**STATE OF NORTH CAROLINA**
**UTILITIES COMMISSION**
**RALEIGH**
**Docket No. E-7, Sub 1026**

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| In the Matter of<br>Application of Duke Energy Carolinas, LLC, for an Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina | )<br>)<br>)<br>)<br>) | ATTORNEY GENERAL'S BRIEF |

The North Carolina Attorney General's Office (the "Attorney General") respectfully submits this brief in opposition to Duke Energy Carolinas, LLC's ("Duke's") Application for Rate Increase filed in the above-captioned docket.

## INTRODUCTION AND SUMMARY OF ARGUMENT

The Attorney General respectfully requests that the Commission deny Duke's proposed rate increase for three reasons:

First, there is insufficient evidence in the record and the Company has failed to meet its burden of proof regarding the impact of the rate of return on equity (ROE) on consumers. Therefore, the Commission cannot establish that the 10.2% return on equity rate is reasonable pursuant to N.C. Gen. Stat. § 62-133. The expert testimony presented to the Commission regarding ROE addresses impact on consumers only, at most, as an afterthought and there is no basis for the Commission to make sufficient findings and conclusions regarding ROE.

Second, if the Commission attempts to establish ROE, notwithstanding the lack of legally sufficient evidence in the record, the Commission should establish a lower ROE, as opposed to the ROE set forth in the stipulation between Duke and the Public Staff. Even the evidence in the record focusing on shareholder impact and Duke's ability to attract capital shows that the stipulated 10.2% return on equity (ROE) is excessive. The Commission could better protect consumers by establishing a lower ROE.

Third, the capital structure of 53% equity and 47% debt included in the stipulation between Duke and Public Staff is more costly than required and unduly raises rates for consumers. If, for example, the Commission instead established a capital structure of 50% equity and 50% debt, consumers would benefit by having Duke's revenue requirement reduced by approximately $41 million each year. Attorney General-Shrum Cross Examination Exhibit 2.

## ARGUMENT

### I. THERE IS INSUFFICIENT EVIDENCE IN THE RECORD TO SUPPORT AN INCREASE IN DUKE'S ELECTRIC RATES.

The process for fixing rates for regulated public utilities like Duke is established by Chapter 62 of the North Carolina General Statutes. "The burden of proof is upon the utility seeking a rate increase to show that the proposed rates are just and reasonable." N.C. Gen. Stat. § 62-75; State ex rel. Utilities Comm'n v. Central Tel. Co., 60 N.C. App. 393, 394, 299 S.E.2d 264, 265 (1983). N.C. Gen. Stat. § 62-133(a) emphasizes that fairness to consumers is a critical consideration and includes a directive that "the Commission shall fix such rates as shall be fair both to the public utilities ***and to the consumer***." N.C. Gen. Stat. § 62-133(a) (emphasis added). N.C. Gen. Stat. § 62-133(b)(4) provides details with respect to establishing the rate of return that a public utility is authorized to earn on its rate base. In making this determination, the Commission is required to:

> Fix such rate of return on the cost of the property ascertained pursuant to subdivision (1) of this subsection as will enable the public utility by sound management to produce a fair return for its shareholders, ***considering changing economic conditions*** and other factors, including, but not limited to, the inclusion of construction work in Duke in the utility's property under subdivision b. of subdivision (1) of this subsection, as they then exist, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and to compete in the market for capital funds on terms that are reasonable and that are ***fair to its customers*** and to its existing investors.

N.C. Gen. Stat. § 62-133(b)(4) (emphasis added).

The statute lists numerous factors that the Commission must consider when establishing the rate of return, including sound management of the utility, a fair return to shareholders, construction work in progress, maintenance of facilities and services, market competition for capital funds, and changing economic conditions. Per N.C. Gen. Stat. § 62-133, the Commission is required to weigh these factors in a manner that is fair to both the utility's customers and the utility's investors. The Commission must then reach a conclusion of law based on the various factual considerations. Duke Power v. Public Staff, 322 N.C. 689, 693, 370 S.E.2d, 567, 570 (1988) ("Duke Power I"). However, in order for the Commission to weigh these factors, there must be evidence in the record with respect to each of these factors. Without such evidence, the Commission cannot adequately consider these statutorily mandated factors.

Recently, the North Carolina Supreme Court provided guidance for how a utility's ROE needs to be established, taking into account consumer interests. On April 12, 2013, the North Carolina Supreme Court held that "in retail electric service rate cases the Commission must make findings of fact regarding the impact of changing economic conditions on customers when determining the proper ROE for a public utility." State ex rel Utilities Comm'n v. Cooper, ___ N.C. ___, 739 S.E.2d 541, 548 (2013)("Cooper"). Our Supreme Court emphasized that "customer interests cannot be measured only indirectly or treated as mere afterthoughts and that Chapter 62's ROE provisions cannot be read in isolation as only protecting public utilities and their shareholders" Id.

In Cooper, our Supreme Court noted that § 62-133's emphasis on fairness to consumers is a "critical consideration" in rate cases. The Supreme Court confirmed that Chapter 62 is "a single integrated plan" and that its provisions must be construed together so as to accomplish its primary purpose of fixing rates that are fair both to the utility and the consumer. Accordingly, the Court stated that "Chapter 62's ROE provisions cannot be read in isolation as only protecting public utilities and their shareholders. Instead, it is clear that the Commission must take customer interests into account when making an ROE determination." Id, slip op. at 17.

The legislative intent of the rate-setting provisions contained in Chapter 62 is that the Commission "fix rates as low as may be reasonably consistent with the requirements of the Due Process Clause of the Fourteenth Amendment to the Constitution of the United States, those of the State Constitution, Art. I, § 19, being the same in this respect." State ex rel. Utils. Comm'n v. Duke Power Co., 285 N.C. 377, 388, 206 S.E.2d 269, 276 (1974) ("Duke Power II").

Duke's evidence in this rate case regarding customer impact was not significantly or meaningfully different from the evidence Duke presented in the prior rate case that was recently reversed and remanded by our Supreme Court. A review of the transcript and evidence shows that, while Duke presented extensive evidence with respect to many of the factors listed in § 62-133(b)(4) relating to shareholder impact and Duke's purported ability to attract capital, it failed to present adequate evidence addressing customer interests and the impact of changing economic conditions on customers. Thus, Duke failed to meet its burden of proof showing that the stipulated ROE is fair and reasonable to both customers and the Duke' shareholders.

Duke presented the expert testimony of Robert B. Hevert, who recommended an ROE range and provided extensive analysis regarding Duke's ability to raise capital, viewed from the perspective of investors. In his direct testimony, Hevert recommended an ROE range of 10.50 percent to 11.50 percent, and a specific ROE of 11.25 percent. (T2 p 127) In his rebuttal testimony, Hevert reaffirmed his recommended ROE range, but accepted the Stipulated ROE as "a reasonable resolution to an otherwise contested issue." (T2 p 132)

However, a review of Hevert's testimony demonstrates that he failed to adequately consider or factor in the impact of economic conditions on customers when establishing his ROE recommendation. In his direct testimony and again on rebuttal, Hevert stated that he had compared the economic conditions of North Carolina to those across the United States and drawn the conclusion that the regional economic conditions in North Carolina are "substantially similar" to the rest of the United States. Thus, he opined that there is no direct effect of those conditions on Duke's cost of equity. (T2 p 112-13, 145) He provided statistics about the recent unemployment rate (9.53% in North Carolina compared to 8.08% in the United States), household income growth (for which the average in North Carolina is expected to outpace the national average from 2011 through 2016), and the compound annual real GDP growth in recent periods (which has been higher in North Carolina than nationally). (T2 p 113) He also testified that the cost of electricity in North Carolina has grown at a slower pace than the national average. (T2 pp 113-14) In his rebuttal testimony, Hevert reviewed more recent data and concluded that the data continues to support his conclusion. (T2 p 145)

Hevert's testimony in this regarding is flawed and inadequate in several respects.

First, Hevert did not factor in customer impact in his models or recommendations in any meaningful way, nor did he explain how his analyses and recommendations balanced the interests of customers and investors. (T2 p 187) Instead, he summarily concluded "that there is no direct effect of those conditions on the Company's Cost of Equity." (T2 pp 113, 145)

Second, he assumed, incorrectly, that the market information used in his models reflects broader economic conditions affecting customers. (T2 p 187) When asked whether his methods of estimating the rate of return include a factor to take into account customer impact, he responded that "the estimates that go into those models ... reflect changing economic conditions" including prices, growth rates, and dividend yields which are a function of interest rates. *Id.* "All of those things are measures of the market's view of changing economic conditions." *Id.* Then he went on to say that unemployment and real GDP growth are "highly correlated with the rest of the economy," (T2 p 188) and in that sense are reflected in the models he uses and the estimates that are produced. (T2 p 189) Hevert's contention that unemployment and real GDP are highly correlated with the rest of the economy is not consistent with the expert testimony of Public Staff witness Ben Johnson, PhD., however. To the contrary, Johnson made the following observation about economic developments since 2008:

> Unlike employment ...the weakness in corporate earnings was not long-lived.... [F]irms aggressively trimmed payrolls, inventories, and other expenses, quickly bringing costs in line with the anticipated, lower level of aggregate demand. As a result, the decline in corporate profits was no more severe than in other recessions. In fact, while labor markets and GDP growth have been much weaker than is typical for a post-recessionary period, profits have an equally unusual, but opposite pattern – recovering more quickly than has been typical of most post-recessionary periods. This is a truly remarkable, and unexpected situation – a period of unusually prolonged weakness in employment and GDP growth data, at the same time that profit data has been unusually robust.

(T3 p 88) Thus, even when he testified in a very general and insufficient fashion about economic conditions, Hevert assumed, incorrectly, that his analyses of stock market prices, earnings, and growth factors, sufficiently reflect other economic factors that impact consumers.

Third, Hevert's testimony suggesting that the cost of electricity has been less burdensome for customers in North Carolina than is the case nation-wide (T2 pp 113-14) is both insufficient and not supported by a recent Moody's analysis. According to Moody's "Inflection Analysis" dated February 6, 2013, the average cost of an electric bill as a percentage of disposable household income in North Carolina is 4.4%. See Attorney General Newton Cross Exhibit 1 Appendix C. Only six states have a higher percentage of household income used for electric bills than North Carolina, and 43 states have average electric bills that use up a lower percentage of disposable household income. (T1 p 199) Hevert reviewed the report and called it a "difficult analysis.....in the sense that it is not a good comparator." (T3 pp 25-26) He explained, that it is "difficult to compare that ratio across companies, across jurisdictions," because, for example the heating load in North Carolina may be different than in the Northeast where people are less likely to heat with electricity. (T3 p 26) He observed that Moody's purpose was to measure the "inflection point," i.e., the rate of growth in the percentage of the electric bill to income that would cause customers to complain about rate increase requests and prompt regulators to be less inclined to grant rate increases. (T3 p 27) In other words, it measures state by state the inflection point at which, based on income, the utility bill amount and rates have the potential to cause customer sensitivity to rate increases. (T3 pp 28-29) By that measure, North Carolina appears to have the seventh highest sensitivity out of fifty states. Hevert conceded that customers have complained about Duke's proposed increases. However, he indicated that the Moody's analysis does not cause him to change anything in his testimony concerning economic impact and he did not see the need for any adjustment in his results. (T3 p 29) Regardless, simply comparing North Carolina to other states is not sufficient for ROE purposes.

Fourth, Hevert conceded that he *did not* consider a number of factors relating to the impact of the ROE on customers given current economic conditions. He did not consider broad economic stress as a reason to adjust ROE. (T2 p 148) Nor did he consider items such as unemployment and GDP for Duke's customers as compared to the proxy group; rather, to the extent that he looked at such factors at all, he compared North Carolina to the United States. (T2 p 193) He conceded that he did not look at or research the percentage of disposable income per household that is spent on average Duke utility bills. (T2 p 194) He conceded that he did not try to quantify the effect of the range of ROE estimates or alternative capital structure options to find out how much impact they had on the total revenue requirement, (T2 pp 194-95) although he agreed that the effect of changing the ROE in small increments (such as 10 basis points) can have a large impact on the revenue requirement (T2 p 195) and is borne fully by the customers in the service area. (T2 p 196) (By comparison, the impact of the ROE on Duke's shareholder holding company affects shareholders of Duke Energy Corporation wherever in the world they reside.) He did not calculate the average retail rate in cents per kilowatt hour and how that has changed, or how it compares with other companies in the proxy group. (T2 p 197) He did not evaluate the effect on consumer confidence or the poverty rates or state agencies or local governments affected or the indirect effect on taxpayers. (T2 p 197)

In sum, Hevert's ROE analysis and recommendations were flawed and did not adequately take customer interests and impact into account and do not provide a proper basis for the Commission to make appropriate findings and conclusions regarding ROE.

An examination of the remaining record shows that the other ROE witness likewise did not adequately consider customer interests and impact. Public Staff's witnessJohnson included a discussion of economic trends in an appendix to his pre-filed direct testimony, (T3 pp 71-92) but the methods that he used to estimate ROE did not factor in customer impact in his specific ROE calculations or recommendations, (T3 p 114) and his testimony in support of the settlement failed to balance consumer circumstances.

Indeed, Johnson's testimony raised serious concerns about the impact of economic conditions on customers. Although over six years have passed since employment peaked in October 2006, Johnson observed that unemployment and underemployment "remain at extraordinary levels. Pervasive unemployment and underemployment and slow economic growth continue to be significant problems at the national level, in the state of North Carolina, and for the people within DEC's service territory." (T3 pp 55, 83) He reported that the unemployment rate in counties served by Duke was "noticeably" 1.1% worse than the national average in 2012 and was double the long-term average prior to the recent recession. (T3 p 91) The data he provided about annual per-capita personal income for the counties served by Duke indicate that, although customers served by Duke fare better than customers in other regions of the state, that is less so recently than was the case in earlier periods, and income in North Carolina continues to be lower than in other areas of the country. (T3 p 92)

Johnson also reported that current economic conditions have been unusually weak compared to other periods following recessionary periods, and "growth has not been strong enough, nor sustained enough, to make up for the ground that was initially lost during the recession." (T3 p 77)

Again, though, Johnson did not quantify the impact of changes in ROE and capital structure in terms of the effect on Duke's revenue requirement, although he recognized that small changes would have a large impact. (T3 pp 106-07) He indicated that he was not asked to analyze the dollar impact in order to assess the benefits and costs of the settlement for customers, but other people on the Public Staff would have been aware of that amount. (T3 p 107) He was not asked to compare the affordability of the rates for the service area if the revenue requirement were based on his lower estimates of ROE and a capital structure that uses less equity. (T3 p 108) He did not model the impact of electric costs on customer groups to see how burdensome the return would be or whether customers could recover the increased costs. (T3 p 113-14) He did not evaluate the effect on consumer confidence or poverty rates or state agencies or local governments other than by reading public witness testimony. (T3 p 114)

Public witness testimony also provided extensive evidence that economic conditions are harsh and a rate increase will be burdensome on consumers. For example, Vaughn Compton described the effect of the rate increase on his family farm. His bill last year was $35,000 for electricity, and he testified "to be honest with you, we can't afford another increase." (Hillsborough pp 102-03) Senior citizen Sandra Wilbourn, who lives in low income housing in Charlotte, testified that her neighbors "go every day fearing that they will go over their electric allowance" for electricity. (Charlotte pp 32-33) She explained that most seniors have to go to the food bank to have food to eat, and many restrict their consumption because they cannot afford higher electric bills:

> In the winter they will go cold and wear clothing, in the summer they will be hot and just turn the air on for a couple of hours because they've got their oxygen going, they've got their wheelchairs plugged up.... And then you're asking us to pay more money each and every year. You want us to pay more and more and more and we simply can't do it.

(Charlotte pp 32-34) Two witnesses testified on behalf of the Town of Carrboro that rate increases will hit customers doubly hard because they will pay the higher rates individually and also pay higher taxes to fund governmental agencies or have agency services cut. (Hillsborough pp 117-20, 132-36) Luis Rodriguez, of Charlotte, testified as a customer and on behalf of Action NC:

> Annual increases hurt all North Carolinians, make it hard for employers to hire and are felt not just directly through utility bills but indirectly in the prices of food, clothing, and other necessary items as shoppers are forced to pay more to keep their doors open.

(Charlotte pp 58-59)

Given the Supreme Court's recent holding emphasizing that it is not enough to merely consider customer impact in an "indirect" fashion, the expert testimony in this matter does not provide the Commission with a sufficient basis to make an ROE determination. Nor does the public witness testimony provide support for a determination that fails to factor in the impact of the ROE on consumers. Thus, the record is insufficient to allow the Commission to render a decision regarding a rate of return that is fair to both customers and investors.

Therefore, the Commission should deny Duke's request for a rate increase and reject the Stipulation. Without proper evidence in the record, the Commission is unable to render the requisite findings with respect to a fair and reasonable rate of return. As Duke has failed to meet its burden of showing the proposed rates are just and reasonable, Duke is not entitled to a rate increase.

## II. ALTERNATIVELY, IF THE COMMISSION ATTEMPTS TO ESTABLISH AN ROE NOTWITHSTANDING THE LACK OF SUFFICIENT EVIDENCE IN THE RECORD REGARDING CUSTOMER IMPACT, IT SHOULD FIND THAT THE 10.2% ROE CONTAINED IN THE STIPULATION IS EXCESSIVE AND ESTABLISH A LOWER ROE IN ORDER TO BETTER PROTECT CONSUMERS.

If the Commission attempts to make an ROE determination notwithstanding the lack of sufficient evidence in the record regarding consumer impact, then it should reject the 10.2% ROE proposed in the Stipulation. Even the weight of evidence in the record that focuses on shareholder impact shows that a 10.2% ROE is excessive.

The Commission must engage in an independent analysis of the evidence and reach its own conclusion when it fixes a utility's ROE. Cooper, ___ N.C. ___, 739 S.E.2d at 547. The Commission cannot simply rely on the ROE percentage proposed in a non-unanimous stipulation. *Id.*

Furthermore, the Commission may not rely on inappropriate considerations as justifications for an excessive ROE, such as arguments that 1) a reduction in ROE from one case to the next must be gradual; 2) a higher ROE is justified because higher ROEs were adopted in other recent North Carolina cases; and 3) a higher ROE is justified because higher ROEs are authorized in other states. Such considerations are not valid under North Carolina law. In State ex rel. Util's Comm. v. Public Staff, 331 N.C. 215, 415 S.E.2d 354 (1992)("Public Staff"), the Commission, when it determined the ROE for Duke

Power, examined the ROE the Commission had allowed AT&T in another case and ROEs that five other utility commissions had allowed in other states. The Court found that such considerations and the Commission's concern about reducing ROE a large amount, as opposed to a gradual amount, amounted to "an improper consideration in determining rate of return" because such considerations appeared to "arise from the Commission's inappropriate desire to protect investors from swings in market prices." Public Staff, 331 N.C. at 225, 415 S.E.2d at 361. Accordingly, the Court reversed the Commission's order. *Id.* at 226, 415 S.E.2d at 362.

Duke and the Public Staff proposed an ROE of 10.2% in this case as part of a non-unanimous settlement of all issues in the case. In support of the stipulated ROE, Hevert testified that, although the settlement ROE is below the lower bound of his recommended range, he supports it:

> If it is the Company's determination that the terms of the Settlement Agreement, taken as a whole, are such that it will be able to raise the external capital required to continue the investments required to provide safe and reliable service, and that it will be able to do so when needed and at reasonable cost rates, I appreciate and respect that decision.

(T2 p 131) Hevert continued to posit, however, that a range of 10.50 to 11.50 percent would represent a reasonable and appropriate range of ROE in a fully litigated proceeding. (T2 p 132)

Johnson also testified in support of the settlement. He observed,

> The Company and Public Staff have fundamentally different views of current market conditions and the current cost of capital. I don't think either party convinced the other to change their view of the cost of capital issues, but they found a way to bridge their

> differences, by agreeing to an allowed return on equity which is in the middle of the range of dispute, and identical to the Commission's decision in the recent Dominion North Carolina Power (DNCP) rate case, ... and the recent Progress Energy Caroilnas (PEC) rate case....

(T3 p 49) Johnson's ROE recommendation would have been different but for the settlement. (T3 p 103) He summarized the results of his analyses to estimate Duke's ROE using a comparable earnings approach (which produced an ROE range of 9.75% to 10.75%) and using three market approaches including a DCF analysis (which produced a risk-adjusted ROE range of 7.75% to 9.25%), a historical analysis (which produced a risk-adjusted range of 8.50% to 9.50%), and a CAPM analysis (which produced a range of 6.77% to 7.67%). (T3 pp 52-53)

As shown below, on close inspection, Hevert's testimony was flawed and, among other things, his "low growth" results are based on optimistic growth data, not on low estimates of growth as the label suggests. Therefore, Hevert's testimony should be given little weight by the Commission and, given the significant flaws with Hevert's testimony, it is not sufficient for the Commission to simply establish an ROE that falls within some sort of middle range between Hevert's ROE recommendations and the recommendations of Public Staff's witness.

A. Hevert's ROE analysis is upwardly biased and does not support an ROE higher than 8.76% to 9.60%, the range produced for his "Low Growth" analysis.

Hevert relied on a Constant Growth DCF analysis, which he said is "widely recognized in regulatory proceedings, as well as in financial literature." (T2 p 78)

He explained that the DCF approach "expresses the Cost of Equity as the sum of the expected dividend yield and long-term growth rate." (T2 p 79) Based on his analysis, he recommended an ROE range of 10.5% to 11.50% with a specific ROE of 11.25%, toward the high end of his range. (T2 p 127)

In order to understand the flaws in Hevert's analysis, it is useful to review some of the details about the inputs he used. Table 6a in Hevert's direct testimony shows his Summary of Constant Growth DCF Results, (T2 pp 128, 198) and the summary corresponds to the results that were calculated in his model as detailed in Exhibit No. RBH-1 pages 1-3.[1] See attachments.

There are two inputs in Hevert's model that have skewed his results, giving them an upward bias: 1) his exclusive reliance on five-year EPS (earnings per share) projections to assess long-term growth in columns 5-8, and 2) his reliance on only 11 comparable companies out of the possible 49 companies that are included in Value Line data.

1. Hevert's exclusive reliance on five-year EPS projections to assess long-term growth caused his results to overstate all of his ROE estimates.

To measure the long-term growth rate in his DCF model, Hevert selected three sources of data, all of which reflect five-year projections of annual growth in

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[1] Exhibit RBH-1 lists the comparable companies that were used in Hevert's proxy group. For each company the 'expected dividend yield' is developed in columns 1-4, the 'long term growth rate' is developed in columns 5-8, and Hevert's estimates for each company's "Low ROE," "Mean ROE," and "High ROE" are calculated in columns 9-11. Hevert's summary results use the numbers he calculates as the PROXY GROUP MEAN and PROXY GROUP MEDIAN in the lower right part of the table. Page 1 of the exhibit shows the results using the 30 day average stock price as of 12/31/2012, page 2 shows the results using the 90 day average stock price, and page 3 shows the results using the 180 day average stock price. (T2 pp 199-200)

earnings per share: Zack's consensus estimate of EPS growth projected by analysts (column 5), First Call's consensus estimate of EPS growth projected by analysts (column 6), and Value Line's independent estimated rate of EPS growth (column 7). See Exhibit RBH-1. (Attachment p 2) (T2 pp 82, 219) Hevert claimed that his reliance on projections for earnings growth is appropriate to measure the long-term growth rate because the expected growth in earnings is a key value considered by investors. (T2 pp 212-13) However, Johnson strongly disagrees with Hevert on this point. He has explained the flaw:

> Since growth is a multidimensional phenomenon, no single variable proves adequate in fully describing a firm's growth or investor expectations concerning that growth. This becomes apparent when studying historical growth statistics since they vary quite widely depending upon the type of growth measured and the specific time period chosen. To deal with this complex phenomenon, I have examined the historical pattern of growth in dividends, earnings, and book value....

(T3 p 126) Johnson testified, "[T]his explains why I would look at more than just earnings. In fact ... if I had to throw something out, earnings would be the first one I would throw out as the least important and the most difficult to deal with...." (T3 p 127) "[E]arnings provide one of the most subjective and least reliable indicators of long-term future growth because they fluctuate so wildly making it extremely difficult to discern the underlying growth trend." (T2 pp 211-12)

To understand Johnson's concern, look at the growth data that Hevert has relied on in Column 7 of Exhibit RBH-1 (see Attachment p 2) compared to other growth data shown on the ValueLine report that he referred to for the data.[2] (Attachment pp 5-15) The box from the Value Line report showing annual rates of change per share for AEP is pasted below and the number Hevert used (projected EPS) is highlighted:

| AMERICAN ELEC. PWR.NYSE-AEP | | | |
|---|---|---|---|
| **ANNUAL RATES** | **Past** | **Past** | **Est'd '09-'11** |
| of change (per sh) | **10 Yrs.** | **5 Yrs.** | **to '15-'17** |
| Revenues | -10.5% | -2.0% | 3.0% |
| "Cash Flow" | -- | 1.0% | 3.5% |
| Earnings | 2.0% | 1.5% | 3.0% |
| Dividends | -3.0% | 4.0% | 2.5% |
| Book Value | 1.0% | 5.0% | 4.0% |

According to the Value Line report for AEP, 3.0% is the average annual rate of change in EPS projected through 2017 (which is how Hevert measured long-term growth), and that is the number that appears in RBH-1 column 7 for AEP. But a glance at the historic earnings would show investors that AEP's annual earnings growth was only 2% over the past 10 years and only 1.5% over the past 5 years. Further, AEP's other growth data indicate that, on average over the past 10 years, AEP's dividends were **off** 3%, its revenues were 10.5% **lower,** and its book value was up 1%. Just looking at projected earnings growth does

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[2] Hevert referenced Value Line reports for his proxy group for 12/31/12 to obtain the "Value Line Earnings Growth" number shown in column 7 of Exhibit RBH-1. The reports were admitted as Attorney General-Hevert Cross Examination Exhibit No. 1 and are attached for reference.

not appropriately capture the long term growth data for AEP that investors would consider.

For other comparable companies, the growth data used by Hevert are even more skewed. Look at the growth number that Hevert relied on for PNM Resources, Inc. The box from the Value Line report showing annual rates of change per share for PNM is pasted below and the number Hevert used is highlighted:

| PNM RESOURCESNYSE-PNM | | | |
|---|---|---|---|
| **ANNUAL RATES** of change (per sh) | **Past 10 Yrs.** | **Past 5 Yrs.** | **Est'd '09-'11 to '15-'17** |
| Revenues | -3.5% | -7.5% | 2.0% |
| "Cash Flow" | -2.5% | -4.5% | 5.5% |
| Earnings | -7.5% | -12.0% | 16.0% |
| Dividends | -.5% | -8.0% | 12.0% |
| Book Value | 1.5% | -1.0% | 3.0% |

After 10 years of *negative* growth in EPS (- 7.5% in the annual rate of change per share over the past 10 years and -12% in the annual rate of change per share over the past 5 years) Value Line estimated that PNM's EPS will grow 16% per year going forward to 2017. Other growth data reflect **negative** growth in the past and project better results in the next 5 years, but more moderate than 16%. Yet, the only number that Hevert used as an input to his model to reflect the long-term growth rate was 16%.

