BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF	)	
OKLAHOMA GAS AND ELECTRIC COMPANY	)	
FOR AN ORDER OF THE COMMISSION	)	CAUSE NO. PUD 201100087
AUTHORIZING APPLICANT TO MODIFY ITS	)	
RATES, CHARGES, AND TARIFFS FOR RETAIL	)	
ELECTRIC SERVICE IN OKLAHOMA	)	

Direct Testimony

of

Robert B. Hevert

on behalf of

Oklahoma Gas and Electric Company

July 28, 2011

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name, affiliation and business address.

A. My name is Robert B. Hevert. I am President of Concentric Energy Advisors, Inc. ("Concentric"), located at 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

Q. On whose behalf are you submitting this testimony?

A. I am submitting this direct testimony ("Direct Testimony") before the Corporation Commission of the State of Oklahoma ("Commission") on behalf of Oklahoma Gas and Electric Company, Inc. ("OG&E", or the "Company"), which is a wholly-owned subsidiary of OGE Energy Corporation.

Q. Please describe your educational background and experience in the energy and utility industries.

A. I received my Bachelors of Science degree in Finance from the University of Delaware, a Master's degree in Business Administration from the University of Massachusetts, and hold the Chartered Financial Analyst designation. I began my career as a Revenue Requirements Analyst with General Telephone Company of the South, located in Durham, North Carolina. Since then, I have served as an executive and manager with other consulting firms (REED Consulting Group and Navigant Consulting, Inc.), and as a financial officer of Bay State Gas Company. I have provided testimony regarding strategic and financial matters, including the cost of capital, before several state utility regulatory agencies as well as the Federal Energy

Regulatory Commission on approximately 70 occasions, and have advised numerous energy and utility clients on a wide range of financial and economic issues including both asset and corporate-based transactions. Many of those assignments have included the determination of the cost of capital for valuation purposes. A summary of my professional and educational background, including a listing of my prior testimony in prior proceedings, is included as Attachment A.

Q. Please describe Concentric's activities in energy and utility engagements.

A. Concentric provides financial and economic advisory services to a large number of energy and utility clients across North America. Our regulatory economic and market analysis services include utility ratemaking and regulatory advisory services; energy market assessments; market entry and exit analysis; corporate and business unit strategy development; and energy contract negotiations. Our financial advisory activities include merger, acquisition and divestiture assignments, due diligence and valuation assignments, project and corporate finance services, and transaction support services. In addition, we provide litigation support services on a wide range of financial and economic issues for clients throughout North America.

II. PURPOSE AND OVERVIEW OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my Direct Testimony is to present evidence and provide a recommendation regarding the Company's return on equity ("ROE").[1] My analysis

[1] Throughout my testimony, I interchangeably use the terms "ROE" and "Cost of Equity."

and conclusions are supported by the data presented in Exhibit RBH-1 through Exhibit RBH-9, which have been prepared by me or under my direction.

Q. What are your conclusions regarding the appropriate Cost of Equity and capital structure for the company?

A. My analyses indicate that the Company's Cost of Equity currently is in the range of 10.75 percent to 11.50 percent. Based on the quantitative and qualitative analyses discussed throughout my Direct Testimony, I conclude that an ROE of 11.00 percent is reasonable and appropriate.

Q. Please provide a brief overview of the analysis that led to your ROE recommendation.

A. In light of recent market conditions, and given the fact that equity analysts and investors tend to use multiple methodologies in developing their return requirements, it is extremely important to consider the results of several analytical approaches in determining the Company's ROE. In order to develop my ROE recommendation, I therefore applied the Constant Growth Discounted Cash Flow ("DCF") model, the Capital Asset Pricing Model ("CAPM"), and the Risk Premium approach. As discussed later in my testimony, it is important to consider a range of factors, both quantitative and qualitative, in arriving at an ROE determination. Consequently, while I include all three models in my testimony, I have given more weight to certain of the methodological approaches.

In addition to the methodologies noted above, my recommendation also takes into consideration: (1) the level of coal-fired generation owned and operated by the Company and the risk of retirement and costly capital improvements; (2) the incremental risks associated with the Company's need to fund substantial capital expenditures; and (3) the Company's relatively small size compared to the proxy group. I also considered the flotation costs associated with equity issuances. While I did not make any explicit adjustments to my ROE estimates for those factors, I did take them into consideration when determining where the Company's Cost of Equity falls within the range of analytical results.

Q. How is the remainder of your Direct Testimony organized?

A. The remainder of my Direct Testimony is organized as follows:

- Section III – Provides a summary of my conclusions and recommendations;
- Section IV – Discusses the regulatory guidelines and financial considerations pertinent to the development of the cost of capital;
- Section V – Briefly discusses the current capital market conditions and the effect of those conditions on the Company's cost of equity;
- Section VI – Explains my selection of a proxy group of electric utilities used to develop my analytical results;
- Section VII – Explains my analyses and the analytical bases for my ROE recommendation;
- Section VIII – Provides a discussion of specific business risks that affect the Company's cost of equity;

- Section IX – Explains the effect of the Company's cost recovery mechanisms on the required cost of capital; and
- Section X – Provides my conclusions and recommendations regarding the ROE and the capital structure for the Company.

III. SUMMARY OF CONCLUSIONS

Q. What are the key factors considered in your analyses and upon which you base your recommended ROE?

A. My analyses and recommendations considered the following:

- The *Hope* and *Bluefield* decisions that established the standards for determining a fair and reasonable allowed return on equity including; consistency of the allowed return with other businesses having similar risk; adequacy of the return to provide access to capital and support credit quality; and that the end result must lead to just and reasonable rates.
- The effect of the current capital market conditions on investors' return requirements, and in particular, the fact that risk aversion and investor uncertainty remain at elevated levels when compared to market conditions preceding the recent economic recession.[2]
- The Company's business risks relative to the proxy group of comparable companies and the implications of those risks in arriving at the appropriate ROE.

[2] The National Bureau of Economic Research determined that the recent recession began in December 2007 and ended in June 2009.

Q. What are the results of your analyses?

A. The results of my analyses are summarized in Table 1.

Table 1: Summary of Analytical Results

	Mean Low Results	**Mean Results**	**Mean High Results**
DCF Results			
30-day Average Stock Price	9.43%	10.38%	11.35%
90-day Average Stock Price	9.46%	10.41%	11.38%
180-day Average Stock Price	9.54%	10.49%	11.47%
Empirical CAPM Results			
	Eighteen-month Beta coefficient		
	Sharpe Ratio Derived MRP	*DCF Derived MRP*	
30-day Average 30 Year Treasury Yield	10.13%	11.03%	
Near Term Forecast 30 Year Treasury Yield	10.67%	11.58%	
	Average Bloomberg and Value Line Beta coefficient		
	Sharpe Ratio Derived MRP	*DCF Derived MRP*	
30-day Average 30 Year Treasury Yield	9.73%	10.57%	
Near Term Forecast 30 Year Treasury Yield	10.27%	11.11%	
Bond Yield Plus Risk Premium Analysis			
	Low	*Mid*	*High*
Risk Premium	10.50%	10.78%	11.06%
Flotation Cost Adjustment			
Flotation Cost Adjustment		0.16%	

Based on the analytical results presented in Table 1, and in light of the considerations discussed throughout the balance of my Direct Testimony considering the Company's regulatory and business risks relative to the proxy group, it is my view that a reasonable range of estimates is from 10.75 percent to 11.50 percent and within that range, an ROE of 11.00 percent is reasonable and appropriate.

IV. REGULATORY GUIDELINES AND FINANCIAL CONSIDERATIONS

Q. Please describe the guiding principles to be used in establishing the cost of capital for a regulated utility.

A. The United States Supreme Court's precedent-setting *Hope* and *Bluefield* cases established the standards for determining the fairness or reasonableness of a utility's allowed ROE. Among the standards established by the Court in those cases are: (1) consistency with other businesses having similar or comparable risks; (2) adequacy of the return to support credit quality and access to capital; and (3) the principle that the specific means of arriving at a fair return are not important, only that the end result leads to just and reasonable rates.[3]

Q. Does the Corporation Commission of the State of Oklahoma provide similar guidance?

A. Yes. In its Order in Cause No. PUD 200600285, the Commission cited the Oklahoma Supreme Court (*Southwestern Public Service Company v. State of Oklahoma*, 637 P2d 92) which stated, in relevant part:

> The constitutional safeguard afforded to a utility is summarized in Alabama Public Service Com. v. South Cent. Bell Tel. Co., (Ala., 348 So.2d 443) as follows: 'The just compensation safeguarded to a utility by the 14th Am. to the U.S. Const. is a reasonable return on the value of the property used at the time that is being used for the public service, and rates not sufficient to yield that return are confiscatory. The determination of a fair rate of return is governed by the following legal principles: (1) it cannot be developed by a rule of thumb calculation, but must be determined in the exercise of a fair, enlightened and independent judgment in light of all relevant facts; (2) it must be equal to that generally being earned by others in the same general locality in business undertakings attended by corresponding risks, and uncertainties; (3) it must be sufficient to insure the investor's

[3] *Bluefield Waterworks & Improvement Co., v. Public Service Commission of West Virginia,* 262 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591 (1944).

> confidence in the financial soundness of the utility enterprise and enough to maintain and support its credit so that it will be able to raise the money necessary to improve and expand its service to the discharge of all its public duties; (4) in determining the reasonableness of its rates it is necessary to consider effect of the rates imposed in light of the utility's present situation and in light of its requirements and opportunities."[4]

Based on those standards, the consequence of the Commission's order in this case should be to provide the Company with the opportunity to earn an ROE that is: (1) commensurate with returns on equity investments in enterprises having comparable risks; (2) sufficient to ensure the financial soundness of the Company's operations; and (3) adequate to attract capital at reasonable terms, thereby enabling it to provide safe, reliable service. The allowed ROE should enable the Company to finance capital expenditures at reasonable rates and maintain its financial flexibility over the period during which rates are expected to remain in effect.

Q. Is it important for a utility to be allowed the opportunity to earn a return that is adequate to attract equity capital at reasonable terms?

A. Yes. A return that is adequate to attract capital at reasonable terms will enable the Company to provide safe, reliable electric service while maintaining their financial integrity. While the "capital attraction" and "financial integrity" standards are important principles in normal economic conditions, the practical implications of those standards are even more pronounced in the current financial environment. As discussed in more detail in Section V, continued equity market volatility, together with sustained increases in utility debt credit spreads (*i.e.*, the difference in debt

[4] Order No. 545168, Cause No. PUD 200600285, *Application of Public Service Company of Oklahoma, an Oklahoma Corporation, for an Adjustment to its Rates and Charges for Electric Service in the State of* Oklahoma, issued October 9, 2007, at 134.

yields of utilities varying credit ratings) have intensified the importance of maintaining a strong financial profile.

V. CAPITAL MARKET ENVIRONMENT

Q. Do economic conditions influence the required cost of capital and required return on common equity?

A. Yes. The required cost of capital, including the ROE, is a function of prevailing and expected financial market conditions. During times of capital market instability, risk aversion increases, which causes investors to seek the relative safety of U.S. Treasury debt, resulting in lower Treasury yields. At the same time, current and expected market volatility, as measured by indicators such as the Chicago Board Options Exchange ("CBOE") Volatility Index ("VIX"), has increased. A direct result of elevated volatility is a corresponding increase in the risk premium required by investors as compensation for taking on the risks associated with equity ownership.

To the extent that observable measures of instability and risk aversion remain elevated relative to historical norms, it would be incorrect to conclude that the cost of equity has materially decreased. While there is little question that the capital market dislocation that began in late 2008 has moderated somewhat over the past year, market instability and investor risk aversion remain at comparatively high levels. That is especially true when viewed relative to the conditions that existed prior to the recent financial market dislocation.

Q. What analysis have you conducted to assess current capital market conditions?

A. As discussed below, I considered several widely-recognized measures of investor risk perceptions, including: (1) incremental credit spreads; (2) expected volatility; and (3) the relationship between the dividend yields of the proxy companies and Treasury yields. Except where noted, I compared current market conditions to the two-year period prior to the 2007-2009 recession. As shown in Table 2, those metrics indicate that current levels of risk aversion are significantly higher than the levels observed prior to the recent recession, and are much closer to the levels experienced during the 2002-2003 capital market contraction.

Table 2: Risk Sentiment Indicators[5]

	June 30, 2011[6]	**Pre-recession (Jan-2006 through Nov-2007)**	**Jan-2002 through Dec-2003**
*Incremental Credit Spread*s (Moody's Utility Bond Index) Baa-rated bond to A rated bond	0.42%	0.25%	0.46%
Dividend Yield Spreads 10-year Treasury to Proxy Group	-1.15%	0.39%	-1.81%
Market Volatility CBOE VXV and CBOE VIX Futures[7]	22.38	14.87[8]	24.63[9]

A. Incremental Credit Spreads

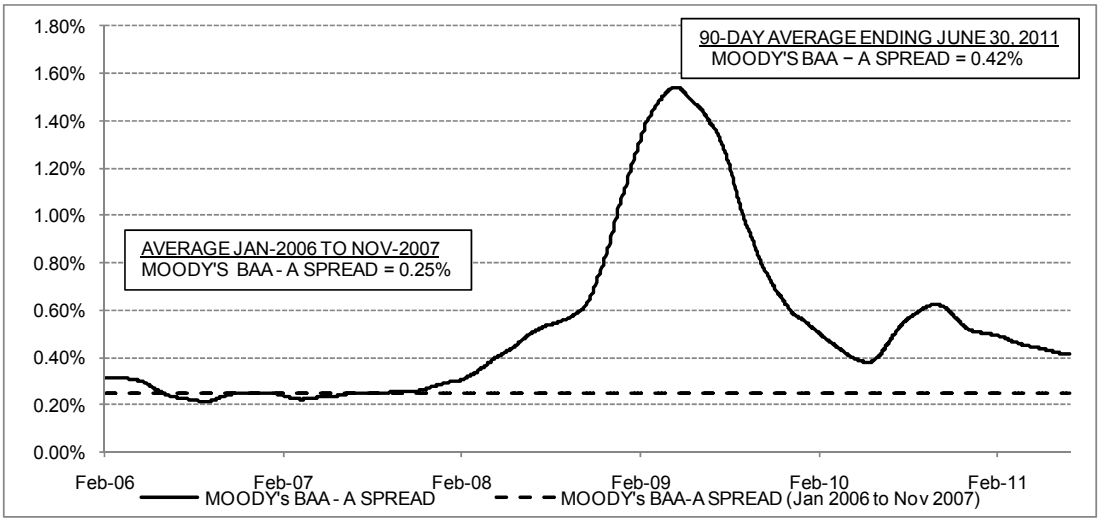
Q. How have credit spreads been affected by current market conditions?

A. The "credit spread" is the incremental return required by debt investors to take on the default risk associated with securities of differing credit quality. Since U.S. Treasury

5 Bloomberg Professional Service.
6 Represents the 90-trading day average as of June 30, 2011, except as noted otherwise
7 Represents the 30-trading day average pricing of six-month forward volatility. Please note that the VIX is a one-month measure of volatility, while the VXV is a three-month measure.
8 Represents the average VIX measured from January 2006 to November 2007.
9 Represents the average VIX, measured from January 2002 to December 2003.

securities are considered to have essentially no default risk, credit spreads typically are measured by reference to benchmark Treasury securities. As shown in Table 2, and as Chart 1 demonstrates, the current 90-day moving average spread of the Moody's Baa-rated utility bond index to the Moody's A-rated utility bond index is 17 basis points above – or 68.00 percent higher than – the comparable average credit spread immediately prior to the onset of the recent recession.

Chart 1: Moody's Utility Bond Index Baa-A Credit Spread[10]



Q. What are the implications of higher credit spreads as compared to the long-term average?

A. To the extent that credit spreads have increased, it is an observable measure of the capital markets' increased risk aversion; increased risk aversion clearly is associated with an increased cost of equity. In addition, there is a clear and well-established inverse relationship between the level of interest rates and the equity risk premium. Consequently, lower utility bond yields, which are a function of lower Treasury yields, do not necessarily imply a correspondingly lower cost of equity, particularly

[10] Bloomberg Professional Service.

considering the current level of credit spreads that are relatively higher than the long-term average.

B. Equity Market Volatility

Q. Please discuss changes in equity market volatility.

A. A directly observable measure of market volatility is the VIX. The VIX represents the implied (one month) volatility on the S&P 500 Index and as such, is an observable measure of investors' expectations of volatility and, therefore, risk. Since the inception of the VIX in 1990, its average has been approximately 20.34.[11] In contrast, forward-looking estimates of volatility as of June 30, 2011 (as measured by futures prices on the VIX and the CBOE S&P 500 VXV index, which is a three-month volatility index) are approximately 22.38. The currently anticipated level of volatility is measurably above the pre-recessionary period (*i.e.,* January 2006 to November 2007) during which the VIX averaged 14.87, and more consistent with the volatility experienced in the previous market contraction in 2002 and 2003, during which the VIX averaged 24.63. As discussed earlier, there is a direct relationship between market volatility and the equity risk premium and, as such, the comparatively high forward-looking volatility measures indicate higher, not lower required equity returns.

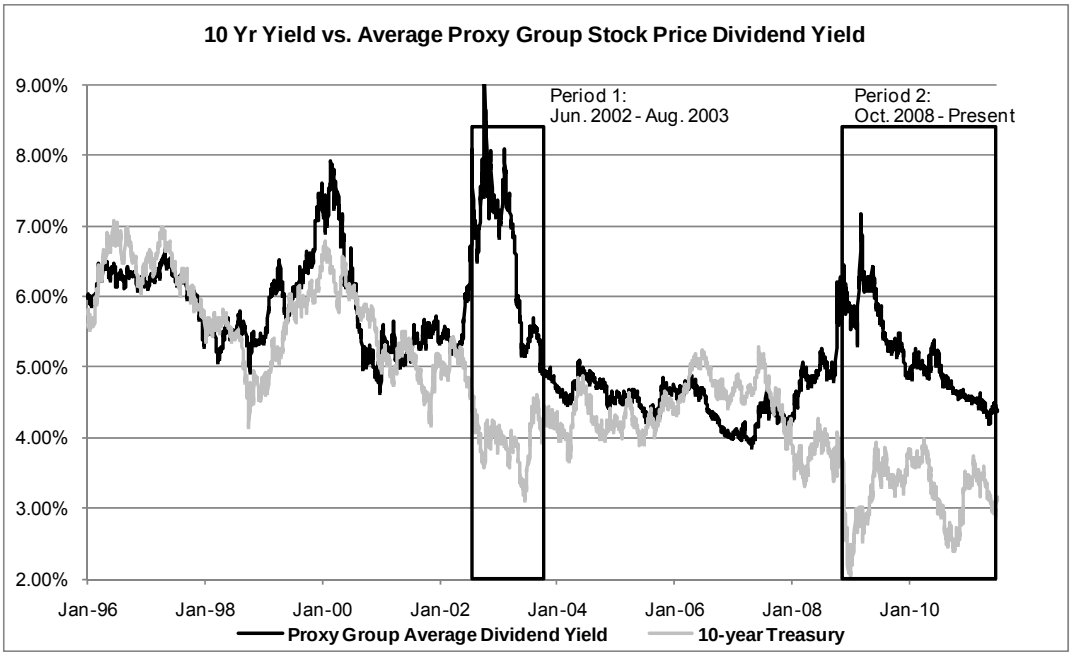
[11] As discussed in Section VII, the 20.34 percent average volatility is approximately equal to the long run (*i.e.*, 1926-2009) market volatility reported by Morningstar, Inc.

C. Yield Spreads

Q. Please discuss your analysis of the relationship between dividend yields and Treasury yields.

A. As a preliminary matter, the "yield spread" is the difference between long-term Treasury yields and dividend yields. Investors often consider yield spreads in their assessment of security valuation and capital market conditions. As shown in Chart 2, the 2008 – 2009 financial market dislocation created the first significant widening of the yield spread (based on the proxy group average dividend yield) in five years. Prior to that time, the most recent period during which these yields were significantly divergent was from mid-2002 through mid-2003, which itself was a period of credit and equity valuation contraction.

Chart 2: Treasury Yield/Dividend Yield Divergence[12]



[12] Bloomberg Professional Service.

A 2009 article in The Wall Street Journal noted this same relationship between utility dividend yields and the ten-year Treasury yield, observing that, "dividend yields have tended to track the yield on 10-year Treasurys closely."[13] The article went on to note that:

> Regulated utilities' dividend yields decoupled from Treasury yields in December 2007, as the U.S. recession began. After the initial flight to quality cut yields on Treasurys, particularly after Lehman Brothers collapsed in September 2008, the Federal Reserve's policy of buying up government debt has helped keep them low.[14]

Q. Why is the continued divergence between utility dividend yields and the ten-year treasury yield relevant in determining the company's Cost of Equity?

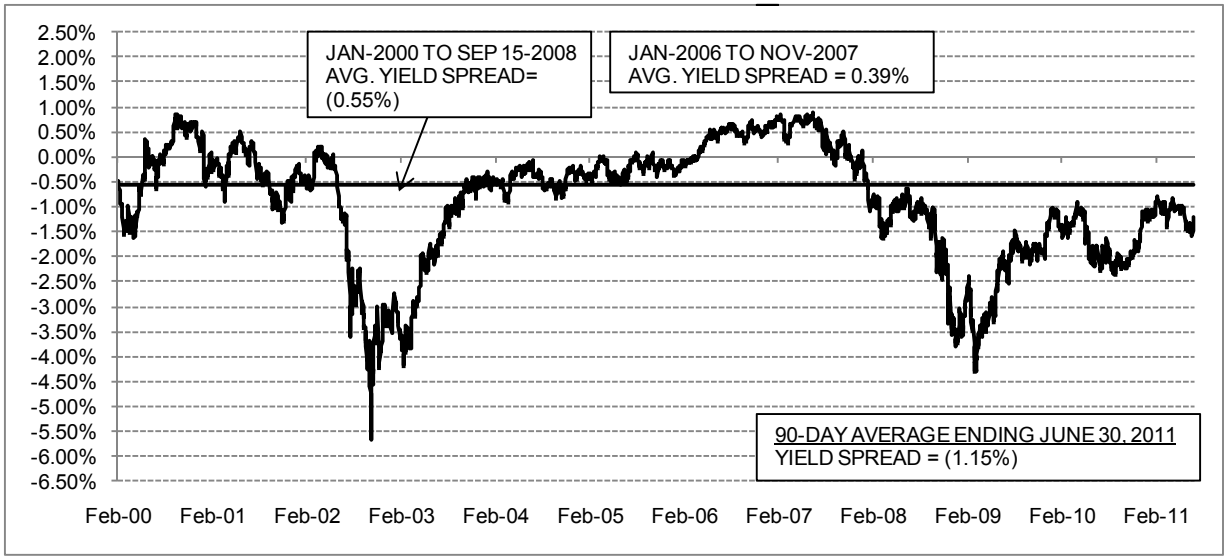
A. First, as suggested by The Wall Street Journal, investors often look to the relationships among financial metrics to assess current and expected levels of market stability. To the extent that such relationships materially and persistently deviate from long-term norms, it may be an indication of continuing or expected instability. In the case of the yield spread, the fact that continued Federal intervention in the capital markets has been required to maintain relatively low Treasury yields introduces yet another significant element of capital market uncertainty. Again, investors require increased returns to be compensated for taking on such risk.

The widened yield spread, which began in 2008, has continued since that article was published. From January 2000 through September 15, 2008 (*i.e.*, the time of the Lehman Brothers bankruptcy filing), the average yield spread between ten-year Treasury securities and the proxy group average dividend yield was negative 55 basis

[13] Denning, Liam, A Short Circuit in the Stock Market, The Wall Street Journal, October 23, 2009, at C10.
[14] *Ibid. See, also,* Credit Suisse, A Thought...Regulated Utilities = Investment Opportunity?, March 10, 2009, at 30.

points. Considering the two-year period[15] prior to the recession, the average yield on ten-year Treasury securities exceeded the proxy group average dividend yield by approximately 39 basis points. As Chart 3 indicates, the 90-day average yield spread as of June 30, 2011 was negative 115 basis points.

Chart 3: Proxy Company Yield Spread[16]



Q. What conclusions do you draw from those analyses?

A. First, these analyses indicate that capital-intensive companies such as OG&E continue to face the risks and costs associated with an unstable capital market environment. Second, as to the prospect for increasing interest rates, it is well established that utility stock prices decline as interest rates increase. Such lower valuation levels reflect increased costs of attracting the equity capital needed to fund utilities' capital investment programs, and, therefore, reflect the need for a commensurately higher ROE.

[15] This analysis includes the 23 months beginning January 2006 and ending November 30, 2007, just prior to the start of the recent recession, as defined by the National Bureau of Economic Research.
[16] Bloomberg Professional Service.

Third, it also is clear that the current market conditions are similar to the 2002-2003 market dislocation that affected all market segments, including utilities. One outcome of the 2002-2003 market dislocation was a renewed emphasis on capital market access and the importance of maintaining a strong financial profile, both of which are equally important in the current market environment.

Q. What else do these analyses demonstrate?

A. The analyses described above also demonstrate that the assessment of capital market conditions must be made in the context of multiple, observable indices. It would be inappropriate, for example, to view the current level of Treasury yields as indicative of a lower cost of capital when consensus estimates call for a substantial increase in long-term interest rates. As a result of the "flight to quality" that occurred during the 2008 – 2009 market instability, yields on United States Treasury securities were driven to historically low levels; the same is true in the current market environment.[17] As investors begin to reallocate capital to securities with higher expected risks and returns (all else being equal), Treasury yields necessarily will increase. Given the continuing capital market instability, it is extremely important to assess the reasonableness of any financial model's results in the context of observable market data. To the extent that certain ROE estimates are incompatible with such metrics or inconsistent with basic financial principles, it is appropriate to consider whether alternative estimation techniques are likely to provide more meaningful and reliable results.

[17] "Flight to quality" refers to investors' shifting of asset allocation from higher to lower, or lowest, risk investable assets.

Q. How should current economic conditions be taken into consideration in determining the appropriate ROE for the Company?

A. In my view, the authorized rate of return in this proceeding will provide a signal to the financial community concerning the ability of the Company to meet its capital needs during a period in which its capital investments are increasing, and both debt and equity investors are requiring higher rates of return. If investors perceive a supportive regulatory environment, as evidenced by an allowed rate of return that compensates the Company at a level commensurate with its risk, the Company should be able to attract equity capital at a reasonable cost.

VI. PROXY GROUP SELECTION

Q. Please explain why you have used a group of proxy companies to determine the Cost of Equity for the Company.

A. First, it is important to bear in mind that the cost of equity for a given enterprise depends on the risks attendant to the business in which the company is engaged. According to financial theory, a value of a given company is equal to the aggregate market value of the constituent business units. The value of the individual business units reflects the risks and opportunities inherent in the business sectors in which those units operate. In this proceeding, we are focused on estimating the cost of equity for OG&E, which is an operating subsidiary of Oklahoma Gas and Electric Energy Corp. ("OGE Energy"). Since the ROE is a market-based concept and OG&E is not a publicly traded entity, it is necessary to establish a group of companies that

are both publicly traded and comparable to the Company in certain fundamental business and financial respects to serve as its "proxy" in the ROE estimation process. Even if OG&E were a publicly traded entity, it is possible that transitory events could bias its market value in one way or another over a given period of time. A significant benefit of using a proxy group, therefore, is that it serves to moderate the effects of anomalous events that may be associated with any one company. The proxy companies used in my analyses all possess a set of operating and risk characteristics that are substantially comparable to the Company, and thus provide a reasonable basis for the derivation and assessment of ROE estimates.

The importance of selecting a proxy group that is similar in overall financial and business risk to the subject company was endorsed by the United States Court of Appeals for the District of Columbia (the "Court of Appeals") in the *Petal Gas Storage* decision. The Court of Appeals acknowledged that the goal of a proxy group is to rely on companies that are of similar risk to the subject company for the determination of cost of equity:

> That proxy group arrangements must be risk-appropriate is the common theme in each argument. The principle is well-established. *See Hope Natural Gas Co*., 320 U.S. at 603 ("[T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks."); *CAPP I*, 254 F.3d at 293 ("[A] utility must offer a risk-adjusted expected rate of return sufficient to attract investors."). The principle captures what proxy groups do, namely, provide market-determined stock and dividend figures from public companies comparable to a target company for which those figures are unavailable. *CAPP I*, 254 F.3d at 293–94. Market determined stock figures reflect a company's risk level and, when combined with dividend values, permit calculation of the "risk-adjusted expected rate of return sufficient to attract investors."
>
> ***
>
> What matters is that the overall proxy group arrangement makes sense in terms of relative risk and, even more importantly, in terms of the

> statutory command to set "just and reasonable" rates, 15 U.S.C. § 717c, that are "commensurate with returns on investments in other enterprises having corresponding risks" and "sufficient to assure confidence in the financial integrity of the enterprise . . . [and] maintain its credit and . . . attract capital," *Hope Natural Gas Co*., 320 U.S. at 603.[18]

Thus, regulatory commissions and analysts alike recognize the importance of developing a proxy group that adequately represents the ongoing risks and prospects of the subject company.

Q. Does the rigorous selection of a proxy group suggest that analytical results will be tightly clustered around average (*i.e.*, mean) results?

A. Not necessarily. The DCF approach is based on the theory that a stock's current price represents the present value of its future expected cash flows. The Constant Growth form of the DCF model is defined as the sum of the expected dividend yield and projected long-term growth. Notwithstanding the care taken to ensure risk comparability, market expectations with respect to future risks and growth opportunities will vary from company to company. Therefore, even within a group of similarly situated companies, it is common for analytical results to reflect a seemingly wide range. At issue, then, is how to select an ROE estimate in the context of that range. That determination necessarily must be based on the informed judgment and experience of the analyst.

[18] *Petal Gas Storage v. FERC*, 496 F.3d 695, 699 (D.C. Cir. 2007), at 5,7.

Q. Please provide a summary profile of OG&E.

A. OG&E provides electric generation, transmission and distribution services to approximately 765,000 retail customers in Oklahoma and western Arkansas. OG&E's senior unsecured credit rating from S&P is BBB+ (outlook: Stable) and from Moody's is A2 (outlook: Stable).[19] Table 3 (below), provides summary financial and operating statistics for OG&E for the most recent three years.

Table 3: OG&E Operating and Financial Results - 2008 to 2010[20]

(*in Millions*)	2008	2009	2010
Operating Income	$278.3	$354.1	$413.7
Net Income	$143.0	$200.4	$215.7
Net Property, Plant and Equipment	$3,955.5	$4,467.6	$4,877.3
Capital Expenditures	$840.1	$600.5	$603.4
Average Electric Sales Customers	770,088	776,550	782,558
Total Sales of Electricity (MWh)	28.2	26.9	28.1

Q. How did you select the companies included in your proxy group?

A. With the objective of selecting a proxy group that is highly representative of the risks and prospects faced by OG&E, I used the following criteria:

- I began with the universe of companies that Value Line classifies as Electric Utilities, which includes a group of 53 domestic U.S. utilities;
- I excluded companies that do not pay consistent quarterly cash dividends;
- All of the companies in my proxy group have been covered by at least two generally recognized utility industry equity analysts;

[19] SNL Energy, as of May 9, 2011, Moody's Investor Service, Global Credit Research, October 6, 2010.
[20] OGE Energy 2010 SEC Form 10-K, at 52, 92-94, 121. OGE Energy 2009 SEC Form 10-K, at 106,137.

- All of the companies in my proxy group had senior bond and/or corporate ratings from Standard and Poor's of BBB- to AAA;
- I selected proxy companies that are vertically integrated utilities (*i.e.*, utilities that own and operate regulated generating assets);
- I excluded companies whose regulated operating income in 2008, 2009 and 2010 comprised less than 60.00 percent of the respective totals for the company;
- I excluded companies whose regulated electric operating income in 2008, 2009 and 2010 represented less than 90.00 percent of total regulated operating income;
- I excluded companies whose coal-fired generation constituted of less than 10.00 percent of their net generation; and
- Finally, I eliminated companies that are currently known to be party to a merger, or other significant transaction.

