,254
2	342 Fuse Holders, Producers & Accessories	24,903	23,320	1,583
3	343 Prime Movers	269,262	246,579	22,683
4	344 Generators	1,436,056	1,397,398	38,658
5	345 Assesory Electric Equipment	305,154	293,389	11,765
6	346 Miscellaneous Power Plant Equipment	334,984	323,802	11,183
7				-
8		<u>\$ 2,480,327</u>	<u>\$ 2,390,202</u>	<u>\$ 90,125</u>

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The above Company calculation is assuming that the Net Negative Salvage rates as requested by the Company in this rate filing has been approved. RUCO does not believe that additional salvage values should be approved in this rate case. See RUCO testimony.

References:

Columns (A) through (C) Ln 1 through Ln 8; See Company UDR 1.01

**OPERATING INCOME ADJUSTMENT NO. 7
RATE CASE EXPENSE**

Line No.	DESCRIPTION	(A) COMPANY PROPOSED	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense	\$ 75,444	\$ (64,667)	\$ 10,777
2				
3				
4	RUCO's recommendation is based on two factors: (1) What has been approved in			
5	prior rate cases by the Commission; (2) What is fair and reasonable to the rate			
6	payer.			
7				
8				
9				
10			<u>Company</u>	<u>RUCO</u>
11			<u>Proposal</u>	<u>Proposal</u>
12				
13	<u>Current Test Year Activity - to be removed from Test Year</u>		\$122,222	\$122,222
14				
15				
16	Rate Case Expense allowed per ACC Decision No. 71914		\$300,000	\$300,000
17				
18	Rate Case Expense allowed per ACC Decision No 70360 Balance		\$66,667	\$66,667
19				
20	Yearly Amortization (starting Oct 2010)		\$122,222	\$122,222
21				
22	Monthly Amortization (starting Oct 2010)		\$10,185	\$10,185
23				
24	Amortization Oct 2010 - August 2013	(1)	\$366,667	\$366,667
25				
26	Remaining Balance @ January 2014		\$ -	\$ -
27				
28	Estimated Rate Case Expense for current case	\$ 500,000	\$200,000	
29		\$ 400,000		\$133,333
30				
31				
32	<u>TOTAL Proforma Adjustment</u>		<u>\$77,778</u>	<u>\$11,111</u>
33				
34		<u>ACC Jurisdictional</u>	<u>\$75,444</u>	<u>\$10,777</u>

(1) Assumption: new rates will go into effect in January 2014.

References:

Column (B) Ln 13 through Ln 34; See Company UDR 1.01

OPERATING INCOME ADJUSTMENT NO. 8
 PROPERTY TAX EXPENSE

	(A) Total Company Company As Filed	(B) ACC Jurisdictional As Filed	(C) Total Company Per RUCO See Ln 60	(D) ACC Jurisdictional Per RUCO	(E) ACC Jurisdictional ADJUSTMENT PER RUCO
1 COMPANY ADJUSTMENT TO EXPENSE					
2 Account Description					
3					
4 Generation	\$ 492,349	\$ 492,349	\$ 424,849	\$ 492,349	\$ -
5 Transmission	155,971	-	155,971	-	-
6 Distribution	(425,406)	(425,406)	(531,921)	(531,921)	(106,515)
7 General / Intangible	128,699	124,829	128,699	124,829	-
8					
9 Company Adjustment to Property Tax Expense	\$ 351,613	\$ 191,772	\$ 177,597	\$ 85,257	
10					
11 RUCO Adjustment to Property Tax Expense					\$ (106,515)

SUPPORTING DETAILS FOR RUCO's CALCULATIONS:

	Generation	Transmission	Distribution	General/ Intangible	Total
17 Utility Plant in Service Taxes					
18 Net Plant in Service before Post Test Year Adj.	75,827,766	36,847,123	143,658,770	16,756,763	273,090,422
19 Net Plant in Service - Post Test Year Adj.	4,918,787	-	5,128,117	3,114,910	13,161,814
20 RUCO Adj. - Post Test Year Plant (Col (A) Ln 66)	(3,458,527)	-	(5,457,574)	145,639	(8,770,462)
21 Sub-total Net Plant in Service	77,288,026	36,847,123	143,329,313	19,871,673	277,481,774
22					
23 Less: AZ Non-taxable Licensed Transportation	-	-	-	(5,767,971)	(5,767,971)
24 Less: AZ Generation General Plant	-	-	-	(456,188)	(456,188)
25 Less: AZ T&D Stores Equipment	-	-	-	(147,200)	(147,200)
26 Less: AZ Land Cost & Rights of Way*	(205,436)	(1,356,642)	(1,417,594)	(41,315)	(3,020,987)
27 Less: Environmental Property	-	(79,605)	(19,821,731)	-	(19,901,336)
28 Less: AZ Net Book Value of Generation	(80,746,553)	-	-	-	(80,746,553)
29 Plus: Full Cash Value of Generation	55,387,085	-	-	-	55,387,085
30 Plus: Post Test Yr - Generation	(94,695)	-	-	-	(94,695)
31 Plus: Land FCV per AZ Department of Revenue	-	-	3,211,491	-	3,211,491
32 Adjusted Plant in Service Full Cash Value	51,628,427	35,410,876	125,301,479	13,458,999	225,945,420
33 Assessment Ratio	19.5%	19.5%	19.5%	19.5%	
34 Taxable Value	10,067,543	6,905,121	24,433,788	2,624,505	44,030,957
35 Average Tax Rate	10.0087%	10.0087%	10.0087%	10.0087%	
36 Property Tax	1,007,630	691,113	2,445,505	262,679	4,406,926
37					
38 Environmental Property	-	79,605	19,821,731	-	19,901,336
39 Statutory Full Cash Value Adjustment	50%	50%	50%	50%	
40 Full Cash Value	-	39,803	9,910,866	-	9,950,668
41 Assessment Ratio	19.5%	19.5%	19.5%	19.5%	
42 Taxable Value	-	7,761	1,932,619	-	1,940,380
43 Average Tax Rate	10.0087%	10.0087%	10.0087%	10.0087%	
44 Property Tax	-	777	193,430	-	194,207
45					
46 Renewables Cost less ADOR Depreciation	5,122,144	-	-	-	5,122,144
47 Plus: Post Test Yr & Delayed Plant Additions	5,755,000	-	-	-	5,755,000
48 Adjusted Renewables Cost less ADOR Depreciation	10,877,144	-	-	-	10,877,144
49 Statutory Full Cash Value Adjustment	20.0%	20.0%	20.0%	20.0%	
50 Full Cash Value	2,175,429	-	-	-	2,175,429
51 Assessment Ratio	19.5%	19.5%	19.5%	19.5%	
52 Taxable Value	424,209	-	-	-	424,209
53 Average Tax Rate	10.0087%	10.0087%	-	-	
54 Property Tax	42,458	-	-	-	42,458
55					
56 Total AZ Property Taxes	1,050,088	691,890	2,638,935	262,679	4,643,591
57					
58 Unadjusted	625,239	535,919	3,170,856	133,980	4,465,994
59					
60 Adjustment	424,849	155,971	(531,921)	128,699	177,597
61					
62					
63 Generation	\$ (145,639)				
64 Distribution	5,457,574				
65 General	3,458,527				
66 TOTAL ADJUSTMENT - POST TEST YEAR PLANT	\$ 8,770,462				

References:
 Columns (A) through (D) Lines 3 through 18 provided by Company
 in UDR 1.01 Workpaper Schedules.

COST OF CAPITAL - ORIGINAL COST RATE BASE
Thousands of Dollars

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED	(D) PERCENT	(E) COST RATE	(F) WEIGHTED COST RATE
1	Long-term Debt	129,135	-	129,135	47.40%	5.99%	2.84%
3	Common Equity	143,287	-	143,287	52.60%	8.16%	4.29%
5	TOTAL CAPITAL	<u>\$ 272,422</u>	<u>\$ -</u>	<u>\$ 272,422</u>	<u>100.00%</u>		
7	WEIGHTED COST OF CAPITAL (Sum Lines 1 Thru 5)						<u>7.13%</u>

COST OF CAPITAL - FAIR VAUE RATE BASE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED	(D) PERCENT	(E) COST RATE	(F) WEIGHTED COST RATE
17	Long-term Debt	129,135	\$ -	\$ 129,135	47.40%	3.84%	1.82%
19	Common Equity	143,287	-	143,287	52.60%	6.01%	3.16%
21	TOTAL CAPITAL	<u>\$ 272,422</u>	<u>\$ -</u>	<u>\$ 272,422</u>	<u>100.00%</u>		
23	WEIGHTED COST OF CAPITAL (Sum Lines 1 Thru 5)						<u>4.98%</u>

References:

- Column (A): Company Schedule D-1
- Column (B): Testimony, WAR
- Column (C): Column (A) + Column (B)
- Column (D): Column (C), Line Item / Total Capital
- Column (E): Testimony, WAR
- Column (F): Column (D) X Column (E)

UNS ELECTRIC, INC.

DOCKET NO. E-04204A-12-0504

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 28, 2013

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EXECUTIVE SUMMARY

Based on the Residential Utility Consumer Office's analysis of UNS Electric, Inc.'s ("UNSE") application for a permanent rate increase, filed with the Arizona Corporation Commission ("ACC" or "Commission") on December 31, 2012, RUCO recommends the following:

Cost of Equity – RUCO recommends that the Commission adopt an 8.16 percent cost of common equity. This 8.16 percent figure is the result obtained from the Discounted Cash Flow model ("DCF") used in RUCO's cost of equity analysis, and is 234 basis points lower than UNSE's proposed 10.50 percent cost of common equity. The 8.16 percent figure takes into consideration the Company's generation portfolio in relation to RUCO's sample of electric utilities and the fact that UNSE's capital structure is virtually identical to the average capital structure of the sample electric utilities.

Cost of Debt – RUCO recommends that the Commission adopt RUCO's recommended cost of long-term debt of 5.99 percent which is UNSE's actual end of test year cost of long-term debt.

Capital Structure – RUCO recommends that the Commission adopt UNSE's actual end of test year capital structure comprised of no short-term debt, 47.40 percent long-term debt and 52.60 percent common equity.

Original Cost Rate of Return – RUCO recommends that the Commission adopt a 7.13 percent weighted average cost of capital as the original cost rate of return for UNSE. This 7.13 percent figure is the weighted cost of RUCO's recommended costs of long-term debt and common equity, and is 122 basis points lower than the 8.35 percent weighted average cost of capital being proposed by UNSE.

Fair Value Rate of Return – RUCO recommends that the Commission adopt a fair value rate of return of 4.98 percent for UNSE, which is RUCO's 7.13 percent original cost rate of return minus RUCO's recommended inflation adjustment of 2.15 percent. The method used by RUCO to arrive at this 7.13 percent figure is consistent with the methods adopted by the Arizona Corporation Commission in prior UNSE and UNS Gas, Inc. rate case proceedings.

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EXECUTIVE SUMMARY (Cont.)

RUCO disagrees with a number of inputs that UNSE's cost of capital consultant used in both the DCF model and the Capital Asset Pricing Model which were used to develop UNSE's proposed cost of common equity estimate of 10.50 percent. This includes forecasted yields on long-term U.S. Treasury instruments, and forecasted data on companies included in the Standard & Poor's 500 stock index as opposed to recent actual yields and actual historic data.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates
4 for the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6

7 **Q. Please describe your qualifications in the field of utilities regulation**
8 **and your educational background.**

9 A. I have been involved with utilities regulation in Arizona since 1994. During
10 that period of time I have worked as a utilities rate analyst for both the
11 Arizona Corporation Commission ("ACC" or "Commission") and for RUCO.
12 I hold a Bachelor of Science degree in the field of finance from Arizona
13 State University and a Master of Business Administration degree, with an
14 emphasis in accounting, from the University of Phoenix. I have been
15 awarded the professional designation, Certified Rate of Return Analyst
16 ("CRRRA") by the Society of Utility and Regulatory Financial Analysts
17 ("SURFA"). The CRRRA designation is awarded based upon experience
18 and the successful completion of a written examination. Appendix I, which
19 is attached to my direct testimony further describes my educational
20 background and also includes a list of the rate cases and regulatory
21 matters that I have been involved with.

22

23

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to present recommendations based on my
3 analysis of UNS Electric, Inc.'s ("UNSE" or the "Company") application for
4 a permanent increase in rates ("Application").

5
6 **Q. Is this your first case involving UNSE?**

7 A. No. In 2003 I was involved with UniSource Energy Corporation's
8 acquisition of the Arizona natural gas and electric assets of Citizens'
9 Utilities Company. UNSE was the result of that acquisition. I have also
10 testified on cost of capital issues in all of UNSE's prior rate case
11 proceedings that have come before the Commission. This includes the
12 Company's most recent rate case which resulted in Decision No. 71914,
13 dated September 30, 2010. UNSE's present rates were established in
14 that Decision.

15
16 **Q. Please describe UNSE.**

17 A. UNSE is a wholly owned subsidiary of UNS Energy Corporation ("UNS" or
18 "Parent") (formerly known as UniSource Energy Corporation), which is
19 also based in Tucson (Attachment D). UNS is also the parent company of
20 UNSE's sister company, UNS Gas, Inc. ("UNSG") and Tucson Electric
21 Power ("TEP"). According to UNSE's Application, the Company provides
22 electricity to more than 73,000 customers in Mohave County and more
23 than 18,000 customers located in Santa Cruz County. UNSE's customer

1 base is comprised of 88.00 percent residential, 11.00 percent commercial
2 and less than 1.00 percent industrial. The Company's generating sources
3 include the 90 MW natural gas fired Black Mountain Generating Station
4 which is located near Kingman, Arizona and the 63 MW natural gas and
5 diesel fueled Valencia Power Plant in Nogales, Arizona. UNS also owns
6 two solar photovoltaic facilities which produce 2.5 MW of electricity. The
7 aforementioned facilities produce approximately 34.00 percent of UNSE's
8 estimated peak capacity of 450 MW required through December of 2013.
9 The majority of the Company's electric power is obtained through a
10 portfolio of long, intermediate and short-term purchased power
11 agreements for UNSE's base load and on-peak power requirements.

12
13 **Q. Has UNSE elected to perform a reconstruction cost new less**
14 **depreciation study in this case?**

15 **A.** Yes. UNSE elected to perform a reconstruction cost new less
16 depreciation ("RCND") study and is proposing a fair value rate base
17 ("FVRB") that is an average of the Company's original cost rate base
18 ("OCRB") and its RCND rate base for ratemaking purposes. For this
19 reason RUCO is recommending a fair value rate of return ("FVROR") to be
20 applied to UNSE's FVRB.

21
22 ...

23

1 **Q. Please explain your role in RUCO's analysis of UNSE's Application.**

2 A. I reviewed UNSE's Application and performed a cost of capital analysis to
3 determine both an original cost rate of return ("OCROR") and a fair value
4 rate of return ("FVROR") on the Company's invested capital. In addition to
5 my recommended capital structure, my direct testimony will present my
6 recommended cost of common equity (UNSE has no preferred stock) and
7 my recommended cost of debt. The recommendations contained in this
8 testimony are based on information obtained from UNSE's Application,
9 responses to data requests, and from market-based research that I
10 conducted during my analysis.

11

12 **Q. What areas will you address in your testimony?**

13 A. I will address the cost of capital issues associated with the case and will
14 present RUCO's OCROR and FVROR recommendations.

15

16 **Q. Please identify the exhibits that you are sponsoring.**

17 A. I am sponsoring Schedules WAR-1 through WAR-9.

18

19 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

20 **Q. Briefly summarize how your cost of capital testimony is organized.**

21 A. My cost of capital testimony is organized into six sections. First, the
22 introduction I have just presented and second, a summary of my testimony
23 that I am about to give. Third, I will present the findings of my cost of

1 equity capital analysis, which utilized both the discounted cash flow
2 (“DCF”) method, and the capital asset pricing model (“CAPM”). These are
3 the two methods that RUCO and ACC Staff have consistently used for
4 calculating the cost of equity capital in rate case proceedings in the past,
5 and are the methodologies that the ACC has given the most weight to in
6 setting allowed rates of return for utilities that operate in the Arizona
7 jurisdiction. In this third section I will also provide a brief overview of the
8 current economic climate within which the Company is operating. Fourth,
9 I will discuss my recommended capital structure and my recommended
10 cost of long-term debt. Fifth, I will discuss my recommended weighted
11 average costs of capital for both my recommended OCROR and FVROR.
12 In the sixth and final section of my testimony, I will comment on the
13 Company’s cost of capital testimony. Schedules WAR-1 through WAR-9
14 will provide support for my cost of capital analysis.
15

16 **Q. Please summarize the recommendations and adjustments that you**
17 **will address in your testimony.**

18 **A.** Based on the results of my analysis, I am making the following
19 recommendations:

20
21 Cost of Equity Capital – I am recommending that the Commission adopt
22 an 8.16 percent cost of common equity. This 8.16 percent figure is the

1 high result obtained from my cost of equity analysis, and is 234 basis
2 points lower than UNSE's proposed 10.50 percent cost of common equity.

3
4 Cost of Debt – I am recommending that the Commission adopt the
5 Company's end of test year cost of long-term debt of 5.99 percent.

6
7 Capital Structure – I am recommending that the Commission adopt
8 UNSE's actual end of test year capital structure comprised of 52.60
9 percent common equity and 47.40 percent long-term debt and no short-
10 term debt.

11
12 Original Cost Rate of Return – I am recommending that the ACC adopt a
13 7.13 percent weighted average cost of capital as the original cost rate of
14 return ("OCROR") for UNSE. This 7.13 percent figure is the weighted cost
15 of RUCO's recommended costs of common equity and debt, and is 122
16 basis points lower than the 8.35 percent weighted average cost of capital
17 being proposed by the Company.

18
19 Fair Value Rate of Return – I am recommending that the Commission
20 adopt a fair value rate of return ("FVROR") of 4.98 percent which is my
21 recommended 7.13 percent OCROR minus an inflation adjustment of 2.15
22 percent. The method I have used to arrive at this 4.98 percent figure is
23 consistent with methods adopted by the Commission in prior rate case

1 proceedings¹ and meets the fair value requirement of the Arizona
2 Constitution.

3
4 **Q Why do you believe that RUCO's recommended 7.13 percent OCROR
5 and 4.98 percent FVROR are appropriate rates of return for UNSE to
6 earn on its invested capital?**

7 A. Both the OCROR and FVROR figures that I am recommending for UNSE
8 meet the criteria established in the landmark Supreme Court cases of
9 Bluefield Water Works & Improvement Co. v. Public Service Commission
10 of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v.
11 Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these
12 two cases affirmed that a public utility that is efficiently and economically
13 managed is entitled to a return on investment that instills confidence in its
14 financial soundness, allows the utility to attract capital, and also allows the
15 utility to perform its duty to provide service to ratepayers. The rate of
16 return adopted for the utility should also be comparable to a return that
17 investors would expect to receive from investments with similar risk.

18
19 The Hope decision allows for the rate of return to cover both the operating
20 expenses and the "capital costs of the business" which includes interest
21 on debt and dividend payment to shareholders. This is predicated on the

¹ UNS Electric, Inc., Decision No. 71914, dated September 30, 2010 and UNS Gas, Inc.,
Decision No. 71623, dated April 14, 2010

1 belief that, in the long run, a company that cannot meet its debt obligations
2 and provide its shareholders with an adequate rate of return will not
3 continue to supply adequate public utility service to ratepayers.

4
5 **Q. Do the Bluefield and Hope decisions indicate that a rate of return**
6 **sufficient to cover all operating and capital costs is guaranteed?**

7 A. No. Neither case *guarantees* a rate of return on utility investment. What
8 the Bluefield and Hope decisions *do allow*, is for a utility to be provided
9 with the *opportunity* to earn a reasonable rate of return on its investment.
10 That is to say that a utility, such as UNSE, is provided with the opportunity
11 to earn an appropriate rate of return if the Company's management
12 exercises good judgment and manages its assets and resources in a
13 manner that is both prudent and economically efficient.

14
15 **COST OF EQUITY CAPITAL**

16 **Q. What is your final recommended cost of equity capital for UNSE?**

17 A. I am recommending a cost of equity of 8.16 percent (before any inflation
18 adjustment used to arrive at a FVROR). My recommended 8.16 percent
19 cost of equity figure is the high side of the range of results derived from
20 my DCF and CAPM analyses, which utilized a sample of publicly traded
21 electric companies. The results of my DCF and CAPM analyses are
22 summarized on page 3 of my Schedule WAR-1.

23

1 **Discounted Cash Flow (DCF) Method**

2 **Q. Please explain the DCF method that you used to estimate the**
3 **Company's cost of equity capital.**

4 A. The DCF method employs a stock valuation model known as the constant
5 growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e.
6 the Gordon model), the professor of finance who was responsible for its
7 development. Simply stated, the DCF model is based on the premise that
8 the current price of a given share of common stock is determined by the
9 present value of all of the future cash flows that will be generated by that
10 share of common stock. The rate that is used to discount these cash
11 flows back to their present value is often referred to as the investor's cost
12 of capital (i.e. the cost at which an investor is willing to forego other
13 investments in favor of the one that he or she has chosen).

14
15 Another way of looking at the investor's cost of capital is to consider it from
16 the standpoint of a company that is offering its shares of stock to the
17 investing public. In order to raise capital, through the sale of common
18 stock, a company must provide a required rate of return on its stock that
19 will attract investors to commit funds to that particular investment. In this
20 respect, the terms "cost of capital" and "investor's required return" are one
21 in the same. For common stock, this required return is a function of the
22 dividend that is paid on the stock. The investor's required rate of return
23 can be expressed as the percentage of the dividend that is paid on the

1 stock (dividend yield) plus an expected rate of future dividend growth.

2 This is illustrated in mathematical terms by the following formula:

$$k = \frac{D_1}{P_0} + g$$

3
4 where: k = the required return (cost of equity, equity capitalization rate),

5 $\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated

6 by dividing the expected dividend by the current market

7 price of the given share of stock, and

8 g = the expected rate of future dividend growth

9 This formula is the basis for the standard growth valuation model that I
10 used to determine the Company's cost of equity capital.

11
12 **Q. In determining the rate of future dividend growth for the Company,**
13 **what assumptions did you make?**

14 **A.** There are two primary assumptions regarding dividend growth that must
15 be made when using the DCF method. First, dividends will grow by a
16 constant rate into perpetuity, and second, the dividend payout ratio will
17 remain at a constant rate. Both of these assumptions are predicated on
18 the traditional DCF model's basic underlying assumption that a company's
19 earnings, dividends, book value and share growth all increase at the same
20 constant rate of growth into infinity. Given these assumptions, if the

1 dividend payout ratio remains constant, so does the earnings retention
2 ratio (the percentage of earnings that are retained by the company as
3 opposed to being paid out in dividends). This being the case, a
4 company's dividend growth can be measured by multiplying its retention
5 ratio (1 - dividend payout ratio) by its book return on equity. This can be
6 stated as $g = b \times r$.

7
8 **Q. Would you please provide an example that will illustrate the**
9 **relationship that earnings, the dividend payout ratio and book value**
10 **have with dividend growth?**

11 **A.** RUCO consultant Stephen Hill illustrated this relationship in a Citizens
12 Utilities Company 1993 rate case by using a hypothetical utility.²

13
14 Table I

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
15 Book Value	\$10.00	\$10.40	\$10.82	\$11.25	\$11.70	4.00%
16 Equity Return	10%	10%	10%	10%	10%	N/A
17 Earnings/Sh.	\$1.00	\$1.04	\$1.082	\$1.125	\$1.170	4.00%
18 Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
19 Dividend/Sh	\$0.60	\$0.624	\$0.649	\$0.675	\$0.702	4.00%

20
21
22 Table I of Mr. Hill's illustration presents data for a five-year period on his
23 hypothetical utility. In Year 1, the utility had a common equity or book

² Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

1 value of \$10.00 per share, an investor-expected equity return of ten
2 percent, and a dividend payout ratio of sixty percent. This results in
3 earnings per share of \$1.00 (\$10.00 book value x 10 percent equity return)
4 and a dividend of \$0.60 (\$1.00 earnings/sh. x 0.60 payout ratio) during
5 Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's
6 earnings are retained as opposed to being paid out to investors, book
7 value increases to \$10.40 in Year 2 of Mr. Hill's illustration. Table I
8 presents the results of this continuing scenario over the remaining five-
9 year period.

10

11 The results displayed in Table I demonstrate that under "steady-state" (i.e.
12 constant) conditions, book value, earnings and dividends all grow at the
13 same constant rate. The table further illustrates that the dividend growth
14 rate, as discussed earlier, is a function of (1) the internally generated
15 funds or earnings that are retained by a company to become new equity,
16 and (2) the return that an investor earns on that new equity. The DCF
17 dividend growth rate, expressed as $g = b \times r$, is also referred to as the
18 internal or sustainable growth rate.

19

20

21

22 ...

23

1 **Q. If earnings and dividends both grow at the same rate as book value,**
2 **shouldn't that rate be the sole factor in determining the DCF growth**
3 **rate?**

4 A. No. Possible changes in the expected rate of return on either common
5 equity or the dividend payout ratio make earnings and dividend growth by
6 themselves unreliable. This can be seen in the continuation of Mr. Hill's
7 illustration on a hypothetical utility.

8
9 Table II

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
10 Book Value	\$10.00	\$10.40	\$10.82	\$11.47	\$12.158	5.00%
11 Equity Return	10%	10%	15%	15%	15%	10.67%
12 Earnings/Sh	\$1.00	\$1.04	\$1.623	\$1.720	\$1.824	16.20%
13 Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
14 Dividend/Sh	\$0.60	\$0.624	\$0.974	\$1.032	\$1.094	16.20%

15
16
17 In the example displayed in Table II, a sustainable growth rate of four
18 percent³ exists in Year 1 and Year 2 (as in the prior example). In Year 3,
19 Year 4 and Year 5, however, the sustainable growth rate increases to six
20 percent.⁴ If the hypothetical utility in Mr. Hill's illustration were expected to
21 earn a fifteen-percent return on common equity on a continuing basis,
22 then a six percent long-term rate of growth would be reasonable.

³ $[(\text{Year 2 Earnings/Sh} - \text{Year 1 Earnings/Sh}) \div \text{Year 1 Earnings/Sh}] = [(\$1.04 - \$1.00) \div \$1.00] = [\$0.04 \div \$1.00] = \underline{4.00\%}$

⁴ $[(1 - \text{Payout Ratio}) \times \text{Rate of Return}] = [(1 - 0.60) \times 15.00\%] = 0.40 \times 15.00\% = \underline{6.00\%}$

1 However, the compound growth rate for earnings and dividends, displayed
2 in the last column, is 16.20 percent. If this rate was to be used in the
3 DCF model, the utility's return on common equity would be expected to
4 increase by fifty percent every five years, $[(15 \text{ percent} \div 10 \text{ percent}) - 1]$.
5 This is clearly an unrealistic expectation.

6
7 Although it is not illustrated in Mr. Hill's hypothetical example, a change in
8 only the dividend payout ratio will eventually result in a utility paying out
9 more in dividends than it earns. While it is not uncommon for a utility in
10 the real world to have a dividend payout ratio that exceeds one hundred
11 percent on occasion, it would be unrealistic to expect the practice to
12 continue over a sustained long-term period of time.

13
14 **Q. Other than the retention of internally generated funds, as illustrated**
15 **in Mr. Hill's hypothetical example, are there any other sources of new**
16 **equity capital that can influence an investor's growth expectations**
17 **for a given company?**

18 **A.** Yes, a company can raise new equity capital externally. The best
19 example of external funding would be the sale of new shares of common
20 stock. This would create additional equity for the issuer and is often the
21 case with utilities that are either in the process of acquiring smaller
22 systems or providing service to rapidly growing areas.

23

1 **Q. How does external equity financing influence the growth**
2 **expectations held by investors?**

3 A. Rational investors will put their available funds into investments that will
4 either meet or exceed their given cost of capital (i.e. the return earned on
5 their investment). In the case of a utility, the book value of a company's
6 stock usually mirrors the equity portion of its rate base (the utility's earning
7 base). Because regulators allow utilities the opportunity to earn a
8 reasonable rate of return on rate base, an investor would take into
9 consideration the effect that a change in book value would have on the
10 rate of return that he or she would expect the utility to earn. If an investor
11 believes that a utility's book value (i.e. the utility's earning base) will
12 increase, then he or she would expect the return on the utility's common
13 stock to increase. If this positive trend in book value continues over an
14 extended period of time, an investor would have a reasonable expectation
15 for sustained long-term growth.

16
17 **Q. Please provide an example of how external financing affects a**
18 **utility's book value of equity.**

19 A. As I explained earlier, one way that a utility can increase its equity is by
20 selling new shares of common stock on the open market. If these new
21 shares are purchased at prices that are higher than those shares sold
22 previously, the utility's book value per share will increase in value. This
23 would increase both the earnings base of the utility and the earnings

1 expectations of investors. However, if new shares sold at a price below
2 the pre-sale book value per share, the after-sale book value per share
3 declines in value. If this downward trend continues over time, investors
4 might view this as a decline in the utility's sustainable growth rate and will
5 have lower expectations regarding growth. Using this same logic, if a new
6 stock issue sells at a price per share that is the same as the pre-sale book
7 value per share, there would be no impact on either the utility's earnings
8 base or investor expectations.

9
10 **Q. Please explain how the external component of the DCF growth rate is**
11 **determined.**

12 **A.** In his book, *The Cost of Capital to a Public Utility*,⁵ Dr. Gordon (the
13 individual responsible for the development of the DCF or constant growth
14 model) identified a growth rate that includes both expected internal and
15 external financing components. The mathematical expression for Dr.
16 Gordon's growth rate is as follows:

$$g = (br) + (sv)$$

17
18
19 where: g = DCF expected growth rate,
20 b = the earnings retention ratio,
21 r = the return on common equity,
22 s = the fraction of new common stock sold that

⁵ Gordon, M.J., *The Cost of Capital to a Public Utility*, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

1 **Q. How did you develop your dividend growth rate estimate?**

2 A. I analyzed data on a proxy group comprised of fourteen publicly traded
3 electric service providers.
4

5 **Q. Why did you use a proxy group methodology as opposed to a direct
6 analysis of the Company?**

7 A. One of the problems in performing this type of analysis is that the utility
8 applying for a rate increase is not always a publicly traded company.
9 Although UNSE's parent company is publicly-traded on the New York
10 Stock Exchange ("NYSE"), UNSE is not. Because of this situation, I used
11 the aforementioned proxy that includes fourteen electric utilities with
12 similar risk characteristics as UNSE in order to derive a cost of common
13 equity for the Company.
14

15 **Q. Are there any other advantages to the use of a proxy?**

16 A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope
17 decision that a utility is entitled to earn a rate of return that is
18 commensurate with the returns on investments of other firms with
19 comparable risk. The proxy technique that I have used derives that rate of
20 return. One other advantage to using a sample of companies is that it
21 reduces the possible impact that any undetected biases, anomalies, or
22 measurement errors may have on the DCF growth estimate.
23

1 **Q. Are these the same fourteen electric providers included in the proxy**
2 **used by UNSE's cost of equity witness?**

3 A. Yes. These are the same electric providers used by Ms. Anne E. Bulkley,
4 the Company's' cost of capital witness. Each of the fourteen electric
5 utilities included in our respective samples are tracked in the Value Line
6 Investment Survey's ("Value Line") Electric Utility industry segment. Value
7 Line follows electric utilities on a regional basis and issues quarterly
8 updates on electric utilities located in the eastern, central and western
9 portions of the U.S. All of the companies in the proxy are engaged in the
10 provision of regulated electric services. Attachment A of my testimony
11 contains Value Line's most recent evaluation on each of the companies
12 that I included in the electric proxy group which I used for my cost of
13 common equity analysis.

14
15 **Q. Please explain your DCF growth rate calculations for the sample**
16 **electric providers used in your proxy.**

17 A. Schedule WAR-5 provides retention ratios, returns on book equity, internal
18 growth rates, book values per share, numbers of shares outstanding, and
19 the compounded share growth for each of the electric companies included
20 in my sample for an historical 5-year observation period from the
21 beginning of 2008 to the end of 2012. Schedule WAR-5 also includes
22 Value Line's projected 2013, 2014 and 2016-18 values for the retention

1 ratio, equity return, book value per share growth rate, and number of
2 shares outstanding for the sample electric companies.

3
4 **Q. Please describe how you used the information displayed in Schedule**
5 **WAR-5 to estimate each comparable utility's dividend growth rate.**

6 A. In explaining my analysis, I will use American Electric Power Company,
7 Inc. (NYSE symbol AEP) as an example. The first dividend growth
8 component that I evaluated was the internal growth rate. I used the "b x r"
9 formula (described on pages 10 through 14 of my testimony) to multiply
10 AEP's earned return on common equity by its earnings retention ratio for
11 each year in the 2008 to 2012 observation period to derive the utility's
12 annual internal growth rates. I used the mean average of this five-year
13 period as a benchmark against which I compared the projected growth
14 rate trends provided by Value Line. Because an investor is more likely to
15 be influenced by recent growth trends, as opposed to historical averages,
16 the five-year mean noted earlier was used only as a benchmark figure. As
17 shown on Schedule WAR-5, Page 1, AEP's average internal growth rate
18 of 3.87 percent from 2008 through 2012 reflects declines in sustainable
19 internal growth during the first three years of the observation period.
20 Growth fell from 5.10 percent during 2008 to 3.12 percent during 2010.
21 Growth then increased to 4.21 percent in 2011, but fell to 3.51 percent
22 during the final year of the 5-year observation period. Value Line expects
23 growth to increase to 3.65 percent in 2013 and 3.82 percent in 2014. The

1 five year benchmark average of 3.87 percent is identical to the rate of
2 growth that Value Line is forecasting during the 2016-18 time frame. After
3 weighing this information with Value Line's projections for earnings,
4 dividends and book value, I believe a 3.85% rate of internal growth is
5 reasonable for AEP.

6

7 **Q. Please continue with the external growth rate component portion of**
8 **your analysis.**

9 A. Schedule WAR-5 demonstrates that the number of shares outstanding for
10 AEP increased from 406.07 million to 485.67 million from 2008 to the end
11 of the observation period in 2012. Value Line is predicting that this level
12 will increase from 489.00 million in 2013 to 505.00 million by the end of
13 2018. Based on this data, I believe that a 1.00 percent rate of share
14 growth is not unreasonable for AEP (Page 2 of Schedule WAR-4). My
15 final dividend growth rate estimate for AEP is 4.18 percent (3.85 percent
16 internal growth + 0.33 percent external growth – as calculated on Page 2
17 of Schedule WAR 4) and is shown on Page 1 of Schedule WAR-4.

18

19 **Q. What is the average DCF dividend growth rate estimate for your**
20 **sample utilities?**

21 A. The average DCF dividend growth rate estimate for my sample is 4.12
22 percent as displayed on page 1 of Schedule WAR-4.

23

1 **Q. How does your average dividend growth rate estimate on your**
2 **sample companies compare to the growth rate data published by**
3 **Value Line and other analysts?**

4 A. Schedule WAR-6 compares my growth estimates with the five-year
5 projections of analysts at both Value Line and Zacks Investment
6 Research, Inc. ("Zacks") (Attachment B). My 4.12 percent estimate is 80
7 basis points lower than Zacks' average long-term EPS projection of 4.92
8 percent and is 31 basis points lower than Value Line's growth projection of
9 4.43 percent (which is an average of EPS, DPS and BVPS). My 4.12
10 percent estimate is 238 basis points higher than the 1.74 percent average
11 of Value Line's historical growth results and 79 basis points higher than
12 the 3.33 percent average of the growth data published by both Value Line
13 and Zacks. My 4.12 percent growth estimate is also 252 basis points
14 higher than Value Line's 2.39 percent 5-year compound historical average
15 of EPS, DPS and BVPS. On balance, I would say my 4.12 percent growth
16 estimate, derived from Value Line data, is not out of line with the growth
17 projections that are available to the investing public.

18
19 **Q. How did you calculate the dividend yields displayed in Schedule**
20 **WAR-3?**

21 A. I used the estimated annual dividends of my sample companies for the
22 next twelve-month period that appeared in Value Line's most recent
23 Ratings and Reports quarterly updates on the electric utility industry. I

1 then divided those figures by the eight-week average daily adjusted
2 closing price per share of the appropriate utility's common stock. The
3 eight-week observation period ran from April 15, 2013 to June 7, 2013,
4 and the average dividend yield was 4.04 percent as exhibited on Schedule
5 WAR-3.

6
7 **Q. Based on the results of your DCF analysis, what is your cost of**
8 **equity capital estimate for the electric companies included in your**
9 **sample?**

10 A. As shown on Schedule WAR-2, the cost of equity capital derived from my
11 DCF analysis is 8.16 percent for the electric utilities included in my sample
12 which is 356 basis points higher than the current 4.60 percent yield on a
13 safer Baa/BBB-rated utility bond (Attachment C).

14
15 **Capital Asset Pricing Model (CAPM) Method**

16 **Q. Please explain the theory behind CAPM and why you decided to use**
17 **it as an equity capital valuation method in this proceeding.**

18 A. CAPM is a mathematical tool that was developed during the early 1960's
19 by William F. Sharpe⁶, the Timken Professor Emeritus of Finance at
20 Stanford University, who shared the 1990 Nobel Prize in Economics for
21 research that eventually resulted in the CAPM model. CAPM is used to

⁶ William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

1 analyze the relationships between rates of return on various assets and
2 risk as measured by beta.⁷ In this regard, CAPM can help an investor to
3 determine how much risk is associated with a given investment so that he
4 or she can decide if that investment meets their individual preferences.
5 Finance theory has always held that as the risk associated with a given
6 investment increases, so should the expected rate of return on that
7 investment and vice versa. According to CAPM theory, risk can be
8 classified into two specific forms: nonsystematic or diversifiable risk, and
9 systematic or non-diversifiable risk. While nonsystematic risk can be
10 virtually eliminated through diversification (i.e. by including stocks of
11 various companies in various industries in a portfolio of securities),
12 systematic risk, on the other hand, cannot be eliminated by diversification.
13 Thus, systematic risk is the only risk of importance to investors. Simply
14 stated, the underlying theory behind CAPM is that the expected return on
15 a given investment is the sum of a risk-free rate of return plus a market
16 risk premium that is proportional to the systematic (non-diversifiable risk)
17 associated with that investment. In mathematical terms, the formula is as
18 follows:
19
20

⁷ Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

1 components,⁸ a real rate of interest (believed to be approximately 2.00
2 percent) and an inflationary expectation. When the real rate of interest is
3 subtracted from the total treasury yield, all that remains is the inflationary
4 expectation. Because increased inflation represents a potential capital
5 loss, or risk, to investors, a higher inflationary expectation by itself
6 represents a degree of risk to an investor. Another way of looking at this
7 is from an opportunity cost standpoint. When an investor locks up funds in
8 long-term T-Bonds, compensation must be provided for future investment
9 opportunities foregone. This is often described as maturity or interest rate
10 risk and it can affect an investor adversely if market rates increase before
11 the instrument matures (a rise in interest rates would decrease the value
12 of the debt instrument). As discussed earlier in the DCF portion of my
13 testimony, this compensation translates into higher rates of returns to the
14 investor.

15
16 **Q. What security did you use for a risk-free rate of return in your CAPM**
17 **analysis?**

18 **A.** I used an eight-week average of the yield on a 30-year U.S. Treasury
19 instrument. The yields were published in Value Line's Selection and
20 Opinion publication dated April 26, 2013 through June 14, 2013

⁸ As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the real rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

1 (Attachment C). This resulted in a risk-free (r_f) rate of return of 3.06
2 percent.

3
4 **Q. Why did you use the yield on a 30-year year U.S. Treasury instrument**
5 **as opposed to a short-term T-Bill?**

6 A. While a shorter term instrument, such as a 91-day T-Bill, presents the
7 lowest possible total risk to an investor, a good argument can be made
8 that the yield on an instrument that matches the investment period of the
9 asset being analyzed in the CAPM model should be used as the risk-free
10 rate of return. Since utilities in Arizona generally file for rates every three
11 to five years, the yield on a 5-year U.S. Treasury Instrument more closely
12 matches the investment period or, in the case of regulated utilities, the
13 period that new rates will be in effect. In prior rate cases I have relied on
14 the yields of the 5-year Treasury instrument, however for the sake of
15 argument in this case, I have used the higher yield of the longer term 30-
16 year Treasury bond. As I will discuss later in my testimony, the yields of
17 long-term U.S. Treasury instruments are at historic lows as a result of
18 action, known as quantitative easing, being undertaken by the U.S.
19 Federal Reserve to stimulate the U.S. economy.

20
21
22 ...

1 **Q. How did you calculate the market risk premium used in your CAPM**
2 **analysis?**

3 A. I used both a 9.80 percent geometric mean and an 11.80 percent
4 arithmetic mean of the historical total returns on the S&P 500 index from
5 1926 to 2012 as the proxy for the market rate of return (r_m). For the risk-
6 free portion of the risk premium component (r_f), I used the 6.10 percent
7 geometric mean and the 6.40 percent arithmetic mean of the total returns
8 on long-term government bonds for the same eighty-six year period. The
9 market risk premium ($r_m - r_f$) that results by using the geometric mean of
10 these inputs is 3.70 percent ($9.80\% - 6.10\% = \underline{3.70\%}$). The market risk
11 premium that results by using the arithmetic mean is 5.40 percent (11.80%
12 $- 6.40\% = \underline{5.40\%}$).

13
14 **Q. How did you select the beta coefficients that were used in your**
15 **CAPM analysis?**

16 A. The beta coefficients (β), for the individual utilities used in my proxy were
17 calculated by Value Line. The betas were published in the most recent
18 Value Line quarterly updates on the electric utility industry that were
19 available prior to the filing date of my testimony. Value Line calculates its
20 betas by using a regression analysis between weekly percentage changes
21 in the market price of the security being analyzed and weekly percentage
22 changes in the NYSE Composite Index over a five-year period. The betas
23 are then adjusted by Value Line for their long-term tendency to converge

1 toward 1.00. The beta coefficients for the electric companies included in
2 my sample ranged from 0.55 to 0.90 with an average beta of 0.71.

3
4 **Q. What are the results of your CAPM analysis?**

5 A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation
6 using a geometric mean to calculate the risk premium results in an
7 average expected return of 5.67 percent. My calculation using an
8 arithmetic mean results in an average expected return of 6.88 percent.
9 The results obtained from my CAPM analysis exceed the current 4.60
10 percent yield on a Baa/BBB-rated utility bond (Attachment C) by 107 to
11 228 basis points.

12
13 **Q. Please summarize the results derived under each of the**
14 **methodologies presented in your testimony.**

15 A. The following is a summary of the cost of equity capital derived under
16 each methodology used:

17

<u>METHOD</u>	<u>RESULTS</u>
DCF	8.16%
CAPM	5.67% – 6.88%

18
19
20
21
22 Based on these results, my best estimate of an appropriate range for a
23 cost of common equity for the Company is 5.67 percent to 8.16 percent.
24 My final recommended cost of common equity figure is 8.16 percent which

1 is the result produced by my DCF model (Schedule WAR-1, Page 3) and
2 is 356 basis points higher than the current 4.60 percent yield on a safer
3 Baa/BBB-rated utility bond. My 8.16 percent recommendation takes into
4 account the nearly identical levels of equity and debt contained in the
5 capital structure of UNSE and the average capital structures of the electric
6 companies included in my proxy (a point that I will discuss later in my
7 testimony).

8
9 As I will discuss in more detail in the next section of my testimony, my final
10 estimate also takes into consideration current interest rates (as the cost of
11 equity moves in the same direction as interest rates), the current state of
12 the national economy. My final estimate also takes into consideration the
13 U.S. Federal Reserve's recent decisions not to raise interest rates at least
14 through mid-2015.⁹ I also took into consideration information on Arizona's
15 economy and current rate of unemployment in making my final cost of
16 equity estimate. My final estimate also falls within the range of projected
17 returns on book common equity that Value Line is projecting for the
18 electric utility industry (Attachment A).