The data that Hevert used from Value Line is not generally more optimistic than the data from Zacks and FirstCall; rather, all of the growth data he relied on are high. Indeed, the Value Line projection was the **low** growth projection for 5 of the 11 comparable companies. See RBH-1. In the case of PNM, the projections from Zacks and FirstCall are lower than the Value Line projection, but Zacks and FirstCall projections are still high relative to the other measures of growth shown in the Value Line report. Zacks reported 8.35% growth and First Call reported 9.30% - both high relative to the historic negative growth reflected in the other measures. See Exhibit RBH-1. The historic measures reported in ValueLine should be about the same as historic measures reported by Zacks and First Call. (T2 p 221) Thus, all of the growth data relied on by Hevert tend to be high relative to other measures of growth that investors would have available for consideration. (T2 p 221)

Finally, look at the data that was reported for Otter Tail, which was so extreme that Hevert did not use the number:[3]

[3] He noted that the Commission questioned his use of the data for Otter Tail and PNM in the recent Dominion case, and took out the high number for Otter Tail but used the high number for PNM. (T2 p 207) See "In the Matter of Application of ... Dominion North Carolina Power for Adjustment of Rates and Charges," Docket No. E-22, Sub 479, Order Granting General Rate Increase (December 21, 2012) ("Dominion Order") pp 111-112.

| OTTER TAIL CORP.NDQ-OTTR | | | |
|---|---|---|---|
| **ANNUAL RATES** | **Past** | **Past** | **Est'd '09-'11** |
| of change (per sh) | **10 Yrs.** | **5 Yrs.** | **to '15-'17** |
| Revenues | 5.0% | .5% | 3.0% |
| "Cash Flow" | -1.0% | -3.0% | 11.5% |
| Earnings | -6.5% | -14.5% | 24.0% |
| Dividends | 2.0% | 1.5% | 1.5% |
| Book Value | 6.0% | 5.0% | .5% |

Although Hevert did not use the 24% projection for Otter Tail, the estimated annual growth in EPS is striking compared to the other data and illustrates again that it is not appropriate to rely exclusively on projected growth in EPS when measuring long term growth.

When Hevert discussed the reason that he did not include the 24% growth forecast in the Value Line report for Otter Tail, and instead relied on the 5% growth forecasts in Zack's and First Call, he did not concede that the growth forecast was optimistic compared to Otter Tail's historic growth indicators. He explained that the reason for Otter Tail's high growth rate was because some of its unregulated operations that have recently been discontinued contributed to earlier low financial results, such that the growth rate was measured off of a lower base. (T2 p 218) Further, he pointed out that the forecasts that he uses are 5-year growth forecasts. (T2 pp 218-19) In other words, he conceded that the growth forecasts may be affected by the recent history for the comparable company, and may reflect events unrelated to regulated operations. (T2 pp 220-

21) Yet, Hevert explained elsewhere that his constant growth DCF model is intended to use a growth rate that stays the same over many years. He said that what the DCF model does is "it takes the annualized dividends and it increases them every year at an assumed growth rate.... And if you were to carry that out for 200 or 300 years and discount it back to the current growth rate, that discount rate would be the cost of equity." (T2 p 208-09) Thus, Hevert's model assumes that the growth rate he uses will go on at a constant rate for many years, not that it is a rate subject to variability associated with recent events. The assumption is not supported by his explanation of the growth forecast for Otter Tail.

All of Hevert's results shown in the summary in Table 6a rely on his high growth projections. His "Low ROE" result shown in Column 9 of his model (Exhibit RBH-1) is calculated using the lowest of his growth numbers for Zacks FirstCall and Value Line. (T2 pp 222-23) Thus, for example, the "Low ROE" result for AEP in column 9 on page 1 of Exhibit RBH-1 was calculated using the Value Line growth number, because Value Line's 3.00% is the lowest compared to Zacks and FirstCall. Likewise, Hevert's "High ROE" uses the highest of the three (which was Zacks for AEP). See Exhibit RBH-1 p 1. Hevert's "Mean ROE" uses the average growth number of the three. See Exhibit RBH-1 p 1. (T2 pp 222-23)

A review of all of the growth data demonstrates that Hevert's reliance on projected EPS growth biased his results, and even his "Low ROE" results are based on optimistic growth data.

2. Hevert's proxy group is small and as a consequence the average and median data are vulnerable to outliers.

Hevert's results are also flawed by his use of a too-small proxy group of comparable companies in order to estimate the cost of equity for Duke Energy Carolinas.[4] Out of the 49 companies that Value Line classifies as electric utilities, Hevert excluded most by applying a number of screening criteria, and selected only11 for his proxy group. (T2 pp 70-74) As a result, his proxy group does not even include Duke's closest neighbors Dominion and SCANA. (T2 p 206)

One of the screens Hevert applied excluded companies "whose regulated electric operating income over the three most recently reported fiscal years represented less than 90.00 percent of total regulated operating income." (T2 p 71) If Hevert had applied the same screen using 80% instead of 90% [i.e., instead excluding companies whose regulated electric operating income over the three most recently reported fiscal years represented less than 80.00 percent of total regulated operating income], then 11 additional companies would have met the criterion. (T2 pp 203-06) This screen significantly narrowed the comparable group without adequate foundation.

Hevert was criticized for the effect of using such a small proxy group in the analyses he provided for Dominion North Carolina Power's ("Dominion") recent

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[4] Hevert explained the need to use a proxy group, "Since the ROE is a market-based concept and Duke Energy Carolinas 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 respects to serve as its 'proxy' in the ROE estimation process... Even if Duke Energy Carolinas were a publicly traded entity, it is possible that short-term events could bias its market value in one way or another during a given period of time. A significant benefit of using a proxy group, therefore, is that it serves to moderate the effects of anomalous, temporary events that may be associated with any one company." (T2 p 69)

general rate case, and yet he used the same criteria and selected the same proxy group in his rebuttal testimony for this case. (T2 p 202) In the final order in the Dominion case, the Commission described Johnson's criticisms of Hevert's use of a too-small proxy group:

> As to Hevert's Proxy Group of only 10 electric companies in his direct testimony and 11 companies in his rebuttal testimony, witness Johnson testified that the process by which Hevert selects his comparable electric companies can easily skew the results away from the average or normal firm, toward a more elite group of companies which happen to have better than average risk and earning profiles during the time period Hevert is studying. Johnson stated that because Hevert uses so many different arbitrary screens, Hevert is effectively cherry-picking specific firms to include in his comparison, which provides him with considerable control over the numbers included in his analysis and the bottom-line results he develops. He also specifically disagreed with Hevert's removal of electric companies that do not have an investment grade bond rating to form the 10 company Hevert Proxy Group. Johnson contended that by removing firms that do not have investment grade senior bond and/or corporate credit ratings, Hevert is skewing the proxy group away from a true industry average and toward a more elite group of companies that has recently been enjoying better than average financial performance and thus currently displays a lower than average risk profile.

Dominion Order p 105. As if on cue, when Hevert filed rebuttal testimony soon after the criticisms appeared in Johnson's testimony in the Dominion case, Hevert modified his proxy group to add PNM Resources, Inc. (PNM). Hevert stated that PNM was added because its long-term issuer rating had been upgraded recently. Dominion Order p 101. The Commission noted the effect of adding PNM to Hevert's proxy group and asked him to file an exhibit that provided his rebuttal results without PNM. The following tables show the effect of

PNM on Hevert's Mean DCF results. Compare his direct testimony (which screened out PNM) and his rebuttal testimony with and without PNM:

Hevert's direct testimony in Dominion

| | **Low Growth Rate** | **Mean Growth Rate** | **High Growth Rate** |
|---|---|---|---|
| 30-Day Average | 9.10% | 10.27% | 11.84% |
| 90-Day Average | 9.16% | 10.33% | 11.90% |
| 180-Day Average | 9.29% | 10.47% | 12.03% |

Hevert's rebuttal testimony in Dominion including PNM:

| | **Low Growth Rate** | **Mean Growth Rate** | **High Growth Rate** |
|---|---|---|---|
| 30-Day Average | 8.83% | 10.54% | 13.03% |
| 90-Day Average | 9.01% | 10.71% | 13.21% |
| 180-Day Average | 9.08% | 10.79% | 13.29% |

Hevert's rebuttal testimony in Dominion without PNM:

| | **Low Growth Rate** | **Mean Growth Rate** | **High Growth Rate** |
|---|---|---|---|
| 30-Day Average | 8.49% | 10.14% | 12.43% |
| 90-Day Average | 8.66% | 10.31% | 12.61% |
| 180-Day Average | 8.73% | 10.38% | 12.68% |

Dominion Order pp 100-101. As the tables show, Hevert increased the ROE results approximately 35 basis points for his Low Growth Rate ROE by adding PNM to his proxy group, and he increased the ROE results approximately 60 basis points for his Mean and High Growth Rate ROEs. The Commission expressed concern about the effect this had on Hevert's analysis. *Id* pp 111-12.

The Commission also noted with disfavor that there was a large change between Hevert's direct and rebuttal testimony regarding the Value Line growth measure for Otter Tail: it had increased from 13% to 26%. The dramatic change brings to mind Johnson's criticism that earnings data are problematic and should not be relied on exclusively because they "fluctuate so wildly." (T2 pp 211-12) As the Commission observed, the effect is heightened due to Hevert's small proxy group. The Commission stated,

> The inclusion of this 26.0% growth rate also obviously raised the DCF results shown for the mean and high growth rates in Hevert's rebuttal testimony.... [T]he impact from Otter Tail to Hevert's relatively small group of comparable companies resulting from the credit rating upgrade [for PNM] and the dramatic increase in the one earnings forecast [for Otter Tail] has, in the Commission's view, inordinately influenced the outcome.

Dominion Order p 112.

These same concerns are presented in Hevert's analysis in this case. Again in this case, Hevert's proxy group includes only 11 companies, and very high growth data for some of the companies tend to drive up the overall results.

3. The ROE obtained based on Hevert's analysis should not exceed the range of his "Low Growth Rate" ROE, which is 8.76% to 9.60%.

The range of the ROE obtained using the Low Growth Rate in Hevert's model is 8.76% to 9.60%. See Exhibit RBH-1 pp 1-3. (T2 p 128) Given the optimistic projections that Hevert relied on when he only used forecasts of annual changes in earnings per share, as discussed above in Part II.A.1., even his "Low Growth Rate" ROE tends to exaggerate the ROE that investors require. Earnings data are overly variable and analyst 5-year projections are known to be optimistic, rarely project negative growth, and focus on the short term even though they are called 'long term' forecasts. (T 3 pp 126-28) Thus, an independent review of Hevert's DCF analyses shows the ROE should not exceed the range of 8.76% to 9.60%.

B. Johnson's DCF analysis produced an unadjusted cost of equity range of 8.50% to 9.50%, which is close to Hevert's Low Growth Rate ROE, and Johnson's analysis is more credible than Hevert's because it takes into account multiple types of growth data and uses a larger proxy group.

A DCF analysis was also performed by Public Staff witness Johnson to estimate Duke's cost of equity, and Johnson's DCF produced an unadjusted [5] range of results of 8.50% to 9.50%, somewhat lower than Hevert's "Low Growth" DCF results (which were 8.76% to 9.60%), but fairly close. Attorney General-Johnson Cross Exam Exhibit No. 1 (BJA Exhibit 1 Schedule 20 ))(hereafter shortened to "Exhibit AG-BJA 1 Schedule 20").

Johnson's DCF analysis used a dividend yield of 4.00% to 4.50% and a growth rate of 4.5% to 5.0%. Exhibit AG-BJA 1 Schedule 20. To identify the dividend yield, Johnson looked at the recent historic range of yields for the 36 comparable companies in his proxy group, and placed the most emphasis on the most recent yields. (T3 p 120, 123-25) To identify the growth rate, Johnson looked at three measures of growth: dividends, book value, and earnings. He used historical data and looked at the data two ways: first including all data and then looking at the data again with "outliers" removed. (T3 pp 130-32) Of the three measures, he opined that book value is the best to use because it is "inherently a more stable data set" and provides a "strong indicator of long-term future earnings potential because the earnings of the Company [are] directly correlated with what they own." (T3 p 132) Johnson provided data relating to

[5] The witnesses' adjustments for risk are discussed in Part C.

dividend growth in Schedules 11 and 12, including all data in the first schedule and outliers removed in the second, and provided data following the same method for earnings growth in Schedules 13 and 14, and book value growth in Schedules 15 and 16. Exhibit AG-BJA 1 Schedules 11-16. (T3 pp 133-135) He examined the actual growth by year and averaged the data. Then he removed the data that reflect extreme swings and reviewed them again. (T3 p 132-34) In general, his DCF analysis uses higher estimates of growth rates than the historical earnings indicate because, although he relied on historical data and showed his reasoning, he believes that growth will be stronger over the long term than it has been in the last few years, and he ultimately converted the historical data into a forward looking analysis. (T3 p 134)

Johnson's DCF analysis is more credible than Hevert's because Johnson's data is less vulnerable to swings in growth since he used over three times as many comparable companies and did not rely as heavily on optimistic and highly variable projected earnings to calculate his growth rate. (T3 pp 99-100) Johnson took into consideration more types of growth data and reviewed the data for indications that it contained outliers. (T3 pp 130-35) Johnson recognized that "growth is a multidimensional phenomenon, [and] no single variable proves adequate in fully describing a firm's growth or investor expectations." (T3 p 126) He commented, for example, that "investors recognize that growth is a dynamic process which responds to changes in industry conditions and the underlying financial health of each firm." (T3 p 128) For example, a rapid growth in dividends may be supported by a rapid growth in book value and earnings or "could simply be a change in management philosophy in which they're increasing the fraction of earnings that are being paid out currently. And obviously, you ... can only do that for so long." (T3 pp 129-30) He explained, "[Y]ou would not expect a long-term dividend growth rate to be comparable to what would actually be expected long-term comparable to a short-term phenomenon if that short-term phenomenon is not solidly grounded in all three sets of data." (T3 p 130)

In sum, Johnson's DCF approach used more credible methods than Hevert's and supports, at most, a cost of equity range of 8.5% to 9.5% unadjusted for risk.

C. A downward adjustment to the cost of equity results is appropriate as supported in Johnson's DCF analysis because Duke is relatively less risky than the comparable companies in the proxy group.

Both Johnson and Hevert compared the riskiness of the companies in their proxy groups to the riskiness of investing in Duke (i.e., the operating utility Duke Enegy Carolinas) in order to determine whether a risk adjustment should be made to their DCF results. (T2 pp 90-107, 233-40, T3 pp 135-42) Johnson's analysis incorporated a downward adjustment from the range of 8.50% to 9.50% to a risk-adjusted ROE range of 7.75% to 9.25%. Exhibit AG-BJA 1 Schedule 20. Johnson explained that the 36 companies in his proxy group include companies that engage to some extent in international operations and other undertakings that are riskier than regulated electric utility operations. (T3 p 136) Duke is an operating electric utility that is a regulated monopoly and has significantly less risk. While Hevert did not support a downward risk adjustment for Duke, he conceded that regulated utilities are less risky than unregulated companies, and their rate of return is therefore somewhat lower. (T2 p 239)

Indeed, the credit rating for a utility's unsecured debt is a factor that Hevert has noted provides an indication of the risk associated with the Company's equity, (T2 p 238) and Duke's senior unsecured debt has a credit rating from Moody's (BBB+) that is higher than the senior unsecured credit rating of all but one of the comparable companies in Hevert's proxy group. See Attorney General-Hevert Cross Examination Exhibit No. 3. (T2 pp 235-36) [6]

Johnson also agreed that statutory provisions in North Carolina provide risk-related assurances that are not available to all of the comparable companies, including 1) the recovery of purchased power costs in an adjustment mechanism, 2) a rider for recovery of renewable portfolio costs, 3) a provision for recovery of nuclear development costs and construction work in progress for baseload plants, and 4) a systematic review process for nuclear plant development. (T3 pp 136-38)

During cross examination, Hevert conceded that Duke's size is an advantage with respect to liquidity. (T2 pp 176-77) He also agreed that a downward adjustment is appropriate for a less risky subject company compared to the proxy group, if capital markets are stable, although he did not recommend such an adjustment here. (T2 p 179)

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[6] Hevert provided the credit ratings for operating companies owned by the holding companies included in the proxy group for additional comparison, but Hevert also appeared to acknowledge during cross examination, that the risk of Duke Energy Carolinas should be compared to the proxy group to make an adjustment, instead of using subsidiary operating companies as they were not in the proxy group. (T2 pp 235-36)

To the contrary, Hevert ignored factors that would support a downward adjustment for Duke relative to his proxy group, and instead recommended that the Commission adopt an ROE toward the upper end of his range of ROE results based on several business risk factors. Hevert's recommendation must be rejected because it is not supported by the reasons he has identified and because he has failed to specify the amount of adjustment or explain how they factor into the ROE determination. (T2 p 234-35, 239-40) The business risk factors he identifies include Duke's need to fund substantial capital expenditures related to 1) a growing customer base, 2) environmental compliance relating to coal-fired generation, and 3) increased mandates related to nuclear generation. (T2 p 90). However, none of these factors are unique to Duke as compared to the electric companies in Hevert's proxy group or the electric industry in general, and do not warrant adoption of a higher ROE. See Attorney General-Hevert Cross Examination Exhibit Number 2. (T2 pp 234-35) Indeed, the risks he has identified are well known and already incorporated into the company's risk profile. *Id.* Additionally, his failure to quantify an adjustment for these risks limits the Commission's ability to incorporate the factors into its final ROE determination. In order to properly factor these purported risk factors into its ROE determination, the Commission would have to quantify the risks and adjust the ROE accordingly. The North Carolina Supreme Court has stated that specific adjustments for ROE require specific support in the record to permit meaningful appellate review of the Commission's rate of return decision. <u>Duke Power I</u>, 322 N.C. at 701, 370 S.E.2d at 574. As there is no evidence in the record to support quantification of increased risks, there is no meaningful way for the Commission to factor in risks that were alleged by Hevert.

In sum, the expert testimony and evidence in the record, if anything, supports a downward adjustment for the riskiness of investing in Duke as compared to companies in the proxy groups used by Johnson and Hevert; it does not support Hevert's contentions that Duke is relatively more risky than the other companies in Hevert's proxy group. Accordingly, a risk-adjusted cost of equity range of 7.75% to 9.25% as produced in Johnson's DCF analysis is reasonable. Exhibit AG-BJA 1 Schedule 20.

D. The other methods that were performed by Hevert and Johnson to estimate ROE do not provide evidence sufficient to support a 10.2% ROE.

Other methods that were used by Hevert and Johnson to estimate ROE do not support the 10.2% ROE adopted in the settlement.

The CAPM (capital asset pricing model) approach was used by both experts to estimate Duke's ROE, but neither expert gave the CAPM results much weight. Hevert's CAPM results appear to indicate a cost of equity range that spans 7.68% to 12.36%. (T2 p 64) Hevert only used his CAPM results as a check on his DCF results. (T2 pp 77, 89-90) Johnson's CAPM analysis suggested a cost of equity range of 6.77% to 7.67% for DEC, and Johnson gave his CAPM analysis the least weight of his three market type analyses. (T3 pp 52-53)

Johnson also performed other analyses. His comparable earnings analysis resulted in an estimated cost of equity range of 9.75% to 10.75%. (T3 p

52) Johnson explained that the analysis "was based upon the rates of return on average common equity earned by unregulated primarily industrial firms," relying on current and historical earnings of the firms, adjusted for the risk relative to utilities versus unregulated firms, and then adjusted for the risk particular to Duke. (T3 pp 52, 164-65) However, Johnson's testimony offers only a brief summary of his comparable earnings approach and gives no explanation about how he determined the key adjustment that was made for the difference in risk associated with regulated utilities versus unregulated industrial firms, other than to say that he believes that a substantial downward adjustment is justified. (T p 164) Without evidence of the factors and data considered to make the adjustment, Johnson's comparable earnings analysis does not provide information needed for the Commission to make an independent analysis of his method and the weight that it should be given.

Similarly, Johnson's testimony provides only a brief summary of the result of his analysis of historic S&P 500 market returns (which resulted in a risk-adjusted equity cost estimate of 8.50% to 9.50%). (T3 p 52)

In sum, there is not sufficient evidence about the other approaches used by experts to measure the cost of equity for the Commission to evaluate them as support for the adoption of a 10.2% ROE as proposed in the settlement.

E. The Commission should establish an ROE lower than the 10.2%, proposed in the stipulation. A 10.2% ROE is excessive and is not justified by other items contained in the stipulation.

For reasons already discussed, the ROE analyses do not support an ROE as high as 10.2%. Even the expert evidence focusing on shareholder impact and

Duke's ability to attract capital does not support an ROE higher than 8.5%, the midpoint of Johnson's risk-adjusted DCF range.

The determination of ROE is important because it has a large impact on rates. When Johnson was asked about the impact on Duke's revenue requirement of applying an 11.25% ROE (i.e., the ROE proposed in the application) versus 10.2% (the settlement ROE) versus 9.2% or 8.5%, he responded, "Those are very significant movements. The numbers sound very small, but in actual dollars we're dealing with hundreds of millions of dollars." (T3 pp 106-07)

Thus, the Commission should be mindful of the substantial dollar impact that an excessive ROE has on the Company's revenue requirement. Indeed, even small changes in the ROE have a large impact on the revenue requirement. The annual revenue required by Duke declines $10.7 million for only a 10 basis point reduction in the ROE. See Attorney General-Shrum Cross Examination Exhibit 1.

From the standpoint of customer interests, it is not sufficient to say that the 10.2% ROE in the stipulation represents a reduction of the ROE originally proposed by Duke, especially in light of the significant flaws in the testimony of Duke's expert witness who provided the basis for Duke' initially proposed ROE. In other words, Hevert's flawed methods resulted in a flawed and excessive proposed ROE. Working downward from that flawed proposal is necessary and does not constitute a concession or benefit for consumers. Moreover, it is worth noting that even Duke recognized that Hevert's ROE recommendation was excessive, since Duke was willing to settle for a rate below the minimum ROE that Hevert testified was required for Duke. (T2 p 181)

Likewise, other aspects of the stipulation do not justify or offset the artificially high ROE contained in the stipulation. Duke has agreed to use $30 million of 'cost of removal regulatory liability' in each of the first two years to lower the rate increase, (T3 pp 48-49) and will make a one-time contribution of $10 million of stockholder funds to agencies for energy assistance to low income customers in Duke's North Carolina service territory. However, these do not offer sufficient benefits to offset the much higher revenue requirement that relates to a 10.2% ROE.

For example, if the Commission were to fix the ROE at 8.5%, this would eliminate much of the need for a rate increase because the revenue requirement would be reduced by $283.5 million each year from the application proposal of 11.25% ROE, which is $171 million more than the reduction obtained from the 10.2% settlement ROE. Attorney General-Shrum Cross Examination Exhibit 1. [7] These numbers show how important the ROE determination is to obtaining a reasonable overall revenue requirement in the rate case.

F. It is inappropriate for the Commission to adopt an ROE that exceeds the required cost of equity based on considerations such as: 1) a reduction in ROE must be gradual; 2) a higher ROE is justified because higher ROEs were adopted in other recent North Carolina cases; and 3) a higher ROE is justified because higher ROEs are authorized in other states. Such considerations are not valid under North Carolina law.

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[7] The reduction calculated in the exhibit is based on a capital structure using 51% equity, and if 53% equity were allowed, then the reduction related to using 8.5% as the ROE would be even larger.

Johnson testified that one of the reasons that the 10.2% ROE is proposed in the settlement between the Public Staff and Duke is that 10.2% was approved in Commission decisions in the recent Dominion and Progress Energy rate cases. However, those decisions have both been appealed on the grounds that the ROE is based on insufficient evidence regarding customer impact and is not supported by sufficient findings, conclusions, and reasoning. [8] Basing the ROE in this case on the flawed decisions reached in those matters would just compound the errors.

Furthermore, as discussed earlier, the Commission should not adopt a high ROE on the ground that changes in ROE should be gradual, or on the ground that a higher ROE is consistent with ROEs adopted in other North Carolina cases or cases adopted in other states. Public Staff, 331 N.C. at 225, 415 S.E.2d at 361. Indeed, a well-established line of cases holds that former ROEs established by our Commission are not *res judicata*, as the Commission is required to establish the ROE under conditions then existing. See, *e.g.,* State ex rel. Util's Comm. v. Southern Bell Telephone and Telegraph Co., , 239 N.C. 333, 80 S.E.2d 133 (1954) (holding that former allowance by Utility Commission of 6.50% ROE to utility was not *res judicata* preventing the Commission from fixing a lower ROE in a subsequent proceeding).

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[8] See *Attorney General's Notice of Appeal and Exceptions* filed February 18, 2013 Docket No. E-22, Sub 47 (the Dominion general rate case), and *Attorney General's Notice of Appeal and Exceptions* filed July 1, 2013 in Docket No. E-2,Sub 1023 (the Duke-Progress general rate case).

## III. THE CAPITAL STRUCTURE IN THE STIPULATION IS INAPPROPRIATE AND SHOULD BE REJECTED BECAUSE IT IS NOT SUPPORTED BY THE EVIDENCE AND UNNECESSARILY INCREASES RATES FOR CONSUMERS WITHOUT A SUFFICIENT BASIS.

The Commission should also reject the capital structure set forth in the Stipulation. By using 53% equity to 47% debt, rather than 50% equity to 50% debt, the stipulated capital structure unnecessarily increases the Company's revenue requirement by $41.1 million, and nothing in the record supports the need for the higher (and more costly) equity ratio. See Attorney General-Shrum Cross Exhibit 2.

While a significant portion of any rate increase will flow from the established ROE, the capital structure also directly and significantly impacts rates and customers. Yet Duke has not put forth evidence regarding the impact on consumers of a proposed 53% equity capital structure, and indeed, has not shown that there is any significant impact on investors if an only slightly less conservative equity percentage - 50% - were used instead.

Equity is recognized to be a more expensive form of capital than debt; thus, Duke' customers will pay higher rates to the extent Duke' authorized capital structure is weighted more heavily toward equity. Duke Power II, 332 N.C. at 697-98, 701-02. In fact equity is *much more expensive* -- about three times the cost of using debt, when the related "gross up" is considered relating to items such as taxes. This is shown in Attorney General-Shrum Cross Examination Exhibit 2, where the rates of return are shown "with gross up." Using the settlement rates, Duke's 5.26% cost of debt with gross up is 5.44% whereas the

10.2% cost of equity with gross up is 17.34%, which is *more than 3 times as costly.*

Although Public Staff witness Johnson did not oppose the use of 53% equity for Duke's capital structure in thé context of the stipulation, his estimate of Duke's required rate of return prepared in his workpapers for this case used 50% equity and 50% debt in the capital structure. (T3 pp 150-51) Exhibit AG-BJA 1 Schedule 23. The structure of 50% equity and 50% debt is the same capital structure that Johnson recommended in Duke's last rate case in 2011, in testimony that Johnson prepared and filed before the Public Staff reached a stipulation with Duke. (T3 pp 150-52) On cross-examination, Johnson explained why the capital structure that is adopted for ratemaking purposes need not totally defer to the capital structure that happens to be on the books of an operating utility.