Q. Did you include OGE Energy in your analysis?

A. No, I did not. In order to avoid the circular logic that otherwise would occur, it is my practice to exclude the subject company from the proxy group.

Q. What companies met your screening criteria?

A. The criteria discussed above resulted in a proxy group of the following twelve companies:

Table 4: Initial Screening Results

Company	Ticker
American Electric Power	AEP
Cleco Corp.	CNL
Edison International	EIX
Empire District Electric	EDE
Great Plains Energy Inc.	GXP
IDACORP, Inc.	IDA
Integrys Energy Group, Inc.	TEG
Otter Tail Corp.	OTTR
Pinnacle West Capital	PNW
Portland General	POR
Southern Company	SO
Westar Energy	WR

Q. Is this your final proxy group?

A. No. My initial set of screening criteria produced a group of twelve potential proxy companies. I then examined the operating profile of each of those twelve companies to be certain that none displayed characteristics that were inconsistent with my intent to produce a proxy group that is fundamentally similar to the Company. As a result of that examination, I made the following three modifications to the proxy group.

Otter Tail Corp. ("Otter Tail") reported significant operating losses in several non-regulated business segments during 2009 and 2010 resulting from recessionary conditions in those segments. As a consequence, operating income from regulated operations constituted the majority of the reported operating income in those years. However, since the process of estimating the ROE necessarily is forward looking, it is important to consider whether the company's electric utility operations will continue to be the majority of operating income in the future. Reviewing Otter Tail's

Securities and Exchange Commission ("SEC") Form 10-K, the $14.8 million loss experienced in 2010 in the Manufacturing segment was due to economic conditions and a $15.6 million net-of-tax asset impairment.[21] In addition, the Wind Energy segment experienced a loss of $21.2 million in 2010.[22] Looking forward, Value Line projects a significant increase in the earnings from the Manufacturing subsidiary in 2011, noting that the backlog for this business is 37.00 percent higher than the year prior.[23] Value Line also projects growth in Otter Tail's Construction segment. Given the extent of the 2010 losses, and analyst projections for 2011, it is difficult to assess the degree to which regulated electric utility operations would be expected to contribute to the company's consolidated financial performance in the near and longer terms. Therefore, I have excluded Otter Tail from my final proxy group.

Edison International ("EIX") experienced significant unregulated operating losses in 2009; those losses were in excess of 55.00 percent of EIX's regulated utility operating income. According to EIX's 2009 SEC Form 10-K, those significant operating losses were the result of a global tax settlement and payment to the Internal Revenue Service ("IRS"), which caused EIX's unregulated marketing and trading segment to incur over $1.00 billion in payments to settle a claim by the IRS that EIX was under-withholding tax payments.[24] Given the extent of those losses, it is difficult to assess the degree to which regulated electric utility operations would be expected to contribute to the company's consolidated financial performance in the near and longer terms. Consequently, I have excluded EIX from my final proxy group.

[21] Otter Tail Corporation 2010 SEC Form 10-K, at 43, 85.
[22] *Ibid*., at 85.
[23] Value Line Report on Otter Tail Corp, March 25, 2011.
[24] Edison International, 2009 SEC Form 10-K, at 129.

Finally, similar to Otter Tail and EIX, Integrys Energy Group, Inc. ("Integrys") experienced significant operating losses during the 2008 to 2010 period. In 2008, the company posted operating losses of $118.30 million in Integrys Energy Services Non-regulated Segment Operations.[25] In 2009, the Natural Gas Utility Segment experienced an operating loss of $114.6 million, primarily as a result of a non-cash goodwill impairment loss of $284.6 million.[26] In that regard, the company noted that:

> [k]ey factors contributing to the impairment charge included disruptions in the global credit and equity markets and the resulting increase in the weighted-average cost of capital used to value the natural gas utility operations, and the negative impact that the global decline in equity markets had on the valuation of natural gas distribution companies in general.[27]

Since the reported operating results may not necessarily reflect the company's future operations, I have excluded Integrys from the proxy group.

Q. Based on the criteria and issues discussed above, what is the composition of your proxy group?

A. The final proxy group is presented in Table 5 (below).

[25] Integrys 2010 SEC Form 10-K, at 40.
[26] Integrys 2009 SEC Form 10-K, at 35.
[27] *Ibid*., at 107.

Table 5: Final Proxy Group

Company	Ticker
American Electric Power	AEP
Cleco Corp.	CNL
Empire District Electric[28]	EDE
Great Plains Energy Inc.	GXP
IDACORP, Inc.	IDA
Pinnacle West Capital	PNW
Portland General	POR
Southern Company	SO
Westar Energy	WR

Q. Please summarize the business operations of your proxy group companies.

A. The following portion of my testimony provides a summary description of the respective proxy companies.

American Electric Power

American Electric Power Company ("AEP") is a public utility holding company that owns and operates utility systems across portions of Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia. The majority of the operating companies provide integrated electric services, however the company's operating companies in Michigan, Ohio, and the ERCOT area of Texas provide unbundled service. AEP is one of the largest electric utilities in the United States, delivering electricity to more than 5 million customers. Its transmission system in the nation's largest with a network of approximately

[28] I recognize that on May 22, 2011, Empire District Electric ("EDE") sustained major storm damage to its service territory. While the company subsequently paid its most recent dividend on May 27, 2011, it also announced a two-quarter temporary dividend suspension for the remainder of the year. Given the announced temporary nature of its dividend suspension, I have retained EDE in the final proxy group.

39,000 line-miles. AEP's generation portfolio includes approximately 38,000 megawatts ("MW") of capacity, all located in states in which AEP's electric utilities serve retail customers. The company's generation assets include approximately 24,000 MW of coal-fuel plants, 10,000 MW of natural gas fueled plants, and 2,000 MW of nuclear facilities; the remaining generation assets include lignite-fueled, oil-fueled, and hydroelectric generation plants.[29]

Cleco Corp.

Cleco Corporation is a public utility holding company consisting of several operating subsidiaries including Cleco Power and Midstream. Cleco Power is an electric utility that provides generation, transmission, distribution service in Louisiana. Cleco Power serves approximately 279,000 customers. Cleco Power's aggregate net electric generating capacity is 2,372 MW.[30] In 2010, 40.40 percent of Cleco Corporation's net generation was derived from natural gas-fired facilities, 26.90 percent from a lignite-fueled plant, 20.60 percent from a petroleum coke facility, and the remaining 12.10 percent from a coal-fueled plant. Midstream is a merchant energy subsidiary that owns and operates merchant generating assets.[31]

Empire District Electric

Empire District Electric has two primary operating companies: (1) Empire District Electric Company, and (2) Empire District Gas Company. In addition, Empire District Electric engages in the leasing of fiber optics cable and equipment. Empire

[29] American Electric Power Co, 2010 SEC Form 10-K, at 2 and 36.
[30] Cleco Corporation, 2010 SEC Form 10-K, at 8.
[31] Cleco Corporation, 2010 SEC Form 10-K, at 107.

District Electric Company provides generation, transmission, and distribution service to approximately 170,000 in Missouri, Kansas, Oklahoma and Arkansas. In addition, Empire District Electric Company provides water service in three towns in Missouri. Empire District Electric serves approximately 170,000 customers. The company's generating portfolio includes approximately 1,400 MW of capacity that is comprised of 720 MW of coal-fired generation, 680 MW of natural gas-fired generation, and a small amount of hydroelectric generation. Empire District Gas Company provides natural gas distribution service to approximately 45,000 customers in Missouri.[32]

Great Plains Energy, Inc.

Great Plains Energy, Inc. ("Great Plains") is the holding company of Kansas City Power & Light Company, and KCP&L Greater Missouri Operations Company. The operating companies are integrated electric utilities engaged in the generation, transmission, distribution and sale of electricity. Together, these utilities serve over 800,000 customers in Missouri and Kansas with a generation portfolio of more than 6,600 MW of capacity. In 2010, 80.00 percent of its generation was derived from coal-fired facilities, 17.00 percent from nuclear facilities, 2.00 percent from natural gas and oil- facilities, and 1.00 percent from wind generation facilities.[33]

IDACORP, Inc.

IDACORP, Inc. is the holding company for Idaho Power Company, a regulated electric utility; IDACORP Financial, which is engaged in real estate investments; and

[32]Empire District Electric Company, 2010 SEC Form 10-K, at 6-7.
[33]Great Plains Energy, Inc, 2010 SEC Form 10-K, at 6-8.

Ida-West Energy, an operator of small hydroelectric generation projects. Idaho Power Company is an electric utility engaged in the generation, transmission, distribution, sale and purchase of electric energy. The company's electric distribution network serves approximately 500,000 customers in Idaho and Oregon. Idaho Power Company's generation portfolio includes two natural gas-fired facilities, three jointly-owned coal-fired facilities, and several hydroelectric facilities.[34]

Pinnacle West Capital

Pinnacle West Capital, through its principal subsidiary, Arizona Public Service, provides retail electricity service to more than 1.1 million Arizona homes and businesses and owns or leases approximately 6,300 MW of generating capacity in Arizona and New Mexico. The company's generation portfolio includes an interest in Palo Verde nuclear plant, two coal–fired facilities, six natural gas and oil fueled facilities, and more than sixty solar facilities.[35]

Portland General Electric Company

Portland General Electric Company is a vertically integrated electric utility engaged in the generation, purchase, transmission, distribution, and retail sale of electricity. Its service territory is located entirely in the state of Oregon, and serves over 800,000 retail customers. The company's generation portfolio includes over 2,700 MW of capacity with natural gas, coal, hydroelectric, and wind assets.[36]

[34] IDACORP, Inc, 2010 SEC Form 10-K, at 6-9.
[35] Pinnacle West Capital Corp, 2010 SEC Form 10-K, at 3-5.
[36] Portland General Electric Company, 2010 SEC Form 10-K, at 4 and 14.

Southern Company

Southern Company owns all of the outstanding common stock of Alabama Power, Georgia Power, Gulf Power, and Mississippi Power, each of which provide electric service in Alabama, Georgia, Florida, and Mississippi. Each of the operating companies own generation, transmission, and distribution facilities providing electric distribution service to a total of more than 4.4 million customers. In addition, Southern Company owns all of the common stock of Southern Power. Southern Power constructs, acquires, owns, and manages generation assets and sells electricity at market-based rates in the wholesale market. Southern Company also owns all of the outstanding common stock or membership interests of SouthernLINC Wireless, Southern Nuclear, SCS, Southern Holdings, Southern Renewable Energy, and other direct and indirect subsidiaries. [37]

Westar Energy

Westar Energy, through its subsidiary, Kansas Gas and Electric Company, provides electric generation, transmission and distribution services to approximately 687,000 customers in Kansas. In addition, Westar provides wholesale energy to municipalities and electric cooperatives in Kansas. Westar owns or leases approximately 6,750 MW of generating capacity. Approximately half of its generation capacity is coal-fired, and forty percent is fueled by natural gas, oil, or diesel. [38]

[37]Southern Company, 2010 SEC Form 10-K, at I-1 to I-3.
[38]Westar Energy Inc, 2010 SEC Form 10-K, at 8.

VII. COST OF EQUITY ESTIMATION

Q. Please briefly discuss the ROE in the context of the regulated rate of return.

A. Regulated utilities primarily use common stock and long-term debt to finance their permanent property, plant, and equipment. The overall rate of return ("ROR") for a regulated utility is based on its weighted average cost of capital, in which the cost rates of the individual sources of capital are weighted by their respective book values. While the costs of debt and preferred stock can be directly observed, the cost of equity is market-based and, therefore, must be estimated based on observable market information.

Q. How is the required ROE determined?

A. The required ROE is estimated by using one or more analytical techniques that rely on market-based data to quantify investor expectations regarding required equity returns, adjusted for certain incremental costs and risks. By their very nature, quantitative models produce a range of results from which the market required ROE must be selected. As discussed throughout my Direct Testimony, that selection must be based on a comprehensive review of relevant data and information, and does not necessarily lend itself to a strict mathematical solution. As a general proposition, the key consideration in determining the cost of equity is to ensure that the methodologies employed reasonably reflect investors' view of the financial markets in general, and the subject company (in the context of the proxy group) in particular.

Q. What methods did you use to determine the Company's ROE?

A. I used the DCF model as the initial approach; I then considered the results of the CAPM and an alternative Risk Premium approach in assessing the reasonableness of the DCF results and developing my ROE recommendation. As discussed in more detail below, the use of a historical market risk premium in the CAPM produces results that are entirely inconsistent with current market conditions. Thus, a reasonable ROE estimate appropriately considers alternate methodologies and the reasonableness of their individual and collective results.

Q. Why do you believe it is important to use more than one analytical approach?

A. It is important to use more than one approach because the cost of equity is not directly observable, and therefore must be estimated based on both quantitative and qualitative information. When faced with the task of estimating the cost of equity, analysts and investors are inclined to gather and evaluate as much relevant data as reasonably can be analyzed. As a result, a number of models have been developed to estimate the cost of equity. As a practical matter, however, all of the models available for estimating the cost of equity are subject to limiting assumptions or other methodological constraints. Consequently, many finance texts recommend using multiple approaches when estimating the cost of equity. For example, Copeland, Koller and Murrin,[39] suggest using the CAPM and Arbitrage Pricing Theory model,

[39] Copeland, Tom, Tim Koller and Jack Murrin, Valuation: Measuring and Managing the Value of Companies, 3rd ed. (New York: McKinsey & Company, Inc., 2000), at 214.

while Brigham and Gapenski,[40] recommend the CAPM, DCF and "bond yield plus risk premium" approaches.

In essence, analysts and academics understand that ROE models simply are tools to be used in the ROE estimation process and that strict adherence to any single approach or the specific results of any single approach can lead to flawed and irrelevant conclusions. That position is consistent with the *Hope* and *Bluefield* finding that it is the analytical result, as opposed to the methodology, that is controlling in arriving at ROE determinations. Thus, a reasonable ROE estimate appropriately considers alternate methodologies and the reasonableness of their individual and collective results.

Consequently, I believe it is both prudent and appropriate to use multiple methodologies in order to mitigate the effects of assumptions and inputs associated with relying exclusively on any single approach. Such use, however, must be tempered with due caution as to the results generated by each individual approach. Therefore, in light of the capital market conditions discussed earlier I have relied primarily on the Constant Growth DCF model, and used the CAPM and Risk Premium approaches as corroborating methodologies.

A. Constant Growth DCF Model

Q. Are DCF models widely used to determine the ROE for regulated utilities?

A. Yes. DCF models are widely used in regulatory proceedings and have sound theoretical bases, although neither the DCF model nor any other model can be applied

[40] Brigham, Eugene and Louis Gapenski, Financial Management: Theory and Practice, 7th Ed. (Orlando: Dryden Press, 1994), at 341.

without considerable judgment in the selection of data and the interpretation of results. In its simplest form, the DCF model expresses the cost of equity as the sum of the expected dividend yield and long-term growth rate.

Q. Please describe the DCF approach.

A. The DCF approach is based on the theory that a stock's current price represents the present value of all expected future cash flows. In its most general form, the DCF model is expressed as follows:

$$P_0 = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^2} + ... + \frac{D_\infty}{(1+k)^\infty} \quad [1]$$

Where P_0 represents the current stock price, D_1 … D_∞ are all expected future dividends, and k is the discount rate, or required ROE. Equation [1] is a standard present value calculation that can be simplified and rearranged into the familiar form:

$$k = \frac{D(1+g)}{P_0} + g \quad [2]$$

Equation [2] is often referred to as the "Constant Growth DCF" model in which the first term is the expected dividend yield and the second term is the expected long-term growth rate.

Q. What assumptions are required for the Constant Growth DCF model?

A. The Constant Growth DCF model requires the following assumptions: (1) a constant average growth rate for earnings and dividends; (2) a stable dividend payout ratio; (3) a constant price-to-earnings multiple; and (4) a discount rate greater than the expected

growth rate. To the extent that any of these assumptions are violated, considered judgment and/or specific adjustments should be applied to the results.

Q. What market data did you use to calculate the dividend yield in your DCF model?

A. The dividend yield component is based on the proxy companies' current annual dividend and average closing stock prices over the 30, 90, and 180-trading days ended June 30, 2011.

Q. Why did you use three averaging periods?

A. I believe it is important to use an average of trading days to calculate the term P_0 in the DCF model to ensure that the calculated ROE is not skewed by anomalous events that may affect stock prices on any given trading day. In that regard, the averaging period should be reasonably representative of expected capital market conditions over the long term. At the same time, it is important to reflect the volatile conditions definitive of the financial markets over the recent past. In my view, the use of the 30-, 90- and 180-day averaging periods reasonably balances those concerns.

Q. Did you make any adjustments to the dividend yield to account for periodic growth in dividends?

A. Yes. Since utility companies tend to increase their quarterly dividends at different times throughout the year, it is reasonable to assume that dividend increases will be evenly distributed over calendar quarters. Given that assumption, it is reasonable to

apply one-half of the expected annual dividend growth for purposes of calculating the expected dividend yield component of the DCF model. This adjustment ensures that the expected dividend yield is, on average, representative of the coming twelve-month period, and does not overstate the aggregated dividends to be paid during that time. Accordingly, the DCF estimates provided in Exhibit RBH-1 reflect one-half of the expected growth in the dividend yield component of the model.

Q. Is it important to select appropriate measures of long-term growth in applying the DCF model?

A. Yes. In its Constant Growth form, the DCF model (*i.e.*, as presented in Equation [2] above) assumes a single growth estimate in perpetuity. In order to reduce the long-term growth rate to a single measure, one must assume a constant payout ratio, and that earnings per share, dividends per share and book value per share all grow at the same constant rate. Over the long term, however, dividend growth can only be sustained by earnings growth. Consequently, it is important to incorporate a variety of measures of long-term earnings growth into the Constant Growth DCF model. This can be accomplished by averaging those measures of long-term growth that tend to be least influenced by capital allocation decisions that companies may make in response to near-term changes in the business environment. Since such decisions may directly affect near-term dividend payout ratios, estimates of earnings growth are more indicative of long-term investor expectations than are dividend growth estimates. Therefore, for the purposes of the Constant Growth DCF model, growth in earnings per share represents the appropriate measure of long-term growth.

Q. Please summarize your inputs to the constant growth DCF model.

A. I applied the DCF model to the proxy group of integrated electric utility companies using the following inputs for the price and dividend terms:

1. The average daily closing prices for the 30-trading days, 90-trading days, and 180-trading days ended June 30, 2011 for the term P_0; and
2. The annualized dividend per share as of June 30, 2011 for the term D_0.

I then calculated the DCF results using each of the following growth terms:

1. The Zacks consensus long-term earnings growth estimates;
2. The First Call consensus long-term earnings growth estimates; and
3. The Value Line earnings growth estimates.

Q. How did you calculate the high and low DCF results?

A. I calculated the mean high DCF result using the maximum EPS growth rate as reported by Value Line, Zack's, and First Call for each proxy group company in combination with the dividend yield for each of the proxy group companies. The mean high result then reflects the average maximum DCF result for the proxy group as a whole. I used a similar approach to calculate the mean low results, relying on the minimum growth rate as reported by Value Line, Zack's, and First Call for each proxy group company.

Q. What are the results of your DCF analysis?

A. As noted in Table 6 (s*ee* also, Exhibit RBH-1), the unadjusted mean DCF results for my proxy group are 10.38 percent, 10.41 percent, and 10.49 percent for the 30, 90, and 180-trading day periods, respectively. The mean high DCF result for the 30, 90, and 180-day averaging periods are 11.35 percent, 11.38 percent, and 11.47 percent respectively.

Table 6: Discounted Cash Flow Results

	Mean Low	Mean	Mean High
30-Day Average	9.43%	10.38%	11.35%
90-Day Average	9.46%	10.41%	11.38%
180-Day Average	9.54%	10.49%	11.47%

Q. Did you undertake any additional analyses to support your DCF model results?

A. Yes. As noted earlier, I also used the CAPM and the Risk Premium approaches as a means of assessing the reasonableness of my DCF results.

B. CAPM Analysis

Q. Please briefly describe the general form of the CAPM analysis.

A. The CAPM analysis is a risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium (to compensate investors for the non-diversifiable or "systematic" risk of that security). As shown in Equation [3], the CAPM is defined by four components, each of which theoretically must be a forward-looking estimate:

$$K_e = r_f + \beta(r_m - r_f) \quad [3]$$

where:

K_e = the required market ROE;

β = Beta coefficient of an individual security;

r_f = the risk free rate of return; and

r_m = the required return on the market as a whole.

In this specification, the term ($r_m - r_f$) represents the market risk premium. According to the theory underlying the CAPM, since unsystematic risk can be diversified away, investors should be concerned only with systematic or non-diversifiable risk. Non-diversifiable risk is measured by the Beta coefficient, which is defined as:

$$\beta = \frac{Covariance(r_e, r_m)}{Variance(r_m)} \quad [4]$$

The variance of the market return, noted in Equation [4], is a measure of the uncertainty of the general market, and the covariance between the return on a specific security and the market reflects the extent to which the return on that security will respond to a given change in the market return. Thus, the Beta coefficient represents the risk of the security relative to the market.

Q. Has the CAPM analysis been affected by recent economic conditions?

A. Yes. Recent market conditions have affected the CAPM model in a number of important ways. First, as noted above, the risk free rate, "r_f", in the CAPM formula is represented by the interest rate on long-term U.S. Treasury securities. During the financial dislocation, investors reacted to the extraordinary levels of market volatility discussed earlier by investing in low-risk securities such as Treasury bonds.

Consequently, the first term in the model (*i.e.*, the risk-free rate) is lower than it would have been absent the elevated degree of risk aversion that has, at least in part, resulted in historically low Treasury yields.

In addition, as a result of the extraordinary loss in equity values during 2008, the Market Risk Premium, when measured on a historical basis, actually decreased from the prior year, even though other measures of investor sentiments, in particular market volatility, indicated extremely high levels of risk aversion. That result is, of course, counter-intuitive. While the 2009 market rally resulted in a somewhat higher historical Market Risk Premium, it still remains below its pre-financial crisis level.

Finally, Beta coefficient estimates reported by Value Line and Bloomberg calculate the Beta coefficient for each company over historical periods of 60 and 24 months, respectively. As noted earlier, during the recent financial market dislocation, the relationship between the returns of the proxy group companies and the S&P 500 Index was considerably different than has been experienced in the current market environment. Both the Value Line and Bloomberg Beta coefficient estimates are calculated over longer historical time periods that include the effects of the financial market dislocation, resulting in Beta coefficient estimates that are much lower than what has been experienced historically in markets similar to the current market environment. For example, in September 2007, one year prior to the Lehman Brothers bankruptcy filing, the average Beta coefficient for my proxy group was 0.99. As shown in Exhibit RBH-2, the average of the Value Line and Bloomberg Beta coefficient estimates for the proxy group is currently 0.742, which would suggest a lower CAPM estimate notwithstanding the continued volatility in the capital markets.

Q. What assumptions did you use in your CAPM model?

A. Since both the DCF and CAPM models assume long-term investment horizons, I used two different specifications of the risk-free rate as my estimate of the risk-free rate: the current 30-day average yield on 30-year Treasury bonds (*i.e.*, 4.24 percent) and the near-term projected 30-year Treasury yield (*i.e.*, 4.78 percent).

Q. What Market Risk Premia did you use in your CAPM model?

A. For the reasons discussed above, I did not use a historical average; rather, I developed two forward-looking (*ex-ante*) estimates.

Q. Please describe your first approach to estimating the Market Risk Premium.

A. The first approach is based on the required return on the S&P 500 Index, less the current 30-year Treasury bond yield. The required return on the S&P 500 is calculated using the constant growth DCF model discussed earlier in my testimony for the companies in the S&P 500 Index for which long-term earnings projections are available (the companies with such projections represent 98.59 percent of the index market capitalization).

Q. Please describe the second approach used to estimate the *ex-ante* market risk premium.

A. The second approach assumes a constant Sharpe Ratio, which is the ratio of the risk premium relative to the risk, or standard deviation of a given security or index of securities. The Sharpe Ratio is relied upon by financial professionals to assess the

incremental return received for holding a risky (*i.e.*, more volatile) asset rather than a risk-free (*i.e.*, less volatile) asset. The formula for calculating the Sharpe Ratio is expressed as follows:

$$S(X) = (R_x - R_f)/Std\ Dev\ (X) \quad [5]$$

where:

X = the investment;

R_x = the average return of X;

R_f = the rate of return of a risk free security; and

Std Dev = the standard deviation of r_x.

As shown in Exhibit RBH-4, the constant Sharpe Ratio is the ratio of the historical market risk premium of 6.70 percent (the numerator of Equation [5] above) and the historical market volatility of 20.28 percent (the denominator of Equation [5]).[41] The expected Market Risk Premium is then calculated as the product of the Sharpe Ratio and the expected market volatility. To measure expected volatility, I relied on the thirty-day average of the CBOE's three-month volatility index (*i.e.*, the VXV) and the same thirty-day average of settlement prices of futures on the CBOE's one-month volatility index (*i.e.,* the VIX) for October through December 2011. Both the VIX and the VXV are measures of implied market expectations of near-term volatility derived from options on the S&P 500 index.

[41]The standard deviation is easily calculated from data provided by Morningstar in its annual Valuation Yearbook. (*See,* Morningstar Inc., Ibbotson SBBI 2011 Valuation Yearbook, Large Company Stocks: Total Returns Table B-1, at 162-163).

Q. What measures of the Beta coefficient did you use in your CAPM model?

A. With respect to the Beta coefficient, I considered two methods of calculation. My first approach simply employs the average reported Beta coefficient from Bloomberg and Value Line for each of the proxy group companies. While both of those services adjust their calculated (or "raw") Beta coefficients to reflect the tendency of the Beta coefficient to regress to the market mean of 1.00, Value Line calculates the Beta coefficient over a five-year period, while Bloomberg's calculation is based on two years of data. As discussed earlier, however, current market conditions are such that the volatility of the proxy group stock prices has been increasing relative to the broader market. Consequently, Beta coefficients calculated over a more recent time period provide a more current view as to investors' perspectives with respect to "systematic" risk.

Q. Please describe how you calculated the mean adjusted Beta coefficient for your proxy group.

A. As noted in Equation [4] discussed earlier, the Beta coefficient is calculated as the ratio of the covariance between the individual security returns and the market returns, to the variance of the market returns. To arrive at a single estimate of the Beta coefficient for the proxy group, I first averaged the weekly returns of the companies in the proxy group. Calculating the covariance between the proxy group's mean weekly returns and the weekly returns of the S&P 500 for the most recent eighteen months produces the numerator of the Beta coefficient calculation for the proxy group. As noted above, the denominator in the calculation is the variance of weekly

returns for the S&P 500.[42] As shown in Exhibit RBH-3, this methodology results in a proxy group mean raw Beta coefficient of 0.695. Adjusting the raw Beta coefficient for the tendency to regress toward the market Beta coefficient of 1.0 results in an adjusted Beta coefficient of 0.797.[43]

Q. How and why did you adjust the raw Beta coefficient?

A. I adjusted my raw Beta coefficient consistent with the methodology used by Bloomberg. This approach multiplies the raw Beta coefficient by 0.67, and adds 0.33 to that product. The purpose of such adjustments is to reflect the results of substantial academic research indicating that, over time, raw Beta coefficients tend to regress to the market mean of 1.00.[44]

Q. Please explain why you relied on an eighteen-month estimate of the proxy group mean adjusted Beta coefficient.

A. As noted earlier, Beta coefficient estimates reported by Value Line and Bloomberg calculate the Beta coefficient for each company over historical periods of 60 and 24 months, respectively. Chart 4 (below) illustrates the relationship between the covariance of average weekly returns for the proxy group and the variance in the returns of the S&P 500, the two components of the Beta coefficient calculation. During the recent financial market dislocation, the relationship between the returns of

[42] It is worthwhile noting that averaging individual Beta coefficients for each of the proxy group companies would produce the same result as calculating a single Beta coefficient based on the average of the proxy group companies' weekly returns.

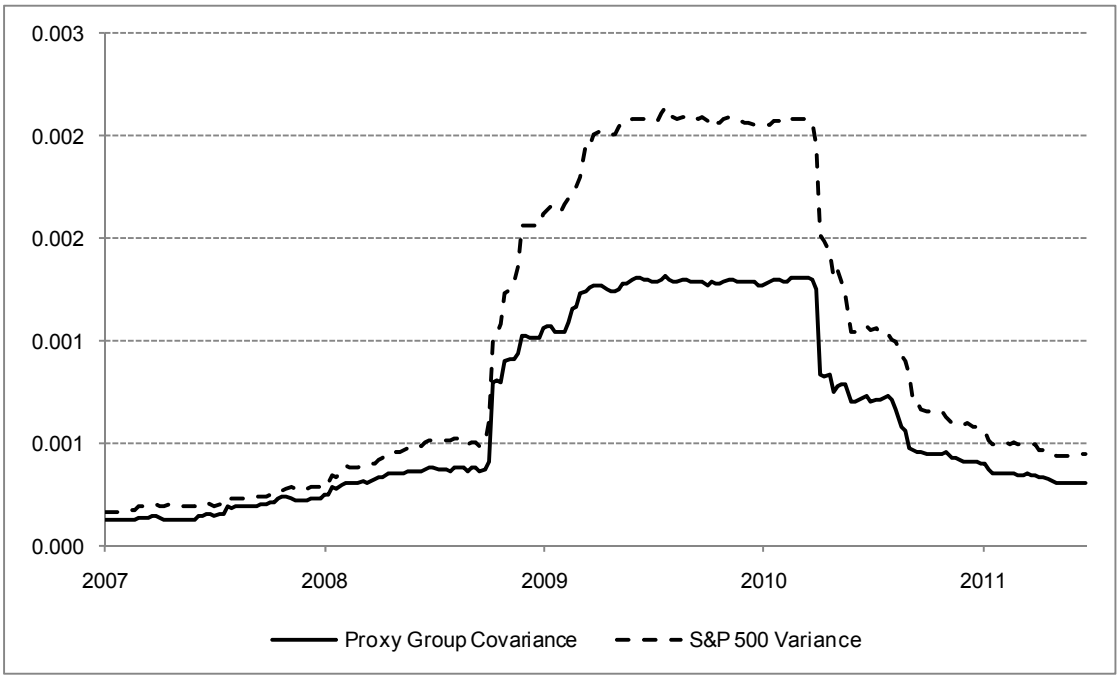
[43] The raw and adjusted Beta coefficients calculated using this approach are identical to the Beta coefficients calculated by Bloomberg when assuming the identical holding period.

[44] The regression tendency of Beta coefficients to converge to 1.0 over time is well known and widely discussed in financial literature. (*See, e.g.,* Blume, Marshall E., *On the Assessment of Risk*, The Journal of Finance, Vol. 26, No. 1, March 1971, at 1-10).

the proxy group companies and the S&P 500 was considerably different than has been experienced in the current market environment. As shown in Chart 4, the relationship between the covariance of the weekly returns of the proxy group and the variance in the returns of the S&P 500 stabilized somewhat over the past eighteen months and returned to levels experienced prior to the market dislocation. Therefore, I based my analysis on an eighteen-month calculation period.

Chart 4: Proxy Group Average Covariance and S&P 500 Variance

(Moving Eighteen-Month Calculation)



Q. Is your eighteen-month Beta coefficient of 0.797 reasonable relative to levels that were observed prior to the financial market crisis?

A. Yes. Prior to the financial market crisis, the average Beta coefficient for my proxy group companies, as reported by Value Line, was considerably higher than what I have calculated using the most recent eighteen months of market data. For example,

in September 2007, one year prior to the Lehman Brothers bankruptcy filing, the average Beta coefficient for my proxy group was 0.99. As of June 30, 2008, the Beta coefficient for this same group was 0.85. Based on those historical measures, it is my view that the eighteen-month average Beta coefficient of 0.797 is reasonable compared to levels before the financial market crisis.

Q. How did you apply your CAPM?

A. I relied on the *ex-ante* risk premium and near-term Beta coefficient to calculate the CAPM model using both the current 30-day average yield on the 30-year U.S. Treasury bond and near-term projections of the 30-year Treasury bond yield as the risk-free rate. I also performed the same calculation using the average Value Line and Bloomberg Beta coefficients. As noted in Exhibit RBH-4, the use of *ex-ante* market risk premia and risk-free rates produces a range of results that is generally consistent with the range of results produced by the other calculation methods.