19
20
21 ...
22

⁹ U.S. Federal Reserve press release dated October 24, 2012:
<http://www.federalreserve.gov/newsevents/press/monetary/20121024a.htm>

1 **Q. How does your recommended cost of equity capital compare with**
2 **the cost of equity capital proposed by the Company?**

3 A. The 10.50 percent cost of equity capital proposed by the Company is 235
4 basis points higher than the 8.16 percent cost of equity capital that I am
5 recommending.

6

7 **Current Economic Environment**

8 **Q. Please explain why it is necessary to consider the current economic**
9 **environment when performing a cost of equity capital analysis for a**
10 **regulated utility.**

11 A. Consideration of the economic environment is necessary because trends
12 in interest rates, present and projected levels of inflation, and the overall
13 state of the U.S. economy determine the rates of return that investors earn
14 on their invested funds. Each of these factors represent potential risks
15 that must be weighed when estimating the cost of equity capital for a
16 regulated utility and are, most often, the same factors considered by
17 individuals who are also investing in non-regulated entities.

18

19 **Q. Please describe your analysis of the current economic environment.**

20 A. My analysis begins with a review of the economic events that have
21 occurred between 1990 and the present in order to provide a background
22 on how we got to where we are now. It also describes how the Board of
23 Governors of the Federal Reserve System ("Federal Reserve" or "Fed")

1 and its Federal Open Market Committee ("FOMC") used its interest rate-
2 setting authority to stimulate the economy by cutting interest rates during
3 recessionary periods and by raising interest rates to control inflation during
4 times of robust economic growth. Schedule WAR-8 displays various
5 economic indicators and other data that I will refer to during this portion of
6 my testimony.

7
8 In 1991, as measured by the most recently revised annual change in
9 gross domestic product ("GDP"), the U.S. economy experienced a rate of
10 growth of negative 0.20 percent. This decline in GDP marked the
11 beginning of a mild recession that ended sometime before the end of the
12 first half of 1992. Reacting to this situation, the Federal Reserve, then
13 chaired by noted economist Alan Greenspan, lowered its benchmark
14 federal funds rate¹⁰ in an effort to further loosen monetary constraints - an
15 action that resulted in lower interest rates.

16
17 During this same period, the nation's major money center banks followed
18 the Federal Reserve's lead and began lowering their interest rates as well.
19 By the end of the fourth quarter of 1993, the prime rate (the rate charged
20 by banks to their best customers) had dropped to 6.00 percent from a

¹⁰ This is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

1 1990 level of 10.01 percent. In addition, the Federal Reserve's discount
2 rate on loans to its member banks had fallen to 3.00 percent and short-
3 term interest rates had declined to levels that had not been seen since
4 1972.

5
6 Although GDP increased in 1992 and 1993, the Federal Reserve took
7 steps to increase interest rates beginning in February of 1994, in order to
8 keep inflation under control. By the end of 1995, the Federal discount rate
9 had risen to 5.21 percent. Once again, the banking community followed
10 the Federal Reserve's moves. The Fed's strategy, during this period, was
11 to engineer a "soft landing." That is to say that the Federal Reserve
12 wanted to foster a situation in which economic growth would be stabilized
13 without incurring either a prolonged recession or runaway inflation.

14
15 **Q. Did the Federal Reserve achieve its goals during this period?**

16 **A.** Yes. The Fed's strategy of decreasing interest rates to stimulate the
17 economy worked. The annual change in GDP began an upward trend in
18 1992. A change of 4.50 percent and 4.20 percent were recorded at the
19 end of 1997 and 1998 respectively. Based on daily reports that were
20 presented in the mainstream print and broadcast media during most of
21 1999, there appeared to be little doubt among both economists and the
22 public at large that the U.S. was experiencing a period of robust economic
23 growth highlighted by low rates of unemployment and inflation. Investors,

1 who believed that technology stocks and Internet company start-ups (with
2 little or no history of earnings) had high growth potential, purchased these
3 types of issues with enthusiasm. These types of investors, who exhibited
4 what former Chairman Greenspan described as "irrational exuberance,"
5 pushed stock prices and market indexes to all time highs from 1997 to
6 2000. Over the next ten years, the FOMC continued to stimulate the
7 economy and keep inflation in check by raising and lowering the federal
8 funds rate.

9
10 **Q. How did the U.S. economy fare between 2001 and 2007?**

11 A. The U.S. economy entered into a recession near the end of the first
12 quarter of 2001. The bullish trend, which had characterized the last half of
13 the 1990's, had already run its course sometime during the third quarter of
14 2000. Disappointing economic data releases, since the beginning of
15 2001, preceded the September 11, 2001 terrorist attacks on the World
16 Trade Center and the Pentagon which are now regarded as a defining
17 point during this economic slump. From January 2001 to June 2003 the
18 Federal Reserve cut interest rates a total of thirteen times in order to
19 stimulate growth. During this period, the federal funds rate fell from 6.50
20 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004
21 and raised the federal funds rate 25 basis points to 1.25 percent. From
22 June 29, 2004 to January 31, 2006, the FOMC raised the federal funds
23 rate thirteen more times to a level of 4.50 percent during a period in which

1 the economic picture turned considerably brighter as both Inflation and
2 unemployment fell, wages increased and the overall economy, despite
3 continued problems in housing, grew briskly.¹¹

4
5 The FOMC's January 31, 2006 meeting marked the final appearance of
6 Alan Greenspan, who had presided over the rate setting body for a total of
7 eighteen years. On that same day, Greenspan's successor, Ben
8 Bernanke, the former chairman of the President's Council of Economic
9 Advisers, and a former Fed governor under Greenspan from 2002 to
10 2005, was confirmed by the U.S. Senate to be the new Federal Reserve
11 chief. As expected by Fed watchers, Chairman Bernanke picked up
12 where his predecessor left off and increased the federal funds rate by 25
13 basis points during each of the next three FOMC meetings for a total of
14 seventeen consecutive rate increases since June 2004, and raising the
15 federal funds rate to a level of 5.25 percent. The Fed's rate increase
16 campaign finally came to a halt at the FOMC meeting held on August 8,
17 2006, when the FOMC decided not to raise rates. Once again, the Fed
18 managed to engineer a soft landing.

19
20 **Q. What has been the state of the economy since 2007?**

21 A. Reports in the mainstream financial press during the majority of 2007
22 reflected the view that the U.S. economy was slowing as a result of a

¹¹ Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

1 worsening situation in the housing market and higher oil prices. The
2 overall outlook for the economy was one of only moderate growth at best.
3 Also during this period the Fed's key measure of inflation began to exceed
4 the rate setting body's comfort level.

5
6 On August 7, 2007, the beginning of what is now being referred to as the
7 Great Recession; the FOMC decided not to increase or decrease the
8 federal funds rate for the ninth straight time and left its target rate
9 unchanged at 5.25 percent.¹² At the time of the Fed's decision, analysts
10 speculated that a rate cut over the next several months was unlikely given
11 the Fed's concern that inflation would fail to moderate. However, during
12 this same period, evidence of an even slower economy and a possible
13 recession was beginning to surface. Within days of the Fed's decision to
14 stand pat on rates, a borrowing crisis rooted in a deterioration of the
15 market for subprime mortgages, and securities linked to them, forced the
16 Fed to inject \$24 billion in funds (raised through its open market
17 operations) into the credit markets.¹³ By Friday, August 17, 2007, after a
18 turbulent week on Wall Street, the Fed made the decision to lower its
19 discount rate (i.e. the rate charged on direct loans to banks) by 50 basis
20 points, from 6.25 percent to 5.75 percent, and took sUNSEs to encourage

¹² Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

¹³ Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

1 banks to borrow from the Fed's discount window in order to provide
2 liquidity to lenders. According to an article that appeared in the August 18,
3 2007 edition of The Wall Street Journal,¹⁴ the Fed had used all of its tools
4 to restore normalcy to the financial markets. If the markets failed to settle
5 down, the Fed's only weapon left was to cut the Federal Funds rate –
6 possibly before the next FOMC meeting scheduled on September 18,
7 2007.

8
9 **Q. Did the Fed cut rates as a result of the subprime mortgage borrowing**
10 **crises?**

11 A. Yes. At its regularly scheduled meeting on September 18, 2007, the
12 FOMC surprised the investment community and cut both the federal funds
13 rate and the discount rate by 50 basis points (25 basis points more than
14 what was anticipated). This brought the federal funds rate down to a level
15 of 4.75 percent. The Fed's action was seen as an effort to curb the
16 aforementioned slowdown in the economy. Over the course of the next
17 four months, the FOMC reduced the Federal funds rate by a total 175
18 basis points to a level of 3.00 percent – mainly as a result of concerns that
19 the economy was slipping into a recession. This included a 75 basis point
20 reduction that occurred one week prior to the FOMC's meeting on January
21 29, 2008.

22

¹⁴ Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

1 **Q. What actions has the Fed taken in regard to interest rates since the**
2 **beginning of 2008?**

3 A. The Fed made two more rate cuts which included a 75 basis point
4 reduction in the federal funds rate on March 18, 2008 and an additional 25
5 basis point reduction on April 30, 2008. The Fed's decision to cut rates
6 was based on its belief that the slowing economy was a greater concern
7 than the current rate of inflation (which the majority of FOMC members
8 believed would moderate during the economic slowdown).¹⁵ As a result of
9 the Fed's actions, the federal funds rate was reduced to a level of 2.00
10 percent. From April 30, 2008 through September 16, 2008, the Fed took
11 no further action on its key interest rate. However, the days before and
12 after the Fed's September 16, 2008 meeting saw longstanding Wall Street
13 firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of
14 their subprime holdings. By the end of the week, the Bush administration
15 had announced plans to deal with the deteriorating financial condition
16 which had now become a worldwide crisis. The administrations actions
17 included former Treasury Secretary Henry Paulson's request to Congress
18 for \$700 billion to buy distressed assets as part of a plan to halt what has
19 been described as the worst financial crisis since the 1930's¹⁶. Amidst this
20 turmoil, the Fed made the decision to cut the federal funds rate by another

¹⁵ Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal, March 19, 2008

¹⁶ Soloman, Deborah, Michael R. Crittenden and Damian Paletta, "U.S. Bailout Plan Calms Markets, But Struggle Looms Over Details" The Wall Street Journal, September 20, 2008

1 50 basis points in a coordinated move with foreign central banks on
2 October 8, 2008. This was followed by another 50 basis point cut during
3 the regular FOMC meeting on October 29, 2008. At the time of this
4 writing, the federal funds target rate now stands at 0.25 percent, the result
5 of a 75 basis point cut announced on December 16, 2008.

6
7 **Q. Has the Fed taken any further action to stimulate the economy**
8 **besides cutting rates?**

9 A. Yes. At the close of the FOMC's September 2011 meeting the Fed
10 announced its decision to implement a plan that resembled a 1961
11 Federal Reserve program known as "Operation Twist".¹⁷ Under this plan,
12 the Fed would sell \$400 billion in Treasury securities that mature within
13 three years. The proceeds from these sales would then be reinvested into
14 securities that mature in six to 30 years. This action would significantly
15 alter the balance of the Fed's holdings toward long-term securities. In
16 addition to selling off its shorter term Treasury holdings, the proceeds from
17 the Fed's maturing mortgage-backed securities would be reinvested in
18 other mortgage backed securities. Since 2010, the Fed had been
19 reinvesting that money into Treasury bonds, shrinking its mortgage
20 portfolio. The overall goal of the Fed's plan was to reduce long-term
21 interest rates in the hope of boosting investment and spending and

¹⁷ Hilsenrath, Jon and Luca Di Leo "Fed Launches New Stimulus" The Wall Street Journal,
September 22, 2011

1 provide a shot in the arm to the beleaguered housing sector of the
2 economy. On December 12, 2012, the Federal Open Market Committee
3 voted to order a fourth round of quantitative easing, referred to as QE4,
4 which authorized the purchase of up to \$40 billion worth of agency
5 mortgage-backed securities per month, and \$45 billion worth of longer-
6 term Treasury securities. The goal in buying the \$85 billion in securities
7 per month is to drive up the cost of available instruments in the market (by
8 reducing the existing supply) which has the effect of decreasing their
9 effective yields.

10
11 **Q. What is the investment community's current view of the Fed's low**
12 **interest rate policy?**

13 **A.** A recent opinion piece by Mitch Zacks of Zacks Investment Management,
14 published on June 16, 2013, provides some interesting insight into this
15 question:

16 "Right now the market is intensely focused on trying to determine
17 when the Federal Reserve's quantitative easing program will
18 end. Market participants realize that the Federal Reserve has
19 stated they will continue with their program until unemployment
20 falls to an acceptable level, which would hopefully coincide with
21 a pick-up in the economy.

22
23 To recap, the Federal Reserve cut the Fed funds rate to zero in
24 order to stimulate the economy in the wake of the financial crisis
25 of '08. The economy recovered, but did so at a relatively
26 lackluster pace, so the chance of a double dip recession in the
27 wake of European unrest was real. As a result, the Federal
28 Reserve wanted to continue to take stimulus actions. However,
29 they were unable to reduce interest rates any further – they
30 could not cut rates below zero.

31
32 In order to continue to stimulate the economy, the Federal
33 Reserve decided to start actively buying treasury bonds and
34 mortgage backed securities to keep long-term rates relatively

1 low. The Fed was trying to stimulate the economy by causing
2 riskier assets to appreciate, making individuals wealthier, and
3 therefore causing them to spend more money. Additionally, by
4 buying mortgage backed securities and causing longer-term
5 rates to fall, the assets that banks hold on their balance sheets
6 would increase in value. This would effectively help increase the
7 capitalization of banks, and hopefully increase bank lending.
8

9 Fast forward a few years and we see that the Fed's plan has
10 resulted in asset prices going up and longer-term interest rates,
11 such as mortgage rates, being held down. The stimulus activity
12 effectively put a tax on individuals who held cash reserves.
13 Interestingly enough, the stimulus appears to be working. It has
14 caused consumer spending to increase and an upward
15 movement in home prices. The concern the market now has is
16 whether the economy will be strong enough in the absence of
17 the quantitative easing to continue to grow."
18
19

20 **Q. What is the current rate of inflation in the U.S.?**

21 A. As can be seen on Schedule WAR-8, the current rate of inflation, as
22 measured by the consumer price index, is at 1.10 percent according to
23 information provided by the U.S. Department of Labor's Bureau of Labor
24 Statistics.¹⁸
25

26 **Q. Does the Fed have any immediate plans to raise interest rates in
27 anticipation of higher inflation?**

28 A. No. At the FOMC meeting held on June 18 and 19, 2013, the Fed made
29 no changes to the Fed Funds rate. An article published in the Wall Street
30 Journal on June 19, 2013 reported that Chairman Bernanke stated at the
31 end of the meeting that the Fed could start winding down its \$85 billion-a-
32 month QE4 bond-buying program later this year and end it altogether by

¹⁸ <http://www.bls.gov/news.release/cpi.nr0.htm>

1 mid-2014 if growth picks up as the Fed projects, unemployment comes
2 down, and inflation moves closer to the central bank's 2.00 percent target.
3 Chairman Bernanke went on to say that if those expectations bear out, the
4 Fed could stop buying bonds altogether by the middle of next year, when
5 officials project unemployment to be around 7.00 percent.

6
7 **Q. Has the Fed's quantitative easing actions resulted in lower yields on**
8 **long-term Treasury instruments?**

9 A. Yes. Despite a recent rise in the yields of longer-term instruments
10 (Attachment C), mainly due to uncertainty over when the Fed will reverse
11 its policy of quantitative easing, the yields on various treasury and utility
12 instruments are currently at historic lows.

13
14 As can be seen on Schedule WAR-8, current Treasury yields are
15 considerably lower than corresponding yields that existed during the year
16 2000 and, as just noted, U.S. Treasury instruments, are for the most part,
17 still at historically low levels. As can be seen on the first page of
18 Attachment C, the previously mentioned federal discount rate (the rate
19 charged to the Fed's member banks), has remained steady at 0.75
20 percent since June of 2012.¹⁹

21

¹⁹ Hilsenrath, Jon and Victoria McGrane, "Federal Reserve Eyes End of Bond Buying, Spooking Markets" The Wall Street Journal, June 19, 2013

1 As of June 14, 2013, leading interest rates that include the 3-month, 6-
2 month and 1-year treasury yields have decreased 3 to 6 basis points from
3 their June 2012 levels. Longer term yields including the 5-year, 10-year
4 and 30-year have increased somewhat from levels that existed a year
5 ago, but still remain at historically low levels. The same is true for the 30-
6 year Zero rate. The prime rate has remained constant at 3.25 percent
7 over the past year, as has the benchmark federal funds rate discussed
8 above. A previous trend, described by former Chairman Greenspan as a
9 "conundrum"²⁰, in which long-term rates fell as short-term rates increased,
10 thus creating a somewhat inverted yield curve that existed as late as June
11 2007, is completely reversed and a more traditional yield curve (one
12 where yields increase as maturity dates lengthen) presently exists.

13
14 **Q. What are the current yields on utility bonds?**

15 **A.** Referring again to Attachment C, as of June 14, 2013, 25/30-year A-rated
16 utility bonds were yielding 4.19 percent and 25/30-year Baa/BBB-rated
17 utility bonds were yielding 4.60 percent. As with the intermediate and
18 long-term Treasuries noted above, the yields on both utility bonds have
19 increased somewhat over the last several weeks but still remain at historic
20 lows.

21
22

²⁰ Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005

1 **Q. What is the current outlook for the economy?**

2 A. The current outlook on the economy is for an improving picture in the
3 second half of 2013. Value line's analysts offered this perspective on the
4 economy in the June 14, 2013 edition of Value Line's Selection and
5 Opinion publication:

6 "The economy is limping to the first half finish line. To wit,
7 after a modest recovery in the first quarter, with the U.S. gross
8 domestic product rising by 2.4%, growth appears to be slipping
9 again, with personal income, consumer spending,
10 manufacturing, and the international trade figures denoting
11 enough overall sluggishness to produce growth of no more than
12 1%-2% in the fast-ending period"
13

14 Value Line's analysts went on to say:

15 "However, we expect a selective pickup in business activity
16 after midyear. In part, this presumptive improvement probably
17 will reflect the lesser impact of the sequestrations (or
18 government spending cuts), as well as gains in non-
19 manufacturing and home prices. Such a combination is likely to
20 lead to more liberalized spending by consumers. In that more
21 constructive setting, growth could edge back above 2% over the
22 closing six months of this year."
23

24 Value Line's analysts further stated:

25 "Meanwhile, the focus is on the Federal Reserve, as it may
26 well be until the start of earnings reporting season, which is still
27 about a month away. The worry is that the Fed might soon start
28 slowing down the pace of bond buying, on the belief that the
29 economy is now better able to stand on its own. We think such
30 concerns are premature, and sense that it may be a while before
31 the central bank opts to materially ease off on the stimulus
32 pedal."
33

34 **Q. How are electric utilities such as UNSE faring in the current**
35 **economic environment of low interest rates?**

36 A. In the May 3, 2013 quarterly update (Attachment A) on the Electric Utility
37 (West) Industry, Value Line analyst Paul E. Debbas, CFA had this to say:

1 "Electric utility equities have performed very well since the start
2 of 2013. Most issues have risen anywhere from 10% to 20%,
3 and even the laggards have advanced at a high single-digit
4 pace. (CH Energy, which is being acquired, is the exception,
5 having declined slightly.) This is partly due to the strength of the
6 overall stock market, but electric utilities have comfortably
7 outperformed the broader market averages.
8

9 Why is this happening? Considering the minuscule returns on
10 savings accounts and money market funds, many investors are
11 continuing to reach for anything with a decent dividend yield.
12 Electric utility stocks have long been known as havens for
13 income-oriented investors. The average yield of this group is
14 3.7%, which compares favorably with the median yield of 2.2%
15 for dividend-paying issues under our coverage. Another reason
16 for the outperformance is reversion to the mean. In 2012, electric
17 utility equities underperformed the broader market averages."
18

19 **Q. How has Arizona fared in terms of the overall economy and home**
20 **foreclosures?**

21 **A.** Arizona was one of the states hit hardest during the Great Recession and
22 has lagged during the current recovery.²¹ During the period between 2006
23 and 2009, statewide construction spending fell by 40.00 percent.
24 According to information provided by Irvine, California-based RealtyTrac,
25 Arizona was ranked third in the nation behind California and Nevada in
26 terms of home foreclosures with the largest number of foreclosures
27 occurring in Maricopa, Pinal and Pima Counties. As of this writing
28 RealtyTrac is ranking Arizona as having the ninth highest foreclosure rate
29 in the country.²²
30

²¹ Beard, Betty, "Recession hit Arizona hardest" The Arizona Republic, March 6, 2011.

²² RealtyTrac Staff: U.S. Foreclosure Activity Increases 2 Percent in May Boosted by 11 Percent Rise in Bank Repossessions, June 11, 2013.

1 **Q. What is the current unemployment situation in Arizona during this**
2 **period of economic recovery?**

3 A. According to information published on June 20, 2013, and displayed on
4 the website of the Arizona Department of Administration's Office of
5 Employment and Population Statistics,²³ the seasonally adjusted
6 unemployment rate for Arizona dropped from 8.40% in May 2012, to
7 7.80% in May 2013. At the time that this information was compiled,
8 Arizona's rate of unemployment was slightly higher than the current
9 seasonally adjusted U.S. unemployment rate²⁴ of 7.6 percent.

10
11 According to the June 20, 2013 Arizona Department of Administration's
12 Office of Employment and Population Statistics report, the May 2013 rates
13 of unemployment for the counties that are served by UNSE were as
14 follows:

15 **Selected County Unemployment Rates - May 2013**

16	Mohave	8.90%
17		
18	Santa Cruz	15.50%
19		
20		
21		

22
23 ...
24

²³ Arizona Department of Administration's Office of Employment and Population Statistics
<http://www.workforce.az.gov/> .

²⁴ U.S. Department of Labor, Bureau of Labor Statistics <http://www.bls.gov/cps/>

1 **Q. After weighing the economic information that you've just discussed,**
2 **do you believe that the 8.16 percent cost of equity capital that you**
3 **have estimated is reasonable for the Company?**

4 A. I believe that my recommended 8.16 percent cost of equity capital, which
5 is 356 basis points higher than the current 4.60 percent yield on a
6 Baa/BBB-rated utility bond and 217 basis points higher than UNSE's 5.99
7 percent cost of long-term debt, will provide UNSE with a reasonable rate
8 of return on invested capital when data on interest rates (that are low by
9 historical standards), the current state of the economy, current rates of
10 unemployment (both nationally, in Arizona, and in the counties served by
11 UNSE), and the Fed's decision to keep interest rates at their current levels
12 until unemployment reaches 6.50 percent²⁵ are all taken into
13 consideration. I have also taken into consideration the fact that, unlike
14 many of the electric utilities included in my sample, UNSE has no
15 exposure to coal fired generation which I believe carries additional risk.
16 Given this fact, I have not made any downward adjustment to the 8.16
17 percent cost of equity derived from my sample. As I noted earlier, the
18 Hope decision determined that a utility is entitled to earn a rate of return
19 that is commensurate with the returns it would make on other investments
20 with comparable risk.

21
22

²⁵ Federal Reserve Press Release issued on June 19, 2013.

1 **COST OF DEBT AND CAPITAL STRUCTURE**

2 **Q. What cost of long-term debt are you recommending for UNSE?**

3 A. I am recommending that the Commission adopt UNSE's actual end of test
4 year cost of long-term debt of 5.99.

5

6 **Q. Please describe the Company-proposed capital structure.**

7 A. The Company is proposing an adjusted end of test year capital structure
8 comprised of no short-term debt, 47.40 percent long-term debt and 52.60
9 percent common equity.

10

11 **Q. How does the Company-proposed capital structure compare with the**
12 **capital structures of the electric companies that comprise your**
13 **sample?**

14 A. As can be seen in Schedule WAR-9, the Company-proposed capital
15 structure is virtually identical to the average capital structure of the electric
16 companies included in my sample, which contained an average of 47.30
17 percent long-term debt, 0.70 percent preferred stock, and 52.00 percent
18 common equity.

19

20 **Q. What capital structure are you recommending for UNSE?**

21 A. I am recommending that the Commission adopt the Company's actual end
22 of test year capital structure comprised of zero short-term debt, 47.40
23 percent long-term debt and 52.60 percent long-term common equity,

1 which is essentially the same as the capital structure being proposed by
2 UNSE.

3
4 **WEIGHTED COST OF CAPITAL AND FAIR VALUE RATE OF RETURN**

5 **Q. What original cost weighted average cost of capital are you**
6 **recommending for UNSE?**

7 A. Based on my recommended capital structure, comprised of 47.40 percent
8 long-term debt and 52.60 percent common equity, I am recommending an
9 original cost weighted average cost of capital of 7.13 percent (Schedule
10 WAR-1, Page 1). This is the weighted average cost of my recommended
11 cost of long-term debt of 5.99 percent and my recommended 8.16 percent
12 cost of common equity.

13
14 **Q. What fair value rate of return are you recommending for UNSE?**

15 A. I am recommending a FVROR of 4.98 percent (Schedule WAR-1, Page 1)
16 which is 215 basis points lower than my OCROR of 7.13 percent. My
17 recommended FVROR satisfies the fair value requirement of the Arizona
18 Constitution which the Commission must follow when setting rates for
19 investor owned utilities such as UNSE.

20
21
22 ...

1 **Q. Why are you recommending a FVROR that is different from your**
2 **OCROR?**

3 A. Because UNSE elected not to use the Company's original cost rate base
4 ("OCRB") as its fair value rate base ("FVRB") in this case. Instead, UNSE
5 performed a reconstruction cost new less depreciation ("RCND") study to
6 restate the value, or reproduction cost, of the Company's OCRB. As is
7 the normal ratemaking practice in Arizona, the Company averaged the
8 values of its OCRB and its RCND rate base to arrive at a FVRB that is
9 higher than the OCRB. This is because the value of the FVRB reflects the
10 impact of inflation and other factors which tend to contribute to an upward
11 growth in value over time. Since the difference in the value of the OCRB
12 and the FVRB represents inflation, as opposed to additional investor
13 supplied capital, an OCROR which includes an inflation component cannot
14 be applied to the FVRB. To do so would result in a double counting of
15 inflation. For this reason it is necessary to remove the inflation component
16 that is included in the OCROR.

17
18 **Q. Does your recommended FVROR satisfy the requirements for**
19 **determining a FVROR that resulted from the Commission's Chaparral**
20 **City Water Company remand decision, which established the need to**
21 **remove the inflation component from an OCROR?**

22 A. Yes. On July 28, 2008, the Commission issued Decision No. 70441, in
23 which stated the following:

1 Our previous method was a shorthand method of ensuring that
2 inflation would only influence one piece of the ratemaking
3 formula - the rate of return. However, the Court of Appeals has
4 made it clear that, under our constitution, the "inflation
5 component" belongs in the FVRB. Accordingly, in order to
6 avoid over-counting the effect of inflation, it is necessary for us
7 to ensure that the rate of return does not also carry an inflation
8 component. [Decision No. 70441, p. 33]
9

10 **Q. How did you remove the inflation component from your OCROR?**

11 A. I reduced my recommended costs of common equity and long-term debt
12 by an inflation factor of 2.15 percent (Schedule WAR-1, Page 4). As a
13 result of this decision, the effective difference between my OCROR and
14 FVROR is 215 basis points which produced my recommended FVROR of
15 4.98 percent. The method that I have used in this case produces a
16 FVROR that is comparable to the FVROR calculated for UNS Electric, Inc.
17 in a prior rate case proceeding. In that case the Commission adopted a
18 method that reduced the OCROR by an inflation factor that was
19 recommended by RUCO.²⁶ The Commission had previously used the
20 same method in a rate case proceeding for UNS Electric, Inc.'s sister
21 utility, UNS Gas, Inc.

22
23 **Q. How did you calculate your inflation factor of 2.15 percent?**

24 A. By using the same RUCO methodology that produced an inflation factor
25 similar to what the Commission relied on in the prior UNS Electric, Inc.
26 case cited above. As can be seen on Page 4 of Schedule WAR-1, my

²⁶ Decision No. 71914, dated September 30, 2010

1 recommended 2.15 percent inflation factor represents the difference
2 between Treasury Inflation-Protected Securities ("TIPS") and comparable
3 securities issued by the U.S. Treasury with similar liquidity and duration
4 from the beginning of 2006 through the early part of June 2013.

5
6 **Q. How does your FVROR compare to the FVROR being recommended**
7 **by UNSE?**

8 A. My recommended FVROR of 4.98 percent is 173 basis points lower than
9 the 6.71 percent FVROR being proposed by UNSE.

10
11 **Q. What inflation factor does UNSE propose?**

12 A. UNSE's cost of capital witness, Ms. Bulkley, is proposing an inflation
13 adjustment of 1.61 percent, to be applied to the fair value increment of the
14 Company-proposed FVRB, which is 54 basis points lower than my
15 recommended 2.15 percent.

16
17 **COMMENTS ON THE COMPANY-PROPOSED COST OF EQUITY CAPITAL**

18 **Q. Have you reviewed UNSE's testimony on the Company-proposed**
19 **cost of equity capital?**

20 A. Yes, I have reviewed the testimony prepared by Ms. Anne E. Bulkley.

21
22 ...

23

1 **Q. Please compare the Company-proposed cost of equity with your**
2 **recommended cost of equity.**

3 A. The Company is recommending a cost of equity capital of 10.50 percent
4 which is 234 basis points higher than my recommended 8.16 percent cost
5 of equity.

6
7 **Q. Have you studied the specific methods that Ms. Bulkley used to**
8 **derive the Company-proposed cost of equity capital?**

9 A. Yes.

10

11 **Q. What methods did Ms. Bulkley use to arrive at her cost of common**
12 **equity for UNSE?**

13 A. Ms. Bulkley used the constant growth DCF model, similar to the one that I
14 used, and a multi-stage DCF. She also employed the CAPM and risk
15 premium methods to estimate UNSE's cost of common equity. I did not
16 employ the risk premium methodology because this Commission has
17 traditionally placed more weight on the results of the DCF and CAPM.

18

19 **Q. Can you provide a comparison of the results derived from Ms.**
20 **Bulkley's models and yours?**

21 A. Yes. The following portion of my testimony will compare and contrast the
22 results of our constant growth DCF and CAPM analyses.

23

1 **DCF Comparison**

2 **Q. Please compare the results of Ms. Bulkley's DCF analyses and the**
3 **results of your DCF analysis.**

4 A. Ms. Bulkley presented the results of two DCF analyses that relied on the
5 same of regulated electric utilities that I relied on. Her constant growth
6 DCF analysis produced estimates ranging from 8.97 percent to 12.88
7 percent. Her multi-stage DCF analysis produced estimates ranging from
8 9.84 percent to 11.19 percent. My constant growth DCF analysis, which
9 relied on the same sample of electric utilities included in Mr. Reed's
10 sample, produced a final estimate of 8.16 percent.

11
12 **Q. What is the difference between Ms. Bulkley's dividend yield results**
13 **for electric utilities and your dividend yield results?**

14 A. Ms. Bulkley's 30, 90 and 180-day constant growth DCF analysis of
15 regulated electric utilities produced average dividend yields that ranged
16 from 4.36 percent to 4.45 percent as opposed to my 8-week average
17 dividend yield of 4.04 percent. The difference between our dividend yields
18 is due to higher closing stock prices that I recorded during my more recent
19 8-week observation period. Ms. Bulkley's average stock prices ranged
20 from \$33.80 to \$34.27 over her 30, 90 and 180 day observation periods as
21 opposed to my 8-week average stock price of \$37.88. Clearly the demand
22 for utility stocks had increased over the 6-month period since Ms. Bulkley
23 conducted her analysis during the latter part of 2012.

1 **Q. Please compare your respective DCF growth estimates (g) for**
2 **electric utilities.**

3 A. Ms. Bulkley's constant growth DCF analysis produced an average growth
4 estimate of 6.02 percent compared to my 4.12 percent estimate.

5

6 **Q. Were there any differences in the way that you conducted your**
7 **constant growth DCF analysis and the way that Ms. Bulkley**
8 **conducted hers?**

9 A. Yes. Ms. Bulkley also relied on projections from First Call in addition to
10 my reliance on Value Line and Zacks. The First Call average growth
11 projections of 5.76 percent were 164 basis points higher than my 4.12
12 percent average growth estimate. However, I will point out that Ms.
13 Bulkley's DCF analysis was conducted in November of 2012 and analysts'
14 growth estimates have fallen since that time. For example, Ms. Bulkley's
15 5.01 percent average EPS growth estimate obtained from Zacks is 9 basis
16 points higher than the more recent 4.92 percent that I obtained from Zacks
17 and her 7.07 percent average EPS growth estimate obtained from Value
18 Line is 121 basis points higher than the 5.86 percent average growth
19 estimate that I obtained from the same source (Schedule WAR-6).

20

21

22 ...

23

1 **CAPM Comparison**

2 **Q. Please compare the results of Ms. Bulkley's CAPM analysis and the**
3 **results of your CAPM analysis.**

4 A. Ms. Bulkley's CAPM analysis produced average expected return
5 estimates of 10.12 percent, relying on beta coefficients provided by
6 Bloomberg, and 10.27 percent, relying on Value Line betas, for our
7 sample of electric utilities. Her estimates are 445 basis points to 4.60
8 basis points higher than my 5.67 percent CAPM estimate that uses a
9 geometric mean and are 344 basis points to 339 basis points higher than
10 my 6.88 percent CAPM estimate that uses an arithmetic mean. Ms.
11 Bulkley's range of CAPM estimates exceeds the recent yield of 4.60
12 percent on a Baa/BBB-rated utility bond yield by 552 to 567 basis points.

13
14 **Q. What are the main reasons for Ms. Bulkley's higher CAPM results?**

15 A. There are two reasons. First, Ms. Bulkley's use of forecasted yields on
16 the 30-year Treasury Bond which is used as a proxy for the risk free rate
17 of return and second, the market risk premiums which utilized Ms.
18 Bulkley's own method for calculating the return on the market as opposed
19 to relying on the more established method of relying on historical market
20 data published in Morningstar.

21
22 ...

23

1 **Q. Please describe the first difference in the way that you conducted**
2 **your CAPM analysis and the way that Ms. Bulkley conducted hers?**

3 A. The first difference involves Ms. Reed's reliance on higher forecasted
4 estimates of the yield on the 30-year U.S. Treasury bond as opposed to
5 the more recent 8-week average yields of the 30-year Treasury bond that I
6 relied on for the risk-free rate of return used in the CAPM model.

7

8 **Q. Do you believe that analyst's forecasted yields on U.S. Treasury**
9 **instruments are appropriate?**

10 A. No. I believe that the most current yield is the best indicator of future
11 yields.

12

13 **Q. What is the second difference between your respective CAPM**
14 **analyses?**

15 A. The second difference involves the market risk premium. Ms. Bulkley's
16 market risk premiums were derived by subtracting her estimated 30-year
17 Treasury yields from a 12.85 percent estimated required market return on
18 the S&P 500 obtained through a DCF model. Her S&P 500 data consisted
19 of forecasted dividend and growth estimates which produced higher
20 market risk premiums ranging from 7.75 percent to 9.98 percent as
21 opposed to my market risk premiums of 3.70 percent and 5.40 percent.
22 Ms. Bulkley's higher market risk premiums are the result of his reliance on
23 forecasted data as opposed to the Morningstar SBBI Yearbook actual

1 historical data, which encompassed a much broader period of the U.S.
2 economy between 1926 and 2012, that I relied on.

3

4 **Q. Did Ms. Bulkley use the same Value Line betas that you used in your**
5 **CAPM analysis?**

6 A. Yes. However, Ms. Bulkley's utility sample had an average Value Line
7 beta of 0.718 as opposed to my slightly lower average Value Line beta of
8 0.71. Ms. Bulkley also relied on betas published by Bloomberg which
9 averaged 0.701.

10

11 **Q. What is the beta of UNS Energy Corporation, the parent of UNSE?**

12 A. UNS Energy Corporation has a Value Line beta of 0.70 which is slightly
13 lower than the average Value Line and Bloomberg betas that Ms.
14 Bulkley's and I relied on. The lower beta indicates that UNSE's parent
15 company is slightly less risky than the average of our respective sample
16 electric utilities.

17

18 **Q. How did Ms. Bulkley arrive at her final 10.50 percent cost of equity**
19 **capital for UNSE?**

20 A. Ms. Bulkley's proposed cost of equity estimate of 10.50 percent fell within
21 the range of results obtained from her cost of capital analysis.

22

23

1 **Q. Does your silence on any of the issues, matters or findings**
2 **addressed in the testimony of Ms. Bulkley or any other witness for**
3 **UNSE constitute your acceptance of their positions on such issues,**
4 **matters or findings?**

5 **A. No, it does not.**

6

7 **Q. Does this conclude your testimony on UNSE?**

8 **A. Yes, it does.**

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Chief of Accounting and Rates
Residential Utility Consumer Office
October 2011 – Present

Public Utilities Analyst V
Residential Utility Consumer Office
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077 et al.	Rate Increase
Litchfield Park Service Company	SW-01428A-09-0104 et al.	Rate Increase
UNS Electric, Inc.	E-04204A-09-0206	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-09-0257	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Rate Increase
Bella Vista Water Company	W-02465A-09-0411 et al.	Rate Increase
Chaparral City Water Company	W-02113A-10-0309	Reorganization
Qwest Communications International	T-04190A-10-0194 et al.	Merger
CenturyLink, Inc.	T-04190A-10-0194 et al.	Merger
Southwest Gas Corporation	G-01551A-10-0458	Rate Increase
Arizona-American Water Company	W-01303A-10-0448	Rate Increase
Arizona-American Water Company	W-01303A-11-0101	Reorganization
Arizona-American Water Company	W-01303A-09-0343	Deconsolidation
Goodman Water Company	W-02500A-10-0382	Rate Increase
Arizona Water Company	W-01445A-10-0517	Rate Increase
Bermuda Water Company, Inc.	W-01812A-10-0521	Rate Increase
UNS Gas, Inc.	G-04204A-11-0158	Rate Increase
Arizona Public Service Company	E-01345A-11-0224	Rate Increase
Arizona Water Company	W-01445A-11-0310	Rate Increase
Pima Utility Company	W-02199A-11-0329 et al.	Rate Increase
Tucson Electric Power Company	E-01933A-12-0291	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-12-0196	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Far West Water & Sewer, Inc.	WS-02676A-12-0196	Rate Increase
Arizona Water Company	W-01445A-12-0348	Rate Increase

ATTACHMENT A

All of the major electric utilities located in the eastern region of the United States are reviewed in this Issue; central electrics, in Issue 5; and the remaining utilities, in Issue 11.

Hurricane Sandy hit several electric utilities in the Northeast hard in late October of 2012. Now, utilities are dealing with the issue of how to recover these costs, and what should be done to prepare for storms.

Many electric utilities record mark-to-market accounting gains or losses. These usually stem from their nonregulated activities. Mark-to-market items are among a list of things that we include in our earnings presentation, even though many utilities exclude them from their definition of "ongoing" or "operating" earnings.

Electric utility stocks, as a group, have fared well so far this year, and have risen in line with the broader market averages. This has reduced their 3- to 5-year total return potential.

The Aftermath Of Hurricane Sandy

Last year, millions of electric customers in the Northeast lost power as a result of Hurricane Sandy. For some utilities, this was the worst storm in the company's history. Although utilities from all over the United States came in to help restore power, some customers were without electricity for two weeks. Despite the costs associated with the hurricane, this did not have a huge effect on companies' bottom lines. For example, profits of *Public Service Enterprise Group* were reduced by \$0.13 a share in the fourth quarter of 2012, and \$0.08 of that came from the nonregulated side of the company, which is not subject to regulatory accounting. There are two reasons why this is so. First, some of these costs were capitalized, instead of being booked as an operating expense. Second, regulatory accounting permits utilities to defer costs for future recovery if there is a high expectation that the regulators will allow recovery of these expenses.

New Jersey was arguably the hardest-hit state. The Board of Public Utilities plans to hold generic hearings regarding utilities' recovery of the hurricane-related costs. However, because Jersey Central Power & Light (a unit of *FirstEnergy*) has a general rate case pending in which the utility seeks cost recovery, this is how this matter will be resolved. Parts of New York State were also greatly affected by Sandy. The New York State commission and various state agencies will be examining the performance of utilities, most notably *Consolidated Edison*, in response to the hurricane.

ConEd and the utility subsidiary of *Public Service Enterprise Group*, *Public Service Electric & Gas*, have put forth storm-hardening capital spending proposals before their respective state commissions. *ConEd* is proposing to spend \$1 billion through 2016, and PSE&G proposes spending \$3.9 billion over a 10-year span. In order for PSE&G's plan to go forward, the utility would need to have a regulatory mechanism to recover these costs annually, instead of having to wait for a general rate case.

INDUSTRY TIMELINESS: 72 (of 98)

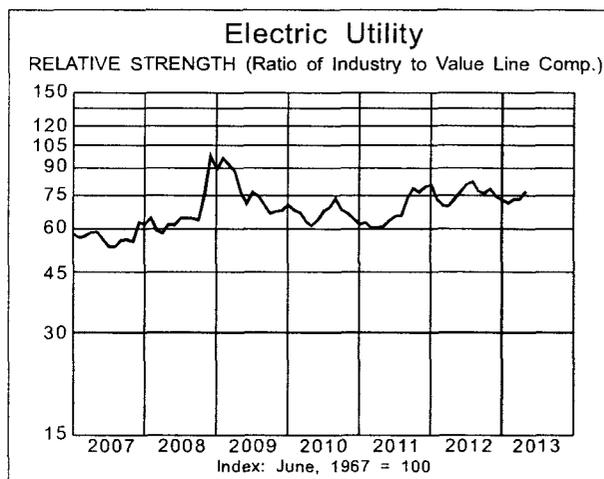
Unusual But Not Nonrecurring

Many utilities have certain items that they exclude from their definition of "ongoing" or "operating" earnings, which typically differ from earnings based on generally accepted accounting principles. Most notable among these are quarterly gains or losses stemming from mark-to-market accounting adjustments that arise from their nonregulated energy-related activities. (An explanation of this accounting is beyond the scope of this report.) These can skew quarterly or annual profits, but we include them in our earnings presentation because they even out over time and, since they are a part of quarterly results, are literally not nonrecurring. Among the companies in this Issue that report such items are *PSEG*, *Exelon*, *PPL Corporation*, *NextEra Energy*, *Duke Energy*, and *FirstEnergy*. Other kinds of costs that we include, even though most companies exclude them, are merger-related expenses. *Duke*, *Exelon*, and *Northeast Utilities* are booking these costs as a result of mergers that were completed in 2012. We also include costs associated with major storms, even if some companies, such as *Dominion Resources*, exclude them. The inclusion of these kinds of costs are a key reason why our earnings estimates sometimes differ from management's guidance.

Conclusion

So far this year, the Value Line Utility Average has risen 12%, short of the Value Line Composite Average, which has climbed 16%. Following the sharp rise in the price of electric utility stocks, the average dividend yield of the equities in this industry, while still well above that of the market as a whole, is below 4%. Utility stocks have become so pricey that almost all are trading within their 2016-2018 Target Price Ranges—and a few are trading above that range. Utility investors with a long-term horizon should be aware that the 3- to 5-year total return potential we project for most of these issues is in a low single-digit range. We aren't expecting a sharp near-term rise in interest rates, but if one were to occur, this might well hurt the prices of these stocks.

Paul E. Debbas, CFA



All of the major electric utilities located in the central region of the United States are reviewed in this Issue; eastern electric, in Issue 1; and the remaining utilities, in Issue 11.

Persistent low wholesale electricity prices have made the merchant power generation business less attractive. Some companies are selling assets, and others are exiting this business.

Among American companies, there has been a lot of merger and acquisition activity in early 2013. However, electric utilities have stayed on the sidelines, so far.