> The management of the parent company can control the equity ratio and decide how much debt to issue at the subsidiary ... and how much to issue at the parent company. They can move money back and forth through cash management techniques. There's a lot of options available within a holding company structure....

(T3 p 152) He also testified, "I think you have to recognize that it is part of an overall financial structure that is controlled by the holding company's management." (T3 pp 152-53) Thus, although Duke's operating company may have an actual capital structure of 53% equity, that in itself does not mean that a less conservative capital structure would be inappropriate.

In fact, the 53% equity ratio proposed for Duke's operating utility is more conservative than the structure used by Duke's holding company Duke Energy Corporation. Duke Energy has a capital structure that is approximately 51% equity to 49% debt, Attorney General-Hevert Cross Examination Exhibit No. 4, (T vol 3 pp 17-18) and is forecasted to use a capital structure that is 50 to 52% debt going forward. Attorney General-Hevert Cross Examination Exhibit No. 5 p 2. (T Vol 3 p 19). Yet Duke Energy has non-regulated and international businesses that are more risky operations. Johnson testified that the less risky operations, which would require the least equity and could justify or support the greatest level of debt, are the North Carolina regulated operations. (T3 pp 153-54) He explained that there is generally more risk overseas, "where you're dealing with governments that are less predictable by far than North Carolina" and unregulated operations are riskier because "you're basically at the mercy of the market and what competitors choose to do." (T3 p 154)

Duke offered no evidence as to why it requires a significantly higher equity capital ratio for its operating utility than is sufficient for its overall holding company. Thus, the use of a hypothetical capital ratio less weighted toward equity would not constrain Duke' ability to vary its equity structure as it deemed appropriate; however, it would reduce the increased rate burden on Duke' customers.

Based on the evidence, the Commission should adopt a hypothetical capital structure consisting of a lower percentage of equity, such as 50%, as Johnson recommended in the 2011 rate case and used in this case. (T3 pp 150-

51) Duke customers should not be required to pay higher rates simply because Duke prefers to maintain a higher level of equity, as opposed to debt, on its books. This somewhat less conservative debt/equity structure would limit the size of the rate increase without causing negative market consequences to Duke.

## CONCLUSION

For the foregoing reasons, there is insufficient evidence in the record to allow the Commission to establish a reasonable ROE because there is insufficient ROE evidence in the record regarding customer interests and the impact of changing economic conditions on consumers. If, notwithstanding the lack of sufficient evidence in the record, the Commission attempts to make an ROE determination, the Commission should establish a lower ROE that better protects consumers because even the evidence that focuses on shareholder impact and Duke's ability to attract capital does not support an ROE of 10.2%. Likewise, the Commission should establish an imputed capital structure that better protects and results in lower rates for consumers.

Respectfully submitted, this the 20th day of August, 2013.

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## CERTIFICATE OF SERVICE

The undersigned certifies that she has served a copy of the foregoing ATTORNEY GENERAL'S BRIEF upon the parties of record in this proceeding and their attorneys by electronic mail.

This the 20th day of August, 2013.

Margaret A. Force
Assistant Attorney General

**Table 6a: Summary of Constant Growth DCF Results**

| | *Low Growth Rate* | *Mean Growth Rate* | *High Growth Rate* |
|---|---|---|---|
| *Proxy Group Mean* | | | |
| 30-Day Average | 8.84% | 10.15% | 11.66% |
| 90-Day Average | 8.76% | 10.06% | 11.58% |
| 180-Day Average | 8.81% | 10.12% | 11.64% |
| *Proxy Group Median* | | | |
| 30-Day Average | 9.60% | 9.98% | 11.32% |
| 90-Day Average | 9.44% | 10.10% | 11.25% |
| 180-Day Average | 9.36% | 10.27% | 11.30% |

**Table 6b: Summary of CAPM Results**

| | *Sharpe Ratio Derived Market Risk Premium* | *Bloomberg Derived Market Risk Premium* | *Capital IQ Derived Market Risk Premium* |
|---|---|---|---|
| *Average Bloomberg Beta Coefficient* | | | |
| Current 30-Year Treasury (2.85%) | 7.68% | 9.93% | 9.97% |
| Near Term Projected 30-Year Treasury (3.14%) | 7.97% | 10.21% | 10.25% |
| Long-Term Projected 30-Year Treasury (5.10%) | 9.93% | 12.17% | 12.21% |
| *Average Value Line Beta Coefficient* | | | |
| Current 30-Year Treasury (2.85%) | 7.78% | 10.07% | 10.11% |
| Near Term Projected 30-Year Treasury (3.14%) | 8.07% | 10.36% | 10.40% |
| Long-Term Projected 30-Year Treasury (5.10%) | 10.03% | 12.32% | 12.36% |

**Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

**A.** Yes, it does.

Constant Growth Discounted Cash Flow Model
30 Day Average Stock Price

| Company | Ticker | [1] Annualized Dividend | [2] Average Stock Price | [3] Dividend Yield | [4] Expected Dividend Yield | [5] Zacks Earnings Growth | [6] First Call 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 | $1.88 | $42.59 | 4.41% | 4.48% | 3.38% | 3.09% | 3.00% | 3.16% | 7.48% | 7.64% | 7.87% |
| Cleco Corp. | CNL | $1.35 | $40.15 | 3.36% | 3.44% | 3.00% | 3.00% | 8.00% | 4.67% | 6.41% | 8.11% | 11.50% |
| Empire District Electric | EDE | $1.00 | $20.18 | 4.95% | 5.15% | N/A | 10.20% | 5.50% | 7.85% | 10.59% | 13.00% | 15.41% |
| Great Plains Energy Inc. | GXP | $0.87 | $20.23 | 4.30% | 4.46% | 7.80% | 9.40% | 5.50% | 7.57% | 9.92% | 12.03% | 13.90% |
| IDACORP, Inc. | IDA | $1.52 | $42.78 | 3.55% | 3.61% | 4.00% | 4.00% | 2.00% | 3.33% | 5.59% | 6.95% | 7.62% |
| Otter Tail Corporation | OTTR | $1.19 | $24.48 | 4.86% | 4.98% | 5.00% | 5.00% | NA | 5.00% | 9.98% | 9.98% | 9.98% |
| Pinnacle West Capital Corp. | PNW | $2.18 | $50.97 | 4.28% | 4.41% | 6.90% | 6.30% | 5.00% | 6.07% | 9.38% | 10.47% | 11.32% |
| PNM Resources, Inc. | PNM | $0.58 | $20.80 | 2.79% | 2.94% | 8.35% | 9.30% | 16.00% | 11.22% | 11.25% | 14.16% | 19.01% |
| Portland General Electric Company | POR | $1.08 | $26.79 | 4.03% | 4.11% | 4.07% | 1.98% | 5.50% | 3.85% | 6.05% | 7.96% | 9.64% |
| Southern Company | SO | $1.96 | $43.08 | 4.55% | 4.66% | 5.06% | 4.94% | 5.00% | 5.00% | 9.60% | 9.66% | 9.72% |
| Westar Energy, Inc. | WR | $1.32 | $28.42 | 4.64% | 4.80% | 6.20% | 6.80% | 7.50% | 6.83% | 10.99% | 11.64% | 12.32% |
| PROXY GROUP MEAN | | | | 4.16% | 4.28% | 5.38% | 5.82% | 6.30% | 5.87% | 8.84% | 10.15% | 11.66% |
| PROXY GROUP MEDIAN | | | | 4.30% | 4.46% | 5.03% | 5.00% | 5.50% | 5.00% | 9.60% | 9.98% | 11.32% |

Notes:
[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional, equals 30-trading day average as of December 31, 2012
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [8])
[5] Source: Zacks
[6] Source: Yahoo! Finance
[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])



JIA

Constant Growth Discounted Cash Flow Model
90 Day Average Stock Price

| Company | Ticker | [1] Annualized Dividend | [2] Average Stock Price | [3] Dividend Yield | [4] Expected Dividend Yield | [5] Zacks Earnings Growth | [6] First Call 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 | $1.88 | $43.25 | 4.35% | 4.42% | 3.38% | 3.09% | 3.00% | 3.16% | 7.41% | 7.57% | 7.80% |
| Cleco Corp. | CNL | $1.35 | $41.11 | 3.28% | 3.36% | 3.00% | 3.00% | 8.00% | 4.67% | 6.33% | 8.03% | 11.42% |
| Empire District Electric | EDE | $1.00 | $20.98 | 4.77% | 4.95% | N/A | 10.20% | 5.50% | 7.85% | 10.40% | 12.80% | 15.21% |
| Great Plains Energy Inc. | GXP | $0.87 | $21.38 | 4.07% | 4.22% | 7.80% | 9.40% | 5.50% | 7.57% | 9.68% | 11.79% | 13.66% |
| IDACORP, Inc. | IDA | $1.52 | $42.99 | 3.54% | 3.59% | 4.00% | 4.00% | 2.00% | 3.33% | 5.57% | 6.93% | 7.61% |
| Otter Tail Corporation | OTTR | $1.19 | $23.92 | 4.97% | 5.10% | 5.00% | 5.00% | NA | 5.00% | 10.10% | 10.10% | 10.10% |
| Pinnacle West Capital Corp. | PNW | $2.18 | $51.86 | 4.20% | 4.33% | 6.90% | 6.30% | 5.00% | 6.07% | 9.31% | 10.40% | 11.25% |
| PNM Resources, Inc. | PNM | $0.58 | $21.04 | 2.76% | 2.91% | 8.35% | 9.30% | 16.00% | 11.22% | 11.22% | 14.13% | 18.98% |
| Portland General Electric Company | POR | $1.08 | $27.02 | 4.00% | 4.07% | 4.07% | 1.98% | 5.50% | 3.85% | 6.02% | 7.92% | 9.61% |
| Southern Company | SO | $1.96 | $44.64 | 4.39% | 4.50% | 5.06% | 4.94% | 5.00% | 5.00% | 9.44% | 9.50% | 9.56% |
| Westar Energy, Inc. | WR | $1.32 | $29.05 | 4.54% | 4.70% | 6.20% | 6.80% | 7.50% | 6.83% | 10.89% | 11.53% | 12.22% |
| PROXY GROUP MEAN | | | | 4.08% | 4.20% | 5.38% | 5.82% | 6.30% | 5.87% | 8.76% | 10.06% | 11.58% |
| PROXY GROUP MEDIAN | | | | 4.20% | 4.33% | 5.03% | 5.00% | 5.50% | 5.00% | 9.44% | 10.10% | 11.25% |

Notes:
[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional, equals 90-trading day average as of December 31, 2012
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [8])
[5] Source: Zacks
[6] Source: Yahoo! Finance
[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])

Constant Growth Discounted Cash Flow Model
180 Day Average Stock Price

| Company | Ticker | [1] Annualized Dividend | [2] Average Stock Price | [3] Dividend Yield | [4] Expected Dividend Yield | [5] Zacks Earnings Growth | [6] First Call 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 | $1.88 | $41.62 | 4.52% | 4.59% | 3.38% | 3.09% | 3.00% | 3.16% | 7.58% | 7.74% | 7.97% |
| Cleco Corp. | CNL | $1.35 | $41.33 | 3.27% | 3.34% | 3.00% | 3.00% | 8.00% | 4.67% | 6.32% | 8.01% | 11.40% |
| Empire District Electric | EDE | $1.00 | $20.91 | 4.78% | 4.97% | N/A | 10.20% | 5.50% | 7.85% | 10.41% | 12.82% | 15.23% |
| Great Plains Energy Inc. | GXP | $0.87 | $21.16 | 4.11% | 4.27% | 7.80% | 9.40% | 5.50% | 7.57% | 9.72% | 11.83% | 13.70% |
| IDACORP, Inc. | IDA | $1.52 | $41.96 | 3.62% | 3.68% | 4.00% | 4.00% | 2.00% | 3.33% | 5.66% | 7.02% | 7.70% |
| Otter Tail Corporation | OTTR | $1.19 | $23.15 | 5.14% | 5.27% | 5.00% | 5.00% | NA | 5.00% | 10.27% | 10.27% | 10.27% |
| Pinnacle West Capital Corp. | PNW | $2.18 | $51.29 | 4.25% | 4.38% | 6.90% | 6.30% | 5.00% | 6.07% | 9.36% | 10.45% | 11.30% |
| PNM Resources, Inc. | PNM | $0.58 | $20.16 | 2.88% | 3.04% | 8.35% | 9.30% | 16.00% | 11.22% | 11.35% | 14.26% | 19.11% |
| Portland General Electric Company | POR | $1.08 | $26.59 | 4.06% | 4.14% | 4.07% | 1.98% | 5.50% | 3.85% | 6.08% | 7.99% | 9.67% |
| Southern Company | SO | $1.96 | $45.58 | 4.30% | 4.41% | 5.06% | 4.94% | 5.00% | 5.00% | 9.35% | 9.41% | 9.47% |
| Westar Energy, Inc. | WR | $1.32 | $29.18 | 4.52% | 4.68% | 6.20% | 6.80% | 7.50% | 6.83% | 10.86% | 11.51% | 12.19% |
| PROXY GROUP MEAN | | | | 4.13% | 4.25% | 5.38% | 5.82% | 6.30% | 5.87% | 8.81% | 10.12% | 11.64% |
| PROXY GROUP MEDIAN | | | | 4.25% | 4.38% | 5.03% | 5.00% | 5.50% | 5.00% | 9.36% | 10.27% | 11.30% |

Notes:
[1] Source: Bloomberg Professional
[2] Source: Bloomberg Professional, equals 180-trading day average as of December 31, 2012
[3] Equals [1] / [2]
[4] Equals [3] x (1 + 0.5 x [8])
[5] Source: Zacks
[6] Source: Yahoo! Finance
[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])

Attachment Page 5 I/A

Attorney General - Hevert Cross Examination Exhibit No. 1

# AMERICAN ELEC. PWR. NYSE-AEP

RECENT PRICE 43.44 | P/E RATIO 14.5 (Trailing: 14.7; Median: 13.0) | RELATIVE P/E RATIO 0.95 | DIV'D YLD 4.3% | VALUE LINE

TIMELINESS 3 Lowered 5/4/12
SAFETY 3 Lowered 10/4/02
TECHNICAL 3 Lowered 12/7/12
BETA .65 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 51.2 | 48.8 | 31.5 | 35.5 | 40.8 | 43.1 | 51.2 | 49.1 | 36.5 | 37.9 | 41.7 | 45.4 |
| Low: | 39.3 | 15.1 | 19.0 | 28.5 | 32.3 | 32.3 | 41.7 | 25.6 | 24.0 | 28.2 | 33.1 | 37.0 |

Target Price Range 2015 | 2016 | 2017

**2015-17 PROJECTIONS**

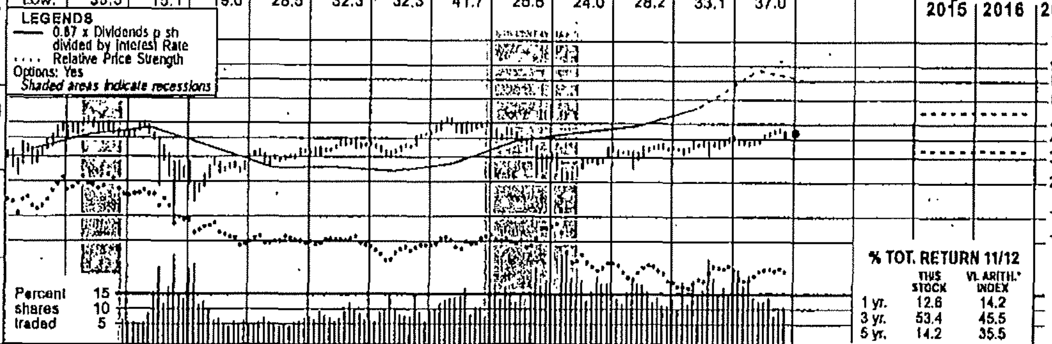
| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 55 | (+25%) | 10% |
| Low | 35 | (-20%) | Nil |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 |

**Institutional Decisions**

| | 1Q2012 | 2Q2012 | 3Q2012 |
|---|---|---|---|
| to Buy | 323 | 312 | 295 |
| to Sell | 279 | 264 | 255 |
| Hld's(000) | 298208 | 270699 | 299291 |




**% TOT. RETURN 11/12**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 12.6 | 14.2 |
| 3 yr. | 53.4 | 45.5 |
| 5 yr. | 14.2 | 35.5 |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 31.07 | 32.43 | 33.08 | 35.63 | 42.53 | 190.10 | 42.96 | 36.82 | 35.51 | 30.76 | 31.82 | 33.41 | 35.56 | 28.22 | 30.01 | 31.27 | 30.25 | 31.50 | Revenues per sh | 35.75 |
| 6.31 | 6.47 | 6.03 | 6.36 | 5.11 | 7.65 | 6.99 | 5.76 | 5.89 | 5.98 | 6.67 | 6.80 | 6.84 | 6.32 | 6.29 | 6.83 | 6.75 | 6.90 | "Cash Flow" per sh | 8.00 |
| 3.14 | 3.28 | 2.81 | 2.69 | 1.04 | 3.27 | 2.86 | 2.53 | 2.61 | 2.64 | 2.86 | 2.86 | 2.99 | 2.97 | 2.60 | 3.13 | 2.95 | 3.05 | Earnings per sh A | 3.50 |
| 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 1.65 | 1.40 | 1.42 | 1.50 | 1.58 | 1.64 | 1.64 | 1.71 | 1.85 | 1.88 | 1.88 | Div'd Decl'd per sh B ■ | 2.00 |
| 3.07 | 4.00 | 4.13 | 4.47 | 5.51 | 5.69 | 5.08 | 3.44 | 4.28 | 6.11 | 8.89 | 8.88 | 9.83 | 6.19 | 5.07 | 5.74 | 6.80 | 7.50 | Cap'l Spending per sh | 7.50 |
| 24.15 | 24.62 | 25.24 | 25.79 | 25.01 | 25.54 | 20.85 | 19.93 | 21.32 | 23.08 | 23.73 | 25.17 | 28.33 | 27.49 | 28.33 | 30.33 | 31.10 | 32.30 | Book Value per sh C | 36.50 |
| 186.24 | 189.99 | 191.82 | 194.10 | 322.02 | 322.24 | 338.84 | 395.02 | 395.86 | 393.72 | 396.67 | 400.43 | 406.07 | 478.05 | 480.81 | 483.42 | 486.00 | 489.00 | Common Shs Outst'g D | 500.00 |
| 13.2 | 13.4 | 17.0 | 14.3 | 34.3 | 13.9 | 12.7 | 10.7 | 12.4 | 13.7 | 12.9 | 16.3 | 13.1 | 10.0 | 13.4 | 11.9 | Bold figures are | Value Line estimates | Avg Ann'l P/E Ratio | 12.5 |
| .83 | .77 | .88 | .82 | 2.23 | .71 | .69 | .61 | .86 | .73 | .70 | .87 | .79 | .67 | .85 | .75 | | | Relative P/E Ratio | .85 |
| 5.8% | 5.5% | 5.0% | 6.2% | 6.7% | 5.3% | 6.6% | 6.1% | 4.3% | 3.9% | 4.1% | 3.4% | 4.2% | 5.5% | 4.9% | 5.0% | | | Avg Ann'l Div'd Yield | 4.5% |

**CAPITAL STRUCTURE as of 9/30/12**
Total Debt $18443 mill. Due in 5 Yrs $6380 mill.
LT Debt $14955 mill. LT Interest $823 mill.
Incl. $2295 mill. securitized bonds.
(LT interest earned: 3.3x)

Leases, Uncapitalized Annual rentals $316 mill.
Pension Assets-12/11 $4.30 bill. Oblig. $4.99 bill.

Pfd Stock None

Common Stock 485,249,046 shs. as of 10/25/12
MARKET CAP: $21 billion (Large Cap)

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 14555 | 14545 | 14057 | 12111 | 12622 | 13380 | 14440 | 13489 | 14427 | 15116 | 14700 | 15400 | Revenues ($mill) | 17850 |
| 976.0 | 984.0 | 1038.0 | 1036.0 | 1131.0 | 1147.0 | 1208.0 | 1365.0 | 1248.0 | 1513.0 | 1405 | 1480 | Net Profit ($mill) | 1730 |
| 25.2% | 36.8% | 33.1% | 29.3% | 33.0% | 31.1% | 31.3% | 29.7% | 34.8% | 31.7% | 34.0% | 35.0% | Income Tax Rate | 35.0% |
| -- | 3.8% | 3.6% | 5.4% | 9.9% | 9.8% | 9.9% | 10.9% | 10.4% | 10.6% | 13.0% | 10.0% | AFUDC % to Net Profit | 10.0% |
| 56.0% | 60.6% | 56.2% | 54.8% | 56.7% | 58.3% | 59.1% | 54.4% | 53.1% | 50.7% | 51.0% | 49.0% | Long-Term Debt Ratio | 47.5% |
| 43.1% | 38.7% | 43.1% | 44.9% | 43.0% | 41.4% | 40.7% | 45.4% | 46.7% | 49.3% | 49.0% | 51.0% | Common Equity Ratio | 52.5% |
| 18393 | 20333 | 19584 | 20222 | 21902 | 24342 | 26290 | 28958 | 29184 | 29747 | 30700 | 30875 | Total Capital ($mill) | 34900 |
| 21684 | 22029 | 22801 | 24284 | 26781 | 29870 | 32987 | 34344 | 35674 | 36971 | 38425 | 40225 | Net Plant ($mill) | 45300 |
| 7.5% | 6.6% | 7.0% | 6.8% | 6.7% | 8.3% | 6.2% | 6.2% | 5.7% | 6.6% | 6.0% | 6.0% | Return on Total Cap'l | 6.5% |
| 13.5% | 12.3% | 12.1% | 11.3% | 11.9% | 11.3% | 11.2% | 10.3% | 9.1% | 10.3% | 9.5% | 9.5% | Return on Shr. Equity | 9.5% |
| 13.7% | 12.4% | 12.2% | 11.3% | 12.0% | 11.4% | 11.3% | 10.4% | 9.1% | 10.3% | 10.0% | 9.5% | Return on Com Equity E | 9.5% |
| 2.4% | 4.5% | 5.7% | 5.2% | 5.7% | 5.1% | 5.1% | 4.6% | 3.1% | 4.2% | 3.5% | 3.5% | Retained to Com Eq | 4.0% |
| 82% | 64% | 54% | 54% | 53% | 55% | 55% | 56% | 66% | 60% | 63% | 62% | All Div'ds to Net Prof | 57% |

**ELECTRIC OPERATING STATISTICS**

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -6.4 | +4.5 | +1.2 |
| Avg. Indust. Use (MWH) | NA | NA | NA |
| Avg. Indust. Revs. per KWH (¢) | 4.83 | 4.95 | 4.95 |
| Capacity at Peak (Mw) | NA | NA | NA |
| Peak Load (Mw) | NA | NA | NA |
| Annual Load Factor (%) | NA | NA | NA |
| % Change Customers (yr-end) | NA | NA | NA |
| Fixed Charge Cov. (%) | 265 | 257 | 286 |

**ANNUAL RATES**

| of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | -10.5% | -2.0% | 3.0% |
| "Cash Flow" | -- | 1.0% | 3.5% |
| Earnings | 2.0% | 1.5% | 3.0% |
| Dividends | -3.0% | 4.0% | 2.5% |
| Book Value | 1.0% | 5.0% | 4.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 3458 | 3202 | 3547 | 3282 | 13489 |
| 2010 | 3569 | 3360 | 4064 | 3434 | 14427 |
| 2011 | 3730 | 3609 | 4333 | 3444 | 15116 |
| 2012 | 3625 | 3551 | 4156 | 3368 | 14700 |
| 2013 | 3750 | 3650 | 4350 | 3650 | 15400 |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | .89 | .68 | .93 | .49 | 2.97 |
| 2010 | .72 | .35 | 1.16 | .37 | 2.60 |
| 2011 | .83 | .73 | 1.17 | .41 | 3.13 |
| 2012 | .80 | .75 | 1.00 | .40 | 2.95 |
| 2013 | .85 | .75 | 1.00 | .45 | 3.05 |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .41 | .41 | .41 | .41 | 1.64 |
| 2009 | .41 | .41 | .41 | .41 | 1.64 |
| 2010 | .41 | .42 | .42 | .46 | 1.71 |
| 2011 | .46 | .46 | .46 | .47 | 1.85 |
| 2012 | .47 | .47 | .47 | .47 | |

**BUSINESS:** American Electric Power Company, Inc. (AEP), through 10 operating utilities, serves about 5.3 million customers in Arkansas, Kentucky, Indiana, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, and West Virginia. Electric revenue breakdown: residential, 37%; commercial, 23%; industrial, 21%; wholesale, 16%; other, 3%. Sold 50% stake in Yorkshire Holdings (British utility) '01; sold SEEBOARD (British utility) '02; sold Houston Pipeline '05. Generating sources not available. Fuel costs: 35% of revenues. '11 reported depr. rates: 1.3%-9.3%. Has 18,700 employees. Chairman: Michael G. Morris. President & CEO: Nicholas K. Akins. Inc.: NY. Address: 1 Riverside Plaza, Columbus, OH 43215-2373. Tel.: 614-716-1000. Internet: www.aep.com.

**American Electric Power is undergoing a corporate separation of its generating assets in Ohio.** Numerous regulatory filings are pending, not only with the Ohio commission, but with the Federal Energy Regulatory Commission as well. This is happening in connection with a transition to competitive markets in the company's service area in the state. AEP will have to write down some of its assets to market value, however. This will result in a pretax charge, estimated at $235 million-$290 million, in the fourth quarter of 2012. We will *exclude* this from our earnings presentation as a nonrecurring item. The corporate separation should be completed by the end of 2013, and full market competition in Ohio is scheduled to begin in June of 2015.

**We estimate that earnings in 2012 and 2013 will be lower than the 2011 tally.** Customer switching to alternative power suppliers is already happening in Ohio, and this is negative for AEP's bottom line. In 2013, higher income from the regulated operations and a decline in interest expense should offset the effects of further customer switching. Note that our estimate for the fourth quarter of 2012 *includes* a $50 million pretax charge for the early retirement of debt.

**Two rate cases are pending, and another is upcoming.** An order on Indiana & Michigan Power's $140.4 million rate case, based on an 11.15% return on equity, is likely soon. This is AEP's only utility subsidiary that is severely underearning its allowed ROE. SWEPCO is seeking a tariff hike of $83.1 million in Texas, based on an 11.25% ROE. A ruling is expected in May, with new rates retroactive to late January. Finally, Appalachian Power will file an application in Virginia in March.