Q. What are the results of your CAPM analysis?

A. As shown in Table 7, (*see* also, Exhibit RBH-4), the results of my CAPM analysis, using the current Beta coefficient estimate suggest a mean ROE of 10.85 percent based on a range of returns from 10.13 percent to 11.58 percent. Relying on an average of the Value Line and Bloomberg estimates of the Beta coefficient (which, as noted, are based over a five-year and two-year historical period, respectively), the results of my CAPM analysis suggest a mean return of 10.42 percent based on a range of returns of 9.73 percent to 11.11 percent.

Table 7: CAPM Results

Eighteen-Month Beta Coefficient		
	Sharpe Ratio Derived MRP	*DCF Derived MRP*
30 Day Average 30 Year Treasury Yield	10.13%	11.03%
Near Term Forecast 30 Year Treasury Yield	10.67%	11.58%
Average Bloomberg and Value Line Beta coefficient		
	Sharpe Ratio Derived MRP	*DCF Derived MRP*
30 Day Average 30 Year Treasury Yield	9.73%	10.57%
Near Term Forecast 30 Year Treasury Yield	10.27%	11.11%

Q. Does your recommendation substantially rely on any of the CAPM models you presented in Exhibit RBH-4?

A. No, it does not. While I have calculated the CAPM using the approaches and assumptions discussed above, I did not give any specific weight to those results. Rather, I used the CAPM results to corroborate the DCF results discussed earlier.

C. Bond Yield Plus Risk Premium Analysis

Q. Please describe the Bond Yield Plus Risk Premium approach you employed.

A. In general terms, the Bond Yield Plus Risk Premium approach is based on the fundamental principle that equity investors bear the residual risk associated with ownership, and, therefore, require a premium over the return they would have earned as a bondholder, *i.e.*, since returns to equity holders are more risky than returns to bondholders, equity investors must be compensated for bearing that risk. Risk premium approaches, therefore, estimate the cost of equity as the sum of the equity

risk premium and the yield on a particular class of bonds. As noted in my discussion of the CAPM, since the equity risk premium is not directly observable, it typically is estimated using a variety of approaches, some of which incorporate *ex-ante* estimates of the cost of equity, and others that consider historical, or *ex-post*, estimates. In the case of the CAPM, those estimates are with respect to the return on the broad market. An alternative approach is to use actual authorized returns for electric utilities as the measure of the cost of equity to determine the Equity Risk Premium.

Q. What did your Bond Yield Plus Risk Premium analysis reveal?

A. As shown on Chart 5, from 1992 through the first quarter of 2011, there was, in fact, a strong negative relationship between risk premia and interest rates. To estimate that relationship, I conducted a regression analysis using the following equation:

$$RP = a + b(M) \qquad [5]$$

where:

RP = Risk Premium (difference between allowed ROEs and the yield on 30- year Treasuries)

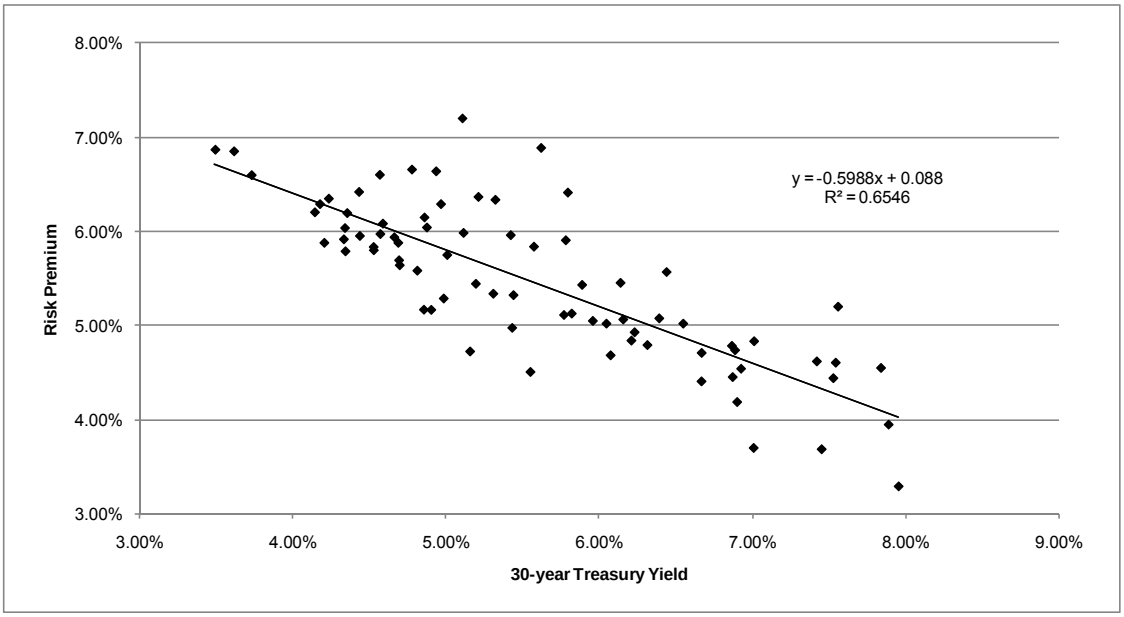
a = Intercept term

b = Slope term

M = 30-year Treasury yield

Data regarding allowed ROEs was derived from 502 electric utility rate cases from 1992 through June 30, 2011 as reported by Regulatory Research Associates. The equation's coefficients were significant at the 99.00 percent confidence interval.[45]

Chart 5: Risk Premium Results



As shown in Exhibit RBH-5, from 1992 through June 30, 2011 the average risk premium was approximately 5.46 percent. Based on the regression coefficients provided in Exhibit RBH-5, however, the risk premium would be 6.26 percent when using the current 30-day average of the 30-year Treasury bond yield, resulting in an ROE of 10.50 percent. As shown in that exhibit, based on the 30-day average of the 30-year Treasury bond yield and the near and long term projections of the 30-year Treasury bond yields, the range of ROE results is from 10.50 percent to 11.06 percent. It is important to note, however, that this estimate does not include the effect

[45] In order to ensure that the regression coefficients were not biased as a result of serially correlated error terms, the equation presented in Exhibit RBH-5 was also estimated using the Prais-Winsten corrective routine. That equation continues to produce a negative slope coefficient and a range of ROE estimates from 10.51 to 11.06 percent.

of the Company's specific risk factors, as discussed in Section VIII of my Direct Testimony.

VIII. BUSINESS RISKS

Q. Do the mean DCF, CAPM, and risk premium results for the proxy group provide an appropriate estimate of the Cost of Equity for the Company?

A. No, the mean results do not necessarily provide an appropriate estimate of the Company's Cost of Equity. In my view, there are additional factors that must be taken into consideration when determining where the Company's cost of equity falls within the range of results, including the composition of the Company's generation portfolio, the Company's relatively small size and flotation costs in determining where within the range the Company's ROE should fall.

A. Coal-Fired Generation Portfolio

Q. Does the Company's generation portfolio include coal-fired generating assets?

A. Yes. OG&E's operations are heavily dependent on coal-fired generation, representing approximately 37.91 percent of the Company's owned installed capacity.[46] In general, capital-intensive baseload generation assets such as coal-fired plants face risks associated with capital recovery in the event of market structure changes or plant failure, or replacement cost recovery in the event of extended or unplanned outages. In addition, coal-fired assets may require significant increases in capital requirements to comply with changes in environmental policies. This is particularly

[46] OGE Energy Corp, 2010 SEC Form 10-K, at 38.

relevant in light of the potential for regulation of carbon emissions by the United States Environmental Protection Agency ("EPA"). On December 7, 2009 the EPA classified carbon dioxide as a danger to public health in an "endangerment finding" under the Clean Air Act, creating the potential for additional litigation and regulatory uncertainty.

More recently, on January 27, 2010, the SEC voted to provide companies with "interpretive guidance" regarding disclosure requirements as they relate to the issue of climate change. More specifically, the SEC's guidance provides examples of areas in which issues may "trigger" disclosure requirements as they relate to climate change. Among those areas are: (1) Effect of Legislation and Regulation; and (2) Indirect Consequences of Regulation or Business Trends. Regarding the former, the SEC noted that:

> [w]hen assessing potential disclosure obligations, a company should consider whether the impact of certain existing laws and regulations regarding climate change is material. In certain circumstances, a company should also evaluate the potential impact of pending legislation and regulation related to this topic.[47]

With respect to Indirect Consequences, the SEC noted that:

> [l]egal, technological, political and scientific developments regarding climate change may create new opportunities or risks for companies. For instance, a company may face decreased demand for goods that produce significant greenhouse gas emissions or increased demand for goods that result in lower emissions than competing products. As such, a company should consider, for disclosure purposes, the actual or potential indirect consequences it may face due to climate change related regulatory or business trends.[48]

[47] Securities and Exchange Commission, *SEC Issues Interpretive Guidance on Disclosure Related to Business or Legal Developments Regarding Climate Change*, Release 2010-15, January 27, 2010.
[48] *Ibid.*

As a result of the increased likelihood of carbon emissions regulation, investors see coal generation as taking on even greater risk. For example, Louisville Gas and Electric Co. and Kentucky Utilities Co. recently announced their intent to retire six coal units totaling 797 MW by 2016 due to "high capital costs for coal options…due to proposed environmental regulations", and selected 2016 as the retirement year "because that is expected to be the year that the most stringent new federal emissions regulations take effect".[49] The Tennessee Valley Authority's ("TVA's") Board of Directors also recently approved a settlement with the EPA, environmental groups and four states, which required, among other things, the retirement of 18 coal-fired generating units no later than 2018 and that TVA to invest $350 million in the four states on additional pollution reduction projects over the next five years.[50] In addition, American Electric Power Co., Inc. also recently has stated that it has 5,480 MW of coal-fired capacity that are at-risk of being shut down over the next few years as a result of EPA's air, water and coal ash rules, and another 8,888 MW that would require capital investments ranging from $2.23 billion to $6.42 billion through 2020 to meet EPA's proposed clean air rules.[51]

[49] Cassell, Barry, LG&E, Kentucky Utilities Target 6 Coal Units For Retirement in 2016, SNL Financial, April 25, 2011; Sierra Club, *Blockbuster Agreement Takes 18 Dirty TVA Coal-Fired Power Plant Units Offline*, April 14, 2011.
[50] Bandyk, Matthew, TVA To Retire 18 Coal Generating Units in Settlement With EPA, States, SNL Financial, April 14, 2011; Sierra Club, *Blockbuster Agreement Takes 18 Dirty TVA Coal-Fired Power Plant Units Offline*, April 14, 2011.
[51] Cassell, Barry, *Morris: 5,480 MW of AEP Coal Capacity 'Fully Exposed' to EPA Rules*, SNL Financial, April 25, 2011.

Q. Are there any other proposed regulations that could increase OG&E's capital requirements?

A. Yes. The EPA's plan to reduce regional haze through its "Proposed Rule Regarding Federal Implementation Plan for Interstate Transport of Pollution Affecting Visibility and Best Available Retrofit Technology Determinations" would require a capital investment of as much as $1.5 billion.[52] That amount is equal to OG&E's total capital investment plan for 2011 through 2013. In its comments regarding the proposed rulemaking, the Company noted that, "as a consequence of such an enormous investment, OG&E would be locked into the use of coal for the foreseeable future."[53]

Therefore, the increased regulatory and legislative focus on environmental compliance for coal-fired generation and the projected costs related to the compliance programs represent an additional risk for OG&E.

B. Capital Expenditures

Q. Please summarize the Company's capital expenditure plans.

A. As shown in Table 8, the Company is planning over $2.36 billion in capital expenditures over the next three years. The Company's base capital expenditure plan enables customer growth, and provides for the replacement of aging distribution facilities as well as the addition of newer technology designed to enhance reliability and efficiency. The base investment plan also includes lower voltage level

[52] *Comments of Oklahoma Gas and Electric Company on Proposed Rule Regarding Federal Implementation Plan for Interstate Transport of Pollution Affecting Visibility and Best Available Retrofit Technology Determinations*, Docket No. EPA-R06-OAR-2010-0190, May 23, 2011.
[53] *Ibid.,* at 1.

transmission assets to serve customer growth, as well as maintenance capital for the Company's existing installed generation fleet. In addition to its base capital expenditures, OG&E is investing in various transmission projects, Smart Grid technology, the Crossroads wind farm, and vegetation management.

Table 8: OG&E Capital Expenditure Forecast[54]

Estimated Capital Expenditures			
(Millions of dollars)	**2011**	**2012**	**2013**
Base Capital Expenditures	$ 425	$ 340	$ 320
Base Transmission	50	30	20
Base Distribution	225	200	200
Base Generation	105	80	70
Other	45	30	30
SPP Transmission Projects	205	280	330
Other Projects	330	105	25
Total Capital Expenditures	$ 960	$ 725	$ 675

Q. Do credit rating agencies recognize risks associated with increased capital expenditures?

A. Yes, they do. From a credit perspective, the additional pressure on cash flows associated with high levels of capital expenditures exerts corresponding pressure on credit metrics and, therefore, credit ratings. In fact, in its recent report on OG&E, S&P specifically noted the Company's significant capital expenditure plan.

> OG&E is involved in an extensive multiyear capital expansion program that concentrates on transmission and distribution betterments; renewable energy, including various wind generation projects; and deployment of a smart grid program. Hence, utility construction expenditures will accelerate to about $1 billion in 2011, necessitating reliance on external capital.[55]

[54] OGE Energy Corp., 2011 Q1 SEC Form 10-Q, at 35.
[55] Standard & Poor's RatingsDirect, *Oklahoma Gas and Electric Co.* May 2, 2011, at 3.

S&P further explained that:

> Despite likely weakening in the company's financial condition as construction expenditures accelerate in 2011 and 2012, we expect key measures of bondholder protection to remain within our guidelines for the current rating and withstand the stresses of the impending construction cycle, assuming continued credit-supportive actions by management, including conservative financing, and credit supportive regulatory treatment in future rate proceedings.[56]

Therefore, to the extent that the Company's current regulatory structure cannot meet the Company's objectives, the Company will face increased recovery risk and thus increased pressure on its credit metrics.

Q. Are equity investors also concerned with comparatively high levels of capital expenditures?

A. Yes, equity investors also recognize the pressure on cash flows associated with relatively high levels of capital expenditures. For example, KeyBanc Capital Markets ("KeyBanc") conducts a quarterly review of the electric utility industry. In a recent report, KeyBanc noted that:

> Although capital markets have improved since early 2009, liquidity and capital costs remain a concern, as costs for credit have generally become more expensive and available durations have shrunk. Higher interest costs will likely continue to pressure earnings until regulatory lag is better addressed.
>
> ***
>
> Credit and liquidity concerns have driven many companies to revisit capital spending plans and reassess operational efficiencies.[57]

[56] *Ibid*.
[57] KeyBanc Capital Markets Inc., *Electric Utilities Quarterly 4Q10*, March 2011, at 7.

Q. Will the Company need continued access to the capital markets in order to finance its capital expenditure plan?

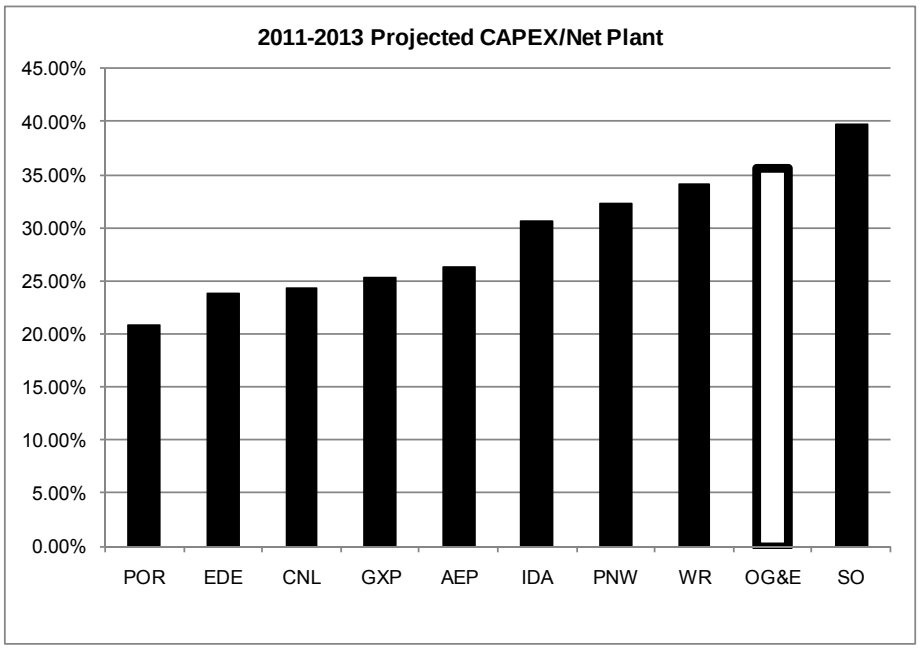
A. Yes. When the level of capital expenditures outpaces the growth in internally generated cash, there is increasing pressure to access the external capital markets. Given the size and long-term nature of the anticipated capital expenditures, the Company will require continued access to external capital, at reasonable terms, in order to finance its capital expenditure plan. As noted throughout my testimony, OG&E's ability to generate internal cash flow and access the capital markets will be directly affected by the Commission's order in this proceeding.

Q. How does the level of the Company's expected capital expenditures compare to the proxy group?

A. In order to reasonably make that comparison, as shown in Exhibit RBH-6, I calculated the ratio of expected capital expenditures to net assets for each of the companies in the proxy group. For the projected period from 2011-2013, I performed that calculation using the Company's projected capital expenditures over this period as compared to its rate base as of December 31, 2010.[58] As shown in Chart 6 (*see, also*, Exhibit RBH-6), relative to the proxy group, there is only one company, *i.e.*, Southern Company, with a higher ratio of projected capital expenditures to net plant.

[58] For the purposes of comparison to the proxy group companies, my analysis excludes capital expenditures projects classified as "Other Projects" that are subject to cost-recovery riders. I also included only the portion of the SPP Transmission projects that are estimated to be included in the Company's Oklahoma ratebase.

Chart 6: Comparison of Projected Capital Expenditures[59]



Q. What are your conclusions regarding the effect of Company's capital spending plans on its risk profile?

A. It is clear that on a relative basis, the Company's capital expenditure program is significant. This program, which is necessary to maintain system reliability, improve efficiency, and support future growth, could materially dilute the Company's current earnings and cash flows. It also is clear that the financial community recognizes the additional risks associated with substantial capital expenditures and that those risks are reflected in market valuation multiples. In my view, these factors suggest a comparatively high level of risk relative to the proxy group.

[59] Value Line and Company data.

C. Small Size Premium

Q. Please explain the risks associated with small size.

A. Both the financial and academic communities have long accepted the proposition that the cost of equity for small firms is subject to a "size effect." While empirical evidence of the size effect is often based on studies of industries beyond regulated utilities, utility analysts also have observed the risks associated with small market capitalizations. Specifically, a senior analyst for Ibbotson Associates (Morningstar, Inc.) noted:

> For small utilities, investors face additional obstacles, such as smaller customer base, limited financial resources, and a lack of diversification across customers, energy sources, and geography. These obstacles imply a higher investor return.[60]

Small size, therefore, leads to two categories of increased risk for investors: (1) liquidity risk (*i.e.*, the risk of not being able to sell one's shares in a timely manner due to the relatively thin market for the securities); and (2) fundamental business risks.

Q. How does OG&E compare in size to the proxy companies?

A. OG&E is substantially smaller than the average for the proxy group companies both in terms of numbers of customers and market capitalization. Exhibit RBH-7 provides the actual market capitalization for the proxy group companies and estimates the implied market capitalization for the Company (*i.e.*, the implied market capitalization if the Company were a stand-alone, publicly traded entity). To do so, I first derived the common equity used to finance the Company's operations by multiplying the

[60]Michael Annin, *Equity and the Small-Stock Effect*, Public Utilities Fortnightly, October 15, 1995.

requested rate base of $3.35 billion[61] by the common equity ratio of 52.96 percent, which resulted in an implied common equity amount of $1.78 billion. I then applied the median market-to-book ratio for the proxy group to the Company's implied common equity balance, and arrived at an estimated market capitalization of $2.23 billion. That estimated market capitalization is approximately 79.28 percent of the median market capitalization for the proxy group and 28.94 percent of the mean market capitalization for the proxy group.

Q. How does the smaller size of OG&E affect its business risks relative to the proxy group?

A. In general, smaller companies are less able to withstand adverse events that affect their revenues and expenses. The impact of weather variability, the loss of large customers to bypass opportunities, or the destruction of demand as a result of general macroeconomic conditions or fuel price volatility will have a proportionately greater impact on the earnings and cash flow volatility of smaller utilities. Similarly, capital expenditures for non-revenue producing investments, such as system maintenance and replacements will put proportionately greater pressure on customer costs, potentially leading to customer attrition or demand reduction. Taken together, these risks affect the return required by investors for smaller companies.

[61] *See* Schedule B-2, Oklahoma Gas and Electric Company Pro Forma Rate Base-Oklahoma Jurisdiction Test Year Ending December 31, 2010, Cause No, PUD 201100087.

Q. Have you considered the smaller size of OG&E in your recommended Return on Equity?

A. While I have quantified the small size effect, rather than proposing a specific premium, I have considered the small size of OG&E in my assessment of business risks in order to determine where within a reasonable range of returns, OG&E's required ROE rightly falls.

Q. How did you approximate the size premium for a company, such as OG&E, which is smaller than the median of the proxy group?

A. In its Risk Premia over Time Report: 2010, Morningstar presents its calculation of the size premium for deciles of market capitalizations relative to the S&P 500 Index. As shown in Exhibit RBH-7, according to recent market data, the median market capitalization of the proxy group was approximately $2.81 billion, which corresponds to the 4th decile of Ibbotson market capitalization data. Based on the Morningstar analysis, that decile corresponds to a size premium of 1.20 percent (or 120 basis points).

OG&E's implied market capitalization of $2.23 billion falls within the 5th decile, which comprises market capitalization levels of $1.78 billion to $2.51 billion and corresponds to a size premium of 1.81 percent (or 181 basis points). The difference between those size premia is 61 basis points (1.81 percent – 1.20 percent).

D. Flotation Cost Adjustment

Q. What are flotation costs?

A. Flotation costs are the costs associated with the sale of new issues of common stock. These costs include out-of-pocket expenditures for preparation, filing, underwriting, and other costs of issuance of common stock.

Q. Why is it important to recognize flotation costs in the allowed Return on Equity?

A. In order to attract and retain new investors, a regulated utility must have the opportunity to earn a return that is both competitive and compensatory. To the extent that a company is denied the opportunity to recover prudently incurred flotation costs, actual returns will fall short of expected (or required) returns, thereby diminishing its ability to attract adequate capital on reasonable terms.

Q. Are flotation costs part of the utility's invested costs or part of the utility's expenses?

A. Yes. Flotation costs are part of the invested costs of the utility, which are properly reflected on the balance sheet of the utility under "paid in capital." They are not current expenses, and therefore, are not reflected on the income statement. Rather, like investments in rate base or the issuance costs of long-term debt, flotation costs are incurred over time. As a result, the great majority of a utility's flotation cost is incurred prior to the test year, but remain part of the cost structure that exists during the test year and beyond, and as such, should be recognized for ratemaking purposes. Therefore, this adjustment is appropriate even if no new issuances were planned in

the near future because failure to allow such an adjustment may deny the Company the opportunity to earn its required rate of return in the future.

Q. Is the need to consider flotation costs eliminated because the Company is a subsidiary of OGE Energy?

A. No. Although the Company is a wholly-owned subsidiary of OGE Energy, it is appropriate to consider flotation costs for two reasons. Wholly-owned subsidiaries receive equity capital from their parents and provide returns on that capital that roll up to the parent, which is designated to attract and raise capital based upon the returns of those subsidiaries. To deny recovery of issuance costs associated with the capital that is invested in the subsidiaries ultimately will penalize the investors that fund the utility operations and will inhibit the utility's ability to obtain new equity capital at a reasonable cost.

Q. Do the DCF and CAPM models already incorporate investor expectations of a return that compensates for flotation costs?

A. No. All the models used to estimate the appropriate ROE assume no "friction" or transaction costs, as these costs are not reflected in the market price (in the case of the DCF model) or risk premium (in the case of the CAPM). Therefore, it is appropriate to consider flotation costs in determining where within the range of reasonable returns the Company's return should fall.

Q. Is the need for a flotation cost adjustment recognized by the academic and financial communities?

A. Yes. Several economists have recognized that the flotation cost adjustment is made not to reflect current or future financing costs, but rather to compensate investors for costs incurred for all past issuances comprising the total equity portion of the Company's capitalization. An article in The Journal of Finance, for example, observed that:

> Under the conventional approach in other words, the flotation cost adjustment is not made to reflect current or future financing costs … it is made to compensate investors for costs incurred in preceding stock issues.[62]

The need to reimburse investors for equity issuance costs is justified by the academic and financial communities in the same spirit that investors are reimbursed for the costs of issuing debt. This treatment is consistent with the philosophy of a fair rate of return. According to Dr. Shannon Pratt:

> Flotation costs occur when new issues of stock or debt are sold to the public. The firm usually incurs several kinds of flotation or transaction costs, which reduce the actual proceeds received by the firm. Some of these are direct out-of-pocket outlays, such as fees paid to underwriters, legal expenses, and prospectus preparation costs. Because of this reduction in proceeds, the firm's required returns on these proceeds equate to a higher return to compensate for the additional costs. Flotation costs can be accounted for either by amortizing the cost, thus reducing the cash flow to discount, or by incorporating the cost into the cost of capital. Because flotation costs are not typically applied to operating cash flow, one must incorporate them into the cost of capital.[63]

[62] Patterson, Cleveland S., *Flotation Cost Allowance in Rate of Return Regulation: Comment*, The Journal of Finance, Vol. XXXVIII, No. 4, September 1983, at 1337.
[63] Pratt, Shannon P. , Cost of Capital Estimation and Applications, Second Edition, at 220-221.

Q. Is the need for a flotation cost adjustment recognized by other regulatory jurisdictions?

A. Yes. The need to recover the cost of issuing equity capital is recognized by a number of state regulatory commissions. For instance, the Minnesota Public Utility Commission has stated that:

> Issuance or flotation costs are not simply for use in years when the company is issuing common stock. They represent the difference between what the investors paid and the company received during public offerings, and, because there is no fixed life, as there is with a bond, they must be recovered through a return adjustment...[64]

Similarly, the South Carolina Public Service Commission noted that:

> [F]lotation costs are not an expense to be recovered during a particular period. Instead, they represent a difference in the amount of funds that investors have invested in the Company compared to the amount the Company actually receives.
>
> ***
>
> Accordingly, the Commission finds that the reliable, probative and substantial evidence on the record establishes that flotation adjustments are indeed appropriate in this case to reflect SCE&G's recent issuance of new equity and the fact that these costs are not otherwise recovered in setting rates.[65]

Q. How did you calculate the flotation cost recovery adjustment?

A. I modified the DCF calculation to provide a dividend yield that would reimburse investors for issuance costs. My flotation cost adjustment recognizes the costs of issuing equity that were incurred by the proxy group companies in their most recent two common equity issuances. Based on the issuance costs provided in Exhibit RBH-

[64]Minnesota Public Utilities Commission, Docket No. E-015/GR-94-001, November 22, 1994, at 56. *See, also*, Minnesota Public Utilities Commission, Docket No. E-017-GR-07-1178, August 1, 2008, at 57-58.
[65]Public Service Commission of South Carolina, Docket No. 2002-223-E-Order No. 2003-38, January 31, 2003, at 72-73.

8, an adjustment of 0.16 percent (*i.e.*, 16 basis points) reasonably represents flotation costs for the Company.

Q. Are you proposing to adjust your recommended ROE by 16 basis points to reflect the effect of flotation costs on the Company's ROE?

A. No, I am not. Rather, I have considered the effect of flotation costs, in addition to the Company's other business risks, in determining where its ROE falls within the range of results.

IX. RIDERS AND ADJUSTMENT CLAUSES

Q. Are you aware that the Company employs cost recovery riders that allow for the collection of revenue for various projects and programs approved by the OCC?

A. Yes, I am. The Company has in place riders for fuel cost adjustments, storm cost recovery, energy efficiency programs, wind facilities, specifically OU Spirit and Crossroads, and vegetation management.

Q. Have you considered the effect of these cost recovery riders on the Cost of Equity?

A. Yes, I have. In my view, the relevant analytical issue is not whether the Company's revenues may be less volatile as a result of cost recovery mechanisms than it would be in the absence of such a structure, nor is it whether certain elements of regulatory risk may be mitigated or deferred in an absolute sense. Rather, the relevant issue is whether current, or future, mechanisms proposed by OG&E render it so much less

risky relative to the proxy companies in the long run that investors knowingly and meaningfully reduce their return requirements as a specific result of the proposal. A necessary first step in making that determination is to review the rate structures currently in place, and expected to be implemented by OGE and at the proxy companies. To do so, I compared the Company's overall rate structure, with the rate structures in place at the proxy companies.

Q. Please summarize the findings of that review.

A. Exhibit RBH-9 summarizes the proxy companies' rate structures. As shown in that exhibit, some of the proxy group companies have implemented more comprehensive adjustment mechanisms than the Company's proposed riders. In addition, each of the proxy group companies have cost recovery mechanisms for capital replacement programs or other cost trackers for exogenous expenses that provide for revenue stabilization that is similar to the effect of OG&E's proposed riders.

Q. What do these findings suggest about the risk of OG&E relative to the proxy group?

A. Many of the proxy group companies have implemented some form of revenue stabilization or tracking mechanisms in several jurisdictions. While some of OG&E's specific riders may serve to stabilize a different component of the revenue requirement than the rate treatments implemented by the proxy group companies, the effect of these mechanisms is similar to the rate mechanisms in place at the proxy

companies. Consequently, OG&E's riders do not render the Company less risky than the proxy group.

Q. What are your conclusions with regarding the effect of OG&E's riders on the Company's Cost of Equity?

A. I do not believe that it is appropriate to adjust the Company's ROE for any reduction in risk related to cost recovery riders. As discussed above, when viewed in total, the proxy companies' rate mechanisms offer similar levels of risk mitigation as the mechanisms that have been implemented by the Company.

X. CONCLUSIONS AND RECOMMENDATION

Q. Please briefly summarize your conclusion regarding your recommended ROE.

A. I believe that a rate of return on common equity in the range of 10.75 percent to 11.50 percent represents the range of equity investors' required rate of return for investment in integrated electric utilities in today's capital markets. Within that range, I recommend an ROE of 11.00 percent. My recommended ROE, which is above the midpoint of the range of results presented in Table 9 (below), considers the Company's risk profile relative to the proxy group analytical results with respect to: (1) the level of coal-fired generation owned and operated by the Company and the associated risk of retirement and costly capital improvements; (2) the incremental risks associated with the Company's need to fund substantial capital expenditures; (3) the Company's relatively small size; and (4) flotation costs associated with equity issuances. Based on those factors, it is appropriate to establish an ROE that is above

the proxy group mean results. As such, a rate of return on common equity of 11.00 percent reasonably represents the return required to invest in a company with a risk profile comparable to OG&E. Table 9 summarizes my analytical results.

Table 9: Summary of Analytical Results

	Mean Low Results	**Mean Results**	**Mean High Results**
DCF Results			
30-day Average Stock Price	9.43%	10.38%	11.35%
90-day Average Stock Price	9.46%	10.41%	11.38%
180-day Average Stock Price	9.54%	10.49%	11.47%
CAPM Results			
	Eighteen-month Beta coefficient		
	Sharpe Ratio Derived MRP	*DCF Derived MRP*	
30-day Average 30 Year Treasury Yield	10.13%	11.03%	
Near Term Forecast 30 Year Treasury Yield	10.67%	11.58%	
	Average Bloomberg and Value Line Beta coefficient		
	Sharpe Ratio Derived MRP	*DCF Derived MRP*	
30-day Average 30 Year Treasury Yield	9.73%	10.57%	
Near Term Forecast 30 Year Treasury Yield	10.27%	11.11%	
Bond Yield Plus Risk Premium Analysis			
	Low	*Mid*	*High*
Risk Premium	10.50%	10.78%	11.06%
Flotation Cost Adjustment			
Flotation Cost Adjustment		0.16%	

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Robert B. Hevert, CFA
President

Mr. Hevert is an economic and financial consultant with broad experience in the energy industry. He has an extensive background in the areas of corporate strategic planning, energy market assessment, corporate finance, mergers, and acquisitions, asset-based transactions, asset and business unit valuation, market entry strategies, strategic alliances, project development, feasibility and due diligence analyses. Mr. Hevert has significant management experience with both operating and professional services companies.