It is getting harder to find attractive selections in the Electric Utility Industry due to the high valuation of many of these equities.

Unfavorable Conditions In The Power Markets

As the price of natural gas has declined considerably in the past five years, so too has the price of wholesale power. This has hurt the profitability of companies that have a significant ownership of nonregulated generating assets. Among these companies are Exelon, FirstEnergy, PPL Corporation, Public Service Enterprise Group, *Entergy*, and *Ameren*. These companies typically hedge most of their expected output, and as older, higher-priced hedges are rolling off, they are being replaced by lower-margin hedges. Even in such an environment, most nuclear assets are still profitable, but much less so than a few years ago. Meanwhile, owners of nonregulated coal-fired units are facing higher coal costs at the same time that power prices are under pressure. What's more, some of these plants will need pollution control equipment to meet stricter federal regulations if they are to continue running.

One company, Edison International, exited this business in late 2012 when its merchant power subsidiary made a prepackaged Chapter 11 filing and was deconsolidated from Edison's books. Another, *Ameren*, is divesting itself of this business, too. *Ameren* won't receive any cash, but will remove debt from its balance sheet and will obtain some tax benefits as a result of the transaction. These two companies had nonutility generating fleets that were almost entirely coal-fired.

Nuclear units are more attractive than coal-fired facilities, but certainly are not immune to market pressures. Dominion Resources is shutting its Kewaunee nuclear plant in Wisconsin after the company was unable to find a buyer. Dominion is also shutting some fossil units, and will wind up with a company that is more focused on the regulated utility business. PPL has also increased its presence in regulated utilities in the past few years by buying power companies in Kentucky and Great Britain. Exelon, which has 17 nuclear units, was already planning to shut one aging facility, but hasn't announced any other planned closings. However, unfavorable conditions in the power markets have hurt the company's profitability so much that the board of directors is planning to cut the dividend. The profitability of NextEra Energy's Seabrook nuclear unit has declined, but it still a valuable asset for the company.

Mergers And Acquisitions

A lot of big deals have been announced in Corporate America in the first quarter of 2013. However, electric utilities have not participated in the activity. Currently,

INDUSTRY TIMELINESS: 44 (of 98)

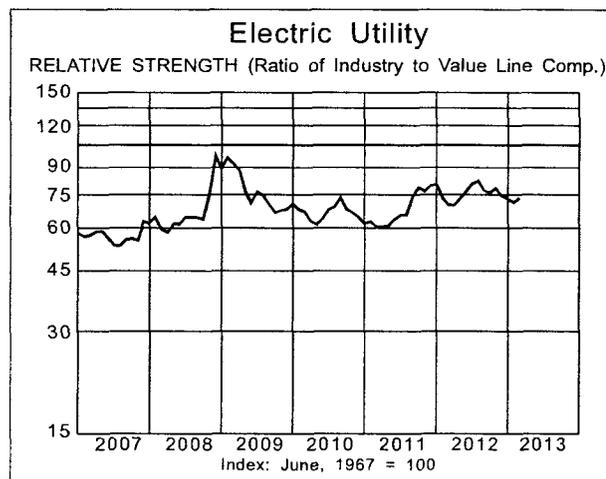
the only electric company that is involved in pending M&A activity is CH Energy Group, which is being acquired by Fortis, a Canadian company, in a transaction that is expected to be completed in the second quarter of 2013. *Entergy* has agreed to sell its transmission assets to *ITC Holdings*, but we don't regard this deal as M&A because it doesn't involve a change in control of an entire company.

There are a number of reasons why electric utilities have stayed on the M&A sidelines of late. First, most of the obvious deals have already happened. Today, there are only about 50 publicly traded electric companies in the United States. Twenty-five years ago, there were roughly twice as many. In Iowa alone, there were six utilities. Three of them are now owned by Berkshire Hathaway, and the other three are part of *Alliant Energy*. Second, completing M&A in this industry is almost always a long and difficult process because numerous regulatory bodies must give their approval. When *American Electric Power* announced its agreement to acquire Central and South West in late 1997, the transaction didn't close until mid-2000. Moreover, many deals have been terminated once it became evident that a state commission would not approve the combination without imposing conditions that were unacceptable to the companies. Third, given the valuations of most utility stocks today, buying a power company would be an expensive undertaking, even allowing for the fact that borrowing costs are low.

Conclusion

The average dividend yield of stocks in the Electric Utility Industry is about 4%. This is well above the median of all dividend-paying stocks covered in *The Value Line Investment Survey*, but is low, by historical standards. This is a reflection of today's very low interest rates. Many investors have focused attention on dividend-paying equities such as utilities because returns on cash are minuscule. As a result, the recent price of many of these issues is within their 2016-2018 Target Price Range. This indicates that they are expensively priced. It has become harder to find attractive selections in this industry, but we suggest that investors look at *ITC Holdings* if they are more interested in good 3- to 5-year total return potential than a high current yield.

Paul E. Debbas, CFA



All of the major electric utilities located in the western region of the United States are reviewed in this Issue; eastern electrics, in Issue 1; and the remaining utilities, in Issue 5.

Electric utilities frequently file rate cases. We discuss the reasons why these applications are necessary, and mention some companies in this Issue that have rate cases pending.

So far this year, most stocks in this industry have outperformed the broader market averages. With investors reaching for dividend yield, electric utility stocks have become richly valued.

Rate Cases

There are numerous reasons why electric utilities file rate cases. Some states, such as California, Wisconsin, and Nevada, require utilities to file periodically. Companies also file applications to place new plant into the rate base, recover rising operating and maintenance expenses, or reflect changes in the cost of capital. In some cases, utilities seek rate relief to recover the costs of responding to natural disasters, such as Hurricane Sandy last fall. Of course, utilities usually don't get everything they request. And, in a period of declining interest rates, they sometimes have their allowed return on equity lowered by a state regulatory commission.

Some utilities in this Issue have rate cases pending. Most notable is *Xcel Energy*, which usually has multiple applications in the hopper. *Xcel* operates in eight states and provides both electric and gas service in most of them, so it's understandable that rate filings are an ongoing occurrence for the company. In California, the utility subsidiaries of *PG&E Corp.* and *Sempra Energy* are awaiting rate orders. In Arizona, *UniSource Energy's* two utilities have applications pending. In Oregon, *Portland General Electric* just put forth a petition. When a utility files a rate application, the time frame for a decision is typically six to 12 months, but can drag on for a longer period. *Sempra's* utilities have been waiting for more than a year to get an order, which will be retroactive to the start of 2012.

Just as court cases can be settled, so can rate cases. Utilities sometimes reach agreements with the commission's staff and key intervenor groups. (Indeed, in some states, settlements are the norm.) For instance, within the past several months *Avista* settled its electric and gas cases in Washington and Idaho. The settlements were approved by the state commissions. The agreements also included rate freezes in which tariffs couldn't be raised again until the start of 2015. Rate freezes aren't unusual, either. It should be noted that these orders refer to *base* tariffs; the actual prices that customers pay may rise or fall depending on fuel costs that are passed through to ratepayers.

Sometimes, utilities can obtain higher revenues without going through a full-blown rate case. Certain kinds of spending are recoverable annually through rate surcharges (known as riders). For instance, Arizona Public Service, the utility subsidiary of *Pinnacle West*, has such a regulatory mechanism for its solar energy program. Eventually, these revenues will be rolled into base tariffs once the company files its next general rate case. This should enable the utility to go for a few more years

INDUSTRY TIMELINESS: 82 (of 98)

without a rate hike (except for one needed for a pending asset acquisition). Electric transmission revenues that are overseen by the Federal Energy Regulatory Commission are subject to similar regulation.

Even with all of this regulatory activity, there are exceptions. *El Paso Electric* has some peaking generating units under construction, but believes it can hold off on filing a rate case until 2015. This is partly thanks to above-average growth in the utility's service territory.

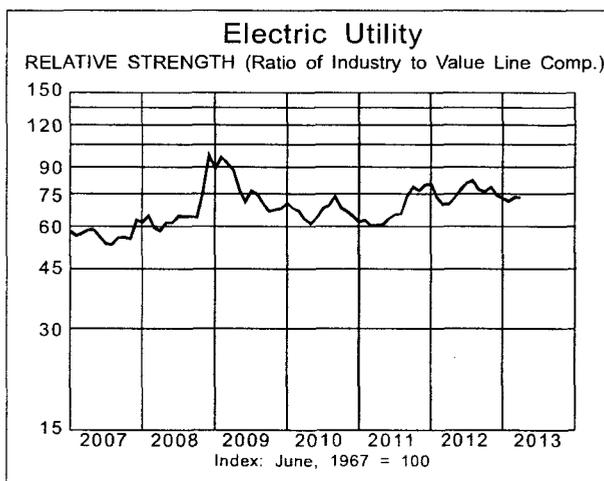
Conclusion

Electric utility equities have performed very well since the start of 2013. Most issues have risen anywhere from 10% to 20%, and even the laggards have advanced at a high single-digit pace. (*CH Energy*, which is being acquired, is the exception, having declined slightly.) This is partly due to the strength of the overall stock market, but electric utilities have comfortably outperformed the broader market averages.

Why is this happening? Considering the minuscule returns on savings accounts and money market funds, many investors are continuing to reach for anything with a decent dividend yield. Electric utility stocks have long been known as havens for income-oriented investors. The average yield of this group is 3.7%, which compares favorably with the median yield of 2.2% for dividend-paying issues under our coverage. Another reason for the outperformance is reversion to the mean. In 2012, electric utility equities underperformed the broader market averages.

For almost every one of the 49 electric utility stocks under our coverage, the recent price is within the 3- to 5-year Target Price Range. In a few cases, such as *Black Hills* and *Portland General Electric*, the quotation is above the 2016-2018 Target Price Range. When this occurs, it is usually a signal that these stocks have become overvalued. At the current valuation, the median 3- to 5-year total return potential is only about 3%, which is hardly inspiring for long-term investors.

Paul E. Debbas, CFA



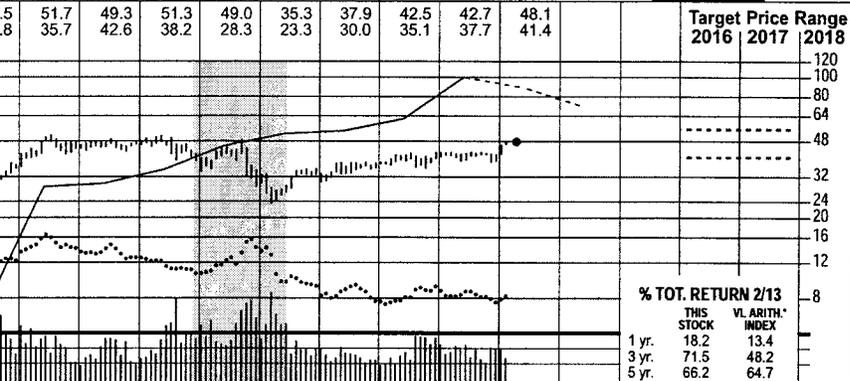
ALLETE NYSE-ALE

RECENT PRICE **47.77** P/E RATIO **17.4** (Trailing: 18.5 Median: NMF) RELATIVE P/E RATIO **1.04** DIV'D YLD **4.0%** VALUE LINE

TIMELINESS 2 Raised 11/16/12
SAFETY 2 New 10/1/04
TECHNICAL 3 Raised 3/15/13
BETA .70 (1.00 = Market)

High: 37.5 51.7 49.3 51.3 49.0 35.3 37.9 42.5 42.7 48.1
 Low: 30.8 35.7 42.6 38.2 28.3 23.3 30.0 35.1 37.7 41.4

LEGENDS
 --- 0.98 x Dividends p sh divided by Interest Rate
 Relative Price Strength
 Options: Yes
 Shaded areas indicate recessions



2016-18 PROJECTIONS

Price	Gain	Ann'l Total Return
High 55	(+15%)	7%
Low 40	(-15%)	N/A

Insider Decisions

	A	M	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0
Options	0	0	1	0	1	0	0	0
to Sell	1	2	2	1	2	2	1	1

Institutional Decisions

	2Q2012	3Q2012	4Q2012	Percent shares traded
to Buy	85	73	72	15
to Sell	58	68	65	10
Hrs(000)	22085	22336	22857	5

ALLETE, in its current configuration, began trading on September 21, 2004, the day after it spun off its automotive services business, ADESA (now KAR Auction Services, NYSE: KAR), to shareholders and effected a 1-for-3 reverse stock split. ALLETE shareholders received one share of ADESA for each ALLETE share held. Data for the "old" ALLETE are not shown because they are not comparable.

CAPITAL STRUCTURE as of 12/31/12
 Total Debt \$1018.1 mill. Due in 5 Yrs \$269.6 mill.
 LT Debt \$933.6 mill. LT Interest \$46.0 mill.
 (LT interest earned: 3.9x)
 Leases, Uncapitalized Annual rentals \$11.5 mill.

Pension Assets-12/12 \$460.1 mill.
Oblig. \$652.1 mill.

Pfd Stock None

Common Stock 39,468,463 shs. as of 2/1/13

MARKET CAP: \$1.9 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	+29.1	+5.6	+1.1
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (\$)	5.20	5.30	5.24
Capacity at Peak (Mw)	1812	1789	1790
Peak Load, Winter (Mw) ^F	1604	1599	1633
Annual Load Factor (%)	79.0	79.0	79.0
% Change Customers (avg.)	+1.0	+5	+5

Fixed Charge Cov. (%) 334 344 341

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	--	-5.5%	3.0%
"Cash Flow"	--	3.0%	6.0%
Earnings	--	-2.5%	7.0%
Dividends	--	4.5%	3.5%
Book Value	--	5.5%	4.0%

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	233.6	211.2	224.1	238.1	907.0
2011	242.2	219.9	226.9	239.2	928.2
2012	240.0	216.4	248.8	256.0	961.2
2013	255	235	255	260	1005
2014	275	260	280	285	1100

EARNINGS PER SHARE^A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.68	.57	.56	.38	2.19
2011	1.07	.48	.57	.53	2.65
2012	.66	.39	.78	.75	2.58
2013	.75	.50	.75	.70	2.70
2014	.80	.60	.80	.75	2.95

QUARTERLY DIVIDENDS PAID^{B,†}

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.44	.44	.44	.44	1.76
2010	.44	.44	.44	.44	1.76
2011	.445	.445	.445	.445	1.78
2012	.46	.46	.46	.46	1.84
2013	.475				

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC 16-18
Revenues per sh	--	25.30	24.50	25.23	27.33	24.57	21.57	25.34	24.75	24.40	24.20	26.20	29.25
"Cash Flow" per sh	--	2.97	3.85	4.14	4.42	4.23	3.57	4.35	4.91	5.01	5.10	5.55	6.75
Earnings per sh ^A	--	1.35	2.48	2.77	3.08	2.82	1.89	2.19	2.65	2.58	2.70	2.95	3.75
Div'd Decl'd per sh ^{B,†}	--	.30	1.25	1.45	1.64	1.72	1.76	1.76	1.78	1.84	1.90	1.96	2.20
Cap'l Spending per sh	--	2.12	1.95	3.37	6.82	9.24	9.05	6.95	6.38	10.30	7.25	8.00	3.50
Book Value per sh ^C	--	21.23	20.03	21.90	24.11	25.37	26.41	27.26	28.78	30.48	31.50	32.45	36.25
Common Shs Outst'g ^D	--	29.70	30.10	30.40	30.80	32.60	35.20	35.80	37.50	39.40	41.50	42.00	43.50
Avg Ann'l P/E Ratio	--	25.2	17.9	16.5	14.8	13.9	16.1	16.0	14.7	15.9	<i>Bold figures are Value Line estimates</i>		13.0
Relative P/E Ratio	--	1.33	.95	.89	.79	.84	1.07	1.02	.92	1.02			.85
Avg Ann'l Div'd Yield	--	.9%	2.8%	3.2%	3.6%	4.4%	5.8%	5.0%	4.6%	4.5%			4.5%
Revenues (\$mill)	--	751.4	737.4	767.1	841.7	801.0	759.1	907.0	928.2	961.2	1005	1100	1275
Net Profit (\$mill)	--	38.5	68.0	77.3	87.6	82.5	61.0	75.3	93.8	97.1	105	120	155
Income Tax Rate	--	38.8%	28.4%	37.5%	34.8%	34.3%	33.7%	37.2%	27.6%	28.1%	20.0%	20.0%	20.0%
AFUDC % to Net Profit	--	1.8%	.4%	1.4%	6.6%	5.8%	12.8%	8.9%	2.7%	5.3%	5.0%	3.0%	2.0%
Long-Term Debt Ratio	--	38.2%	39.1%	35.1%	35.6%	41.6%	42.8%	44.2%	44.3%	43.7%	44.5%	46.5%	42.3%
Common Equity Ratio	--	61.8%	60.9%	64.9%	64.4%	58.4%	57.2%	55.8%	55.7%	56.3%	55.5%	53.5%	57.5%
Total Capital (\$mill)	--	1020.7	990.6	1025.6	1153.5	1415.4	1625.3	1747.6	1937.2	2134.6	2360	2540	2750
Net Plant (\$mill)	--	883.1	860.4	921.6	1104.5	1387.3	1622.7	1805.6	1982.7	2347.6	2540	2760	2850
Return on Total Cap'l	--	5.1%	8.0%	8.6%	8.6%	6.7%	4.8%	5.4%	6.0%	5.6%	5.5%	5.5%	7.0%
Return on Shr. Equity	--	6.1%	11.3%	11.6%	11.8%	10.0%	6.6%	7.7%	8.7%	8.1%	8.0%	8.5%	10.0%
Return on Com Equity ^E	--	6.1%	11.3%	11.6%	11.8%	10.0%	6.6%	7.7%	8.7%	8.1%	8.0%	8.5%	10.0%
Retained to Com Eq	--	4.7%	5.2%	5.0%	5.8%	3.9%	.5%	1.5%	2.9%	2.3%	2.0%	2.5%	4.0%
All Div'ds to Net Prof	--	23%	54%	57%	51%	61%	93%	81%	66%	71%	75%	69%	61%

BUSINESS: ALLETE, Inc. is the parent company of Minnesota Power, which supplies electricity to 146,000 customers in north-eastern MN, & Superior Water, Light & Power in northwestern WI. Electric revenue breakdown: taconite mining/processing, 24%; paper/wood products, 9%; other industrial, 10%; residential, 13%; commercial, 14%; wholesale, 13% other, 17%. Has real estate op-

eration in FL. Disc. water-utility ops. in '01. Spun off automotive remarketing operation in '04. Generating sources: coal & lignite, 74%; biomass, 4%; hydro, 4%; wind, 2%; purch., 16%. '12 deprec. rate: 2.9%. Has 1,400 employees. Chairman, President & CEO: Alan R. Hodnik. Inc.: MN. Address: 30 West Superior St., Duluth, MN 55802-2093. Tel.: 218-279-5000. Internet: www.allete.com.

ALLETE's earnings will probably advance moderately in 2013. Much of the capital spending of its major utility subsidiary, Minnesota Power, is subject to immediate recovery through surcharges on customers' bills. This includes renewable-energy, environmental, and transmission expenditures. Two wind projects went into service in late 2012, so the company will have a full year's worth of income from them this year. Also, Minnesota Power's service area is in good shape, as its large industrial customers are running at full production. Our 2013 earnings estimate is within ALLETE's targeted range of \$2.58-\$2.78 a share. The stock is ranked favorably for Timeliness.

We expect stronger profit growth in 2014. The key factor is a taconite plant that Essar Steel is building in Minnesota Power's service area. Essar will probably start making pellets in the fourth quarter of 2013, and the facility is expected to reach full production sometime in 2014. This should result in at least 110 megawatts of additional load. Accordingly, we forecast a high single-digit earnings increase, to \$2.95 a share.

The board of directors boosted the dividend in the first quarter. The board raised the annual payout by \$0.06 a share (3.3%), a slightly higher increase than we had estimated. The stock's dividend yield is equal to the utility average.

The Minnesota commission turned down one request from Minnesota Power, but another is pending. The regulators rejected the utility's request for a regulatory mechanism that would have enabled it to recover increases in pension and other postretirement benefits costs automatically. These have been rising due to low interest rates. Separately, Minnesota Power is proposing to spend \$350 million-\$400 million for environmental compliance for one of its coal-fired units. The utility should get a decision sometime in 2013.

The recent price is up about 15% since the start of 2013. We think this is in anticipation of strong earnings growth next year. With the quotation near the midpoint of our 2016-2018 Target Price Range, total return potential is unspic-tacular.

Paul E. Debbas, CFA March 22, 2013

(A) Diluted EPS. Excl. nonrec. gain (loss): '04, 2¢; '05, (\$1.84); gain (losses) on disc. ops.: '04, \$2.57; '05, (16¢); '06, (2¢); loss from ac-counting change: '04, 27¢. Next yrs. report due late Apr. (B) Div'ds historically paid in early Mar., June, Sept. and Dec. (C) Div'd reinvest-ment plan avail. † Shareholder investment plan available. (C) Incl. deferred chgs. In '12: \$8.64/sh. (D) In mill. (E) Rate base: Original cost deprec. Rate allowed on com. eq. in '10: 10.38%; earned on avg. com. eq., '12: 8.6%. Regulatory Climate: Avg. (F) Summer peak in '10 & '12.

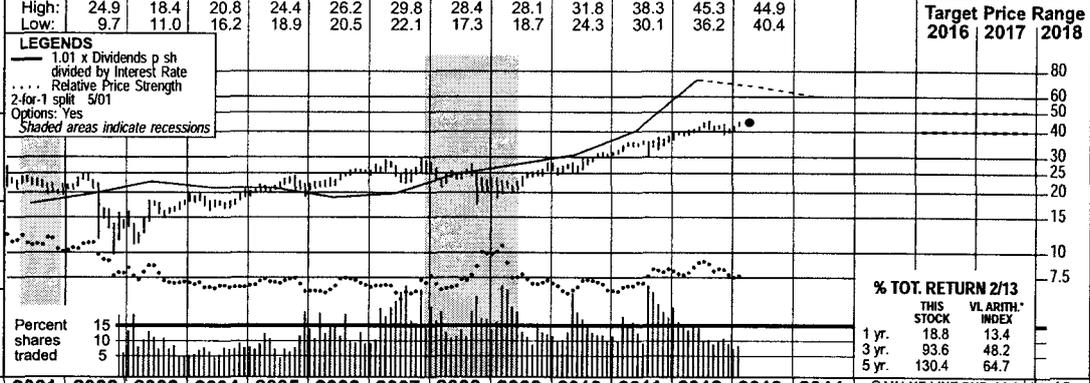
Company's Financial Strength

Stock's Price Stability	A
Price Growth Persistence	50
Earnings Predictability	80

CLECO CORPORATION NYSE-CNL

RECENT PRICE **44.57** P/E RATIO **17.3** (Trailing: 16.5 Median: 14.0) RELATIVE P/E RATIO **1.03** DIV'D YLD **3.2%** VALUE LINE

TIMELINESS 4 Lowered 12/21/12
SAFETY 1 Raised 6/22/12
TECHNICAL 3 Raised 3/22/13
BETA .65 (1.00 = Market)



2016-18 PROJECTIONS

High	Price	Gain	Ann'l Total
Low	50	(+10%)	Return
	40	(-10%)	6%
			1%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
to Sell	2	0	0	1	0	1	0	0	0
Options	1	1	0	0	1	0	0	0	0

Institutional Decisions

	2Q2012	3Q2012	4Q2012
to Buy	109	82	92
to Sell	74	106	95
Mf's(000)	43036	42156	42755

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC 16-18	
10.16	11.46	17.12	18.23	23.55	15.33	18.54	15.03	18.41	17.38	17.19	17.99	14.17	18.98	18.53	16.30	17.05	19.65	Revenues per sh	22.50
2.18	2.28	2.36	2.77	2.94	3.05	2.98	2.56	2.76	2.63	2.69	3.71	3.78	5.12	5.28	5.25	5.70	5.25	"Cash Flow" per sh	7.00
1.09	1.12	1.19	1.46	1.51	1.52	1.26	1.32	1.42	1.36	1.32	1.70	1.76	2.29	2.59	2.70	2.55	2.85	Earnings per sh A	3.50
.79	.81	.83	.85	.87	.90	.90	.90	.90	.90	.90	.90	.90	.98	1.12	1.30	1.40	1.60	Div'd Decl'd per sh B+C	2.00
1.73	2.09	3.99	2.52	1.10	1.91	1.58	1.61	3.19	4.11	8.51	5.59	4.15	4.68	3.25	3.95	3.80	2.30	Cap'l Spending per sh	2.00
8.68	9.07	9.44	10.04	10.69	11.77	10.09	10.83	13.69	15.22	16.85	17.65	18.50	21.76	23.55	24.60	25.75	27.00	Book Value per sh C	31.25
44.93	44.97	44.88	44.99	44.96	47.04	47.18	49.62	49.99	57.57	59.94	60.04	60.26	60.53	60.29	61.00	61.00	61.00	Common Shs Outst'g D	61.00
12.5	14.4	13.4	13.2	14.6	12.2	12.4	13.8	15.0	17.3	19.6	14.1	13.2	12.3	13.3	15.0	15.0	15.0	Avg Ann'l P/E Ratio	13.0
.72	.75	.76	.86	.75	.67	.71	.73	.80	.93	1.04	.85	.88	.78	.83	.96	.96	.96	Relative P/E Ratio	.85
5.8%	5.0%	5.2%	4.4%	3.9%	4.8%	5.8%	5.0%	4.2%	3.8%	3.5%	3.8%	3.9%	3.5%	3.3%	3.2%	3.2%	3.2%	Avg Ann'l Div'd Yield	4.5%

CAPITAL STRUCTURE as of 9/30/12
 Total Debt \$1328.1 mill. Due in 5 Yrs \$209.9 mill.
 LT Debt \$1237.2 mill. LT Interest \$75.5 mill.
 Incl. \$15.7 million capitalized leases.
 (LT interest earned: 4.3x)

Leases, Uncapitalized Annual rentals \$12.4 mill.
Pension Assets-12/11 \$312.4 mill.
Oblig. \$362.0 mill.

Pfd Stock None

Common Stock 60,726,390 shs.
as of 10/26/12
MARKET CAP: \$2.7 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2009	2010	2011
% Change Retail Sales (KWH)	-6.0	+5.9	+4
Avg. Indust. Use (MWH)	3532	3657	3904
Avg. Indust. Revs. per KWH (¢)	6.48	7.68	7.58
Capacity at Peak (MW)	2355	2559	2544
Peak Load, Summer (MW)	2242	2348	2355
Annual Load Factor (%)	53.5	55.8	56.2
% Change Customers (avg.)	+7	+7	+6

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11	'16-'18
of change (per sh)	-1.5%	.5%	4.0%	4.0%
Revenues	6.0%	12.5%	6.0%	6.0%
"Cash Flow"	5.0%	10.0%	7.0%	7.0%
Earnings	1.5%	2.0%	10.5%	10.5%
Dividends	8.0%	10.0%	5.5%	5.5%
Book Value				

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	272.3	275.9	343.9	256.6	1148.7
2011	253.7	272.9	351.6	239.1	1117.3
2012	222.8	240.1	297.4	233.4	993.7
2013	235	255	315	235	1040
2014	245	270	335	250	1100

EARNINGS PER SHARE A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.56	.58	.82	.33	2.29
2011	.48	.52	1.08	.51	2.59
2012	.50	.77	1.05	.38	2.70
2013	.50	.60	1.10	.35	2.55
2014	.55	.68	1.20	.42	2.85

QUARTERLY DIVIDENDS PAID B+C

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.225	.225	.225	.225	.90
2010	.225	.25	.25	.25	.98
2011	.25	.28	.28	.3125	1.12
2012	.3125	.3125	.3375	.3375	1.30
2013	.3375				

BUSINESS: Cleco Corporation is a holding company for Cleco Central, which supplies electricity to about 283,000 customers in central Louisiana. Through a subsidiary, has 775 megawatts of wholesale capacity. Electric revenue breakdown: residential, 47%; commercial, 29%; industrial, 14%; other, 10%. Largest industrial customers are paper mills and other wood-product industries. Gen-

Cleco Corporation is seeking permission from the Louisiana commission to transfer a plant from a nonregulated operation to its regulated utility subsidiary. The Coughlin gas-fired plant is now the company's only nonutility generating facility. Currently, the utility is buying power from Coughlin to help meet its needs. The move would give Cleco another regulated asset and expand its rate base. The company is hoping for a ruling from the state regulators by yearend, but this might slip into early 2014.

Earnings are likely to decline this year. In 2012, Cleco booked \$0.22 a share of profits from the contractual expirations of indemnifications that arose from non-utility generating units that were sold in 2010 and 2011. This made the year-to-year earnings comparisons difficult. Our 2013 share-net estimate is at the upper end of Cleco's targeted range of \$2.45-\$2.55.

A long-term wholesale contract will enhance Cleco's earnings beginning next year. The 10-year agreement with an electric cooperative serving suburban Baton Rouge begins in April of 2014. The pact will increase the utility's load by

erating sources: coal & lignite, 34%; gas & oil, 29%; petroleum coke, 23%; purchased, 14%. Fuel costs: 40% of revenues. '11 reported deprec. rate (utility): 2.8%. Has 1,200 employees. Chairman: J. Patrick Garrett. President & CEO: Bruce A. Williamson. Inc.: Louisiana. Address: 2030 Donahue Ferry Road, P.O. Box 5000, Pineville, LA 71361-5000. Tel.: 318-484-7400. Internet: www.cleco.com.

more than 20%. Cleco hasn't disclosed the effect of the contract on its annual income, but this is the main reason why we forecast a significant rise in profits next year. **Dividend growth is Cleco's strong point.** After a period of several years without a dividend hike, the board of directors raised the payout in 2010 once the company's earnings (and quality of earnings) improved. The board reviews the dividend every quarter, and has boosted the disbursement four times in the past three years. However... **This untimely but top-quality equity has a high valuation for a utility issue.** The dividend yield is nearly one percentage below the industry average, and the price-earnings ratio is above that of the market. This valuation is due in part to Cleco's superior earnings and dividend growth prospects. The company will also have significant free cash flow after its capital budget declines in 2014. Finally, we think some takeover speculation is reflected in the recent price. Total return potential to 2016-2018 is about equal to the utility average.

Paul E. Debbas, CFA March 22, 2013

(A) Diluted earnings. Excl. nonrec. gains (losses): '00, \$6; '02, (\$6); '03, (\$2.05); '05, \$2.11; '07, \$1.22; '10, \$1.91; '11, 63¢; losses from discount. ops.: '00, 14¢; '01, 4¢. Next earnings report due early May. (B) Div'ds historically paid in mid-Feb., May, Aug. and Nov. (C) Div'd reinvestment plan avail. (D) Shareholder investment plan avail. (E) Incl. deferred charges. In '11: \$10.61/sh. (D) In mill., adj. for split. (E) Rate base: Net orig. cost. Rate allowed on com. eq. in '09: 11.7%; earned on avg. com. eq., '11: 11.7%. Regulatory Climate: Average.

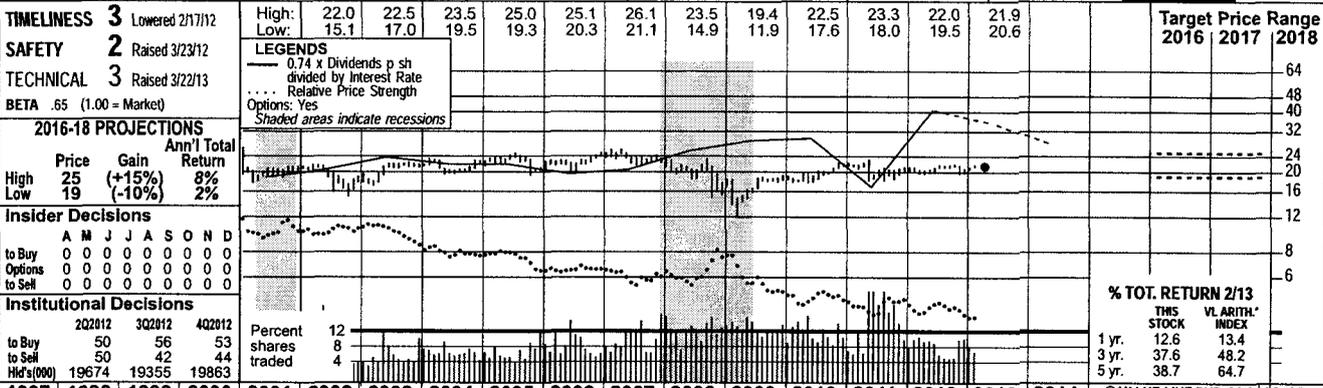
Company's Financial Strength A
Stock's Price Stability 100
Price Growth Persistence 95
Earnings Predictability 75

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EMPIRE DISTRICT NYSE-EDE

RECENT PRICE **21.53** P/E RATIO **15.3** (Trailing: 16.4 Median: 16.0) RELATIVE P/E RATIO **0.91** DIV'D YLD **4.6%** VALUE LINE



Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
Revenues per sh	12.83	14.02	13.94	14.78	13.37	13.56	13.03	12.67	14.80	13.67	14.59	15.25	13.04	13.02	13.74	13.11	13.80	14.25	Revenues (\$mill)	750
"Cash Flow" per sh	2.67	2.97	2.89	3.12	2.19	2.43	2.48	2.22	2.45	2.75	2.69	2.91	2.72	2.85	3.21	2.99	3.20	3.30	"Cash Flow" per sh	4.00
Earnings per sh	1.29	1.53	1.13	1.35	.59	1.19	1.29	.86	.92	1.41	1.09	1.17	1.18	1.17	1.31	1.32	1.40	1.45	Earnings per sh	1.75
Div'd Decl'd per sh	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	.64	1.00	1.00	1.00	Div'd Decl'd per sh	1.20
Cap'l Spending per sh	3.38	3.03	4.14	7.61	4.02	3.43	2.65	1.64	2.83	3.97	5.46	6.28	4.07	2.63	2.44	3.22	3.85	3.80	Cap'l Spending per sh	2.50
Book Value per sh	13.06	13.43	13.48	13.65	13.58	14.59	15.17	14.76	15.08	15.49	16.04	15.56	15.75	15.82	16.53	16.90	17.20	17.75	Book Value per sh	19.25
Common Shs Outst'g	16.78	17.11	17.37	17.60	19.76	22.57	24.98	25.70	26.08	30.25	33.61	33.98	38.11	41.58	41.98	42.48	42.75	44.25	Common Shs Outst'g	45.00
Avg Ann'l P/E Ratio	13.9	14.0	21.7	17.7	33.9	16.2	15.8	24.8	24.5	15.9	21.7	17.3	14.3	16.8	15.8	15.8	15.8	15.8	Avg Ann'l P/E Ratio	12.5
Relative P/E Ratio	.80	.73	1.24	1.15	1.74	.88	.90	1.31	1.30	.86	1.15	1.04	.95	1.07	.99	.99	1.01	1.01	Relative P/E Ratio	.85
Avg Ann'l Div'd Yield	7.1%	6.0%	5.2%	5.4%	6.4%	6.6%	6.3%	6.0%	5.7%	5.7%	5.4%	6.3%	7.6%	6.5%	3.1%	4.8%	4.8%	4.8%	Avg Ann'l Div'd Yield	5.5%

CAPITAL STRUCTURE as of 12/31/12
 Total Debt \$716.3 mill. Due in 5 Yrs \$50.9 mill.
 LT Debt \$691.6 mill. LT Interest \$39.8 mill.
 Incl. \$4.4 mill. capitalized leases.
 (LT interest earned: 3.2x)
 Leases, Uncapitalized Annual rentals \$.8 mill.
 Pension Assets-12/12 \$160.2 mill.
 Oblig. \$248.0 mill.
 Pfd Stock None
 Common Stock 42,535,367 shs. as of 2/1/13

MARKET CAP: \$925 million (Small Cap)

Year	2010	2011	2012
% Change Retail Sales (KWH)	+6.1	-2.3	-3.2
Avg. Industrial Use (MWH)	2813	2865	2913
Avg. Industrial Rev/KWH (¢)	6.92	7.72	7.66
Capacity at Peak (Mw)	1257	1392	1391
Peak Load, Summer (Mw)	1199	1198	1142
Annual Load Factor (%)	53.2	52.0	52.2
% Change Customers (avg.)	+4	-1.5	+6

ANNUAL RATES

Year	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12	'10-'12
Revenues	-5%	-1.5%	4.0%	4.0%
"Cash Flow"	1.5%	3.0%	5.0%	5.0%
Earnings	2.0%	2.0%	5.5%	5.5%
Dividends	-2.5%	-5.5%	3.5%	3.5%
Book Value	1.5%	1.0%	2.5%	2.5%

QUARTERLY REVENUES (\$ mill.)

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	139.9	114.5	154.1	132.8	541.3
2011	150.7	129.1	164.3	132.8	576.9
2012	137.2	131.6	159.2	129.1	557.1
2013	150	130	165	145	590
2014	160	140	175	155	630

EARNINGS PER SHARE

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.22	.18	.55	.20	1.17
2011	.29	.22	.60	.21	1.31
2012	.23	.25	.60	.23	1.32
2013	.26	.27	.65	.22	1.40
2014	.30	.28	.65	.22	1.45

QUARTERLY DIVIDENDS PAID

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.32	.32	.32	.32	1.28
2010	.32	.32	.32	.32	1.28
2011	.32	.32	---	---	.64
2012	.25	.25	.25	.25	1.00
2013	.25	---	---	---	---

BUSINESS: The Empire District Electric Company supplies electricity to 167,000 customers in a 10,000 sq. mi. area in Missouri (89% of '12 retail elec. revs.), Kansas (5%), Oklahoma (3%), and Arkansas (3%). Acquired Missouri Gas (43,000 customers) 6/06. Supplies water service (4,000 customers) and has a small fiber-optics operation. Electric revenue breakdown: residential, 43%; commercial, 30%; industrial, 15%; other, 12%. Generating sources: coal, 48%; gas, 25%; hydro, 1%; purchased, 26%. Fuel costs: 35% of revenues. '12 reported deprec. rate: 2.9%. Has about 750 employees. Chairman: D. Randy Laney. President & CEO: Bradley P. Beecher. Inc.: KS. Address: 602 S. Joplin Ave., P.O. Box 127, Joplin, MO 64802-0127. Tel.: 417-625-5100. Internet: www.empiredistrict.com.

Empire District Electric's settlement of its electric rate case was approved by the Missouri Public Service Commission. Base rates will rise by \$27.5 million (6.8%), effective at the start of April. This is a "black box" settlement in which an allowed return on equity and a common-equity ratio were not disclosed. The utility had sought an electric rate increase of \$30.7 million (7.6%) based on a return on equity of 10.6%. The key reasons for the filing were the aftereffects of the tornado that hit Joplin, Missouri severely in May of 2011, and higher operating expenses. The only concessions Empire District had to make were a \$3 million (pretax) write-off, which will be taken in the current quarter, and a base rate freeze through October 1, 2014. We will include the write-off in our earnings presentation due to its small size.

Joplin continues to recover. The customer count there is down about 1,000 from the pretornado level, but this has been offset partially by the addition of 600 electric customers elsewhere in Empire District's service area.

We estimate that earnings will ad-

vance this year. The key factor will be the aforementioned rate order. Empire District also received a \$450,000 water rate increase last November, so this will benefit the utility for all of 2013. The recovery in the company's service area is another plus, as well. Our \$1.40-a-share earnings estimate is near the upper end of Empire District's targeted range of \$1.26-\$1.43.

We forecast further profit growth in 2014. The rate agreement will be in place for the entire year. Further recovery in Joplin is likely to occur, too. On the other hand, an equity offering is expected, which would lessen the increase in Empire District's share net. We aren't estimating a dividend increase next year, but we aren't ruling one out, either. **This equity's dividend yield is fractionally above the industry average.** Although we project some dividend growth by 2016-2018, it probably won't be enough to lift the payout to its level before the board suspended it in 2011. Long-term total return potential is only average for a utility.

Paul E. Debbas, CFA March 22, 2013

(A) Diluted earnings. Excl. loss from disc. ops.: '06, '26. '10 EPS don't add due to change in shs., '11 & '12 due to rounding. Next earnings report due early May. (B) Div'ds historically paid in mid-Mar., June, Sept. and Dec. Div'ds suspended 3Q '11, reinstated 1Q '12. Div'd reinvestment plan avail. (3% disc.). † Shareholder investment plan avail. (C) Incl. intang. In '12: \$6.85/sh. (D) In mill. (E) Rate base: Deprec. orig. cost. Rate allowed on com. eq. in MO in '10: none specified; earned on avg. com. eq., '12: 7.9%. Regulatory Climate: average.

Company's Financial Strength B++
 Stock's Price Stability 100
 Price Growth Persistence 35
 Earnings Predictability 80

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FIRSTENERGY NYSE-FE

RECENT PRICE **42.75** P/E RATIO **15.8** (Trailing: 23.6 Median: 15.0) RELATIVE P/E RATIO **0.91** DIV'D YLD **5.1%**

VALUE LINE

TIMELINESS 4 Lowered 12/21/12
SAFETY 3 Lowered 2/22/13
TECHNICAL 3 Lowered 4/26/13
 BETA .75 (1.00 = Market)

High: 39.1 38.9 43.4 53.4 61.7 75.0 84.0 53.6 47.8 46.5 51.1 46.8
 Low: 24.8 25.8 35.2 37.7 47.8 57.8 41.2 35.3 33.6 36.1 40.4 38.3

LEGENDS
 — 0.84 x Dividends p sh divided by Interest Rate
 ... Relative Price Strength
 Options: Yes
 Shaded areas indicate recessions

2016-18 PROJECTIONS

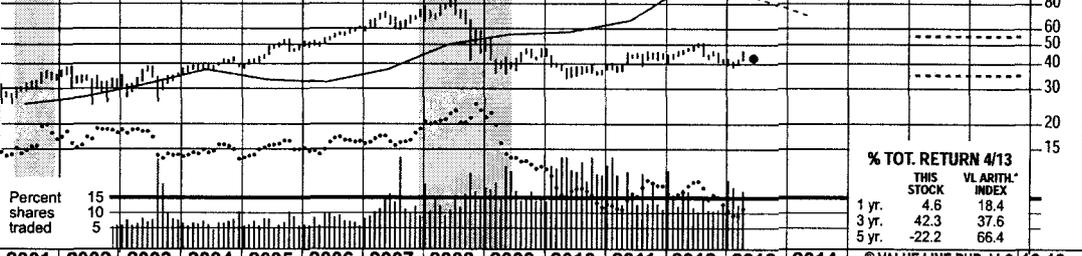
	Price	Gain	Ann'l Total Return
High	55	(+30%)	10%
Low	35	(-20%)	1%

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	0	0	0	0	0	0	0	0	0
Options	0	1	1	0	0	0	0	0	2
to Sell	1	1	1	0	0	0	0	0	6

Institutional Decisions

	2Q2012	3Q2012	4Q2012
to Buy	197	204	231
to Sell	241	227	215
Hld's(000)	258528	289354	294106



1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC 16-18	
12.26	24.72	27.19	31.31	26.88	40.83	37.31	37.76	36.35	36.03	42.00	44.70	41.70	43.76	38.87	36.57	35.05	35.30	Revenues per sh	38.50
3.66	5.33	6.89	7.28	5.48	6.45	4.79	7.60	7.55	7.22	8.34	9.04	8.80	8.50	5.75	6.05	6.35	6.65	"Cash Flow" per sh	7.25
1.94	1.95	2.50	2.69	2.84	2.54	1.47	2.77	2.84	3.82	4.22	4.38	3.32	3.25	1.88	2.13	2.70	2.85	Earnings per sh ^A	3.00
1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.91	1.71	1.85	2.05	2.20	2.20	2.20	2.20	2.20	2.20	2.20	Div'd Decl'd per sh ^B	2.20
.89	2.75	2.69	2.74	2.86	3.35	2.60	2.57	3.66	4.12	5.36	9.47	7.23	6.44	5.45	7.09	6.35	6.45	Cap'l Spending per sh	6.00
18.07	18.77	19.63	20.72	24.86	23.92	25.13	26.04	27.86	28.30	29.45	27.17	28.08	28.03	31.75	31.29	32.00	32.65	Book Value per sh ^C	35.00
230.21	237.07	232.45	224.53	297.64	297.64	329.84	329.84	329.84	319.21	304.84	304.84	304.84	304.84	418.22	418.22	425.00	425.00	Common Shs Outst'g ^D	425.00
11.8	15.4	11.3	9.2	10.9	13.0	22.5	14.1	16.1	14.2	15.6	15.6	13.0	11.7	22.4	21.1	21.1	21.1	Avg Ann'l P/E Ratio	14.5
.68	.80	.64	.60	.56	.71	1.28	.74	.86	.77	.83	.94	.87	.74	1.41	1.34	1.34	1.34	Relative P/E Ratio	.95
6.6%	5.0%	5.3%	6.1%	4.8%	4.6%	4.5%	4.9%	3.7%	3.4%	3.1%	3.2%	5.1%	5.8%	5.2%	4.9%	4.9%	4.9%	Avg Ann'l Div'd Yield	5.0%

CAPITAL STRUCTURE as of 12/31/12
 Total Debt \$19147 mill. Due in 5 Yrs \$9728.0 mill.
 LT Debt \$15179 mill. LT Interest \$922.0 mill.
 Incl. \$232 mill. capitalized leases.
 (LT interest earned: 2.5x)

Leases, Uncapitalized Annual rentals \$210.0 mill.
Pension Assets-12/12 \$6.67 bill.
Oblig. \$8.98 bill.