**We now expect no dividend hike in 2013.** Unlike in 2010 and 2011, the board of directors didn't raise the dividend in the fourth quarter of 2012. The payout ratio is now above AEP's targeted range of 50%-60%. The uncertainty in Ohio is another factor that points to no dividend boost.

**This stock's dividend yield is just average, by utility standards.** We have lowered our 3- to 5-year dividend growth projections, so total return potential is subpar.

*Paul E. Debbas, CFA* *December 21, 2012*

(A) Excl. nonrec. gains (losses): '02, ($3.86); '03, ($1.92); '04, 24¢; '05, (62¢); '06, (20¢); '07, (20¢); '08, 40¢; '10, (7¢); '11, 89¢; '12, (35¢); gains (losses) on disc. ops.: '02, (57¢); '03, (32¢); '04, 15¢; '05, 7¢; '06, 2¢; '08, 3¢. '09 EPS don't add due to chg. in shs., '11 due to rounding. Next egs. due late Jan. (B) Div'ds histor. paid early Mar., June, Sept., & Dec. ■ Div'd reinv. plan avail. (C) Incl. intang. in '11: $16.77/sh. (D) In mill. (E) Rate base: various. Rates all'd on com. eq.: 9.96%-10.9%; earned on avg. com. eq., '11: 10.8%. Reg. Clim.: Avg.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 60 |
| Earnings Predictability | 90 |

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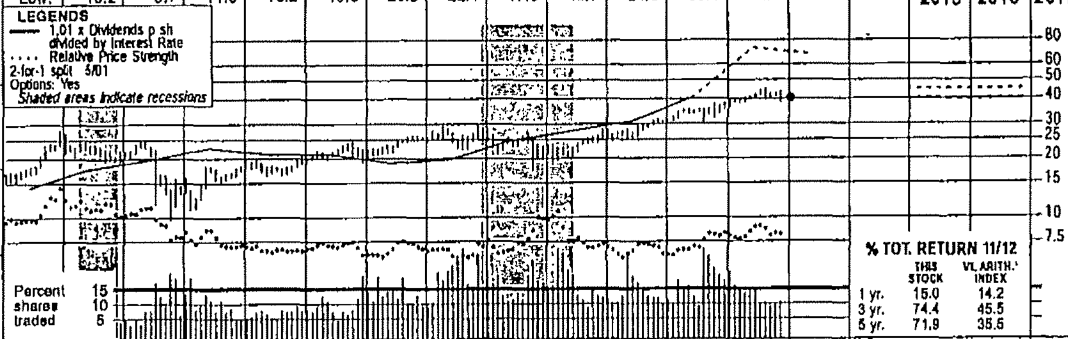
# CLECO CORPORATION NYSE-CNL

RECENT PRICE 40.44 | P/E RATIO 16.3 (Trailing: 14.3; Median: 14.0) | RELATIVE P/E RATIO 1.07 | DIV'D YLD 3.5% | VALUE LINE

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

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 27.3 | 24.9 | 18.4 | 20.8 | 24.4 | 26.2 | 29.8 | 28.4 | 28.1 | 31.8 | 38.3 | 45.3 |
| Low: | 19.2 | 9.7 | 11.0 | 16.2 | 18.9 | 20.5 | 22.1 | 17.3 | 18.7 | 24.3 | 30.1 | 36.2 |

Target Price Range 2015 | 2016 | 2017




**2015-17 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 45 | (+10%) | 7% |
| Low | 40 | (Nil) | 4% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 2 | 2 | 0 | 0 | 0 | 1 | 0 |
| to Sell | 0 | 0 | 1 | 1 | 1 | 0 | 0 | 1 | 0 |

**Institutional Decisions**

| | 1Q2012 | 2Q2012 | 3Q2012 |
|---|---|---|---|
| to Buy | 94 | 109 | 82 |
| to Sell | 108 | 74 | 106 |
| Hld's(000) | 43902 | 43036 | 42156 |

**% TOT. RETURN 11/12**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 15.0 | 14.2 |
| 3 yr. | 74.4 | 45.5 |
| 5 yr. | 71.9 | 35.5 |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 9.70 | 10.16 | 11.46 | 17.12 | 18.23 | 23.55 | 15.33 | 16.54 | 15.03 | 18.41 | 17.38 | 17.19 | 17.99 | 14.17 | 18.98 | 18.53 | *15.55* | *16.40* | Revenues per sh | *20.50* |
| 2.11 | 2.18 | 2.26 | 2.36 | 2.77 | 2.94 | 3.05 | 2.96 | 2.56 | 2.76 | 2.63 | 2.69 | 3.71 | 3.78 | 5.12 | 5.28 | *5.25* | *5.25* | "Cash Flow" per sh | *6.75* |
| 1.12 | 1.09 | 1.12 | 1.19 | 1.48 | 1.51 | 1.52 | 1.26 | 1.32 | 1.42 | 1.36 | 1.32 | 1.70 | 1.76 | 2.29 | 2.59 | *2.65* | *2.55* | Earnings per sh A | *3.50* |
| .77 | .79 | .81 | .83 | .85 | .87 | .90 | .90 | .90 | .90 | .90 | .90 | .90 | .90 | .96 | 1.12 | *1.30* | *1.40* | Div'd Decl'd per sh B ■ † | *1.90* |
| 1.43 | 1.73 | 2.09 | 3.99 | 2.52 | 1.10 | 1.91 | 1.56 | 1.61 | 3.19 | 4.11 | 8.51 | 5.59 | 4.15 | 4.66 | 3.25 | *3.95* | *2.15* | Cap'l Spending per sh | *2.25* |
| 8.30 | 8.68 | 9.07 | 9.44 | 10.04 | 10.69 | 11.77 | 10.09 | 10.83 | 13.69 | 15.22 | 16.85 | 17.65 | 18.50 | 21.76 | 23.55 | *24.65* | *25.80* | Book Value per sh C | *30.25* |
| 44.91 | 44.93 | 44.97 | 44.80 | 44.99 | 44.96 | 47.04 | 47.16 | 49.62 | 49.99 | 57.57 | 59.94 | 60.04 | 60.26 | 60.53 | 60.29 | *61.00* | *61.00* | Common Shs Outst'g D | *61.00* |
| 11.9 | 12.5 | 14.4 | 13.4 | 13.2 | 14.6 | 12.2 | 12.4 | 13.8 | 15.0 | 17.3 | 19.6 | 14.1 | 13.2 | 12.3 | 13.3 | *Bold figures are* | | Avg Ann'l P/E Ratio | *12.0* |
| .75 | .72 | .75 | .76 | .86 | .75 | .67 | .71 | .73 | .80 | .93 | 1.04 | .85 | .86 | .78 | .84 | *Value Line* | | Relative P/E Ratio | *.80* |
| 5.8% | 5.8% | 5.0% | 5.2% | 4.4% | 3.9% | 4.8% | 5.8% | 5.0% | 4.2% | 3.8% | 3.5% | 3.8% | 3.9% | 3.5% | 3.3% | *estimates* | | Avg Ann'l Div'd Yield | *4.5%* |

**CAPITAL STRUCTURE as of 9/30/12**
Total Debt $1326.1 mill. Due in 5 Yrs $209.9 mill.
LT Debt $1237.2 mill. LT Interest $75.5 mill.
Incl. $15.7 million capitalized leases.
(LT interest earned: 4.3x)

Leases, Uncapitalized Annual rentals $12.4 mill.
Pension Assets-12/11 $312.4 mill.
Oblig. $362.0 mill.
Pfd Stock None

Common Stock 60,726,390 shs.
as of 10/26/12
MARKET CAP: $2.5 billion (Mid Cap)

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 721.2 | 874.6 | 745.8 | 920.2 | 1000.7 | 1030.6 | 1080.2 | 853.8 | 1148.7 | 1117.3 | *950* | *1000* | Revenues ($mill) | *1250* |
| 74.2 | 61.2 | 66.1 | 75.0 | 74.7 | 79.6 | 102.1 | 106.3 | 139.5 | 157.8 | *160* | *155* | Net Profit ($mill) | *215* |
| 36.9% | 37.2% | 35.2% | 39.2% | 36.0% | 24.3% | 15.3% | 8.3% | 44.1% | 30.6% | *28.0%* | *31.5%* | Income Tax Rate | *31.0%* |
| 12.6% | 5.8% | 7.5% | 4.3% | 14.2% | 57.9% | 82.8% | 93.5% | 12.2% | 4.3% | *5.0%* | *3.0%* | AFUDC % to Net Profit | *2.0%* |
| 60.0% | 64.4% | 44.5% | 46.3% | 40.9% | 43.2% | 51.1% | 54.2% | 51.5% | 48.5% | *47.0%* | *46.0%* | Long-Term Debt Ratio | *42.0%* |
| 36.2% | 33.8% | 53.1% | 52.0% | 57.8% | 56.7% | 48.9% | 45.8% | 48.5% | 51.5% | *53.0%* | *54.0%* | Common Equity Ratio | *58.0%* |
| 1448.7 | 1406.5 | 1011.6 | 1315.9 | 1515.6 | 1780.5 | 2167.7 | 2436.4 | 2717.9 | 2756.9 | *2840* | *2910* | Total Capital ($mill) | *3200* |
| 1566.2 | 1417.1 | 1060.0 | 1188.7 | 1304.9 | 1725.9 | 2045.3 | 2247.0 | 2784.2 | 2693.9 | *2980* | *2945* | Net Plant ($mill) | *2775* |
| 7.1% | 6.7% | 8.9% | 7.1% | 6.3% | 5.6% | 6.1% | 5.9% | 6.6% | 7.0% | *7.0%* | *6.5%* | Return on Total Cap'l | *8.0%* |
| 12.8% | 12.2% | 11.8% | 10.6% | 8.3% | 7.9% | 9.6% | 9.5% | 10.6% | 11.1% | *11.0%* | *10.0%* | Return on Shr. Equity | *11.5%* |
| 13.1% | 12.5% | 11.9% | 10.7% | 8.3% | 7.8% | 9.6% | 9.5% | 10.6% | 11.1% | *11.0%* | *10.0%* | Return on Com Equity E | *11.5%* |
| 5.8% | 3.5% | 3.9% | 4.1% | 3.0% | 2.6% | 4.5% | 4.7% | 6.1% | 6.3% | *5.5%* | *4.5%* | Retained to Com Eq | *5.0%* |
| 58% | 72% | 68% | 62% | 65% | 68% | 53% | 51% | 42% | 43% | *49%* | *55%* | All Div'ds to Net Prof | *55%* |

**ELECTRIC OPERATING STATISTICS**

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -6.0 | +6.9 | +.4 |
| Avg. Indust. Use (MWH) | 3532 | 3657 | 3904 |
| Avg. Indust. Revs. per KWH (¢) | 6.48 | 7.68 | 7.58 |
| Capacity at Peak (Mw) | 2355 | 2559 | 2544 |
| Peak Load, Summer (Mw) | 2242 | 2348 | 2365 |
| Annual Load Factor (%) | 53.5 | 65.6 | 56.2 |
| % Change Customers (avg.) | +.7 | +.7 | +.8 |
| Fixed Charge Cov. (%) | 138 | 294 | 415 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | -1.5% | .5% | *3.0%* |
| "Cash Flow" | 6.0% | 12.5% | *6.0%* |
| Earnings | 5.0% | 10.0% | *8.0%* |
| Dividends | 1.5% | 2.0% | *11.5%* |
| Book Value | 8.0% | 10.0% | *6.0%* |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 213.0 | 207.2 | 241.5 | 192.1 | 853.8 |
| 2010 | 272.3 | 275.9 | 343.9 | 256.6 | 1148.7 |
| 2011 | 253.7 | 272.9 | 351.6 | 239.1 | 1117.3 |
| 2012 | 222.8 | 240.1 | 297.4 | *189.7* | *950* |
| 2013 | *225* | *245* | *315* | *215* | *1000* |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | .11 | .45 | .99 | .21 | 1.76 |
| 2010 | .56 | .58 | .82 | .33 | 2.29 |
| 2011 | .48 | .52 | 1.08 | .51 | 2.59 |
| 2012 | .50 | .77 | 1.05 | *.33* | *2.65* |
| 2013 | *.50* | *.60* | *1.10* | *.35* | *2.55* |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■ † Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .225 | .225 | .225 | .225 | .90 |
| 2009 | .225 | .225 | .225 | .225 | .90 |
| 2010 | .225 | .25 | .25 | .25 | .98 |
| 2011 | .25 | .28 | .28 | .3125 | 1.12 |
| 2012 | .3125 | .3125 | .3375 | .3375 | |

**BUSINESS:** Cleco Corporation is a holding company for Cleco Power, which supplies electricity to about 281,000 customers in central Louisiana. Through a subsidiary, has 775 megawatts of wholesale capacity. Electric revenue breakdown: residential, 47%; commercial, 29%; industrial, 14%; other, 10%. Largest industrial customers are paper-mills and other wood-product industries. Generating sources: coal & lignite, 34%; gas & oil, 29%; petroleum coke, 23%; purchased, 14%. Fuel costs: 40% of revenues. '11 reported deprec. rate (utility): 2.8%. Has 1,200 employees. Chairman: J. Patrick Garrett. President & CEO: Bruce A. Williamson. Inc.: Louisiana. Address: 2030 Donahue Ferry Road, P.O. Box 5000, Pineville, LA 71361-5000. Tel.: 318-484-7400. Internet: www.cleco.com.

**The earnings decline we estimate for Cleco in 2013 isn't worrisome.** In the first half of 2012, the company recorded some income from the contractual expiration of indemnifications stemming from nonregulated generating assets that were sold in 2010 and 2011. This lifted earnings by $0.19 a share. Cleco is excluding these gains from its 2012 earnings guidance of $2.40-$2.46 a share, but we are *including* them in our estimate of $2.65 a share. Without this income in 2013, profits are likely to decline. On the other hand, we estimate normal weather conditions next year after mild weather hurt the bottom line in the year that is just ending. Our 2013 earnings forecast is at the upper end of management's targeted range of $2.45-$2.55 a share.

**Cleco's Coughlin gas-fired plant won a request for proposals that was issued by its utility sibling.** Cleco Power, the regulated utility, is now buying electricity from Coughlin, Cleco Corporation's last nonutility generating facility, under a three-year agreement that began earlier in 2012. Pending state and federal regulatory approval, the plant will be transferred to Cleco Power. This is expected to happen in the third quarter of 2013.

**The Louisiana commission has approved a wholesale contract between Cleco and an electric cooperative that serves suburban Baton Rouge.** The agreement will begin in April of 2014 and run for 10 years. This will increase Cleco Power's load by more than 20% and will help boost corporate profits. The company hopes to enter into similar pacts.

**Cleco is generating free cash flow.** The company estimates that, after dividends and routine capital expenditures, it will have an additional $70 million-$100 million annually. This cash flow, and the low payout ratio, suggest that the hefty dividend hikes that shareholders have gotten in recent years will probably continue.

**The company's superior dividend growth prospects are reflected in the price of this high-quality stock.** The yield is nearly a percentage point below the industry average, and total return potential to 2015-2017 is low. Perhaps some takeover speculation is also reflected in the quotation. The stock is untimely.

*Paul E. Debbas, CFA* *December 21, 2012*

(A) Diluted earnings. Excl. nonrec. gains (losses): '00, 5¢; '02, (5¢), '03, ($2.05); '05, $2.11; '07, $1.22; '10, $1.91; '11, 63¢; losses from discont. ops.: '00, 14¢; '01, 4¢. Next earnings report due late Feb. (B) Div'ds historically paid in mid-Feb., May, Aug. and Nov. ■ Div'd reinvestment plan avail. † Shareholder investment plan avail. (C) Incl. deferred charges. In '11: $10.61/sh. (D) In mill., adj. for split. (E) Rate base: Net orig. cost. Rate allowed on com. eq. in '09: 11.7%; earned on avg. com. eq., '11: 11.7%. Regulatory Climate: Average.

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

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# EMPIRE DISTRICT NYSE-EDE

RECENT PRICE 20.03 | P/E RATIO 15.2 (Trailing: 15.5 Median: 17.0) | RELATIVE P/E RATIO 1.00 | DIV'D YLD 5.0% | VALUE LINE

TIMELINESS 3 Lowered 2/17/12
SAFETY 2 Raised 3/23/12
TECHNICAL 3 Lowered 11/23/12
BETA .65 (1.00 = Market)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 26.6 | 22.0 | 22.5 | 23.5 | 25.0 | 25.1 | 26.1 | 23.5 | 19.4 | 22.5 | 23.3 | 22.0 | |
| Low: | 17.5 | 15.1 | 17.0 | 19.5 | 19.3 | 20.3 | 21.1 | 14.9 | 11.9 | 17.6 | 18.0 | 19.5 | |

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


Target Price Range 2015 | 2016 | 2017

### 2015-17 PROJECTIONS

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 25 | (+25%) | 10% |
| Low | 19 | (-5%) | 4% |

### Insider Decisions

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

### Institutional Decisions

| | 1Q2012 | 2Q2012 | 3Q2012 |
|---|---|---|---|
| to Buy | 50 | 50 | 56 |
| to Sell | 58 | 50 | 42 |
| Hld's(000) | 20044 | 19674 | 19355 |

Percent shares traded 12 8 4

% TOT. RETURN 11/12

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | -0.2 | 14.2 |
| 3 yr. | 27.6 | 45.5 |
| 5 yr. | 16.7 | 35.6 |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 12.53 | 12.83 | 14.02 | 13.94 | 14.78 | 13.37 | 13.56 | 13.03 | 12.67 | 14.80 | 13.67 | 14.59 | 15.25 | 13.04 | 13.02 | 13.74 | *13.20* | *13.80* | Revenues per sh | *16.25* |
| 2.67 | 2.67 | 2.97 | 2.89 | 3.12 | 2.19 | 2.43 | 2.48 | 2.22 | 2.45 | 2.75 | 2.69 | 2.91 | 2.72 | 2.85 | 3.21 | *2.90* | *3.15* | "Cash Flow" per sh | *4.00* |
| 1.23 | 1.29 | 1.53 | 1.13 | 1.35 | .59 | 1.19 | 1.29 | .86 | .92 | 1.41 | 1.09 | 1.17 | 1.18 | 1.17 | 1.31 | *1.25* | *1.40* | Earnings per sh A | *1.70* |
| 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | .64 | *1.00* | *1.00* | Div'd Decl'd per sh B ■ † | *1.20* |
| 3.79 | 3.38 | 3.03 | 4.14 | 7.61 | 4.02 | 3.43 | 2.65 | 1.64 | 2.83 | 3.97 | 5.46 | 6.28 | 4.07 | 2.63 | 2.44 | *3.60* | *3.85* | Cap'l Spending per sh | *2.50* |
| 12.96 | 13.06 | 13.43 | 13.48 | 13.65 | 13.58 | 14.59 | 15.17 | 14.78 | 15.08 | 15.49 | 16.04 | 15.56 | 15.75 | 15.82 | 18.53 | *16.75* | *17.10* | Book Value per sh C | *18.50* |
| 16.44 | 16.78 | 17.11 | 17.37 | 17.60 | 19.76 | 22.57 | 24.98 | 25.70 | 28.08 | 30.25 | 33.61 | 33.98 | 38.11 | 41.58 | 41.98 | *42.50* | *42.50* | Common Shs Outst'g D | *43.50* |
| 14.8 | 13.9 | 14.0 | 21.7 | 17.7 | 33.9 | 16.2 | 15.8 | 24.8 | 24.5 | 15.9 | 21.7 | 17.3 | 14.3 | 16.8 | 15.8 | *Bold figures are* | | Avg Ann'l P/E Ratio | *12.5* |
| .93 | .80 | .73 | 1.24 | 1.15 | 1.74 | .88 | .90 | 1.31 | 1.30 | .86 | 1.15 | 1.04 | .95 | 1.07 | 1.00 | *Value Line* | | Relative P/E Ratio | *.85* |
| 7.0% | 7.1% | 8.0% | 5.2% | 5.4% | 6.4% | 6.6% | 6.3% | 6.0% | 5.7% | 5.7% | 5.4% | 6.3% | 7.6% | 6.5% | 3.1% | *estimates* | | Avg Ann'l Div'd Yield | *5.5%* |
| | | | | | | 305.9 | 325.5 | 325.5 | 386.2 | 413.6 | 490.2 | 518.2 | 497.2 | 541.3 | 576.9 | *560* | *590* | Revenues ($mill) | *710* |
| | | | | | | 25.5 | 29.5 | 21.8 | 23.8 | 39.9 | 33.2 | 39.7 | 41.3 | 47.4 | 55.0 | *53.0* | *59.0* | Net Profit ($mill) | *75.0* |
| | | | | | | 34.3% | 34.5% | 34.1% | 33.4% | 35.4% | 30.3% | 32.5% | 32.5% | 39.2% | 38.4% | *38.0%* | *38.0%* | Income Tax Rate | *38.0%* |
| | | | | | | 2.2% | 1.0% | 1.0% | 2.4% | 10.7% | 23.1% | 31.5% | 34.2% | 21.5% | .9% | *2.0%* | *2.0%* | AFUDC % to Net Profit | *1.0%* |
| | | | | | | 55.5% | 52.0% | 51.3% | 51.0% | 49.7% | 50.1% | 53.6% | 51.6% | 51.3% | 49.9% | *45.5%* | *50.5%* | Long-Term Debt Ratio | *51.0%* |
| | | | | | | 44.5% | 48.0% | 48.7% | 49.0% | 50.3% | 49.9% | 46.4% | 48.4% | 48.7% | 50.1% | *54.5%* | *59.4%* | Common Equity Ratio | *49.0%* |
| | | | | | | 740.3 | 789.2 | 779.1 | 803.3 | 931.0 | 1081.1 | 1140.4 | 1240.3 | 1350.7 | 1388.2 | *1305* | *1475* | Total Capital ($mill) | *1650* |
| | | | | | | 794.1 | 833.9 | 857.0 | 896.0 | 1031.0 | 1178.9 | 1342.8 | 1459.0 | 1519.1 | 1563.7 | *1645* | *1735* | Net Plant ($mill) | *1925* |
| | | | | | | 5.4% | 5.7% | 4.7% | 4.7% | 5.9% | 4.7% | 5.2% | 5.2% | 5.1% | 5.5% | *5.5%* | *5.0%* | Return on Total Cap'l | *5.5%* |
| | | | | | | 7.8% | 7.8% | 5.8% | 6.0% | 8.5% | 8.2% | 7.5% | 6.9% | 7.2% | 7.9% | *7.5%* | *8.0%* | Return on Shr. Equity | *9.0%* |
| | | | | | | 7.8% | 7.8% | 5.8% | 6.0% | 8.5% | 6.2% | 7.5% | 6.9% | 7.2% | 7.9% | *7.5%* | *8.0%* | Return on Com Equity E | *9.0%* |
| | | | | | | NMF | .1% | NMF | NMF | .8% | NMF | NMF | NMF | NMF | 4.1% | *1.5%* | *2.5%* | Retained to Com Eq | *2.5%* |
| | | | | | | 109% | 99% | NMF | NMF | 90% | 117% | 109% | 109% | 110% | 49% | *80%* | *72%* | All Div'ds to Net Prof | *71%* |

**CAPITAL STRUCTURE as of 9/30/12**
Total Debt $694.6 mill. Due in 5 Yrs $140.6 mill.
LT Debt $593.7 mill. LT Interest $39.8 mill.
Incl. $4.5 mill. capitalized leases.
(LT interest earned: 3.2x)
Leases, Uncapitalized Annual rentals $.9 mill.
Pension Assets-12/11 $141.0 mill. Oblig. $215.1 mill.

Pfd Stock None

Common Stock 42,421,281 shs. as of 11/1/12

**MARKET CAP: $850 million (Small Cap)**

### ELECTRIC OPERATING STATISTICS

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -4.3 | +6.1 | -2.3 |
| Avg. Industrial Use (MWH) | 2795 | 2813 | 2866 |
| Avg. Industrial Rev/KWH (¢) | 6.65 | 6.92 | 7.72 |
| Capacity at Peak (Mw) | 1257 | 1257 | 1392 |
| Peak Load, Summer (Mw) | 1065 | 1199 | 1198 |
| Annual Load Factor (%) | 55.4 | 53.2 | 52.0 |
| % Change Customers (avg.) | +.2 | +.4 | -1.5 |
| Fixed Charge Cov. (%) | 201 | 246 | 307 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | -.5% | -.5% | 3.5% |
| "Cash Flow" | .5% | 3.5% | 5.5% |
| Earnings | 2.0% | 3.0% | 5.5% |
| Dividends | -2.0% | -3.5% | 2.0% |
| Book Value | 1.5% | 1.0% | 2.5% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 136.0 | 112.2 | 128.1 | 120.9 | 497.2 |
| 2010 | 139.9 | 114.5 | 154.1 | 132.8 | 541.3 |
| 2011 | 150.7 | 129.1 | 164.3 | 132.8 | 576.9 |
| 2012 | 137.1 | 131.6 | 159.2 | *132.1* | *560* |
| 2013 | *150* | *130* | *165* | *145* | *590* |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | .32 | .22 | .43 | .22 | 1.18 |
| 2010 | .22 | .18 | .55 | .20 | 1.17 |
| 2011 | .29 | .22 | .60 | .21 | 1.31 |
| 2012 | .23 | .25 | .60 | *.17* | *1.25* |
| 2013 | *.30* | *.25* | *.65* | *.20* | *1.40* |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■ † Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .32 | .32 | .32 | .32 | 1.28 |
| 2009 | .32 | .32 | .32 | .32 | 1.28 |
| 2010 | .32 | .32 | .32 | .32 | 1.28 |
| 2011 | .32 | .32 | -- | -- | .64 |
| 2012 | .25 | .25 | .25 | .25 | |

**BUSINESS:** The Empire District Electric Company supplies electricity to 166,000 customers in a 10,000 sq. mi. area in Missouri (89% of '11 retail elec. revs.), Kansas (5%), Oklahoma (3%), & Arkansas (3%). Acquired Missouri Gas (44,000 customers) 8/06. Supplies water service (4,000 customers) and has a small fiber-optics operation. Electric revenue breakdown: residential, 43%; commercial, 30%; industrial, 15%; other, 12%. Generating sources: coal, 45%; gas, 24%; hydro, 1%; purchased, 30%. Fuel costs: 42% of revenues. '11 reported deprec. rate: 2.9%. Has about 750 employees. Chairman: D. Randy Laney. President & CEO: Bradley P. Beecher. Inc.: KS. Address: 602 S. Joplin Ave., P.O. Box 127, Joplin, MO 64802-0127. Tel.: 417-625-5100. Internet: www.empiredistrict.com.

**Empire District Electric has an electric rate case pending before the Missouri Public Service Commission (MPSC).** The utility filed for a base tariff hike of $30.7 million (7.6%), based on a 10.6% return on equity. The main reason for the application was the aftereffects of the tornado that hit Joplin, Missouri in May of 2011. Empire District also asked for an interim rate increase of $6.2 million, due to costs associated with the tornado, but was turned down by the MPSC. A rate order is due by June of 2013.