REPRESENTATIVE PROJECT EXPERIENCE

Financial and Economic Advisory Services

Retained by numerous leading energy companies and financial institutions throughout North America to provide services relating to the strategic evaluation, acquisition, sale or development of a variety of regulated and non-regulated enterprises. Specific services have included: developing strategic and financial analyses and managing multi-faceted due diligence reviews of proposed corporate M&A counter-parties; developing, screening and recommending potential M&A transactions and facilitating discussions between senior utility executives regarding transaction strategy and structure; performing valuation analyses and financial due diligence reviews of electric generation projects, retail marketing companies, and wholesale trading entities in support of significant M&A transactions.

Specific divestiture-related services have included advising both buy and sell-side clients in transactions for physical and contractual electric generation resources. Sell-side services have included: development and implementation of key aspects of asset divestiture programs such as marketing, offering memorandum development, development of transaction terms and conditions, bid process management, bid evaluation, negations, and regulatory approval process. Buy-side services have included comprehensive asset screening, selection, valuation and due diligence reviews. Both buy and sell-side services have included the use of sophisticated asset valuation techniques, and the development and delivery of fairness opinions.

Specific corporate finance experience while a Vice President with Bay State Gas included: negotiation, placement and closing of both private and public long-term debt, preferred and common equity; structured and project financing; corporate cash management; financial analysis, planning and forecasting; and various aspects of investor relations.

Representative non-confidential clients have included:

- Conectiv generation asset divestiture
- Eastern Utilities Associates (prior to acquisition by National Grid, PLC) generation asset divestiture
- Niagara Mohawk – sale of Niagara Mohawk Energy
- Potomac Electric Company generation asset divestiture

Representative confidential engagements have included:

- Buy-side valuation and assessment of merchant generation assets in Midwestern U.S.
- Buy-side due diligence and valuation of wholesale energy marketing companies in Eastern and Midwestern U.S.
- Buy-side due diligence of natural gas distribution assets in Northeastern U.S.
- Financial feasibility study of natural gas pipeline in upper Midwestern U.S.

- Financial valuation of natural gas pipeline in Southwestern U.S.

Regulatory Analysis and Ratemaking

On behalf of electric, natural gas and combination utilities throughout North America, provided services relating to energy industry restructuring including merchant function exit, residual energy supply obligations, and stranded cost assessment and recovery. Also performed rate of return and cost of service analyses for municipally owned gas and electric utilities. Specific services provided include: performing strategic review and development of merchant function exit strategies including analysis of provider of last resort obligations in both electric and gas markets; and developing value optimizing strategies for physical generation assets.

Representative engagements have included:

- Performing rate of return analyses for use in cost of service analyses on behalf of municipally owned gas and electric utilities in the Southeastern and Midwestern U.S.
- Developing merchant function exit strategies for Northeastern U.S. natural gas distribution companies
- Developing regulatory and ratemaking strategy for mergers including several Northeastern natural gas distribution companies

Litigation Support and Expert Testimony

Provided expert testimony and support of litigation in various regulatory proceedings on a variety of energy and economic issues including the proposed transfer of power purchase agreements, procurement of residual service electric supply, the legal separation of generation assets, and specific financing transactions. Services provided also included collaborating with counsel, business and technical staff to develop litigation strategies, preparing and reviewing discovery and briefing materials, preparing presentation materials and participating in technical sessions with regulators and intervenors.

Energy Market Assessment

Retained by numerous leading energy companies and financial institutions nationwide to manage or provide assessments of regional energy markets throughout the U.S. and Canada. Such assessments have included development of electric and natural gas price forecasts, analysis of generation project entry and exit scenarios, assessment of natural gas and electric transmission infrastructure, market structure and regulatory situation analysis, and assessment of competitive position. Market assessment engagements typically have been used as integral elements of business unit or asset-specific strategic plans or valuation analyses.

Representative engagements have included:

- Managing assessments of the NYPOOL, NEPOOL and PJM markets for major North American energy companies considering entering or expanding their presence in those markets
- Assessment of ECAR, MAPP, MAIN and SPP markets for a large U.S. integrated utility considering acquisition of additional electric generation assets
- Assessment of natural gas pipeline and storage capacity in the SERC and FRCC markets for a major international energy company

Resource Procurement, Contracting and Analysis

Assisted various clients in evaluating alternatives for acquiring fuel and power supplies, including the development and negotiation of energy contracts and tolling agreements. Assignments also have included developing generation resource optimization strategies. Provided advice and analyses of transition service power supply contracts in the context of both physical and contractual generation resource divestiture transactions.

Business Strategy and Operations

Retained by numerous leading North American energy companies and financial institutions nationwide to provide services relating to the development of strategic plans and planning processes for both regulated and non-regulated enterprises. Specific services provided include: developing and implementing electric generation strategies and business process redesign initiatives; developing market entry strategies for retail and wholesale businesses including assessment of asset-based marketing and trading strategies; and facilitating executive level strategic planning retreats. As Vice President, Energy Ventures, of Bay State was responsible for the company's strategic planning and business development processes, played an integral role in developing the company's non-regulated marketing affiliate, EnergyUSA, and managed the company's non-regulated investments, partnerships and strategic alliances.

Representative engagements have included:

- Developing and facilitating executive level strategic planning retreats for Northeastern natural gas distribution companies
- Developing organization and business process redesign plans for municipally owned gas/electric/water utility in the Southeastern U.S.
- Reviewing and revising corporate merchant generation business plans for Canadian and U.S. integrated utilities
- Advising client personnel in development of business unit level strategic plans for various natural gas distribution companies

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2002 – Present)
President

Navigant Consulting, Inc. (1997 – 2001)
Managing Director (2000 – 2001)
Director (1998 – 2000)
Vice President, REED Consulting Group (1997 – 1998)

REED Consulting Group (1997)
Vice President

Bay State Gas Company (1987 – 1997)
Vice President, Energy Ventures and Assistant Treasurer

Boston College (1986 – 1987)
Financial Analyst

General Telephone Company of the South (1984 – 1986)
Revenue Requirements Analyst

EDUCATION

M.B.A., University of Massachusetts at Amherst, 1984
B.S., University of Delaware, 1982

DESIGNATIONS AND PROFESSIONAL AFFILIATIONS

Chartered Financial Analyst, 1991
Association for Investment Management and Research
Boston Security Analyst Society

PUBLICATIONS/PRESENTATIONS

Has made numerous presentations throughout the United States and Canada on several topics, including:

- Generation Asset Valuation and the Use of Real Options
- Retail and Wholesale Market Entry Strategies
- The Use Strategic Alliances in Restructured Energy Markets
- Gas Supply and Pipeline Infrastructure in the Northeast Energy Markets
- Nuclear Asset Valuation and the Divestiture Process

AVAILABLE UPON REQUEST

Extensive client and project listings, and specific references.

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Arizona Corporation Commission				
Southwest Gas Corporation	11/10	Southwest Gas Corporation	Docket No. G-01551A-10-0458	Return on Equity
Arkansas Public Service Commission				
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Arkansas Gas	01/07	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Arkansas Gas	Docket No. 06-161-U	Return on Equity
Colorado Public Utilities Commission				
Xcel Energy, Inc.	12/10	Public Service Company of Colorado	Docket No. 10AL-963G	Return on Equity (electric)
Atmos Energy Corporation	07/09	Atmos Energy Colorado-Kansas Division	Docket No. 09AL-507G	Return on Equity (gas)
Xcel Energy, Inc.	12/06	Public Service Company of Colorado	Docket No. 06S-656G	Return on Equity (gas)
Xcel Energy, Inc.	04/06	Public Service Company of Colorado	Docket No. 06S-234EG	Return on Equity (electric)
Xcel Energy, Inc.	08/05	Public Service Company of Colorado	Docket No. 05S-369ST	Return on Equity (steam)
Xcel Energy, Inc.	05/05	Public Service Company of Colorado	Docket No. 05S-264G	Return on Equity (gas)
Columbia Public Service Commission				
Potomac Electric Power Company	07/11	Potomac Electric Power Company	Formal Case No. FC1087	Return on Equity
Connecticut Department of Public Utility Control				
Southern Connecticut Gas Company	09/08	Southern Connecticut Gas Company	Docket No. 08-08-17	Return on Equity
Southern Connecticut Gas Company	12/07	Southern Connecticut Gas Company	Docket No. 05-03-17PH02	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Connecticut Natural Gas Corporation	12/07	Connecticut Natural Gas Corporation	Docket No. 06-03-04PH02	Return on Equity
Federal Energy Regulatory Commission				
Public Service Company of New Mexico	10/10	Public Service Company of New Mexico	Docket No. ER11-1915-000	Return on Equity
Portland Natural Gas Transmission System	05/10	Portland Natural Gas Transmission System	Docket No. RP10-729-000	Return on Equity
Florida Gas Transmission Company, LLC	10/09	Florida Gas Transmission Company, LLC	Docket No. RP10-21-000	Return on Equity
Maritimes and Northeast Pipeline, LLC	07/09	Maritimes and Northeast Pipeline, LLC	Docket No. RP09-809-000	Return on Equity
Spectra Energy	02/08	Saltville Gas Storage	Docket No. RP08-257-000	Return on Equity
Panhandle Energy Pipelines	08/07	Panhandle Energy Pipelines	Docket No. PL07-2-000	Response to draft policy statement regarding inclusion of MLPs in proxy groups for determination of gas pipeline ROEs
Southwest Gas Storage Company	08/07	Southwest Gas Storage Company	Docket No. RP07-541-000	Return on Equity
Southwest Gas Storage Company	06/07	Southwest Gas Storage Company	Docket No. RP07-34-000	Return on Equity
Sea Robin Pipeline LLC	06/07	Sea Robin Pipeline LLC	Docket No. RP07-513-000	Return on Equity
Transwestern Pipeline Company	09/06	Transwestern Pipeline Company	Docket No. RP06-614-000	Return on Equity
GPU International and Aquila	11/00	GPU International	Docket No. EC01-24-000	Market Power Study
Georgia Public Service Commission				
Atlanta Gas Light Company	05/10	Atlanta Gas Light Company	Docket No. 31647-U	Return on Equity
Illinois Commerce Commission				
Ameren Illinois Company d/b/a Ameren Illinois	02/11	Ameren Illinois Company d/b/a Ameren Illinois	Docket No. 11-0279	Return on Equity (electric)

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Ameren Illinois Company d/b/a Ameren Illinois	02/11	Ameren Illinois Company d/b/a Ameren Illinois	Docket No. 11-0282	Return on Equity (gas)
Maine Public Utilities Commission				
Central Maine Power Company	06/11	Central Maine Power Company	Docket No. 2010-327	Response to Bench Analysis provided by Commission Staff relating to the Company's credit and collections processes
Maryland Public Service Commission				
Delmarva Power & Light Company	12/10	Delmarva Power & Light	Case No. 9249	Return on Equity
Massachusetts Department of Public Utilities				
National Grid	08/09	Massachusetts Electric Company d/b/a National Grid	DPU 09-39	Revenue Decoupling and Return on Equity
National Grid	08/09	Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid	DPU 09-38	Return on Equity – Solar Generation
Bay State Gas Company	04/09	Bay State Gas Company	DTE 09-30	Return on Equity
NSTAR Electric	09/04	NSTAR Electric	DTE 04-85	Divestiture of Power Purchase Agreement
NSTAR Electric	08/04	NSTAR Electric	DTE 04-78	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	DTE 04-68	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	DTE 04-61	Divestiture of Power Purchase Agreement
NSTAR Electric	06/04	NSTAR Electric	DTE 04-60	Divestiture of Power Purchase Agreement

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Unitil Corporation	01/04	Fitchburg Gas and Electric	DTE 03-52	Integrated Resource Plan; Gas Demand Forecast
Minnesota Public Utilities Commission				
Otter Tail Power Corporation	04/10	Otter Tail Power Company	Docket No. E-017/GR-10-239	Return on Equity
Minnesota Power a division of ALLETE, Inc.	11/09	Minnesota Power	Docket No. E-015/GR-09-1151	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas	11/08	CenterPoint Energy Minnesota Gas	Docket No. G-008/GR-08-1075	Return on Equity
Otter Tail Power Corporation	10/07	Otter Tail Power Company	Docket No. E-017/GR-07-1178	Return on Equity
Xcel Energy, Inc.	11/05	NSP-Minnesota	Docket No. E-002/GR-05-1428	Return on Equity (electric)
Xcel Energy, Inc.	09/04	NSP Minnesota	Docket No. G-002/GR-04-1511	Cost of Capital (gas)
Mississippi Public Service Commission				
CenterPoint Energy Resources, Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Mississippi Gas	07/09	CenterPoint Energy Mississippi Gas	Docket No. 09-UN-334	Return on Equity
Missouri Public Service Commission				
Union Electric Company d/b/a AmerenUE	09/10	Union Electric Company d/b/a AmerenUE	Case No. ER-2011-0028	Return on Equity (electric)
Union Electric Company d/b/a AmerenUE	06/10	Union Electric Company d/b/a AmerenUE	Case No. GR-2010-0363	Return on Equity (gas)
Nevada Public Utilities Commission				
Nevada Power Company	06/11	Nevada Power Company	Docket No. 11-06006	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
New Hampshire Public Utilities Commission				
EnergyNorth Natural Gas d/b/a National Grid NH	02/10	EnergyNorth Natural Gas d/b/a National Grid NH	Docket No. DG 10-017	Return on Equity
Unitil Energy Systems, Inc. ("Unitil"), EnergyNorth Natural Gas, Inc. d/b/a National Grid NH, Granite State Electric Company d/b/a National Grid, and Northern Utilities, Inc. – New Hampshire Division	08/08	Unitil Energy Systems, Inc. ("Unitil"), EnergyNorth Natural Gas, Inc. d/b/a National Grid NH, Granite State Electric Company d/b/a National Grid, and Northern Utilities, Inc. – New Hampshire Division	Docket No. DG 07-072	Carrying Charge Rate on Cash Working Capital
New Jersey Board of Public Utilities				
Pepco Holdings, Inc.	09/06	Atlantic City Electric Company	Docket No. EMO6090638	Divestiture and Valuation of Electric Generating Assets
Pepco Holdings, Inc.	12/05	Atlantic City Electric Company	Docket No. EM05121058	Market Value of Electric Generation Assets; Auction
Conectiv	06/03	Atlantic City Electric Company	Docket No. EO03020091	Market Value of Electric Generation Assets; Auction Process
New Mexico Public Regulation Commission				
Southwestern Public Service Company	02/11	Southwestern Public Service Company	Case No. 10-00395-UT	Return on Equity (electric)
Public Service Company of New Mexico	06/10	Public Service Company of New Mexico	Case No. 10-00086-UT	Return on Equity (electric)
Public Service Company of New Mexico	09/08	Public Service Company of New Mexico	Case No. 08-00273-UT	Return on Equity (electric)
Xcel Energy, Inc.	07/07	Southwestern Public Service Company	Case No. 07-00319-UT	Return on Equity (electric)

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
New York State Public Service Commission				
Orange and Rockland Utilities, Inc.	07/10	Orange and Rockland Utilities, Inc.	Case No. 10-E-0362	Return on Equity (electric)
Consolidated Edison Company of New York, Inc.	11/09	Consolidated Edison Company of New York, Inc.	Case No. 09-G-0795	Return on Equity (gas)
Consolidated Edison Company of New York, Inc.	11/09	Consolidated Edison Company of New York, Inc.	Case No. 09-S-0794	Return on Equity (steam)
Niagara Mohawk Power Corporation	07/01	Niagara Mohawk Power Corporation	Case No. 01-E-1046	Power Purchase and Sale Agreement; Standard Offer Service Agreement
North Carolina Utilities Commission				
Duke Energy Carolinas, LLC	07/11	Duke Energy Carolinas, LLC	Docket No. E-7, Sub 989	Return on Equity (electric)
North Dakota Public Service Commission				
Otter Tail Power Company	11/08	Otter Tail Power Company	Docket No. 08-862	Return on Equity (electric)
Oklahoma Corporation Commission				
CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Oklahoma Gas	03/09	CenterPoint Energy Oklahoma Gas	Docket No. PUD200900055	Return on Equity
Rhode Island Public Utilities Commission				
National Grid RI – Gas	08/08	National Grid RI – Gas	Docket No. 3943	Revenue Decoupling and Return on Equity
South Carolina Public Service Commission				
South Carolina Electric & Gas	03/10	South Carolina Electric & Gas	Docket No. 2009-489-E	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
South Dakota Public Utilities Commission				
Otter Tail Power Company	08/10	Otter Tail Power Company	Docket No. EL10-011	Return on Equity (electric)
Northern States Power Company	06/09	South Dakota Division of Northern States Power	Docket No. EL09-009	Return on Equity (electric)
Otter Tail Power Company	10/08	Otter Tail Power Company	Docket No. EL08-030	Return on Equity (electric)
Texas Public Utility Commission				
Oncor Electric Delivery Company, LLC	01/11	Oncor Electric Delivery Company, LLC	Docket No. 38929	Return on Equity
Texas-New Mexico Power Company	08/10	Texas-New Mexico Power Company	Docket No. 38480	Return on Equity (electric)
CenterPoint Energy Houston Electric LLC	07/10	CenterPoint Energy Houston Electric LLC	Docket No. 38339	Return on Equity
Xcel Energy, Inc.	05/10	Southwestern Public Service Company	Docket No. 38147	Return on Equity (electric)
Texas-New Mexico Power Company	08/08	Texas-New Mexico Power Company	Docket No. 36025	Return on Equity (electric)
Xcel Energy, Inc.	05/06	Southwestern Public Service Company	Docket No. 32766	Return on Equity (electric)
Texas Railroad Commission				
Centerpoint Energy Resources Corp. d/b/a Centerpoint Energy Entex and Centerpoint Energy Texas Gas	12/10	Centerpoint Energy Resources Corp. d/b/a Centerpoint Energy Entex and Centerpoint Energy Texas Gas	GUD 10038	Return on Equity
Atmos Pipeline - Texas	09/10	Atmos Pipeline - Texas	GUD 10000	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas	07/09	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas	GUD 9902	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Texas Gas	03/08	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Texas Gas	GUD 9791	Return on Equity
Utah Public Service Commission				
Questar Gas Company	12/07	Questar Gas Company	Docket No. 07-057-13	Return on Equity
Vermont Public Service Board				
Central Vermont Public Service Corporation	12/10	Central Vermont Public Service Corporation	Docket No. 7627	Return on Equity (electric)
Green Mountain Power	04/06	Green Mountain Power	Docket Nos. 7175 and 7176	Return on Equity (electric)
Vermont Gas Systems, Inc.	12/05	Vermont Gas Systems	Docket Nos. 7109 and 7160	Return on Equity (gas)
Virginia State Corporation Commission				
Columbia Gas Of Virginia, Inc.	06/06	Columbia Gas Of Virginia, Inc.	Case No. PUE-2005-00098	Merger Synergies
Dominion Resources	10/01	Virginia Electric and Power Company	Case No. PUE000584	Corporate Structure and Electric Generation Strategy

30-DAY CONSTANT GROWTH DCF

Company	Ticker	[1] Annualized Dividend	[2] Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] First Call Earnings Growth	[6] Zacks Earnings Growth	[7] Value Line Earnings Growth	[8] Average Earnings Growth	[9] Low ROE	[10] Mean ROE	[11] High ROE
American Electric Power Company, Inc.	AEP	$1.84	$37.76	4.87%	4.97%	3.65%	4.00%	4.50%	4.05%	8.61%	9.02%	9.48%
Cleco Corp.	CNL	$1.12	$34.42	3.25%	3.34%	3.00%	7.00%	6.00%	5.33%	6.30%	8.67%	10.37%
Empire District Electric Company	EDE	$1.28	$19.63	6.52%	6.73%	6.00%	n/a	7.00%	6.50%	12.72%	13.23%	13.75%
Great Plains Energy Inc.	GXP	$0.83	$20.69	4.01%	4.16%	7.50%	9.00%	6.00%	7.50%	10.13%	11.66%	13.19%
IDACORP, Inc.	IDA	$1.20	$38.81	3.09%	3.16%	4.67%	4.70%	4.00%	4.46%	7.15%	7.62%	7.86%
Pinnacle West Capital Corp.	PNW	$2.10	$44.16	4.76%	4.89%	6.38%	5.00%	6.00%	5.79%	9.87%	10.69%	11.29%
Portland General Electric Company	POR	$1.06	$25.35	4.18%	4.30%	4.65%	5.00%	7.50%	5.72%	8.93%	10.02%	11.84%
Southern Company	SO	$1.89	$39.80	4.75%	4.88%	5.51%	5.00%	6.00%	5.50%	9.87%	10.38%	10.89%
Westar Energy, Inc.	WR	$1.28	$26.66	4.80%	4.97%	6.57%	6.30%	8.50%	7.12%	11.25%	12.10%	13.51%
Mean				4.47%	4.60%	5.33%	5.75%	6.17%	5.78%	9.43%	10.38%	11.35%

Notes:

[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional, equals 30-day average as of June 30, 2011
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [8])
[5] Source: Yahoo! Finance
[6] Source: Zacks
[7] Source: Value Line
[8] Equals Average([5], [6], [7])
[9] Equals [3] x (1 + 0.5 x Minimum([5], [6], [7])) + Minimum([5], [6], [7])
[10] Equals [4] + [8]
[11] Equals [3] x (1 + 0.5 x Maximum([5], [6], [7])) + Maximum([5], [6], [7])

90-DAY CONSTANT GROWTH DCF

Company	Ticker	[1] Annualized Dividend	[2] Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] First Call Earnings Growth	[6] Zacks Earnings Growth	[7] Value Line Earnings Growth	[8] Average Earnings Growth	[9] Low ROE	[10] Mean ROE	[11] High ROE
American Electric Power Company, Inc.	AEP	$1.84	$36.38	5.06%	5.16%	3.65%	4.00%	4.50%	4.05%	8.80%	9.21%	9.67%
Cleco Corp.	CNL	$1.12	$34.15	3.28%	3.37%	3.00%	7.00%	6.00%	5.33%	6.33%	8.70%	10.39%
Empire District Electric Company	EDE	$1.28	$21.08	6.07%	6.27%	6.00%	n/a	7.00%	6.50%	12.25%	12.77%	13.28%
Great Plains Energy Inc.	GXP	$0.83	$20.22	4.10%	4.26%	7.50%	9.00%	6.00%	7.50%	10.23%	11.76%	13.29%
IDACORP, Inc.	IDA	$1.20	$38.40	3.13%	3.19%	4.67%	4.70%	4.00%	4.46%	7.19%	7.65%	7.90%
Pinnacle West Capital Corp.	PNW	$2.10	$43.44	4.83%	4.97%	6.38%	5.00%	6.00%	5.79%	9.96%	10.77%	11.37%
Portland General Electric Company	POR	$1.06	$24.50	4.33%	4.45%	4.65%	5.00%	7.50%	5.72%	9.08%	10.17%	11.99%
Southern Company	SO	$1.89	$38.88	4.86%	5.00%	5.51%	5.00%	6.00%	5.50%	9.98%	10.50%	11.01%
Westar Energy, Inc.	WR	$1.28	$26.49	4.83%	5.00%	6.57%	6.30%	8.50%	7.12%	11.28%	12.13%	13.54%
Mean				4.50%	4.63%	5.33%	5.75%	6.17%	5.78%	9.46%	10.41%	11.38%

Notes:

[1] Source: Bloomberg Professional

[2] Source: Bloomberg Professional, equals 90-day average as of June 30, 2011
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [8])
[5] Source: Yahoo! Finance
[6] Source: Zacks
[7] Source: Value Line
[8] Equals Average([5], [6], [7])
[9] Equals [3] x (1 + 0.5 x Minimum([5], [6], [7])) + Minimum([5], [6], [7])
[10] Equals [4] + [8]
[11] Equals [3] x (1 + 0.5 x Maximum([5], [6], [7])) + Maximum([5], [6], [7])

180-DAY CONSTANT GROWTH DCF

Company	Ticker	[1] Annualized Dividend	[2] Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] First Call Earnings Growth	[6] Zacks Earnings Growth	[7] Value Line Earnings Growth	[8] Average Earnings Growth	[9] Low ROE	[10] Mean ROE	[11] High ROE
American Electric Power Company, Inc.	AEP	$1.84	$36.27	5.07%	5.18%	3.65%	4.00%	4.50%	4.05%	8.82%	9.23%	9.69%
Cleco Corp.	CNL	$1.12	$32.61	3.43%	3.53%	3.00%	7.00%	6.00%	5.33%	6.49%	8.86%	10.55%
Empire District Electric Company	EDE	$1.28	$21.37	5.99%	6.18%	6.00%	n/a	7.00%	6.50%	12.17%	12.68%	13.20%
Great Plains Energy Inc.	GXP	$0.83	$19.80	4.19%	4.35%	7.50%	9.00%	6.00%	7.50%	10.32%	11.85%	13.38%
IDACORP, Inc.	IDA	$1.20	$37.82	3.17%	3.24%	4.67%	4.70%	4.00%	4.46%	7.24%	7.70%	7.95%
Pinnacle West Capital Corp.	PNW	$2.10	$42.42	4.95%	5.09%	6.38%	5.00%	6.00%	5.79%	10.07%	10.89%	11.49%
Portland General Electric Company	POR	$1.06	$23.14	4.58%	4.71%	4.65%	5.00%	7.50%	5.72%	9.34%	10.43%	12.25%
Southern Company	SO	$1.89	$38.45	4.92%	5.05%	5.51%	5.00%	6.00%	5.50%	10.04%	10.55%	11.06%
Westar Energy, Inc.	WR	$1.28	$25.94	4.93%	5.11%	6.57%	6.30%	8.50%	7.12%	11.39%	12.23%	13.64%
Mean				4.58%	4.72%	5.33%	5.75%	6.17%	5.78%	9.54%	10.49%	11.47%

Notes:

[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional, equals 180-day average as of June 30, 2011
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [8])
[5] Source: Yahoo! Finance
[6] Source: Zacks
[7] Source: Value Line
[8] Equals Average([5], [6], [7])
[9] Equals [3] x (1 + 0.5 x Minimum([5], [6], [7])) + Minimum([5], [6], [7])
[10] Equals [4] + [8]
[11] Equals [3] x (1 + 0.5 x Maximum([5], [6], [7])) + Maximum([5], [6], [7])

AVERAGE HISTORICAL BETAS
BLOOMBERG AND VALUE LINE
AS OF JUNE 30, 2011

		[1] Bloomberg	[2] Value Line
American Electric Power Company, Inc.	AEP	0.81	0.70
Cleco Corp.	CNL	0.80	0.65
Empire District Electric Company	EDE	0.68	0.70
Great Plains Energy Inc.	GXP	0.84	0.75
IDACORP, Inc.	IDA	0.87	0.70
Pinnacle West Capital Corp.	PNW	0.86	0.70
Portland General Electric Company	POR	0.78	0.75
Southern Company	SO	0.62	0.55
Westar Energy, Inc.	WR	0.86	0.75
Average		0.79	0.69
Overall Average		0.742	

Notes:
[1] Source: Bloomberg Professional; as of June 24, 2011
[2] Source: Value Line; dated May 6, 2011, May 27, 2011, and June 24, 2011