Pfd Stock None

Common Stock 418,216,437 shs.
as of 1/31/13

MARKET CAP: \$18 billion (Large Cap)

12307	12453	11989	11501	12802	13627	12712	13339	16258	15294	14900	15000	16400	16400
490.8	932.6	951.0	1265.0	1309.0	1342.0	1015.0	991.0	752.0	891.0	1145	1220	1295	1295
43.9%	42.2%	42.1%	38.6%	40.3%	36.7%	19.6%	38.6%	41.3%	41.1%	41.0%	41.0%	41.0%	41.0%
6.5%	2.7%	2.0%	2.1%	2.4%	3.9%	12.8%	16.6%	9.3%	8.1%	5.0%	5.0%	5.0%	5.0%
53.1%	52.8%	46.5%	48.6%	49.7%	52.4%	58.2%	59.5%	54.2%	53.7%	53.5%	54.0%	55.5%	55.5%
45.0%	45.4%	52.4%	51.4%	50.3%	47.7%	41.8%	40.5%	45.8%	46.3%	46.5%	46.0%	44.5%	44.5%
18414	18938	17527	17570	17846	17383	20467	21124	28996	28263	29375	30325	33500	33500
13269	13478	13998	14667	15383	17723	19164	19788	30337	32903	34075	35300	37900	37900
4.6%	6.5%	7.1%	9.0%	9.0%	9.7%	6.9%	6.3%	4.0%	4.9%	5.5%	5.5%	5.5%	5.5%
5.7%	10.4%	10.1%	14.0%	14.6%	16.2%	11.9%	11.6%	5.7%	6.8%	8.5%	9.0%	8.5%	8.5%
5.4%	10.6%	10.2%	13.9%	14.6%	16.2%	11.9%	11.6%	5.7%	6.8%	8.5%	9.0%	8.5%	8.5%
NMF	4.9%	4.2%	7.4%	7.7%	8.1%	4.0%	3.8%	NMF	NMF	1.5%	2.0%	2.5%	2.5%
101%	55%	59%	47%	47%	50%	66%	68%	117%	103%	81%	77%	72%	72%

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWh)	+5.6	+1	+3.5
Avg. Indust. Use (MWh)	NMF	NMF	NMF
Avg. Indust. Revs. per KWh (¢)	NA	NA	NA
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	NA	NA	NA

BUSINESS: FirstEnergy Corp. is a holding company for Ohio Edison, Pennsylvania Power, Cleveland Electric, Toledo Edison, Metropolitan Edison, Penelec, Jersey Central Power & Light, West Penn Power, Potomac Edison, & Mon Power. Provides electric service to over 6 million customers in OH, PA, NJ, WV, MD, & NY. Acq'd Allegheny Energy 2/11. Electric revenue breakdown by customer class not available. Generating sources: coal, 44%; nuclear, 26%; purchased, 30%. Fuel costs: 43% of revs. '12 reported depr. rates: 2.1%-3.0%. Has 16,500 employees. Chairman: George M. Smart. President & CEO: Anthony J. Alexander. COO: Richard R. Grigg, Inc.: OH. Address: 76 South Main Street, Akron, OH 44308-1890. Tel.: 800-736-3402. Internet: www.firstenergycorp.com.

Fixed Charge Cov. (%) 253 206 236

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues (per sh)	2.0%	1.0%	-5%
"Cash Flow"	.5%	-2.5%	1.0%
Earnings	-1.0%	-8.0%	3.5%
Dividends	4.0%	3.5%	Nil
Book Value	2.5%	1.0%	2.5%

FirstEnergy is making changes to its balance sheet. The company is issuing \$1.5 billion of debt at the parent level and retiring a similar amount at its nonregulated businesses. Market conditions for these operations are unfavorable, so having less debt is beneficial. The new debt has lower interest rates, but the company is incurring charges for the early retirement of debt, which we include in our presentation. (These charges cut share net by \$0.18 in the first quarter.) Also, FirstEnergy plans to issue up to \$300 million of common stock in late 2013, and it intends to sell its nonregulated hydro assets and transfer a nonregulated unit to one of its regulated utilities. The company would use these proceeds to reduce debt.

Jersey Central Power & Light has a rate case pending. The utility, which wants to recover costs associated with Hurricane Sandy, is seeking a hike of \$112 million, based on an 11.5% return on equity. However, JCP&L has been criticized for its performance following the hurricane, and even before then, it was ordered to file a rate case after the state's Division of Rate Counsel charged that the utility

was earning an excessive return on equity. This makes us more concerned than usual about the possibility of an unfavorable ruling. New rates likely won't take effect until the first half of 2014.

We think earnings will be higher in 2013 and 2014 than in 2012. Last year, several unusual items depressed the bottom line—most notably, a \$0.91-a-share charge for an annual mark-to-market pension accounting adjustment in the fourth quarter. Even so, earnings this year will likely be below the level of just three years ago due to the reduced profitability of the nonregulated operations.

In contrast to the strong performance of most utility issues, untimely FirstEnergy stock has risen just 2% this year. There are some things to be worried about, such as low prices in the power markets and the retail energy service business, along with the JCP&L rate case. Given this, and a lack of dividend growth, it's understandable that the yield is one of the highest in this industry. **We think all but the most aggressive utility investors should look elsewhere.**

Paul E. Debbas, CFA May 24, 2013

Cal-endar

	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	3299	3128	3693	3219	13339
2011	3576	4060	4719	3903	16258
2012	3986	3757	4051	3500	15294
2013	3729	3671	4000	3500	14900
2014	3800	3700	4000	3500	15000

Cal-endar

	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.59	.87	1.19	.61	3.25
2011	.15	.48	1.27	d.09	1.88
2012	.78	.52	1.05	d.23	2.13
2013	.47	.63	.85	.75	2.70
2014	.70	.60	.80	.75	2.85

Cal-endar

	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.55	.55	.55	.55	2.20
2010	.55	.55	.55	.55	2.20
2011	.55	.55	.55	.55	2.20
2012	.55	.55	.55	.55	2.20
2013	.55	.55	.55	.55	2.20

(A) Dil. EPS. Excl. nonrec. gain (losses): '04, (11¢); '05, (28¢); '09, (3¢); '10, (68¢); '11, 33¢; '12, (29¢); gain (loss) from disc. ops.: '03, (33¢); '05, 5¢. '10-'12 EPS don't add due to rounding or chg. in shs. Next egs. due early Dec. (B) Div'd paid early Mar., June, Sept. & Dec. Five div'ds paid in '04. ■ Div'd reinvest. plan avail. (C) Incl. intang.: In '12: \$21.09/sh. (D) In mill. (E) Rate base: Deprec. org. cost Rates all'd on com. eq.: 9.75%-12.9%; earned on avg. com. eq.: '12: 6.7%. Reg. Clim.: OH Above Avg.; PA, NJ Avg.; MD, WV Below Avg.

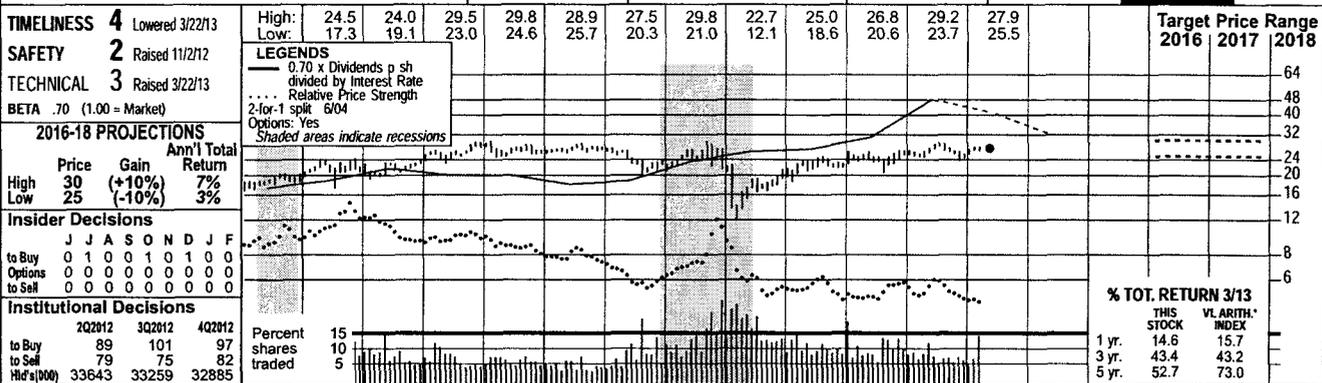
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Company's Financial Strength B+
Stock's Price Stability 90
Price Growth Persistence 90
Earnings Predictability 75

To subscribe call 1-800-833-0046.

HAWAIIAN ELECTRIC NYSE:HE

RECENT PRICE **27.37** P/E RATIO **16.7** (Trailing: 16.3 Median: 19.0) RELATIVE P/E RATIO **0.99** DIV'D YLD **4.5%** VALUE LINE



1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC 16-18	
22.95	23.12	23.64	26.05	24.26	22.46	23.49	23.85	27.36	30.21	30.40	35.56	24.96	28.14	33.76	34.46	34.65	32.85	Revenues per sh	33.00
3.01	3.23	3.35	3.08	3.33	3.52	3.54	3.09	3.22	3.19	3.01	2.72	2.59	2.88	3.18	3.28	3.40	3.35	"Cash Flow" per sh	3.75
1.38	1.48	1.45	1.27	1.60	1.62	1.58	1.36	1.46	1.33	1.11	1.07	.91	1.21	1.44	1.68	1.60	1.65	Earnings per sh ^A	2.00
1.22	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	Div'd Decl'd per sh ^B	1.40
2.31	2.60	2.09	2.04	1.77	1.74	2.15	2.66	2.76	2.58	2.62	3.12	3.29	1.92	2.45	3.32	3.80	4.65	Cap'l Spending per sh	4.75
12.77	12.87	13.16	12.72	13.06	14.21	14.36	15.01	15.02	13.44	15.29	15.35	15.58	15.67	15.95	16.28	16.85	18.05	Book Value per sh ^C	21.00
63.79	64.23	64.43	65.98	71.20	73.62	75.84	80.69	80.98	81.46	83.43	90.52	92.52	94.69	96.04	97.93	99.50	108.00	Common Shs Outst'g ^D	124.50
13.2	13.4	12.1	12.9	11.8	13.5	13.8	19.2	18.3	20.3	21.6	23.2	19.8	18.6	17.1	15.8	15.1	15.1	Avg Ann'l P/E Ratio	13.5
.76	.70	.69	.84	.60	.74	.79	1.01	.97	1.10	1.15	1.40	1.32	1.18	1.07	1.01	1.01	1.01	Relative P/E Ratio	.90
6.7%	6.2%	7.1%	7.5%	6.6%	5.7%	5.7%	4.8%	4.6%	4.6%	5.2%	5.0%	6.9%	5.5%	5.0%	4.7%	4.7%	4.7%	Avg Ann'l Div'd Yield	5.1%

CAPITAL STRUCTURE as of 12/31/12
 Total Debt \$1506.6 mill. Due in 5 Yrs \$319.7 mill.
 LT Debt \$1372.9 mill. LT Interest \$71.3 mill.
 Incl. \$50 mill. 6.5% oblig. pfd. sec. of trust subsid.
 (LT interest earned: 4.4x)
 Pension Assets-12/12 \$971.3 mill.
 Pfd Stock \$34.3 mill. Pfd Div'd \$2.0 mill.
 1,114,657 shs. 4 1/4% to 5 1/4%, \$20 par. call. \$20 to \$21; 120,000 shs. 7 5/8%, \$100 par. call. \$100.
 Sinking fund ends 2018.
 Common Stock 98,101,019 shs. as of 2/7/13
MARKET CAP: \$2.7 billion (Mid Cap)

OBIG. \$1.59 bill.

	2010	2011	2012
% Change Retail Sales (KWH)	-1.1	-5	-3.5
Avg. Indust. Use (MWH)	6352	6284	6119
Avg. Indust. Revs. per KWH (¢)	21.41	27.89	30.35
Capacity at Yearend (Mw)	2325	2327	2332
Peak Load, Winter (Mw)	1562	1530	1535
Annual Load Factor (%)	73.9	74.8	72.1
% Change Customers (yr-end)	+5	+3	+2.5

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12
of change (per sh)	3.0%	2.0%	5%
Revenues	-5%	-	3.0%
"Cash Flow"	-5%	2.0%	5.5%
Earnings	-	-	2.0%
Dividends	2.0%	2.0%	4.5%

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	619.0	655.7	694.6	695.7	2665.0
2011	710.6	794.3	866.4	851.0	3242.3
2012	814.9	854.3	867.7	838.1	3375.0
2013	850	850	900	850	3450
2014	875	875	925	875	3550

EARNINGS PER SHARE ^A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.29	.31	.35	.26	1.21
2011	.30	.28	.50	.36	1.44
2012	.40	.40	.49	.39	1.68
2013	.40	.40	.45	.35	1.60
2014	.40	.40	.48	.37	1.65

QUARTERLY DIVIDENDS PAID ^B

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.31	.31	.31	.31	1.24
2010	.31	.31	.31	.31	1.24
2011	.31	.31	.31	.31	1.24
2012	.31	.31	.31	.31	1.24
2013	.31	.31	.31	.31	1.24

BUSINESS: Hawaiian Electric Industries, Inc. is the parent company of Hawaiian Electric Company (HECO) & American Savings Bank (ASB). HECO & its subs., Maui Electric Co. (MECO) & Hawaii Electric Light Co. (HELCO), supply electricity to 448,000 customers on Oahu, Maui, Molokai, Lanai, & Hawaii. Operating companies' systems are not interconnected. Disc. int'l power sub. in '01. Elec. rev. breakdown: res'l, 31%; comm'l, 34%; large light & power, 34%; other, 1%. Generating sources: oil, 58%; purchased, 42%. Fuel costs: 60% of revs. '12 reported depr. rate (util.): 3.1%. Has 3,900 empls. Chairman: Jeffrey N. Watanabe. Pres. & CEO: Constance H. Lau, Inc. HI. Address: 900 Richards St., P.O. Box 730, Honolulu, HI 96808-0730. Tel.: 808-543-5662. Web: www.hei.com.

Hawaiian Electric Industries' utilities have struck a regulatory agreement, which was approved by the Hawaii commission. The utilities gave a little, and got a little. As a result, the company wrote of \$40 million of pretax costs (\$0.25 a share) in the fourth quarter of 2012, which we *excluded* from our presentation as a nonrecurring item. Hawaii Electric Light Company withdrew its pending general rate case, and won't file another application for three years, and Hawaiian Electric Company (HECO) will delay its next filing from mid-2013 to early 2014. On the positive side, from 2014 through 2016, the additional revenues that HECO receives each year for higher expenses and capital spending will be implemented on January 1st instead of June 1st. **It appears as if the company's streak of three straight years of earnings growth will come to an end this year.** Three years might not sound like much to be excited about, but that's a lot better than the four straight years of declining profits that preceded it. There is not much growth at the utilities. The low interest-rate environment is challenging for the

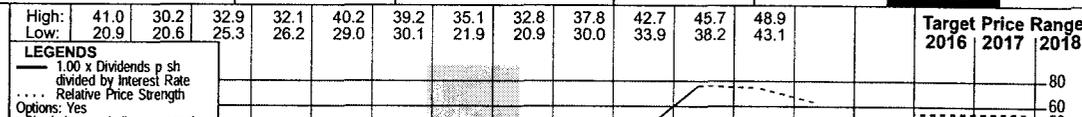
American Savings Bank subsidiary because this is squeezing its interest rate spread. And average shares outstanding are rising annually due to shares issued (about \$45 million in common equity) for the dividend-reinvestment program. For the first time, management is providing earnings guidance, which is \$1.58-1.68 a share for 2013. Our previous estimate of \$1.70 a share was too high, so we have lowered it by a dime, to \$1.60. We forecast just a partial profit recovery in 2014. **The company has entered into a forward equity sale.** HEI sold 6.1 million shares (and had an over-allotment option of up to 900,000 more) at \$26.75 each. The shares will be likely be issued within the next 12 to 24 months. We are assuming a 2014 issuance. **This untimely stock's dividend yield is about a percentage point above the utility average.** The valuation reflects a long period without dividend growth. With the stock having underperformed most utility issues so far in 2013, 3- to 5-year total return potential, though low, is now a cut above the industry norm. *Paul E. Debbas, CFA* May 3, 2013

(A) Dil. EPS. Excl. gains (losses) from disc. ops.: '00, (56¢); '01, (36¢); '03, (5¢); '04, 2¢; '05, (1¢); nonrec. gain (losses): '05, 11¢; '07, (9¢); '12, (25¢). Next earnings report due early May. (B) Div'ds historically paid in early Mar., June, Sept., & Dec. • Div'd reinvest. plan avail. (C) Incl. intang. In '12: \$9.67/sh. (D) In mill., adj. for split. (E) Rate base: Orig. cost. Rate allowed on com. eq. in '11: HECO, 10%; in '12: HELCO, 10%; in '12: MECO, 10%; eamed on avg. com. eq. '12: 10.3%. Regul. Climate: Avg. (F) Excl. div'ds paid through reinvest. plan. **Company's Financial Strength** B++ **Stock's Price Stability** 90 **Price Growth Persistence** 35 **Earnings Predictability** 70 **To subscribe call 1-800-833-0046.**

IDACORP, INC. NYSE:IDA

RECENT PRICE **48.37** P/E RATIO **15.2** (Trailing: 14.3 Median: 14.0) RELATIVE P/E RATIO **0.90** DIV'D YLD **3.1%** VALUE LINE

TIMELINESS 3 Lowered 5/14/10
SAFETY 3 Lowered 2/14/03
TECHNICAL 4 Lowered 4/26/13
 BETA .70 (1.00 = Market)



2016-18 PROJECTIONS

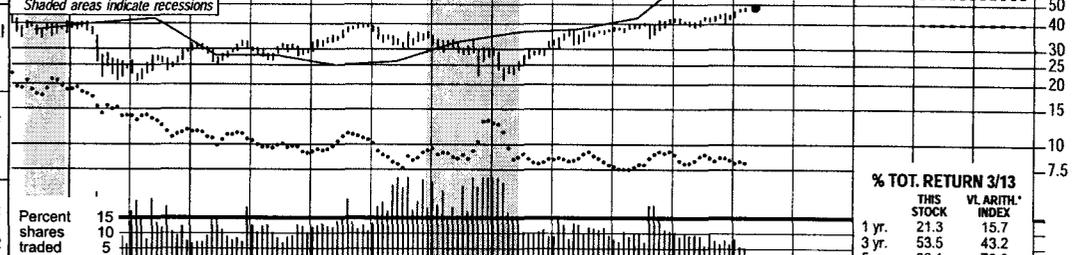
Price	Gain	Ann'l Total Return
High 55	(+15%)	7%
Low 40	(-15%)	Nil

Insider Decisions

	J	A	S	O	N	D	J	F
To Buy	0	0	0	0	0	0	0	0
To Sell	0	0	0	0	0	0	0	0

Institutional Decisions

	2Q2012	3Q2012	4Q2012
To Buy	86	75	81
To Sell	69	80	72
Net	35043	35050	35073



1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
19.90	29.83	17.50	27.10	150.10	24.43	20.41	20.00	20.15	21.23	19.51	20.47	21.92	20.97	20.55	21.55	22.30	22.75	Revenues per sh	25.50
4.22	4.69	4.50	5.63	5.63	4.08	3.50	4.12	3.87	4.58	4.11	4.27	5.07	5.23	5.74	5.84	5.85	6.05	"Cash Flow" per sh	6.55
2.32	2.37	2.43	3.50	3.35	1.63	.96	1.90	1.75	2.35	1.86	2.18	2.64	2.95	3.36	3.37	3.30	3.40	Earnings per sh ^A	3.65
1.86	1.86	1.86	1.86	1.86	1.86	1.70	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.37	1.56	1.68	Div'd Decl'd per sh ^{B†}	1.90
2.51	2.37	2.95	3.73	4.78	3.53	3.89	4.73	4.53	5.16	6.39	5.19	5.26	6.85	6.76	4.78	4.95	11.30	Cap'l Spending per sh	8.80
18.93	19.42	20.02	21.82	23.15	23.01	22.54	23.88	24.04	25.77	26.79	27.76	29.17	31.01	33.19	35.07	36.55	38.70	Book Value per sh ^C	43.45
37.61	37.61	37.61	37.61	37.63	38.02	38.34	42.22	42.66	43.63	45.06	46.92	47.90	49.41	49.95	50.16	50.50	50.50	Common Shs Outst'g ^D	51.00
13.6	14.4	12.7	10.9	11.4	18.9	26.5	15.5	16.7	15.1	18.2	13.9	10.2	11.8	11.5	12.4	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.0
.78	.75	.72	.71	.58	1.03	1.51	.82	.89	.82	.97	.84	.68	.75	.72	.79			Relative P/E Ratio	.85
5.9%	5.4%	6.0%	4.9%	4.9%	6.0%	6.7%	4.1%	4.1%	3.4%	3.5%	4.0%	4.5%	3.4%	3.1%	3.3%			Avg Ann'l Div'd Yield	4.0%

CAPITAL STRUCTURE as of 12/31/12
 Total Debt \$1537.7 mill. Due in 5 Yrs \$75.3 mill.
 LT Debt \$1466.6 mill. LT Interest \$79.0 mill.
 (LT interest earned: 3.5x)

Pension Assets-12/12 \$460.9 mill.
 Oblig. \$767.7 mill.

Pfd Stock None

Common Stock 50,143,416 shs.
 as of 2/15/13

MARKET CAP: \$2.4 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	-3.1	+1.6	+2.6
Avg. Indust. Use (MWH)	N/A	N/A	N/A
Avg. Indust. Revs. per KWH (¢)	4.50	4.54	4.63
Capacity at Peak (Mw)	N/A	N/A	N/A
Peak Load, Summer (Mw)	2714	2973	3245
Annual Load Factor (%)	N/A	N/A	N/A
% Change Customers (yr-end)	+4	+7	+1.1

Fixed Charge Cov. (%) 231 194 328

ANNUAL RATES Past Past Est'd '10-'12
 of change (per sh) 10 Yrs. 5 Yrs. to '16-'18

Revenues	-11.0%	.5%	3.5%
"Cash Flow"	1.0%	6.0%	2.5%
Earnings	1.5%	10.0%	2.0%
Dividends	-4.0%	1.0%	7.0%
Book Value	4.0%	5.5%	4.5%

Cal-endar	QUARTERLY REVENUES(\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2010	252.5	241.8	309.4	232.3	1036.0
2011	251.5	235.0	309.6	230.7	1026.8
2012	241.1	254.7	334.0	250.9	1080.7
2013	250	265	350	260	1125
2014	255	270	360	265	1150

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2010	.34	.82	1.39	.40	2.95
2011	.60	.42	2.16	.18	3.36
2012	.50	.71	1.84	.33	3.37
2013	.55	.60	1.70	.45	3.30
2014	.55	.65	1.70	.50	3.40

Cal-endar	QUARTERLY DIVIDENDS PAID ^{B†}				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	.30	.30	.30	.30	1.20
2010	.30	.30	.30	.30	1.20
2011	.30	.30	.30	.30	1.20
2012	.33	.33	.33	.38	1.37
2013	.38				

BUSINESS: IDACORP, Inc. is the holding company for Idaho Power, a utility that operates 17 hydroelectric generation developments, 3 natural gas-fired plants, and partly owns three coal plants across Idaho, Oregon, Wyoming, and Nevada. Service territory covers 24,000 square miles with estimated population of one million. Sells electricity in Idaho (95% of revenues) and Oregon (5%).

IDACORP's reported decent results in 2012. The company's performance was bolstered by rate increases related to the 2011 Idaho general rate case and the Langley Gulch power plant settlement. Higher irrigation volumes (due to warmer weather) helped, as well. Meanwhile, Idaho Power's return on equity exceeded 10.5%, which required the utility to share \$21.8 million with Idaho customers (according to the 2011 settlement agreement with the Idaho Public Utilities Commission). Moreover, the subsidiary did not use its accumulated deferred investment tax credits (ADITC) in 2012. Thus, the full amount will be available in 2013 and 2014, though, management only expects to use less than \$5 million this year. Indeed, this may prompt the company to extend the agreement into 2015.

Although IDACORP's guidance implies a bottom-line decline this year, performance will likely stabilize in 2014. An improved economic outlook and the company's ability to use ADITCs will provide support. Thus, we think earnings will increase to \$3.40 a share next year.

In other news, the company is work-

Revenue breakdown: residential, 40%; commercial, 22%; industrial, 14%; other, 24%. Fuel sources: hydro, 45%; thermal, 34%; purchased power, 21%. '12 depreciation rate: 2.4%. Has 2,067 employees. Chairman: Gary G. Michael. President & CEO: J. LaMont Keen. Incorporated: Idaho. Address: 1221 W. Idaho St., Boise, ID. 83702. Telephone: 208-388-2200. Internet: www.idacorpinc.com.

ing on an updated integrated resource plan (IRP). Indeed, this report is filed every two years. Adjustments to the 2011 IRP will include more-moderate load growth forecasts and changes in technology, the economy, and regulatory requirements. Management anticipates the 2013 IRP will be available in June. Additionally, major infrastructure development projects are under way, notably Gateway West and Boardman-to-Hemingway.

IDACORP's dividend growth has been impressive of late. The board of directors has raised the dividend more than 25% since the fourth quarter of 2011. The company intends to increase the quarterly payout an additional 10%, at least, in the December period. This will help achieve a targeted payout ratio of between 50% and 60% over the long term. Moreover, total return potential over the next 3 to 5 years is slightly higher than the industry median. That said,

The stock's dividend yield of 3.1% remains below the utility average, which may deter income-oriented investors.

Michelle Jensen May 3, 2013

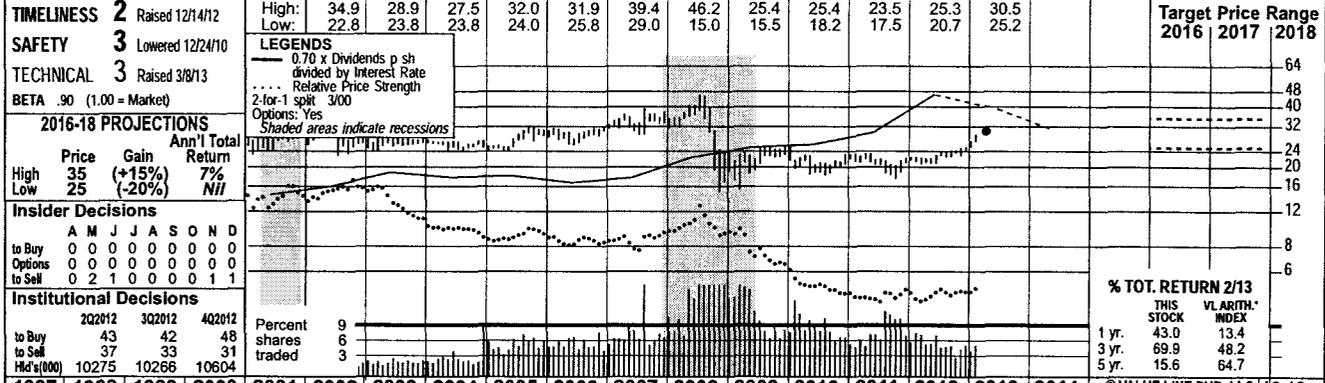
(A) EPS diluted. Excl. nonrecurring gains (loss): '00, 22¢; '03, 26¢; '05, (24¢); '06, 17¢. Egs. may not sum to total due to rounding. Next earnings report due early Aug. (B) Div'ds historically paid in early March, late May, late Aug., and late Nov. ■ Div'd reinvestment plan avail. † Shareholder investment plan avail. (C) Incl. deferred debts. In '12: \$24.35/sh. (D) In mill. (E) Rate Base: Net original cost. Rate allowed on com. eq. in Idaho in '11: 9.5%-10.5%; earned on avg. system com. eq. '12: 9.6%. Regulatory Climate: Above Average.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	85

To subscribe call 1-800-833-0046.

OTTER TAIL CORP. NDQ-OTTR

RECENT PRICE **30.34** P/E RATIO **22.1** (Trailing: 28.9 Median: 22.0) RELATIVE P/E RATIO **1.32** DIV'D YLD **3.9%** VALUE LINE



1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC 16-18	
16.80	18.14	19.48	23.45	26.53	27.75	29.28	30.45	35.59	37.43	41.50	37.06	29.03	31.08	29.86	23.76	24.30	26.30	Revenues per sh	35.00
2.95	2.75	2.91	3.21	3.40	3.44	3.30	2.88	3.35	3.39	3.55	2.81	2.76	2.60	2.36	2.71	3.25	3.55	"Cash Flow" per sh	5.00
1.29	1.29	1.45	1.60	1.68	1.79	1.51	1.50	1.78	1.69	1.78	1.09	.71	.38	.45	1.05	1.30	1.45	Earnings per sh ^A	1.90
.93	.96	.99	1.02	1.04	1.06	1.08	1.10	1.12	1.15	1.17	1.19	1.19	1.19	1.19	1.19	1.19	1.19	Div'd Decl'd per sh ^B	1.30
1.79	1.23	1.37	1.85	2.17	2.95	1.97	1.72	2.04	2.35	5.43	7.51	4.95	2.38	2.04	3.20	3.40	3.70	Cap'l Spending per sh	5.00
8.96	9.47	10.30	10.87	11.33	12.25	12.98	14.81	15.80	16.67	17.55	19.14	18.78	17.57	15.83	14.43	15.15	15.80	Book Value per sh ^C	18.00
23.46	23.76	23.85	23.85	24.65	25.59	25.72	28.98	29.40	29.52	29.85	35.38	35.81	36.00	36.10	36.17	37.00	38.00	Common Shs Outst'g ^D	40.00
12.8	14.4	13.9	13.5	16.4	16.0	17.8	17.3	15.4	17.3	19.0	30.1	31.2	NMF	47.5	21.7	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	15.0
.74	.75	.79	.88	.84	.87	1.01	1.01	.82	.93	1.01	1.81	2.08	NMF	2.98	1.39			Relative P/E Ratio	1.00
5.6%	5.2%	4.9%	4.7%	3.8%	3.7%	4.0%	4.2%	4.1%	3.9%	3.5%	3.6%	5.4%	5.7%	5.6%	5.2%			Avg Ann'l Div'd Yield	4.6%

CAPITAL STRUCTURE as of 12/31/12
 Total Debt \$421.9 mill. Due in 5 Yrs \$139.0 mill.
 LT Debt \$421.7 mill. LT Interest \$32.0 mill.
 (LT interest earned: 2.3x)

Leases, Uncapitalized Annual rentals \$8 mill.
Pension Assets-12/12 \$191.0 mill. Oblig. \$275.6 mill.

Pfd Stock \$15.5 mill. Pfd Div'd \$.7 mill.
 155,000 shs. \$3.60-\$6.75, cum., no par (\$100 liquidating value).

Common Stock 36,169,488 shs.
 as of 2/15/13

MARKET CAP: \$1.1 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	+4	+6	-1.1
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per MWH (\$)	NA	NA	NA
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Winter (Mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	NA	NA	NA

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12
Revenues of change (per sh)	1.0%	-6.0%	4.5%
"Cash Flow"	-2.5%	-5.5%	11.5%
Earnings	-9.5%	-18.5%	20.0%
Dividends	1.5%	.5%	1.5%
Book Value	3.5%	-1.0%	2.0%

QUARTERLY REVENUES (\$mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	262.2	270.2	280.7	306.0	1119.1
2011	249.1	283.3	282.4	263.1	1077.9
2012	219.9	211.4	215.3	212.6	859.2
2013	230	220	225	225	900
2014	240	250	250	260	1000

EARNINGS PER SHARE ^A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.13	.04	.16	.05	.38
2011	.14	.14	.20	d.02	.45
2012	.28	.19	.13	.47	1.05
2013	.30	.30	.30	.40	1.30
2014	.32	.33	.35	.45	1.45

QUARTERLY DIVIDENDS PAID ^B

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.298	.298	.298	.298	1.19
2010	.298	.298	.298	.298	1.19
2011	.298	.298	.298	.298	1.19
2012	.298	.298	.298	.298	1.19
2013	.298	.298	.298	.298	1.19

BUSINESS: Otter Tail Corporation is the parent of Otter Tail Power Company, which supplies electricity to over 129,000 customers in Minnesota (49% of retail elec. revs.), North Dakota (42%), and South Dakota (9%). Electric rev. breakdown, '12: residential, 33%; commercial & farms, 36%; industrial, 25%; other, 6%. Fuel costs: 13.4% of revenues. Has operations in manufacturing, plastics,

health services, food ingredients, & others. 2012 depr. rate: 3.5%. Has 2,286 employees. Off. and dir. own 1.5% of common stock; Cascade Investment, LLC, 9.6%; BlackRock, Inc., 5.7% (2/13 Proxy). CEO: Edward McIntyre. Inc.: MN. Addr.: 215 South Cascade St., P.O. Box 496, Fergus Falls, Minnesota 56538-0496. Telephone: 866-410-8780. Internet: www.ottertail.com.

Otter Tail Corporation reported impressive bottom-line improvement for full-year 2012, but the results alone don't tell the whole story. Share earnings from continuing operations of \$1.05 advanced from the 2011 level. However, this excludes a loss from discontinued operations of \$1.22 a share. Including this results in a share net loss of \$0.17 for 2012. The company's latest annual report shows significant losses incurred from its discontinued operations in the past three years.

Prospects for the coming years appear more favorable. Efforts to restructure operations ought to bear fruit going forward (discussed below). The utility business should benefit from a substantial increase in its regulated rate base. The manufacturing line should also contribute to growth, and we look for better results from the construction business. Overall, we anticipate higher revenues and share earnings for the company in the current year. Improvement may well continue in 2014.

The company has completed the sale of ShoreMaster. Otter Tail sold substan-

tially all of the assets of this waterfront equipment manufacturing business to High Street Capital. This follows several other divestitures in recent times. These moves should allow the company to lower its risk profile and increase focus on opportunities in the Electric segment, which ought to deliver more predictable growth. Otter Tail continues to invest in transmission projects and environmental upgrades that should generate significant growth for this unit in the coming years.

This stock is favorably ranked for year-ahead relative price performance. Looking further out, we project higher revenues and share earnings for the company by 2016-2018. However, much of this appears to be reflected in the recent quotation, and appreciation potential is below the *Value Line* median. This equity does offer a solid dividend. The cash position has improved somewhat since our last review. Still, the payout has not been covered by earnings in recent years, and the dividends-to-net-profits ratio will probably remain higher than we would prefer in the current year.

Michael Napoli, CFA *March 22, 2013*

(A) Diluted earnings. Excl. nonrecurring gains (losses): '98, 7¢; '99, 34¢; '10, (44¢); '11, 26¢; gains (losses) from discont. operations: '04, 8¢; '05, 33¢; '06, 1¢; '11, (\$1.11); '12, (\$1.22).
 Earnings may not sum due to rounding. Next earnings report due in May. (B) Div'ds historically paid in early March, June, Sept., and Dec. (C) Div'd reinvestment plan avail. (C) Incl. intangibles. In '12: \$1.47/sh. (D) In mill., adj. for split. (E) Regulatory Climate: MN, ND, Average; SD, Above Average.
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Company's Financial Strength B+

Stock's Price Stability 75

Price Growth Persistence 25

Earnings Predictability 60

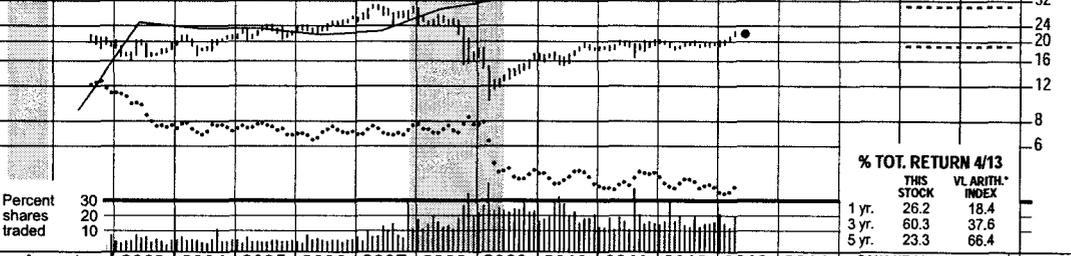
PEPCO HOLDINGS NYSE-POM

RECENT PRICE **21.98** P/E RATIO **19.1** (Trailing: 18.6 Median: 14.0) RELATIVE P/E RATIO **1.10** DIV'D YLD **4.9%** VALUE LINE

TIMELINESS 3 Raised 2/5/10
SAFETY 3 Lowered 6/6/03
TECHNICAL 3 Raised 3/15/13
BETA 75 (1.00 = Market)

High: 21.9 20.6 21.7 24.5 27.0 30.7 29.6 18.7 19.8 20.6 20.5 22.7
 Low: 18.3 16.1 16.9 20.3 21.8 24.2 15.3 10.1 15.1 16.6 18.1 18.8

LEGENDS
 1.00 x Dividends p sh divided by Interest Rate
 Relative Price Strength
 Options: Yes
 Shaded areas indicate recessions



2016-18 PROJECTIONS
 Ann'l Total
 Price Gain Return
 High 30 (+35%) 12%
 Low 19 (-15%) 2%

Insider Decisions
 J A S O N D J F
 to Buy 0 0 0 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0
 to Sell 0 0 0 1 0 0 0 0

Institutional Decisions
 2Q2012 3Q2012 4Q2012
 to Buy 137 149 153
 to Sell 163 134 143
 Hd's(000) 116509 125730 133078

Percent shares traded 30
 20
 10

% TOT. RETURN 4/13
 THIS STOCK VL ARITH. INDEX
 1 yr. 26.2 18.4
 3 yr. 60.3 37.6
 5 yr. 23.3 66.4

Pepco Holdings, Inc. (PHI) was formed on August 1, 2002, upon the merger of Potomac Electric Power Co. (PEPCO) and Connecticut. In the \$2.2 billion deal, PEPCO common stockholders received one common share in PHI for each of their shares, and Connecticut investors exchanged each of their common shares for \$25 worth of PHI stock and cash, prorated 50/50.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC 16-18
Revenues per sh	42.33	38.35	42.49	43.57	46.71	48.88	41.66	31.27	26.02	22.09	21.60	23.00	27.45
"Cash Flow" per sh	3.80	3.71	3.67	3.47	3.30	3.55	2.82	2.97	3.00	3.21	3.15	3.30	3.70
Earnings per sh ^A	1.35	1.46	1.49	1.33	1.53	1.93	1.06	1.24	1.14	1.24	1.15	1.30	1.70
Div'd Decl'd per sh ^B	1.00	1.00	1.00	1.04	1.04	1.08	1.08	1.08	1.08	1.08	1.08	1.12	1.16
Cap'l Spending per sh	3.48	2.75	2.46	2.47	3.11	3.57	3.89	3.56	4.14	5.29	5.20	5.20	4.00
Book Value per sh ^C	17.48	17.87	18.88	18.82	20.04	19.14	19.15	18.79	19.06	19.33	19.00	19.45	21.50
Common Shs Outst'g ^D	171.77	188.33	189.82	191.93	200.51	218.91	222.27	225.08	227.50	230.02	250.00	252.00	255.00
Avg Ann'l P/E Ratio	13.4	13.6	14.9	18.1	18.2	12.2	13.7	14.0	16.7	15.6	Bold figures are Value Line estimates		14.0
Relative P/E Ratio	.76	.72	.79	.98	.97	.73	.91	.89	1.05	.99			.95
Avg Ann'l Div'd Yield	5.5%	5.0%	4.5%	4.3%	3.7%	4.6%	7.4%	6.2%	5.7%	5.6%			4.9%
Revenues (\$mill)	7271.3	7221.8	8065.5	8362.9	9366.4	10700	9259.0	7039.0	5920.0	5081.0	5400	5800	7000
Net Profit (\$mill)	245.2	261.3	277.4	254.4	296.5	400.0	235.0	276.0	257.0	285.0	290	330	430
Income Tax Rate	18.3%	38.7%	38.8%	39.1%	39.3%	29.6%	31.9%	18.8%	37.2%	35.4%	35.0%	35.0%	35.0%
AFUDC % to Net Profit	--	--	--	--	--	--	--	--	--	--	Nil	Nil	Nil
Long-Term Debt Ratio	63.1%	59.7%	57.1%	54.6%	54.1%	56.2%	53.8%	49.0%	49.1%	47.3%	46.0%	47.5%	50.0%
Common Equity Ratio	35.6%	39.6%	42.3%	45.1%	45.9%	43.8%	46.2%	51.0%	50.9%	52.7%	54.0%	52.5%	50.0%
Total Capital (\$mill)	8439.3	8494.0	8469.3	8004.0	8753.0	9568.0	9203.0	8292.0	8516.0	8432.0	8750	9300	10880
Net Plant (\$mill)	6964.9	7088.0	7312.0	7576.6	7876.7	8314.0	8863.0	7673.0	8220.0	8846.0	9600	10000	11000
Return on Total Cap'l	4.8%	5.0%	5.0%	5.1%	5.1%	5.8%	4.5%	5.1%	4.8%	4.5%	4.5%	5.0%	6.0%
Return on Shr. Equity	7.9%	7.6%	7.6%	7.0%	7.4%	9.5%	5.5%	6.5%	5.9%	6.4%	6.0%	6.5%	8.0%
Return on Com Equity ^E	7.7%	7.7%	7.7%	7.0%	7.4%	9.5%	5.5%	6.5%	5.9%	6.4%	6.0%	6.5%	8.0%
Retained to Com Eq	2.0%	2.5%	2.4%	1.5%	2.3%	4.2%	NMF	.8%	.3%	.8%	.5%	1.0%	2.5%
All Div's to Net Prof	75%	68%	69%	78%	68%	56%	101%	87%	95%	87%	93%	86%	69%

CAPITAL STRUCTURE as of 3/31/13
 Total Debt \$5508 mill. Due in 5 Yrs \$1784 mill.
 LT Debt \$3898 mill. LT Interest \$250 mill.
 (LT interest earned: 3.7%)

Pension Assets-12/12 \$2.0 bill. Oblig. \$2.5 bill.