**The MPSC granted the company a raise in water rates.** The increase was $450,000 (25.5%), and took effect on November 23rd. This was Empire District's first water rate hike since 2006. It was a black-box settlement in which an allowed return on equity was not specified.

**Empire District's service area continues to recover from the effects of the aforementioned tornado.** As of September 30th, the customer count was some 1,200 below the level prior to the tornado. That's far better than the 4,200 customers that were unable to return to service as of mid-2011. Many homes and businesses, such as retailers and restaurants, have been rebuilt. The utility estimates that the effect of the customer decline on revenues is now likely to be less than 1%. However, some larger customers, such as a hospital and schools, are operating at temporary sites and won't reopen until 2014 or 2015.

**We estimate that earnings will advance in 2013 after a decline in 2012.** Our 2012 estimate is near the upper end of Empire District's targeted range of $1.18-$1.27 a share, but will likely fall short of the 2011 tally. An unusually mild winter hurt first-quarter results. We assume a return to normal weather in the first period of 2013. Also, Empire District should benefit from rate relief in Missouri. Our 2013 forecast would be the company's highest share profit since 2006, and its second-highest since 1998.

**This stock's dividend yield is somewhat above the industry average.** We project some dividend growth over the 3- to 5-year period, but not enough to return to its level before the tornado. Total return potential is average for a utility.

*Paul E. Debbas, CFA December 21, 2012*

(A) Excl. loss from discont. ops.: '06, 2¢. '09 & '11 EPS don't add due to rounding, '10 due to change in shs. Next earnings report due early Feb. (B) Div'ds historically paid in mid-Mar., June, Sept. and Dec. Div'ds suspended 3Q '11, reinstated 1Q '12. ■ Div'd reinvestment plan available (3% discount). † Shareholder investment plan available. (C) Incl. intangibles. In '11: $6.69/sh. (D) In mill. (E) Rate base: Deprec. orig. cost. Rate allowed on com. eq. in MO in '10: none specified; earned on avg. com. eq., '11: 8.2%. Regulatory Climate: Average.

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

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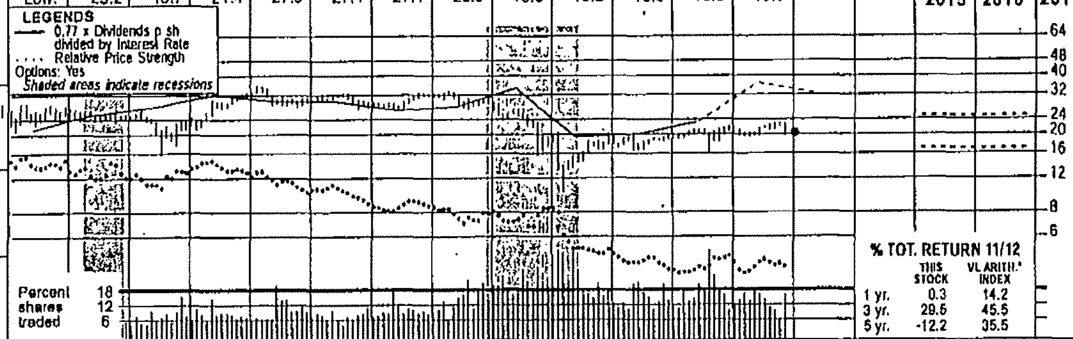
# GREAT PLAINS EN'GY NYSE-GXP

RECENT PRICE 20.37 | P/E RATIO 15.0 (Trailing: 15.7; Median: 15.0) | RELATIVE P/E RATIO 0.99 | DIV'D YLD 4.3% | VALUE LINE

TIMELINESS 3 Lowered 3/9/12
SAFETY 3 Lowered 12/26/08
TECHNICAL 2 Raised 12/21/12
BETA .75 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 27.6 | 27.0 | 32.8 | 35.7 | 32.8 | 32.8 | 33.4 | 29.3 | 20.5 | 19.9 | 22.1 | 22.8 |
| Low: | 23.2 | 15.7 | 21.4 | 27.9 | 27.1 | 27.1 | 26.9 | 15.6 | 10.2 | 16.6 | 16.3 | 19.5 |

Target Price Range 2015 | 2016 | 2017




**2015-17 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 25 | (+25%) | 10% |
| Low | 17 | (-15%) | 1% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |

**Institutional Decisions**

| | 1Q2012 | 2Q2012 | 3Q2012 |
|---|---|---|---|
| to Buy | 105 | 114 | 115 |
| to Sell | 116 | 108 | 111 |
| Hld's(000) | 102697 | 107362 | 107572 |

Percent shares traded 18 12 6

**% TOT. RETURN 11/12**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 0.3 | 14.2 |
| 3 yr. | 29.6 | 45.5 |
| 5 yr. | -12.2 | 35.5 |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 14.60 | 14.47 | 15.17 | 14.50 | 18.02 | 23.61 | 26.91 | 31.04 | 33.13 | 34.85 | 33.30 | 37.89 | 14.00 | 14.51 | 16.62 | 17.03 | 15.00 | 15.65 | Revenues per sh | 19.00 |
| 3.90 | 3.91 | 4.21 | 3.63 | 4.63 | 4.70 | 4.40 | 4.69 | 4.75 | 4.64 | 3.86 | 4.24 | 3.09 | 3.27 | 4.12 | 3.51 | 3.40 | 3.70 | "Cash Flow" per sh | 4.75 |
| 1.69 | 1.69 | 1.69 | 1.26 | 2.05 | 1.59 | 2.04 | 2.27 | 2.46 | 2.18 | 1.62 | 1.86 | 1.16 | 1.03 | 1.53 | 1.25 | 1.30 | 1.40 | Earnings per sh A | 1.75 |
| 1.59 | 1.62 | 1.64 | 1.66 | 1.66 | 1.66 | 1.66 | 1.66 | 1.66 | 1.66 | 1.66 | 1.66 | 1.66 | .83 | .83 | .84 | .86 | .88 | Div'd Decl'd per sh B ■ | 1.10 |
| 1.66 | 2.05 | 1.97 | 2.97 | 6.67 | 4.38 | 1.91 | 2.19 | 2.66 | 4.49 | 6.06 | 6.15 | 8.86 | 6.49 | 4.76 | 3.40 | 4.15 | 5.15 | Cap'l Spending per sh | 4.00 |
| 14.71 | 14.19 | 14.41 | 13.97 | 14.88 | 12.59 | 13.58 | 13.62 | 15.35 | 16.37 | 16.70 | 18.18 | 21.39 | 20.62 | 21.28 | 21.74 | 21.65 | 22.15 | Book Value per sh C | 24.00 |
| 61.91 | 61.91 | 61.91 | 61.91 | 61.91 | 61.91 | 69.20 | 69.26 | 74.37 | 74.74 | 80.35 | 86.23 | 119.26 | 135.42 | 135.71 | 136.14 | 153.50 | 153.50 | Common Shs Outst'g D | 153.50 |
| 15.9 | 17.0 | 15.7 | 20.0 | 12.4 | 15.9 | 11.1 | 12.2 | 12.6 | 14.0 | 18.3 | 16.3 | 20.5 | 18.0 | 12.1 | 16.1 | Bold figures are | | Avg Ann'l P/E Ratio | 12.0 |
| 1.00 | .98 | .82 | 1.14 | .81 | .81 | .61 | .70 | .67 | .75 | .99 | .87 | 1.23 | 1.07 | .77 | 1.02 | Value Line | | Relative P/E Ratio | .80 |
| 5.9% | 5.6% | 5.5% | 6.6% | 6.5% | 6.6% | 7.3% | 6.0% | 5.4% | 5.5% | 5.6% | 5.5% | 7.0% | 5.0% | 4.5% | 4.1% | estimates | | Avg Ann'l Div'd Yield | 5.3% |

**CAPITAL STRUCTURE as of 9/30/12**
Total Debt $3668.0 mill. Due in 5 Yrs $1530.6 mill.
LT Debt $2762.9 mill. LT Interest $162.3 mill.
(LT interest earned: 2.3x)

Leases, Uncapitalized Annual rentals $19.7 mill.
Pension Assets-12/11 $591.1 mill. Oblig. $980.6 mill.
Pfd Stock $39.0 mill. Pfd Div'd $1.6 mill.
390,000 shs. 3.80% to 4.50% (all $100 par & cum.), callable from $101 to $103.70.
Common Stock 153,475,437 shs. as of 10/31/12
MARKET CAP: $3.1 billion (Mid Cap)

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1861.9 | 2149.5 | 2464.0 | 2604.9 | 2675.3 | 3267.1 | 1670.1 | 1965.0 | 2255.5 | 2318.0 | 2300 | 2400 | Revenues ($mill) | 2900 |
| 129.2 | 159.0 | 176.8 | 164.2 | 127.6 | 159.2 | 119.5 | 135.6 | 211.7 | 174.4 | 195 | 220 | Net Profit ($mill) | 285 |
| 27.2% | 34.2% | 24.1% | 18.7% | 27.0% | 30.7% | 34.5% | 25.0% | 31.7% | 32.7% | 34.0% | 34.0% | Income Tax Rate | 34.0% |
| 1.0% | 1.8% | 2.0% | 2.1% | 6.4% | 10.6% | 46.8% | 57.0% | 25.7% | 3.9% | 2.0% | 5.0% | AFUDC % to Net Profit | 2.0% |
| 53.5% | 53.8% | 44.8% | 47.5% | 30.6% | 40.7% | 49.7% | 53.2% | 50.2% | 47.8% | 47.0% | 48.5% | Long-Term Debt Ratio | 44.5% |
| 44.7% | 44.4% | 53.4% | 50.9% | 67.5% | 57.9% | 49.6% | 46.2% | 49.2% | 51.6% | 52.5% | 51.0% | Common Equity Ratio | 55.0% |
| 2102.8 | 2154.6 | 2137.1 | 2403.3 | 1988.4 | 2709.8 | 5146.2 | 6044.5 | 5867.6 | 5741.2 | 6340 | 6695 | Total Capital ($mill) | 6725 |
| 2604.1 | 2700.9 | 2734.5 | 2785.6 | 3068.2 | 3444.5 | 6081.3 | 6651.1 | 6692.3 | 7053.5 | 7365 | 7810 | Net Plant ($mill) | 8475 |
| 7.7% | 9.0% | 10.1% | 8.2% | 7.9% | 7.5% | 3.5% | 3.9% | 5.3% | 4.8% | 4.5% | 4.5% | Return on Total Cap'l | 5.5% |
| 13.2% | 16.0% | 15.1% | 13.0% | 9.2% | 9.9% | 4.6% | 4.8% | 7.2% | 5.8% | 6.0% | 6.5% | Return on Shr. Equity | 7.5% |
| 13.6% | 16.4% | 15.5% | 13.3% | 9.4% | 10.1% | 4.6% | 4.8% | 7.3% | 5.8% | 6.0% | 6.5% | Return on Com Equity E | 7.5% |
| 2.3% | 4.4% | 5.1% | 3.2% | NMF | .9% | NMF | .9% | 3.4% | 2.0% | 2.0% | 2.5% | Retained to Com Eq | 3.0% |
| 83% | 73% | 68% | 76% | 104% | 91% | NMF | 81% | 54% | 66% | 64% | 63% | All Div'ds to Net Prof | 60% |

**ELECTRIC OPERATING STATISTICS**

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | +18.1 | +5.6 | -1.7 |
| Avg. Indust. Use (MWH) | 1367 | 1429 | 1463 |
| Avg. Indust. Revs. per KWH (¢) | 5.47 | 5.89 | 6.11 |
| Capacity at Peak (Mw) | 6336 | 6272 | 6697 |
| Peak Load, Summer (Mw) | 5347 | 5531 | 5690 |
| Annual Load Factor (%) | 51.3 | 52.8 | 50.5 |
| % Change Customers (avg.) | -1.2 | +.2 | .. |
| Fixed Charge Cov. (%) | 144 | 218 | 211 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | -1.5% | -14.0% | 3.0% |
| "Cash Flow" | -1.5% | -3.5% | 4.5% |
| Earnings | -2.5% | -9.5% | 5.5% |
| Dividends | -6.5% | -13.0% | 6.0% |
| Book Value | 4.5% | 5.5% | 2.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 419.2 | 480.5 | 587.7 | 477.6 | 1965.0 |
| 2010 | 506.9 | 552.0 | 728.8 | 467.8 | 2255.5 |
| 2011 | 492.9 | 565.1 | 773.7 | 486.3 | 2318.0 |
| 2012 | 479.7 | 603.6 | 746.2 | 470.5 | 2300 |
| 2013 | 500 | 600 | 800 | 500 | 2400 |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | .05 | .28 | .57 | .10 | 1.03 |
| 2010 | .15 | .47 | .96 | d.04 | 1.53 |
| 2011 | .01 | .31 | .91 | .01 | 1.25 |
| 2012 | d.07 | .41 | .95 | .01 | 1.30 |
| 2013 | .05 | .35 | .95 | .05 | 1.40 |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .415 | .415 | .415 | .415 | 1.66 |
| 2009 | .2075 | .2075 | .2075 | .2075 | .83 |
| 2010 | .2075 | .2075 | .2075 | .2075 | .83 |
| 2011 | .2075 | .2075 | .2075 | .2125 | .84 |
| 2012 | .2125 | .2125 | .2125 | .2175 | |

BUSINESS: Great Plains Energy Incorporated is a holding company for Kansas City Power & Light and two other subsidiaries, which supply electricity to 827,000 customers in western Missouri (71% of revenues) and eastern Kansas (29%). Acq'd Aquila 7/08. Sold Strategic Energy (energy-marketing subsidiary) in '08. Electric revenue breakdown: residential, 41%; commercial, 38%; industrial, 8%; other, 13%. Generating sources: coal, 71%; nuclear, 11%; wind, 2%; gas & oil, 1%; purchased, 15%. Fuel costs: 30% of revs. '11 reported deprec. rate (utility): 3.0%. Has 3,100 employees. Chairman: Michael J. Chesser. President & CEO: Terry Bassham. Inc.: Missouri. Address: 1200 Main St., Kansas City, MO 64105. Tel.: 816-556-2200. Internet: www.greatplainsenergy.com.

**Great Plains Energy's utility subsidiaries should soon receive rate orders.** The utilities are seeking rate increases totaling $245.6 million in Missouri and Kansas, based on a return on equity of 10.3%. The common equity ratios in the filings are 52.5% in Missouri and 51.8% in Kansas. The company, the commissions' staffs, and some intervenors have reached settlements on some matters, but other issues — most notably, the allowed ROEs — haven't been resolved. An order in Kansas was expected shortly after this report went to press, with new rates taking effect at the start of 2013. Decisions in Missouri are expected in January, with new tariffs taking effect later that month.

**The utilities haven't been earning their allowed ROE, and aren't likely to do so in 2013, no matter the outcome of the rate cases.** Kilowatt-hour sales have been declining, due to the sluggish economy and conservation by customers. Certain expenses, such as property taxes, continue to rise. Costs associated with the Wolf Creek nuclear plant, which is having increased oversight by the Nuclear Regulatory Commission, are higher. And average shares outstanding will be greater in 2012 and 2013, since some debt was converted into equity in June of 2012. Our 2012 earnings estimate, which is at the midpoint of management's targeted range of $1.25-$1.35 a share, would produce just slight improvement over the weak 2011 tally. We figure that the bottom line will advance in 2013, thanks to rate relief. Great Plains isn't providing earnings guidance until it reports fourth-quarter results in February.

**A major environmental project is under construction.** The utilities are spending $615 million to add pollution control equipment to two coal-fired units. The company will be able to place construction work in progress into the rate base in Kansas, but will have to wait until the project is completed (in 2015) in order to earn a return in Missouri.

**This stock doesn't have a lot of investor appeal.** Even after a $0.02-a-share (2.4%) raise in the annual dividend this quarter, the yield is only average, for a utility. And total return potential to 2015-2017 is unexciting.

*Paul E. Debbas, CFA* *December 21, 2012*

(A) Excl. nonrec. gains (losses): '00, 49¢; '01, ($2.01); '02, (5¢); '03, 29¢; '04, (7¢); '09, 12¢; gain (losses) on discont. ops.: '03, (13¢); '04, 10¢; '05, (3¢); '08, 35¢; '09, (1¢). '09-'11 EPS don't add due to change in shares or rounding. Next earnings report due late Feb. (B) Div'ds historically paid in mid-Mar., June, Sept. & Dec. ■ Div'd reinvest. plan avail. (C) Incl. intang. In '11: $9.01/sh. (D) In mill. (E) Rate base: Fair value. Rate allowed on com. eq. in MO in '11: 10%; in KS in '10: 10%; earned on avg. com. eq., '11: 6.0%. Regulatory Climate: Average.

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 90 |
| Price Growth Persistence | 5 |
| Earnings Predictability | 70 |

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# IDACORP, INC. NYSE-IDA

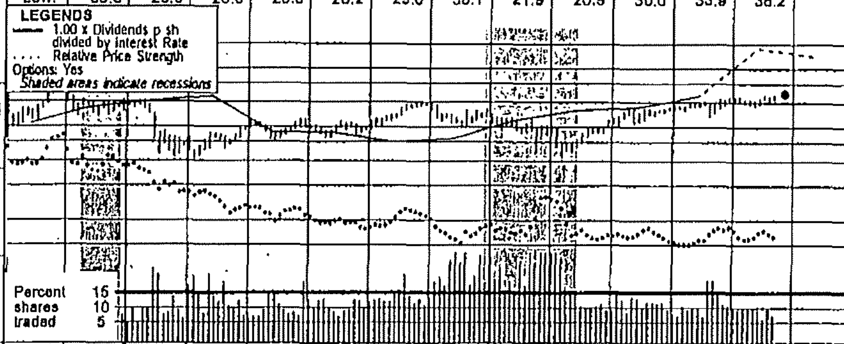
| RECENT PRICE | 44.46 | P/E RATIO | 13.3 (Trailing: 12.5 / Median: 15.0) | RELATIVE P/E RATIO | 0.87 | DIV'D YLD | 3.4% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

TIMELINESS 3 Lowered 5/14/10
SAFETY 3 Lowered 2/14/03
TECHNICAL 3 Lowered 9/28/12
BETA .70 (1.00 = Market)

| High: | 49.4 | 41.0 | 30.2 | 32.9 | 32.1 | 40.2 | 39.2 | 35.1 | 32.8 | 37.8 | 42.7 | 45.0 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Low: | 33.6 | 20.9 | 20.6 | 25.3 | 26.2 | 29.0 | 30.1 | 21.9 | 20.9 | 30.0 | 33.9 | 38.2 |

Target Price Range 2015 | 2016 | 2017

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




### 2015-17 PROJECTIONS

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 65 | (+25%) | 9% |
| Low | 35 | (-20%) | -1% |

### Insider Decisions

| | D | J | F | M | A | M | J | J | A |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 |
| Options | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 9 | 0 | 1 | 2 | 0 | 0 | 0 | 0 | 0 |

### Institutional Decisions

| | 4Q2011 | 1Q2012 | 2Q2012 |
|---|---|---|---|
| to Buy | 78 | 84 | 86 |
| to Sell | 77 | 73 | 69 |
| Hld's(000) | 34282 | 34810 | 35043 |

Percent shares traded 15 10 5

% TOT. RETURN 9/12

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 18.2 | 28.2 |
| 3 yr. | 66.1 | 42.3 |
| 5 yr. | 58.5 | 29.3 |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 15.38 | 19.90 | 29.83 | 17.50 | 27.10 | 150.10 | 24.43 | 20.41 | 20.00 | 20.15 | 21.23 | 19.51 | 20.47 | 21.92 | 20.97 | 20.55 | *23.00* | *23.50* | Revenues per sh | *24.55* |
| 4.05 | 4.22 | 4.69 | 4.50 | 5.63 | 5.63 | 4.08 | 3.50 | 4.12 | 3.87 | 4.58 | 4.11 | 4.27 | 5.07 | 5.23 | 5.74 | *5.90* | *6.00* | "Cash Flow" per sh | *6.40* |
| 2.21 | 2.32 | 2.37 | 2.43 | 3.50 | 3.35 | 1.63 | .96 | 1.90 | 1.75 | 2.35 | 1.86 | 2.18 | 2.64 | 2.95 | 3.36 | *3.30* | *3.25* | Earnings per sh A | *3.40* |
| 1.86 | 1.86 | 1.86 | 1.86 | 1.86 | 1.86 | 1.86 | 1.70 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | *1.37* | *1.52* | Div'd Decl'd per sh B† ■ | *1.90* |
| 2.49 | 2.51 | 2.37 | 2.95 | 3.73 | 4.78 | 3.53 | 3.89 | 4.73 | 4.53 | 5.16 | 6.39 | 5.19 | 5.26 | 6.65 | 6.78 | *4.70* | *5.00* | Cap'l Spending per sh | *7.65* |
| 18.47 | 18.93 | 19.42 | 20.02 | 21.82 | 23.15 | 23.01 | 22.54 | 23.88 | 24.04 | 25.77 | 26.79 | 27.76 | 29.17 | 31.01 | 33.19 | *35.10* | *36.80* | Book Value per sh C | *39.35* |
| 37.61 | 37.61 | 37.61 | 37.61 | 37.61 | 37.63 | 38.02 | 38.34 | 42.22 | 42.66 | 43.63 | 45.06 | 46.92 | 47.90 | 49.41 | 49.95 | *50.00* | *50.00* | Common Shs Outst'g D | *53.00* |
| 13.7 | 13.6 | 14.4 | 12.7 | 10.9 | 11.4 | 18.9 | 26.5 | 15.5 | 16.7 | 15.1 | 18.2 | 13.9 | 10.2 | 11.8 | 11.5 | *Bold figures are* | | Avg Ann'l P/E Ratio | *13.0* |
| .86 | .78 | .75 | .72 | .71 | .58 | 1.03 | 1.51 | .82 | .89 | .82 | .97 | .84 | .68 | .75 | .73 | *Value Line* | | Relative P/E Ratio | *.85* |
| 6.1% | 5.9% | 5.4% | 6.0% | 4.9% | 4.9% | 6.0% | 8.7% | 4.1% | 4.1% | 3.4% | 3.5% | 4.0% | 4.5% | 3.4% | 3.1% | *estimates* | | Avg Ann'l Div'd Yield | *4.2%* |

CAPITAL STRUCTURE as of 6/30/12
Total Debt $1537.6 mill. Due in 5 Yrs $175.3 mill.
LT Debt $1536.6 mill. LT Interest $70.0 mill.
(LT interest earned: 2.5x)

Pension Assets-12/11 $390.1 mill.
Oblig. $655.4 mill.

Pfd Stock None

Common Stock 50,154,714 shs.
as of 7/27/12

MARKET CAP: $2.2 billion (Mid Cap)

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 928.8 | 782.7 | 844.5 | 859.5 | 926.3 | 879.4 | 960.4 | 1049.8 | 1036.0 | 1026.8 | *1150* | *1175* | Revenues ($mill) | *1300* |
| 66.3 | 40.1 | 77.8 | 63.7 | 100.1 | 82.3 | 98.4 | 124.4 | 142.5 | 166.9 | *165* | *160* | Net Profit ($mill) | *180* |
| -- | -- | -- | 18.9% | 13.3% | 14.3% | 16.3% | 15.2% | NMF | NMF | *25.0%* | *30.0%* | Income Tax Rate | *30.0%* |
| 3.0% | 7.5% | 3.9% | 4.7% | 4.0% | 9.7% | 10.2% | 10.5% | 19.7% | 22.8% | *25.0%* | *25.0%* | AFUDC % to Net Profit | *30.0%* |
| 49.2% | 50.8% | 49.3% | 50.0% | 45.2% | 48.9% | 47.6% | 50.2% | 49.3% | 45.6% | *46.0%* | *46.5%* | Long-Term Debt Ratio | *47.5%* |
| 47.9% | 46.4% | 50.7% | 50.0% | 54.8% | 51.1% | 52.4% | 49.8% | 50.7% | 54.4% | *54.0%* | *53.5%* | Common Equity Ratio | *52.5%* |
| 1826.9 | 1662.5 | 1987.8 | 2046.8 | 2052.8 | 2364.2 | 2485.9 | 2807.1 | 3020.4 | 3045.2 | *3255* | *3430* | Total Capital ($mill) | *4000* |
| 1906.5 | 2086.3 | 2209.5 | 2314.3 | 2419.1 | 2616.6 | 2758.2 | 2917.0 | 3161.4 | 3406.8 | *3680* | *3975* | Net Plant ($mill) | *5000* |
| 5.1% | 3.7% | 5.3% | 4.5% | 6.2% | 4.7% | 5.3% | 5.7% | 6.0% | 6.7% | *6.0%* | *6.0%* | Return on Total Cap'l | *5.5%* |
| 7.1% | 4.4% | 7.7% | 6.2% | 8.9% | 6.8% | 7.6% | 8.9% | 9.3% | 10.1% | *9.5%* | *8.5%* | Return on Shr. Equity | *8.5%* |
| 7.0% | 4.2% | 7.2% | 6.2% | 8.9% | 6.8% | 7.6% | 8.9% | 9.3% | 10.1% | *9.5%* | *8.5%* | Return on Com Equity E | *8.5%* |
| NMF | NMF | 2.7% | 1.3% | 4.3% | 2.4% | 3.4% | 4.8% | 5.5% | 6.5% | *5.5%* | *4.5%* | Retained to Com Eq | *4.0%* |
| 113% | NMF | 65% | 80% | 51% | 64% | 55% | 46% | 41% | 36% | *42%* | *48%* | All Div'ds to Net Prof | *56%* |

### ELECTRIC OPERATING STATISTICS

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -4.1 | -3.1 | +1.6 |
| Avg. Indust. Use (MWH) | N/A | N/A | N/A |
| Avg. Indust. Revs. per KWH (¢) | 4.51 | 4.50 | 4.54 |
| Capacity at Peak (Mw) | N/A | N/A | N/A |
| Peak Load, Summer (Mw) | 3014 | 2714 | 2973 |
| Annual Load Factor (%) | N/A | N/A | N/A |
| % Change Customers (yr-end) | +.6 | +.4 | +.7 |
| Fixed Charge Cov. (%) | 280 | 264 | 230 |

### ANNUAL RATES

| of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | -10.5% | .5% | 2.5% |
| "Cash Flow" | -- | 5.0% | 3.0% |
| Earnings | -.5% | 8.5% | 2.0% |
| Dividends | -4.5% | -- | 8.0% |
| Book Value | 3.5% | 5.0% | 4.0% |

| Cal-endar | QUARTERLY REVENUES($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 228.6 | 243.6 | 324.5 | 253.1 | 1049.8 |
| 2010 | 252.5 | 241.8 | 309.4 | 232.3 | 1036.0 |
| 2011 | 251.5 | 235.0 | 309.6 | 230.7 | 1026.8 |
| 2012 | 241.1 | 254.7 | *370* | *284.2* | *1150* |
| 2013 | *275* | *260* | *360* | *280* | *1175* |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | .40 | .59 | 1.16 | .49 | 2.64 |
| 2010 | .34 | .82 | 1.39 | .40 | 2.95 |
| 2011 | .60 | .42 | 2.16 | .18 | 3.36 |
| 2012 | .50 | .71 | *1.54* | *.55* | *3.30* |
| 2013 | *.55* | *.60* | *1.60* | *.50* | *3.25* |

| Cal-endar | QUARTERLY DIVIDENDS PAID B†■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .30 | .30 | .30 | .30 | 1.20 |
| 2009 | .30 | .30 | .30 | .30 | 1.20 |
| 2010 | .30 | .30 | .30 | .30 | 1.20 |
| 2011 | .30 | .30 | .30 | .30 | 1.20 |
| 2012 | .33 | .33 | .33 | .38 | |

BUSINESS: IDACORP, Inc. is the holding company for Idaho Power, a utility that operates 17 hydroelectric generation developments, 2 natural gas-fired plants, and partly owns three coal plants across Idaho, Oregon, Wyoming, and Nevada. Service territory covers 24,000 square miles with estimated population of one million. Sells electricity in Idaho (95% of revenues) and Oregon (5%). Revenue breakdown: residential, 39%; commercial, 21%; industrial, 13%; other, 27%. Fuel sources: hydro, 59%; thermal, 27%; purchased power, 14%. '11 depreciation rate: 2.4%. Has 2,058 employees. Chairman: Gary G. Michael. President & CEO: J. LaMont Keen. Incorporated: Idaho. Address: 1221 W. Idaho St., Boise, ID. 83702. Telephone: 208-388-2200. Internet: www.idacorpinc.com.