EIGHTEEN-MONTH BETA CALCULATION

	AEP		CNL		EDE		GXP		IDA		PNW	
Date	Price	Return	Price	Return	Price	Return	Price	Return	Price	Return	Price	Return
6/24/2011	37.10	-1.43%	34.36	0.23%	18.61	-1.64%	20.49	-1.68%	38.92	0.57%	43.72	-0.30%
6/17/2011	37.64	1.40%	34.28	1.24%	18.92	0.48%	20.84	2.56%	38.70	1.52%	43.85	1.65%
6/10/2011	37.12	-1.04%	33.86	-0.79%	18.83	-2.28%	20.32	-1.50%	38.12	-2.21%	43.14	-1.21%
6/3/2011	37.51	-2.11%	34.13	-1.24%	19.27	2.94%	20.63	-1.24%	38.98	-0.08%	43.67	-2.93%
5/27/2011	38.32	-0.60%	34.56	-0.75%	18.72	-18.86%	20.89	-0.38%	39.01	-0.56%	44.99	-0.86%
5/20/2011	38.55	2.58%	34.82	-0.37%	23.07	0.22%	20.97	-0.38%	39.23	-1.18%	45.38	0.38%
5/13/2011	37.58	3.44%	34.95	0.20%	23.02	2.13%	21.05	1.49%	39.70	1.28%	45.21	2.40%
5/6/2011	36.33	-0.41%	34.88	-0.63%	22.54	0.45%	20.74	0.78%	39.20	-0.03%	44.15	1.75%
4/29/2011	36.48	2.79%	35.10	0.95%	22.44	3.22%	20.58	3.05%	39.21	2.64%	43.39	1.71%
4/22/2011	35.49	0.08%	34.77	0.49%	21.74	0.00%	19.97	-0.50%	38.20	-1.04%	42.66	-0.70%
4/15/2011	35.46	0.42%	34.60	-1.20%	21.74	0.14%	20.07	-2.24%	38.60	-0.54%	42.96	-0.14%
4/8/2011	35.31	-0.59%	35.02	0.66%	21.71	-0.91%	20.53	0.88%	38.81	0.96%	43.02	-0.60%
4/1/2011	35.52	2.33%	34.79	3.70%	21.91	2.72%	20.35	3.83%	38.44	3.36%	43.28	2.68%
3/25/2011	34.71	2.66%	33.55	2.91%	21.33	2.11%	19.60	3.21%	37.19	0.92%	42.15	1.79%
3/18/2011	33.81	-5.59%	32.60	-1.42%	20.89	-2.43%	18.99	-2.57%	36.85	-1.15%	41.41	-4.94%
3/11/2011	35.81	1.36%	33.07	0.46%	21.41	0.66%	19.49	1.35%	37.28	-0.88%	43.56	0.53%
3/4/2011	35.33	0.14%	32.92	2.68%	21.27	-1.30%	19.23	0.31%	37.61	-0.27%	43.33	3.86%
2/25/2011	35.28	-1.34%	32.06	0.98%	21.55	-1.15%	19.17	-2.79%	37.71	-1.23%	41.72	-0.38%
2/18/2011	35.76	-0.28%	31.75	0.38%	21.80	0.51%	19.72	-1.30%	38.18	-0.44%	41.88	-0.14%
2/11/2011	35.86	0.67%	31.63	1.44%	21.69	0.84%	19.98	1.47%	38.35	1.37%	41.94	2.19%
2/4/2011	35.62	-0.67%	31.18	-0.42%	21.51	-0.05%	19.69	-0.10%	37.83	0.34%	41.04	0.24%
1/28/2011	35.86	-1.59%	31.31	0.97%	21.52	-0.14%	19.71	-0.25%	37.70	-0.71%	40.94	-1.68%
1/21/2011	36.44	2.79%	31.01	-1.56%	21.55	-0.28%	19.76	-0.05%	37.97	0.21%	41.64	0.29%
1/14/2011	35.45	-1.53%	31.50	1.74%	21.61	-1.68%	19.77	1.65%	37.89	1.80%	41.52	-0.17%
1/7/2011	36.00	0.06%	30.96	0.65%	21.98	-0.99%	19.45	0.31%	37.22	0.65%	41.59	0.34%
12/31/2010	35.98	0.17%	30.76	-0.84%	22.20	0.14%	19.39	-0.67%	36.98	-1.41%	41.45	-0.86%
12/24/2010	35.92	-0.19%	31.02	-0.19%	22.17	0.82%	19.52	1.04%	37.51	-0.21%	41.81	0.72%
12/17/2010	35.99	0.98%	31.08	2.24%	21.99	1.62%	19.32	0.26%	37.59	0.24%	41.51	1.59%
12/10/2010	35.64	-0.97%	30.40	-0.72%	21.64	0.14%	19.27	-0.26%	37.50	0.43%	40.86	-0.34%
12/3/2010	35.99	0.39%	30.62	-0.33%	21.61	-2.35%	19.32	1.95%	37.34	2.84%	41.00	1.16%
11/26/2010	35.85	0.28%	30.72	0.29%	22.13	1.61%	18.95	1.83%	36.31	1.14%	40.53	-0.88%
11/19/2010	35.75	-2.11%	30.63	-0.20%	21.78	-1.49%	18.61	-1.06%	35.90	-1.21%	40.89	-0.05%
11/12/2010	36.52	-3.13%	30.69	-3.22%	22.11	0.41%	18.81	-3.09%	36.34	-2.47%	40.91	-2.92%
11/5/2010	37.70	0.69%	31.71	1.41%	22.02	4.66%	19.41	2.00%	37.26	1.25%	42.14	2.38%
10/29/2010	37.44	2.02%	31.27	1.20%	21.04	1.64%	19.03	1.55%	36.80	0.33%	41.16	-2.42%
10/22/2010	36.70	2.11%	30.90	0.32%	20.70	0.15%	18.74	-1.16%	36.68	1.44%	42.18	1.25%
10/15/2010	35.94	-0.69%	30.80	1.38%	20.67	0.49%	18.96	0.05%	36.16	-0.52%	41.66	0.97%
10/8/2010	36.19	-0.08%	30.38	1.64%	20.57	1.58%	18.95	-0.11%	36.35	-0.85%	41.26	-0.94%
10/1/2010	36.22	-0.77%	29.89	1.77%	20.25	1.76%	18.97	0.16%	36.66	5.62%	41.65	1.02%
9/24/2010	36.50	1.73%	29.37	1.63%	19.90	0.91%	18.94	0.58%	34.71	-0.40%	41.23	2.16%
9/17/2010	35.88	-2.05%	28.90	-0.55%	19.72	-0.50%	18.83	-0.69%	34.85	-2.27%	40.36	-0.47%
9/10/2010	36.63	1.41%	29.06	-0.27%	19.82	-0.25%	18.96	-0.52%	35.66	-1.19%	40.55	-1.19%
9/3/2010	36.12	1.15%	29.14	1.71%	19.87	-1.97%	19.06	1.98%	36.09	1.21%	41.04	1.74%
8/27/2010	35.71	2.56%	28.65	2.10%	20.27	1.86%	18.69	0.92%	35.66	1.48%	40.34	2.70%
8/20/2010	34.82	-1.97%	28.06	-0.46%	19.90	0.45%	18.52	1.20%	35.14	-0.82%	39.28	-0.56%
8/13/2010	35.52	-1.28%	28.19	-2.22%	19.81	-0.40%	18.30	-1.24%	35.43	-1.72%	39.50	0.41%
8/6/2010	35.98	0.00%	28.83	0.98%	19.89	1.22%	18.53	3.29%	36.05	2.36%	39.34	3.28%
7/30/2010	35.98	0.50%	28.55	-0.73%	19.65	-0.51%	17.94	0.67%	35.22	-2.03%	38.09	-2.43%
7/23/2010	35.80	2.99%	28.76	4.13%	19.75	2.28%	17.82	3.60%	35.95	3.51%	39.04	3.17%
7/16/2010	34.76	-0.23%	27.62	-0.93%	19.31	-0.92%	17.20	-2.82%	34.73	-0.32%	37.84	-0.81%
7/9/2010	34.84	7.56%	27.88	6.66%	19.49	3.40%	17.70	4.42%	34.84	6.15%	38.15	5.27%
7/2/2010	32.39	-1.82%	26.14	-0.68%	18.85	-0.53%	16.95	-2.08%	32.82	-2.23%	36.24	-0.98%
6/25/2010	32.99	-3.14%	26.32	-2.81%	18.95	-1.04%	17.31	-3.03%	33.57	-4.03%	36.60	-2.74%
6/18/2010	34.06	4.96%	27.08	4.64%	19.15	4.64%	17.85	4.14%	34.98	6.48%	37.63	5.52%
6/11/2010	32.45	4.27%	25.88	0.82%	18.30	2.12%	17.14	0.41%	32.85	3.01%	35.66	2.65%
6/4/2010	31.12	-2.63%	25.67	-3.02%	17.92	-1.75%	17.07	-2.74%	31.89	-3.51%	34.74	-1.05%
5/28/2010	31.96	1.59%	26.47	0.76%	18.24	0.66%	17.55	2.09%	33.05	2.16%	35.11	-0.17%
5/21/2010	31.46	-4.67%	26.27	-4.02%	18.12	-5.77%	17.19	-7.38%	32.35	-6.50%	35.17	-2.76%
5/14/2010	33.00	3.38%	27.37	5.31%	19.23	5.20%	18.56	2.88%	34.60	3.78%	36.17	2.93%
5/7/2010	31.92	-6.94%	25.99	-5.15%	18.28	-6.30%	18.04	-6.67%	33.34	-7.59%	35.14	-5.89%
4/30/2010	34.30	0.82%	27.40	-1.08%	19.51	-0.26%	19.33	1.58%	36.08	-1.15%	37.34	-2.84%
4/23/2010	34.02	0.86%	27.70	3.71%	19.56	4.65%	19.03	1.76%	36.50	3.49%	38.43	2.43%
4/16/2010	33.73	-1.58%	26.71	0.75%	18.69	2.35%	18.70	-1.73%	35.27	0.60%	37.52	-1.26%
4/9/2010	34.27	-0.64%	26.51	-0.93%	18.26	0.88%	19.03	1.22%	35.06	-0.17%	38.00	-0.29%
4/2/2010	34.49	1.17%	26.76	2.02%	18.10	0.78%	18.80	2.68%	35.12	2.24%	38.11	1.49%
3/26/2010	34.09	-1.25%	26.23	-1.43%	17.96	-1.59%	18.31	-3.43%	34.35	-1.91%	37.55	-0.58%
3/19/2010	34.52	1.23%	26.61	0.11%	18.25	0.77%	18.96	2.49%	35.02	-0.26%	37.77	1.18%
3/12/2010	34.10	-0.44%	26.58	2.11%	18.11	-0.88%	18.50	1.87%	35.11	2.27%	37.33	-1.74%
3/5/2010	34.25	1.87%	26.03	3.13%	18.27	2.01%	18.16	1.97%	34.33	3.94%	37.99	4.34%
2/26/2010	33.62	-1.03%	25.24	-3.88%	17.91	-4.22%	17.81	-2.41%	33.03	0.03%	36.41	-2.57%
2/19/2010	33.97	3.10%	26.26	5.12%	18.70	2.13%	18.25	3.22%	33.02	4.00%	37.37	5.86%
2/12/2010	32.95	-2.05%	24.98	0.08%	18.31	1.44%	17.68	1.32%	31.75	4.06%	35.30	-0.20%
2/5/2010	33.64	-2.91%	24.96	-3.70%	18.05	-1.96%	17.45	-2.30%	30.51	-2.68%	35.37	-1.26%
1/29/2010	34.65	-2.17%	25.92	0.39%	18.41	-1.07%	17.86	-2.30%	31.35	-0.60%	35.82	-0.47%
1/22/2010	35.42	-1.64%	25.82	-3.48%	18.61	-1.69%	18.28	-3.18%	31.54	-3.04%	35.99	-3.07%
1/15/2010	36.01	1.12%	26.75	0.15%	18.93	1.94%	18.88	-2.53%	32.53	0.71%	37.13	0.57%
1/8/2010	35.61	2.36%	26.71	-2.27%	18.57	-0.85%	19.37	-0.10%	32.30	1.10%	36.92	0.93%
1/1/2010	34.79	-0.94%	27.33	-1.51%	18.73	0.70%	19.39	-2.07%	31.95	-2.08%	36.58	-1.43%

EIGHTEEN-MONTH BETA CALCULATION

	POR		SO		WR		Proxy Group		S&P 500			Raw	Adjusted
Date	Price	Return	Price	Return	Price	Return	Return	Covar.	Price	Return	Variance	Beta	Beta
6/24/2011	25.04	-1.61%	39.43	-0.95%	26.30	-0.90%	-0.86%	0.031%	1,268.45	-0.24%	0.045%	0.695	**0.797**
6/17/2011	25.45	1.84%	39.81	1.22%	26.54	1.45%	1.48%	0.031%	1,271.50	0.04%	0.045%	0.687	0.792
6/10/2011	24.99	-1.03%	39.33	-0.10%	26.16	-1.25%	-1.27%	0.031%	1,270.98	-2.24%	0.045%	0.688	0.792
6/3/2011	25.25	-1.83%	39.37	-1.08%	26.49	-1.52%	-1.01%	0.031%	1,300.16	-2.32%	0.045%	0.688	0.792
5/27/2011	25.72	0.63%	39.80	-1.66%	26.90	-2.36%	-2.82%	0.031%	1,331.10	-0.16%	0.044%	0.701	0.800
5/20/2011	25.56	-0.51%	40.47	-0.05%	27.55	-1.08%	-0.04%	0.031%	1,333.27	-0.34%	0.044%	0.697	0.798
5/13/2011	25.69	3.17%	40.49	2.51%	27.85	2.77%	2.15%	0.030%	1,337.77	-0.18%	0.044%	0.696	0.797
5/6/2011	24.90	-0.24%	39.50	1.18%	27.10	-0.40%	0.27%	0.031%	1,340.20	-1.72%	0.044%	0.697	0.798
4/29/2011	24.96	2.55%	39.04	1.24%	27.21	3.66%	2.42%	0.031%	1,363.61	1.96%	0.045%	0.701	0.800
4/22/2011	24.34	1.97%	38.56	0.60%	26.25	0.54%	0.16%	0.033%	1,337.38	1.34%	0.047%	0.705	0.803
4/15/2011	23.87	-0.83%	38.33	-0.18%	26.11	-0.76%	-0.59%	0.033%	1,319.68	-0.64%	0.047%	0.710	0.807
4/8/2011	24.07	-0.08%	38.40	0.23%	26.31	-1.61%	-0.12%	0.033%	1,328.17	-0.32%	0.047%	0.709	0.806
4/1/2011	24.09	2.99%	38.31	1.94%	26.74	2.69%	2.92%	0.035%	1,332.41	1.42%	0.049%	0.706	0.804
3/25/2011	23.39	-0.21%	37.58	1.57%	26.04	2.12%	1.90%	0.035%	1,313.80	2.70%	0.050%	0.702	0.802
3/18/2011	23.44	-0.55%	37.00	-3.34%	25.50	-1.89%	-2.65%	0.035%	1,279.20	-1.92%	0.050%	0.707	0.804
3/11/2011	23.57	0.21%	38.28	0.82%	25.99	0.70%	0.58%	0.035%	1,304.28	-1.28%	0.050%	0.703	0.802
3/4/2011	23.52	2.22%	37.97	-0.24%	25.81	-0.31%	0.79%	0.035%	1,321.15	0.10%	0.050%	0.698	0.799
2/25/2011	23.01	1.14%	38.06	0.50%	25.89	-1.45%	-0.64%	0.035%	1,319.88	-1.72%	0.050%	0.700	0.800
2/18/2011	22.75	-0.48%	37.87	-0.42%	26.27	1.16%	-0.11%	0.035%	1,343.01	1.04%	0.050%	0.704	0.802
2/11/2011	22.86	1.28%	38.03	1.85%	25.97	0.93%	1.34%	0.035%	1,329.15	1.39%	0.050%	0.706	0.804
2/4/2011	22.57	0.80%	37.34	-1.14%	25.73	0.35%	-0.07%	0.035%	1,310.87	2.71%	0.050%	0.702	0.802
1/28/2011	22.39	1.73%	37.77	-1.25%	25.64	-0.62%	-0.40%	0.036%	1,276.34	-0.55%	0.050%	0.716	0.811
1/21/2011	22.01	0.00%	38.25	-0.65%	25.80	0.58%	0.15%	0.036%	1,283.35	-0.76%	0.050%	0.714	0.810
1/14/2011	22.01	0.41%	38.50	1.10%	25.65	1.06%	0.49%	0.037%	1,293.24	1.71%	0.051%	0.721	0.814
1/7/2011	21.92	1.01%	38.08	-0.39%	25.38	0.87%	0.28%	0.040%	1,271.50	1.10%	0.057%	0.706	0.804
12/31/2010	21.70	-1.72%	38.23	-0.08%	25.16	-0.71%	-0.67%	0.040%	1,257.64	0.07%	0.057%	0.705	0.803
12/24/2010	22.08	-1.03%	38.26	0.95%	25.34	-0.04%	0.21%	0.041%	1,256.77	1.03%	0.058%	0.699	0.799
12/17/2010	22.31	1.92%	37.90	0.21%	25.35	1.73%	1.20%	0.041%	1,243.91	0.28%	0.058%	0.698	0.799
12/10/2010	21.89	0.00%	37.82	-0.79%	24.92	-1.54%	-0.45%	0.041%	1,240.40	1.28%	0.060%	0.687	0.792
12/3/2010	21.89	3.55%	38.12	0.77%	25.31	0.48%	0.94%	0.041%	1,224.71	2.97%	0.059%	0.692	0.795
11/26/2010	21.14	0.96%	37.83	-0.63%	25.19	0.52%	0.57%	0.042%	1,189.40	-0.86%	0.059%	0.705	0.803
11/19/2010	20.94	-1.37%	38.07	-0.05%	25.06	1.25%	-0.70%	0.043%	1,199.73	0.04%	0.060%	0.711	0.807
11/12/2010	21.23	-1.35%	38.09	-0.99%	24.75	-3.13%	-2.21%	0.043%	1,199.21	-2.17%	0.060%	0.710	0.807
11/5/2010	21.52	2.97%	38.47	1.58%	25.55	0.99%	1.99%	0.045%	1,225.85	3.60%	0.063%	0.721	0.814
10/29/2010	20.90	0.72%	37.87	-1.17%	25.30	1.52%	0.60%	0.045%	1,183.26	0.02%	0.066%	0.683	0.788
10/22/2010	20.75	0.19%	38.32	1.70%	24.92	0.69%	0.74%	0.045%	1,183.08	0.59%	0.066%	0.686	0.790
10/15/2010	20.71	0.68%	37.68	-0.08%	24.75	0.32%	0.29%	0.045%	1,176.19	0.95%	0.066%	0.689	0.793
10/8/2010	20.57	0.93%	37.71	1.53%	24.67	0.69%	0.49%	0.045%	1,165.15	1.65%	0.066%	0.688	0.792
10/1/2010	20.38	1.24%	37.14	-0.93%	24.50	1.74%	1.29%	0.045%	1,146.24	-0.21%	0.066%	0.688	0.792
9/24/2010	20.13	-0.54%	37.49	1.16%	24.08	1.60%	0.98%	0.046%	1,148.67	2.05%	0.067%	0.685	0.790
9/17/2010	20.24	0.40%	37.06	-0.13%	23.70	-1.86%	-0.90%	0.046%	1,125.59	1.45%	0.071%	0.648	0.766
9/10/2010	20.16	-0.88%	37.11	0.32%	24.15	-1.07%	-0.41%	0.047%	1,109.55	0.46%	0.071%	0.666	0.778
9/3/2010	20.34	0.49%	36.99	0.05%	24.41	1.58%	0.88%	0.048%	1,104.51	3.75%	0.084%	0.570	0.713
8/27/2010	20.24	2.79%	36.97	3.33%	24.03	2.60%	2.26%	0.056%	1,064.59	-0.66%	0.090%	0.621	0.748
8/20/2010	19.69	0.00%	35.78	-0.17%	23.42	-1.80%	-0.46%	0.058%	1,071.69	-0.70%	0.093%	0.628	0.752
8/13/2010	19.69	-1.01%	35.84	-0.11%	23.85	-1.97%	-1.06%	0.067%	1,079.25	-3.78%	0.100%	0.671	0.781
8/6/2010	19.89	4.14%	35.88	1.56%	24.33	1.88%	2.08%	0.072%	1,121.64	1.82%	0.101%	0.710	0.807
7/30/2010	19.10	0.05%	35.33	-1.56%	23.88	0.80%	-0.58%	0.073%	1,101.60	-0.10%	0.104%	0.702	0.801
7/23/2010	19.09	3.02%	35.89	3.19%	23.69	3.68%	3.29%	0.073%	1,102.66	3.55%	0.104%	0.699	0.799
7/16/2010	18.53	-2.78%	34.78	0.20%	22.85	0.62%	-0.89%	0.072%	1,064.88	-1.21%	0.103%	0.694	0.796
7/9/2010	19.06	4.90%	34.71	3.98%	22.71	5.68%	5.34%	0.072%	1,077.96	5.42%	0.106%	0.677	0.784
7/2/2010	18.17	-1.73%	33.38	0.30%	21.49	-2.01%	-1.31%	0.070%	1,022.58	-5.03%	0.105%	0.667	0.778
6/25/2010	18.49	-5.18%	33.28	-2.43%	21.93	-3.73%	-3.13%	0.074%	1,076.76	-3.65%	0.107%	0.687	0.791
6/18/2010	19.50	4.33%	34.11	3.27%	22.78	4.35%	4.71%	0.072%	1,117.51	2.37%	0.106%	0.681	0.787
6/11/2010	18.69	2.02%	33.03	2.80%	21.83	0.69%	2.09%	0.071%	1,091.60	2.51%	0.105%	0.674	0.782
6/4/2010	18.32	-3.12%	32.13	-1.74%	21.68	-1.45%	-2.34%	0.070%	1,064.88	-2.25%	0.105%	0.672	0.781
5/28/2010	18.91	0.96%	32.70	-2.74%	22.00	0.41%	0.64%	0.070%	1,089.41	0.16%	0.105%	0.673	0.782
5/21/2010	18.73	-4.00%	33.62	-2.47%	21.91	-6.05%	-4.85%	0.078%	1,087.69	-4.23%	0.122%	0.643	0.762
5/14/2010	19.51	2.25%	34.47	1.62%	23.32	4.62%	3.55%	0.079%	1,135.68	2.23%	0.129%	0.609	0.739
5/7/2010	19.08	-4.02%	33.92	-1.85%	22.29	-5.91%	-5.59%	0.078%	1,110.88	-6.39%	0.134%	0.584	0.723
4/30/2010	19.88	-1.34%	34.56	-0.49%	23.69	1.67%	-0.34%	0.075%	1,186.69	-2.51%	0.131%	0.574	0.716
4/23/2010	20.15	3.44%	34.73	2.54%	23.30	3.14%	2.89%	0.083%	1,217.28	2.11%	0.143%	0.585	0.723
4/16/2010	19.48	-0.71%	33.87	-0.18%	22.59	0.00%	-0.20%	0.083%	1,192.13	-0.19%	0.149%	0.555	0.704
4/9/2010	19.62	-0.15%	33.93	1.53%	22.59	0.00%	0.16%	0.084%	1,194.37	1.38%	0.151%	0.553	0.702
4/2/2010	19.65	2.93%	33.42	0.97%	22.59	2.87%	1.91%	0.125%	1,178.10	0.99%	0.195%	0.641	0.761
3/26/2010	19.09	-1.70%	33.10	-0.24%	21.96	-1.83%	-1.55%	0.130%	1,166.59	0.58%	0.206%	0.627	0.752
3/19/2010	19.42	1.09%	33.18	2.16%	22.37	1.36%	1.13%	0.130%	1,159.90	0.86%	0.208%	0.628	0.752
3/12/2010	19.21	0.73%	32.48	0.81%	22.07	1.10%	0.65%	0.130%	1,149.99	0.99%	0.208%	0.627	0.752
3/5/2010	19.07	6.00%	32.22	1.42%	21.83	2.01%	2.96%	0.131%	1,138.70	3.10%	0.208%	0.629	0.753
2/26/2010	17.99	-6.74%	31.77	-1.61%	21.40	-3.52%	-2.88%	0.131%	1,104.49	-0.42%	0.208%	0.629	0.753
2/19/2010	19.29	1.63%	32.29	3.59%	22.18	4.52%	3.69%	0.131%	1,109.17	3.13%	0.208%	0.629	0.752
2/12/2010	18.98	-0.37%	31.17	-1.67%	21.22	1.34%	0.44%	0.129%	1,075.51	0.87%	0.206%	0.625	0.750
2/5/2010	19.05	-2.31%	31.70	-0.94%	20.94	-1.83%	-2.21%	0.129%	1,066.19	-0.72%	0.206%	0.625	0.750
1/29/2010	19.50	-1.56%	32.00	-1.66%	21.33	-1.07%	-1.17%	0.130%	1,073.87	-1.64%	0.207%	0.628	0.752
1/22/2010	19.81	-2.75%	32.54	-2.40%	21.56	-3.06%	-2.70%	0.130%	1,091.76	-3.90%	0.207%	0.628	0.752
1/15/2010	20.37	1.85%	33.34	1.55%	22.24	2.39%	0.86%	0.129%	1,136.03	-0.78%	0.205%	0.627	0.751
1/8/2010	20.00	-2.01%	32.83	-1.47%	21.72	0.00%	-0.26%	0.128%	1,144.98	2.68%	0.206%	0.623	0.748
1/1/2010	20.41	-1.50%	33.32	-0.39%	21.72	-1.41%	-1.18%	0.127%	1,115.10	-1.01%	0.205%	0.620	0.747

CAPM USING ALTERNATIVE MARKET RISK PREMIUM CALCULATIONS

	[3]	[4]	[5]	[6]	[7]	[8]
			Market Risk Premium		Return on Equity CAPM	
	Risk-Free Rate	Average Beta	Sharpe Ratio Derived	Market DCF Derived	Sharpe Ratio Derived	Market DCF Derived
PROXY GROUP EIGHTEEN-MONTH BETA						
[1] Current 30-Year Treasury (30-day average)	4.24%	0.797	7.39%	8.53%	10.13%	11.03%
[2] Near-Term Projected 30-Year Treasury	4.78%	0.797	7.39%	8.53%	10.67%	11.58%
					10.40%	11.30%
PROXY GROUP AVERAGE BLOOMBERG AND VALUE LINE BETA						
[1] Current 30-Year Treasury (30-day average)	4.24%	0.742	7.39%	8.53%	9.73%	10.57%
[2] Near-Term Projected 30-Year Treasury	4.78%	0.742	7.39%	8.53%	10.27%	11.11%
					10.00%	10.84%

Notes:
[1] Source: Bloomberg Professional
[2] Source: Blue Chip Financial Forecasts, Vol. 30, No. 6, June 1, 2011, at 2
[3] *see Notes [1] and [2]*
[4] Source: Schedule RBH-2 and Schedule RBH-4
[5] Equals Col. [13]
[6] Source: Schedule RBH-3, page 2 of 7
[7] Equals Col. [3] + (Col. [4] x Col. [5])
[8] Equals Col. [3] + (Col. [4] x Col. [6])

MARKET RISK PREMIUM USING EXPECTED MARKET SHARPE RATIO

[9]	[10]	[11]	[12]	[13]
RP_h	Vol_h	VOL_e	Historical Market Sharpe Ratio	RP_e
6.70%	20.28%	22.38%	33.04%	7.39%

	[14]	[15]	[16]	[17]
Date	VXV	Oct 11 VIX Futures	Nov 11 VIX Futures	Dec 11 VIX Futures
6/30/2011	18.91	22.00	22.55	22.70
6/29/2011	19.42	22.60	23.05	23.20
6/28/2011	20.52	23.10	23.40	23.60
6/27/2011	21.5	23.40	23.75	23.85
6/24/2011	21.92	23.75	24.00	24.20
6/23/2011	20.93	23.25	23.55	23.80
6/22/2011	20.72	23.35	23.65	23.80
6/21/2011	20.5	23.00	23.30	23.55
6/20/2011	21.22	23.20	23.55	23.85
6/17/2011	22.44	23.75	24.05	24.25
6/16/2011	22.61	24.00	24.25	24.45
6/15/2011	21.38	23.05	23.45	23.75
6/14/2011	19.43	22.05	22.55	22.90
6/13/2011	20.44	22.75	23.25	23.50
6/10/2011	20.11	22.70	23.15	23.40
6/9/2011	19.26	22.20	22.70	23.00
6/8/2011	19.95	22.65	23.15	23.40
6/7/2011	19.5	22.50	23.05	23.30
6/6/2011	19.96	22.70	23.20	23.45
6/3/2011	19.47	22.55	22.95	23.20
6/2/2011	19.32	22.40	22.80	23.05
6/1/2011	19.36	22.50	22.90	23.10
5/31/2011	17.56	21.90	22.30	22.45
5/27/2011	18.13	22.30	22.70	22.85
5/26/2011	18.19	22.75	23.05	23.20
5/25/2011	18.87	23.20	23.50	23.60
5/24/2011	19.17	23.45	23.65	23.70
5/23/2011	19.79	23.55	23.75	23.75
5/20/2011	19.05	23.30	23.50	23.45
5/19/2011	18.17	22.65	22.85	22.90
Average		22.38		

Notes:
[9] Source: Morningstar, Inc.
RP_h = historical arithmetic average Risk Premium
[10] Source: Morningstar, Inc.
Vol_h = historical market volatility
[11] Vol_e = expected market volatility (average of Cols. [14]-[17])
[12] Equals Col. [9] / Col. [10]
[13] Equals Col. [11] x Col. [12]
[14] Source: Bloomberg Professional
[15] Source: Bloomberg Professional
[16] Source: Bloomberg Professional
[17] Source: Bloomberg Professional

$$\frac{RP_h}{Vol_h} \times Vol_e = RP_e$$

MARKET RISK PREMIUM DERIVED FROM ANALYSTS LONG-TERM GROWTH ESTIMATES

[18] Estimated Weighted Index Dividend Yield	[19] Weighted Index Long-Term Growth Rate	[20] S&P 500 Est. Required Market Return
1.95%	10.71%	12.77%

[21] Current 30-Year Treasury (30-day average) 4.24%

[22] Implied Market Risk Premium: 8.53%

STANDARD AND POOR'S 500 INDEX

Name	Ticker	[23] Weight in Index	[24] Estimated Dividend Yield	[25] Cap-Weighted Dividend Yield	[26] Long-Term Growth Est.	[27] Cap-Weighted Long-Term Growth Est.
AGILENT TECHNOLOGIES INC	A	0.14%	0.00%	0.0000%	15.00%	0.02%
ALCOA INC	AA	0.14%	0.75%	0.0010%	3.00%	0.00%
APPLE INC	AAPL	2.52%	0.00%	0.0000%	20.43%	0.51%
AMERISOURCEBERGEN CORP	ABC	0.09%	0.81%	0.0007%	11.60%	0.01%
ABBOTT LABORATORIES	ABT	0.66%	3.59%	0.0238%	8.90%	0.06%
ACE LTD	ACE	0.18%	2.04%	0.0037%	11.40%	0.02%
ADOBE SYSTEMS INC	ADBE	0.13%	0.00%	0.0000%	11.09%	0.01%
ANALOG DEVICES INC	ADI	0.10%	2.39%	0.0023%	11.75%	0.01%
ARCHER-DANIELS-MIDLAND CO	ADM	0.16%	2.02%	0.0032%	10.00%	0.02%
AUTOMATIC DATA PROCESSING	ADP	0.21%	2.69%	0.0058%	10.71%	0.02%
AUTODESK INC	ADSK	0.07%	0.00%	0.0000%	13.83%	0.01%
AMEREN CORPORATION	AEE	0.06%	5.34%	0.0030%	-1.00%	0.00%
AMERICAN ELECTRIC POWER	AEP	0.15%	4.88%	0.0072%	4.50%	0.01%
AES CORP	AES	0.08%	0.00%	0.0000%	9.50%	0.01%
AETNA INC	AET	0.14%	1.07%	0.0015%	10.40%	0.01%
AFLAC INC	AFL	0.18%	2.63%	0.0047%	10.80%	0.02%
ALLERGAN INC	AGN	0.21%	0.21%	0.0004%	14.80%	0.03%
AMERICAN INTERNATIONAL GROUP	AIG	0.45%	0.00%	0.0000%	9.33%	0.04%
APARTMENT INVT & MGMT CO -A	AIV	0.02%	1.88%	0.0005%	10.06%	0.00%
ASSURANT INC	AIZ	0.03%	1.90%	0.0005%	10.00%	0.00%
AKAMAI TECHNOLOGIES INC	AKAM	0.05%	0.00%	0.0000%	17.78%	0.01%
AK STEEL HOLDING CORP	AKS	0.01%	1.27%	0.0002%	5.00%	0.00%
ALLSTATE CORP	ALL	0.13%	2.73%	0.0035%	9.00%	0.01%
ALTERA CORP	ALTR	0.12%	0.51%	0.0006%	15.25%	0.02%
APPLIED MATERIALS INC	AMAT	0.14%	2.19%	0.0030%	9.67%	0.01%
ADVANCED MICRO DEVICES	AMD	0.04%	0.00%	0.0000%	12.77%	0.00%
AMGEN INC	AMGN	0.44%	0.92%	0.0041%	8.35%	0.04%
AMERIPRISE FINANCIAL INC	AMP	0.11%	1.46%	0.0017%	12.30%	0.01%
AMERICAN TOWER CORP-CL A	AMT	0.17%	0.00%	0.0000%	18.36%	0.03%
AMAZON.COM INC	AMZN	0.75%	0.00%	0.0000%	28.72%	0.22%
AUTONATION INC	AN	0.04%	0.00%	0.0000%	19.87%	0.01%
ABERCROMBIE & FITCH CO-CL A	ANF	0.05%	1.05%	0.0005%	27.40%	0.01%
ALPHA NATURAL RESOURCES INC	ANR	0.08%	0.00%	0.0000%	77.00%	0.06%
AON CORP	AON	0.14%	1.31%	0.0018%	8.33%	0.01%
APACHE CORP	APA	0.38%	0.53%	0.0020%	8.89%	0.03%
ANADARKO PETROLEUM CORP	APC	0.31%	0.52%	0.0016%	18.61%	0.06%
AIR PRODUCTS & CHEMICALS INC	APD	0.16%	2.24%	0.0037%	10.26%	0.02%
AMPHENOL CORP-CL A	APH	0.08%	0.11%	0.0001%	15.00%	0.01%
APOLLO GROUP INC-CL A	APOL	0.05%	0.00%	0.0000%	2.51%	0.00%
AIRGAS INC	ARG	0.04%	1.67%	0.0007%	13.23%	0.01%
ALLEGHENY TECHNOLOGIES INC	ATI	0.05%	1.13%	0.0006%	15.00%	0.01%
AVALONBAY COMMUNITIES INC	AVB	0.09%	2.78%	0.0025%	11.97%	0.01%
AVON PRODUCTS INC	AVP	0.10%	3.41%	0.0033%	10.00%	0.01%
AVERY DENNISON CORP	AVY	0.03%	2.49%	0.0008%	7.00%	0.00%
AMERICAN EXPRESS CO	AXP	0.50%	1.44%	0.0073%	10.83%	0.05%
AUTOZONE INC	AZO	0.10%	0.00%	0.0000%	12.60%	0.01%
BOEING CO/THE	BA	0.44%	2.33%	0.0103%	12.88%	0.06%
BANK OF AMERICA CORP	BAC	0.90%	0.50%	0.0045%	8.58%	0.08%
BAXTER INTERNATIONAL INC	BAX	0.28%	2.12%	0.0059%	10.50%	0.03%
BED BATH & BEYOND INC	BBBY	0.12%	0.00%	0.0000%	13.89%	0.02%
BB&T CORP	BBT	0.15%	2.41%	0.0037%	7.00%	0.01%
BEST BUY CO INC	BBY	0.10%	1.95%	0.0019%	10.96%	0.01%
CR BARD INC	BCR	0.08%	0.70%	0.0005%	11.33%	0.01%
BECTON DICKINSON AND CO	BDX	0.15%	1.91%	0.0029%	9.60%	0.01%
FRANKLIN RESOURCES INC	BEN	0.24%	0.76%	0.0018%	9.33%	0.02%
BROWN-FORMAN CORP-CLASS B	BF/B	0.05%	2.25%	0.0012%	13.00%	0.01%
BAKER HUGHES INC	BHI	0.26%	0.81%	0.0021%	19.18%	0.05%
BIG LOTS INC	BIG	0.02%	0.00%	n/a	12.00%	0.00%
BIOGEN IDEC INC	BIIB	0.21%	0.00%	0.0000%	10.51%	0.02%
BANK OF NEW YORK MELLON CORP	BK	0.26%	1.89%	0.0049%	8.40%	0.02%
BLACKROCK INC	BLK	0.21%	2.84%	0.0058%	16.33%	0.03%
BALL CORP	BLL	0.05%	0.72%	0.0004%	5.00%	0.00%
BMC SOFTWARE INC	BMC	0.08%	0.00%	0.0000%	15.50%	0.01%
BEMIS COMPANY	BMS	0.03%	2.92%	0.0008%	8.30%	0.00%
BRISTOL-MYERS SQUIBB CO	BMY	0.40%	4.50%	0.0180%	2.65%	0.01%
BROADCOM CORP-CL A	BRCM	0.13%	1.06%	0.0014%	15.78%	0.02%
BERKSHIRE HATHAWAY INC-CL B	BRK/B	0.67%	0.00%	n/a	n/a	n/a
BOSTON SCIENTIFIC CORP	BSX	0.09%	0.00%	0.0000%	6.02%	0.01%
PEABODY ENERGY CORP	BTU	0.13%	0.59%	0.0008%	28.50%	0.04%
BOSTON PROPERTIES INC	BXP	0.13%	1.91%	0.0024%	6.81%	0.01%
CITIGROUP INC	C	0.98%	0.06%	0.0006%	5.67%	0.06%
CA INC	CA	0.09%	0.88%	0.0008%	11.33%	0.01%
CONAGRA FOODS INC	CAG	0.09%	3.63%	0.0031%	6.97%	0.01%
CARDINAL HEALTH INC	CAH	0.13%	1.56%	0.0020%	12.50%	0.02%
CAMERON INTERNATIONAL CORP	CAM	0.10%	0.00%	0.0000%	13.38%	0.01%
CATERPILLAR INC	CAT	0.56%	1.67%	0.0093%	8.35%	0.05%