Pfd Stock None

Common Stock 248,581,877 shs. as of 4/24/13

MARKET CAP: \$5.5 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	+4.1	-2.8	NA
Avg. Res'd Use (KWH)	11253	10836	10451
Avg. Res'd Revs. per KWH(¢)	NA	NA	NA
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+1.1	+7	+3

Fixed Charge Cov. (%) 204 251 NA

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12
Revenues	-3.5%	-4.5%	-5%
"Cash Flow"	-4.5%	-4.0%	3.0%
Earnings	-4.5%	-4.5%	6.0%
Dividends	--	1.5%	1.0%
Book Value	.5%	.5%	2.0%

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1819	1636	2067	1517	7039
2011	1634	1409	1643	1234	5920
2012	1292	1179	1476	1134	5081
2013	1226	1300	1600	1274	5400
2014	1300	1500	1700	1300	5800

EARNINGS PER SHARE ^{AF}

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.16	.34	.52	.25	1.24
2011	.27	.42	.35	.10	1.14
2012	.30	.27	.49	.18	1.24
2013	.24	.25	.45	.21	1.15
2014	.25	.30	.50	.25	1.30

QUARTERLY DIVIDENDS PAID ^B

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.27	.27	.27	.27	1.08
2010	.27	.27	.27	.27	1.08
2011	.27	.27	.27	.27	1.08
2012	.27	.27	.27	.27	1.08
2013	.27	.27	.27	.27	1.08

BUSINESS: Pepco Holdings, Inc. consists mainly of three electric utility subsidiaries: Potomac Electric Power Co., serving Washington, D.C. and adjoining areas of Maryland; Delmarva Power, which serves the peninsula area of Delaware, Maryland and Virginia; and Atlantic City Electric, serving southern New Jersey. In July 2010, Pepco sold competitive energy business (Conectiv Energy) to Cal-

Pepco Holdings' first-quarter results came in below our expectations. The Washington, DC-based utility reported earnings of \$0.24 a share during the period, versus our estimate of \$0.30 (figure excludes one-time charges related to cross border lease investments). The miss can be attributed to higher-than-expected O&M expense stemming from increased storm costs and expenses related to the FERC's order to abandon MAPP. Due to the soft quarterly showing, we have lowered our 2013 earnings estimate by \$0.15 a share, to \$1.15. Our target sits at the higher end of management's \$1.05-\$1.20 guidance.

Regulatory relief has been limited in recent quarters, but help could be on the way. Pepco continues to pursue initiatives aimed at reducing regulatory lag in each of its jurisdictions. Given the company's plans to continue to invest extensively in its electric system over the next five years, it is critical for Pepco to ensure timely and reasonable cost recovery through constructive regulatory outcomes. While little relief has been gained in recent quarters, the company has several cases pending that could help the cause.

pine Corp. Electricity customers: 1.8 million; gas customers: 125,000. Electricity breakdown: residential, 40%; commercial, 41%; other, 19%. 2012 depreciation rate: 2.5%. Has approximately 5,040 employees as of 12/31/12. Chrmn., Pres. & CEO: Joseph M. Rigby, Inc.: DE. Address: 701 Ninth Street, N.W., Wash., D.C. 20068. Telephone: 202-872-2000. Internet: www.pepcoholdings.com.

The company filed rate cases in Delaware and Maryland. On March 22nd, Delmarva Power filed an electric distribution rate case seeking an increase of \$42 million, based on a requested return on equity of 10.25%. As permitted by Delaware law, an interim rate increase of \$2.5 million will be implemented on June 1st subject to refund, with a decision on the case expected in the fourth quarter, 2013. A week later, Delmarva filed for another rate increase in Maryland, seeking \$23 million, on a requested 10.25% ROE.

An above-average dividend yield remains a key draw for investors seeking income. Shares of Pepco are currently yielding 4.9%, more than one full percentage point above the utility 3.8% median. Based on the steady earnings stream we project for 2013 and 2014, the payout appears well covered for the foreseeable future.

The stock is ranked 3 (Average) for Timeliness. In our view, Pepco represents a solid play for income and relative stability. By utility standards, total return potential to 2016-2018 is above average.

Michael Ratty
 May 24, 2013

(A) Based on dil. shs. Excl. nonrecur. items: '03, d69¢; '04, 1¢; '05, 47¢; '06, d1¢; '08, 46¢; '10, 62¢. Next eqs. rpt. due early August. (B) Div'd paid in late March, June, Sept., and Dec. (C) Incl. def'd chgs: '12 (\$4.8 bill. or \$20.87/sh. (D) In mill. (E) Rate allowed in MD: 9.83% ('10-Pepco), 10.0% ('09-Delmarva); DC: 9.6% ('10-Pepco); DEL: 10.0% ('06-Del.); NJ: 10.3% ('10-ACE); Eamed on '12 avg. com. eq. 6.4%. Reg. Clim.: Avg. (F) Qtrly eqs. may not add due to chng. in shs.

Company's Financial Strength B
 Stock's Price Stability 95
 Price Growth Persistence 25
 Earnings Predictability 70

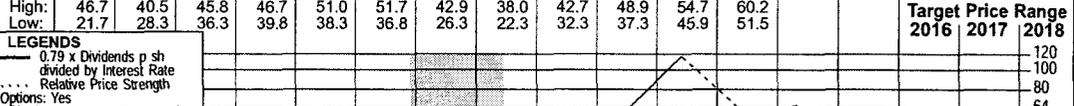
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PINNACLE WEST NYSE-PNW

RECENT PRICE **59.91** P/E RATIO **16.5** (Trailing: 17.1) (Median: 14.0) RELATIVE P/E RATIO **0.98** DIV'D YLD **3.7%** VALUE LINE

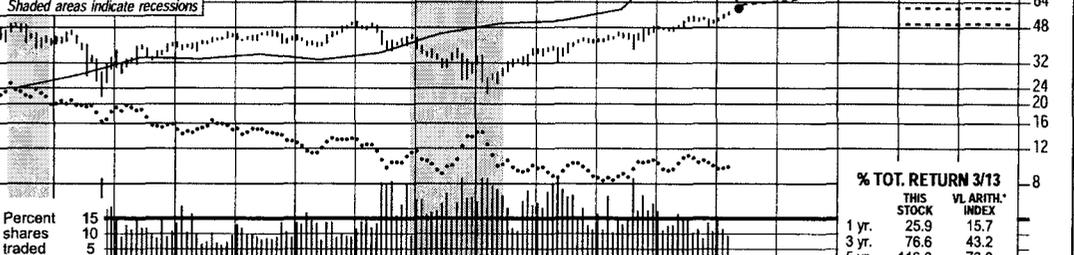
TIMELINESS 3 Lowered 11/16/12
SAFETY 1 Raised 5/3/13
TECHNICAL 3 Raised 5/3/13
BETA .70 (1.00 = Market)



2016-18 PROJECTIONS
 Ann'l Total
 High Price 60 Gain (Nil) Return 4%
 Low Price 50 (-15%) Nil

Insider Decisions
 J A S O N D J F
 to Buy 0 0 0 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0
 to Sell 0 0 1 1 0 2 1 0 1

Institutional Decisions
 2Q2012 3Q2012 4Q2012
 to Buy 148 151 161
 to Sell 158 142 147
 Hld's(000) 72869 81096 83080



1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC 16-18	
23.52	25.12	28.57	43.50	53.66	28.90	30.87	31.59	30.16	34.03	35.07	33.37	32.50	30.01	29.67	30.09	30.85	31.45	Revenues per sh	34.25
7.12	7.34	7.73	7.99	8.72	7.01	7.33	6.93	5.76	9.70	9.29	8.13	8.08	6.85	7.52	7.92	7.95	8.25	"Cash Flow" per sh	9.50
2.76	2.85	3.18	3.35	3.68	2.53	2.52	2.58	2.24	3.17	2.96	2.12	2.26	3.08	2.99	3.50	3.50	3.65	Earnings per sh A	4.25
1.13	1.23	1.33	1.43	1.53	1.63	1.73	1.83	1.93	2.03	2.10	2.10	2.10	2.10	2.10	2.67	1.66	2.28	Div'd Decl'd per sh B	2.60
3.63	3.76	4.05	7.76	12.27	9.81	7.60	5.86	6.39	7.59	9.37	9.46	7.64	7.03	8.26	8.24	8.25	9.65	Cap'l Spending per sh	9.25
23.90	25.50	26.00	28.09	29.46	29.44	31.00	32.14	34.57	34.48	35.15	34.16	32.69	33.86	34.98	36.20	37.25	38.45	Book Value per sh C	42.50
84.83	84.83	84.83	84.83	84.83	91.26	91.29	91.79	99.08	99.96	100.49	100.89	101.43	108.77	109.25	109.74	111.00	112.00	Common Shs Outst'g D	115.00
11.8	15.2	11.9	11.3	12.0	14.4	14.0	15.8	19.2	13.7	14.9	16.1	13.7	12.6	14.6	14.3	14.3	14.3	Avg Ann'l P/E Ratio	12.5
.68	.79	.68	.73	.61	.79	.80	.83	1.02	.74	.79	.97	.91	.80	.92	.92	.92	.92	Relative P/E Ratio	.85
3.5%	2.8%	3.5%	3.8%	3.5%	4.5%	4.9%	4.5%	4.5%	4.7%	4.8%	6.2%	6.8%	5.4%	4.8%	5.3%	5.3%	5.3%	Avg Ann'l Div'd Yield	4.8%

CAPITAL STRUCTURE as of 12/31/12
 Total Debt \$3414.9 mill. Due in 5 Yrs \$1583.0 mill.
 LT Debt \$3199.1 mill. LT Interest \$180.5 mill.
 Incl. \$38.9 mill. Palo Verde sale leaseback lessor notes.
 (LT interest earned: 4.1x)
 Leases, Uncapitalized Annual rentals \$21.0 mill.
 Pension Assets-12/12 \$2.08 bill.
 Oblig. \$2.86 bill.

Pfd Stock None

Common Stock 109,756,391 shs. as of 2/15/13

MARKET CAP: \$6.6 billion (Large Cap)

2010	2011	2012	Revenues (\$mill)	Net Profit (\$mill)
2817.9	2899.7	2988.0	3401.7	3523.6
230.6	235.2	223.2	298.8	213.6
31.4%	35.4%	36.2%	33.0%	23.4%
6.2%	6.9%	10.4%	11.1%	14.8%
50.6%	46.7%	43.2%	48.4%	47.0%
49.4%	53.3%	56.8%	51.6%	53.0%
5727.5	5535.2	6033.4	6678.7	6658.7
7480.1	7535.5	7577.1	7881.9	8436.4
5.5%	5.6%	5.0%	6.2%	5.9%
8.1%	8.0%	6.5%	9.2%	8.5%
8.1%	8.0%	6.5%	9.2%	8.5%
2.6%	2.3%	1.0%	3.4%	2.5%
68%	71%	85%	63%	70%

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	-1.6	+1.8	-2
Avg. Indust. Use (MWH)	619	632	647
Avg. Indust. Revs. per KWH (¢)	7.83	7.78	7.86
Capacity at Peak (Mw)	8682	8577	8864
Peak Load, Summer (Mw)	6396	7087	7207
Annual Load Factor (%)	50.0	50.0	48.8
% Change Customers (yr-end)	+4	+8	+1.3

BUSINESS: Pinnacle West Capital Corporation is a holding company for Arizona Public Service Company (APS), which supplies electricity to 1.1 million customers in most of Arizona, except about half of the Phoenix metro area, the Tucson metro area, and Mohave County in northwestern Arizona. Discontinued SunCor real estate subsidiary in '10. Electric revenue breakdown: residential, 47%; commercial, 39%; industrial, 5%; other, 9%. Generating sources: coal, 32%; nuclear, 27%; gas, 21%; solar, 1%; purchased, 19%. Fuel costs: 30% of revenues. Has 6,600 employees. '12 reported deprec. rate: 2.7%. Chairman, President & CEO: Donald E. Brandt. Inc.: AZ. Address: 400 North Fifth St., P.O. Box 53999, Phoenix, AZ 85072-3999. Tel.: 602-250-1000. Internet: www.pinnaclewest.com.

Fixed Charge Cov. (%) 296 308 397

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12
of change (per sh)			
Revenues	-3.5%	-2.0%	2.5%
"Cash Flow"	-5%	-2.0%	4.0%
Earnings	--	2.5%	5.0%
Dividends	4.0%	2.5%	2.0%
Book Value	2.0%	--	3.5%

Pinnacle West's utility subsidiary hopes to complete an asset acquisition in mid-2013. Arizona Public Service (APS) is purchasing units 4 and 5 of the Four Corners coal-fired plant. This would add 739 megawatts of capacity. The cost (assuming a mid-2013 closing) is estimated at \$253 million, and the utility would have to spend another \$300 million on environmental upgrades. APS would retire Four Corners 1, 2, and 3 (560 mw), thereby avoiding \$600 million in environmental spending that would have been needed to keep these three units running. The holdup in the deal is a pending sale of the coal mine used to supply the plant. For the transaction to be completed, APS must obtain a contract with the new owner, once the mine sale closes.

QUARTERLY REVENUES (\$mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	620.3	820.6	1139.1	683.6	3263.6
2011	648.9	799.8	1124.8	667.9	3241.4
2012	620.6	878.6	1109.5	693.1	3301.8
2013	650	875	1175	725	3425
2014	675	900	1200	750	3525

We estimate flat earnings this year, but an uptick in 2014. In 2013, the comparison with a strong 2012 showing will be difficult. Our profit estimate is within management's targeted range of \$3.45-\$3.60 a share. Next year, we expect the utility to benefit from its usual revenue adjustments for transmission spending and renewable energy investments. APS is in the midst of a \$502 million program to add 118 mw of solar capacity. Note that we will not adjust our estimates and projections to reflect the Four Corners acquisition until after it has been completed. Our dividend figures in the statistical array require an explanation. There were five declarations in 2012 because one was shifted from January to December. We assume only three declarations in 2013, including a raise of \$0.02 a share (3.7%) in the quarterly payout in the fourth period, which is in line with the company's goal for dividend growth.

EARNINGS PER SHARE A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.07	.83	2.08	.06	3.08
2011	d.15	.78	2.24	.11	2.99
2012	d.07	1.12	2.21	.24	3.50
2013	Nil	1.05	2.35	.10	3.50
2014	Nil	1.10	2.45	.10	3.65

We have raised the company's Financial Strength rating and the stock's Safety rank a notch each, to A and 1 (Highest), respectively. The fixed-charge coverage and common-equity ratio are well above the industry norms. Also, the utility is earning near its allowed return on equity. This stock's dividend yield is equal to the utility average. With the recent price near the upper end of our 2016-2018 Target Price Range, long-term total return potential is low.

QUARTERLY DIVIDENDS PAID B

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.525	.525	.525	.525	2.10
2010	.525	.525	.525	.525	2.10
2011	.525	.525	.525	.525	2.10
2012	.525	.525	.525	.545	2.12
2013	.545				

Paul E. Debbas, CFA May 3, 2013

(A) Diluted EPS. Excl. nonrec. losses: '02, 77¢; '09, \$1.45; excl. gains (losses) from disc. ops.: '00, 22¢; '05, (36¢); '06, 10¢; '08, 28¢; '09, (13¢); '10, 18¢; '11, 10¢; '12, (5¢). '10 EPS don't add due to change in shares, '11 due to rounding. Next earnings report due early Aug. (B) Div'd historically paid in early Mar., June, Sept. and Dec. ■ Div'd reinvestment plan avail. (C) Incl. deferred charges. In '12: \$11.92/sh. (D) In mill. (E) Rate base: Fair value. Rate allowed on com. eq. in '12: 10%; earned on avg. com. eq., '12: 9.9%. Regulatory Climate: Avg. Company's Financial Strength A Stock's Price Stability 100 Price Growth Persistence 45 Earnings Predictability 65

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PORTLAND GENERAL NYSE-POR

RECENT PRICE **31.52** P/E RATIO **16.8** (Trailing: 16.9 Median: NMF) RELATIVE P/E RATIO **0.99** DIV'D YLD **3.6%** VALUE LINE

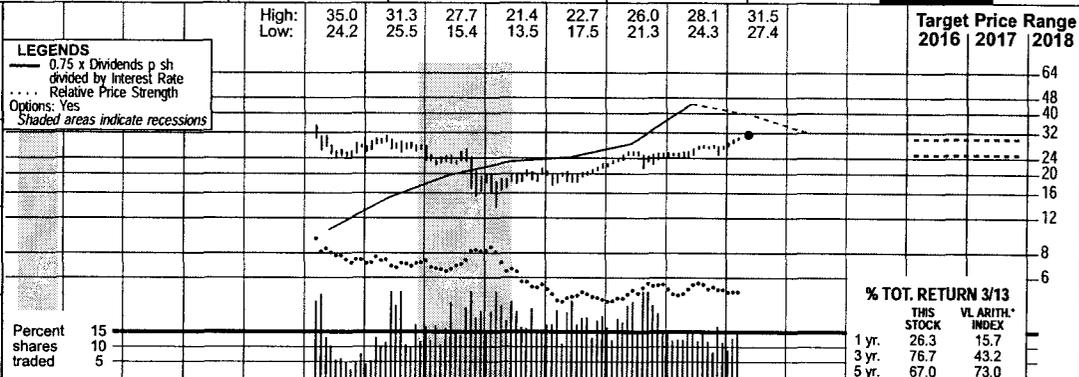
TIMELINESS 3 Lowered 8/19/11
SAFETY 2 Raised 5/4/12
TECHNICAL 4 Lowered 4/26/13
 BETA .75 (1.00 = Market)

LEGENDS
 0.75 x Dividends p sh divided by Interest Rate
 Relative Price Strength
 Options: Yes
 Shaded areas indicate recessions

2016-18 PROJECTIONS
 Ann'l Total
 Price 30 Gain (-5%) Return 2%
 High 25 Low (-20%) -1%

Insider Decisions
 J A S O N D J F
 to Buy 0 0 0 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0
 to Sell 1 0 0 0 0 0 0 0

Institutional Decisions
 2Q2012 3Q2012 4Q2012
 to Buy 116 111 116
 to Sell 109 109 122
 Mid's(000) 68793 67500 68342



% TOT. RETURN 3/13	THIS STOCK	VL ARITH. INDEX
1 yr.	26.3	15.7
3 yr.	76.7	43.2
5 yr.	67.0	73.0

On April 3, 2006, Portland General Electric's existing stock (which was owned by Enron) was canceled, and 62.5 million shares were issued to Enron's creditors or the Disputed Claims Reserve (DCR). The stock began trading on a when-issued basis that day, and regular trading began on April 10, 2006. Shares issued to the DCR were released over time to Enron's creditors until all of the remaining shares were released in June, 2007.

	2003	2004	2005 ^a	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC 16-18
Revenues per sh	--	--	23.14	24.32	27.87	27.89	23.99	23.67	24.06	23.89	24.30	25.20	27.25
"Cash Flow" per sh	--	--	4.75	4.64	5.21	4.71	4.07	4.82	4.96	5.15	5.35	5.10	6.25
Earnings per sh ^A	--	--	1.02	1.14	2.33	1.39	1.31	1.66	1.95	1.87	1.90	2.00	2.25
Div'd Decl'd per sh ^{B=†}	--	--	--	.68	.93	.97	1.01	1.04	1.06	1.08	1.11	1.15	1.30
Cap'l Spending per sh	--	--	4.08	5.94	7.28	6.12	9.25	5.97	3.98	4.01	7.00	5.70	3.25
Book Value per sh ^C	--	--	19.15	19.58	21.05	21.64	20.50	21.14	22.07	22.87	23.60	24.35	26.75
Common Shs Outst'g ^D	--	--	62.50	62.50	62.53	62.58	75.21	75.32	75.36	75.56	75.75	76.00	76.75
Avg Ann'l P/E Ratio	--	--	23.4	11.9	16.3	14.4	12.0	12.4	14.0	Bold figures are Value Line estimates			12.5
Relative P/E Ratio	--	--	1.26	.63	.98	.96	.76	.78	.90				.85
Avg Ann'l Div'd Yield	--	--	2.5%	3.3%	4.3%	5.4%	5.2%	4.4%	4.1%				4.4%
Revenues (\$mill)	--	1454.0	1446.0	1520.0	1743.0	1745.0	1804.0	1783.0	1813.0	1805.0	1840	1915	2100
Net Profit (\$mill)	--	92.0	64.0	71.0	145.0	87.0	95.0	125.0	147.0	141.0	145	150	165
Income Tax Rate	--	37.0%	40.2%	33.6%	33.8%	28.7%	28.8%	30.5%	28.3%	31.4%	30.0%	30.0%	30.0%
AFUDC % to Net Profit	--	9.8%	18.8%	33.8%	17.9%	17.2%	31.6%	17.6%	5.4%	7.1%	12.0%	9.0%	5.0%
Long-Term Debt Ratio	--	41.1%	42.3%	43.4%	49.9%	46.2%	50.3%	53.0%	49.6%	47.1%	49.0%	50.0%	48.0%
Common Equity Ratio	--	58.9%	57.7%	56.6%	50.1%	53.8%	49.7%	47.0%	50.4%	52.9%	51.0%	50.0%	52.0%
Total Capital (\$mill)	--	2171.0	2076.0	2161.0	2629.0	2518.0	3100.0	3390.0	3298.0	3264.0	3505	3695	3950
Net Plant (\$mill)	--	2275.0	2436.0	2718.0	3066.0	3301.0	3858.0	4133.0	4285.0	4392.0	4680	4855	4825
Return on Total Cap'l	--	5.6%	4.6%	4.7%	6.9%	5.0%	4.5%	5.4%	6.2%	5.9%	5.5%	5.5%	5.5%
Return on Shr. Equity	--	7.2%	5.3%	5.8%	11.0%	6.4%	6.2%	7.9%	8.8%	8.2%	8.0%	8.0%	8.0%
Return on Com Equity ^E	--	7.2%	5.3%	5.8%	11.0%	6.4%	6.2%	7.9%	8.8%	8.2%	8.0%	8.0%	8.0%
Retained to Com Eq	--	7.2%	5.3%	3.5%	6.6%	2.0%	1.5%	3.0%	4.1%	3.5%	3.5%	3.5%	3.5%
All Div's to Net Prof	--	--	--	39%	40%	69%	76%	62%	41%	57%	58%	58%	59%

CAPITAL STRUCTURE as of 12/31/12
 Total Debt \$1653.0 mill. Due in 5 Yrs \$312.0 mill.
 LT Debt \$1536.0 mill. LT Interest \$89.0 mill.
 (LT interest earned: 2.8x)
 Leases, Uncapitalized Annual rentals \$9.0 mill.

Pension Assets-12/12 \$537.0 mill.
 Oblig. \$728.0 mill.

Pfd Stock None

Common Stock 75,557,037 shs. as of 2/15/13

MARKET CAP: \$2.4 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	-3.1	+3.3	-8
Avg. Indust. Use (MWH)	15051	16573	16409
Avg. Indust. Revs. per KWH (¢)	5.50	5.44	5.26
Capacity at Peak (MW)	NA	NA	NA
Peak Load, Winter (Mw) ^F	3582	3555	3597
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+5	+2	+7

BUSINESS: Portland General Electric Company (PGE) provides electricity to 830,000 customers in 52 cities in a 4,000-square-mile area of Oregon, including Portland and Salem. The company is in the process of decommissioning the Trojan nuclear plant, which it closed in 1993. Electric revenue breakdown: residential, 48%; commercial, 34%; industrial, 13%; other, 5%. Generating sources: coal,

17%; gas, 14%; hydro, 9%; wind, 5%; purchased, 55%. Fuel costs: 42% of revenues. '12 reported depreciation rate: 3.8%. Has 2,600 employees. Chairman: Corbin A. McNeill, Jr. Chief Executive Officer and President: Jim Piro. Incorporated: Oregon. Address: 121 SW Salmon Street, Portland, Oregon 97204. Telephone: 503-464-8000. Internet: www.portlandgeneral.com.

ANNUAL RATES Past Past Est'd '10-'12
 of change (per sh) 10 Yrs. 5 Yrs. to '16-'18

Revenues	--	-1.0%	2.0%
"Cash Flow"	--	5%	4.0%
Earnings	--	4.0%	3.5%
Dividends	--	14.5%	3.5%
Book Value	--	2.0%	3.5%

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	449.0	415.0	464.0	455.0	1783.0
2011	484.0	411.0	439.0	479.0	1813.0
2012	479.0	413.0	450.0	463.0	1805.0
2013	495	415	465	465	1840
2014	515	430	485	485	1915

EARNINGS PER SHARE ^A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.36	.32	.65	.34	1.66
2011	.92	.29	.36	.38	1.95
2012	.65	.34	.50	.38	1.87
2013	.65	.35	.50	.40	1.90
2014	.68	.37	.53	.42	2.00

QUARTERLY DIVIDENDS PAID ^{B=†}

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.245	.245	.255	.255	1.00
2010	.255	.255	.26	.26	1.03
2011	.26	.26	.265	.265	1.05
2012	.265	.265	.27	.27	1.07
2013	.27	.27			

Portland General Electric has filed a rate case. The utility is seeking a rate increase of \$105 million (6%), based on a 10% return on a 50% common-equity ratio. PGE is trying to place capital spending into the rate base and recover higher expenses. An order is expected by yearend, with new tariffs taking effect at the start of 2014.

The utility plans to build a generating plant. Port Westward Unit 2 would add 220 megawatts of capacity at a projected cost of \$300 million-\$310 million. The facility would likely begin commercial operation in the first quarter of 2015. This project represented the winning bid following a request for proposals (RFP).

Two other RFPs are pending. One is for base-load generating capacity, and the other is for renewable generation. The winning bidder in each of these RFPs is expected in mid-2013. PGE will have to add some debt for Port Westward 2, but probably won't have to issue any common equity unless it wins one or both of the other RFPs.

We look for earnings growth in 2013 and 2014. This year, we base our estimate

on modest load growth, a slight decline in depreciation expense, and an increase in the Allowance for Funds Used During Construction, a noncash credit to income. Our estimate is within the company's targeted range of \$1.85-\$2.00 a share. We assume reasonable regulatory treatment in our 2014 profit forecast of \$2.00 a share.

We think the board of directors will increase the dividend this quarter. We are estimating a one-cent-a-share (3.7%) raise in the quarterly payout, but wouldn't be surprised if the increase was half of that, as it was in each of the past three years.

Construction of a transmission line is under consideration. PGE is in discussions with various parties about a line that would probably cost at least \$800 million. (The company would have a majority stake in the project.) Construction wouldn't begin before 2017.

We consider this stock expensively priced. Its yield, even reflecting the estimated dividend boost, is unexciting by utility standards. And the recent price is above our 2016-2018 Target Price Range.

Paul E. Debbas, CFA May 3, 2013

(A) Diluted EPS. '10 EPS don't add due to rounding. Next earnings report due early Aug. (B) Div'ds paid mid-Jan., Apr., July, and Oct. (C) Div'd reinvestment plan avail. † Shareholder investment plan avail. (G) Incl. deferred charges. In '12: \$6.93/sh. (D) In mill. (E) Rate base: Net original cost. Rate allowed on common equity in '11: 10.0%, earned on average com. eq. '12: 8.2%. Regulatory Climate: Below Average. (F) Summer peak in '12. (G) '05 per-share data are pro forma, based on shares outstanding when the stock began trading in '06.

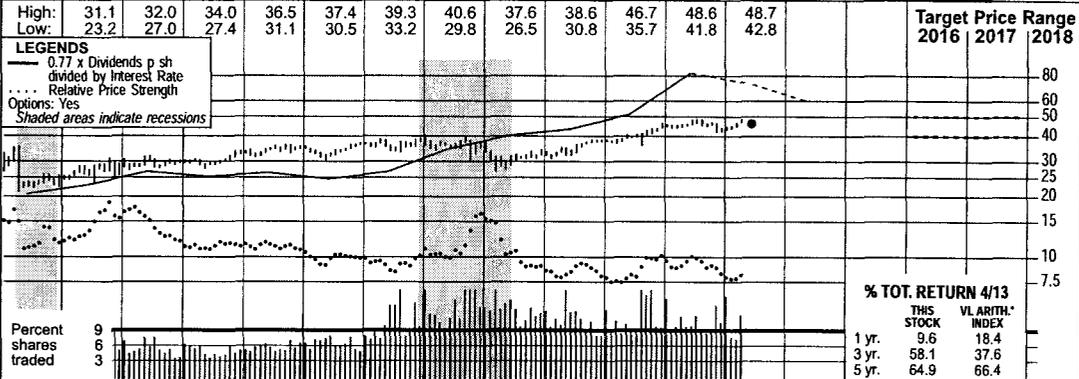
Company's Financial Strength B++
Stock's Price Stability 100
Price Growth Persistence 55
Earnings Predictability 45

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SOUTHERN CO. NYSE:SO

RECENT PRICE **46.26** P/E RATIO **17.1** (Trailing: 17.0 Median: 16.0) RELATIVE P/E RATIO **0.99** DIV'D YLD **4.4%** VALUE LINE

TIMELINESS 3 Lowered 12/14/12
SAFETY 1 Raised 6/3/05
TECHNICAL 3 Raised 3/15/13
BETA .55 (1.00 = Market)



2016-18 PROJECTIONS
 Price Gain Return
 High 50 (+10%) 7%
 Low 40 (-15%) 2%

Insider Decisions
 J J A S O N D J F
 to Buy 0 0 0 0 0 1 0 0 0 0
 to Sell 2 2 1 0 0 0 0 0 0 0

Institutional Decisions
 202012 302012 4Q2012
 to Buy 432 400 452
 to Sell 331 389 371
 Hi's (000) 338977 382314 391009

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
18.19	16.34	17.40	14.78	14.54	14.73	15.31	16.05	18.28	19.24	20.12	22.04	19.21	20.70	20.41	19.06	20.10	20.95	Revenues per sh	23.25
3.86	4.26	4.17	3.89	3.55	3.46	3.53	3.65	4.03	4.01	4.22	4.43	4.43	4.51	4.91	5.18	5.35	5.60	"Cash Flow" per sh	6.25
1.58	1.73	1.83	2.01	1.61	1.85	1.97	2.06	2.13	2.10	2.28	2.25	2.32	2.36	2.55	2.67	2.70	2.85	Earnings per sh ^A	3.25
1.30	1.34	1.34	1.34	1.34	1.36	1.39	1.42	1.48	1.54	1.60	1.66	1.73	1.80	1.87	1.94	2.01	2.08	Div'd Decl'd per sh ^{B=†}	2.30
2.68	2.87	3.85	3.27	3.75	3.79	2.72	2.85	3.20	4.01	4.65	5.10	5.70	4.85	5.23	5.54	6.65	6.95	Cap'l Spending per sh	6.75
13.91	14.04	13.82	15.69	11.43	12.16	13.13	13.86	14.42	15.24	16.23	17.08	18.15	19.21	20.32	21.09	21.35	22.10	Book Value per sh ^C	25.75
693.42	697.75	665.80	681.16	698.34	716.40	734.83	741.50	741.45	746.27	763.10	777.19	819.65	843.34	865.13	867.77	870.00	872.00	Common Shs Outst'g ^D	905.00
14.0	15.7	14.3	13.2	14.6	14.6	14.8	14.7	15.9	16.2	16.0	16.1	13.5	14.9	15.8	17.0	17.0	17.0	Avg Ann'l P/E Ratio	14.0
.81	.82	.82	.86	.75	.80	.84	.78	.85	.87	.85	.97	.90	.95	.99	1.08	1.08	1.08	Relative P/E Ratio	.95
5.9%	4.9%	5.1%	5.0%	5.7%	5.0%	4.7%	4.7%	4.4%	4.5%	4.4%	4.6%	5.5%	5.1%	4.6%	4.3%	4.3%	4.3%	Avg Ann'l Div'd Yield	5.0%

CAPITAL STRUCTURE as of 12/31/12
 Total Debt \$22434 mill. Due in 5 Yrs \$8558.0 mill.
 LT Debt \$19274 mill. LT Interest \$739.0 mill.
 (LT interest earned: 5.3x)

Leases, Uncapitalized Annual rentals \$113.0 mill.
Pension Assets-12/12 \$7.95 bill. Oblig. \$9.30 bill.
Pfd Stock \$1082 mill. Pfd Div'd \$65.0 mill.
 Incl. 1 mill. shs. 4.20%-5.44% cum. pfd. (\$100 par);
 12 mill. shs. 4.95%-5.83% cum. pfd. (\$1 par); 2 mill. shs. 6.0% noncum. pfd. (\$25 par); 3 mill. shs. 6.0%-6.5% noncum. pfd. (\$100 par); 14 mill. shs. 5.63%-6.5% noncum. pfd. (\$1 par).

Common Stock 868,969,827 shs. as of 1/31/13
MARKET CAP: \$40 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	+7.6	-2.7	-2.3
Avg. Indust. Use (MWH)	3332	3438	3445
Avg. Indust. Revs. per KWH (\$)	6.20	6.37	5.94
Capacity at Yearend (Mw)	42963	43555	45750
Peak Load, Summer (Mw)	36321	36956	35479
Annual Load Factor (%)	62.2	59.0	59.5
% Change Customers (yr-end)	+3	-1	+5

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	3.0%	1.0%	2.5%
"Cash Flow"	3.0%	3.5%	4.0%
Earnings	3.5%	3.0%	4.5%
Dividends	3.5%	4.0%	3.5%
Book Value	4.5%	5.5%	4.0%

QUARTERLY REVENUES (mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	4157	4208	5320	3771	17456
2011	4012	4521	5428	3696	17657
2012	3604	4181	5049	3703	16537
2013	3897	4300	5400	3903	17500
2014	4100	4450	5600	4100	18250

EARNINGS PER SHARE ^A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.60	.62	.98	.18	2.36
2011	.49	.70	1.06	.30	2.55
2012	.42	.71	1.11	.43	2.67
2013	.47	.68	1.15	.40	2.70
2014	.50	.75	1.20	.40	2.85

QUARTERLY DIVIDENDS PAID ^{B=†}

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.42	.4375	.4375	.4375	1.73
2010	.4375	.455	.455	.455	1.80
2011	.455	.4725	.4725	.4725	1.87
2012	.4725	.49	.49	.49	1.94
2013	.49	.5075			

BUSINESS: The Southern Company, through its subsidiaries, supplies electricity to 4.4 million customers in about 120,000 square miles of Georgia, Alabama, Florida, and Mississippi. Also has competitive generation business. Electric revenue breakdown: residential, 37%; commercial, 32%; industrial, 19%; other, 12%. Retail revenues by state: Georgia, 51%; Alabama, 33%; Florida, 9%; Mississippi, 7%. Generating sources: oil & gas, 38%; coal, 35%; nuclear, 16%; hydro, 2%; purchased, 9%. Fuel costs: 34% of revenues. '12 reported deprec. rate (utility): 3.2%. Has 26,400 employees. Chairman, President and CEO: Thomas A. Fanning, Inc.: Delaware. Address: 30 Ivan Allen Jr. Blvd., N.W., Atlanta, Georgia 30308. Tel.: 404-506-5000. Internet: www.southerncompany.com.

Two of Southern Company's utility subsidiaries have had cost overruns on major capital projects. Mississippi Power is building a 582-megawatt coal gasification plant. Under a regulatory agreement, the amount of capital costs that may be charged to customers is capped at \$2.88 billion, and there have been overruns that have raised the expected cost to \$3.42 billion. Accordingly, the company took a nonrecurring aftertax charge of \$333 million (\$0.38 a share) in the first quarter to write off the portion of the plant's costs that Mississippi Power will not recover. Meanwhile, Georgia Power is adding two units to the Vogtle nuclear station, which will amount to 1,000 mw of capacity. The utility has asked the state commission to increase the certified cost of the project by \$380 million. Georgia Power expects to hear from the regulators in mid-October.

We expect earnings to advance just slightly this year, followed by a larger increase in 2014. Our 2013 estimate is near the low end of the company's guidance of \$2.68-\$2.80 a share. Georgia Power will file a rate case in mid-2013, with new tariffs taking effect at the start of 2014. Assuming reasonable regulatory treatment, we forecast that share net will rise 5%-6%, to \$2.85.

The regulatory situation in Alabama bears watching. Rates are set from a mechanism that has resulted in generous allowed returns on equity in the state. Informal hearings are under way about whether this ought to be changed. Alabama Power points out that, although its ROE is high, at over 13%, its return on total capital isn't so high because its common-equity ratio is on the low side, at 44%.

The board of directors increased the dividend in the second quarter. The board boosted the annual payout by \$0.07 a share (3.6%). We project similar dividend growth over the 3- to 5-year period.

Following the dividend hike, the stock's yield is fractionally above the utility average. The stock, ranked 1 (Highest) for Safety, is suitable for conservative, income-oriented investors. However, with the recent price above the midpoint of our 2016-2018 Target Price Range, total return potential is modest.

Paul E. Debbas, CFA May 24, 2013

(A) Diluted earnings. Excl. nonrecurring gain (losses): '03, 6¢; '09, (25¢); '13, (38¢). '10 EPS don't add due to change in shares. Next earnings report due late July. (B) Div'ds historically paid in early Mar., June, Sept., and Dec. ■ Div'd reinvestment plan avail. † Shareholder investment plan avail. (C) Incl. deferred charges. In '12: \$6.88/sh. (D) In mill. (E) Rate base: AL, MS, fair value; FL, GA, orig. cost. Allowed return on com. eq. (blended): 12.5%. Earned on avg. com. eq. '12: 13.1%. Regulatory Climate: GA, AL Above Average; MS, FL Average.

Company's Financial Strength A
Stock's Price Stability 100
Price Growth Persistence 60
Earnings Predictability 100

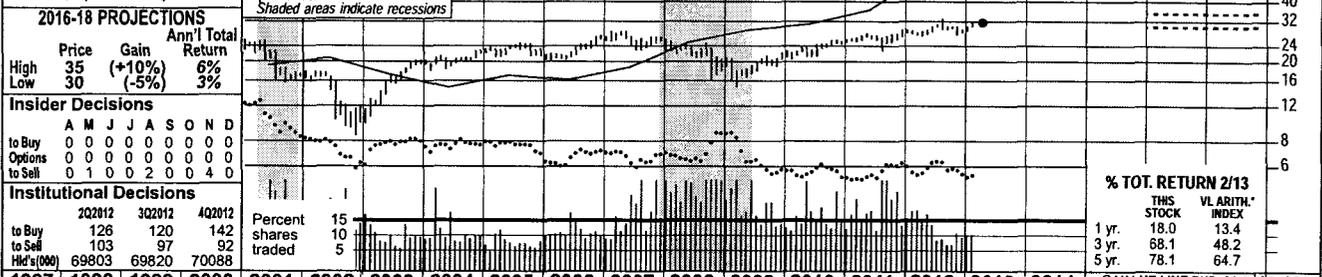
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WESTAR ENERGY NYSE-WR

RECENT PRICE **31.67** P/E RATIO **14.5** (Trailing: 14.8 Median: 14.0) RELATIVE P/E RATIO **0.86** DIV'D YLD **4.3%** VALUE LINE

TIMELINESS 3 Lowered 1/18/13	High: 18.0 20.5 22.9 25.0 27.2 28.6 25.9 22.3 25.9 29.0 33.0 32.3	Target Price Range 2016 2017 2018
SAFETY 2 Raised 4/1/05	Low: 8.5 9.8 18.1 21.1 20.1 22.8 16.0 14.9 20.6 22.6 26.8 28.6	2016 2017 2018
TECHNICAL 3 Raised 3/15/13	LEGENDS 0.80 x Dividends p sh divided by Interest Rate Relative Price Strength Options: Yes Shaded areas indicate recessions	
BETA .70 (1.00 = Market)	2016-18 PROJECTIONS Ann'l Total Price Gain Return High 35 (+10%) 6% Low 30 (-5%) 3%	



1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC 16-18	
32.90	30.86	30.21	33.80	31.20	24.77	20.06	17.02	18.23	18.37	18.09	16.98	17.04	18.34	17.27	17.88	18.30	18.80	Revenues per sh	20.35
3.47	6.35	7.51	6.96	5.32	4.77	3.77	3.12	3.28	3.94	3.77	3.14	3.59	4.24	3.97	4.30	4.40	4.60	"Cash Flow" per sh	5.25
d.46	2.13	1.48	.89	d.58	1.00	1.48	1.17	1.55	1.88	1.84	1.31	1.28	1.80	1.79	2.15	2.10	2.20	Earnings per sh A	2.60
2.10	2.14	2.14	1.44	1.20	1.20	.87	.80	.92	.98	1.08	1.16	1.20	1.24	1.28	1.32	1.36	1.40	Div'd Decl'd per sh B=†	1.52
3.22	2.77	4.09	4.40	3.37	1.89	2.06	2.19	2.45	3.95	7.84	8.65	5.26	4.82	5.55	6.40	7.10	7.40	Cap'l Spending per sh	8.15
30.79	29.40	27.83	27.20	25.97	13.68	14.23	16.13	16.31	17.62	19.14	20.18	20.59	21.25	22.03	22.89	24.40	25.40	Book Value per sh C	28.15
65.41	65.91	67.40	70.08	70.08	71.51	72.84	86.03	86.84	87.39	95.46	108.31	109.07	112.13	125.70	126.50	127.00	128.00	Common Shs Outst'g E	135.00
--	18.4	17.2	20.6	--	14.0	10.8	17.4	14.8	12.2	14.1	17.0	14.9	13.0	14.8	13.4	13.4	13.4	Avg Ann'l P/E Ratio	12.5
--	.96	.98	1.34	--	.76	.62	.92	.79	.66	.75	1.02	.99	.83	.93	.86	.86	.86	Relative P/E Ratio	.85
6.3%	5.5%	8.4%	7.9%	5.8%	8.6%	5.5%	3.9%	4.0%	4.3%	4.2%	5.2%	6.3%	5.3%	4.8%	4.6%	4.6%	4.6%	Avg Ann'l Div'd Yield	4.7%

CAPITAL STRUCTURE as of 12/31/12

Total Debt \$3407.2 mill. Due in 5 Yrs \$879.2 mill.	1461.1	1464.5	1583.3	1605.7	1726.8	1839.0	1858.2	2056.2	2171.0	2261.5	2325	2410	2750	285	285	285	285	Revenues (\$mill)	2750
LT Debt \$3042.0 mill. LT Interest \$160.0 mill. (LT interest earned: 3.6x)	108.1	100.1	134.9	165.3	168.4	136.8	141.3	203.9	214.0	275.1	275.1	275.1	275.1	275.1	275.1	275.1	275.1	Net Profit (\$mill)	350
	43.1%	25.0%	31.0%	25.4%	27.5%	24.8%	29.4%	29.0%	35.2%	30.9%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	Income Tax Rate	30.0%
	5.0%	--	--	--	10.4%	--	--	--	10.4%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	AFUDC % to Net Profit	10.0%
	66.2%	53.8%	52.1%	50.0%	50.6%	49.8%	46.1%	46.0%	49.5%	51.2%	52.0%	51.5%	50.0%	50.1%	48.8%	48.0%	48.5%	Long-Term Debt Ratio	50.0%
	33.2%	45.5%	47.2%	49.3%	48.9%	49.7%	46.1%	46.0%	50.1%	48.8%	48.0%	48.5%	50.0%	50.1%	48.8%	48.0%	48.5%	Common Equity Ratio	50.0%
	3127.3	3049.2	3000.4	3124.2	3738.3	4400.1	4866.8	5180.9	5531.0	5938.2	6700	7000	7000	6700	7000	7000	7000	Total Capital (\$mill)	8000
	3909.5	3911.0	3947.7	4071.6	4803.7	5533.5	5771.7	6309.5	6745.4	7335.7	7600	8000	8000	7600	8000	8000	8000	Net Plant (\$mill)	9000
	7.0%	5.5%	6.2%	6.7%	5.8%	4.2%	4.4%	5.5%	5.3%	6.0%	5.5%	5.5%	5.3%	5.3%	6.0%	5.5%	5.5%	Return on Total Cap'l	6.0%
	10.2%	7.1%	9.4%	10.6%	9.1%	6.2%	6.2%	8.5%	7.7%	9.5%	8.5%	9.0%	9.0%	8.5%	8.5%	9.0%	9.0%	Return on Shr. Equity	9.0%
	10.3%	7.1%	9.5%	10.7%	9.2%	6.2%	6.3%	8.5%	7.7%	9.4%	8.5%	9.0%	9.0%	8.5%	8.5%	9.0%	9.0%	Return on Com Equity D	9.0%
	4.9%	3.2%	4.3%	5.5%	4.3%	1.2%	.8%	3.1%	2.7%	4.0%	3.0%	3.0%	2.7%	2.7%	3.0%	3.0%	3.0%	Retained to Com Eq	4.0%
	53%	56%	55%	49%	53%	80%	87%	63%	65%	57%	64%	63%	63%	64%	64%	63%	63%	All Div's to Net Prof	57%

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	+6.2	+1.0	-1.5
Avg. Indust. Use (MWH)	5468	5589	5588
Avg. Indust. Rev. per KWH (\$)	5.82	6.22	6.60
Capacity at Peak (MW)	6756	6784	6557
Peak Load, Summer (MW)	5485	5549	5411
Annual Load Factor (%)	55.0	55.5	56.0
% Change Customers (yr-end)	+3	+1	+2

ANNUAL RATES of change (per sh)

	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	-5.0%	-5%	2.0%
"Cash Flow"	-3.0%	2.5%	4.0%
Earnings	16.0%	1.5%	5.0%
Dividends	--	5.0%	3.0%
Book Value	--	4.5%	4.0%

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	459.8	495.2	644.4	456.8	2056.2
2011	481.7	524.9	678.2	486.2	2171.0
2012	475.7	566.3	695.8	523.7	2261.5
2013	500	580	710	535	2325
2014	530	600	730	550	2410

EARNINGS PER SHARE A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.27	.47	1.01	.05	1.80
2011	.27	.38	.98	.16	1.79
2012	.21	.48	1.09	.36	2.15
2013	.25	.50	1.08	.27	2.10
2014	.30	.50	1.10	.30	2.20

QUARTERLY DIVIDENDS PAID B=†

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.29	.30	.30	.30	1.19
2010	.30	.31	.31	.31	1.23
2011	.31	.32	.32	.32	1.27
2012	.32	.33	.33	.33	1.31
2013	.33	.34			

BUSINESS: Westar Energy, Inc., formerly Western Resources, is the parent of Kansas Gas & Electric Company. Westar supplies electricity to 690,000 customers in Kansas. Electric revenue sources: residential and rural, 34%; commercial, 38%; industrial, 28%. Sold investment in ONEOK in 2003 and 85% ownership in Protection One in 2004. 2012 depreciation rate: 3.7%. Estimated plant age: 15 years. Fuels: coal, 53%; nuclear, 8%; gas, 39%. Has 2,313 employees. BlackRock, Inc. owns 5.9% of common; off. & dir., less than 1% (3/12 proxy). Chairman: Charles Q. Chandler IV. Chief Executive Officer and President: Mark A. Ruelle. Inc.: Kansas. Address: 818 South Kansas Avenue, Topeka, Kansas 66612. Telephone: 785-575-6300. Internet: www.westarenergy.com.