**IDACORP posted strong second-quarter profit comparisons.** Earnings advanced nearly 70% over the year-earlier figure, to $0.71 a share. Indeed, the impressive results can be attributed to increasing energy sales, coupled with rising sales and higher retail base rates. Notably, sales from irrigation customers practically doubled, compared to last year, due to warmer temperatures and lower precipitation levels.

**Management raised its guidance for 2012.** Share earnings are now forecasted to reach between $3.20 and $3.35, largely due to better-than-expected second-quarter results. Thus, we have increased our estimate for 2012 by $0.30 a share, to $3.30. *(Subscribers should note that September-period earnings were scheduled to be released after we rolled the presses on this issue.)* What's more, IDA expects to exceed a minimum return of 9.5% without the use of additional accumulated deferred investment tax credits (ADITCs), and revised its estimate down from the $5 million previously forecasted. In fact, during the second quarter, the company reversed the $0.8 million used during the March-period.

**In other news, its Boardman to Hemingway (B2H) project has hit a roadblock.** The service date of the Boardman (Oregon) to Hemingway (Idaho) transmission line has been delayed due to governmental and environmental headwinds. It is now expected to be completed no earlier than 2018, versus the previous target of 2016.

**The board of directors increased the dividend approximately 15%, to $0.38 a share (payable November 30th).** Indeed, this will be the second dividend increase in 2012, and the first at yearend since 2004. We expect further improvement on this front, as the company intends to boost its dividend payout ratio to be between 50% and 60% of net profit over the long-term.

**Income-seeking accounts may want to look elsewhere.** Despite the rising dividend, the 3.4% yield remains below the utility industry average. However, investors should keep in mind that we do expect the measure to become more comparable to its industry peers over the long term.

*Michelle Jensen* *November 2, 2012*

(A) EPS diluted. Excl. nonrecurring gains (loss): '00, 22¢; '03, 28¢; '06, (24¢); '06, 17¢. Next earnings report due mid-Feb. (B) Div'ds historically paid in early March, late May, late Aug., and late Nov. ■ Div'd reinvestment plan avail. † Shareholder investment plan avail. (C) Incl. deferred debits. In '11: $20.74/sh. (D) In mill. (E) Rate Base: Net original cost. Rate allowed on com. eq. in Idaho in '08: 10.5%; earned on avg. system com. eq., '11: 10.1%. Regulatory Climate: Above Average.

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 65 |
| Earnings Predictability | 85 |

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# OTTER TAIL CORP. NDQ-OTTR

RECENT PRICE 25.08 | P/E RATIO 19.6 (Trailing: 31.0 Median: 21.0) | RELATIVE P/E RATIO 1.29 | DIV'D YLD 4.7% | VALUE LINE

TIMELINESS 2 Raised 12/14/12

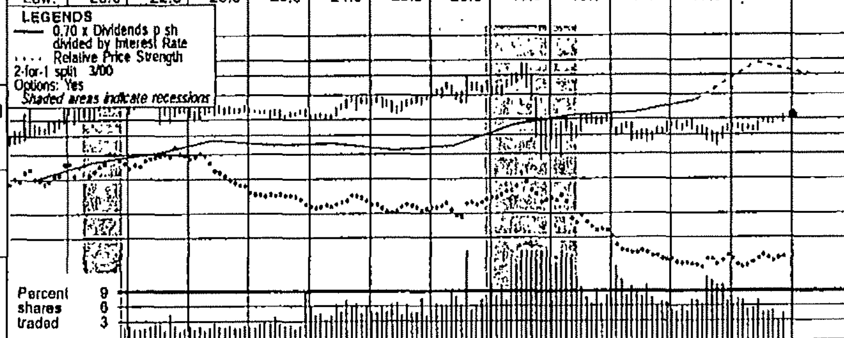
SAFETY 3 Lowered 12/24/10

TECHNICAL 3 Raised 6/29/12

BETA .90 (1.00 = Market)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 31.0 | 34.9 | 28.9 | 27.5 | 32.0 | 31.9 | 39.4 | 46.2 | 25.4 | 25.4 | 23.5 | 25.2 | |
| Low: | 23.0 | 22.6 | 23.8 | 23.8 | 24.0 | 25.8 | 29.0 | 15.0 | 15.5 | 18.2 | 17.5 | 20.7 | |

Target Price Range 2015 | 2016 | 2017




**2015-17 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 35 | (+40%) | 12% |
| Low | 20 | (-20%) | Nil |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 0 | 1 | 0 | 2 | 1 | 0 | 0 | 0 |

**Institutional Decisions**

| | 1Q2012 | 2Q2012 | 3Q2012 |
|---|---|---|---|
| to Buy | 43 | 43 | 42 |
| to Sell | 29 | 37 | 33 |
| Hld's(000) | 10347 | 10275 | 10286 |

**% TOT. RETURN 11/12**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 17.8 | 14.2 |
| 3 yr. | 24.2 | 45.5 |
| 5 yr. | -6.3 | 35.5 |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 16.13 | 16.60 | 18.14 | 19.48 | 23.45 | 26.53 | 27.75 | 29.28 | 30.45 | 35.59 | 37.43 | 41.50 | 37.06 | 29.03 | 31.08 | 29.86 | *29.30* | *30.40* | Revenues per sh | *36.25* |
| 2.78 | 2.95 | 2.75 | 2.91 | 3.21 | 3.40 | 3.44 | 3.30 | 2.88 | 3.35 | 3.39 | 3.55 | 2.81 | 2.76 | 2.60 | 2.39 | *3.15* | *3.50* | "Cash Flow" per sh | *4.90* |
| 1.24 | 1.29 | 1.29 | 1.45 | 1.60 | 1.68 | 1.79 | 1.51 | 1.50 | 1.78 | 1.69 | 1.78 | 1.09 | .71 | .38 | .45 | *1.20* | *1.35* | Earnings per sh A | *1.65* |
| .90 | .93 | .96 | .99 | 1.02 | 1.04 | 1.06 | 1.08 | 1.10 | 1.12 | 1.15 | 1.17 | 1.19 | 1.19 | 1.19 | 1.19 | *1.19* | *1.19* | Div'd Decl'd per sh B ■ | *1.30* |
| 2.85 | 1.79 | 1.23 | 1.37 | 1.85 | 2.17 | 2.95 | 1.97 | 1.72 | 2.04 | 2.35 | 5.43 | 7.51 | 4.95 | 2.38 | 2.04 | *3.55* | *4.05* | Cap'l Spending per sh | *5.00* |
| 8.61 | 8.96 | 9.47 | 10.30 | 10.87 | 11.33 | 12.25 | 12.98 | 14.81 | 15.80 | 16.67 | 17.55 | 19.14 | 18.78 | 17.57 | 15.83 | *14.80* | *15.55* | Book Value per sh C | *18.00* |
| 22.43 | 23.46 | 23.76 | 23.85 | 23.85 | 24.65 | 25.59 | 25.72 | 28.98 | 29.40 | 29.52 | 29.85 | 35.38 | 35.81 | 36.00 | 36.10 | *36.50* | *37.00* | Common Shs Outst'g D | *40.00* |
| 14.0 | 12.8 | 14.4 | 13.9 | 13.5 | 18.4 | 16.0 | 17.8 | 17.3 | 15.4 | 17.3 | 19.0 | 30.1 | 31.2 | NMF | 47.5 | *Bold figures are* | | Avg Ann'l P/E Ratio | *15.0* |
| .88 | .74 | .75 | .79 | .88 | .84 | .87 | 1.01 | .91 | .82 | .93 | 1.01 | 1.81 | 2.08 | NMF | 3.01 | *Value Line* | | Relative P/E Ratio | *1.00* |
| 5.2% | 5.6% | 5.2% | 4.9% | 4.7% | 3.8% | 3.7% | 4.0% | 4.2% | 4.1% | 3.9% | 3.5% | 3.6% | 5.4% | 5.7% | 5.6% | *estimates* | | Avg Ann'l Div'd Yield | *4.7%* |

**CAPITAL STRUCTURE as of 9/30/12**
Total Debt $434.3 mill. Due in 5 Yrs $113.8 mill.
LT Debt $421.7 mill. LT Interest $32.0 mill.
(LT interest earned: 0.3x)

Leases, Uncapitalized Annual rentals $9 mill.
Pension Assets-12/11 $168.6 mill. Oblig. $246.1 mill.
Pfd Stock $15.5 mill. Pfd Div'd $.7 mill.
155,000 shs. $3.80-$6.75, cum., no par ($100 liquidating value).
Common Stock 36,166,218 shs.
as of 10/31/12
MARKET CAP: $900 million (Small Cap)

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 710.1 | 753.2 | 882.3 | 1046.4 | 1105.0 | 1238.9 | 1311.2 | 1039.5 | 1119.1 | 1077.9 | *1070* | *1125* | Revenues ($mill) | *1450* |
| 46.1 | 39.7 | 40.0 | 52.9 | 50.8 | 54.0 | 35.1 | 26.0 | 13.6 | 16.4 | *45.0* | *50.0* | Net Profit ($mill) | *75.0* |
| 30.3% | 27.4% | 29.8% | 34.6% | 34.6% | 34.1% | 30.0% | -- | 30.0% | 10.9% | *10.0%* | *20.0%* | Income Tax Rate | *25.0%* |
| 5.7% | 5.0% | 2.4% | 1.7% | 1.9% | 4.2% | 8.1% | 4.0% | .6% | -- | *3.0%* | *4.0%* | AFUDC % to Net Profit | *5.0%* |
| 44.0% | 43.2% | 37.1% | 35.0% | 33.5% | 38.9% | 32.9% | 38.8% | 40.2% | 44.6% | *43.5%* | *44.5%* | Long-Term Debt Ratio | *45.0%* |
| 53.4% | 54.3% | 60.7% | 62.9% | 64.5% | 59.4% | 65.6% | 59.8% | 58.4% | 54.0% | *55.0%* | *54.0%* | Common Equity Ratio | *54.0%* |
| 587.2 | 614.6 | 706.5 | 738.2 | 783.0 | 882.1 | 1032.5 | 1124.4 | 1083.3 | 1058.8 | *980* | *1065* | Total Capital ($mill) | *1335* |
| 587.9 | 633.3 | 682.1 | 697.1 | 718.6 | 854.0 | 1037.8 | 1098.6 | 1106.7 | 1077.5 | *1070* | *1125* | Net Plant ($mill) | *1325* |
| 9.0% | 7.8% | 6.8% | 8.3% | 7.7% | 7.2% | 4.3% | 3.4% | 2.7% | 3.3% | *6.0%* | *6.5%* | Return on Total Cap'l | *7.5%* |
| 14.0% | 11.4% | 9.0% | 11.0% | 10.0% | 10.0% | 5.1% | 3.8% | 2.1% | 2.9% | *8.5%* | *8.5%* | Return on Shr. Equity E | *10.5%* |
| 14.5% | 11.7% | 9.1% | 11.2% | 10.2% | 10.2% | 5.1% | 3.8% | 2.0% | 2.9% | *8.5%* | *8.5%* | Return on Com Equity | *10.5%* |
| 6.0% | 3.2% | 2.5% | 4.2% | 3.3% | 3.5% | NMF | NMF | NMF | NMF | *Nil* | *1.0%* | Retained to Com Eq | *3.0%* |
| 60% | 73% | 73% | 63% | 68% | 66% | NMF | NMF | NMF | NMF | *98%* | *89%* | All Div'ds to Net Prof | *70%* |

**ELECTRIC OPERATING STATISTICS**

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | +.1 | +.4 | +.6 |
| Avg. Indust. Use (MWH) | NA | NA | NA |
| Avg. Indust. Revs. per KWH (¢) | NA | NA | NA |
| Capacity at Peak (Mw) | NA | NA | NA |
| Peak Load, Winter (Mw) | 800 | NA | NA |
| Annual Load Factor (%) | NA | NA | NA |
| % Change Customers (yr-end) | NA | NA | NA |
| Fixed Charge Cov. (%) | 151 | 89 | 146 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | 5.0% | .5% | *3.0%* |
| "Cash Flow" | -1.0% | -3.0% | *11.5%* |
| Earnings | -6.5% | -14.5% | *24.0%* |
| Dividends | 2.0% | 1.5% | *1.5%* |
| Book Value | 6.0% | 5.0% | *.5%* |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 277.2 | 246.9 | 257.4 | 258.0 | 1039.5 |
| 2010 | 262.2 | 270.2 | 280.7 | 306.0 | 1119.1 |
| 2011 | 249.1 | 283.3 | 282.4 | 263.1 | 1077.9 |
| 2012 | 277.6 | 283.7 | 277.1 | *231.6* | *1070* |
| 2013 | *275* | *285* | *290* | *275* | *1125* |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | .12 | .07 | .29 | .23 | .71 |
| 2010 | .13 | .04 | .18 | .05 | .38 |
| 2011 | .14 | .14 | .20 | d.02 | .45 |
| 2012 | .26 | .28 | .35 | *.31* | *1.20* |
| 2013 | *.32* | *.30* | *.38* | *.35* | *1.35* |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .298 | .298 | .298 | .298 | 1.19 |
| 2009 | .298 | .298 | .298 | .298 | 1.19 |
| 2010 | .298 | .298 | .298 | .298 | 1.19 |
| 2011 | .298 | .298 | .298 | .298 | 1.19 |
| 2012 | .298 | .298 | .298 | .298 | |

BUSINESS: Otter Tail Corporation is the parent of Otter Tail Power Company, which supplies electricity to over 129,000 customers in Minnesota (49% of retail elec. revs.), North Dakota (42%), and South Dakota (9%). Electric rev. breakdown, '11: residential, 33%; commercial & farms, 36%; industrial, 24%; other, 7%. Fuel costs: 10.4% of revenues. Has operations in manufacturing, plastics, health services, food ingredients, & others. 2011 depr. rate: 4.0%. Has 3,155 employees. Off. and dir. own 1.3% of common stock; Cascade Investment, LLC, 9.6%; BlackRock, Inc., 5.3% (3/12 Proxy). CEO: Edward McIntyre. Inc.: MN. Addr.: 215 South Cascade St., P.O. Box 496, Fergus Falls, Minnesota 56538-0496. Telephone: 866-410-8780. Internet: www.ottertail.com.

**Otter Tail Corporation reported a modest top-line decline for the third quarter.** The Electric segment posted moderate revenue growth for the period, thanks to greater demand from commercial customers and a higher recovery of fuel and purchased power costs. The Plastics business reported impressive growth, driven by an increase in volume of polyvinyl chloride pipe sold. However, revenues declined moderately at the Manufacturing segment. Moreover, the Construction line posted considerably lower sales, due to a decrease in work volume and the effect of cost overruns on estimated revenues recognized. Note that our bottom-line presentation of $0.35 per share excludes a $7.9 million ($0.22 per share) aftertax charge on the early retirement of debt and a net loss of $3.0 million ($0.08 per share) related to DMI Industries. Including these items results in share net of $0.05.

**We anticipate solid improvement from 2013 onward.** Efforts to restructure operations should result in stronger, more predictable growth potential and a lower risk profile. The sale of wind-tower manufacturer DMI Industries is proceeding as planned. This divestiture, along with several others in recent times, should allow Otter Tail to increase its focus on growth opportunities in the Electric segment. The company continues to invest in transmission projects and environmental upgrades that ought to generate significant growth for this unit in the coming years. Elsewhere, we anticipate a strong performance from the Plastics business. Unfavorable results from the Construction line may well continue to be an offset, however.

**This stock is ranked favorably for year-ahead relative price performance.** Looking further out, we anticipate higher revenues and share earnings for the company by 2015-2017. Nevertheless, much of this appears to be already reflected in the recent quotation, as the issue is trading well within our 3- to 5-year Target Price Range. The stock does offer a healthy dividend yield. But the cash position is unfavorable, and the payout is likely to be just barely covered by earnings for the current year.

*Michael Napoli, CFA* *December 21, 2012*

(A) Diluted earnings. Excl. nonrecurring gains (losses): '98, 7¢; '99, 34¢; '10, (44¢); gains (losses) from discont. operations: '04, 8¢; '05, 33¢; '06, 1¢; '11, (40¢). Earnings may not sum due to rounding. Next earnings report due in February. (B) Div'ds historically paid in early March, June, Sept., and Dec. ■ Div'd reinvestment plan avail. (C) Incl. intangibles. In '11: $1.51/sh. (D) In mill., adj. for split. (E) Regulatory Climate: MN, ND, Average; SD, Above Average.

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 75 |
| Price Growth Persistence | 25 |
| Earnings Predictability | 65 |

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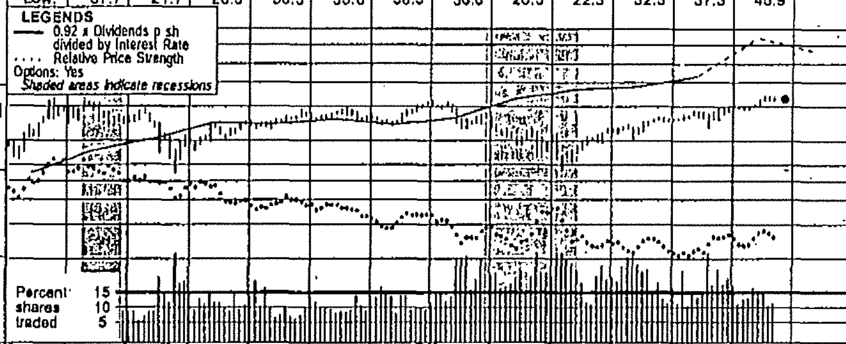
# PINNACLE WEST NYSE-PNW

RECENT PRICE 52.86 | P/E RATIO 15.0 (Trailing: 15.6 Median: 14.0) | RELATIVE P/E RATIO 0.99 | DIV'D YLD 4.2% | VALUE LINE

TIMELINESS 2 Raised 11/11/11
SAFETY 2 Raised 5/6/11
TECHNICAL 2 Raised 11/2/12
BETA .70 (1.00 = Market)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 50.7 | 46.7 | 40.5 | 45.8 | 46.7 | 51.0 | 51.7 | 42.9 | 38.0 | 42.7 | 48.9 | 54.7 |
| Low: | 37.7 | 21.7 | 28.3 | 36.3 | 39.8 | 36.3 | 36.8 | 26.3 | 22.3 | 32.3 | 37.3 | 45.9 |

Target Price Range 2015 2016 2017




**2015-17 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 60 | (+15%) | 7% |
| Low | 45 | (-15%) | 1% |

**Insider Decisions**

| | O | J | F | M | A | M | J | J | A |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |

**Institutional Decisions**

| | 4Q2011 | 1Q2012 | 2Q2012 |
|---|---|---|---|
| to Buy | 166 | 152 | 148 |
| to Sell | 142 | 171 | 158 |
| Hld's(000) | 77718 | 80986 | 72869 |

**% TOT. RETURN 9/12**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 28.3 | 28.2 |
| 3 yr. | 87.1 | 42.3 |
| 5 yr. | 76.0 | 29.3 |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 20.77 | 23.52 | 25.12 | 28.57 | 43.50 | 53.66 | 28.90 | 30.87 | 31.59 | 30.16 | 34.03 | 35.07 | 33.37 | 32.50 | 30.01 | 29.67 | *30.90* | *32.00* | Revenues per sh | *33.00* |
| 5.90 | 7.12 | 7.34 | 7.73 | 7.99 | 8.72 | 7.01 | 7.33 | 6.93 | 5.76 | 8.70 | 9.29 | 8.13 | 8.08 | 6.85 | 7.52 | *7.80* | *7.95* | "Cash Flow" per sh | *8.75* |
| 2.47 | 2.76 | 2.85 | 3.18 | 3.35 | 3.68 | 2.53 | 2.52 | 2.58 | 2.24 | 3.17 | 2.96 | 2.12 | 2.26 | 3.08 | 2.99 | *3.45* | *3.50* | Earnings per sh A | *3.75* |
| 1.03 | 1.13 | 1.23 | 1.33 | 1.43 | 1.53 | 1.63 | 1.73 | 1.83 | 1.93 | 2.03 | 2.10 | 2.10 | 2.10 | 2.10 | 2.10 | *2.12* | *2.20* | Div'd Decl'd per sh B ■ | *2.45* |
| 2.95 | 3.63 | 3.76 | 4.05 | 7.76 | 12.27 | 9.81 | 7.60 | 5.66 | 6.39 | 7.59 | 9.37 | 9.46 | 7.64 | 7.03 | 8.26 | *8.45* | *9.60* | Cap'l Spending per sh | *8.50* |
| 22.51 | 23.90 | 25.50 | 26.00 | 28.09 | 29.46 | 29.44 | 31.00 | 32.14 | 34.57 | 34.48 | 35.15 | 34.16 | 32.69 | 33.86 | 34.98 | *36.25* | *37.40* | Book Value per sh C | *41.50* |
| 87.52 | 84.83 | 84.83 | 84.83 | 84.83 | 84.83 | 91.28 | 91.29 | 91.79 | 99.08 | 99.98 | 100.49 | 100.89 | 101.43 | 108.77 | 109.25 | *110.00* | *111.00* | Common Shs Outst'g D | *118.50* |
| 11.8 | 11.8 | 15.2 | 11.9 | 11.3 | 12.0 | 14.4 | 14.0 | 15.8 | 19.2 | 13.7 | 14.9 | 16.1 | 13.7 | 12.6 | 14.6 | *Bold figures are* | | Avg Ann'l P/E Ratio | *13.5* |
| .74 | .68 | .79 | .68 | .73 | .81 | .79 | .80 | .83 | 1.02 | .74 | .79 | .97 | .91 | .80 | .92 | *Value Line* | | Relative P/E Ratio | *.90* |
| 3.5% | 3.6% | 2.8% | 3.5% | 3.8% | 3.5% | 4.5% | 4.9% | 4.5% | 4.5% | 4.7% | 4.8% | 6.2% | 6.8% | 5.4% | 4.8% | *estimates* | | Avg Ann'l Div'd Yield | *4.8%* |
| | | | | | | 2637.3 | 2817.9 | 2899.7 | 2988.0 | 3401.7 | 3523.6 | 3367.1 | 3297.1 | 3263.6 | 3241.4 | *3400* | *3550* | Revenues ($mill) | *3900* |
| | | | | | | 215.2 | 230.6 | 235.2 | 223.2 | 317.1 | 298.8 | 213.6 | 229.2 | 330.4 | 328.2 | *380* | *390* | Net Profit ($mill) | *455* |
| | | | | | | 39.1% | 31.4% | 35.4% | 36.2% | 33.0% | 33.6% | 23.4% | 36.9% | 31.9% | 34.0% | *35.0%* | *35.0%* | Income Tax Rate | *35.0%* |
| | | | | | | 20.5% | 6.2% | 6.9% | 10.4% | 11.1% | 14.8% | 17.5% | 11.2% | 11.7% | 12.8% | *9.0%* | *12.0%* | AFUDC % to Net Profit | *9.0%* |
| | | | | | | 51.8% | 50.6% | 46.7% | 43.2% | 48.4% | 47.0% | 46.8% | 50.4% | 45.3% | 44.1% | *47.5%* | *44.0%* | Long-Term Debt Ratio | *42.5%* |
| | | | | | | 48.2% | 49.4% | 53.3% | 56.8% | 51.6% | 53.0% | 53.2% | 49.6% | 54.7% | 55.9% | *52.5%* | *56.0%* | Common Equity Ratio | *57.5%* |
| | | | | | | 5567.9 | 5727.5 | 5535.2 | 6033.4 | 6678.7 | 6658.7 | 6477.6 | 6688.6 | 6729.1 | 6840.9 | *7595* | *7400* | Total Capital ($mill) | *8500* |
| | | | | | | 6479.4 | 7480.1 | 7535.5 | 7577.1 | 7881.9 | 8436.4 | 8916.7 | 9257.8 | 9578.8 | 9962.3 | *10410* | *10980* | Net Plant ($mill) | *12575* |
| | | | | | | 5.4% | 5.5% | 5.6% | 5.0% | 6.2% | 5.9% | 4.7% | 4.8% | 6.6% | 6.4% | *6.5%* | *6.5%* | Return on Total Cap'l | *6.5%* |
| | | | | | | 8.0% | 8.1% | 8.0% | 6.5% | 9.2% | 8.5% | 6.2% | 6.9% | 9.0% | 8.6% | *9.5%* | *9.5%* | Return on Shr. Equity | *9.0%* |
| | | | | | | 8.0% | 8.1% | 8.0% | 6.5% | 9.2% | 8.5% | 6.2% | 6.9% | 9.0% | 8.6% | *9.5%* | *9.5%* | Return on Com Equity E | *9.0%* |
| | | | | | | 2.9% | 2.6% | 2.3% | 1.0% | 3.4% | 2.5% | .3% | .7% | 3.1% | 2.8% | *3.5%* | *3.5%* | Retained to Com Eq | *3.5%* |
| | | | | | | 64% | 68% | 71% | 85% | 63% | 70% | 96% | 89% | 66% | 68% | *61%* | *62%* | All Div'ds to Net Prof | *64%* |

**CAPITAL STRUCTURE as of 6/30/12**
Total Debt $3538.4 mill. Due in 5 Yrs $1631.7 mill.
LT Debt $3371.4 mill. LT Interest $193.9 mill.
Incl. $57.4 mill. Palo Verde sale leaseback lessor notes.
(LT interest earned: 3.8x)
**Leases, Uncapitalized** Annual rentals $21.0 mill.
**Pension Assets-12/11** $1.86 bill. Oblig. $2.70 bill.