STANDARD AND POOR'S 500 INDEX

Name	Ticker	[23] Weight in Index	[24] Estimated Dividend Yield	[25] Cap-Weighted Dividend Yield	[26] Long-Term Growth Est.	[27] Cap-Weighted Long-Term Growth Est.
CHUBB CORP	CB	0.15%	2.55%	0.0038%	9.20%	0.01%
CB RICHARD ELLIS GROUP INC-A	CBG	0.07%	0.00%	0.0000%	11.50%	0.01%
CBS CORP-CLASS B NON VOTING	CBS	0.14%	1.05%	0.0015%	13.15%	0.02%
COCA-COLA ENTERPRISES	CCE	0.08%	1.80%	0.0014%	9.00%	0.01%
CARNIVAL CORP	CCL	0.19%	2.39%	0.0044%	14.67%	0.03%
CONSTELLATION ENERGY GROUP	CEG	0.06%	2.53%	0.0016%	1.50%	0.00%
CELGENE CORP	CELG	0.23%	0.00%	0.0000%	24.58%	0.06%
CEPHALON INC	CEPH	0.05%	0.00%	n/a	9.00%	0.00%
CERNER CORP	CERN	0.08%	0.00%	0.0000%	19.18%	0.02%
CF INDUSTRIES HOLDINGS INC	CF	0.08%	0.28%	0.0002%	12.00%	0.01%
CAREFUSION CORP	CFN	0.05%	0.00%	0.0000%	16.91%	0.01%
CHESAPEAKE ENERGY CORP	CHK	0.16%	1.02%	0.0016%	9.67%	0.02%
C.H. ROBINSON WORLDWIDE INC	CHRW	0.11%	1.49%	0.0016%	15.37%	0.02%
CIGNA CORP	CI	0.11%	0.08%	0.0001%	10.12%	0.01%
CINCINNATI FINANCIAL CORP	CINF	0.04%	5.52%	0.0021%	5.00%	0.00%
COLGATE-PALMOLIVE CO	CL	0.35%	2.52%	0.0088%	9.23%	0.03%
CLIFFS NATURAL RESOURCES INC	CLF	0.11%	0.61%	0.0007%	n/a	n/a
CLOROX COMPANY	CLX	0.07%	3.27%	0.0024%	9.00%	0.01%
COMERICA INC	CMA	0.05%	1.17%	0.0006%	5.80%	0.00%
COMCAST CORP-CLASS A	CMCSA	0.43%	1.77%	0.0076%	14.63%	0.06%
CME GROUP INC	CME	0.16%	1.83%	0.0029%	13.33%	0.02%
CHIPOTLE MEXICAN GRILL INC	CMG	0.08%	0.00%	0.0000%	21.91%	0.02%
CUMMINS INC	CMI	0.16%	0.99%	0.0016%	11.50%	0.02%
CMS ENERGY CORP	CMS	0.04%	4.30%	0.0017%	5.78%	0.00%
CENTERPOINT ENERGY INC	CNP	0.07%	4.09%	0.0027%	5.70%	0.00%
CONSOL ENERGY INC	CNX	0.09%	0.83%	0.0007%	47.00%	0.04%
CAPITAL ONE FINANCIAL CORP	COF	0.19%	0.54%	0.0010%	12.13%	0.02%
CABOT OIL & GAS CORP	COG	0.06%	0.18%	0.0001%	20.00%	0.01%
COACH INC	COH	0.15%	0.98%	0.0015%	16.50%	0.03%
ROCKWELL COLLINS INC	COL	0.08%	1.64%	0.0013%	8.78%	0.01%
CONOCOPHILLIPS	COP	0.86%	3.45%	0.0297%	2.82%	0.02%
COSTCO WHOLESALE CORP	COST	0.29%	1.04%	0.0030%	13.32%	0.04%
COVIDIEN PLC	COV	0.21%	1.47%	0.0032%	12.17%	0.03%
CAMPBELL SOUP CO	CPB	0.09%	3.28%	0.0030%	6.54%	0.01%
COMPUWARE CORP	CPWR	0.02%	0.00%	n/a	5.00%	0.00%
SALESFORCE.COM INC	CRM	0.16%	0.00%	0.0000%	28.00%	0.05%
COMPUTER SCIENCES CORP	CSC	0.05%	0.84%	0.0004%	9.00%	0.00%
CISCO SYSTEMS INC	CSCO	0.70%	0.77%	0.0054%	10.18%	0.07%
CSX CORP	CSX	0.23%	1.70%	0.0040%	14.99%	0.04%
CINTAS CORP	CTAS	0.04%	1.52%	0.0006%	10.67%	0.00%
CENTURYLINK INC	CTL	0.20%	7.17%	0.0141%	-2.15%	0.00%
COGNIZANT TECH SOLUTIONS-A	CTSH	0.18%	0.00%	0.0000%	19.59%	0.04%
CITRIX SYSTEMS INC	CTXS	0.12%	0.00%	0.0000%	14.34%	0.02%
CABLEVISION SYSTEMS-NY GRP-A	CVC	0.07%	1.57%	0.0011%	12.00%	0.01%
COVENTRY HEALTH CARE INC	CVH	0.04%	0.00%	0.0000%	8.88%	0.00%
CVS CAREMARK CORP	CVS	0.41%	1.20%	0.0050%	11.00%	0.05%
CHEVRON CORP	CVX	1.68%	2.98%	0.0500%	2.34%	0.04%
DOMINION RESOURCES INC/VA	D	0.23%	4.07%	0.0092%	3.76%	0.01%
DU PONT (E.I.) DE NEMOURS	DD	0.41%	3.02%	0.0123%	8.89%	0.04%
DEERE & CO	DE	0.28%	1.60%	0.0045%	9.00%	0.03%
DELL INC	DELL	0.26%	0.00%	0.0000%	8.00%	0.02%
DEAN FOODS CO	DF	0.02%	0.00%	n/a	8.05%	0.00%
DISCOVER FINANCIAL SERVICES	DFS	0.12%	0.94%	0.0011%	10.00%	0.01%
QUEST DIAGNOSTICS INC	DGX	0.08%	0.71%	0.0005%	11.55%	0.01%
DR HORTON INC	DHI	0.03%	1.30%	0.0004%	7.67%	0.00%
DANAHER CORP	DHR	0.29%	0.17%	0.0005%	15.70%	0.05%
WALT DISNEY CO/THE	DIS	0.60%	0.99%	0.0059%	16.50%	0.10%
DISCOVERY COMMUNICATIONS-A	DISCA	0.05%	0.00%	0.0000%	24.55%	0.01%
DUN & BRADSTREET CORP	DNB	0.03%	1.88%	0.0006%	11.15%	0.00%
DENBURY RESOURCES INC	DNR	0.07%	0.00%	0.0000%	18.98%	0.01%
DIAMOND OFFSHORE DRILLING	DO	0.08%	5.12%	0.0041%	11.00%	0.01%
DOVER CORP	DOV	0.10%	1.67%	0.0017%	14.00%	0.01%
DOW CHEMICAL CO/THE	DOW	0.34%	2.36%	0.0081%	7.50%	0.03%
DR PEPPER SNAPPLE GROUP INC	DPS	0.08%	2.64%	0.0020%	8.50%	0.01%
DARDEN RESTAURANTS INC	DRI	0.06%	2.94%	0.0016%	n/a	n/a
DTE ENERGY COMPANY	DTE	0.07%	4.56%	0.0031%	4.50%	0.00%
DIRECTV-CLASS A	DTV	0.32%	0.00%	0.0000%	19.49%	0.06%
DUKE ENERGY CORP	DUK	0.20%	5.32%	0.0108%	4.50%	0.01%
DEVRY INC	DV	0.03%	0.33%	0.0001%	11.57%	0.00%
DAVITA INC	DVA	0.07%	0.00%	0.0000%	12.06%	0.01%
DEVON ENERGY CORPORATION	DVN	0.27%	0.84%	0.0023%	9.90%	0.03%
EBAY INC	EBAY	0.34%	0.00%	0.0000%	11.74%	0.04%
ECOLAB INC	ECL	0.11%	1.24%	0.0013%	13.50%	0.01%
CONSOLIDATED EDISON INC	ED	0.13%	4.51%	0.0057%	3.42%	0.00%
EQUIFAX INC	EFX	0.03%	1.84%	0.0006%	9.75%	0.00%
EDISON INTERNATIONAL	EIX	0.10%	3.35%	0.0034%	4.25%	0.00%
ESTEE LAUDER COMPANIES-CL A	EL	0.10%	0.68%	0.0007%	12.33%	0.01%
EMC CORP/MASS	EMC	0.46%	0.00%	0.0000%	15.00%	0.07%
EASTMAN CHEMICAL CO	EMN	0.06%	1.84%	0.0011%	7.00%	0.00%
EMERSON ELECTRIC CO	EMR	0.34%	2.47%	0.0085%	14.00%	0.05%
EOG RESOURCES INC	EOG	0.23%	0.64%	0.0014%	43.95%	0.10%
EL PASO CORP	EP	0.13%	0.20%	0.0002%	1.20%	0.00%
EQUITY RESIDENTIAL	EQR	0.14%	2.58%	0.0037%	7.92%	0.01%
EQT CORP	EQT	0.06%	1.68%	0.0011%	18.47%	0.01%
ELECTRONIC ARTS INC	ERTS	0.06%	0.00%	0.0000%	16.67%	0.01%
EXPRESS SCRIPTS INC	ESRX	0.23%	0.00%	0.0000%	19.50%	0.05%
E*TRADE FINANCIAL CORP	ETFC	0.03%	0.00%	0.0000%	11.00%	0.00%
EATON CORP	ETN	0.14%	2.66%	0.0038%	10.00%	0.01%
ENTERGY CORP	ETR	0.10%	4.93%	0.0049%	2.00%	0.00%

STANDARD AND POOR'S 500 INDEX

Name	Ticker	[23] Weight in Index	[24] Estimated Dividend Yield	[25] Cap-Weighted Dividend Yield	[26] Long-Term Growth Est.	[27] Cap-Weighted Long-Term Growth Est.
EDWARDS LIFESCIENCES CORP	EW	0.08%	0.00%	0.0000%	21.47%	0.02%
EXELON CORP	EXC	0.23%	4.93%	0.0114%	-4.35%	-0.01%
EXPEDITORS INTL WASH INC	EXPD	0.09%	0.90%	0.0008%	14.97%	0.01%
EXPEDIA INC	EXPE	0.06%	0.97%	0.0006%	10.22%	0.01%
FORD MOTOR CO	F	0.42%	0.00%	0.0000%	8.45%	0.04%
FASTENAL CO	FAST	0.09%	1.79%	0.0015%	19.43%	0.02%
FREEPORT-MCMORAN COPPER	FCX	0.41%	3.07%	0.0125%	9.30%	0.04%
FAMILY DOLLAR STORES	FDO	0.05%	1.02%	0.0005%	13.63%	0.01%
FEDEX CORP	FDX	0.24%	0.55%	0.0013%	13.86%	0.03%
FIRSTENERGY CORP	FE	0.15%	4.98%	0.0075%	3.20%	0.00%
F5 NETWORKS INC	FFIV	0.07%	0.00%	0.0000%	23.20%	0.02%
FIRST HORIZON NATIONAL CORP	FHN	0.02%	0.46%	0.0001%	7.50%	0.00%
FEDERATED INVESTORS INC-CL B	FII	0.02%	4.14%	0.0008%	5.00%	0.00%
FIDELITY NATIONAL INFORMATIO	FIS	0.08%	0.52%	0.0004%	13.50%	0.01%
FISERV INC	FISV	0.07%	0.00%	0.0000%	11.75%	0.01%
FIFTH THIRD BANCORP	FITB	0.10%	1.76%	0.0017%	5.00%	0.00%
FLIR SYSTEMS INC	FLIR	0.04%	0.71%	0.0003%	14.24%	0.01%
FLUOR CORP	FLR	0.09%	0.82%	0.0007%	17.50%	0.02%
FLOWSERVE CORP	FLS	0.05%	1.13%	0.0006%	14.00%	0.01%
FMC CORP	FMC	0.05%	0.63%	0.0003%	11.17%	0.01%
FORTUNE BRANDS INC	FO	0.08%	1.21%	0.0010%	11.00%	0.01%
FOREST LABORATORIES INC	FRX	0.09%	0.00%	0.0000%	0.21%	0.00%
FIRST SOLAR INC	FSLR	0.09%	0.00%	0.0000%	19.39%	0.02%
FMC TECHNOLOGIES INC	FTI	0.09%	0.00%	0.0000%	13.07%	0.01%
FRONTIER COMMUNICATIONS CORP	FTR	0.07%	9.31%	0.0061%	-6.32%	0.00%
NICOR INC	GAS	0.02%	3.40%	0.0007%	4.00%	0.00%
GANNETT CO	GCI	0.03%	1.12%	0.0003%	5.50%	0.00%
GENERAL DYNAMICS CORP	GD	0.22%	2.39%	0.0054%	9.71%	0.02%
GENERAL ELECTRIC CO	GE	1.62%	2.99%	0.0485%	11.90%	0.19%
GILEAD SCIENCES INC	GILD	0.26%	0.00%	0.0000%	16.51%	0.04%
GENERAL MILLS INC	GIS	0.19%	3.20%	0.0062%	8.22%	0.02%
CORNING INC	GLW	0.23%	1.08%	0.0025%	11.67%	0.03%
GAMESTOP CORP-CLASS A	GME	0.03%	0.00%	0.0000%	11.75%	0.00%
GENWORTH FINANCIAL INC-CL A	GNW	0.04%	0.00%	0.0000%	13.67%	0.01%
GOOGLE INC-CL A	GOOG	1.04%	0.00%	0.0000%	16.64%	0.17%
GENUINE PARTS CO	GPC	0.07%	3.31%	0.0023%	9.77%	0.01%
GAP INC/THE	GPS	0.08%	2.37%	0.0019%	9.82%	0.01%
GOODRICH CORP	GR	0.10%	1.19%	0.0011%	12.10%	0.01%
GOLDMAN SACHS GROUP INC	GS	0.56%	1.05%	0.0059%	8.10%	0.05%
GOODYEAR TIRE & RUBBER CO	GT	0.03%	0.00%	0.0000%	26.37%	0.01%
WW GRAINGER INC	GWW	0.09%	1.55%	0.0013%	13.80%	0.01%
HALLIBURTON CO	HAL	0.38%	0.71%	0.0027%	15.20%	0.06%
HARMAN INTERNATIONAL	HAR	0.03%	0.00%	n/a	20.00%	0.01%
HASBRO INC	HAS	0.05%	2.73%	0.0013%	10.00%	0.00%
HUNTINGTON BANCSHARES INC	HBAN	0.05%	1.08%	0.0005%	5.50%	0.00%
HUDSON CITY BANCORP INC	HCBK	0.04%	4.55%	0.0016%	4.50%	0.00%
HEALTH CARE REIT INC	HCN	0.08%	5.44%	0.0041%	9.99%	0.01%
HCP INC	HCP	0.12%	5.24%	0.0063%	7.51%	0.01%
HOME DEPOT INC	HD	0.47%	2.78%	0.0130%	13.08%	0.06%
HESS CORP	HES	0.21%	0.54%	0.0011%	10.75%	0.02%
HARTFORD FINANCIAL SVCS GRP	HIG	0.10%	1.29%	0.0012%	8.20%	0.01%
HJ HEINZ CO	HNZ	0.14%	3.61%	0.0050%	7.75%	0.01%
HARLEY-DAVIDSON INC	HOG	0.08%	1.08%	0.0009%	10.50%	0.01%
HONEYWELL INTERNATIONAL INC	HON	0.38%	2.20%	0.0084%	15.10%	0.06%
STARWOOD HOTELS & RESORTS	HOT	0.09%	0.56%	0.0005%	24.89%	0.02%
HELMERICH & PAYNE	HP	0.06%	0.38%	0.0002%	9.00%	0.01%
HEWLETT-PACKARD CO	HPQ	0.61%	0.98%	0.0060%	9.67%	0.06%
H&R BLOCK INC	HRB	0.04%	3.74%	0.0015%	10.00%	0.00%
HORMEL FOODS CORP	HRL	0.06%	1.71%	0.0011%	11.00%	0.01%
HARRIS CORP	HRS	0.05%	2.27%	0.0011%	9.00%	0.00%
HOSPIRA INC	HSP	0.08%	0.00%	0.0000%	12.18%	0.01%
HOST HOTELS & RESORTS INC	HST	0.09%	0.76%	0.0007%	11.38%	0.01%
HERSHEY CO/THE	HSY	0.08%	2.41%	0.0018%	7.50%	0.01%
HUMANA INC	HUM	0.11%	0.73%	0.0008%	9.01%	0.01%
INTL BUSINESS MACHINES CORP	IBM	1.69%	1.58%	0.0266%	10.64%	0.18%
INTERCONTINENTALEXCHANGE INC	ICE	0.07%	0.00%	0.0000%	16.25%	0.01%
INTL FLAVORS & FRAGRANCES	IFF	0.04%	1.77%	0.0007%	7.00%	0.00%
INTL GAME TECHNOLOGY	IGT	0.04%	1.21%	0.0005%	16.00%	0.01%
INTEL CORP	INTC	0.95%	3.39%	0.0323%	11.27%	0.11%
INTUIT INC	INTU	0.13%	0.00%	0.0000%	14.33%	0.02%
INTERNATIONAL PAPER CO	IP	0.11%	3.33%	0.0035%	5.50%	0.01%
INTERPUBLIC GROUP OF COS INC	IPG	0.05%	1.87%	0.0009%	11.67%	0.01%
INGERSOLL-RAND PLC	IR	0.12%	0.95%	0.0012%	12.98%	0.02%
IRON MOUNTAIN INC	IRM	0.06%	3.21%	0.0018%	15.67%	0.01%
INTUITIVE SURGICAL INC	ISRG	0.12%	0.00%	n/a	20.00%	0.02%
ITT CORP	ITT	0.09%	1.90%	0.0017%	10.00%	0.01%
ILLINOIS TOOL WORKS	ITW	0.23%	2.55%	0.0058%	13.06%	0.03%
INVESCO LTD	IVZ	0.09%	2.09%	0.0018%	12.75%	0.01%
JABIL CIRCUIT INC	JBL	0.04%	1.39%	0.0005%	12.50%	0.00%
JOHNSON CONTROLS INC	JCI	0.23%	1.39%	0.0032%	16.49%	0.04%
J.C. PENNEY CO INC	JCP	0.06%	2.41%	0.0014%	13.63%	0.01%
JDS UNIPHASE CORP	JDSU	0.03%	0.00%	0.0000%	6.00%	0.00%
JACOBS ENGINEERING GROUP INC	JEC	0.04%	0.00%	0.0000%	14.00%	0.01%
JOHNSON & JOHNSON	JNJ	1.48%	3.41%	0.0504%	6.33%	0.09%
JUNIPER NETWORKS INC	JNPR	0.14%	0.00%	0.0000%	18.08%	0.02%
JANUS CAPITAL GROUP INC	JNS	0.01%	1.69%	0.0002%	7.75%	0.00%
JOY GLOBAL INC	JOYG	0.08%	0.74%	0.0006%	16.60%	0.01%
JPMORGAN CHASE & CO	JPM	1.32%	2.44%	0.0323%	7.62%	0.10%
NORDSTROM INC	JWN	0.08%	1.85%	0.0015%	11.15%	0.01%

STANDARD AND POOR'S 500 INDEX

		[23]	[24]	[25]	[26]	[27]
Name	**Ticker**	**Weight in Index**	**Estimated Dividend Yield**	**Cap-Weighted Dividend Yield**	**Long-Term Growth Est.**	**Cap-Weighted Long-Term Growth Est.**
KELLOGG CO	K	0.16%	3.00%	0.0049%	8.90%	0.01%
KEYCORP	KEY	0.06%	1.18%	0.0008%	4.75%	0.00%
KRAFT FOODS INC-CLASS A	KFT	0.50%	3.39%	0.0171%	9.50%	0.05%
KIMCO REALTY CORP	KIM	0.06%	3.87%	0.0024%	7.76%	0.00%
KLA-TENCOR CORPORATION	KLAC	0.06%	2.46%	0.0014%	10.00%	0.01%
KIMBERLY-CLARK CORP	KMB	0.21%	4.19%	0.0089%	7.13%	0.02%
CARMAX INC	KMX	0.06%	0.00%	n/a	14.05%	0.01%
COCA-COLA CO/THE	KO	1.25%	2.78%	0.0348%	8.33%	0.10%
KROGER CO	KR	0.12%	1.76%	0.0021%	9.12%	0.01%
KOHLS CORP	KSS	0.11%	2.01%	0.0023%	14.48%	0.02%
LOEWS CORP	L	0.14%	0.59%	0.0008%	n/a	n/a
LEGGETT & PLATT INC	LEG	0.03%	4.43%	0.0013%	20.00%	0.01%
LENNAR CORP-A	LEN	0.02%	0.86%	0.0002%	8.00%	0.00%
LABORATORY CRP OF AMER HLDGS	LH	0.08%	0.00%	0.0000%	12.28%	0.01%
LIFE TECHNOLOGIES CORP	LIFE	0.08%	0.00%	0.0000%	11.00%	0.01%
L-3 COMMUNICATIONS HOLDINGS	LLL	0.08%	2.04%	0.0015%	7.89%	0.01%
LINEAR TECHNOLOGY CORP	LLTC	0.06%	2.84%	0.0017%	9.67%	0.01%
ELI LILLY & CO	LLY	0.35%	5.23%	0.0184%	-5.77%	-0.02%
LEGG MASON INC	LM	0.04%	0.96%	0.0004%	2.75%	0.00%
LOCKHEED MARTIN CORP	LMT	0.23%	3.78%	0.0086%	8.79%	0.02%
LINCOLN NATIONAL CORP	LNC	0.07%	0.96%	0.0007%	10.33%	0.01%
LORILLARD INC	LO	0.13%	4.80%	0.0061%	9.50%	0.01%
LOWE'S COS INC	LOW	0.25%	2.13%	0.0053%	15.22%	0.04%
LSI CORP	LSI	0.03%	0.00%	n/a	14.50%	0.01%
LIMITED BRANDS INC	LTD	0.10%	3.22%	0.0031%	14.43%	0.01%
LEUCADIA NATIONAL CORP	LUK	0.07%	0.00%	n/a	n/a	n/a
SOUTHWEST AIRLINES CO	LUV	0.07%	0.13%	0.0001%	8.33%	0.01%
LEXMARK INTERNATIONAL INC-A	LXK	0.02%	0.00%	0.0000%	-9.00%	0.00%
MACY'S INC	M	0.10%	1.23%	0.0012%	7.27%	0.01%
MASTERCARD INC-CLASS A	MA	0.30%	0.20%	0.0006%	19.50%	0.06%
MARRIOTT INTERNATIONAL-CL A	MAR	0.10%	1.00%	0.0010%	15.90%	0.02%
MASCO CORP	MAS	0.03%	2.51%	0.0009%	12.50%	0.00%
MATTEL INC	MAT	0.08%	3.25%	0.0025%	8.50%	0.01%
MCDONALD'S CORP	MCD	0.71%	2.95%	0.0210%	9.48%	0.07%
MICROCHIP TECHNOLOGY INC	MCHP	0.06%	3.71%	0.0022%	12.00%	0.01%
MCKESSON CORP	MCK	0.17%	0.87%	0.0015%	11.00%	0.02%
MOODY'S CORP	MCO	0.07%	1.23%	0.0009%	11.33%	0.01%
MEDTRONIC INC	MDT	0.33%	2.53%	0.0084%	9.12%	0.03%
METLIFE INC	MET	0.38%	2.27%	0.0085%	10.43%	0.04%
MCGRAW-HILL COMPANIES INC	MHP	0.10%	2.42%	0.0025%	9.67%	0.01%
MEDCO HEALTH SOLUTIONS INC	MHS	0.18%	0.00%	0.0000%	16.32%	0.03%
MARSHALL & ILSLEY CORP	MI	0.03%	0.50%	0.0002%	n/a	n/a
MEAD JOHNSON NUTRITION CO	MJN	0.11%	1.46%	0.0016%	10.25%	0.01%
MCCORMICK & CO-NON VTG SHRS	MKC	0.05%	2.26%	0.0011%	8.83%	0.00%
MARSH & MCLENNAN COS	MMC	0.14%	2.76%	0.0038%	10.67%	0.01%
MOTOROLA MOBILITY HOLDINGS I	MMI	0.05%	0.00%	0.0000%	13.00%	0.01%
3M CO	MMM	0.55%	2.34%	0.0128%	12.50%	0.07%
ALTRIA GROUP INC	MO	0.45%	6.00%	0.0269%	7.67%	0.03%
MOLEX INC	MOLX	0.02%	2.62%	0.0005%	11.67%	0.00%
MONSANTO CO	MON	0.32%	1.58%	0.0050%	14.86%	0.05%
MERCK & CO. INC.	MRK	0.88%	4.32%	0.0382%	4.99%	0.04%
MARATHON OIL CORP	MRO	0.30%	1.93%	0.0059%	3.01%	0.01%
MORGAN STANLEY	MS	0.29%	0.96%	0.0028%	14.63%	0.04%
MICROSOFT CORP	MSFT	1.78%	2.21%	0.0393%	11.42%	0.20%
MOTOROLA SOLUTIONS INC	MSI	0.13%	0.00%	0.0000%	n/a	n/a
M & T BANK CORP	MTB	0.09%	3.19%	0.0029%	7.00%	0.01%
MICRON TECHNOLOGY INC	MU	0.06%	0.00%	0.0000%	10.42%	0.01%
MURPHY OIL CORP	MUR	0.10%	1.70%	0.0018%	n/a	n/a
MEADWESTVACO CORP	MWV	0.05%	3.00%	0.0014%	10.00%	0.00%
MONSTER WORLDWIDE INC	MWW	0.02%	0.00%	0.0000%	15.50%	0.00%
MYLAN INC	MYL	0.09%	0.28%	0.0002%	14.31%	0.01%
NOBLE ENERGY INC	NBL	0.13%	0.80%	0.0010%	11.83%	0.02%
NABORS INDUSTRIES LTD	NBR	0.06%	0.00%	0.0000%	15.67%	0.01%
NASDAQ OMX GROUP/THE	NDAQ	0.04%	0.00%	0.0000%	10.67%	0.00%
NOBLE CORP	NE	0.08%	1.60%	0.0013%	13.67%	0.01%
NEXTERA ENERGY INC	NEE	0.20%	3.78%	0.0074%	5.53%	0.01%
NEWMONT MINING CORP	NEM	0.21%	1.41%	0.0030%	6.00%	0.01%
NETFLIX INC	NFLX	0.11%	0.00%	0.0000%	30.00%	0.03%
NEWFIELD EXPLORATION CO	NFX	0.07%	0.00%	0.0000%	10.10%	0.01%
NISOURCE INC	NI	0.05%	4.54%	0.0021%	8.40%	0.00%
NIKE INC -CL B	NKE	0.28%	1.52%	0.0043%	12.03%	0.03%
NORTHROP GRUMMAN CORP	NOC	0.16%	2.81%	0.0044%	10.29%	0.02%
NATIONAL OILWELL VARCO INC	NOV	0.27%	0.55%	0.0015%	10.70%	0.03%
NRG ENERGY INC	NRG	0.05%	0.00%	0.0000%	25.01%	0.01%
NORFOLK SOUTHERN CORP	NSC	0.21%	2.11%	0.0045%	14.55%	0.03%
NATIONAL SEMICONDUCTOR CORP	NSM	0.05%	1.71%	0.0008%	9.50%	0.00%
NETAPP INC	NTAP	0.16%	0.00%	0.0000%	17.60%	0.03%
NORTHERN TRUST CORP	NTRS	0.09%	2.36%	0.0021%	4.78%	0.00%
NORTHEAST UTILITIES	NU	0.05%	2.98%	0.0015%	7.91%	0.00%
NUCOR CORP	NUE	0.11%	3.51%	0.0037%	8.50%	0.01%
NVIDIA CORP	NVDA	0.08%	0.00%	0.0000%	16.50%	0.01%
NOVELLUS SYSTEMS INC	NVLS	0.03%	0.00%	0.0000%	11.50%	0.00%
NEWELL RUBBERMAID INC	NWL	0.04%	1.88%	0.0007%	9.67%	0.00%
NEWS CORP-CL A	NWSA	0.26%	0.86%	0.0023%	13.58%	0.04%
NYSE EURONEXT	NYX	0.07%	3.50%	0.0025%	10.00%	0.01%
OWENS-ILLINOIS INC	OI	0.03%	0.00%	0.0000%	15.00%	0.01%
ONEOK INC	OKE	0.06%	2.79%	0.0018%	6.30%	0.00%
OMNICOM GROUP	OMC	0.11%	2.08%	0.0023%	9.65%	0.01%
ORACLE CORP	ORCL	1.35%	0.59%	0.0079%	14.17%	0.19%