Shares of Westar have advanced nicely in price over the past three months. The company reported healthy results for the fourth quarter. Revenues and share earnings compared favorably with the prior-year figures. Westar benefited from higher revenues from the retail and transmission businesses during the period, which more than offset a modest decline from the wholesale segment. This follows solid performance in previous quarters. Overall, revenues and earnings increased solidly for full-year 2012.

We expect good performance will continue in the coming quarters. The retail line should continue to experience healthy results across the board, and we look for strong growth from the transmission business, too. Still, the wholesale business will probably experience some softness. Bottom-line growth may well take a breather in the current year, considering the impressive figure generated in 2012. Even so, we expect share-net growth to resume in 2014.

Investment in operations should further benefit results. The company's three-year capital expenditures plan

represents an investment of \$2.3 billion, with just over half of it for environmental and transmission projects. Environmental investments include big air-quality projects at the Jeffrey and La Cygne energy centers, which are coming along nicely. Meanwhile, the Prairie Wind joint venture is also progressing well. This 345-kilovolt transmission line should be completed next year.

The board of directors has approved a 3% dividend increase. Starting with the April payout, the quarterly dividend is now \$0.34 per share. Dividend growth will probably continue going forward.

This stock is neutrally ranked for Timeliness. We expect higher revenues and share earnings at the company by 2016-2018. Moreover, Westar earns good marks for Safety, Price Stability, and Earnings Predictability. Capital appreciation potential is somewhat muted at this juncture, as the shares are currently trading within our Target Price Range. A pullback in the stock price may offer conservative, income-seeking investors a more attractive entry point.

Michael Napoli, CFA March 22, 2013

(A) EPS diluted from 2010 onward. Excl. non-recur gains (losses): '97, \$7.97; '98, (\$1.45); '99, (\$1.31); '00, \$1.07; '01, 27¢; '02, (\$12.06); '03, 77¢; '08, 39¢; '11, 14¢. Next egs. rept'd due in May.	(B) Div'ds paid in early Jan., April, July, and Oct. ■ Div'd reinvest. plan avail. † Shareholder invest. plan avail. (C) Incl. reg. assets. In 2012: \$7.93/sh. (D) Rate base determined: fair value; Rate allowed on common equity in '12: 10.0%; earned on avg. com. eq., '12: 9.4%. Regul. Clim.: Avg. (E) In mill.	Company's Financial Strength	B++
		Stock's Price Stability	100
		Price Growth Persistence	75
		Earnings Predictability	80

ATTACHMENT B

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Allete Inc: (NYSE: ALE)

\$47.79 0.47 (0.99%) **Volume 44,746** Jun 03 10:35 AM ET

ZACKS RANK: 2-BUY

Full Company Report

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ALLETE is a multi-services company. ALLETE's holdings include the one of the largest wholesale automobile auction networks in North America; a provider of independent auto dealer inventory financing; one of the largest investor-owned water utilities in Florida and North Carolina; significant real estate holdings in Florida and a low-cost electric utility that serves some of the largest industrial customers in the United States. (Company Press Release)

GENERAL INFORMATION

ALLETE INC
 30 W SUPERIOR ST
 DULUTH, MN 55802-2093
 Phone: 2182795000
 Fax: 218-723-3944
 Web: <http://www.allete.com>
 Email: NA

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/08/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	47.32
52 Week High	52.25
52 Week Low	37.73
Beta	0.65
20 Day Moving Average	135,469.20
Target Price Consensus	54.33

% Price Change

4 Week	-6.85
12 Week	-0.98
YTD	16.64

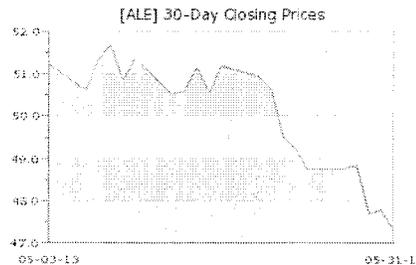
Share Information

Shares Outstanding (millions)	39.47
Market Capitalization (mlions)	1,867.63
Short Ratio	7.59
Last Split Date	09/21/04

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.41
--	------

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% Price Change Relative to S&P 500

4 Week	-8.74
12 Week	-6.23
YTD	2.83

Dividend Information

Dividend Yield	4.02%
Annual Dividend	\$1.90
Payout Ratio	0.69
Change in Payout Ratio	-0.05
Last Dividend Payout / Amount	05/13/2013 / \$0.47

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	1.17
---------------------------------------	------

Current Year EPS Consensus Estimate	Subscribe: 2.75	Free Trial: 30 Days Ago	Get Quote or Search Keyword: 1.17
Estimated Long-Term EPS Growth Rate	6.50	60 Days Ago	1.13
Next EPS Report Date	08/08/2013	90 Days Ago	1.17

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	17.18	vs. Previous Year	25.76%	vs. Previous Year	9.92%
Trailing 12 Months	17.21	vs. Previous Quarter	10.67%	vs. Previous Quarter	3.05%
PEG Ratio	2.64				
Price Ratios		ROE		ROA	
Price/Book	1.51	03-31-13	8.92	03-31-13	3.34
Price/Cash Flow	9.27	12-31-12	8.46	12-31-12	3.17
Price / Sales	1.90	09-30-12	7.81	09-30-12	2.94
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	1.26	03-31-13	0.95	03-31-13	10.68
12-31-12	0.96	12-31-12	0.72	12-31-12	10.10
09-30-12	1.29	09-30-12	0.94	09-30-12	9.24
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	10.68	03-31-13	14.46	03-31-13	31.43
12-31-12	10.10	12-31-12	14.06	12-31-12	30.92
09-30-12	9.24	09-30-12	12.88	09-30-12	30.23
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	4.54	03-31-13	0.79	03-31-13	44.01
12-31-12	4.29	12-31-12	0.78	12-31-12	43.74
09-30-12	4.25	09-30-12	0.82	09-30-12	45.01

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American Elec Pwr Inc: (NYSE: AEP)

\$45.69 -0.13 (-0.28%) **Volume 1,207,721** Jun 03 10:38 AM ET

ZACKS RANK: 2-BUY

Full Company Report

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American Electric Power is a public utility holding company which owns, directly or indirectly, all of the outstanding common stock of its domestic electric utility subsidiaries and varying percentages of other subsidiaries. Substantially all of the operating revenues of AEP and its subsidiaries are derived from the furnishing of electric service. The Company's operations are divided into three business segments: Wholesale, Energy Delivery and Other.

GENERAL INFORMATION

AMER ELEC PWR
 1 RIVERSIDE PLAZA
 COLUMBUS, OH 43215
 Phone: 614-716-1000
 Fax: 614-223-1823
 Web: <http://www.aep.com>
 Email: kikozero@aep.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	07/19/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	45.82
52 Week High	51.60
52 Week Low	38.27
Beta	0.45
20 Day Moving Average	2,839,650.50
Target Price Consensus	50.17

% Price Change

4 Week	-10.46
12 Week	-3.31
YTD	7.99

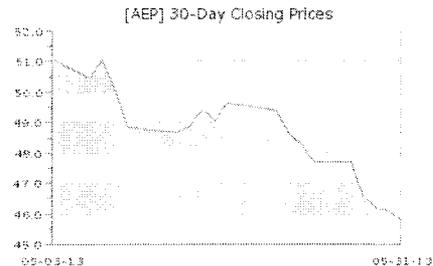
Share Information

Shares Outstanding (millions)	485.79
Market Capitalization (millions)	22,258.90
Short Ratio	1.98
Last Split Date	NA

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.80
--	------

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% Price Change Relative to S&P 500

4 Week	-12.28
12 Week	-8.44
YTD	-3.35

Dividend Information

Dividend Yield	4.28%
Annual Dividend	\$1.96
Payout Ratio	0.61
Change in Payout Ratio	0.04
Last Dividend Payout / Amount	05/08/2013 / \$0.49

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.40
---------------------------------------	------



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Current Year EPS Consensus Estimate	Subscribe 3-16	30 Days Ago	Get Quote or Search Keyword	2.50
Estimated Long-Term EPS Growth Rate	3.40	60 Days Ago		2.15
Next EPS Report Date	07/19/2013	90 Days Ago		2.19

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	14.51	vs. Previous Year	0.00%	vs. Previous Year	5.54%
Trailing 12 Months	14.83	vs. Previous Quarter	60.00%	vs. Previous Quarter	5.90%
PEG Ratio	4.29				
Price Ratios		ROE		ROA	
Price/Book	1.44	03-31-13	8.36	03-31-13	2.36
Price/Cash Flow	6.51	12-31-12	8.45	12-31-12	2.38
Price / Sales	1.47	09-30-12	9.69	09-30-12	2.73
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	0.71	03-31-13	0.47	03-31-13	8.41
12-31-12	0.67	12-31-12	0.45	12-31-12	8.54
09-30-12	0.68	09-30-12	0.47	09-30-12	9.81
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	8.14	03-31-13	11.86	03-31-13	31.74
12-31-12	8.42	12-31-12	12.19	12-31-12	31.40
09-30-12	10.46	09-30-12	13.96	09-30-12	31.57
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	6.38	03-31-13	1.03	03-31-13	50.76
12-31-12	6.35	12-31-12	1.02	12-31-12	50.57
09-30-12	6.61	09-30-12	0.98	09-30-12	49.42

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Cleco Corp New: (NYSE: CNL)

\$45.60 0.09 (0.20%) **Volume 40,091** Jun 03 10:37 AM ET

ZACKS RANK: 3-HOLD

Full Company Report

Get Full Company Report for:

Cleco Corp. is an energy services company based in central Louisiana. Their two primary businesses are Cleco Power LLC, a regulated electric utility business, and Cleco Midstream Resources LLC, a wholesale energy business. They use a mixture of western coal, petroleum coke (petcoke), lignite, oil, and natural gas to serve their customers. This diverse fuel mix helps Cleco deliver reliable, low-cost power to its customers.

GENERAL INFORMATION

CLECO CORP
 2030 DONAHUE FERRY ROAD
 PINEVILLE, LA 71361-5000
 Phone: 3184847400
 Fax: 318-484-7777
 Web: <http://www.cleco.com>
 Email: Tom.Miller@cleco.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/06/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	45.51
52 Week High	49.52
52 Week Low	38.46
Beta	0.44
20 Day Moving Average	180,909.95
Target Price Consensus	48.63

% Price Change

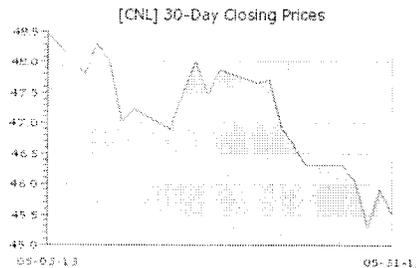
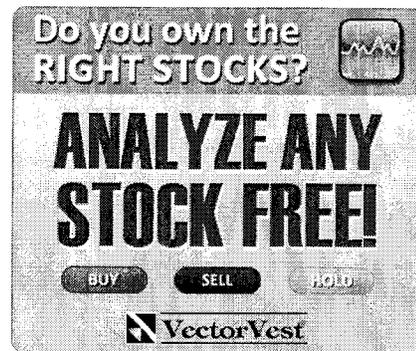
4 Week	-6.47
12 Week	2.45
YTD	14.80

Share Information

Shares Outstanding (millions)	60.88
Market Capitalization (mlions)	2,770.88
Short Ratio	5.10
Last Split Date	05/22/01

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.67
--	------



% Price Change Relative to S&P 500

4 Week	-8.37
12 Week	-2.98
YTD	0.05

Dividend Information

Dividend Yield	3.19%
Annual Dividend	\$1.45
Payout Ratio	0.54
Change in Payout Ratio	0.03
Last Dividend Payout / Amount	05/03/2013 / \$0.36

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.00
---------------------------------------	------

Current Year EPS Consensus Estimate	Subscribe 2.53	30 Days Ago	Get Quote or Search Keyword	2.00
Estimated Long-Term EPS Growth Rate	8.00	60 Days Ago		2.00
Next EPS Report Date	08/06/2013	90 Days Ago		2.00

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	18.02	vs. Previous Year	4.76%	vs. Previous Year	8.17%
Trailing 12 Months	18.28	vs. Previous Quarter	22.22%	vs. Previous Quarter	3.23%
PEG Ratio	2.25				
Price Ratios		ROE		ROA	
Price/Book	1.84	03-31-13	10.13	03-31-13	3.70
Price/Cash Flow	8.87	12-31-12	10.14	12-31-12	3.68
Price / Sales	2.74	09-30-12	10.63	09-30-12	3.83
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	1.68	03-31-13	1.24	03-31-13	14.93
12-31-12	1.52	12-31-12	1.16	12-31-12	15.04
09-30-12	1.48	09-30-12	1.12	09-30-12	15.47
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	15.89	03-31-13	22.31	03-31-13	24.79
12-31-12	16.47	12-31-12	23.04	12-31-12	24.69
09-30-12	17.13	09-30-12	25.49	09-30-12	24.74
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	4.12	03-31-13	0.87	03-31-13	46.55
12-31-12	3.98	12-31-12	0.84	12-31-12	45.61
09-30-12	4.18	09-30-12	0.82	09-30-12	45.17



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Empire Dist Elec Co: (NYSE: EDE)

\$21.75 0.02 (0.09%) **Volume 39,637** Jun 03 10:40 AM ET

ZACKS RANK: **2-BUY**

Full Company Report

Get Full Company Report for:

The Empire District Electric Company is an operating public utility engaged in the generation, purchase, transmission, distribution and sale of electricity in parts of Missouri, Kansas, Oklahoma and Arkansas. The Company also provides water service to several towns in Missouri.

GENERAL INFORMATION

EMPIRE DISTRICT
 602 JOPLIN ST
 JOPLIN, MO 64802
 Phone: 4176255100
 Fax: 4176255146
 Web: <http://www.empiredistrict.com>
 Email: jwatson@empiredistrict.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	07/25/2013

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PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	21.73
52 Week High	23.35
52 Week Low	19.59
Beta	0.56
20 Day Moving Average	122,061.15
Target Price Consensus	23.00

% Price Change

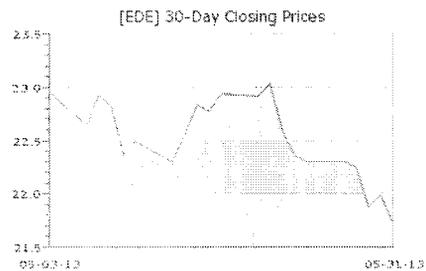
4 Week	-4.90
12 Week	0.93
YTD	7.90

Share Information

Shares Outstanding (millions)	42.41
Market Capitalization (millions)	921.59
Short Ratio	6.27
Last Split Date	01/30/92

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.26
--	------



% Price Change Relative to S&P 500

4 Week	-6.83
12 Week	-4.42
YTD	-5.44

Dividend Information

Dividend Yield	4.60%
Annual Dividend	\$1.00
Payout Ratio	0.72
Change in Payout Ratio	-0.22
Last Dividend Payout / Amount	02/27/2013 / \$0.25

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	3.00
---------------------------------------	------

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Current Year EPS Consensus Estimate	Subscribe 1.38	30 Days Ago	3.00
Estimated Long-Term EPS Growth Rate	Free Trial 3.00	60 Days Ago	3.00
Next EPS Report Date	07/25/2013	90 Days Ago	3.00

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	15.78	vs. Previous Year	30.43%	vs. Previous Year	8.86%
Trailing 12 Months	15.75	vs. Previous Quarter	30.43%	vs. Previous Quarter	30.85%
PEG Ratio	5.26				
Price Ratios		ROE		ROA	
Price/Book	1.27	03-31-13	8.18	03-31-13	2.79
Price/Cash Flow	7.27	12-31-12	7.87	12-31-12	2.69
Price / Sales	1.66	09-30-12	7.80	09-30-12	2.68
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	1.44	03-31-13	0.99	03-31-13	10.55
12-31-12	1.46	12-31-12	0.94	12-31-12	10.27
09-30-12	0.81	09-30-12	0.50	09-30-12	9.76
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	10.55	03-31-13	16.69	03-31-13	17.06
12-31-12	10.27	12-31-12	16.11	12-31-12	16.92
09-30-12	9.76	09-30-12	15.89	09-30-12	16.93
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	5.79	03-31-13	0.96	03-31-13	48.87
12-31-12	5.43	12-31-12	0.96	12-31-12	49.07
09-30-12	5.51	09-30-12	0.83	09-30-12	45.31

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Firstenergy Corp: (NYSE: FE)

\$39.35 0.34 (0.88%) **Volume 1,160,824** Jun 03 10:41 AM ET

ZACKS RANK: 3-HOLD

Full Company Report

Get Full Company Report for:

FirstEnergy Corp. is a diversified energy services holding company as the result of the merger of Ohio Edison Company and Centerior Energy Corporation. FirstEnergy companies provide electricity and natural gas services and a wide array of energy-related products and services. FirstEnergy's four electric utility companies, Ohio Edison and its Pennsylvania Power subsidiary, The Illuminating Company and Toledo Edison, serve customers in northern and central Ohio and western Pennsylvania. (Company Press Release)

GENERAL INFORMATION

FIRSTENERGY CP
 76 SOUTH MAIN ST
 AKRON, OH 44308-1890
 Phone: 330-761-7837
 Fax: 330-384-3866
 Web: <http://www.firstenergycorp.com>
 Email: firstenergy@amstock.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/06/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	39.01
52 Week High	51.14
52 Week Low	38.26
Beta	0.39
20 Day Moving Average	3,442,875.50
Target Price Consensus	44.06

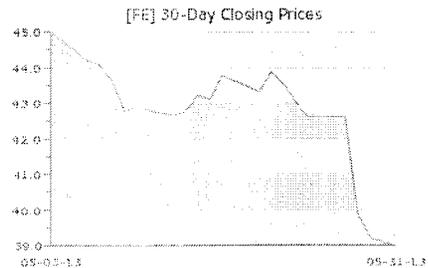
% Price Change

4 Week	-15.31
12 Week	-4.29
YTD	-6.39

Share Information

Shares Outstanding (millions)	418.22
Market Capitalization (millions)	16,314.61
Short Ratio	4.03
Last Split Date	NA

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% Price Change Relative to S&P 500

4 Week	-17.03
12 Week	-9.37
YTD	-11.76

Dividend Information

Dividend Yield	5.64%
Annual Dividend	\$2.20
Payout Ratio	0.67
Change in Payout Ratio	0.08
Last Dividend Payout / Amount	05/03/2013 / \$0.55

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EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.52
Current Year EPS Consensus Estimate	2.99
Estimated Long-Term EPS Growth Rate	0.60
Next EPS Report Date	08/06/2013

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.75
30 Days Ago	2.75
60 Days Ago	2.77
90 Days Ago	2.77

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	13.05	vs. Previous Year	-7.32%	vs. Previous Year	-8.56%
Trailing 12 Months	11.97	vs. Previous Quarter	-5.00%	vs. Previous Quarter	6.54%
PEG Ratio	21.75				
Price Ratios		ROE		ROA	
Price/Book	1.25	03-31-13	10.26	03-31-13	2.76
Price/Cash Flow	5.38	12-31-12	10.40	12-31-12	2.85
Price / Sales	1.06	09-30-12	10.32	09-30-12	2.89
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	0.49	03-31-13	0.37	03-31-13	8.83
12-31-12	0.50	12-31-12	0.38	12-31-12	8.81
09-30-12	0.63	09-30-12	0.48	09-30-12	8.56
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	4.28	03-31-13	7.19	03-31-13	31.08
12-31-12	4.89	12-31-12	8.65	12-31-12	31.31
09-30-12	6.29	09-30-12	10.52	09-30-12	32.16
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	7.42	03-31-13	1.22	03-31-13	54.88
12-31-12	7.49	12-31-12	1.16	12-31-12	53.69
09-30-12	8.24	09-30-12	1.16	09-30-12	53.74

This DeVry grad runs one of the world's largest cyber security programs for a Fortune 100 bank.

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Great Plains Energy Incor: (NYSE: GXP) ZACKS RANK: 3-HOLD
\$22.55 -0.02 (-0.09%) **Volume 267,261** **Jun 03 10:42 AM ET**

Full Company Report Get Full Company Report for:

Great Plains Energy Incorporated engages in the generation, transmission, distribution and sale of electricity to customers located in all or portions of numerous counties in western Missouri and eastern Kansas. Customers include residences, commercial firms, and industrials, municipalities and other electric utilities.

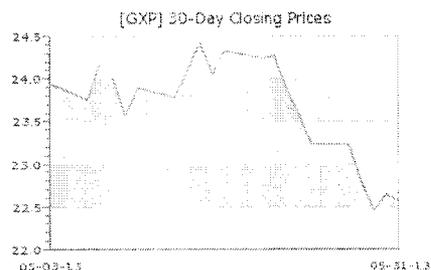
GENERAL INFORMATION

GREAT PLAINS EN
 1200 MAIN ST.
 KANSAS CITY, MO 64106-2124
 Phone: 8165562200
 Fax: 816-556-2992
 Web: <http://www.greatplainsenergy.com>
 Email: NA

Industry	UTIL-ELEC PWR
Sedor	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/07/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	22.57
52 Week High	24.44
52 Week Low	19.64
Beta	0.69
20 Day Moving Average	1,109,531.25
Target Price Consensus	25.00



% Price Change

4 Week	-5.25
12 Week	0.36
YTD	11.47

% Price Change Relative to S&P 500

4 Week	-7.17
12 Week	-4.97
YTD	-1.11

Share Information

Shares Outstanding (millions)	153.55
Market Capitalization (millions)	3,465.69
Short Ratio	0.64
Last Split Date	06/01/92

Dividend Information

Dividend Yield	3.85%
Annual Dividend	\$0.87
Payout Ratio	0.56
Change in Payout Ratio	-0.17
Last Dividend Payout / Amount	02/25/2013 / \$0.22

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.39
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CONSENSUS RECOMMENDATIONS

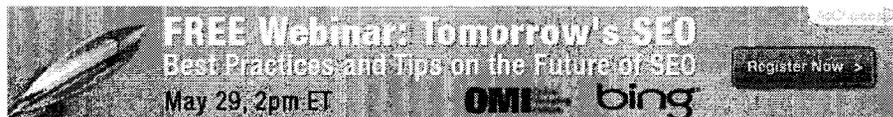
Current (1=Strong Buy, 5=Strong Sell)	2.40
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Current Year EPS Consensus Estimate	Subscribe 1.57	30 Days Ago	Get Quote or Search Keyword	2.11
Estimated Long-Term EPS Growth Rate	5.10	60 Days Ago		2.08
Next EPS Report Date	08/07/2013	90 Days Ago		2.25

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	14.36	vs. Previous Year	342.86%	vs. Previous Year	13.03%
Trailing 12 Months	14.47	vs. Previous Quarter	466.67%	vs. Previous Quarter	12.86%
PEG Ratio	2.83				
Price Ratios		ROE		ROA	
Price/Book	1.04	03-31-13	7.04	03-31-13	2.45
Price/Cash Flow	6.52	12-31-12	6.18	12-31-12	2.12
Price / Sales	1.46	09-30-12	6.30	09-30-12	2.12
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	0.54	03-31-13	0.33	03-31-13	9.85
12-31-12	0.50	12-31-12	0.33	12-31-12	8.62
09-30-12	0.61	09-30-12	0.43	09-30-12	8.50
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	9.91	03-31-13	15.23	03-31-13	21.74
12-31-12	8.65	12-31-12	13.20	12-31-12	21.76
09-30-12	8.52	09-30-12	12.80	09-30-12	21.93
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	2.82	03-31-13	0.91	03-31-13	47.48
12-31-12	2.71	12-31-12	0.83	12-31-12	44.93
09-30-12	2.77	09-30-12	0.82	09-30-12	44.80



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Hawaiian Electric Indus: (NYSE: HE)

\$26.09 -0.08 (-0.31%) **Volume 107,810** Jun 03 10:42 AM ET

ZACKS RANK: 3-HOLD

Full Company Report

Get Full Company Report for:

Hawaiian Electric Industries, Inc. is a holding company with subsidiaries engaged in the electric utility, savings bank, freight transportation, real estate development and other businesses, primarily in the State of Hawaii, and in the pursuit of independent power projects in Asia and the Pacific.

GENERAL INFORMATION

HAWAIIAN ELEC
 900 RICHARDS ST
 HONOLULU, HI 96813
 Phone: 8085435662
 Fax: 808-543-7966
 Web: <http://www.hei.com>
 Email: skimura@hei.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/08/2013

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PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	26.17
52 Week High	29.24
52 Week Low	23.65
Beta	0.48
20 Day Moving Average	348,344.94
Target Price Consensus	27.40

% Price Change

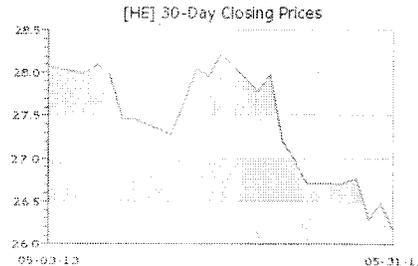
4 Week	-6.03
12 Week	-4.21
YTD	5.33

Share Information

Shares Outstanding (millions)	98.47
Market Capitalization (millions)	2,576.91
Short Ratio	12.06
Last Split Date	06/14/04

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.40
--	------



% Price Change Relative to S&P 500

4 Week	-7.94
12 Week	-9.29
YTD	-8.14

Dividend Information

Dividend Yield	4.74%
Annual Dividend	\$1.24
Payout Ratio	0.77
Change in Payout Ratio	-0.16
Last Dividend Payout / Amount	05/20/2013 / \$0.31

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	3.00
---------------------------------------	------

Current Year EPS Consensus Estimate	Subscribe	1.64	30 Days Ago	3.00
Estimated Long-Term EPS Growth Rate		4.20	60 Days Ago	3.00
Next EPS Report Date		08/08/2013	90 Days Ago	3.00

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	15.96	vs. Previous Year	-15.00%	vs. Previous Year	-3.78%
Trailing 12 Months	16.15	vs. Previous Quarter	-12.82%	vs. Previous Quarter	-6.45%
PEG Ratio	3.85				

Price Ratios		ROE		ROA	
Price/Book	1.60	03-31-13	9.96	03-31-13	1.58
Price/Cash Flow	7.94	12-31-12	10.37	12-31-12	1.66
Price / Sales	0.77	09-30-12	10.24	09-30-12	1.65

Current Ratio		Quick Ratio		Operating Margin	
03-31-13	0.90	03-31-13	0.90	03-31-13	4.75
12-31-12	0.92	12-31-12	0.92	12-31-12	4.86
09-30-12	0.91	09-30-12	0.91	09-30-12	4.74

Net Margin		Pre-Tax Margin		Book Value	
03-31-13	4.06	03-31-13	6.28	03-31-13	16.32
12-31-12	4.16	12-31-12	6.44	12-31-12	16.35
09-30-12	4.75	09-30-12	7.35	09-30-12	16.55

Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	NA	03-31-13	0.89	03-31-13	47.55
12-31-12	NA	12-31-12	0.89	12-31-12	47.76
09-30-12	NA	09-30-12	0.89	09-30-12	47.67

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Idacorp Inc: (NYSE: IDA)

\$47.46 0.23 (0.49%) **Volume 56,243** Jun 03 10:42 AM ET

ZACKS RANK: **2-BUY**

Full Company Report

Get Full Company Report for:

Idacorp Inc. is an electric public utility company. The company is engaged in the generation, purchase, transmission, distribution and sale of electric energy primarily in the areas including southern Idaho, eastern Oregon and northern Nevada. The company relies heavily on hydroelectric power for its generating needs and is one of the nation's few investor-owned utilities with a predominantly hydro base. The company's principal commercial and industrial customers include lodges, condominiums, and ski lifts and related facilities.

GENERAL INFORMATION

IDACORP INC	UTIL-ELEC PWR
1221 WEST IDAHO STREET	Utilities
BOISE, ID 83702-5627	
Phone: 2083882200	
Fax: 208-388-6916	
Web: http://www.idacorpinc.com	
Email: NA	
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/08/2013

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PRICE AND VOLUME INFORMATION

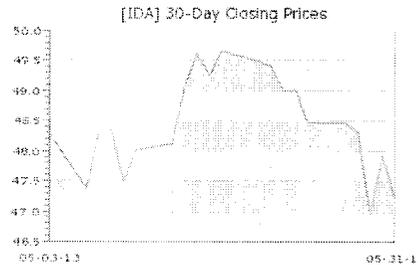
Zacks Rank	
Yesterday's Close	47.23
52 Week High	50.16
52 Week Low	38.93
Beta	0.42
20 Day Moving Average	274,398.34
Target Price Consensus	50.38

% Price Change

4 Week	-1.05
12 Week	-0.42
YTD	10.56

Share Information

Shares Outstanding (millions)	50.14
Market Capitalization (mlions)	2,368.25
Short Ratio	5.27
Last Split Date	NA



% Price Change Relative to S&P 500

4 Week	-3.06
12 Week	-5.70
YTD	-3.33

Dividend Information

Dividend Yield	3.22%
Annual Dividend	\$1.52
Payout Ratio	0.43
Change in Payout Ratio	-0.03
Last Dividend Payout / Amount	05/03/2013 / \$0.38

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EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.64
Current Year EPS Consensus Estimate	3.30
Estimated Long-Term EPS Growth Rate	4.00
Next EPS Report Date	08/08/2013

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.40
30 Days Ago	2.40
60 Days Ago	2.40
90 Days Ago	2.00

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	14.31	vs. Previous Year	34.00%	vs. Previous Year	9.86%
Trailing 12 Months	13.30	vs. Previous Quarter	103.03%	vs. Previous Quarter	5.63%
PEG Ratio	3.58				
Price Ratios		ROE		ROA	
Price/Book	1.33	03-31-13	10.12	03-31-13	3.39
Price/Cash Flow	7.97	12-31-12	9.77	12-31-12	3.27
Price / Sales	2.14	09-30-12	9.48	09-30-12	3.18
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	1.50	03-31-13	1.17	03-31-13	16.06
12-31-12	1.05	12-31-12	0.78	12-31-12	15.62
09-30-12	1.36	09-30-12	0.99	09-30-12	15.21
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	16.06	03-31-13	18.69	03-31-13	35.49
12-31-12	15.62	12-31-12	18.05	12-31-12	35.15
09-30-12	15.21	09-30-12	16.63	09-30-12	35.38
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	6.68	03-31-13	0.86	03-31-13	46.32
12-31-12	6.33	12-31-12	0.83	12-31-12	45.41
09-30-12	6.42	09-30-12	0.87	09-30-12	46.41

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Otter Tail Cp: (NASD: OTTR)

\$27.53 0.21 (0.77%) **Volume 12,071** Jun 03 10:44 AM ET

ZACKS RANK: 3-HOLD

Full Company Report

Get Full Company Report for:

OTTER TAIL's primary business is the production, transmission, distribution and sale of electric energy. The Company, through its subsidiaries, is also engaged in other businesses which are referred to as Health Services Operations and Diversified Operations.

GENERAL INFORMATION

OTTER TAIL CORP
 215 S CASCADE ST PO BOX 496
 FERGUS FALLS, MN 56538-0496
 Phone: 866-410-8780
 Fax: 218-998-3165
 Web: <http://www.ottertail.com>
 Email: sharesvc@ottertail.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/05/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	27.32
52 Week High	31.70
52 Week Low	21.26
Beta	1.09
20 Day Moving Average	103,432.20
Target Price Consensus	28.33

% Price Change

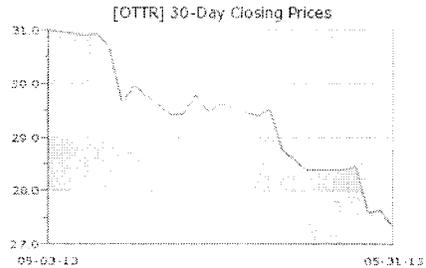
4 Week	-10.51
12 Week	-8.26
YTD	10.48

Share Information

Shares Outstanding (millions)	36.17
Market Capitalization (mlions)	988.14
Short Ratio	12.47
Last Split Date	03/16/00

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.27
--	------



% Price Change Relative to S&P 500

4 Week	-12.33
12 Week	-13.13
YTD	-1.82

Dividend Information

Dividend Yield	4.36%
Annual Dividend	\$1.19
Payout Ratio	0.79
Change in Payout Ratio	-0.79
Last Dividend Payout / Amount	05/13/2013 / \$0.30

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	3.00
---------------------------------------	------

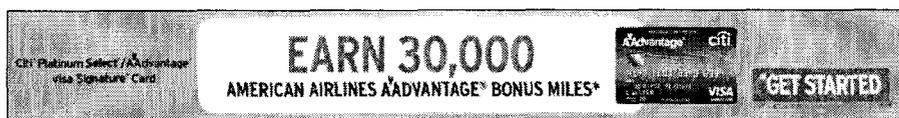


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Current Year EPS Consensus Estimate	Subscribe 1.41	30 Days Ago	3.00
Estimated Long-Term EPS Growth Rate	Free Trial 6.00	60 Days Ago	3.08
Next EPS Report Date	08/05/2013	90 Days Ago	3.00

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	19.41	vs. Previous Year	57.69%	vs. Previous Year	-21.48%
Trailing 12 Months	18.09	vs. Previous Quarter	-12.77%	vs. Previous Quarter	2.50%
PEG Ratio	3.24				
Price Ratios		ROE		ROA	
Price/Book	1.87	03-31-13	10.34	03-31-13	3.43
Price/Cash Flow	9.20	12-31-12	9.18	12-31-12	3.06
Price / Sales	1.00	09-30-12	5.81	09-30-12	1.95
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	1.89	03-31-13	1.43	03-31-13	5.53
12-31-12	1.87	12-31-12	1.47	12-31-12	4.72
09-30-12	1.70	09-30-12	1.28	09-30-12	2.92
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	0.29	03-31-13	5.20	03-31-13	14.59
12-31-12	-0.50	12-31-12	4.78	12-31-12	14.43
09-30-12	-4.76	09-30-12	-0.17	09-30-12	14.69
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	8.76	03-31-13	0.83	03-31-13	45.32
12-31-12	8.63	12-31-12	0.81	12-31-12	43.96
09-30-12	7.96	09-30-12	0.79	09-30-12	43.55



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Pepco Holdings Inc: (NYSE: POM) ZACKS RANK: 4-SELL
\$20.75 -0.02 (-0.10%) Volume 794,144 Jun 03 10:46 AM ET

Full Company Report Get Full Company Report for:

Pepco Holdings, Inc. is an energy holding company. Pepco has been providing reliable electric service for more than one hundred years. Today, they deliver electricity to homes and businesses in the District of Columbia and its Maryland suburbs.

GENERAL INFORMATION
 PEPCO HLDGS
 SUITE 1300 701 NINTH STREET NW
 WASHINGTON, DC 20068
 Phone: 202-872-2000
 Fax: 202-331-6874
 Web: <http://www.pepcoholdings.com>
 Email: investor@pepcoholdings.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/06/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	20.77
52 Week High	22.72
52 Week Low	18.67
Beta	0.45
20 Day Moving Average	2,158,065.50
Target Price Consensus	21.00

% Price Change

4 Week	-7.89
12 Week	2.01
YTD	7.19

Share Information

Shares Outstanding (millions)	230.07
Market Capitalization (millions)	4,778.62
Short Ratio	4.81
Last Split Date	NA

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.24
Current Year EPS Consensus Estimate	1.14

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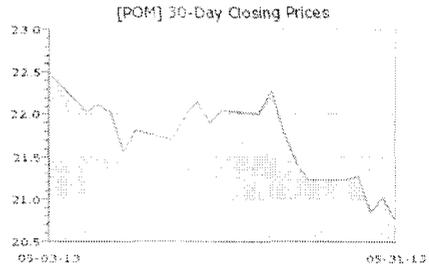
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% Price Change Relative to S&P 500

4 Week	-9.77
12 Week	-3.40
YTD	-6.40

Dividend Information

Dividend Yield	5.20%
Annual Dividend	\$1.08
Payout Ratio	0.94
Change in Payout Ratio	0.07
Last Dividend Payout / Amount	03/07/2013 / \$0.27

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.60
30 Days Ago	2.60



Estimated Long-Term EPS Growth Rate [Subscribe](#) 5.80 [Free Trial](#) [60 Days Ago](#) [Get Quote or Search Keyword](#) 2.60
 Next EPS Report Date 08/06/2013 [90 Days Ago](#) 2.68

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	18.29	vs. Previous Year	-20.00%	vs. Previous Year	-34.06%
Trailing 12 Months	18.06	vs. Previous Quarter	26.32%	vs. Previous Quarter	-24.87%
PEG Ratio	3.18				
Price Ratios		ROE		ROA	
Price/Book	1.12	03-31-13	6.06	03-31-13	1.70
Price/Cash Flow	6.52	12-31-12	6.28	12-31-12	1.79
Price / Sales	1.03	09-30-12	6.09	09-30-12	1.75
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	0.53	03-31-13	0.47	03-31-13	5.73
12-31-12	0.49	12-31-12	0.43	12-31-12	5.45
09-30-12	0.74	09-30-12	0.66	09-30-12	5.15
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	-4.59	03-31-13	1.55	03-31-13	18.59
12-31-12	5.61	12-31-12	8.68	12-31-12	19.38
09-30-12	5.04	09-30-12	7.82	09-30-12	19.45
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	22.46	03-31-13	0.99	03-31-13	49.68
12-31-12	23.64	12-31-12	0.90	12-31-12	47.27
09-30-12	25.54	09-30-12	1.00	09-30-12	49.98

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Pinnacle West Capital Corp: (NYSE: PNW)

\$56.58 0.10 (0.17%) **Volume 193,916** Jun 03 10:47 AM ET ZACKS RANK: 2-BUY

Full Company Report

Get Full Company Report for:

Pinnacle West Capital is engaged, through its subsidiaries, in the generation, transmission, and distribution of electricity and selling energy, products and services; in real estate development; and in venture capital investment. Its primary subsidiary is Arizona Public Service Company. The company's other subsidiaries include SunCor, El Dorado, APS Energy Services and Pinnacle West Energy.

GENERAL INFORMATION

PINNACLE WEST
 400 NORTH FIFTH STREET MS8695
 PHOENIX, AZ 85004
 Phone: 6022501000
 Fax: 602-379-2625
 Web: <http://www.pinnaclewest.com>
 Email: rhickman@pinnaclewest.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/08/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	56.48
52 Week High	61.89
52 Week Low	48.73
Beta	0.51
20 Day Moving Average	788,805.75
Target Price Consensus	58.33

% Price Change

4 Week	-6.68
12 Week	-0.96
YTD	11.61

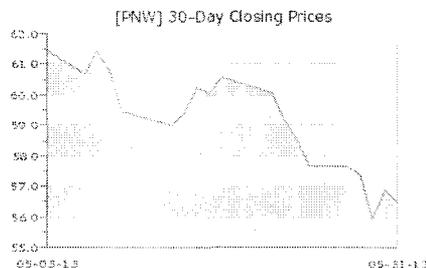
Share Information

Shares Outstanding (millions)	109.76
Market Capitalization (mlions)	6,199.02
Short Ratio	3.14
Last Split Date	NA

EPS INFORMATION

Current Quarter EPS Consensus Estimate	1.07
--	------

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% Price Change Relative to S&P 500

4 Week	-8.57
12 Week	-6.22
YTD	-2.20

Dividend Information

Dividend Yield	3.86%
Annual Dividend	\$2.18
Payout Ratio	0.58
Change in Payout Ratio	-0.21
Last Dividend Payout / Amount	04/29/2013 / \$0.55

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	3.00
---------------------------------------	------

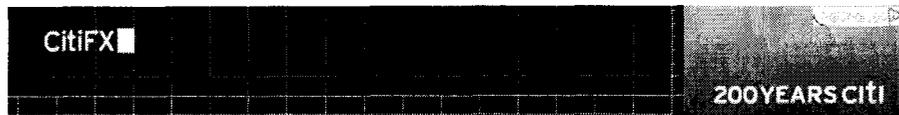


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Current Year EPS Consensus Estimate	Subscribe	3.59	30 Days Ago	3.00
Estimated Long-Term EPS Growth Rate	Free Trial	4.10	60 Days Ago	3.08
Next EPS Report Date		08/08/2013	90 Days Ago	3.00

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	15.71	vs. Previous Year	414.29%	vs. Previous Year	10.64%
Trailing 12 Months	14.90	vs. Previous Quarter	-8.33%	vs. Previous Quarter	-0.93%
PEG Ratio	3.80				
Price Ratios		ROE		ROA	
Price/Book	1.49	03-31-13	10.27	03-31-13	3.14
Price/Cash Flow	8.24	12-31-12	9.65	12-31-12	2.91
Price / Sales	1.84	09-30-12	9.38	09-30-12	2.81
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	0.98	03-31-13	0.69	03-31-13	12.45
12-31-12	0.93	12-31-12	0.70	12-31-12	11.72
09-30-12	1.16	09-30-12	0.89	09-30-12	11.36
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	12.30	03-31-13	20.96	03-31-13	37.83
12-31-12	11.56	12-31-12	19.88	12-31-12	37.40
09-30-12	11.34	09-30-12	19.23	09-30-12	38.21
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	7.58	03-31-13	0.80	03-31-13	44.31
12-31-12	7.62	12-31-12	0.78	12-31-12	43.81
09-30-12	7.78	09-30-12	0.80	09-30-12	44.37



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Portland General Electric Co: (NYSE: POR)

\$30.63 0.19 (0.61%) **Volume 163,076** Jun 03 10:47 AM ET

ZACKS RANK: 2-BUY

Full Company Report

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Portland General Electric, headquartered in Portland, Ore., is a vertically integrated electric utility that serves residential, commercial and industrial customers in Oregon. The company has more than a century of experience in power delivery. PGE generates power from a diverse mix of resources, including hydropower, coal and natural gas. PGE also participates in the wholesale market by purchasing and selling electricity and natural gas to utilities and energy marketers.