Pfd Stock None

Common Stock 109,543,792 shs.
as of 7/27/12
MARKET CAP: $5.8 billion (Large Cap)

**ELECTRIC OPERATING STATISTICS**

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -2.2 | -1.6 | +1.6 |
| Avg. Indust. Use (MWH) | 619 | 619 | 632 |
| Avg. Indust. Revs. per KWH (¢) | 8.11 | 7.83 | 7.78 |
| Capacity at Peak (Mw) | 8635 | 8662 | 8577 |
| Peak Load, Summer (Mw) | 7218 | 6398 | 7087 |
| Annual Load Factor (%) | 49.3 | 50.0 | 50.0 |
| % Change Customers (yr-end) | +.5 | +.4 | +.6 |
| Fixed Charge Cov. (%) | 246 | 296 | 308 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | -3.0% | -1.0% | 1.0% |
| "Cash Flow" | -1.0% | -- | 2.5% |
| Earnings | -2.0% | 1.0% | 5.0% |
| Dividends | 4.0% | 1.5% | 2.5% |
| Book Value | 2.0% | -- | 3.6% |

| Calendar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 625.9 | 836.0 | 1142.2 | 693.0 | 3297.1 |
| 2010 | 620.3 | 820.6 | 1139.1 | 663.6 | 3263.6 |
| 2011 | 648.9 | 799.8 | 1124.8 | 667.9 | 3241.4 |
| 2012 | 620.6 | 878.6 | *1200* | *700.8* | *3400* |
| 2013 | *650* | *875* | *1300* | *725* | *3550* |

| Calendar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | d.36 | .74 | 2.07 | d.19 | 2.26 |
| 2010 | .07 | .83 | 2.08 | .06 | 3.08 |
| 2011 | d.15 | .78 | 2.24 | .11 | 2.99 |
| 2012 | d.07 | 1.12 | *2.30* | *.10* | *3.45* |
| 2013 | *Nil* | *1.05* | *2.35* | *.10* | *3.50* |

| Calendar | QUARTERLY DIVIDENDS PAID B ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .525 | .525 | .525 | .525 | 2.10 |
| 2009 | .525 | .525 | .525 | .525 | 2.10 |
| 2010 | .525 | .525 | .525 | .525 | 2.10 |
| 2011 | .525 | .525 | .525 | .525 | 2.10 |
| 2012 | .525 | .525 | .525 | .545 | |

**BUSINESS:** Pinnacle West Capital Corporation is a holding company for Arizona Public Service Company (APS), which supplies electricity to 1.1 million customers in most of Arizona, except about half of the Phoenix metro area, the Tucson metro area, and Mohave County in northwestern Arizona. Discontinued SunCor real estate subsidiary in '10. Electric revenue breakdown: residential, 47%; commercial, 39%; industrial, 5%; other, 9%. Generating sources: coal, 37%; nuclear, 27%; gas, 17%; purchased, 19%. Fuel costs: 31% of revenues. Has 6,700 employees. '11 reported deprec. rate: 3.0%. Chairman, President & CEO: Donald E. Brandt. Inc.: Arizona. Address: 400 North Fifth Street, P.O. Box 53999, Phoenix, Arizona 85072-3999. Tel.: 602-250-1000. Internet: www.pinnaclewest.com.

**Pinnacle West's board of directors has raised the dividend.** The board raised the quarterly disbursement by $0.02 a share (3.8%). This was the first hike in the payout since the fourth quarter of 2006. Pinnacle hasn't stated what its dividend policy will be.

**We have raised our 2012 earnings estimate by $0.25 a share, to $3.45.** June-quarter profits were well above our expectation thanks to weather patterns that were even hotter than usual. Regardless of the weather, earnings were probably headed higher this year, anyway, thanks to a $116.3 million (4%) rate increase that took effect in mid-2012. Our revised estimate is within Pinnacle's targeted range of $3.35-$3.50 a share.

**An asset acquisition is pending.** Pinnacle's utility subsidiary, Arizona Public Service, has agreed to pay $294 million for another utility's 739-megawatt stake in units 4 and 5 of the Four Corners coal-fired generating station. APS would have to spend about $300 million for environmental upgrades to units 4 and 5, but would avoid $600 million of improvements that would have been necessary to keep units 1, 2, and 3 running. (The older units will be shut down.) The utility plans to issue long-term debt to finance the purchase. It will likely receive rate relief in mid-2013 to place Four Corners 4 and 5 in the rate base. Note that our 2013 earnings estimate will not reflect the asset purchase until after the deal has been completed.

**Base rates are frozen until mid-2016, but the utility will obtain revenues through some regulatory mechanisms before that time.** In addition to any increase for Four Corners 4 and 5, APS should benefit from annual rate hikes for transmission investment; rate surcharges for renewable investment (such as its AZ Sun solar program); and partial compensation for the decline in customer usage that results from conservation programs. This should enable earnings to increase in 2014 and 2015.

**This timely stock has a yield that is average for a utility,** even after the dividend hike this quarter. With the share price near the midpoint of our 3- to 5-year Target Price Range, however, total return potential is unimpressive.

*Paul E. Debbas, CFA* *November 2, 2012*

(A) Diluted egs. Excl. nonrec. losses: '02, 77¢; '09, $1.45; excl. gains (losses) from disc. ops.: '00, 22¢; '05, (36¢); '06, 10¢; '08, 28¢; '09, (13¢); '10, 18¢; '11, 10¢; '12, (1¢). '10 EPS don't add due to change in shares, '11 due to rounding. Next earnings report due early Feb. (B) Div'ds historically paid in early Mar., June, Sept. and Dec. ■ Div'd reinvestment plan avail. (C) Incl. deferred charges. In '11: $14.32/sh. (D) In mill. (E) Rate base: Fair value. Rate allowed on com. eq. in '12: 10%; earned on avg. com. eq., '11: 8.8%. Regulatory Climate: Avg.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 45 |
| Earnings Predictability | 65 |

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# PNM RESOURCES NYSE-PNM

| RECENT PRICE | 21.76 | P/E RATIO | 16.4 (Trailing: 16.4 / Median: 16.0) | RELATIVE P/E RATIO | 1.08 | DIV'D YLD | 2.7% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

TIMELINESS 3 Lowered 8/31/12

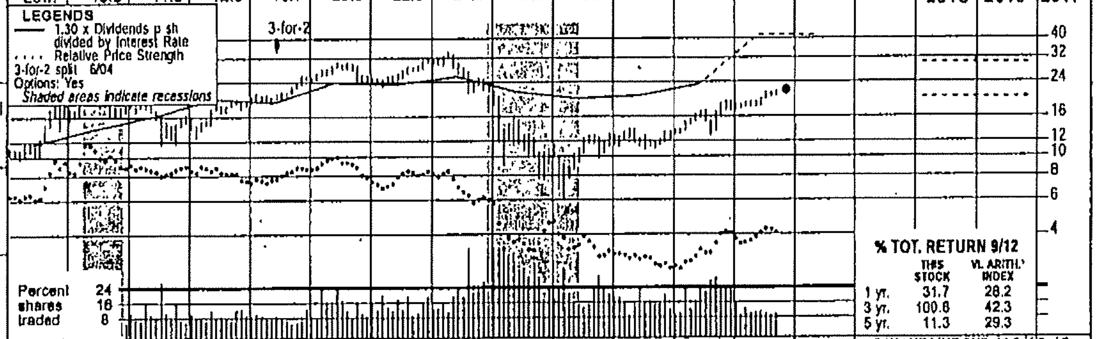
SAFETY 3 Lowered 5/9/08

TECHNICAL 2 Raised 10/26/12

BETA .95 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 25.2 | 20.5 | 19.6 | 26.1 | 30.5 | 32.1 | 34.3 | 21.7 | 13.1 | 14.0 | 19.2 | 22.2 |
| Low: | 15.3 | 11.5 | 12.6 | 18.7 | 23.8 | 22.5 | 21.0 | 7.6 | 5.9 | 10.8 | 12.8 | 17.3 |

Target Price Range 2015 | 2016 | 2017




### 2015-17 PROJECTIONS

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 30 | (+40%) | 11% |
| Low | 20 | (-10%) | 2% |

### Insider Decisions

| | D | J | F | M | A | M | J | J | A |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 3 | 0 | 1 | 0 | 0 | 1 |
| to Sell | 0 | 0 | 0 | 4 | 0 | 1 | 0 | 0 | 1 |

### Institutional Decisions

| | 4Q2011 | 1Q2012 | 2Q2012 |
|---|---|---|---|
| to Buy | 63 | 84 | 76 |
| to Sell | 113 | 86 | 91 |
| Hld's(000) | 69628 | 69113 | 69724 |

Percent shares traded 24 16 8

% TOT. RETURN 9/12

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 31.7 | 28.2 |
| 3 yr. | 100.6 | 42.3 |
| 5 yr. | 11.3 | 29.3 |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 14.10 | 18.12 | 17.43 | 18.96 | 27.46 | 40.09 | 19.92 | 24.11 | 26.54 | 30.19 | 32.25 | 24.92 | 22.65 | 19.01 | 19.31 | 21.35 | *16.65* | *17.20* | Revenues per sh | *22.35* |
| 2.61 | 2.58 | 3.04 | 2.82 | 3.16 | 4.31 | 2.83 | 3.05 | 3.14 | 3.56 | 3.57 | 2.54 | 1.76 | 2.32 | 2.67 | 3.18 | *3.20* | *3.30* | "Cash Flow" per sh | *3.80* |
| 1.15 | 1.25 | 1.50 | 1.29 | 1.55 | 2.61 | 1.07 | 1.15 | 1.43 | 1.59 | 1.72 | .76 | .11 | .58 | .87 | 1.08 | *1.30* | *1.40* | Earnings per sh A | *2.05* |
| .24 | .42 | .51 | .53 | .53 | .53 | .57 | .61 | .63 | .79 | .86 | .91 | .61 | .50 | .50 | .50 | *.58* | *.70* | Div'd Decl'd per sh B ■† | *1.00* |
| 1.42 | 2.05 | 2.06 | 1.56 | 2.50 | 4.51 | 4.09 | 2.78 | 2.25 | 3.07 | 4.04 | 5.94 | 3.99 | 3.32 | 3.25 | 4.10 | *3.60* | *3.15* | Cap'l Spending per sh | *2.60* |
| 12.04 | 12.64 | 13.75 | 14.74 | 15.78 | 17.25 | 16.60 | 17.64 | 18.19 | 18.70 | 22.09 | 22.03 | 18.89 | 18.90 | 17.60 | 19.62 | *20.15* | *20.90* | Book Value per sh C | *22.40* |
| 62.66 | 62.66 | 62.66 | 61.05 | 58.68 | 58.68 | 58.68 | 60.39 | 60.46 | 68.79 | 76.65 | 76.81 | 86.53 | 86.67 | 86.67 | 79.65 | *80.00* | *80.00* | Common Shs Outst'g D | *85.00* |
| 11.0 | 10.0 | 9.8 | 9.5 | 8.5 | 7.3 | 15.1 | 14.7 | 15.0 | 17.1 | 15.6 | NMF | NMF | 18.1 | 14.0 | 14.5 | *Bold figures are* | *Value Line* | Avg Ann'l P/E Ratio | *12.0* |
| .69 | .58 | .51 | .54 | .55 | .37 | .82 | .64 | .79 | .91 | .84 | NMF | NMF | 1.21 | .89 | .91 | *estimates* | | Relative P/E Ratio | *.80* |
| 1.9% | 3.3% | 3.5% | 4.4% | 4.1% | 2.8% | 3.5% | 3.6% | 2.9% | 2.9% | 3.2% | 3.4% | 4.9% | 4.8% | 4.1% | 3.2% | | | Avg Ann'l Div'd Yield | *4.1%* |

**CAPITAL STRUCTURE as of 6/30/12**
Total Debt $1881.3 mill. Due in 5 Yrs $236.8 mill.
LT Debt $1672.0 mill. LT Interest $100 mill.
(LT interest earned: 2.8x)
Pension Assets-12/11 $427.4 mill.
Oblig. $588.9 mill.

Pfd Stock $11.5 mill. Pfd Div'd $.5 mill.
115,293 shs. 4.58%, $100 par w/o mandatory redemption. Sinking fund began 2/1/84.

Common Stock 79,653,624 shs.
As of 7/27/12
MARKET CAP: $1.7 billion (Mid Cap)

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1169.0 | 1455.7 | 1604.8 | 2076.8 | 2471.7 | 1914.0 | 1959.5 | 1647.7 | 1673.5 | 1700.6 | *1330* | *1375* | Revenues ($mill) | *1900* |
| 64.3 | 68.9 | 88.3 | 106.8 | 122.1 | 59.9 | 8.1 | 53.5 | 80.0 | 96.6 | *100* | *115* | Net Profit ($mill) | *175* |
| 24.5% | 29.0% | 28.2% | 31.1% | 24.7% | 5.1% | 40.4% | 30.4% | 32.6% | 38.8% | *40.0%* | *40.0%* | Income Tax Rate | *40.0%* |
| 13.0% | NMF | 5.6% | 15.6% | 4.2% | NMF | NMF | 6.4% | 7.1% | 8.8% | *7.5%* | *7.5%* | AFUDC % to Net Profit | *8.0%* |
| 49.8% | 47.5% | 47.1% | 57.4% | 50.9% | 42.0% | 45.6% | 48.7% | 50.4% | 51.5% | *51.5%* | *51.0%* | Long-Term Debt Ratio | *50.5%* |
| 49.5% | 51.9% | 52.4% | 42.3% | 48.8% | 57.6% | 54.0% | 51.0% | 49.2% | 48.1% | *48.5%* | *48.5%* | Common Equity Ratio | *49.0%* |
| 1966.9 | 2077.3 | 2098.9 | 3044.4 | 3470.7 | 2935.8 | 3025.4 | 3214.9 | 3100.3 | 3245.6 | *3345* | *3455* | Total Capital ($mill) | *3900* |
| 1667.3 | 2194.4 | 2324.6 | 2964.1 | 3761.9 | 2935.4 | 3192.0 | 3332.4 | 3444.4 | 3627.1 | *3810* | *4000* | Net Plant ($mill) | *4630* |
| 4.7% | 4.7% | 5.3% | 4.7% | 4.9% | 3.4% | 1.9% | 3.1% | 4.2% | 4.5% | *5.0%* | *5.0%* | Return on Total Cap'l | *6.0%* |
| 6.6% | 6.3% | 7.9% | 8.2% | 7.2% | 3.5% | .5% | 3.2% | 5.2% | 6.1% | *6.0%* | *7.0%* | Return on Shr. Equity | *9.0%* |
| 6.5% | 6.3% | 8.0% | 8.2% | 7.2% | 3.5% | .5% | 3.2% | 5.2% | 6.1% | *6.0%* | *7.0%* | Return on Com Equity E | *9.0%* |
| 3.1% | 3.0% | 4.5% | 4.3% | 3.7% | NMF | NMF | .4% | 2.2% | 3.3% | *3.5%* | *3.5%* | Retained to Com Eq | *4.5%* |
| 53% | 53% | 44% | 48% | 49% | 117% | NMF | 86% | 58% | 47% | *47%* | *49%* | All Div'ds to Net Prof | *50%* |

### ELECTRIC OPERATING STATISTICS

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -1.2 | -5.7 | +2.5 |
| Avg. Indust. Use (MWH) | N/A | N/A | N/A |
| Avg. Indust. Revs. per KWH (¢) | N/A | N/A | N/A |
| Capacity at Peak (Mw) | 2711 | 2631 | 2547 |
| Peak Load, Summer (Mw) | 1868 | 1973 | 1938 |
| Annual Load Factor (%) | N/A | N/A | N/A |
| % Change Customers (yr-end) | -.9 | -.7 | .. |
| Fixed Charge Cov. (%) | 156 | 182 | 201 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | -3.5% | -7.5% | 2.0% |
| "Cash Flow" | -2.5% | -4.6% | 5.5% |
| Earnings | -7.5% | -12.0% | 16.0% |
| Dividends | -.5% | -8.0% | 12.0% |
| Book Value | 1.5% | -1.0% | 3.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 385.9 | 401.1 | 477.7 | 383.0 | 1647.7 |
| 2010 | 383.5 | 405.8 | 503.7 | 380.5 | 1673.5 |
| 2011 | 387.7 | 415.5 | 549.5 | 347.9 | 1700.6 |
| 2012 | 305.4 | 323.9 | *400* | *300.7* | *1330* |
| 2013 | *310* | *335* | *425* | *305* | *1375* |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | .15 | .01 | .60 | d.18 | .58 |
| 2010 | .06 | .21 | .63 | d.03 | .87 |
| 2011 | .04 | .20 | .61 | .22 | 1.08 |
| 2012 | .17 | .33 | *.60* | *.20* | *1.30* |
| 2013 | *.20* | *.35* | *.65* | *.20* | *1.40* |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■† Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .23 | .23 | .125 | .125 | .71 |
| 2009 | .125 | .125 | .125 | .125 | .50 |
| 2010 | .125 | .125 | .125 | .125 | .50 |
| 2011 | .125 | .125 | .125 | .125 | .50 |
| 2012 | .145 | .145 | .145 | | |

BUSINESS: PNM Resources is an investor-owned holding company of energy and energy related businesses. Primary subsidiaries include Public Service Company of New Mexico (PNM) and Texas-New Mexico Power Company (TNMP) which engage in the generation, transmission, and distribution of electricity in New Mexico and Texas. Sold First Choice Energy (9/11) and gas utility operations (1/09). Electric rev. breakdown '11: residential, 36%; commercial, 36%; industrial, 8%; other, 18%. Fuels: coal, 62%; nuclear, 30%; gas/oil, 8%. Fuel costs: 54% of revs. '11 dep. rate: 3.0%. Has 1,951 employees. Chrmn., Pres. & CEO: Patricia K. Collawn. Inc.: NM. Addr.: Alvarado Square, Albuquerque, NM. 87158. Tel.: 505-241-2700. Internet: www.pnmresources.com.

**PNM Resources posted solid results during the second quarter.** Ongoing earnings increased both sequentially, as well as compared to the year-earlier figure, to $0.33 a share. PNM continued to benefit from higher retail rates. Warmer temperatures in June and lower outage costs helped, as well. Going forward, we expect this rate relief to positively influence the bottom line for the remainder of the year. Thus, we have increased our estimate for 2012 by a nickel, to $1.30 a share. *(Note: Earnings were scheduled to be released as we rolled the presses on this Issue.)*

**The electric utility remains active on the regulatory front.** The company is waiting for the Federal Energy Regulatory Commission's (FERC) final approval regarding its transmission case (filed July 3rd). For this black-box settlement, an increased revenue number has been approved, but the FERC has yet to specify a return-on-equity figure. Indeed, the timing of the settlement has not been announced. As a result, we have boosted our top-line projections for 2012 and 2013, to $1.33 billion and $1.38 billion, respectively. What's more, the company has taken numerous steps to finalize its renewable energy rider, 2013 renewable energy plan, and FERC generation case.

**The Environmental Protection Agency (EPA) extended its 90-day stay.** The EPA granted PNM an additional 45 days to propose its alternative to selective catalytic reduction (SCR) technology, which is expected to cost more than $750 million to install. This plan involves converting two coal-fired plants at its San Juan Generating Station (SJGS) to natural gas or other noncoal generation by 2017. The remaining two units would have selective noncatalytic reduction technology installed; a less expensive alternative. That said, this extension will expire on November 29th, and PNM is still expected to remain on track to meet the 2016 deadline.

**This stock is an unattractive selection for income-oriented investors.** The company's 2.7% dividend yield is well below the utility industry average of 4.1%. Additionally, the issue dropped a notch in Timeliness, to 3 (Average).

*Michelle Jensen* *November 2, 2012*

(A) EPS diluted. Excl. nonrecur. gains (losses): '97, 3¢; '98, net (16¢); '99, 5¢; '00, 14¢; '01, (10¢); '03, 45¢; '05, (56¢); '07, 14¢; '08, ($3.77); '10, ($1.36). Egs. may not sum due to rounding. Next egs. report due mid-Feb. (B) Div'ds hist. paid in mid Feb., May, Aug., Nov. ■ Div'd reinvest. plan avail. † Shareholder invest. plan avail. (C) Incl. intang. '11: $3.21/sh. (D) In mill., adjust. for split. (E) Rate base: net orig. cost. ROE allowed in '08: 10.1%; earned on avg. com. eq., '11: 6.1%. Regulatory Climate: Avg.

| | |
|---|---|
| Company's Financial Strength | B |
| Stock's Price Stability | 65 |
| Price Growth Persistence | 25 |
| Earnings Predictability | 15 |

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# PORTLAND GENERAL NYSE-POR

RECENT PRICE 27.44 | P/E RATIO 14.2 (Trailing: 15.9; Median: NMF) | RELATIVE P/E RATIO 0.93 | DIV'D YLD 4.0% | VALUE LINE

TIMELINESS 3 Lowered 8/19/11
SAFETY 2 Raised 5/4/12
TECHNICAL 3 Lowered 9/14/12
BETA .75 (1.00 = Market)

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 35.0 | 31.3 | 27.7 | 21.4 | 22.7 | 26.0 | 28.1 | | | | |
| Low: | 24.2 | 25.5 | 15.4 | 13.5 | 17.5 | 21.3 | 24.3 | | | | |

Target Price Range 2015 | 2016 | 2017

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

**2015-17 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 30 | (+10%) | 7% |
| Low | 25 | (-10%) | 3% |

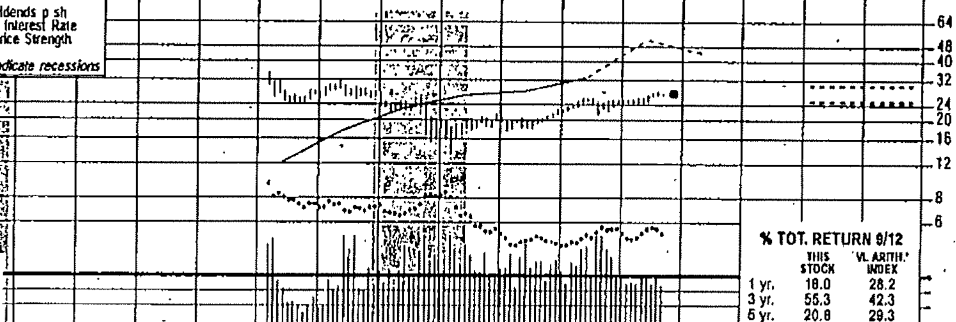
**Insider Decisions**

| | D | J | F | M | A | M | J | J | A |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 |

**Institutional Decisions**

| | 4Q2011 | 1Q2012 | 2Q2012 |
|---|---|---|---|
| to Buy | 100 | 124 | 116 |
| to Sell | 122 | 105 | 109 |
| Hld's(000) | 67569 | 67722 | 68793 |

Percent shares traded 15 10 5




% TOT. RETURN 9/12

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 18.0 | 28.2 |
| 3 yr. | 55.3 | 42.3 |
| 5 yr. | 20.8 | 29.3 |

On April 3, 2006, Portland General Electric's existing stock (which was owned by Enron) was canceled, and 62.5 million shares were issued to Enron's creditors or the Disputed Claims Reserve (DCR). The stock began trading on a when-issued basis that day, and regular trading began on April 10, 2006. Shares issued to the DCR were released over time to Enron's creditors until all of the remaining shares were released in June, 2007.

| 2002 | 2003 | 2004 | 2005G | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| -- | -- | -- | 23.14 | 24.32 | 27.87 | 27.89 | 23.99 | 23.67 | 24.06 | 24.15 | 24.75 | Revenues per sh | 27.50 |
| -- | -- | -- | 4.75 | 4.64 | 5.21 | 4.71 | 4.07 | 4.82 | 4.98 | 5.05 | 5.30 | "Cash Flow" per sh | 6.25 |
| -- | -- | -- | 1.02 | 1.14 | 2.33 | 1.39 | 1.31 | 1.66 | 1.95 | 1.90 | 1.95 | Earnings per sh A | 2.25 |
| -- | -- | -- | -- | .68 | .93 | .97 | 1.01 | 1.04 | 1.06 | 1.08 | 1.11 | Div'd Decl'd per sh B ■ † | 1.25 |
| -- | -- | -- | 4.08 | 5.94 | 7.28 | 6.12 | 9.25 | 5.97 | 3.98 | 4.40 | 4.05 | Cap'l Spending per sh | 4.75 |
| -- | -- | -- | 19.15 | 19.58 | 21.05 | 21.64 | 20.50 | 21.14 | 22.07 | 22.80 | 23.60 | Book Value per sh C | 26.00 |
| -- | -- | -- | 62.50 | 62.50 | 62.53 | 62.58 | 75.21 | 75.32 | 75.36 | 75.55 | 75.75 | Common Shs Outst'g D | 76.50 |
| -- | -- | -- | -- | 23.4 | 11.9 | 16.3 | 14.4 | 12.0 | 12.4 | Bold figures are | | Avg Ann'l P/E Ratio | 12.5 |
| -- | -- | -- | -- | 1.26 | .63 | .98 | .96 | .76 | .78 | Value Line | | Relative P/E Ratio | .85 |
| -- | -- | -- | -- | 2.5% | 3.3% | 4.3% | 5.4% | 5.2% | 4.4% | estimates | | Avg Ann'l Div'd Yield | 4.6% |
| -- | -- | 1454.0 | 1446.0 | 1520.0 | 1743.0 | 1745.0 | 1804.0 | 1763.0 | 1813.0 | 1825 | 1875 | Revenues ($mill) | 2100 |
| -- | -- | 92.0 | 64.0 | 71.0 | 145.0 | 87.0 | 95.0 | 125.0 | 147.0 | 140 | 145 | Net Profit ($mill) | 175 |
| -- | -- | 37.0% | 40.2% | 33.6% | 33.8% | 28.7% | 28.8% | 30.5% | 28.3% | 30.0% | 30.0% | Income Tax Rate | 30.0% |
| -- | -- | 9.8% | 18.8% | 33.8% | 17.9% | 17.2% | 31.6% | 17.6% | 5.4% | 6.0% | 5.0% | AFUDC % to Net Profit | 3.0% |
| -- | -- | 41.1% | 42.3% | 43.4% | 49.9% | 46.2% | 50.3% | 53.0% | 49.6% | 47.0% | 48.0% | Long-Term Debt Ratio | 46.0% |
| -- | -- | 58.9% | 57.7% | 56.6% | 50.1% | 53.8% | 49.7% | 47.0% | 50.4% | 53.0% | 52.0% | Common Equity Ratio | 54.0% |
| -- | -- | 2171.0 | 2076.0 | 2161.0 | 2629.0 | 2518.0 | 3100.0 | 3390.0 | 3298.0 | 3260 | 3420 | Total Capital ($mill) | 3700 |
| -- | -- | 2275.0 | 2438.0 | 2718.0 | 3066.0 | 3301.0 | 3858.0 | 4133.0 | 4285.0 | 4380 | 4430 | Net Plant ($mill) | 4500 |
| -- | -- | 5.6% | 4.6% | 4.7% | 6.9% | 5.0% | 4.5% | 5.4% | 6.2% | 5.5% | 5.5% | Return on Total Cap'l | 6.0% |
| -- | -- | 7.2% | 5.3% | 5.8% | 11.0% | 6.4% | 6.2% | 7.9% | 6.8% | 8.0% | 8.0% | Return on Shr. Equity | 9.0% |
| -- | -- | 7.2% | 5.3% | 5.8% | 11.0% | 6.4% | 6.2% | 7.9% | 8.8% | 8.0% | 8.0% | Return on Com Equity E | 9.0% |
| -- | -- | 7.2% | 5.3% | 3.5% | 6.6% | 2.0% | 1.5% | 3.0% | 4.1% | 3.5% | 3.5% | Retained to Com Eq | 4.0% |
| -- | -- | -- | -- | 39% | 40% | 69% | 76% | 62% | 54% | 57% | 57% | All Div'ds to Net Prof | 54% |

**CAPITAL STRUCTURE as of 6/30/12**
Total Debt $1736.0 mill. Due in 5 Yrs $337.0 mill.
LT Debt $1586.0 mill. LT Interest $91.0 mill.
(LT interest earned: 2.5x)
Leases, Uncapitalized Annual rentals $9.0 mill.