STANDARD AND POOR'S 500 INDEX

Name	Ticker	[23] Weight in Index	[24] Estimated Dividend Yield	[25] Cap-Weighted Dividend Yield	[26] Long-Term Growth Est.	[27] Cap-Weighted Long-Term Growth Est.
O'REILLY AUTOMOTIVE INC	ORLY	0.07%	0.00%	0.0000%	13.80%	0.01%
OCCIDENTAL PETROLEUM CORP	OXY	0.69%	1.69%	0.0116%	9.44%	0.06%
PAYCHEX INC	PAYX	0.09%	4.07%	0.0037%	11.80%	0.01%
PEOPLE'S UNITED FINANCIAL	PBCT	0.04%	4.68%	0.0018%	7.67%	0.00%
PITNEY BOWES INC	PBI	0.04%	6.44%	0.0024%	n/a	n/a
PACCAR INC	PCAR	0.15%	1.50%	0.0023%	13.00%	0.02%
P G & E CORP	PCG	0.14%	4.35%	0.0059%	5.04%	0.01%
PLUM CREEK TIMBER CO	PCL	0.05%	4.15%	0.0022%	2.00%	0.00%
PRICELINE.COM INC	PCLN	0.21%	0.00%	0.0000%	21.25%	0.04%
PRECISION CASTPARTS CORP	PCP	0.19%	0.08%	0.0001%	10.90%	0.02%
METROPCS COMMUNICATIONS INC	PCS	0.05%	0.00%	0.0000%	23.29%	0.01%
PATTERSON COS INC	PDCO	0.03%	0.78%	0.0003%	12.27%	0.00%
PUBLIC SERVICE ENTERPRISE GP	PEG	0.13%	4.21%	0.0056%	2.00%	0.00%
PEPSICO INC	PEP	0.90%	2.90%	0.0262%	8.40%	0.08%
PFIZER INC	PFE	1.32%	3.85%	0.0508%	3.02%	0.04%
PRINCIPAL FINANCIAL GROUP	PFG	0.08%	1.91%	0.0015%	11.97%	0.01%
PROCTER & GAMBLE CO/THE	PG	1.44%	3.02%	0.0435%	9.29%	0.13%
PROGRESS ENERGY INC	PGN	0.11%	5.18%	0.0059%	4.35%	0.00%
PROGRESSIVE CORP	PGR	0.11%	1.87%	0.0021%	7.75%	0.01%
PARKER HANNIFIN CORP	PH	0.12%	1.34%	0.0016%	6.00%	0.01%
PULTEGROUP INC	PHM	0.02%	0.00%	0.0000%	10.00%	0.00%
PERKINELMER INC	PKI	0.02%	1.04%	0.0003%	14.95%	0.00%
PROLOGIS INC	PLD	0.13%	2.89%	0.0038%	10.26%	0.01%
PALL CORP	PLL	0.05%	1.17%	0.0006%	10.50%	0.01%
PHILIP MORRIS INTERNATIONAL	PM	0.96%	4.16%	0.0401%	10.67%	0.10%
PNC FINANCIAL SERVICES GROUP	PNC	0.25%	1.97%	0.0050%	8.08%	0.02%
PINNACLE WEST CAPITAL	PNW	0.04%	4.74%	0.0019%	4.20%	0.00%
PEPCO HOLDINGS INC	POM	0.04%	5.58%	0.0020%	6.25%	0.00%
PPG INDUSTRIES INC	PPG	0.12%	2.54%	0.0030%	9.47%	0.01%
PPL CORPORATION	PPL	0.13%	5.05%	0.0066%	4.19%	0.01%
PRUDENTIAL FINANCIAL INC	PRU	0.25%	1.97%	0.0049%	12.58%	0.03%
PUBLIC STORAGE	PSA	0.16%	3.18%	0.0050%	5.15%	0.01%
QUANTA SERVICES INC	PWR	0.03%	0.00%	n/a	11.83%	0.00%
PRAXAIR INC	PX	0.27%	1.84%	0.0049%	11.38%	0.03%
PIONEER NATURAL RESOURCES CO	PXD	0.08%	0.19%	0.0002%	23.68%	0.02%
QUALCOMM INC	QCOM	0.77%	1.36%	0.0105%	15.53%	0.12%
QEP RESOURCES INC	QEP	0.06%	0.19%	0.0001%	18.00%	0.01%
RYDER SYSTEM INC	R	0.02%	1.90%	0.0004%	13.30%	0.00%
REYNOLDS AMERICAN INC	RAI	0.18%	5.76%	0.0101%	8.00%	0.01%
ROWAN COMPANIES INC	RDC	0.04%	0.00%	0.0000%	13.33%	0.01%
REGIONS FINANCIAL CORP	RF	0.06%	0.65%	0.0004%	7.00%	0.00%
ROBERT HALF INTL INC	RHI	0.03%	2.05%	0.0007%	12.67%	0.00%
RED HAT INC	RHT	0.07%	0.00%	0.0000%	19.14%	0.01%
POLO RALPH LAUREN CORP	RL	0.07%	0.61%	0.0004%	13.50%	0.01%
ROCKWELL AUTOMATION INC	ROK	0.10%	1.61%	0.0016%	14.67%	0.01%
ROPER INDUSTRIES INC	ROP	0.06%	0.57%	0.0004%	14.50%	0.01%
ROSS STORES INC	ROST	0.08%	1.02%	0.0008%	13.00%	0.01%
RANGE RESOURCES CORP	RRC	0.07%	0.29%	0.0002%	29.00%	0.02%
RR DONNELLEY & SONS CO	RRD	0.03%	5.30%	0.0018%	10.00%	0.00%
REPUBLIC SERVICES INC	RSG	0.09%	2.65%	0.0025%	10.00%	0.01%
RADIOSHACK CORP	RSH	0.01%	1.86%	0.0002%	8.50%	0.00%
RAYTHEON COMPANY	RTN	0.14%	3.23%	0.0046%	9.00%	0.01%
SPRINT NEXTEL CORP	S	0.13%	0.00%	0.0000%	-71.94%	-0.09%
SAIC INC	SAI	0.05%	0.00%	n/a	8.00%	0.00%
STARBUCKS CORP	SBUX	0.24%	1.39%	0.0033%	17.62%	0.04%
SCANA CORP	SCG	0.04%	4.93%	0.0020%	4.85%	0.00%
SCHWAB (CHARLES) CORP	SCHW	0.16%	1.50%	0.0024%	7.00%	0.01%
SPECTRA ENERGY CORP	SE	0.14%	3.79%	0.0055%	9.33%	0.01%
SEALED AIR CORP	SEE	0.03%	2.20%	0.0007%	6.17%	0.00%
SEARS HOLDINGS CORP	SHLD	0.06%	0.00%	0.0000%	10.00%	0.01%
SHERWIN-WILLIAMS CO/THE	SHW	0.07%	1.75%	0.0013%	10.39%	0.01%
SIGMA-ALDRICH	SIAL	0.07%	0.98%	0.0007%	8.30%	0.01%
JM SMUCKER CO/THE	SJM	0.07%	2.37%	0.0017%	6.50%	0.00%
SCHLUMBERGER LTD	SLB	0.95%	1.13%	0.0107%	15.12%	0.14%
SARA LEE CORP	SLE	0.09%	2.41%	0.0022%	7.33%	0.01%
SLM CORP	SLM	0.07%	1.78%	0.0013%	10.00%	0.01%
SNAP-ON INC	SNA	0.03%	0.00%	n/a	10.00%	0.00%
SANDISK CORP	SNDK	0.08%	0.00%	0.0000%	12.50%	0.01%
SCRIPPS NETWORKS INTER-CL A	SNI	0.05%	0.62%	0.0003%	13.23%	0.01%
SOUTHERN CO	SO	0.28%	4.64%	0.0129%	5.33%	0.01%
SIMON PROPERTY GROUP INC	SPG	0.28%	2.80%	0.0077%	6.00%	0.02%
STAPLES INC	SPLS	0.09%	2.46%	0.0022%	14.84%	0.01%
STERICYCLE INC	SRCL	0.06%	0.00%	n/a	16.50%	0.01%
SEMPRA ENERGY	SRE	0.10%	3.28%	0.0034%	6.43%	0.01%
SUNTRUST BANKS INC	STI	0.11%	0.57%	0.0006%	7.50%	0.01%
ST JUDE MEDICAL INC	STJ	0.13%	1.07%	0.0014%	12.39%	0.02%
STATE STREET CORP	STT	0.18%	1.40%	0.0026%	6.58%	0.01%
CONSTELLATION BRANDS INC-A	STZ	0.03%	0.00%	0.0000%	10.00%	0.00%
SUNOCO INC	SUN	0.04%	1.43%	0.0006%	5.00%	0.00%
SUPERVALU INC	SVU	0.02%	3.75%	0.0006%	n/a	n/a
STANLEY BLACK & DECKER INC	SWK	0.10%	2.28%	0.0022%	18.00%	0.02%
SOUTHWESTERN ENERGY CO	SWN	0.12%	0.00%	0.0000%	22.63%	0.03%
SAFEWAY INC	SWY	0.07%	2.14%	0.0014%	9.78%	0.01%
STRYKER CORP	SYK	0.18%	1.13%	0.0021%	12.19%	0.02%
SYMANTEC CORP	SYMC	0.12%	0.00%	0.0000%	8.40%	0.01%
SYSCO CORP	SYY	0.15%	3.35%	0.0049%	10.50%	0.02%
AT&T INC	T	1.51%	5.49%	0.0829%	5.85%	0.09%
MOLSON COORS BREWING CO -B	TAP	0.06%	2.66%	0.0016%	12.00%	0.01%
TERADATA CORP	TDC	0.08%	0.00%	n/a	13.83%	0.01%

STANDARD AND POOR'S 500 INDEX

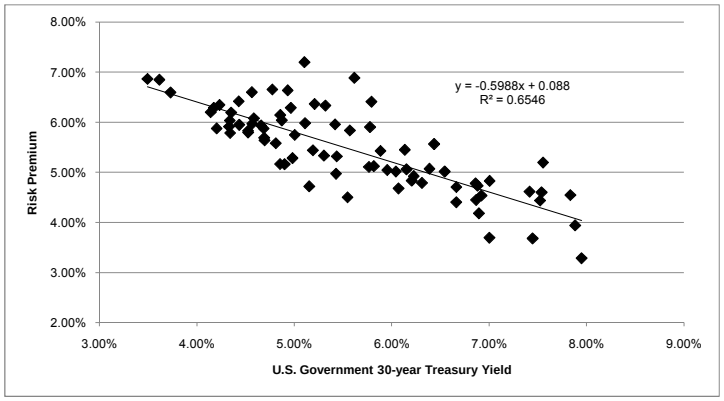
Name	Ticker	[23] Weight in Index	[24] Estimated Dividend Yield	[25] Cap-Weighted Dividend Yield	[26] Long-Term Growth Est.	[27] Cap-Weighted Long-Term Growth Est.
TECO ENERGY INC	TE	0.03%	4.50%	0.0015%	5.94%	0.00%
INTEGRYS ENERGY GROUP INC	TEG	0.03%	5.29%	0.0017%	8.67%	0.00%
TERADYNE INC	TER	0.02%	0.00%	0.0000%	16.00%	0.00%
TARGET CORP	TGT	0.26%	2.18%	0.0057%	11.51%	0.03%
TENET HEALTHCARE CORP	THC	0.02%	0.00%	0.0000%	9.10%	0.00%
TITANIUM METALS CORP	TIE	0.03%	0.00%	0.0000%	n/a	n/a
TIFFANY & CO	TIF	0.08%	1.43%	0.0012%	14.68%	0.01%
TJX COMPANIES INC	TJX	0.16%	1.39%	0.0023%	14.25%	0.02%
TELLABS INC	TLAB	0.01%	1.74%	0.0002%	8.50%	0.00%
TORCHMARK CORP	TMK	0.04%	1.02%	0.0004%	9.00%	0.00%
THERMO FISHER SCIENTIFIC INC	TMO	0.20%	0.00%	0.0000%	13.50%	0.03%
T ROWE PRICE GROUP INC	TROW	0.13%	2.03%	0.0026%	12.20%	0.02%
TRAVELERS COS INC/THE	TRV	0.20%	2.72%	0.0054%	8.25%	0.02%
TYSON FOODS INC-CL A	TSN	0.05%	0.82%	0.0004%	8.50%	0.00%
TESORO CORP	TSO	0.03%	0.00%	0.0000%	18.42%	0.00%
TOTAL SYSTEM SERVICES INC	TSS	0.03%	1.51%	0.0004%	9.86%	0.00%
TIME WARNER CABLE	TWC	0.21%	2.46%	0.0052%	13.35%	0.03%
TIME WARNER INC	TWX	0.32%	2.58%	0.0082%	14.05%	0.04%
TEXAS INSTRUMENTS INC	TXN	0.31%	1.59%	0.0049%	11.03%	0.03%
TEXTRON INC	TXT	0.05%	0.49%	0.0003%	44.96%	0.02%
TYCO INTERNATIONAL LTD	TYC	0.19%	2.01%	0.0038%	12.76%	0.02%
UNITEDHEALTH GROUP INC	UNH	0.45%	1.05%	0.0048%	12.58%	0.06%
UNUM GROUP	UNM	0.06%	1.49%	0.0009%	9.33%	0.01%
UNION PACIFIC CORP	UNP	0.42%	1.56%	0.0065%	16.13%	0.07%
UNITED PARCEL SERVICE-CL B	UPS	0.44%	2.80%	0.0122%	12.03%	0.05%
URBAN OUTFITTERS INC	URBN	0.04%	0.00%	0.0000%	19.40%	0.01%
US BANCORP	USB	0.40%	1.93%	0.0077%	7.00%	0.03%
UNITED TECHNOLOGIES CORP	UTX	0.66%	2.07%	0.0136%	11.51%	0.08%
VISA INC-CLASS A SHARES	V	0.36%	0.69%	0.0025%	19.36%	0.07%
VARIAN MEDICAL SYSTEMS INC	VAR	0.07%	0.00%	0.0000%	15.05%	0.01%
VF CORP	VFC	0.10%	2.31%	0.0022%	10.60%	0.01%
VIACOM INC-CLASS B	VIA/B	0.22%	0.76%	0.0017%	17.10%	0.04%
VALERO ENERGY CORP	VLO	0.12%	0.84%	0.0010%	5.17%	0.01%
VULCAN MATERIALS CO	VMC	0.04%	2.60%	0.0010%	8.60%	0.00%
VORNADO REALTY TRUST	VNO	0.14%	2.94%	0.0041%	4.49%	0.01%
VERISIGN INC	VRSN	0.05%	0.00%	0.0000%	13.60%	0.01%
VENTAS INC	VTR	0.08%	4.37%	0.0035%	5.11%	0.00%
VERIZON COMMUNICATIONS INC	VZ	0.85%	5.28%	0.0452%	5.87%	0.05%
WALGREEN CO	WAG	0.31%	1.67%	0.0052%	14.80%	0.05%
WATERS CORP	WAT	0.07%	0.00%	0.0000%	14.20%	0.01%
WESTERN DIGITAL CORP	WDC	0.07%	0.00%	0.0000%	6.50%	0.00%
WISCONSIN ENERGY CORP	WEC	0.06%	3.32%	0.0020%	6.75%	0.00%
WELLS FARGO & CO	WFC	1.20%	1.75%	0.0210%	10.00%	0.12%
WHOLE FOODS MARKET INC	WFM	0.09%	0.60%	0.0005%	18.05%	0.02%
MEMC ELECTRONIC MATERIALS	WFR	0.02%	0.00%	0.0000%	15.00%	0.00%
WHIRLPOOL CORP	WHR	0.05%	2.29%	0.0012%	15.00%	0.01%
WINDSTREAM CORP	WIN	0.05%	7.72%	0.0041%	-2.38%	0.00%
WELLPOINT INC	WLP	0.23%	1.27%	0.0030%	10.67%	0.03%
WASTE MANAGEMENT INC	WM	0.14%	3.65%	0.0052%	9.87%	0.01%
WILLIAMS COS INC	WMB	0.14%	2.59%	0.0037%	19.80%	0.03%
WAL-MART STORES INC	WMT	1.50%	2.70%	0.0405%	10.71%	0.16%
WATSON PHARMACEUTICALS INC	WPI	0.07%	0.00%	0.0000%	10.82%	0.01%
WASHINGTON POST-CLASS B	WPO	0.02%	0.00%	n/a	n/a	n/a
WESTERN UNION CO	WU	0.10%	1.42%	0.0015%	12.56%	0.01%
WEYERHAEUSER CO	WY	0.10%	2.77%	0.0026%	10.33%	0.01%
WYNDHAM WORLDWIDE CORP	WYN	0.05%	1.78%	0.0008%	10.57%	0.00%
WYNN RESORTS LTD	WYNN	0.15%	1.22%	0.0018%	50.18%	0.07%
UNITED STATES STEEL CORP	X	0.05%	0.43%	0.0002%	6.50%	0.00%
XCEL ENERGY INC	XEL	0.10%	4.26%	0.0041%	5.30%	0.01%
XL GROUP PLC	XL	0.06%	1.95%	0.0011%	10.00%	0.01%
XILINX INC	XLNX	0.08%	1.99%	0.0016%	11.67%	0.01%
EXXON MOBIL CORP	XOM	3.25%	2.23%	0.0725%	4.87%	0.16%
DENTSPLY INTERNATIONAL INC	XRAY	0.04%	0.41%	0.0002%	11.75%	0.01%
XEROX CORP	XRX	0.12%	1.63%	0.0019%	13.67%	0.02%
YAHOO! INC	YHOO	0.16%	0.00%	0.0000%	14.47%	0.02%
YUM! BRANDS INC	YUM	0.21%	1.87%	0.0039%	12.64%	0.03%
ZIONS BANCORPORATION	ZION	0.04%	0.17%	0.0001%	7.75%	0.00%
ZIMMER HOLDINGS INC	ZMH	0.10%	0.00%	0.0000%	10.16%	0.01%

Notes:
[18] Equals sum of Col. [25]
[19] Equals sum of Col. [27]
[20] Equals ([18] x (1 + (0.5 x [19]))) + [19]
[21] Source: Bloomberg Professional
[22] Equals [20] − [21]
[23] Equals weight in S&P 500 based on market capitalization
[24] Source: Bloomberg Professional
[25] Equals Col. [23] x Col. [24] if Col. [24] ≠ n/a
[26] Source: Bloomberg Professional
[27] Equals Col. [23] x Col. [26] if Col. [26] ≠ n/a

BOND YIELD PLUS RISK PREMIUM

	[1] Average Authorized Electric ROE	[2] U.S. Govt. 30-year Treasury	[3] Risk Premium
1992.1	12.38%	7.84%	4.55%
1992.2	11.83%	7.88%	3.94%
1992.3	12.03%	7.42%	4.62%
1992.4	12.14%	7.54%	4.60%
1993.1	11.84%	7.01%	4.83%
1993.2	11.64%	6.86%	4.78%
1993.3	11.15%	6.23%	4.92%
1993.4	11.04%	6.21%	4.84%
1994.1	11.07%	6.66%	4.40%
1994.2	11.13%	7.45%	3.68%
1994.3	12.75%	7.55%	5.20%
1994.4	11.24%	7.95%	3.29%
1995.1	11.96%	7.52%	4.44%
1995.2	11.32%	6.87%	4.45%
1995.3	11.37%	6.66%	4.71%
1995.4	11.58%	6.14%	5.45%
1996.1	11.46%	6.39%	5.07%
1996.2	11.46%	6.92%	4.54%
1996.3	10.70%	7.00%	3.70%
1996.4	11.56%	6.54%	5.02%
1997.1	11.08%	6.90%	4.18%
1997.2	11.62%	6.88%	4.73%
1997.3	12.00%	6.44%	5.56%
1997.4	11.06%	6.04%	5.02%
1998.1	11.31%	5.89%	5.43%
1998.2	12.20%	5.79%	6.41%
1998.3	11.65%	5.32%	6.33%
1998.4	12.30%	5.11%	7.20%
1999.1	10.40%	5.43%	4.97%
1999.2	10.94%	5.82%	5.12%
1999.3	10.75%	6.07%	4.68%
1999.4	11.10%	6.31%	4.79%
2000.1	11.21%	6.15%	5.06%
2000.2	11.00%	5.95%	5.05%
2000.3	11.68%	5.78%	5.90%
2000.4	12.50%	5.62%	6.88%
2001.1	11.38%	5.42%	5.96%
2001.2	10.88%	5.77%	5.11%
2001.3	10.76%	5.44%	5.32%
2001.4	11.57%	5.21%	6.36%
2002.1	10.05%	5.55%	4.50%
2002.2	11.41%	5.57%	5.83%
2002.3	11.25%	4.96%	6.29%
2002.4	11.57%	4.93%	6.63%
2003.1	11.43%	4.78%	6.65%
2003.2	11.16%	4.57%	6.60%
2003.3	9.88%	5.15%	4.72%
2003.4	11.09%	5.11%	5.98%
2004.1	11.00%	4.86%	6.14%
2004.2	10.64%	5.31%	5.33%
2004.3	10.75%	5.01%	5.74%
2004.4	10.91%	4.87%	6.04%
2005.1	10.56%	4.69%	5.87%
2005.2	10.13%	4.34%	5.78%
2005.3	10.85%	4.43%	6.41%
2005.4	10.59%	4.66%	5.93%
2006.1	10.38%	4.69%	5.69%
2006.2	10.63%	5.19%	5.44%
2006.3	10.06%	4.90%	5.16%
2006.4	10.33%	4.70%	5.64%
2007.1	10.39%	4.81%	5.58%
2007.2	10.27%	4.98%	5.28%
2007.3	10.02%	4.85%	5.16%
2007.4	10.36%	4.53%	5.83%
2008.1	10.37%	4.34%	6.03%
2008.2	10.54%	4.57%	5.97%
2008.3	10.38%	4.44%	5.95%
2008.4	10.36%	3.49%	6.86%
2009.1	10.46%	3.62%	6.85%
2009.2	10.58%	4.23%	6.34%
2009.3	10.46%	4.18%	6.28%
2009.4	10.54%	4.35%	6.19%
2010.1	10.66%	4.59%	6.08%
2010.2	10.08%	4.20%	5.87%
2010.3	10.32%	3.73%	6.59%
2010.4	10.34%	4.14%	6.20%
2011.1	10.32%	4.53%	5.80%
2011.2	10.24%	4.33%	5.91%
AVERAGE	11.03%	5.57%	5.46%
MEDIAN	11.02%	5.37%	5.51%

BOND YIELD PLUS RISK PREMIUM



SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.809096
R Square	0.654636
Adjusted R Square	0.650091
Standard Error	0.004913
Observations	78

ANOVA

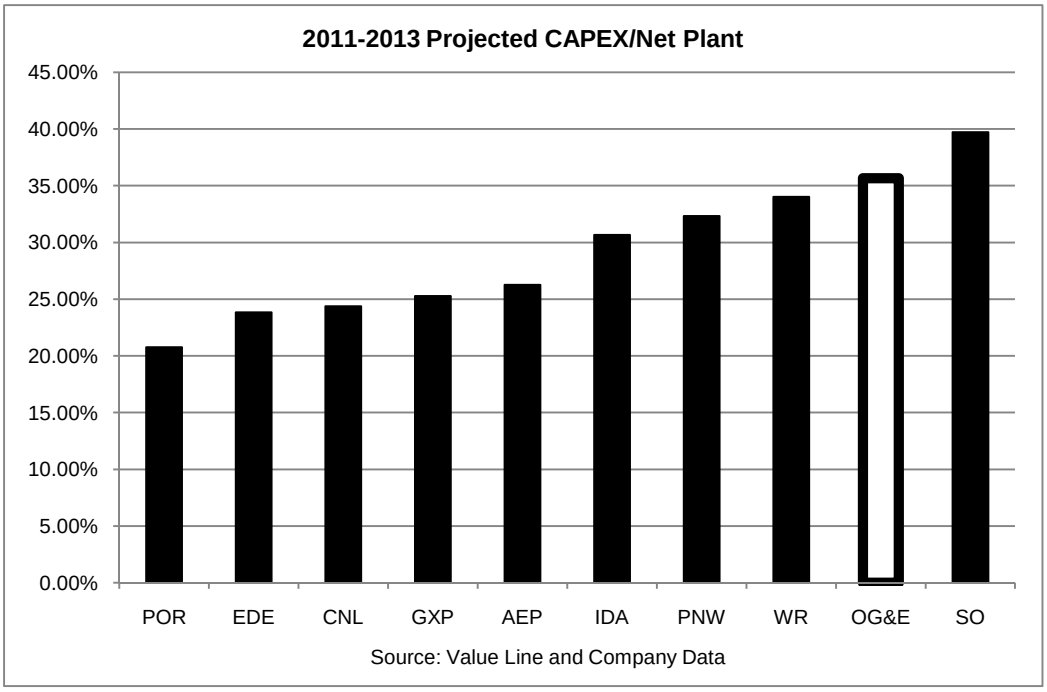
	df	*SS*	*MS*	*F*	*Sig. F*
Regression	1	0.003478	0.003478	144.057428	0.000000
Residual	76	0.001835	0.000024		
Total	77	0.005312			

	Coefficients	*Std. Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.087971	0.002832	31.064372	0.000000	0.082331	0.093612	0.082331	0.093612
U.S. Govt. 30-year Treasury	-0.598790	0.049889	-12.002393	0.000000	-0.698152	-0.499427	-0.698152	-0.499427

	[7] U.S. Govt. 30-year Treasury	[8] Risk Premium	[9] Authorized ROE
Current 30-Day Average [4]	4.24%	6.26%	10.50%
Blue Chip Consensus Forecast (Q2 2011-Q3 2012) [5]	4.78%	5.93%	10.72%
Blue Chip Consensus Forecast (2013-2022) [6]	5.65%	5.41%	11.06%
AVERAGE			10.76%

Notes:
[1] Source: Regulatory Research Associates, accessed July 6, 2011
[2] Source: Bloomberg Professional, quarterly bond yields are the average of the last trading day of each month in the quarter
[3] Equals Column [1] − Column [2]
[4] Source: Bloomberg Professional
[5] Source: Blue Chip Financial Forecasts, Vol. 30, No. 6, June 1, 2011, at 2
[6] Source: Blue Chip Financial Forecasts, Vol. 30, No. 6, June 1, 2011, at 14
[7] *See notes [4], [5] & [6]*
[8] Equals 0.087971 + (-0.598790 x Column [7])
[9] Equals Column [7] + Column [8]

CAPITAL EXPENDITURES



Projected CAPEX / 2010 Net Plant

Company	2011-2013[1]
Portland General	20.75%
Empire District	23.85%
Great Plains Energy	24.38%
Cleco Corp.	25.29%
American Electric Power	26.26%
IDACORP, Inc.	30.67%
Pinnacle West	32.34%
Westar Energy	34.03%
OG&E	35.65%
Southern Company	39.71%

Notes:
[1] OG&E's Capital expenditures are projected through 2011-2013, however Value Line projects capital expenditures through 2011, 2012, and 2014.

PROXY GROUP MEDIAN MARKET CAPITALIZATION

Company Name (Ticker)	Ticker	[1] Customers (Mil)	[2] Market Cap. ($Bil)	[3] Market-to-Book Ratio
American Electric Power Company, Inc.	AEP	5.22	18.19	1.32
Cleco Corporation	CNL	0.28	2.10	1.57
Empire District Electric Company	EDE	0.21	0.82	1.24
Great Plains Energy Inc.	GXP	0.82	2.81	0.98
IDACORP, Inc.	IDA	0.49	1.92	1.24
Pinnacle West Capital Corporation	PNW	1.11	4.81	1.33
Portland General Electric Company	POR	0.82	1.91	1.16
Southern Company	SO	4.40	33.79	2.05
Westar Energy, Inc.	WR	0.69	3.03	1.26
MEDIAN		0.82	$2.81	1.26
MEAN		1.56	$7.71	1.35

SIZE PREMIUM CALCULATION

OG&E Common Equity ($Mil)	1,775.28	[4]
Median Market to Book for Proxy Group	1.26	
OG&E Implied Market Capitalization ($Mil)	2,231.28	

Decile	Market Capitalization (in $millions) Low	High	Size Premium [5]
2	$ 6,895.258	$ 15,079.529	0.81%
3	$ 3,714.445	$ 6,793.876	1.01%
4	$ 2,512.137	$ 3,710.985	1.20%
5	$ 1,778.756	$ 2,509.152	1.81%
6	$ 1,214.679	$ 1,775.966	1.82%
7	$ 772.795	$ 1,212.260	1.88%
8	$ 478.102	$ 771.789	2.65%
9	$ 235.725	$ 477.539	2.94%
10	$ 1.222	$ 235.647	6.36%
Proxy Group Median		$ 2,813.029	1.20%
OG&E Implied Market Capitalization		$ 2,231.279	1.81%
Difference from Proxy Group Median			0.61% [6]

Notes:
[1] Source: SNL Financial; includes electric and gas customers
[2] Source: Bloomberg; equals 30-day average as of June 30, 2011
[3] Source: Bloomberg; equals 30-day average as of June 30, 2011
[4] Source: OG&E Rate Filing Schedule B-2 for Rate Base (Rate Base x Percent Common Equity)
[5] Source: 2011 Ibbotson Risk Premia Over Time Report; Estimates for 1926 - 2010, p 4.
[6] Equals 1.81% − 1.20%

FLOTATION COST ADJUSTMENT

Two most recent common stock issuances per company, if available

Company	Date	Shares Issued	Offering Price	Under-writing Discount	Offering Expense	Net Proceeds Per Share	Total Flotation Costs	Gross Equity Issue Before Costs	Net Proceeds	Flotation Cost Percentage
OGE Energy Corp.	8/22/2003	5,324,074	$21.60	$0.7900	$325,000	$20.75	$4,531,018	$114,999,998	$110,468,980	3.940%
American Electric Power Company, Inc.	4/1/2009	69,000,000	$24.50	$0.7350	$400,000	$23.76	$51,115,000	$1,690,500,000	$1,639,385,000	3.024%
American Electric Power Company, Inc.	2/27/2003	57,500,000	$20.95	$0.6285	$550,000	$20.31	$36,688,750	$1,204,625,000	$1,167,936,250	3.046%
Cleco Corp.	8/14/2006	6,900,000	$23.75	$0.8900	$225,000	$22.83	$6,366,000	$163,875,000	$157,509,000	3.885%
Cleco Corp.	11/9/2004	2,000,000	$18.50	$0.6475	$200,000	$17.75	$1,495,000	$37,000,000	$35,505,000	4.041%
Empire District Electric Company	12/6/2007	3,450,000	$23.00	$0.9775	$250,000	$21.95	$3,622,375	$79,350,000	$75,727,625	4.565%
Empire District Electric Company	6/15/2006	3,795,000	$20.25	$0.8600	$250,000	$19.32	$3,513,700	$76,848,750	$73,335,050	4.572%
Great Plains Energy Inc.	5/12/2009	11,500,000	$14.00	$0.4900	$500,000	$13.47	$6,135,000	$161,000,000	$154,865,000	3.811%
Great Plains Energy Inc.	5/18/2006	7,002,450	$27.50	$0.8938	$500,000	$26.53	$6,758,790	$192,567,375	$185,808,585	3.510%
IDACORP, Inc.	12/9/2004	4,025,000	$30.00	$1.2000	$300,000	$28.73	$5,130,000	$120,750,000	$115,620,000	4.248%
Pinnacle West Capital Corp.	4/8/2010	6,900,000	$38.00	$1.3300	$190,000	$36.64	$9,367,000	$262,200,000	$252,833,000	3.572%
Pinnacle West Capital Corp.	4/27/2005	6,095,000	$42.00	$1.3650	$250,000	$40.59	$8,569,675	$255,990,000	$247,420,325	3.348%
Portland General Electric Company	3/5/2009	12,477,500	$14.10	$0.4935	$375,000	$13.58	$6,532,646	$175,932,750	$169,400,104	3.713%
Portland General Electric Company	6/12/2007	23,658,106	$26.00	$0.7800	$700,000	$25.19	$19,153,323	$615,110,756	$595,957,433	3.114%
Southern Company	12/6/2000	28,750,000	$28.50	$0.9200	$490,000	$27.56	$26,940,000	$819,375,000	$792,435,000	3.288%
Westar Energy, Inc.	11/4/2010	8,625,000	$25.54	$0.8939	$250,000	$24.62	$7,959,888	$220,282,500	$212,322,613	3.613%
Westar Energy, Inc.	5/29/2008	6,900,000	$24.28	$0.8498	$325,000	$23.38	$6,188,620	$167,532,000	$161,343,380	3.694%
							$210,066,785	$6,357,939,129	$6,147,872,345	3.304%

The flotation adjustment is derived by dividing the dividend yield by 1 − F (where F = flotation costs expressed in percentage terms), or by 0.9670, and adding that result to the constant growth rate to determine the cost of equity. Using the formulas shown previously in my testimony, the Constant Growth DCF calculation is modified as follows to accommodate an adjustment for flotation costs:

$$k = \frac{D \times (1 + 0.5g)}{P \times (1 - F)} + g$$

FLOTATION COST ADJUSTMENT

Company	Ticker	[1] Annualized Dividend	[2] Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] Expected Div. Yield Adj. for Flotation Costs	[6] First Call Earnings Growth	[7] Zacks Earnings Growth	[8] Value Line Earnings Growth	[9] Average Earnings Growth	[10] DCF	[11] Flotation Adjusted DCF
American Electric Power Company, Inc.	AEP	$1.84	$37.76	4.87%	4.97%	5.14%	3.65%	4.00%	4.50%	4.05%	9.02%	9.19%
Cleco Corp.	CNL	$1.12	$34.42	3.25%	3.34%	3.46%	3.00%	7.00%	6.00%	5.33%	8.67%	8.79%
Empire District Electric Company	EDE	$1.28	$19.63	6.52%	6.73%	6.96%	6.00%	n/a	7.00%	6.50%	13.23%	13.46%
Great Plains Energy Inc.	GXP	$0.83	$20.69	4.01%	4.16%	4.30%	7.50%	9.00%	6.00%	7.50%	11.66%	11.80%
IDACORP, Inc.	IDA	$1.20	$38.81	3.09%	3.16%	3.27%	4.67%	4.70%	4.00%	4.46%	7.62%	7.73%
Pinnacle West Capital Corp.	PNW	$2.10	$44.16	4.76%	4.89%	5.06%	6.38%	5.00%	6.00%	5.79%	10.69%	10.85%
Portland General Electric Company	POR	$1.06	$25.35	4.18%	4.30%	4.45%	4.65%	5.00%	7.50%	5.72%	10.02%	10.16%
Southern Company	SO	$1.89	$39.80	4.75%	4.88%	5.05%	5.51%	5.00%	6.00%	5.50%	10.38%	10.55%
Westar Energy, Inc.	WR	$1.28	$26.66	4.80%	4.97%	5.14%	6.57%	6.30%	8.50%	7.12%	12.10%	12.27%
MEAN											10.38%	10.53%
												0.16% [12]

Notes:
[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional, equals 30-day average as of June 30, 2011
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [9])
[5] Equals [4] / (1 − Flotation Cost)
[6] Source: Yahoo! Finance
[7] Source: Zacks
[8] Source: Value Line
[9] Equals Average ([6], [7], [8])
[10] Equals [4] + [9]
[11] Equals [5] + [9]
[12] Equals Average of [11] − Average of [10]

Revenue Adjustment Mechanisms in Effect at Utility Subsidiaries of the Proxy Group

Contents

American Electric Power (AEP)

AEP Texas Central Company	
Rider NDC- Nuclear Decommissioning Collections	The Nuclear Decommissioning Charges collected under this rider are transferred to a trust that will hold the funds for future nuclear plant decommissioning.
Schedule TCRF- Transmission Cost Recovery Factor	Each retail customer connected to the Company's transmission or distribution system will be assessed a non-by-passable transmission service charge adjustment pursuant to this rider.
Rider EECRF- Energy Efficiency Cost Recovery Factors	This Rider recovers the cost of energy efficiency programs not already included in base distribution service rates and is applicable to the kWh sales of retail customers taking retail electric delivery service from the Company.
Rider TCE- True-Up Case Expenses Surcharge	Rider TCE is designed to recover Commission approved true-up case related expenses. This schedule is applicable to energy consumption and demands of retail customers taking transmission and/or distribution service from the Company.
Rider RCS-2 – Rate Case Surcharge #2	Rider RCS-2 is designed to recover Commission approved deferred rate case expenses.
Rider AMSCRF- Advanced Metering System Cost Recovery Fee	This Rider is applicable to retail customers receiving metered service for which the Company will install an advanced metering system during the recovery period approved by the PUCT.
AEP Texas North Company	
Schedule TCRF- Transmission Cost Recovery Factor- ERCOT System	Each retail customer connected to the Company's transmission or distribution system will be assessed a non-by-passable transmission service charge adjustment.
Rider RCS– Rate Case Surcharge	Rider RCS is designed to recover Commission approved rate case expenses.
Rider AMSCRF- Advanced Metering System Cost Recovery Fee	This Rider is applicable to retail customers receiving metered service for which the Company will install an Advanced Metering Infrastructure system during the recovery period approved by the PUCT.
Rider EECRF- Energy Efficiency Cost Recovery Factors	This Rider recovers the cost of energy efficiency programs not already included in base distribution service rates and is applicable to the kWh sales of retail customers taking retail electric delivery service from the Company.
Kingsport Power Company	
Purchased Power Adjustment Rider	Kingsport Power is authorized under this rider to apply a surcharge to all customer bills to allow for changes in the non-fuel cost of purchased power from the Company's wholesale power supplier.