GENERAL INFORMATION

PORTLAND GEN EL
121 SW SALMON ST 1WTC0501
PORTLAND, OR 97204
Phone: 5034647779
Fax: 503-778-5566
Web: <http://www.portlandgeneral.com>
Email: investors@pgn.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/09/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	30.44
52 Week High	32.91
52 Week Low	24.86
Beta	0.60
20 Day Moving Average	364,910.59
Target Price Consensus	32.58

% Price Change

4 Week	-5.85
12 Week	0.50
YTD	12.68

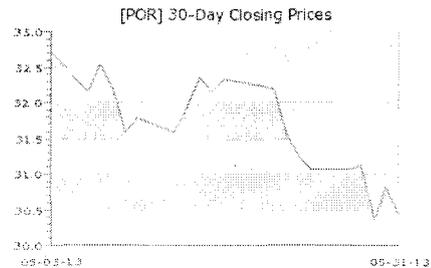
Share Information

Shares Outstanding (millions)	75.56
Market Capitalization (mlions)	2,299.96
Short Ratio	3.03
Last Split Date	NA

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.31
--	------

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% Price Change Relative to S&P 500

4 Week	-7.76
12 Week	-4.83
YTD	-1.82

Dividend Information

Dividend Yield	3.55%
Annual Dividend	\$1.08
Payout Ratio	0.58
Change in Payout Ratio	-0.04
Last Dividend Payout / Amount	03/21/2013 / \$0.27

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.56
---------------------------------------	------

Current Year EPS Consensus Estimate	Subscribe 1.62	30 Days Ago	2.50
Estimated Long-Term EPS Growth Rate	5.90	60 Days Ago	2.58
Next EPS Report Date	08/06/2013	90 Days Ago	2.56

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	15.85	vs. Previous Year	0.00%	vs. Previous Year	-1.25%
Trailing 12 Months	16.28	vs. Previous Quarter	71.05%	vs. Previous Quarter	2.16%
PEG Ratio	2.69				
Price Ratios		ROE		ROA	
Price/Book	1.31	03-31-13	8.16	03-31-13	2.47
Price/Cash Flow	5.91	12-31-12	8.24	12-31-12	2.46
Price / Sales	1.28	09-30-12	8.38	09-30-12	2.47
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	1.23	03-31-13	1.06	03-31-13	7.84
12-31-12	1.19	12-31-12	1.04	12-31-12	7.81
09-30-12	1.21	09-30-12	1.09	09-30-12	7.80
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	7.84	03-31-13	11.40	03-31-13	23.27
12-31-12	7.81	12-31-12	11.30	12-31-12	22.90
09-30-12	7.80	09-30-12	10.98	09-30-12	22.76
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	11.91	03-31-13	0.87	03-31-13	46.63
12-31-12	11.82	12-31-12	0.89	12-31-12	47.03
09-30-12	12.32	09-30-12	0.89	09-30-12	47.19

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Southern Co: (NYSE: SO)

\$43.88 -0.02 (-0.05%) **Volume 2,848,248** Jun 03 10:48 AM ET

ZACKS RANK: 3-HOLD

Full Company Report

Get Full Company Report for:

Southern Energy acquires, develops, builds, owns and operates power production and delivery facilities and provides a broad range of energy-related services to utilities and industrial companies in selected countries around the world. Southern Energy businesses include independent power projects, integrated utilities, a distribution company, and energy trading and marketing businesses outside the southeastern United States.

GENERAL INFORMATION

SOUTHERN CO
30 IVAN ALLEN JR. BLVD. N.W.
ATLANTA, GA 30308
Phone: 4045065000
Fax: 404-506-0945
Web: <http://www.southernco.com>
Email: dstucker@southernco.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	07/24/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	43.90
52 Week High	48.74
52 Week Low	41.75
Beta	0.25
20 Day Moving Average	3,501,220.00
Target Price Consensus	47.83

% Price Change

4 Week	-7.05
12 Week	-3.28
YTD	3.08

Share Information

Shares Outstanding (millions)	868.97
Market Capitalization (millions)	38,147.78
Short Ratio	3.95
Last Split Date	03/01/94

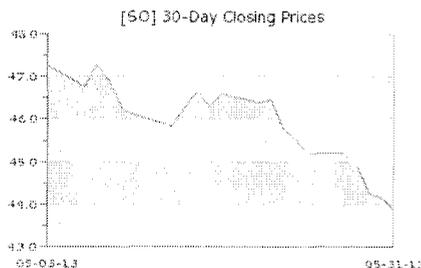
EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.69
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% Price Change Relative to S&P 500

4 Week	-8.94
12 Week	-8.41
YTD	-8.72

Dividend Information

Dividend Yield	4.62%
Annual Dividend	\$2.03
Payout Ratio	0.72
Change in Payout Ratio	-0.03
Last Dividend Payout / Amount	05/02/2013 / \$0.51

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	3.00
---------------------------------------	------

Current Year EPS Consensus Estimate	Subscribe 2.75	Free Trial 30 Days Ago	Get Quote or Search Keyword	3.00
Estimated Long-Term EPS Growth Rate	4.80	60 Days Ago		3.18
Next EPS Report Date	07/24/2013	90 Days Ago		3.14

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	15.97	vs. Previous Year	16.67%	vs. Previous Year	8.25%
Trailing 12 Months	16.08	vs. Previous Quarter	11.36%	vs. Previous Quarter	5.24%
PEG Ratio	3.35				
Price Ratios		ROE		ROA	
Price/Book	2.11	03-31-13	13.17	03-31-13	3.86
Price/Cash Flow	8.58	12-31-12	12.89	12-31-12	3.81
Price / Sales	2.27	09-30-12	12.43	09-30-12	3.70
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	0.92	03-31-13	0.50	03-31-13	14.30
12-31-12	0.88	12-31-12	0.48	12-31-12	14.18
09-30-12	1.02	09-30-12	0.63	09-30-12	13.55
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	12.64	03-31-13	19.57	03-31-13	20.76
12-31-12	14.51	12-31-12	22.67	12-31-12	20.93
09-30-12	13.78	09-30-12	21.10	09-30-12	21.31
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	3.58	03-31-13	1.12	03-31-13	51.40
12-31-12	3.60	12-31-12	1.05	12-31-12	49.86
09-30-12	4.67	09-30-12	1.02	09-30-12	49.01

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Western Energy Inc: (NYSE: WR)

\$31.62 **-0.10 (-0.32%)** **Volume 324,174** **Jun 03 10:48 AM ET**

ZACKS RANK: **2-BUY**

Full Company Report

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Westar Energy is a consumer services company with interests in monitored services and energy. Westar Energy provides electric utility services to customers in Kansas. Westar Energy's goal is to operate the best utility in the Midwest. They will provide their customers quality service at below average prices. Westar Energy Generation and Marketing will be a preferred energy provider, both inside and outside their service territory.

GENERAL INFORMATION

WESTAR ENERGY
 818 S KANSAS AVE
 TOPEKA, KS 66601
 Phone: 785-575-6300
 Fax: 785-575-1796
 Web: <http://www.westarenergy.com>
 Email: ir@westarenergy.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/08/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	31.72
52 Week High	34.96
52 Week Low	27.33
Beta	0.55
20 Day Moving Average	839,806.50
Target Price Consensus	36.00

% Price Change

4 Week	-7.47
12 Week	0.22
YTD	11.39

Share Information

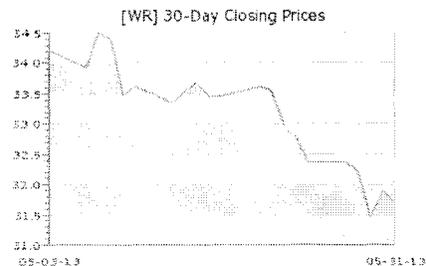
Shares Outstanding (millions)	126.78
Market Capitalization (millions)	4,021.46
Short Ratio	5.45
Last Split Date	NA

EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.45
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% Price Change Relative to S&P 500

4 Week	-9.35
12 Week	-5.09
YTD	-2.18

Dividend Information

Dividend Yield	4.29%
Annual Dividend	\$1.36
Payout Ratio	0.58
Change in Payout Ratio	-0.24
Last Dividend Payout / Amount	03/07/2013 / \$0.34

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.00
---------------------------------------	------

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Current Year EPS Consensus Estimate	Subscribe 2.11	30 Days Ago	Get Quote or Search Keyword	2.00
Estimated Long-Term EPS Growth Rate	Free Trial 5.10	60 Days Ago		2.25
Next EPS Report Date	08/06/2013	90 Days Ago		2.11

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	15.00	vs. Previous Year	90.48%	vs. Previous Year	14.83%
Trailing 12 Months	13.56	vs. Previous Quarter	11.11%	vs. Previous Quarter	4.28%
PEG Ratio	2.93				
Price Ratios		ROE		ROA	
Price/Book	1.38	03-31-13	10.37	03-31-13	3.24
Price/Cash Flow	6.78	12-31-12	9.68	12-31-12	3.03
Price / Sales	1.72	09-30-12	8.87	09-30-12	2.79
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	0.86	03-31-13	0.53	03-31-13	12.81
12-31-12	0.76	12-31-12	0.47	12-31-12	12.17
09-30-12	0.92	09-30-12	0.58	09-30-12	11.20
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	12.81	03-31-13	19.08	03-31-13	23.06
12-31-12	12.17	12-31-12	18.07	12-31-12	23.01
09-30-12	11.20	09-30-12	16.72	09-30-12	22.95
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	4.96	03-31-13	1.12	03-31-13	52.75
12-31-12	4.77	12-31-12	1.05	12-31-12	51.11
09-30-12	4.87	09-30-12	1.06	09-30-12	51.37

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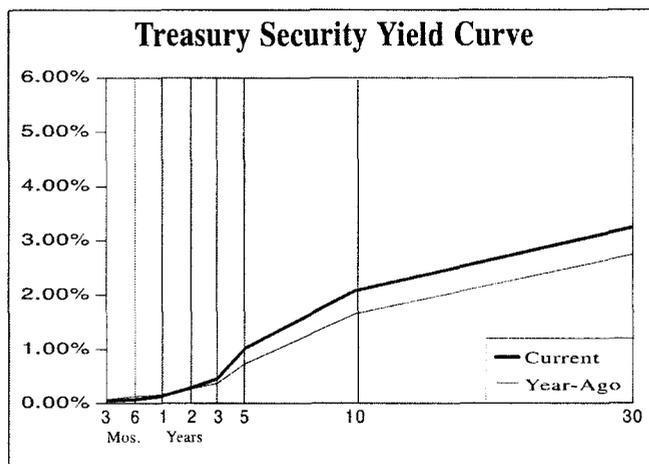
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Selected Yields

	Recent (6/05/13)	3 Months Ago (3/06/13)	Year Ago (6/06/12)		Recent (6/05/13)	3 Months Ago (3/06/13)	Year Ago (6/06/12)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75	Mortgage-Backed Securities	2.31	1.77	1.37
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	GNMA 5.5%	2.68	2.25	2.16
Prime Rate	3.25	3.25	3.25	FHLMC 5.5% (Gold)	2.27	1.88	1.97
30-day CP (A1/P1)	0.17	0.20	0.30	FNMA 5.5%	2.13	2.12	2.29
3-month LIBOR	0.27	0.28	0.47	FNMA ARM			
Bank CDs							
6-month	0.08	0.10	0.21	Corporate Bonds			
1-year	0.10	0.13	0.32	Financial (10-year) A	3.27	3.03	3.40
5-year	0.64	0.70	1.11	Industrial (25/30-year) A	4.26	4.08	4.05
U.S. Treasury Securities							
3-month	0.05	0.09	0.08	Utility (25/30-year) A	4.19	4.07	3.98
6-month	0.07	0.11	0.13	Utility (25/30-year) Baa/BBB	4.60	4.42	4.38
1-year	0.13	0.15	0.17	Foreign Bonds (10-Year)			
5-year	1.02	0.81	0.73	Canada	2.05	1.85	1.81
10-year	2.08	1.95	1.66	Germany	1.51	1.46	1.34
10-year (inflation-protected)	-0.10	-0.64	-0.52	Japan	0.85	0.65	0.85
30-year	3.24	3.16	2.74	United Kingdom	2.01	1.96	1.66
30-year Zero	3.49	3.42	2.95	Preferred Stocks			
				Utility A	5.55	5.40	5.30
				Financial BBB	5.06	5.93	6.52
				Financial Adjustable A	5.53	5.53	5.53



TAX-EXEMPT

	Recent (6/05/13)	3 Months Ago (3/06/13)	Year Ago (6/06/12)
Bond Buyer Indexes			
20-Bond Index (GOs)	3.84	3.74	3.77
25-Bond Index (Revs)	4.39	4.29	4.73
General Obligation Bonds (GOs)			
1-year Aaa	0.16	0.19	0.21
1-year A	0.88	0.78	0.93
5-year Aaa	1.01	0.80	0.78
5-year A	1.94	1.78	1.74
10-year Aaa	2.21	2.01	1.95
10-year A	3.21	2.89	2.98
25/30-year Aaa	3.36	3.13	3.47
25/30-year A	5.11	4.82	4.81
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.38	4.21	4.32
Electric AA	4.53	4.34	4.63
Housing AA	4.87	4.64	4.69
Hospital AA	4.62	4.45	4.54
Toll Road Aaa	4.56	4.37	4.38

Source: Bloomberg Finance L.P.

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	5/29/13	5/15/13	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1897054	1823318	73736	1762549	1632938	1544745
Borrowed Reserves	410	422	-12	403	547	1866
Net Free/Borrowed Reserves	1896644	1822896	73748	1762146	1632390	1542879

MONEY SUPPLY

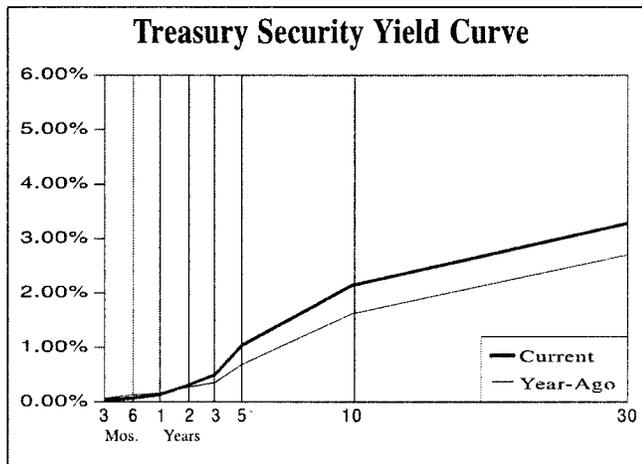
(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	5/20/13	5/13/13	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2533.8	2540.0	-6.2	8.0%	10.1%	12.0%
M2 (M1+savings+small time deposits)	10541.5	10553.4	-11.9	4.6%	5.2%	6.7%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (5/29/13)	3 Months Ago (2/27/13)	Year Ago (5/30/12)		Recent (5/29/13)	3 Months Ago (2/27/13)	Year Ago (5/30/12)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	2.25	1.59	1.32
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.57	2.22	2.15
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	2.19	1.83	1.97
30-day CP (A1/P1)	0.16	0.21	0.31	FNMA ARM	2.12	2.23	2.32
3-month LIBOR	0.28	0.29	0.47	Corporate Bonds			
Bank CDs				Financial (10-year) A	3.27	2.99	3.28
6-month	0.08	0.10	0.21	Industrial (25/30-year) A	4.28	4.03	3.98
1-year	0.10	0.13	0.33	Utility (25/30-year) A	4.19	4.03	3.91
5-year	0.64	0.70	1.12	Utility (25/30-year) Baa/BBB	4.51	4.40	4.39
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.03	0.10	0.07	Canada	2.07	1.87	1.80
6-month	0.07	0.13	0.13	Germany	1.53	1.45	1.27
1-year	0.13	0.15	0.17	Japan	0.93	0.67	0.85
5-year	1.04	0.76	0.69	United Kingdom	2.00	1.96	1.65
10-year	2.14	1.88	1.62	Preferred Stocks			
10-year (inflation-protected)	-0.14	-0.63	-0.48	Utility A	5.74	5.37	5.32
30-year	3.28	3.08	2.71	Financial BBB	6.34	5.92	6.51
30-year Zero	3.51	3.37	2.93	Financial Adjustable A	5.53	5.53	5.53



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.70	3.74	3.81				
25-Bond Index (Revs)	4.30	4.30	4.76				
General Obligation Bonds (GOs)							
1-year Aaa	0.17	0.16	0.21				
1-year A	0.82	0.74	0.92				
5-year Aaa	0.91	0.87	0.80				
5-year A	1.84	1.79	1.74				
10-year Aaa	2.11	2.04	2.00				
10-year A	3.11	2.90	3.03				
25/30-year Aaa	3.28	3.13	3.51				
25/30-year A	5.03	4.83	4.83				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.29	4.21	4.35				
Electric AA	4.46	4.34	4.66				
Housing AA	4.78	4.64	4.72				
Hospital AA	4.55	4.47	4.56				
Toll Road Aaa	4.51	4.37	4.42				

Source: Bloomberg Finance L.P.

Federal Reserve Data

BANK RESERVES (Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	5/15/13	5/1/13	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1823317	1751983	71334	1722318	1600204	1528214
Borrowed Reserves	422	407	15	412	599	2090
Net Free/Borrowed Reserves	1822895	1751576	71319	1721907	1599605	1526124

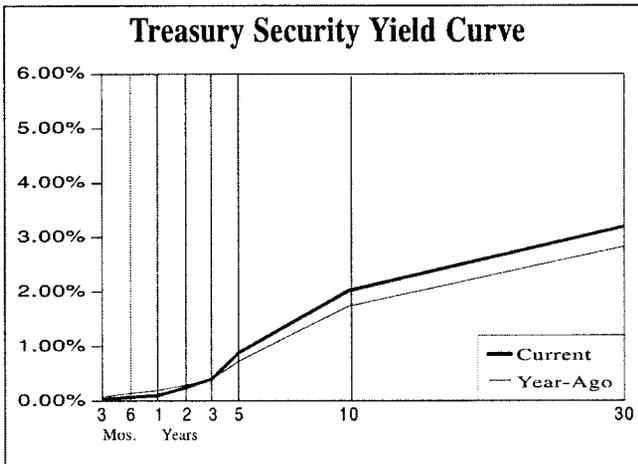
MONEY SUPPLY (One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	5/13/13	5/6/13	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2540.1	2540.3	-0.2	8.6%	10.2%	12.4%
M2 (M1+savings+small time deposits)	10553.4	10540.7	12.7	4.1%	5.2%	7.0%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (5/22/13)	3 Months Ago (2/20/13)	Year Ago (5/23/12)		Recent (5/22/13)	3 Months Ago (2/20/13)	Year Ago (5/23/12)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	2.19	1.60	1.14
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.36	2.32	2.19
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.99	2.01	1.99
30-day CP (A1/P1)	0.17	0.20	0.31	FNMA ARM	2.12	2.23	2.32
3-month LIBOR	0.27	0.29	0.47	Corporate Bonds			
Bank CDs				Financial (10-year) A	3.04	3.08	3.39
6-month	0.09	0.10	0.21	Industrial (25/30-year) A	4.20	4.12	4.03
1-year	0.11	0.13	0.33	Utility (25/30-year) A	4.12	4.12	3.98
5-year	0.64	0.70	1.12	Utility (25/30-year) Baa/BBB	4.52	4.45	4.50
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.03	0.12	0.08	Canada	1.97	2.02	1.88
6-month	0.07	0.13	0.14	Germany	1.43	1.65	1.38
1-year	0.10	0.15	0.19	Japan	0.89	0.75	0.87
5-year	0.89	0.84	0.73	United Kingdom	1.90	2.19	1.77
10-year	2.02	1.99	1.74	Preferred Stocks			
10-year (inflation-protected)	-0.26	-0.68	-0.45	Utility A	5.59	5.51	5.32
30-year	3.19	3.18	2.82	Financial BBB	6.22	5.91	6.50
30-year Zero	3.47	3.47	3.03	Financial Adjustable A	5.52	5.52	5.52



TAX-EXEMPT

	Recent (5/22/13)	3 Months Ago (2/20/13)	Year Ago (5/23/12)
Bond Buyer Indexes			
20-Bond Index (GOs)	3.61	3.72	3.75
25-Bond Index (Revs)	4.25	4.30	4.75
General Obligation Bonds (GOs)			
1-year Aaa	0.16	0.19	0.21
1-year A	0.81	0.79	0.91
5-year Aaa	0.86	0.85	0.80
5-year A	1.79	1.85	1.75
10-year Aaa	2.05	2.00	1.97
10-year A	3.05	2.93	3.03
25/30-year Aaa	3.24	3.15	3.51
25/30-year A	4.99	4.86	4.83
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.28	4.22	4.35
Electric AA	4.42	4.35	4.65
Housing AA	4.74	4.65	4.75
Hospital AA	4.56	4.47	4.56
Toll Road Aaa	4.41	4.37	4.42

Source: Bloomberg Finance L.P.

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	5/15/13	5/1/13	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1823319	1751984	71335	1722319	1600204	1528214
Borrowed Reserves	422	407	15	412	599	2090
Net Free/Borrowed Reserves	1822897	1751577	71320	1721907	1599605	1526124

MONEY SUPPLY

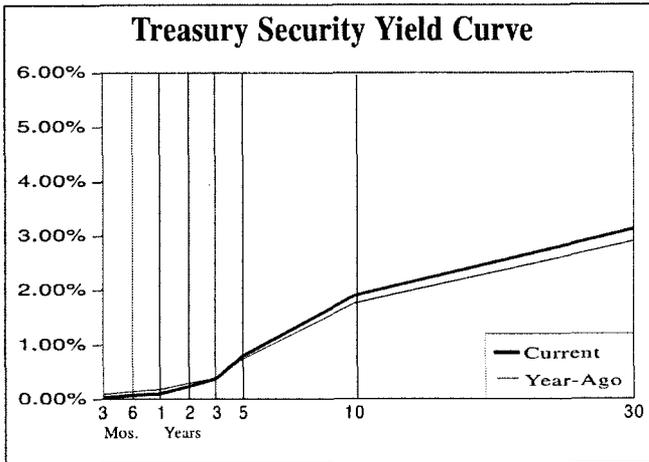
(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	5/6/13	4/29/13	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2540.2	2523.1	17.1	9.8%	9.5%	12.7%
M2 (M1+savings+small time deposits)	10540.2	10535.0	5.2	4.2%	4.4%	6.9%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (5/15/13)	3 Months Ago (2/13/13)	Year Ago (5/16/12)		Recent (5/15/13)	3 Months Ago (2/13/13)	Year Ago (5/16/12)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.19	0.21	0.31				
3-month LIBOR	0.27	0.29	0.47				
Bank CDs							
6-month	0.09	0.10	0.22				
1-year	0.11	0.13	0.33				
5-year	0.64	0.70	1.12				
U.S. Treasury Securities							
3-month	0.03	0.09	0.09				
6-month	0.07	0.12	0.14				
1-year	0.10	0.15	0.18				
5-year	0.80	0.89	0.74				
10-year	1.90	2.04	1.76				
10-year (inflation-protected)	-0.40	-0.68	-0.38				
30-year	3.12	3.22	2.90				
30-year Zero	3.41	3.48	3.13				
Mortgage-Backed Securities							
GNMA 5.5%	2.08	1.85	1.13				
FHLMC 5.5% (Gold)	2.22	2.16	2.09				
FNMA 5.5%	1.87	1.90	1.87				
FNMA ARM	2.12	2.23	2.32				
Corporate Bonds							
Financial (10-year) A	2.96	3.23	3.36				
Industrial (25/30-year) A	4.13	4.18	4.05				
Utility (25/30-year) A	4.07	4.15	4.00				
Utility (25/30-year) Baa/BBB	4.42	4.50	4.48				
Foreign Bonds (10-Year)							
Canada	1.92	2.04	1.92				
Germany	1.38	1.67	1.47				
Japan	0.86	0.75	0.83				
United Kingdom	1.92	2.21	1.88				
Preferred Stocks							
Utility A	5.47	5.50	5.31				
Financial BBB	6.22	5.92	6.69				
Financial Adjustable A	5.51	5.51	5.52				



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.67	3.68	3.71				
25-Bond Index (Revs)	4.22	4.29	4.73				
General Obligation Bonds (GOs)							
1-year Aaa	0.17	0.20	0.21				
1-year A	0.82	0.78	0.95				
5-year Aaa	0.85	0.83	0.78				
5-year A	1.78	1.83	1.78				
10-year Aaa	1.99	1.99	1.92				
10-year A	2.99	2.90	3.06				
25/30-year Aaa	3.19	3.12	3.50				
25/30-year A	4.94	4.83	4.95				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.24	4.21	4.30				
Electric AA	4.37	4.31	4.60				
Housing AA	4.69	4.68	4.70				
Hospital AA	4.54	4.43	4.56				
Toll Road Aaa	4.39	4.36	4.42				

Source: Bloomberg Finance L.P.

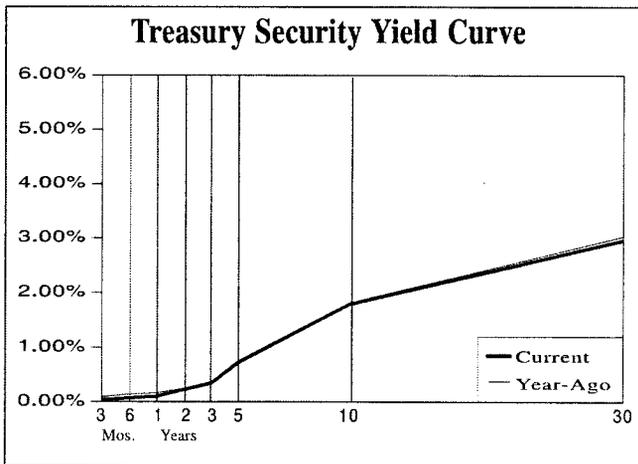
Federal Reserve Data

BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	5/1/13	4/17/13	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	1751987	1793542	-41555	1687300	1571604	1514671	
Borrowed Reserves	407	397	10	428	666	2320	
Net Free/Borrowed Reserves	1751580	1793145	-41565	1686872	1570938	1512351	
MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Ann'l Growth Rates Over the Last...			
	4/29/13	4/22/13	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	2523.1	2508.5	14.6	10.1%	8.4%	12.0%	
M2 (M1+savings+small time deposits)	10535.0	10501.4	33.6	4.4%	4.8%	6.9%	

Source: United States Federal Reserve Bank

Selected Yields

	Recent (5/08/13)	3 Months Ago (2/06/13)	Year Ago (5/09/12)		Recent (5/08/13)	3 Months Ago (2/06/13)	Year Ago (5/09/12)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	2.04	1.83	1.09
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.13	2.06	2.08
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.86	1.83	1.86
30-day CP (A1/P1)	0.19	0.21	0.32	FNMA ARM	2.12	2.23	2.39
3-month LIBOR	0.28	0.29	0.47	Corporate Bonds			
Bank CDs				Financial (10-year) A	2.83	3.18	3.34
6-month	0.09	0.10	0.22	Industrial (25/30-year) A	3.96	4.14	4.14
1-year	0.11	0.13	0.33	Utility (25/30-year) A	3.94	4.09	4.07
5-year	0.64	0.70	1.13	Utility (25/30-year) Baa/BBB	4.29	4.45	4.54
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.04	0.07	0.09	Canada	1.81	2.00	1.98
6-month	0.07	0.11	0.14	Germany	1.27	1.63	1.52
1-year	0.10	0.15	0.17	Japan	0.60	0.78	0.85
5-year	0.73	0.85	0.76	United Kingdom	1.77	2.10	1.90
10-year	1.79	1.98	1.82	Preferred Stocks			
10-year (inflation-protected)	-0.52	-0.72	-0.34	Utility A	5.46	5.48	5.31
30-year	2.96	3.18	3.03	Financial BBB	6.20	5.90	6.18
30-year Zero	3.25	3.42	3.27	Financial Adjustable A	5.51	5.51	5.51



TAX-EXEMPT

Bond Buyer Indexes			
20-Bond Index (GOs)	3.77	3.67	3.81
25-Bond Index (Revs)	4.19	4.29	4.77
General Obligation Bonds (GOs)			
1-year Aaa	0.16	0.22	0.18
1-year A	0.79	0.82	0.98
5-year Aaa	0.81	0.85	0.83
5-year A	1.73	1.85	1.84
10-year Aaa	1.93	2.02	1.96
10-year A	2.92	2.92	3.11
25/30-year Aaa	3.12	3.14	3.56
25/30-year A	4.86	4.85	5.03
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.21	4.22	4.28
Electric AA	4.34	4.33	4.60
Housing AA	4.67	4.68	4.77
Hospital AA	4.48	4.45	4.58
Toll Road Aaa	4.35	4.39	4.42

Source: Bloomberg Finance L.P.

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	5/1/13	4/17/13	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1751987	1793542	-41555	1687300	1571604	1514671
Borrowed Reserves	407	397	10	428	666	2320
Net Free/Borrowed Reserves	1751580	1793145	-41565	1686872	1570938	1512351

MONEY SUPPLY

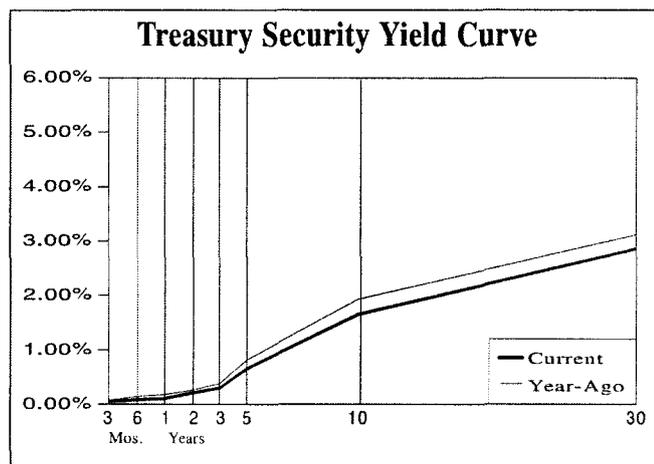
(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	4/22/13	4/15/13	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2508.5	2486.9	21.6	9.5%	8.7%	11.6%
M2 (M1+savings+small time deposits)	10501.0	10550.6	-49.6	3.4%	5.2%	7.0%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (5/01/13)	3 Months Ago (1/30/13)	Year Ago (5/02/12)		Recent (5/01/13)	3 Months Ago (1/30/13)	Year Ago (5/02/12)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.19	0.22	0.31				
3-month LIBOR	0.27	0.30	0.47				
Bank CDs							
6-month	0.09	0.10	0.22				
1-year	0.11	0.13	0.33				
5-year	0.64	0.70	1.13				
U.S. Treasury Securities							
3-month	0.05	0.06	0.08				
6-month	0.08	0.11	0.14				
1-year	0.11	0.13	0.18				
5-year	0.66	0.86	0.82				
10-year	1.65	1.97	1.93				
10-year (inflation-protected)	-0.67	-0.68	-0.35				
30-year	2.86	3.16	3.12				
30-year Zero	3.08	3.43	3.36				
Mortgage-Backed Securities							
GNMA 5.5%	1.99	1.86	1.10				
FHLMC 5.5% (Gold)	2.19	2.12	2.07				
FNMA 5.5%	1.85	1.91	1.87				
FNMA ARM	2.12	2.16	2.32				
Corporate Bonds							
Financial (10-year) A	2.70	3.22	3.43				
Industrial (25/30-year) A	3.80	4.12	4.22				
Utility (25/30-year) A	3.78	4.10	4.15				
Utility (25/30-year) Baa/BBB	4.15	4.45	4.63				
Foreign Bonds (10-Year)							
Canada	1.68	2.00	2.02				
Germany	1.20	1.71	1.61				
Japan	0.59	0.77	0.89				
United Kingdom	1.65	2.11	2.05				
Preferred Stocks							
Utility A	5.53	5.40	5.42				
Financial BBB	6.20	5.89	6.19				
Financial Adjustable A	5.50	5.50	5.50				



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.90	3.54	3.86				
25-Bond Index (Revs)	4.29	4.24	4.78				
General Obligation Bonds (GOs)							
1-year Aaa	0.16	0.21	0.20				
1-year A	0.77	0.79	1.03				
5-year Aaa	0.78	0.81	0.86				
5-year A	1.71	1.80	1.87				
10-year Aaa	1.91	1.95	2.02				
10-year A	2.91	2.87	3.17				
25/30-year Aaa	3.10	3.11	3.62				
25/30-year A	4.85	4.81	5.08				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.20	4.21	4.38				
Electric AA	4.33	4.32	4.69				
Housing AA	4.63	4.62	4.86				
Hospital AA	4.45	4.42	4.60				
Toll Road Aaa	4.31	4.38	4.44				

Source: Bloomberg Finance L.P.

Federal Reserve Data

BANK RESERVES (Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	4/17/13	4/3/13	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1793541	1726553	66988	1654429	1548156	1505709
Borrowed Reserves	397	391	6	451	746	2565
Net Free/Borrowed Reserves	1793144	1726162	66982	1653978	1547410	1503144

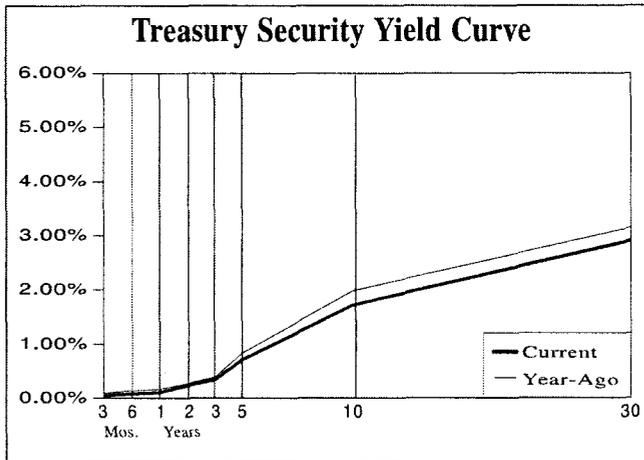
MONEY SUPPLY (One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	4/15/13	4/8/13	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2481.0	2457.9	23.1	6.4%	7.7%	10.8%
M2 (M1+savings+small time deposits)	10536.3	10491.9	44.4	3.0%	6.3%	7.2%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (4/24/13)	3 Months Ago (1/23/13)	Year Ago (4/25/12)		Recent (4/24/13)	3 Months Ago (1/23/13)	Year Ago (4/25/12)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75	Mortgage-Backed Securities			
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	GNMA 5.5%	2.06	1.80	1.12
Prime Rate	3.25	3.25	3.25	FHLMC 5.5% (Gold)	2.24	2.06	2.10
30-day CP (A1/P1)	0.20	0.23	0.36	FNMA 5.5%	1.90	1.76	1.89
3-month LIBOR	0.28	0.30	0.47	FNMA ARM	2.15	2.16	2.36
Bank CDs							
6-month	0.09	0.10	0.22	Corporate Bonds			
1-year	0.11	0.13	0.33	Financial (10-year) A	2.78	3.07	3.52
5-year	0.64	0.70	1.13	Industrial (25/30-year) A	3.88	3.97	4.27
U.S. Treasury Securities							
3-month	0.05	0.07	0.09	Utility (25/30-year) A	3.85	3.94	4.17
6-month	0.08	0.10	0.14	Utility (25/30-year) Baa/BBB	4.18	4.32	4.65
1-year	0.11	0.13	0.17	Foreign Bonds (10-Year)			
5-year	0.72	0.74	0.84	Canada	1.72	1.88	2.11
10-year	1.72	1.81	1.98	Germany	1.24	1.54	1.74
10-year (inflation-protected)	-0.68	-0.75	-0.28	Japan	0.59	0.74	0.92
30-year	2.91	3.01	3.15	United Kingdom	1.69	1.99	2.14
30-year Zero	3.15	3.26	3.39	Preferred Stocks			
				Utility A	5.41	5.40	5.67
				Financial BBB	6.19	5.88	6.14
				Financial Adjustable A	5.50	5.50	5.50



TAX-EXEMPT

	Recent (4/24/13)	3 Months Ago (1/23/13)	Year Ago (4/25/12)
Bond Buyer Indexes			
20-Bond Index (GOs)	3.89	3.53	3.90
25-Bond Index (Revs)	4.28	4.22	4.81
General Obligation Bonds (GOs)			
1-year Aaa	0.18	0.17	0.18
1-year A	0.77	0.75	1.02
5-year Aaa	0.78	0.78	0.87
5-year A	1.71	1.73	1.86
10-year Aaa	1.92	1.88	2.02
10-year A	2.92	2.82	3.17
25/30-year Aaa	3.13	3.09	3.63
25/30-year A	4.87	4.77	5.08
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.22	4.22	4.40
Electric AA	4.35	4.32	4.64
Housing AA	4.65	4.62	4.82
Hospital AA	4.49	4.41	4.60
Toll Road Aaa	4.36	4.35	4.44

Source: Bloomberg Finance L.P.

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	4/17/13	4/3/13	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1793540	1726553	66987	1654429	1548156	1505709
Borrowed Reserves	397	391	6	451	746	2565
Net Free/Borrowed Reserves	1793143	1726162	66981	1653978	1547410	1503144

MONEY SUPPLY

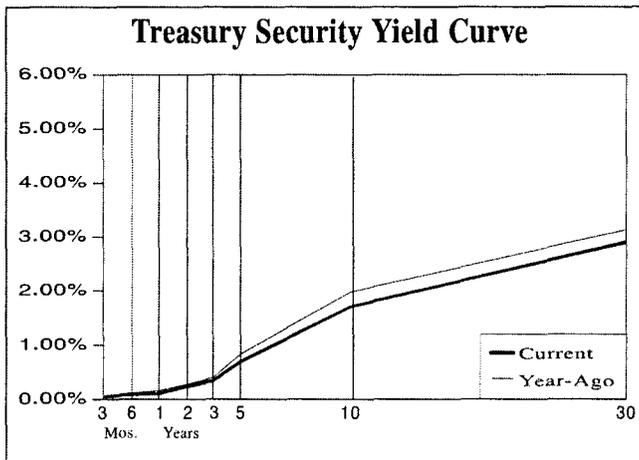
(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	4/8/13	4/1/13	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2457.7	2452.8	4.8	3.8%	7.1%	10.3%
M2 (M1+savings+small time deposits)	10491.0	10517.3	-26.3	0.2%	5.6%	6.9%

Source: United States Federal Reserve Bank

Selected Yields

	Recent (4/17/13)	3 Months Ago (1/16/13)	Year Ago (4/18/12)		Recent (4/17/13)	3 Months Ago (1/16/13)	Year Ago (4/18/12)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.20	0.23	0.32				
3-month LIBOR	0.28	0.30	0.47				
Bank CDs							
6-month	0.09	0.10	0.22				
1-year	0.11	0.13	0.33				
5-year	0.64	0.70	1.14				
U.S. Treasury Securities							
3-month	0.05	0.07	0.07				
6-month	0.09	0.10	0.12				
1-year	0.11	0.14	0.16				
5-year	0.70	0.76	0.84				
10-year	1.71	1.85	1.98				
10-year (inflation-protected)	-0.67	-0.73	-0.29				
30-year	2.90	3.05	3.13				
30-year Zero	3.13	3.25	3.36				
Mortgage-Backed Securities							
GNMA 5.5%	2.14	1.77	1.08				
FHLMC 5.5% (Gold)	2.23	1.98	2.14				
FNMA 5.5%	1.93	1.75	1.94				
FNMA ARM	2.15	2.23	2.36				
Corporate Bonds							
Financial (10-year) A	2.79	3.05	3.48				
Industrial (25/30-year) A	3.86	3.96	4.21				
Utility (25/30-year) A	3.84	3.96	4.15				
Utility (25/30-year) Baa/BBB	4.19	4.31	4.62				
Foreign Bonds (10-Year)							
Canada	1.71	1.89	2.04				
Germany	1.23	1.57	1.72				
Japan	0.60	0.76	0.94				
United Kingdom	1.68	2.00	2.13				
Preferred Stocks							
Utility A	5.38	5.48	5.34				
Financial BBB	6.18	5.91	6.44				
Financial Adjustable A	5.49	5.49	5.49				



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.93	3.60	3.97				
25-Bond Index (Revs)	4.30	4.26	4.85				
General Obligation Bonds (GOs)							
1-year Aaa	0.17	0.19	0.21				
1-year A	0.76	0.75	1.01				
5-year Aaa	0.80	0.80	0.93				
5-year A	1.74	1.76	1.91				
10-year Aaa	1.95	1.89	2.11				
10-year A	2.94	2.84	3.23				
25/30-year Aaa	3.13	3.11	3.66				
25/30-year A	4.88	4.79	5.10				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.24	4.22	4.45				
Electric AA	4.37	4.32	4.67				
Housing AA	4.67	4.63	4.87				
Hospital AA	4.47	4.43	4.60				
Toll Road Aaa	4.39	4.35	4.44				

Source: Bloomberg Finance L.P.

Federal Reserve Data

BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	4/3/13	3/20/13	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	1726553	1697294	29259	1607277	1517991	1494429	
Borrowed Reserves	391	392	-1	479	836	2812	
Net Free/Borrowed Reserves	1726162	1696902	29260	1606799	1517155	1491617	

MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Ann'l Growth Rates Over the Last...			
	4/1/13	3/25/13	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	2453.0	2443.5	9.5	2.2%	7.1%	10.3%	
M2 (M1+savings+small time deposits)	10518.2	10450.4	67.8	1.6%	5.9%	7.1%	

Source: United States Federal Reserve Bank

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Uns Energy Corp: (NYSE: UNS)

\$47.13 0.25 (0.53%) **Volume 45,825** Jun 03 10:31 AM ET **ZACKS RANK: 2-BUY**

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UNS Energy Corporation is a utility services holding company engaged, through its subsidiaries, in the electric generation and energy delivery business. It operates in three segments: TEP, UNS Gas and UNS Electric. Its TEP segment generates, transmits, and distributes electricity to retail electric customers in southeastern Arizona. This segment also sells electricity to other utilities and power marketing entities. UNS Gas segment distributes gas to retail customers particularly in Mohave, Yavapai, Coconino and Navajo counties in northern Arizona and Santa Cruz County in southeastern Arizona. Its UNS Electric segment transmits and distributes electricity to retail customers in Mohave and Santa Cruz counties. UNS Energy Corporation, formerly known as UniSource Energy Corporation, is headquartered in Tucson, Arizona.