Appalachian Power Company- Virginia	
Environmental and Reliability Cost Recovery Surcharge	Under this rider, the Company will collect an incremental environmental compliance and Transmission and Distribution system reliability cost recovery surcharge.
Fuel Factor Rider	This rider allows the Company to recover its cost of fuel used in generation of electricity.
Transmission Rate Adjustment Clause Rider	The Transmission Rate Adjustment Rider will be applied to all standard customer bills rendered under the applicable standard schedules or special contracts. This Rider allows the Company to recover transmission related investment.
Wheeling Power Company	
Schedule L.E.- Line Extensions	Customers are charged for line extensions based on installed extensions on a monthly basis.
Southwestern Electric Power Company- Arkansas Jurisdiction	
Energy Cost Recovery Rider (ECR)	The Energy Cost Rate recovers the Company's net fuel and purchased energy cost.
Charges for Special or Additional Facilities	In the event facilities in excess of a normal installation are found to be required to serve the Customer's load, or are requested by the Customer and approved by the Company, the Company is required to furnish, install, and maintain such facilities with a monthly charge to the Customer.
Redundant Service Policy for Municipal Accounts	Certain customers are charged additional fees for redundant service. Additional charges are based on consumption.
Extension of Facilities Agreement	This Rider provides for cost recovery of Company investment in the extension of facilities when the revenue generated from such investment will not cover the entire cost.
Radio Frequency Meter Installation Rider	A customer may request (or elect upon request by the Company) to have a radio frequency meter installed under the terms of this Rider as a mutually agreeable solution to Company personnel's lack of meter reading access to Company metering equipment on a customer's premises, due to a locked gate, animal concern, safety concern or other reason. This Rider lays out the one-time, non-refundable installation fee from the customer to the Company.
Energy Efficiency Cost Rate Rider (EECR)	The purpose of this Rider is to establish the EECR rate(s) by which the Company will recover the incremental costs of energy efficiency programs approved by the Commission.
Federal Litigation Consulting Fee Rider	The Federal Litigation Consulting Fee Rate enables the Company to recover the fees and expenses paid by the Company to contract attorneys and consultants retained by the Arkansas Public Service Commission, as authorized by the General Assembly, when it participates in litigation before a federal agency or federal court in proceedings that affect the Company.

Alternative Generation Recovery Rider	This Generation Recovery Rider is designed to adjust monthly billings to recover costs associated with the Stall Generating Facility. The Rider is designed to recover return on and of the generation facility and operation and maintenance expenditures after the facility commences commercial operation.
Southwestern Electric Power Company- Louisiana Jurisdiction	
Off-Peak Service Rider to the Lighting and Power Service Schedule and Metal Melting Service Schedule	This rider is available to customers receiving electric service under either the Lighting and Power Service or the Metal Melting Service schedule when prearrangement has been made by contract for the installation of adequate facilities, including appropriate metering. Customers who contract for service under this rider will be billed a Customer Charge of $70.00 per month to help defray the additional costs incurred by the Company in providing service hereunder.
Fuel Adjustment Rider	All kilowatt-hours sold will be adjusted to reflect the current cost of fuel. This Rider recovers the net cost of fuel consumed in the Company's generating plants, plus the net cost of purchased economy and emergency energy, as well as energy purchased from qualifying small production or cogeneration facilities.
Charges for Special or Additional Facilities	In the event facilities in excess of a normal installation are found to be required to serve the Customer's load, or are requested by the Customer and approved by the Company, the Company is required to furnish, install, and maintain such facilities with a monthly charge to the Customer.
Rider for Radio Frequency Meter Installation	A customer may request (or elect upon request by the Company) to have a radio frequency meter installed under the terms of this Rider as a mutually agreeable solution to Company personnel's lack of meter reading access to Company metering equipment on a customer's premises, due to a locked gate, animal concern, safety concern or other reason. This Rider lays out the one-time, non-refundable installation fee from the customer to the Company.
Formula Rate Plan Rider Schedule (FRP)	The Formula Rate Plan Rider defines the procedure by which the rates contained in the Company rate schedules may be periodically adjusted. The FRP stipulates an authorized rate of return with a bandwidth.
Southwestern Electric Power Company- East Texas Jurisdiction	
Fixed Fuel Factor Tariff	The Fixed Fuel Factor provides for the recovery of the net costs of fuel used to procure electricity for retail customers.
Energy Efficiency Cost Recovery Rider	This Rider recovers the cost of energy efficiency programs not included in base rates.
Purchased Power and Conservation Factor (PPCF)	This rider covers the costs of demand-side management resources and renewable energy resources that are approved for PPCF cost recovery by the Commission but are not recovered in base rates.
Southwestern Electric Power Company- North Texas Jurisdiction	
Fixed Fuel Factor Rider	This Rider allows for the recovery of the fixed costs related to fuel procurement for power production.

Fuel Surcharge	This surcharge allows for the recovery of the net cost of fuel to the Company to provide retail electric distribution service.
Energy Efficiency Cost Recovery Rider	This Rider recovers the cost of energy efficiency programs not included in base rates.
Columbus Southern Power Company	
Provider of Last Resort Charge Rider	This Rider allows the Company to recoup the costs related to the obligation to customers to be the provider of last resort.
Monongahela Power Litigation Termination Rider	This temporary Rider shall remain in effect until the amounts authorized by the Commission in Case No. 05-765-EL-UNC have been collected.
Transmission Cost Recovery Rider	This Rider allows the Company to recover the costs associated with transmission investment that are not recovered in base rates.
Fuel Adjustment Clause Rider	The Fuel Adjustment Clause Rider permits the Company to pass along to customers the net actual cost of fuel used in power procurement.
Energy Efficiency and Peak Demand Reduction Cost Recovery Rider	The Energy Efficiency and Peak Demand Reduction Cost Recovery charge provides for the recovery of costs related to energy efficiency programs and demand side management programs used to attenuate peak demand.
Enhanced Service Reliability Rider	The Enhanced Service Reliability Riders allows for the recovery of costs associated with improvements made to the reliability and integrity of the distribution system.
gridSMART Rider	This Rider recovers the cost of purchasing and installing SMART technology.
Economic Cost Recovery Rider	Recovery of economic development costs authorized by the Commission.
Ohio Power Company	
Provider of Last Resort Charge Rider	This Rider allows the Company to recoup the costs related to the obligation to customers to be the provider of last resort.
Transmission Cost Recovery Rider	This Rider allows the Company to recover the costs associated with transmission investment that are not recovered in base rates.
Fuel Adjustment Clause Rider	The Fuel Adjustment Clause Rider permits the Company to pass along to customers the net actual cost of fuel used in power procurement.
Energy Efficiency and Peak Demand Reduction Cost Recovery Rider	The Energy Efficiency and Peak Demand Reduction Cost Recovery Rider provides for the recovery of costs related to energy efficiency programs and demand side management programs used to reduce peak demand.

Enhanced Service Reliability Rider	The Enhanced Service Reliability Rider allows for the recovery of costs associated with improvements made to the reliability and integrity of the distribution system.
Economic Cost Recovery Rider	Recovery of economic development costs authorized by the Commission.
Indiana Michigan Power Company- Indiana Jurisdiction	
Fuel Adjustment Rider	The Fuel Adjustment Clause Rider permits the Company to pass along to customers the net actual cost of fuel used in power procurement. The costs eligible for recovery include the average cost of fossil and nuclear fuel consumed at the Company's own plants, plus net purchased power costs, and nuclear fuel disposal costs.
Demand-Side Management/ Energy Efficiency Program Cost Rider	This Rider allows for cost recovery associated with demand-side management and energy efficiency programs.
PJM Cost Rider	This adjustment allows for the recovery of demand-related and energy-related costs related to PJM.
Environmental Compliance Cost Rider	This Rider allows for the recovery of environmental compliance costs not included in base rates.
Clean Coal Technology Rider	The Clean Coal Technology Rider (CTTR) provides for the cost recovery of the revenue requirement associated with CCTR investment, depreciation expense on in-service CCTR property, operation and maintenance expenses on CCTR property, and costs of consumables and chemical agents.
Off-System Sales Margin Sharing Rider	This rider provides for the sharing of off-system sales margins through a per kWh adjustment to applicable customer bills. The adjustment for each tariff class is based upon a specified cost sharing factor calculation.
Indiana Michigan Power Company – Michigan Jurisdiction	
OAD- Nuclear Decommissioning Surcharge Rider	The Nuclear Decommissioning Surcharge Rider provides for cost recovery of future nuclear decommissioning costs. The charge is a per kWh charge by rate class.
OAD- Energy Optimization Surcharge Rider	The Energy Optimization surcharge funds energy optimization programs conducted by a Commission-approved energy optimization program administrator.
Power Supply Cost Recovery	This clause permits the monthly adjustment of rates to recover the booked costs, including transportation costs, reclamation costs, and disposal and reprocessing costs, of fuel burned for electric generation, the booked costs of purchased and net interchange power transactions and the cost of transmission service incurred under reasonable and prudent policies and practices.

Net Lost Revenue Recovery Surcharge	The Commission approved settlement of Case No. U-16180 authorized the creation of a regulatory asset for the Net Lost Revenue associated with lost sales that are caused by the Company's energy optimization program. The lost revenue is to be recovered through this rider.
Kentucky Power Company	
Fuel Adjustment Clause	The Fuel Adjustment clause allows for the recovery of fossil fuel and nuclear fuel consumed in the utility's own plants and the net costs of purchased power. This periodic adjustment allows for the recovery of the difference between actual fuel costs and sales.
Demand-Side Management Adjustment Clause	The Demand-Side Management Clause allows for the recovery of demand-side management programs, net lost revenues, incentives, and any over/under recovery balances.
Environmental Surcharge	The environmental surcharge provides for monthly adjustments based on the difference between the environmental compliance costs in a base period and the current period.
Capacity Charge	Kentucky Power Company is to recover from retail ratepayers the supplemental annual payments tied to the 18-year extension of the Rockpower Unit Power Agreement. The Company will apply surcharges under this Rider designed to enable the recovery from each tariff class of customers.

Public Service Company of Oklahoma	
Fuel Cost Adjustment Rider	The Fuel Cost Adjustment Rider allows for the recovery of the cost of fuel used in generation of electric services plus net purchased power costs.
Regulatory Assessment Rider	This Rider allows for the recovery of an annual assessment as billed by the Commission, and applies to all retail monthly customer billings.
Reliability Vegetation/ Undergrounding Rider	The RVU Factor is determined on a quarterly basis for each major rate class to incorporate the previous quarter's Eligible Reliability Costs expended and adjusted by any over or under recovery of costs from the previous three month billing period and applied to the billings for the next quarter. This rider allows for the recovery of reliability costs associated with vegetation management not included in base rates.
Purchased Power Capacity Rider	The Purchased Power Capacity Adjustment Rider allows for recovery of purchased power capacity costs.
Demand-Side Management Cost Recovery Rider	The DSM Rider is designed to recover costs associated with Energy Efficiency and Demand-side Management programs.
Regulatory Asset Recovery Rider	The RAR Rider is designed to recover costs associated with extraordinary operation and maintenance expenses resulting from the January and December 2007 ice storms.
Long-Term Base Load Purchased Power Rider	The BLPP Rider is designed to recover all costs associated with a particular contract, and with recovery of the one-time RFP costs.

Cleco Corporation (CNL)

Cleco Power	
Fuel Cost Adjustment	Monthly adjustment to recover the actual cost of fuel, including the cost of fuel to the company's generation and the cost of purchased power. Any sales of power are credited through this mechanism.
Storm Recovery Charge Adjustment	This adjustment recovers applicable storm restoration costs approved by the Louisiana Public Service Commission. This adjustment is reconciled semi-annually.
Formula Rate Plan	The Formula Rate Plan has a target ROE and capital structure. The FRP also allows for recovery of future revenue requirements for approved capacity purchases, construction, etc. The Company can propose additional projects to the LPSC during the FRP's initial four-year term.
Environmental Cost Adjustment	This adjustment provides for the recovery of certain costs of environmental compliance as an adder to customers' bills. The costs eligible for recovery are prudently incurred air emissions credits associated with complying with federal, state, and local air emission regulations and variable emission mitigation costs.

Empire District (EDE)

Arkansas	
Energy Cost Recovery Rider (ECR)	The annual determination of the ECR recovers EDE's net fuel and purchased energy cost.
Energy Efficiency Cost Recovery Tariff	Establishes rate in which EDE recovers incremental costs of energy efficiency programs. Limited to the incremental costs which represent direct program costs.
Transmission Cost Recovery Rider (TCR)	The TCR recovers EDE's net transmission costs, which will be determined annually.
Kansas	
Energy Cost Adjustment Rider	Monthly fuel cost true-up. Includes fuel costs, purchased energy costs, off-system sales cost/credits and emissions costs. Also includes prior period recovery.
Missouri	
Fuel Adjustment Clause	Semi-annual fuel cost true-up. Includes fuel costs, purchased energy costs, off-system sales cost/credits and emissions costs. Will also include prior recovery period sales variation and interest.
Vegetation Management and Infrastructure Inspection Tracker	Through this mechanism, the costs associated with these activities that vary from a base level are to be deferred for future recovery/refund.
Oklahoma	
DSM Cost Recovery Rider (DSM)	Establishes a DSM rate to receive the incremental costs which represent the direct program costs, associated lost revenues, true-up amounts, and earned program incentives. Annual re-determination.
Fuel Adjustment Rider	A rate to compensate for charges in the cost of fuel burned at the Company's thermal generating plants.
Storm Recovery Rider	True-up of total storm costs.

Great Plains Energy, Inc. (GXP)

KCP&L (Kansas)	
Energy Cost Adjustment (ECA)	Volumetric rate that recovers generation costs including fuel, purchased power, emission allowances, transmission costs. Rate is established monthly
Energy Efficiency Rider	Recovers the costs associated with Commission-approved affordability, energy efficiency and demand response programs. Rider and the cost estimates are filed annually with the Commission.
KCP&L (Missouri)	
None Found	
KCP&L Greater Missouri Operations (Missouri)	
Fuel Adjustment Clause	Through this mechanism, the Company recovers 95% of "prudently incurred" fuel and purchased power costs, net emissions allowance costs, and OSS revenues that vary from the levels included in base rates. The mechanism is adjusted semi-annually.

IDACORP, Inc. (IDA)

Idaho Power (Idaho)	
Power Cost Adjustment	The Power Cost Adjustment is a monthly adjustment mechanism allowing the Company to recover 95% of the difference between projected power costs and normal power costs included in base rates. In poor water, high cost years, Idaho ratepayers pay 95% of Idaho Power Company's abnormal power supply costs. In good water, low cost years, Idaho ratepayers are credited with 95% of any below normal cost savings.
Energy Efficiency Rider	The Energy Efficiency Rider is a means for Idaho Power to fund most of its demand-side management or energy efficiency, programs. The costs recovered under this rider are subject to prudence review by the Idaho Commission.
Fixed Cost Adjustment (FCA) - Decoupling	The Company establishes the costs charged to customers based on a fixed cost per customer that is then allocated on based on units of consumption. The Fixed Cost Adjustment is the difference between the allowed fixed cost recovery and the actual fixed cost recovery, adjusted for normal weather. The FCA is calculated monthly.
Accelerated Depreciation of Metering Infrastructure	On May 29, 2009, the Idaho Public Utility Commission allowed IPC to begin three-year accelerated depreciation of the existing metering equipment on June 1, 2009. The order reflects annualized depreciation expense relating to Advanced Metering Infrastructure.
Idaho Power (Oregon)	
Power Cost Adjustment Mechanism (PCAM)	This mechanism is an annual adjustment allowing the Company to recover 90% of the difference between actual power costs and normal power costs included in base rates. The PCA is subject to an earnings test with a deadband of 100 basis points. If the company earns less than its ROE by 100 basis points or more, the PCA true up is a charge to customers. If the Company has earned in excess of 100 basis points more than its allowed ROE, the company is required to include the PCA in a true-up balancing account as a credit to customers (back to a threshold of the authorized ROE plus 100 basis points).
Annual Power Cost Update (APCU)	The APCU allows Idaho Power to reestablish its Oregon base net power supply costs annually, separate from a general rate case, and to forecast net power supply costs for the upcoming water year.
Depreciation Adjustment Rider	This rider recovers accelerated depreciation of the existing metering infrastructure that is replaced by AMI metering, less the revenue requirement impact of the revised depreciation rates.
Energy Efficiency Rider	The Energy Efficiency Rider is a means for the company to recover the analysis and implementation of energy conservation and demand response programs.

Pinnacle West Capital (PNW)

Arizona Public Service	
Renewable Energy Standard (RES)	The RES is a component of the Environmental Benefits Surcharge that collects costs associated with compliance to state renewable energy standards. Related charges and caps may be modified periodically.
Environmental Improvement Surcharge	This surcharge recovers costs associated with investment and expenses for environmental improvements at Company generation facilities that the ACC has approved for recovery. Improvements must have been implemented on or after January 1, 2004, and include ongoing environmental improvement projects and environmental improvement projects comply with prospective required environmental standards.
Competition Rules Compliance Charge (CRCC)	This charge recovers over five years the costs of complying with the ACC Electric Competition Rules that were deferred through December 31, 2004. The CRCC will be canceled once the amount allowed is recovered or five years after the implementation of this rate schedule, whichever occurs first.
Demand Side Management Adjustment Charge	This charge is a component of the System Benefits Charge that recovers costs related to Commission approved demand side management programs above those costs included in base rates. The Charge is collected on a monthly basis.
Power Supply Adjustment (PSA)	The PSA applies to most retail electric rate schedules in accordance with their terms. It recovers costs associated with fuel and purchased power.
Transmission Cost Adjustment	This adjustment applies to most retail electric rate schedules in accordance with their terms.

Portland General (POR)

Portland General	
Regulatory Adjustments	This mechanism reflects the effects of regulatory adjustments such as net gains from nonrecurring property transactions, and costs associated with implementation of SB 1149 as well as miscellaneous nonrecurring items.
Public Purpose Charge	The charge is designed to collect funds associated with activities mandated for the benefit of the general public, such as energy conservation, new market transformation, new renewable energy resources and new low-income weatherization.
Energy Efficiency Customer Service	This adjustment is designed to fund Company activities associated with enabling customers to achieve energy efficiency, including but not limited to project facilitation, technical assistance, education and assistance to support programs administered by the Energy Trust of Oregon.
Energy Efficiency Funding Adjustment	This adjustment is designed to fund the acquisition of additional Energy Efficiency Measures for the benefit of the Company's customers, pursuant to the Oregon Renewable Energy Act, through programs administered by the Energy Trust of Oregon.
Renewable Resources Adjustment Clause	This schedule recovers the revenue requirements of qualifying Company-owned or contracted new renewable energy resource projects (including associated transmission) not otherwise included in rates. Additional new renewable projects may be incorporated into this schedule as they are placed in service.
Sales Normalization Adjustment (SNA) - Decoupling	This adjustment establishes balancing accounts and rate adjustment mechanisms to track and mitigate a portion of the transmission, distribution and fixed generation revenue variations caused by variations in applicable Customer Energy usage. The SNA reconciles on a monthly basis, differences between a) The monthly revenues resulting from applying distribution, transmission and fixed generation charges (Fixed Charge Energy Rate) to weather-normalized kWh Energy sales, and b) The Fixed Charge Revenues that would be collected by applying the Monthly Fixed Charge per Customer and to the numbers of active Customers, respectively, for each month.
Annual Power Cost Update	Rates are adjusted annually to account for changes in the Company's projected Net Variable Power Costs. The rate adjustment will be based on the Adjusted NVPC less the NVPC revenues that would occur at the NVPC prices determined in the Company's most recent general rate case applied to forecast loads used to determine changes in Net Variable Power Costs.
Annual Power Cost Variance Mechanism	This mechanism recognizes in rates part of the difference between actual and forecasted Net Variable Power Costs for a given year.
Demand Response Cost Recovery Mechanism	This mechanism will recover expenses associated with the implementation and operation (on a pilot basis) of an automated demand response program not otherwise included in rates. Rate adjustments will commence on January 1, 2012.

Short-Term Transition Adjustment	This schedule calculates the Short-Term Transition Adjustment to reflect the results of an ongoing valuation.
Long-Term Transition Cost Adjustment	This schedule calculates the Long-Term Transition Adjustment.
Underground Conversion Cost Recovery	This recovers costs incurred by the Company to convert electric facilities from overhead to underground from customers within the boundaries of the local government requiring such conversion at the Company's expense.

Southern Company (SO)

Alabama Power Company	
Fuel Cost Recovery	Alabama Power has established fuel cost recovery rates under an energy cost recovery clause ("Rate ECR", see below) approved by the Alabama PSC. Rates are based on an estimate of future energy costs and the current over- or under-recovered balance.
Rate Adjustment for Certificated New Plant (Rate CNP)	Rate CNP is designed to recover costs associated with: • A generating facility that has been granted a certificate of convenience and necessity by the Alabama Public Service Commission (AL PSC), • A power purchase arrangement that has been granted a certificate of convenience and necessity by the AL PSC, or • Compliance with environmental laws, regulations, or other such mandates.
Energy Cost Recovery (ECR) Rate	Rate ECR provides the Company with a means to recover defined energy costs. It also establishes a procedure for the recovery of defined energy costs through base rates.
Differential Factors Rate Rider	The Differential Factors Rate Rider captures the effects of energy losses along the service chain, as well as the effect of seasonal differentials associated with costs recovered under ECR (above).
Natural Disaster Reserve Rate Rider (NDR)	Rate Rider NDR is designed to adjust monthly billings to address the financial impact of operating and maintenance (O&M) expenses attributable to certain natural disasters.
Rate Stabilization and Equalization Factor (RSE)	The Rate RSE lessens the impact, frequency and size of retail rate increase requests by permitting the Company to adjust its charges more readily to achieve the rate of return authorized by the AL Public Service Commission. Charges are increased if projections for the upcoming year show that the designated rate of return range will not be met, and are decreased if projections show that the designated rate of return range will be exceeded.
Georgia Power Company	
Fuel Cost Recovery Rider	Georgia Power Company has established fuel cost recovery rates that are approved by the Georgia PSC. Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates.
Environmental Compliance Cost Recovery Rider	Georgia Power's Environmental Compliance costs are recovered in base rates.
Demand Side Management Residential (DSM-R) Rider	The DSM-R rider will collect the projected program costs and additional sum amount for certificated Residential Demand Side Management (DSM) programs.

Demand Side Management Commercial (DSM-C) Rider	The DSM-C rider will collect the projected program costs and additional sum amount for approved and certified Commercial Demand Side Management (DSM) programs.
Nuclear Development Capital Cost Recovery	The Georgia Nuclear Financing Act and the Georgia PSC certification of Plant Vogtle Units 3 and 4 allows Georgia Power to recover financing costs for construction of the new nuclear units during the construction period beginning in 2011.
Alternative Rate Plan	On December 21, 2010, the Georgia PSC approved the 2010 ARP. Under the terms of the 2010 ARP, Georgia Power will amortize approximately $92 million of its remaining regulatory liability related to other cost of removal obligations over the three years ending December 31, 2013. Also under the terms of the 2010 ARP, effective January 1, 2011, Georgia Power increased its (1) traditional base tariff rates by approximately $347 million; (2) Demand-Side Management (DSM) tariff rates by approximately $31 million; (3) ECCR tariff rate by approximately $168 million; and (4) Municipal Franchise Fee (MFF) tariff rate by approximately $16 million, for a total increase in base revenues of approximately $562 million. Additional base rate adjustments will be made to Georgia Power's tariffs in 2012 and 2013. Under the 2010 ARP, Georgia Power's retail ROE is set at 11.15% and earnings will be evaluated against a retail ROE range of 10.25% to 12.25%. Two-thirds of any earnings above 12.25% will be directly refunded to customers, with the remaining one-third retained by Georgia Power. If at any time during the term of the 2010 ARP, Georgia Power projects that retail earnings will be below 10.25% for any calendar year, it may petition the Georgia PSC for the implementation of an Interim Cost Recovery (ICR) tariff to adjust Georgia Power's earnings back to a 10.25% retail ROE. In lieu of requesting implementation of an ICR tariff, or if the Georgia PSC chooses not to implement the ICR, Georgia Power may file a full rate case.
Gulf Power Company	
Cost Recovery Clause – Fossil Fuel and Purchased Power	Gulf Power files a rate clause request annually with the Florida Public Service Commission (FPSC) to recover costs associated with changing efficiency, cost of fossil fuel, and cost of purchased power. Revenues are adjusted for differences between recoverable costs and amounts actually recovered in current rates.
Purchased Power Capacity Cost Recovery Clause	Recovery of payments made by the Company for capacity, net of revenues received by the Company for capacity sales.
Energy Conservation Cost Recovery	Gulf Power files a rate clause request annually with the FPSC to recover costs associated with energy conservation. Revenues are adjusted for differences between recoverable costs and amounts actually recovered in rates.

Environmental Cost Recovery Clause	The Florida Legislature has adopted legislation for an environmental cost recovery clause, which allows an electric utility to petition the FPSC for recovery of prudent environmental compliance costs that are not being recovered through base rates or any other recovery mechanism. Gulf Power files a rate clause request annually with the FPSC to recover costs associated with environmental compliance. Revenues are adjusted for differences between recoverable costs and amounts actually recovered in current rates.
Mississippi Power Company	
Fuel Cost Recovery Clause	Mississippi Power's fuel cost recovery provisions are adjusted annually to reflect increases or decreases in such costs. Includes a true-up adjustment for any over/under collection in the twelve month period immediately preceding the calculation month.
Energy Cost Management Clause	Recovers budgeted transaction costs for entering forward or financial contracts such as option premiums for both gas and electricity futures contracts and budgeted gas transportation and electricity transmission necessary to meet futures contract obligations for a twelve month period. Includes a true-up adjustment for any over/under collection in the twelve month period immediately preceding the calculation month.
Performance Evaluation Plan	Annually on or before November 15, a determination will be made as to whether or not the Company's revenues should be increased, decreased, or remain the same. Based on a twelve month ending Projected Retail Return on Investment as well as the Company's Performance Rating and a Range of No Change. No annual revenue adjustment may exceed 4.00%.
Environmental Compliance Overview Plan	Approved environmental compliance costs are recovered through cost recovery provisions. Within limits, these rates are adjusted to reflect increases or decreases in such costs as required.
System Restoration Rider (SRR)	Under a revised SRR calculation method (January 2009), the Mississippi PSC is no longer required to set a cap on a property damage reserve, or to authorize the calculation of an annual property damage accrual.

Westar Energy (WR)

Northern and Southern Region	
Fuel Charge	The fuel charge includes costs incurred in production of electricity, as well as the Off-system Sales Adjustment, which credits profits from wholesale sales to retail customers. Wholesale sales are transactions in which the Company sells energy to other wholesale entities such as neighboring utilities, municipalities and power marketers.
Environmental Cost Recovery Rider	This adjustment is designed to recover annual capital investment-related revenue requirements that are associated with Westar's Environmental Improvements Projects. The ECRC is collected on a monthly basis and includes an annual true-up.
Retail Energy Cost Adjustment	This adjustment recovers costs associated with the fuel costs to produce electricity, purchased power cost, emission allowance costs, and the off-system sales adjustment, which credits profits from wholesale sales to retail customers.
Transmission Delivery Charge	This charge includes costs related to the construction and maintenance of Westar Energy's transmission system.
Storm Costs	The Company accumulated and deferred for future recovery costs related to restoring its electric transmission and distribution systems from damages sustained during unusually damaging storms. The Company amortizes these costs over periods ranging from three to five years and earns a return on a majority of this asset.
Energy Efficiency Program Costs	The Company accumulates and defers for future recovery costs related to its various energy efficiency programs. The Company will amortize such costs over a one-year period. The Company does not earn a return on this asset.