GENERAL INFORMATION

UNS ENERGY CORP
88 EAST BROADWAY
TUCSON, AZ 85701
Phone: 520-571-4000
Fax: 520-770-2089
Web: <http://www.uns.com>
Email: cnorman@uns.com

Industry	UTIL-ELEC PWR
Sector	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/2013
Next EPS Date	08/05/2013

PRICE AND VOLUME INFORMATION

Zacks Rank	
Yesterday's Close	46.88
52 Week High	51.54
52 Week Low	37.01
Beta	0.50
20 Day Moving Average	231,847.20
Target Price Consensus	53.00

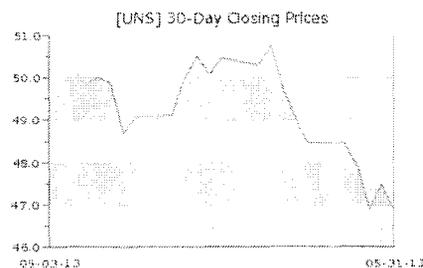
% Price Change

4 Week	-6.95
12 Week	-1.39
YTD	11.98

Share Information

Shares Outstanding (millions)	41.46
Market Capitalization (millions)	1,943.60
Short Ratio	3.86
Last Split Date	05/20/96

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% Price Change Relative to S&P 500

4 Week	-8.84
12 Week	-6.62
YTD	-1.25

Dividend Information

Dividend Yield	3.71%
Annual Dividend	\$1.74
Payout Ratio	0.75
Change in Payout Ratio	0.50
Last Dividend Payout / Amount	03/11/2013 / \$0.44

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EPS INFORMATION

Current Quarter EPS Consensus Estimate	0.61
Current Year EPS Consensus Estimate	2.73
Estimated Long-Term EPS Growth Rate	8.00
Next EPS Report Date	08/05/2013

CONSENSUS RECOMMENDATIONS

Current (1=Strong Buy, 5=Strong Sell)	2.33
30 Days Ago	2.33
60 Days Ago	2.33
90 Days Ago	2.33

FUNDAMENTAL RATIOS

P/E		EPS Growth		Sales Growth	
Current FY Estimate	17.15	vs. Previous Year	58.82%	vs. Previous Year	4.16%
Trailing 12 Months	20.12	vs. Previous Quarter	50.00%	vs. Previous Quarter	-4.63%
PEG Ratio	2.16				
Price Ratios		ROE		ROA	
Price/Book	1.83	03-31-13	9.14	03-31-13	2.36
Price/Cash Flow	6.96	12-31-12	8.90	12-31-12	2.25
Price / Sales	1.31	09-30-12	9.37	09-30-12	2.29
Current Ratio		Quick Ratio		Operating Margin	
03-31-13	1.13	03-31-13	0.75	03-31-13	6.53
12-31-12	1.38	12-31-12	0.99	12-31-12	6.25
09-30-12	1.59	09-30-12	1.21	09-30-12	6.32
Net Margin		Pre-Tax Margin		Book Value	
03-31-13	6.45	03-31-13	10.48	03-31-13	25.55
12-31-12	6.18	12-31-12	10.03	12-31-12	25.75
09-30-12	6.24	09-30-12	10.02	09-30-12	26.07
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03-31-13	6.46	03-31-13	1.59	03-31-13	61.38
12-31-12	6.67	12-31-12	1.65	12-31-12	62.30
09-30-12	6.99	09-30-12	1.65	09-30-12	62.29

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UNS ELECTRIC, INC.

DOCKET NO. E-04204A-12-0504

TABLE OF CONTENTS TO SCHEDULES WAR

<u>SCHEDULE #</u>	
WAR - 1	COST OF CAPITAL SUMMARY
WAR - 2	DCF COST OF EQUITY CAPITAL
WAR - 3	DIVIDEND YIELD CALCULATION
WAR - 4	DIVIDEND GROWTH RATE CALCULATION
WAR - 5	DIVIDEND GROWTH COMPONENTS
WAR - 6	GROWTH RATE COMPARISON
WAR - 7	CAPM COST OF EQUITY CAPITAL
WAR - 8	ECONOMIC INDICATORS - 1990 TO PRESENT
WAR - 9	CAPITAL STRUCTURES OF SAMPLE COMPANIES

ORIGINAL COST WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITALIZATION PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED CAPITALIZATION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	LONG-TERM DEBT	\$ 129,135	\$ -	\$ 129,135	47.40%	5.99%	2.84%
2	COMMON EQUITY	143,287	-	143,287	52.60%	8.16%	4.29%
3	TOTAL CAPITALIZATION	\$ 272,422	\$ -	\$ 272,422	100.00%		

4 ORIGINAL COST WEIGHTED AVERAGE COST OF CAPITAL

7.13%

REFERENCES:

- COLUMN (A): COMPANY SCHEDULE D-1
- COLUMN (B): TESTIMONY, WAR
- COLUMN (C): COLUMN (A) + COLUMN (B)
- COLUMN (D): COLUMN (C) + COLUMN (C), LINE 4
- COLUMN (E): LINE 1 - COMPANY SCHEDULE D-1
- COLUMN (E): LINE 2 - SCHEDULE WAR-1, PAGE 2 LINE 17
- COLUMN (E): LINE 3 - SCHEDULE WAR-1, PAGE 3 LINE 7
- COLUMN (F): COLUMN (D) x COLUMN (E)

FAIR VALUE WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITALIZATION	(B) RUCO	(C) RUCO ADJUSTED	(D) CAPITAL	(E) COST	(F) WEIGHTED
1	LONG-TERM DEBT	\$ 129,135	\$ -	\$ 129,135	47.40%	3.84%	1.82%
2	COMMON EQUITY	143,287	-	143,287	52.60%	6.01%	3.16%
3	TOTAL CAPITALIZATION	\$ 272,422	\$ -	\$ 272,422	100.00%		

4 FAIR VALUE WEIGHTED AVERAGE COST OF CAPITAL

4.98%

REFERENCES:

- COLUMN (A): COMPANY SCHEDULE D-1
- COLUMN (B): TESTIMONY, WAR
- COLUMN (C): COLUMN (A) + COLUMN (B)
- COLUMN (D): COLUMN (C) + COLUMN (C), LINE 4
- COLUMN (E): LINE 1 - COMPANY SCHEDULE D-1
- COLUMN (E): LINE 2 - SCHEDULE WAR-1, PAGE 2 LINE 19
- COLUMN (E): LINE 3 - SCHEDULE WAR-1, PAGE 3 LINE 9
- COLUMN (F): COLUMN (D) x COLUMN (E)

COST OF LONG-TERM DEBT (000'S)

LINE NO.	DESCRIPTION	(A) BALANCE AS OF DECEMBER 31, 2011	(B) RUCO ADJUSTMENT	(C) RUCO ADJUSTED BALANCE	(D) ANNUAL INTEREST	(E) COST RATE
FIXED RATE DEBT:						
1	5.150% SERIES DUE 2021	\$ 50,000	\$ -	\$ 50,000	\$ 3,250	
2	5.250% 2010 PIMA A	50,000	-	50,000	3,550	
3	TOTAL FIXED RATE DEBT (SUM OF LINES 1 THROUGH 2)	100,000	-	100,000	6,800	6.80%
VARIABLE RATE DEBT:						
4	VARIABLE 1982 PIMA A IRVINGTON	30,000	-	30,000	629	
5	TOTAL VARIABLE RATE DEBT	30,000	-	30,000	629	2.10%
6	TOTAL LONG-TERM DEBT (SUM OF LINES 3 AND 5)	\$ 130,000	\$ -	\$ 130,000	\$ 7,429	5.71%
7	UNAMORTIZED DEBT DISCOUNT, PREMIUM AND EXPENSE AND LOSS ON REQUIRED DEBT	(865)	-	(865)		
8	AMORTIZATION OF DEBT DISCOUNT AND EXPENSE AND LOSS ON REQUIRED DEBT	-	-	-	181	
9	CREDIT FACILITY COMMITMENT FEES	-	-	-	126	
10	TOTAL LONG-TERM DEBT - NET (SUM OF LINES 17, 18, 19 AND 20)	129,135	-	129,135	7,736	5.99%
11	COST OF LONG-TERM DEBT - ORIGINAL COST (COLUMN (E), LINE 10)					5.99%
12	LESS: RECOMMENDED FAIR VALUE INFLATION ADJUSTMENT (SCHEDULE WAR 1, PAGE 4, LINE 10)					2.15%
13	COST OF LONG-TERM DEBT - FAIR VALUE (LINE 11 - LINE 12)					3.84%

REFERENCES:

- COLUMNS (A): COMPANY SCHEDULE D-2, PAGE 1 OF 2
- COLUMN (B): TESTIMONY WAR
- COLUMN (C): COLUMN (A) + COLUMN (B)
- COLUMNS (D): COMPANY SCHEDULE D-2, PAGE 1 OF 2
- COLUMN (E): COLUMN (D), LINES 3, 5, 6 AND 10 / COLUMN (C) LINES 3, 5, 6 AND 10

COST OF COMMON EQUITY ESTIMATE

LINE NO.			
1	<u>DCF METHODOLOGY</u>		
2	DCF - SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	8.16%	SCHEDULE WAR-2, COLUMN (C), LINE 10
3	<u>CAPM METHODOLOGY</u>		
4	CAPM - GEOMETRIC MEAN ESTIMATE	5.67%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 10
5	CAPM - ARITHMETIC MEAN ESTIMATE	6.88%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 10
6	AVERAGE OF CAPM ESTIMATES	<u>6.28%</u>	(LINE 4 + LINE 5) / 2
7	COST OF COMMON EQUITY ESTIMATE - ORIGINAL COST	8.16%	TESTIMONY, WAR
8	LESS: RECOMMENDED FAIR VALUE INFLATION ADJUSTMENT	2.15%	SCHEDULE WAR-1, PAGE 4, COLUMN (D), LINE 10
9	COST OF COMMON EQUITY ESTIMATE - FAIR VALUE	<u>6.01%</u>	LINE 8 - LINE 9

INFLATION ADJUSTMENT TO RUCO'S RECOMMENDED ORIGINAL COST OF EQUITY CAPITAL

LINE NO.	(A) YEAR	(B) VALUE TIPS	(C) VALUE BONDS	(D) DIFFERENCE
1	2006	2.31%	4.80%	2.48%
2	2007	2.29%	4.63%	2.35%
3	2008	1.77%	3.66%	1.89%
4	2009	1.66%	3.26%	1.61%
5	2010	1.15%	3.22%	2.06%
6	2011	0.55%	2.78%	2.23%
7	2012	-0.67%	1.78%	2.45%
8	2013 (a)	-0.06%	2.10%	2.16%
9	AVERAGE	1.29%	3.45%	2.15%
10	RECOMMENDED FAIR VALUE INFLATION ADJUSTMENT			2.15%

REFERENCES

COLUMNS (A) THRU (C), LINES 1 THRU 9: FEDERAL RESERVE BANK OF ST. LOUIS WEBSITE
 COLUMN (D): COLUMN (C) - COLUMN (D)
 COLUMNS (B) THRU (D), LINE 10: AVERAGE OF LINES 1 THRU 9
 COLUMN (D), LINE 11: TESTIMONY - WAR

NOTES:

(a) JANUARY 2, 2013 THROUGH JUNE 5, 2013

UNS ELECTRIC, INC

TEST YEAR ENDED JUNE 30, 2012

DCF COST OF EQUITY CAPITAL

DOCKET NO. E-04204A-12-0504
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY NAME	(A)	(B)	(C)
			DIVIDEND YIELD	GROWTH RATE (g)	DCF COST OF EQUITY CAPITAL
1	ALE	ALLETE, INC.	3.83%	+ 5.83%	= 9.66%
2	AEP	AMERICAN ELECTRIC POWER COMPANY, INC.	4.02%	+ 4.18%	= 8.20%
3	CNL	CLECO CORPORATION	3.08%	+ 4.70%	= 7.79%
4	EDE	EMPIRE DISTRICT ELECTRIC	4.48%	+ 3.59%	= 8.08%
5	FE	FIRSTENERGY CORPORATION	5.10%	+ 2.64%	= 7.74%
6	GXP	GREAT PLAINS ENERGY, INC.	3.73%	+ 3.20%	= 6.93%
7	HE	HAWAIIAN ELECTRIC	4.60%	+ 4.57%	= 9.17%
8	IDA	IDACORP, INC.	3.16%	+ 4.70%	= 7.86%
9	OTTR	OTTER TAIL CORPORATION	4.03%	+ 4.47%	= 8.49%
10	POM	PEPCO HOLDINGS, INC.	4.98%	+ 3.27%	= 8.25%
11	PNW	PINNACLE WEST CAPITAL CORPORATION	3.70%	+ 4.71%	= 8.41%
12	POR	PORTLAND GENERAL ELECTRIC COMPANY	3.43%	+ 3.41%	= 6.83%
13	SO	SOUTHERN COMPANY	4.39%	+ 4.19%	= 8.57%
14	WR	WESTAR ENERGY	4.09%	+ 4.15%	= 8.24%

15 AVERAGE

8.16%

REFERENCES:

COLUMN (A): SCHEDULE WAR - 3, COLUMN C

COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C

COLUMN (C): COLUMN (A) + COLUMN (B)

UNS ELECTRIC, INC

TEST YEAR ENDED JUNE 30, 2012

DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. E-04204A-12-0504

SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY NAME	(A) ESTIMATED DIVIDEND (PER SHARE)	(B) AVERAGE STOCK PRICE (PER SHARE)	(C) DIVIDEND YIELD
1	ALE	ALLETE, INC.	1.90 / \$	49.58 =	3.83%
2	AEP	AMERICAN ELECTRIC POWER COMPANY, INC.	1.96 /	48.75 =	4.02%
3	CNL	CLECO CORPORATION	1.45 /	47.00 =	3.08%
4	EDE	EMPIRE DISTRICT ELECTRIC	1.00 /	22.31 =	4.48%
5	FE	FIRSTENERGY CORPORATION	2.20 /	43.13 =	5.10%
6	GXP	GREAT PLAINS ENERGY, INC.	0.87 /	23.35 =	3.73%
7	HE	HAWAIIAN ELECTRIC	1.24 /	26.95 =	4.60%
8	IDA	IDACORP, INC.	1.52 /	48.05 =	3.16%
9	OTTR	OTTER TAIL CORPORATION	1.19 /	29.51 =	4.03%
10	POM	PEPCO HOLDINGS, INC.	1.08 /	21.68 =	4.98%
11	PNW	PINNACLE WEST CAPITAL CORPORATION	2.18 /	58.93 =	3.70%
12	POR	PORTLAND GENERAL ELECTRIC COMPANY	1.08 /	31.51 =	3.43%
13	SO	SOUTHERN COMPANY	2.03 /	46.29 =	4.39%
14	WR	WESTAR ENERGY	1.36 /	33.26 =	4.09%
15	AVERAGE				

4.04%

REFERENCES:

COLUMN (A): TESTIMONY, WAR

COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C

COLUMN (C): COLUMN (A) + COLUMN (B)

UNS ELECTRIC, INC

TEST YEAR ENDED JUNE 30, 2012

DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. E-04204A-12-0504

SCHEDULE WAR - 4

PAGE 1 OF 2

LINE NO.	STOCK SYMBOL	COMPANY NAME	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	ALE	ALLETE, INC.	4.10%	+	1.73%	=	5.83%
2	AEP	AMERICAN ELECTRIC POWER COMPANY, INC.	3.85%	+	0.33%	=	4.18%
3	CNL	CLECO CORPORATION	4.70%	+	0.00%	=	4.70%
4	EDE	EMPIRE DISTRICT ELECTRIC	2.85%	+	0.74%	=	3.59%
5	FE	FIRSTENERGY CORPORATION	2.25%	+	0.39%	=	2.64%
6	GXP	GREAT PLAINS ENERGY, INC.	3.20%	+	0.00%	=	3.20%
7	HE	HAWAIIAN ELECTRIC	2.70%	+	1.87%	=	4.57%
8	IDA	IDACORP, INC.	4.70%	+	0.00%	=	4.70%
9	OTTR	OTTER TAIL CORPORATION	3.25%	+	1.22%	=	4.47%
10	POM	PEPCO HOLDINGS, INC.	2.50%	+	0.77%	=	3.27%
11	PNW	PINNACLE WEST CAPITAL CORPORATION	4.25%	+	0.46%	=	4.71%
12	POR	PORTLAND GENERAL ELECTRIC COMPANY	3.40%	+	0.01%	=	3.41%
13	SO	SOUTHERN COMPANY	3.65%	+	0.54%	=	4.19%
14	WR	WESTAR ENERGY	3.75%	+	0.40%	=	4.15%

15 **AVERAGE**

4.12%

REFERENCES:

COLUMN (A): TESTIMONY, WAR

COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C

COLUMN (C): COLUMN (A) + COLUMN (B)

LINE NO.	STOCK SYMBOL	COMPANY NAME	(A)		(B)		(C)	
			SHARE GROWTH	X	[1 - (1 / M + B)]	=		EXTERNAL GROWTH (sv)
1	ALE	ALLETE, INC.	4.75%	X	[1 - (1 / 1.57)]	=	1.73%	
2	AEP	AMERICAN ELECTRIC POWER COMPANY, INC.	1.00%	X	[1 - (1 / 1.50)]	=	0.33%	
3	CNL	CLECO CORPORATION	0.01%	X	[1 - (1 / 1.83)]	=	0.00%	
4	EDE	EMPIRE DISTRICT ELECTRIC	3.25%	X	[1 - (1 / 1.30)]	=	0.74%	
5	FE	FIRSTENERGY CORPORATION	1.50%	X	[1 - (1 / 1.35)]	=	0.39%	
6	GXP	GREAT PLAINS ENERGY, INC.	0.02%	X	[1 - (1 / 1.04)]	=	0.00%	
7	HE	HAWAIIAN ELECTRIC	5.00%	X	[1 - (1 / 1.60)]	=	1.87%	
8	IDA	IDACORP, INC.	0.01%	X	[1 - (1 / 1.31)]	=	0.00%	
9	OTTR	OTTER TAIL CORPORATION	2.50%	X	[1 - (1 / 1.95)]	=	1.22%	
10	POM	PEPCO HOLDINGS, INC.	6.20%	X	[1 - (1 / 1.14)]	=	0.77%	
11	PNW	PINNACLE WEST CAPITAL CORPORATION	1.25%	X	[1 - (1 / 1.58)]	=	0.46%	
12	POR	PORTLAND GENERAL ELECTRIC COMPANY	0.03%	X	[1 - (1 / 1.34)]	=	0.01%	
13	SO	SOUTHERN COMPANY	1.00%	X	[1 - (1 / 2.17)]	=	0.54%	
14	WR	WESTAR ENERGY	1.50%	X	[1 - (1 / 1.36)]	=	0.40%	
15	AVERAGE							0.60%

REFERENCES:

COLUMN (A): TESTIMONY, WAR
 COLUMN (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/22/2013, 05/03/2013 AND 05/24/2013
 COLUMN (C): COLUMN (A) x COLUMN (B)

LINE NO.	STOCK SYMBOL	COMPANY NAME	(A) OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	ALE	ALLETE, INC.	2008	0.3901	10.00%	3.90%	25.37	32.60	
2			2009	0.0688	6.60%	0.45%	26.41	35.20	
3			2010	0.1963	7.70%	1.51%	27.26	35.80	
4			2011	0.3283	8.70%	2.86%	28.78	37.50	
5			2012	0.2868	8.10%	2.32%	30.48	39.40	
6			GROWTH 2008 - 2012			1.79%	5.50%		4.85%
7			2013	0.2963	8.00%	2.37%		41.50	5.33%
8			2014	0.3356	8.50%	2.85%		42.00	3.25%
9			2016-18	0.4133	10.00%	4.13%	4.00%	43.50	2.00%
10									
11	AEP	AMERICAN ELECTRIC POWER COMPANY, INC.	2008	0.4515	11.30%	5.10%	26.33	406.07	
12			2009	0.4478	10.40%	4.66%	27.49	478.05	
13			2010	0.3423	9.10%	3.12%	28.33	480.81	
14			2011	0.4089	10.30%	4.21%	30.33	483.42	
15			2012	0.3691	9.50%	3.51%	31.37	485.67	
16			GROWTH 2008 - 2012			3.87%	4.50%		4.58%
17			2013	0.3841	9.50%	3.65%		489.00	0.69%
18			2014	0.3818	10.00%	3.82%		492.00	0.65%
19			2016-18	0.3867	10.00%	3.87%	4.00%	505.00	0.78%
20									
21	CNL	CLECO CORPORATION	2008	0.4706	9.60%	4.52%	17.65	60.04	
22			2009	0.4886	9.50%	4.64%	18.50	60.26	
23			2010	0.5721	10.60%	6.06%	21.76	60.53	
24			2011	0.5676	11.10%	6.30%	23.55	60.29	
25			2012	0.5185	10.90%	5.65%	24.60	61.00	
26			GROWTH 2008 - 2012			5.22%	10.00%		0.40%
27			2013	0.4510	10.00%	4.51%		61.00	0.00%
28			2014	0.4386	10.50%	4.61%		61.00	0.00%
29			2016-18	0.4286	11.00%	4.71%	5.50%	61.00	0.00%
30									
31	EDE	EMPIRE DISTRICT ELECTRIC	2008	-0.0940	7.50%	NMF	15.56	33.98	
32			2009	-0.0847	6.90%	NMF	15.75	38.11	
33			2010	-0.0940	7.20%	NMF	15.82	41.58	
34			2011	0.5115	7.90%	4.04%	16.53	41.98	
35			2012	0.2424	7.80%	1.89%	16.90	42.48	
36			GROWTH 2008 - 2012			2.97%	1.00%		5.74%
37			2013	0.2857	8.00%	2.29%		42.75	0.64%
38			2014	0.3103	8.00%	2.48%		44.25	2.06%
39			2016-18	0.3143	9.00%	2.83%	2.50%	45.00	1.16%

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS
 DATED 03/22/2013, 05/03/2013 AND 05/22/2013
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): VALUE LINE INVESTMENT SURVEY
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH, 2008 - 2012

LINE NO.	STOCK SYMBOL	LOCAL DISTRIBUTION COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	FE	FIRSTENERGY CORPORATION	2008	0.4977	16.20%	8.06%	27.17	304.84	
2			2009	0.3373	11.90%	4.01%	28.08	304.84	
3			2010	0.3231	11.60%	3.75%	28.03	304.84	
4			2011	-0.1702	5.70%	NMF	31.75	418.22	
5			2012	-0.0329	6.80%	NMF	31.29	418.22	
6			GROWTH 2008 - 2012			5.28%	1.00%		8.23%
7			2013	0.1852	8.50%	1.57%		425.00	1.62%
8			2014	0.2281	9.00%	2.05%		425.00	0.81%
9			2016-18	0.2667	8.50%	2.27%	2.50%	425.00	0.32%
10									
11	GXP	GREAT PLAINS ENERGY, INC.	2008	-0.4310	4.60%	NMF	21.39	119.26	
12			2009	0.1942	4.80%	0.93%	20.62	135.42	
13			2010	0.4575	7.30%	3.34%	21.26	135.71	
14			2011	0.3280	5.80%	1.90%	21.74	136.14	
15			2012	0.3630	5.90%	2.14%	21.75	153.53	
16			GROWTH 2008 - 2012			2.08%	5.00%		6.52%
17			2013	0.4133	6.50%	2.69%		153.75	0.14%
18			2014	0.3806	7.00%	2.66%		154.00	0.15%
19			2016-18	0.4000	8.00%	3.20%	2.50%	154.75	0.16%
20									
21	HE	HAWAIIAN ELECTRIC	2008	-0.1589	6.50%	NMF	15.35	90.52	
22			2009	-0.3626	5.80%	NMF	15.58	92.52	
23			2010	-0.0248	7.70%	NMF	15.67	94.69	
24			2011	0.1389	9.00%	1.25%	15.95	96.04	
25			2012	0.2619	10.20%	2.67%	16.28	97.93	
26			GROWTH 2008 - 2012			1.96%	2.00%		1.99%
27			2013	0.2250	9.50%	2.14%		99.50	1.60%
28			2014	0.2485	9.00%	2.24%		108.00	5.02%
29			2016-18	0.3000	9.00%	2.70%	4.50%	124.50	4.92%
30									
31	IDA	IDACORP, INC.	2008	0.4495	7.60%	3.42%	27.76	46.92	
32			2009	0.5455	8.90%	4.85%	29.17	47.90	
33			2010	0.5932	9.30%	5.52%	31.01	49.41	
34			2011	0.6429	10.10%	6.49%	33.19	49.95	
35			2012	0.5935	9.60%	5.70%	35.07	50.16	
36			GROWTH 2008 - 2012			5.20%	5.50%		1.68%
37			2013	0.5273	9.00%	4.75%		50.50	0.68%
38			2014	0.5059	8.50%	4.30%		50.50	0.34%
39			2016-18	0.4795	8.50%	4.08%	4.50%	51.00	0.33%

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS
 DATED 03/22/2013, 05/03/2013 AND 05/22/2013
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2008 - 2012
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	LOCAL DISTRIBUTION COMPANY NAME	(A) OPERATING PERIOD	RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (r)	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	OTTR	OTTER TAIL CORPORATION	2008	-0.0917	5.10%	NMF	19.14	35.38	
2			2009	-0.6761	3.80%	NMF	18.78	35.81	
3			2010	-2.1316	2.00%	NMF	17.57	36.00	
4			2011	-1.6444	2.70%	NMF	15.83	36.10	
5			2012	-0.1333	7.30%	NMF	14.43	36.17	
6			[GROWTH 2008 - 2012]			#DIV/0!	-1.00%		0.55%
7			2013	0.0846	9.00%	0.76%		37.00	2.29%
8			2014	0.1793	9.00%	1.61%		38.00	2.50%
9			2016-18	0.3158	10.50%	3.32%	2.00%	40.00	2.03%
10									
11	POM	PEPCO HOLDINGS, INC.	2008	0.4404	9.50%	4.18%	19.14	218.91	
12			2009	-0.0189	5.50%	NMF	19.15	222.27	
13			2010	0.1290	6.50%	0.84%	18.79	225.08	
14			2011	0.0526	5.90%	0.31%	19.06	227.50	
15			2012	0.1290	6.40%	0.83%	19.33	230.02	
16			[GROWTH 2008 - 2012]			1.54%	0.50%		1.25%
17			2013	0.0609	6.00%	0.37%		250.00	8.69%
18			2014	0.1385	6.50%	0.90%		252.00	4.67%
19			2016-18	0.3176	8.00%	2.54%	2.00%	255.00	2.08%
20									
21	PNW	PINNACLE WEST CAPITAL CORPORATION	2008	0.0094	6.20%	0.06%	34.16	100.89	
22			2009	0.0708	6.90%	0.49%	32.69	101.43	
23			2010	0.3182	9.00%	2.86%	33.86	108.77	
24			2011	0.2977	8.60%	2.56%	34.98	109.25	
25			2012	0.2371	9.80%	2.32%	36.20	109.74	
26			[GROWTH 2008 - 2012]			1.66%			2.12%
27			2013	0.5257	9.50%	4.99%		111.00	1.15%
28			2014	0.3753	9.50%	3.57%		112.00	1.02%
29			2016-18	0.3882	10.00%	3.88%	3.50%	115.00	0.94%
30									
31	POR	PORTLAND GENERAL ELECTRIC COMPANY	2008	0.3022	6.40%	1.93%	21.64	62.58	
32			2009	0.2290	6.20%	1.42%	20.50	75.21	
33			2010	0.3735	7.90%	2.95%	21.14	75.32	
34			2011	0.4564	8.80%	4.02%	22.07	75.36	
35			2012	0.4225	8.20%	3.46%	22.87	75.56	
36			[GROWTH 2008 - 2012]			2.76%	2.00%		4.52%
37			2013	0.4158	8.00%	3.33%		75.75	0.25%
38			2014	0.4250	8.00%	3.40%		76.00	0.29%
39			2016-18	0.4222	8.00%	3.38%	3.50%	76.75	0.31%

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS
 DATED 03/22/2013, 05/03/2013 AND 05/22/2013
 COLUMN (C): COLUMN (A) X COLUMN (B)
 COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2008 - 2012

REFERENCES:
 COLUMN (D): VALUE LINE INVESTMENT SURVEY
 COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	LOCAL DISTRIBUTION COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	SO	SOUTHERN COMPANY	2008	0.2622	13.10%	3.44%	17.08	777.19	
2			2009	0.2543	12.40%	3.15%	18.15	819.65	
3			2010	0.2373	12.20%	2.89%	19.21	843.34	
4			2011	0.2667	12.50%	3.33%	20.32	865.13	
5			2012	0.2734	12.80%	3.50%	21.09	867.77	
6			GROWTH 2008 - 2012			3.26%	5.50%		2.79%
7			2013	0.2556	13.00%	3.32%		870.00	0.26%
8			2014	0.2702	13.00%	3.51%		872.00	0.24%
9			2016-18	0.2923	12.50%	3.65%	4.00%	905.00	0.84%
10									
11	WR	WESTAR ENERGY	2008	0.1145	6.20%	0.71%	20.18	108.31	
12			2009	0.0625	6.30%	0.39%	20.59	109.07	
13			2010	0.3111	8.50%	2.64%	21.25	112.13	
14			2011	0.2849	7.70%	2.19%	22.03	125.70	
15			2012	0.3860	9.40%	3.63%	22.89	126.50	
16			GROWTH 2008 - 2012			1.91%	4.50%		3.96%
17			2013	0.3524	8.50%	3.00%		127.00	0.40%
18			2014	0.3636	9.00%	3.27%		128.00	0.59%
19			2016-18	0.4154	9.00%	3.74%	4.00%	135.00	1.31%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS
 DATED 03/22/2013, 05/03/2013 AND 05/22/2013
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (E): LINES 6 & 11, SIMPLE AVERAGE GROWTH, 2007 - 2012

COLUMN (D): VALUE LINE INVESTMENT SURVEY
 COLUMN (D): LINE 6, COMPOUND GROWTH RATE
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	COMPANY NAME	(A) (br) + (sv.)		(B) ZACKS		(C) VALUE LINE PROJECTED			(D) VALUE LINE HISTORIC			(E) VALUE LINE & ZACKS AVGS.		(F) 5 - YEAR COMPOUND HISTORY		
			EPS	(br) + (sv.)	EPS	DPS	BVPS	EPS	DPS	BVPS	EPS	DPS	BVPS	EPS	DPS	BVPS	EPS
1	ALE	ALLETE, INC.	6.50%	5.83%	7.00%	3.50%	4.00%	4.50%	4.50%	4.50%	5.50%	4.07%	-2.20%	1.70%	4.69%		
2	AEP	AMERICAN ELECTRIC POWER COMPANY, INC.	3.40%	4.18%	4.50%	4.00%	4.00%	4.00%	4.00%	4.50%	4.50%	3.63%	-0.08%	3.47%	4.48%		
3	CNL	CLECO CORPORATION	8.00%	4.70%	7.00%	10.50%	5.50%	2.00%	2.00%	10.00%	10.00%	7.57%	12.26%	9.63%	8.65%		
4	EDE	EMPIRE DISTRICT ELECTRIC	3.00%	3.59%	2.00%	3.50%	2.50%	2.50%	-5.50%	1.00%	1.00%	1.21%	3.06%	-5.98%	2.09%		
5	FE	FIRSTENERGY CORPORATION	2.99%	2.64%	3.50%	-	2.50%	3.50%	-8.00%	1.00%	1.00%	0.92%	-16.49%	0.00%	3.59%		
6	GXP	GREAT PLAINS ENERGY, INC.	5.10%	3.20%	6.50%	6.00%	2.50%	-6.00%	-12.50%	5.00%	5.00%	3.37%	3.86%	-15.16%	0.42%		
7	HE	HAWAIIAN ELECTRIC	4.20%	4.57%	5.50%	2.00%	4.50%	2.00%	2.00%	2.00%	2.00%	4.86%	11.94%	0.00%	1.48%		
8	IDA	IDACORP, INC.	4.00%	4.70%	2.00%	7.00%	4.50%	10.00%	1.00%	5.50%	5.50%	4.86%	11.50%	3.37%	6.02%		
9	OTTR	OTTER TAIL CORPORATION	6.00%	4.47%	20.00%	1.50%	2.00%	-18.50%	0.50%	-1.00%	-1.00%	1.50%	-0.93%	0.00%	-6.82%		
10	POM	PEPCO HOLDINGS, INC.	5.80%	3.27%	6.00%	1.00%	2.00%	-4.50%	1.50%	0.50%	0.50%	1.76%	-10.47%	0.00%	0.25%		
11	PNW	PINNACLE WEST CAPITAL CORPORATION	4.10%	4.71%	5.00%	2.00%	3.50%	2.50%	2.50%	-	-	3.27%	13.35%	6.19%	1.46%		
12	POR	PORTLAND GENERAL ELECTRIC COMPANY	5.90%	3.41%	3.50%	3.50%	3.50%	4.00%	14.50%	2.00%	2.00%	5.27%	7.70%	2.72%	1.39%		
13	SO	SOUTHERN COMPANY	4.80%	4.19%	4.50%	3.50%	4.00%	3.00%	4.00%	5.50%	5.50%	4.19%	4.37%	3.97%	5.41%		
14	WR	WESTAR ENERGY	5.10%	4.15%	5.00%	3.00%	4.00%	1.50%	5.00%	4.50%	4.50%	4.01%	13.19%	3.28%	3.20%		
15					5.86%	3.92%	3.50%	-0.25%	1.92%	3.54%	3.54%		3.65%	0.94%	2.59%		
16																	
17																	
18	AVERAGES		4.12%		4.43%		1.74%					3.33%		2.39%			

REFERENCES:

- COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
- COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
- COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/22/2013, 05/03/2013 AND 05/24/2013
- COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/22/2013, 05/03/2013 AND 05/24/2013
- COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THROUGH 20
- COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/22/2013, 05/03/2013 AND 05/24/2013

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	COMPANY NAME	(A) $k = r_f + [\beta \times (r_m - r_f)] =$	(B) EXPECTED RETURN
1	ALE	ALLETE, INC.	$k = 3.06\% + [0.70 \times (9.80\% - 6.10\%)] =$	5.65%
2	AEP	AMERICAN ELECTRIC POWER COMPANY, INC.	$k = 3.06\% + [0.65 \times (9.80\% - 6.10\%)] =$	5.46%
3	CNL	CLECO CORPORATION	$k = 3.06\% + [0.65 \times (9.80\% - 6.10\%)] =$	5.46%
4	EDE	EMPIRE DISTRICT ELECTRIC	$k = 3.06\% + [0.65 \times (9.80\% - 6.10\%)] =$	5.46%
5	FE	FIRSTENERGY CORPORATION	$k = 3.06\% + [0.75 \times (9.80\% - 6.10\%)] =$	5.83%
6	GXP	GREAT PLAINS ENERGY, INC.	$k = 3.06\% + [0.75 \times (9.80\% - 6.10\%)] =$	5.83%
7	HE	HAWAIIAN ELECTRIC	$k = 3.06\% + [0.70 \times (9.80\% - 6.10\%)] =$	5.65%
8	IDA	IDACORP, INC.	$k = 3.06\% + [0.70 \times (9.80\% - 6.10\%)] =$	5.65%
9	OTTR	OTTER TAIL CORPORATION	$k = 3.06\% + [0.90 \times (9.80\% - 6.10\%)] =$	6.39%
10	POM	PEPCO HOLDINGS, INC.	$k = 3.06\% + [0.75 \times (9.80\% - 6.10\%)] =$	5.83%
11	PNW	PINNACLE WEST CAPITAL CORPORATION	$k = 3.06\% + [0.70 \times (9.80\% - 6.10\%)] =$	5.65%
12	POR	PORTLAND GENERAL ELECTRIC COMPANY	$k = 3.06\% + [0.75 \times (9.80\% - 6.10\%)] =$	5.83%
13	SO	SOUTHERN COMPANY	$k = 3.06\% + [0.55 \times (9.80\% - 6.10\%)] =$	5.09%
14	WR	WESTAR ENERGY	$k = 3.06\% + [0.70 \times (9.80\% - 6.10\%)] =$	5.65%
15	AVERAGE			5.67%

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE:

- k = THE EXPECTED RETURN ON A GIVEN SECURITY
- r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
- β = THE BETA COEFFICIENT OF A GIVEN SECURITY
- r_m = PROXY FOR THE MARKET RATE OF RETURN (b)
- r_f = PROXY FOR THE RISK FREE RATE ON LONG-TERM TREASURIES (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES:

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 30-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 04/26/2013 THROUGH 06/14/2013 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2012 PERIOD MINUS TOTAL RETURNS ON LONG-TERM TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2013 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	COMPANY NAME	(A) $k = r_f + [\beta \times (r_m - r_f)]$	(B) EXPECTED RETURN
1	ALE	ALLETE, INC.	$3.06\% + [0.70 \times (11.80\% - 6.40\%)] =$	6.84%
2	AEP	AMERICAN ELECTRIC POWER COMPANY, INC.	$3.06\% + [0.65 \times (11.80\% - 6.40\%)] =$	6.57%
3	CNL	CLECO CORPORATION	$3.06\% + [0.65 \times (11.80\% - 6.40\%)] =$	6.57%
4	EDE	EMPIRE DISTRICT ELECTRIC	$3.06\% + [0.65 \times (11.80\% - 6.40\%)] =$	6.57%
5	FE	FIRSTENERGY CORPORATION	$3.06\% + [0.75 \times (11.80\% - 6.40\%)] =$	7.11%
6	GXP	GREAT PLAINS ENERGY, INC.	$3.06\% + [0.75 \times (11.80\% - 6.40\%)] =$	7.11%
7	HE	HAWAIIAN ELECTRIC	$3.06\% + [0.70 \times (11.80\% - 6.40\%)] =$	6.84%
8	IDA	IDACORP, INC.	$3.06\% + [0.70 \times (11.80\% - 6.40\%)] =$	6.84%
9	OTTR	OTTER TAIL CORPORATION	$3.06\% + [0.90 \times (11.80\% - 6.40\%)] =$	7.92%
10	POM	PEPCO HOLDINGS, INC.	$3.06\% + [0.75 \times (11.80\% - 6.40\%)] =$	7.11%
11	PNW	PINNACLE WEST CAPITAL CORPORATION	$3.06\% + [0.70 \times (11.80\% - 6.40\%)] =$	6.84%
12	POR	PORTLAND GENERAL ELECTRIC COMPANY	$3.06\% + [0.75 \times (11.80\% - 6.40\%)] =$	7.11%
13	SO	SOUTHERN COMPANY	$3.06\% + [0.55 \times (11.80\% - 6.40\%)] =$	6.03%
14	WR	WESTAR ENERGY	$3.06\% + [0.70 \times (11.80\% - 6.40\%)] =$	6.84%
15	AVERAGE			6.88%

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE:

- k = THE EXPECTED RETURN ON A GIVEN SECURITY
- r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
- β = THE BETA COEFFICIENT OF A GIVEN SECURITY
- r_m = PROXY FOR THE MARKET RATE OF RETURN (b)
- r_i = PROXY FOR THE RISK FREE RATE ON LONG-TERM TREASURIES (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES:

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 30-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 04/26/2013 THROUGH 06/14/2013 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE RISK PREMIUM (RM - RF) USED THE ARITHMETIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2012 PERIOD MINUS TOTAL RETURNS ON LONG-TERM TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2013 YEARBOOK.

UNIVERSITY OF MISSISSIPPI
 TEST YEAR ENDED JUNE 30, 2012
 ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. E-042064A-12-0604
 SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 \$)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.39%	1.90%	10.01%	6.98%	8.10%	7.50%	7.49%	9.86%	10.06%
2	1991	4.25%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.03%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.96%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.61%	4.00%	7.14%	3.60%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.81%	2.50%	8.83%	5.21%	5.83%	5.49%	5.49%	7.89%	8.29%
7	1996	2.83%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	2.34%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.55%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.19%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.38%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	2.83%	0.80%	6.92%	3.41%	3.88%	3.40%	3.40%	7.59%	8.02%
13	2002	1.59%	1.60%	4.67%	1.7%	1.67%	1.61%	1.61%	7.41%	7.98%
14	2003	2.27%	2.50%	4.12%	2.03%	1.13%	1.01%	1.01%	6.18%	6.64%
15	2004	2.68%	3.60%	4.34%	2.34%	1.35%	1.37%	1.37%	5.77%	6.20%
16	2005	3.39%	2.90%	6.16%	4.19%	3.22%	3.15%	3.15%	5.38%	5.78%
17	2006	3.24%	2.80%	7.87%	5.96%	4.97%	4.73%	4.73%	5.94%	6.30%
18	2007	2.85%	2.90%	8.05%	5.86%	5.02%	4.36%	4.36%	6.07%	6.24%
19	2008	3.84%	-6.80%	5.09%	2.39%	1.92%	1.37%	1.37%	6.34%	6.64%
20	2009	-0.36%	5.00%	3.25%	0.50%	0.00% - 0.25%	0.15%	0.15%	5.84%	6.87%
21	2010	1.64%	2.80%	3.25%	0.72%	0.00% - 0.25%	0.13%	0.13%	5.50%	5.98%
22	2011	3.00%	1.70%	3.25%	0.75%	0.00% - 0.25%	0.05%	0.05%	5.06%	5.58%
23	2012	1.70%	2.20%	3.25%	0.75%	0.00% - 0.25%	0.08%	0.08%	3.99%	4.42%
24	CURRENT	1.10%	2.40%	3.25%	0.75%	0.00% - 0.25%	0.05%	0.05%	4.19%	4.60%

REFERENCES:

COLUMN (A): 1990 - CURRENT: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
 COLUMN (B): 1990 - CURRENT: U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS
 COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
 COLUMN (H) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 06/07/2013

COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 06/14/2013
 COLUMN (H) THROUGH (I): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
 COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
 COLUMN (H) THROUGH (I): 2003, MERGENT NEWS REPORTS

UNS ELECTRIC, INC
TEST YEAR ENDED JUNE 30, 2012
CAPITAL STRUCTURES OF SAMPLE COMPANIES (000's)

LINE NO.	ALE	PCT.	AEP	PCT.	CNL	PCT.	EDE	PCT.	FE	PCT.
1	\$ 933.6	43.7%	\$ 17,757.0	52.3%	\$ 1,257.3	45.6%	\$ 691,626.0	49.1%	\$ 15,179.0	53.7%
2										
3	0.0	0.0%	981.0	2.9%	0.0	0.0%	0.0	0.0%	0.0	0.0%
4										
5	1,201.0	56.3%	15,237.0	44.8%	1,499.2	54.4%	717,798.0	50.9%	13,093.0	46.3%
6										
7	\$ 2,134.6	100%	\$ 33,975.0	100%	\$ 2,756.5	100%	\$ 1,409,424.0	100%	\$ 28,272.0	100%
8										
9										
10										
11										
12	\$ 2,756.8	44.9%	\$ 1,147.9	43.2%	\$ 1,466.6	47.4%	\$ 421,680.0	44.0%	\$ 5,528.0	55.4%
13										
14	39.0	0.6%	34.3	1.3%	0.0	0.0%	15,500.0	1.6%	0.0	0.0%
15										
16	3,340.0	54.4%	1,472.1	55.5%	1,625.7	52.6%	521,974.0	54.4%	4,446.0	44.6%
17										
18	\$ 6,135.8	100%	\$ 2,654.3	100%	\$ 3,092.3	100%	\$ 959,154.0	100%	\$ 9,974.0	100%
19										
20										
21										
22										
23	\$ 3,074.1	42.1%	\$ 1,653.0	48.9%	\$ 21,609.0	52.7%	\$ 3,042.0	51.1%	\$ 1,188,710.3	47.3%
24										
25	0.0	0.0%	0.0	0.0%	1,082.0	2.6%	0.0	0.0%	17,636	0.7%
26										
27	4,222.5	57.9%	1,730.0	51.1%	18,297.0	44.6%	2,910.3	48.9%	1,307,017	52.0%
28										
29	\$ 7,296.6	100%	\$ 3,383.0	100%	\$ 40,988.0	100%	\$ 5,952.3	100%	\$ 2,513,364.0	100%

ELECTRIC COMPANY SAMPLE AVERAGE

REFERENCE:
MOST RECENT SEC 10(K) FILINGS OR COMPANY ANNUAL REPORTS