Pension Assets-12/11 $487.0 mill.
Oblig. $634.0 mill.

Pfd Stock None

Common Stock 75,527,955 shs.
as of 7/27/12

MARKET CAP: $2.1 billion (Mid Cap)

**ELECTRIC OPERATING STATISTICS**

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -3.3 | -3.1 | +3.3 |
| Avg. Indust. Use (MWH) | 9343 | 12986 | 14932 |
| Avg. Indust. Revs. per KWH (¢) | 7.07 | 6.62 | 6.16 |
| Capacity at Peak (Mw) | NA | NA | NA |
| Peak Load, Winter (Mw) F | 3949 | 3582 | 3555 |
| Annual Load Factor (%) | NA | NA | NA |
| % Change Customers (yr-end) | +.7 | +.5 | +.2 |
| Fixed Charge Cov. (%) | 179 | 224 | 273 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | -- | -- | 2.5% |
| "Cash Flow" | -- | -.5% | 5.0% |
| Earnings | -- | 8.5% | 5.5% |
| Dividends | -- | NMF | 3.5% |
| Book Value | -- | 2.0% | 3.5% |

| Calendar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 465.0 | 389.0 | 445.0 | 485.0 | 1804.0 |
| 2010 | 449.0 | 415.0 | 464.0 | 455.0 | 1783.0 |
| 2011 | 484.0 | 411.0 | 439.0 | 479.0 | 1813.0 |
| 2012 | 479.0 | 413.0 | 453 | 480 | 1825 |
| 2013 | 495 | 415 | 470 | 495 | 1875 |

| Calendar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | .47 | .31 | .43 | .11 | 1.31 |
| 2010 | .36 | .32 | .65 | .34 | 1.66 |
| 2011 | .92 | .29 | .36 | .38 | 1.95 |
| 2012 | .65 | .34 | .50 | .41 | 1.90 |
| 2013 | .68 | .37 | .50 | .40 | 1.95 |

| Calendar | QUARTERLY DIVIDENDS PAID B ■ † Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .235 | .245 | .245 | .245 | .97 |
| 2009 | .245 | .245 | .255 | .255 | 1.00 |
| 2010 | .255 | .255 | .26 | .26 | 1.03 |
| 2011 | .26 | .26 | .265 | .265 | 1.05 |
| 2012 | .265 | .265 | .27 | .27 | |

BUSINESS: Portland General Electric Company (PGE) provides electricity to 826,000 customers in 52 cities in a 4,000-square-mile area of Oregon, including Portland and Salem. The company is in the process of decommissioning the Trojan nuclear plant, which it closed in 1993. Electric revenue breakdown: residential, 46%; commercial, 35%; industrial, 12%; other, 5%. Generating sources: coal, 19%; gas, 10%; hydro, 9%; wind, 6%; purchased, 56%. Fuel costs: 42% of revenues. '11 reported depreciation rate: 3.7%. Has 2,600 employees. Chairman: Corbin A. McNeill, Jr. Chief Executive Officer and President: Jim Piro. Incorporated: Oregon. Address: 121 SW Salmon Street, Portland, Oregon 97204. Telephone: 503-464-8000. Internet: www.portlandgeneral.com.

**Portland General Electric is awaiting the outcome of three requests for proposals (RFPs).** These RFPs are for the utility's needs for base-load energy, peaking capacity, and renewable generating capacity in the next several years. PGE has bid into each RFP, which will be evaluated independently. Whether the company builds projects or purchases power will heavily influence its capital spending and financing plans — as well as its earning power — through 2017. If PGE's bid is selected in each case, this would necessitate capital spending projected at $1.5 billion-$1.9 billion from 2013 through 2017. The final decisions are likely to be submitted to the Public Utility Commission of Oregon in the first quarter of 2013 (or perhaps in late 2012).
**We do not assume in our estimates and projections that PGE wins any RFPs.** This is not a likely outcome, but it is impossible to make any assumptions about what the utility will build. Accordingly, our estimates and projections beginning in 2013 might well be conservative. (The company would record noncash credits to income for Allowance for Funds Used During Construction while the projects are being built.) Note that the result of the RFPs will also have an influence on whether PGE files a general rate case next year, and if so, what the timing will be.
**Separately, PGE wants to build a transmission line.** The company would likely spend $750 million-$800 million, depending upon whether another utility in the region takes a 25% stake in the project. Numerous negotiations and permitting processes are under way. If all necessary approvals are obtained, construction would begin in 2014, and the line would be operational in late 2016 or early 2017.
**We expect earnings to decline slightly in 2012.** The first-quarter comparison was difficult, thanks to the favorable weather and hydro conditions that boosted the bottom line in early 2011. Our profit estimate is within PGE's targeted range of $1.85-$2.00 a share.
**This stock does not stand out among utility issues.** The dividend yield and 3- to 5-year total return potential are only about average for this industry.

*Paul E. Debbas, CFA* *November 2, 2012*

(A) Diluted EPS. '09 & '10 EPS don't add due to rounding. Next earnings report due early Nov. (B) Div'ds paid mid-Jan., Apr., July, and Oct. ■ Div'd reinvestment plan avail. † Shareholder investment plan avail. (C) Incl. deferred charges. In '11: $7.88/sh. (D) In mill. (E) Rate base: Net original cost. Rate allowed on common equity in '11: 10.0%; earned on average com. eq., '11: 9.0%. Regulatory Climate: Below Average. (F) Summer peak in '09. (G) '05 per-share data are pro forma, based on shares outstanding when the stock began trading in '06.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 55 |
| Earnings Predictability | 45 |

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# SOUTHERN CO. NYSE-SO

RECENT PRICE 42.95 | P/E RATIO 15.5 (Trailing: 16.9 Median: 15.0) | RELATIVE P/E RATIO 1.07 | DIV'D YLD 4.7% | VALUE LINE

TIMELINESS 2 Raised 8/24/12
SAFETY 1 Raised 6/3/05
TECHNICAL 3 Lowered 11/23/12
BETA .55 (1.00 = Market)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 35.7 | 31.1 | 32.0 | 34.0 | 36.5 | 37.4 | 39.3 | 40.6 | 37.6 | 38.6 | 46.7 |
| Low: | 20.9 | 23.2 | 27.0 | 27.4 | 31.1 | 30.5 | 33.2 | 29.8 | 26.5 | 30.8 | 35.7 |

48.6 / 42.4

Target Price Range 2015 | 2016 | 2017

**2015-17 PROJECTIONS**

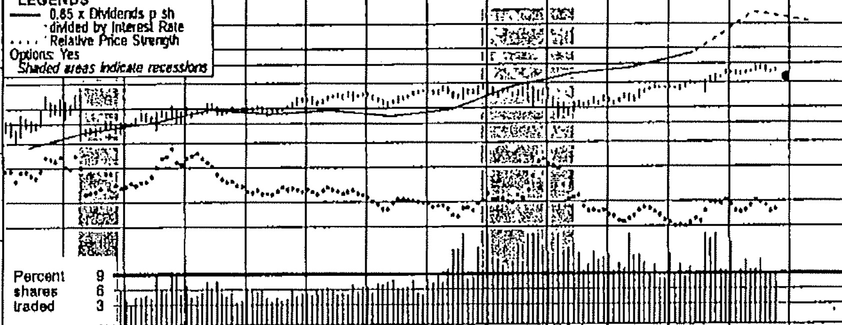
| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 50 | (+15%) | 8% |
| Low | 40 | (-5%) | 3% |

**Insider Decisions**

| | D | J | F | M | A | M | J | J | A |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 |
| Options | 0 | 1 | 0 | 1 | 2 | 3 | 2 | 2 | 1 |
| to Sell | 0 | 1 | 0 | 1 | 2 | 3 | 2 | 2 | 1 |

**Institutional Decisions**

| | 4Q2011 | 1Q2012 | 2Q2012 |
|---|---|---|---|
| to Buy | 435 | 385 | 432 |
| to Sell | 307 | 387 | 331 |
| Hld's(000) | 374903 | 372243 | 338977 |




% TOT. RETURN 10/12

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 13.1 | 10.8 |
| 3 yr. | 71.0 | 48.5 |
| 5 yr. | 62.7 | 25.2 |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 15.30 | 18.19 | 16.34 | 17.40 | 14.78 | 14.54 | 14.73 | 15.31 | 16.05 | 18.28 | 19.24 | 20.12 | 22.04 | 19.21 | 20.70 | 20.41 | 19.10 | 19.55 | Revenues per sh | 21.75 |
| 3.64 | 3.86 | 4.26 | 4.17 | 3.89 | 3.55 | 3.46 | 3.53 | 3.65 | 4.03 | 4.01 | 4.22 | 4.43 | 4.43 | 4.51 | 4.91 | 5.15 | 5.45 | "Cash Flow" per sh | 6.25 |
| 1.68 | 1.58 | 1.73 | 1.83 | 2.01 | 1.61 | 1.85 | 1.97 | 2.06 | 2.13 | 2.10 | 2.28 | 2.25 | 2.32 | 2.36 | 2.55 | 2.65 | 2.80 | Earnings per sh A | 3.25 |
| 1.26 | 1.30 | 1.34 | 1.34 | 1.34 | 1.34 | 1.36 | 1.39 | 1.42 | 1.48 | 1.54 | 1.60 | 1.66 | 1.73 | 1.80 | 1.87 | 1.94 | 2.02 | Div'd Decl'd per sh B ■ † | 2.25 |
| 1.82 | 2.68 | 2.87 | 3.85 | 3.27 | 3.75 | 3.79 | 2.72 | 2.85 | 3.20 | 4.01 | 4.65 | 5.10 | 5.70 | 4.85 | 5.23 | 6.25 | 5.65 | Cap'l Spending per sh | 6.75 |
| 13.61 | 13.91 | 14.04 | 13.82 | 15.69 | 11.43 | 12.16 | 13.13 | 13.86 | 14.42 | 15.24 | 16.23 | 17.08 | 18.15 | 19.21 | 20.32 | 20.95 | 21.70 | Book Value per sh C | 25.75 |
| 677.04 | 693.42 | 697.75 | 665.80 | 681.16 | 698.34 | 716.40 | 734.83 | 741.50 | 741.45 | 746.27 | 763.10 | 777.19 | 819.65 | 843.34 | 865.13 | 888.00 | 870.00 | Common Shs Outst'g D | 915.00 |
| 13.8 | 14.0 | 15.7 | 14.3 | 13.2 | 14.6 | 14.6 | 14.8 | 14.7 | 15.9 | 16.2 | 16.0 | 16.1 | 13.5 | 14.9 | 15.8 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 14.0 |
| .86 | .81 | .82 | .82 | .86 | .75 | .80 | .84 | .78 | .85 | .87 | .85 | .97 | .90 | .95 | 1.00 | | | Relative P/E Ratio | .95 |
| 5.5% | 5.9% | 4.9% | 5.1% | 5.0% | 5.7% | 5.0% | 4.7% | 4.7% | 4.4% | 4.5% | 4.4% | 4.8% | 5.5% | 5.1% | 4.6% | | | Avg Ann'l Div'd Yield | 5.0% |
| | | | | | | 10549 | 11251 | 11902 | 13554 | 14356 | 15353 | 17127 | 15743 | 17456 | 17657 | 16600 | 17000 | Revenues ($mill) | 20000 |
| | | | | | | 1510.0 | 1602.1 | 1589.0 | 1621.0 | 1608.0 | 1782.0 | 1807.0 | 1910.0 | 2040.0 | 2268.0 | 2365 | 2510 | Net Profit ($mill) | 3040 |
| | | | | | | 25.9% | 27.0% | 27.0% | 28.9% | 32.7% | 31.9% | 33.6% | 31.9% | 33.5% | 35.0% | 32.0% | 32.0% | Income Tax Rate | 32.0% |
| | | | | | | 5.4% | 4.6% | 5.2% | 4.4% | 4.8% | 9.5% | 12.3% | 14.9% | 13.7% | 10.2% | 13.0% | 13.0% | AFUDC % to Net Profit | 13.0% |
| | | | | | | 43.1% | 45.9% | 53.5% | 53.2% | 50.8% | 51.2% | 53.9% | 53.2% | 51.2% | 50.0% | 52.0% | 52.0% | Long-Term Debt Ratio | 53.0% |
| | | | | | | 43.4% | 43.6% | 44.1% | 44.3% | 46.2% | 44.9% | 42.6% | 43.6% | 45.7% | 47.1% | 45.5% | 45.5% | Common Equity Ratio | 45.0% |
| | | | | | | 20086 | 22135 | 23288 | 24131 | 24618 | 27608 | 31174 | 34091 | 35438 | 37307 | 40025 | 41725 | Total Capital ($mill) | 52200 |
| | | | | | | 24642 | 27534 | 28361 | 29480 | 31092 | 33327 | 35878 | 39230 | 42002 | 45010 | 48275 | 50900 | Net Plant ($mill) | 61500 |
| | | | | | | 8.6% | 8.4% | 8.1% | 8.2% | 8.2% | 7.9% | 7.1% | 6.9% | 7.0% | 7.2% | 7.0% | 7.0% | Return on Total Cap'l | 7.0% |
| | | | | | | 13.2% | 13.4% | 14.7% | 14.4% | 13.3% | 13.2% | 12.6% | 12.0% | 11.8% | 12.2% | 12.5% | 12.5% | Return on Shr. Equity | 12.5% |
| | | | | | | 15.1% | 14.8% | 14.9% | 14.9% | 13.8% | 14.0% | 13.1% | 12.4% | 12.2% | 12.5% | 12.5% | 13.0% | Return on Com Equity E | 12.5% |
| | | | | | | 4.1% | 4.4% | 4.7% | 4.6% | 3.8% | 4.3% | 3.5% | 3.2% | 3.0% | 3.4% | 3.5% | 3.5% | Retained to Com Eq | 4.0% |
| | | | | | | 76% | 73% | 69% | 70% | 73% | 70% | 74% | 75% | 77% | 73% | 74% | 72% | All Div'ds to Net Prof | 69% |

**CAPITAL STRUCTURE as of 6/30/12**
Total Debt $21987 mill. Due in 5 Yrs $7119.0 mill.
LT Debt $19459 mill. LT Interest $856.0 mill.
(LT interest earned: 4.8x)
Leases, Uncapitalized Annual rentals $121.0 mill.
Pension Assets-12/11 $6.80 bill. Oblig. $8.08 bill.
Pfd Stock $1082 mill. Pfd Div'd $85.0 mill.
Incl. 1 mill. shs. 4.20%-5.44% cum. pfd. ($100 par); 12 mill. shs. 4.95%-5.83% cum. pfd. ($1 par); 2 mill. shs. 6.0% noncum. pfd. ($25 par); 3 mill. shs. 6.0%-8.5% noncum. pfd. ($100 par); 14 mill. shs. 5.63%-6.5% noncum. pfd. ($1 par).
Common Stock 874,796,883 shs.
MARKET CAP: $38 billion (Large Cap)

**ELECTRIC OPERATING STATISTICS**

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -4.8 | +7.6 | -2.7 |
| Avg. Indust. Use (MWH) | 3095 | 3332 | 3438 |
| Avg. Indust. Revs. per KWH (¢) | 6.04 | 6.20 | 6.37 |
| Capacity at Yearend (Mw) | 42932 | 42963 | 43555 |
| Peak Load, Summer (Mw) | 34471 | 36321 | 36956 |
| Annual Load Factor (%) | 60.8 | 62.2 | 59.0 |
| % Change Customers (yr-end) | .. | +.3 | -.1 |
| Fixed Charge Cov. (%) | 310 | 342 | 397 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | 2.5% | 2.5% | 1.5% |
| "Cash Flow" | 2.0% | 3.5% | 5.0% |
| Earnings | 3.0% | 3.0% | 5.0% |
| Dividends | 3.0% | 4.0% | 4.0% |
| Book Value | 3.5% | 8.0% | 5.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 3666 | 3885 | 4682 | 3510 | 15743 |
| 2010 | 4157 | 4208 | 5320 | 3771 | 17456 |
| 2011 | 4012 | 4521 | 5428 | 3696 | 17657 |
| 2012 | 3604 | 4181 | 5049 | 3766 | 16600 |
| 2013 | 3800 | 4200 | 5200 | 3800 | 17000 |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | .41 | .61 | .99 | .31 | 2.32 |
| 2010 | .60 | .62 | .98 | .18 | 2.36 |
| 2011 | .49 | .70 | 1.06 | .30 | 2.55 |
| 2012 | .42 | .71 | 1.11 | .41 | 2.65 |
| 2013 | .50 | .75 | 1.20 | .35 | 2.80 |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■ † Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .4025 | .42 | .42 | .42 | 1.66 |
| 2009 | .42 | .4375 | .4375 | .4375 | 1.73 |
| 2010 | .4375 | .455 | .455 | .455 | 1.80 |
| 2011 | .455 | .4725 | .4725 | .4725 | 1.87 |
| 2012 | .4725 | .49 | .49 | | |

BUSINESS: The Southern Company, through its subsidiaries, supplies electricity to 4.4 million customers in about 120,000 square miles of Georgia, Alabama, Florida, and Mississippi. Also has competitive generation business. Electric revenue breakdown: residential, 35%; commercial, 30%; industrial, 19%; wholesale, 11%; other, 5%. Retail revenues by state: Georgia, 51%; Alabama, 33%; Florida, 9%; Mississippi, 7%. Generating sources: coal, 49%; oil & gas, 26%; nuclear, 15%; hydro, 2%; purchased, 6%. Fuel costs: 39% of revenues. '11 reported deprec. rate (utility): 3.2%. Has 26,400 employees. Chairman, President and CEO: Thomas A. Fanning. Inc.: Delaware. Address: 30 Ivan Allen Jr. Blvd., N.W., Atlanta, Georgia 30308. Tel.: 404-506-5000. Internet: www.southerncompany.com.

**Southern Company's largest utility subsidiary, Georgia Power, is building two nuclear units.** Georgia Power will have a 45.7% stake (about 1,000 megawatts) in Vogtle 3 and 4, which are scheduled to begin commercial operation in 2016 and 2017. The projected cost is $6.2 billion, which would comply with the cost estimate that has been certified by the Georgia Public Service Commission, but $425 million of costs are in dispute between the utility and its contractors. At least low financing costs have helped keep the project on budget.

**Mississippi Power also has a large project under construction.** The utility is building a 582-mw coal gasification plant at a projected cost of $2.88 billion. It is expected to begin commercial operation in May of 2014.

**Earnings should improve in 2012 and 2013.** At the start of this year, Georgia Power received the second of three annual rate hikes. The utility will get the final increase at the beginning of 2013. Southern Company's utilities in other jurisdictions have received rate relief this year, too. We have fine-tuned our 2012 share-net estimate up a nickel, to $2.65. This remains within the company's targeted range of $2.58-$2.70. For now, we're sticking with our 2013 profit forecast of $2.80 a share, but we are concerned about signs of a slowdown in the service area's economy.

**A rate application is upcoming.** In mid-2013, Georgia Power will file a general rate case for an order that will take effect at the start of 2014. Although there is regulatory risk whenever a utility puts forth a rate case, we note that Southern Company's utilities have typically done an effective job of managing the regulatory process.

**Finances are solid.** The fixed-charge coverage is well above the industry average. The common-equity ratio is in good shape, and returns on equity are healthy. Southern Company merits a Financial Strength rating of A, and its stock is ranked 1 (Highest) for Safety.

**Timely Southern Company stock has a dividend yield that is slightly above the utility average.** Total return potential to 2015-2017 is a cut below the industry average, however.

*Paul E. Debbas, CFA* *November 23, 2012*

(A) Diluted earnings. Excl. nonrecurring gain (loss): '03, 8¢; '09, (25¢). '10 EPS don't add due to change in shares. Next earnings report due late Jan. (B) Div'ds historically paid in early Mar., June, Sept., and Dec. ■ Div'd reinvestment plan avail. † Shareholder investment plan avail. (C) Incl. deferred charges. In '11: $6.27/sh. (D) In mill. (E) Rate base: AL, MS, fair value; FL, GA, orig. cost. Allowed return on com. eq. (blended): 12.5%. Earned on avg. com. eq., '11: 13.0%. Regulatory Climate: GA, AL Above Average; MS, FL Average.

| | |
|---|---|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 60 |
| Earnings Predictability | 100 |

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# WESTAR ENERGY NYSE-WR

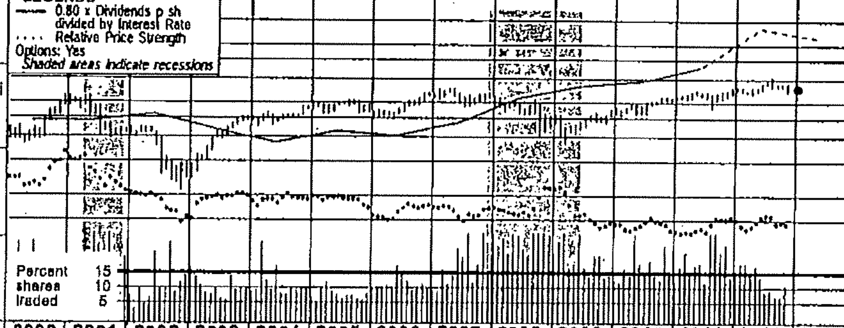
RECENT PRICE 28.46 | P/E RATIO 13.8 (Trailing: 14.6 / Median: 14.0) | RELATIVE P/E RATIO 0.91 | DIV'D YLD 4.7% | VALUE LINE

TIMELINESS 2 Raised 8/24/12
SAFETY 2 Raised 4/1/05
TECHNICAL 3 Raised 8/10/12
BETA .70 (1.00 = Market)

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 25.9 | 18.0 | 20.5 | 22.9 | 25.0 | 27.2 | 28.6 | 25.9 | 22.3 | 25.9 | 29.0 | 33.0 |
| Low: | 15.6 | 8.5 | 9.8 | 16.1 | 21.1 | 20.1 | 22.8 | 16.0 | 14.9 | 20.6 | 22.6 | 26.8 |

Target Price Range 2015 | 2016 | 2017

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




**2015-17 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 35 | (+25%) | 10% |
| Low | 25 | (-10%) | 3% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 2 | 0 |

**Institutional Decisions**

| | 1Q2012 | 2Q2012 | 3Q2012 |
|---|---|---|---|
| to Buy | 129 | 126 | 120 |
| to Sell | 93 | 103 | 97 |
| Hld's(000) | 69508 | 69803 | 69820 |

**% TOT. RETURN 11/12**

| | THIS STOCK | VL ARITH.* INDEX |
|---|---|---|
| 1 yr. | 8.8 | 14.2 |
| 3 yr. | 62.1 | 45.5 |
| 5 yr. | 44.4 | 35.5 |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | © VALUE LINE PUB. LLC | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 31.67 | 32.90 | 30.86 | 30.21 | 33.80 | 31.20 | 24.77 | 20.06 | 17.02 | 18.23 | 18.37 | 18.09 | 16.98 | 17.04 | 18.34 | 17.27 | 17.70 | 18.30 | Revenues per sh | 20.15 |
| 5.52 | 3.47 | 6.35 | 7.51 | 6.96 | 5.32 | 4.77 | 3.77 | 3.12 | 3.28 | 3.94 | 3.77 | 3.14 | 3.59 | 4.24 | 3.97 | 4.15 | 4.45 | "Cash Flow" per sh | 5.20 |
| 2.60 | d.46 | 2.13 | 1.48 | .89 | d.58 | 1.00 | 1.46 | 1.17 | 1.65 | 1.88 | 1.84 | 1.31 | 1.28 | 1.60 | 1.79 | 2.00 | 2.10 | Earnings per sh A | 2.50 |
| 2.07 | 2.10 | 2.14 | 2.14 | 1.44 | 1.20 | 1.20 | .87 | .80 | .92 | .98 | 1.08 | 1.16 | 1.20 | 1.24 | 1.28 | 1.32 | 1.36 | Div'd Decl'd per sh B■† | 1.48 |
| 3.09 | 3.22 | 2.77 | 4.09 | 4.40 | 3.37 | 1.89 | 2.06 | 2.19 | 2.45 | 3.95 | 7.84 | 8.65 | 5.26 | 4.82 | 5.55 | 6.50 | 7.05 | Cap'l Spending per sh | 7.85 |
| 25.14 | 30.79 | 29.40 | 27.83 | 27.20 | 25.97 | 13.68 | 14.23 | 18.13 | 16.31 | 17.62 | 19.14 | 20.18 | 20.59 | 21.25 | 22.20 | 23.60 | 25.40 | Book Value per sh C | 28.35 |
| 64.63 | 65.41 | 65.91 | 67.40 | 70.08 | 70.08 | 71.51 | 72.84 | 86.03 | 86.84 | 87.39 | 95.46 | 108.31 | 109.07 | 112.13 | 125.70 | 127.00 | 128.00 | Common Shs Outst'g E | 134.00 |
| 11.7 | -- | 18.4 | 17.2 | 20.6 | -- | 14.0 | 10.6 | 17.4 | 14.6 | 12.2 | 14.1 | 17.0 | 14.9 | 13.0 | 14.8 | Bold figures are | Value Line | Avg Ann'l P/E Ratio | 12.5 |
| .73 | -- | .96 | .98 | 1.34 | -- | .76 | .62 | .92 | .79 | .66 | .75 | 1.02 | .99 | .83 | .94 | estimates | | Relative P/E Ratio | .85 |
| 6.8% | 6.3% | 5.5% | 8.4% | 7.9% | 5.8% | 8.6% | 5.5% | 3.9% | 4.0% | 4.3% | 4.2% | 5.2% | 6.3% | 5.3% | 4.8% | | | Avg Ann'l Div'd Yield | 4.7% |

**CAPITAL STRUCTURE as of 9/30/12**
Total Debt $3303.1 mill. Due in 5 Yrs $620.0 mill.
LT Debt $3061.6 mill. LT Interest $160.0 mill.
(LT interest earned: 3.1x)

Pension Assets-12/11 $481 mill. Oblig. $876 mill.

Pfd Stock None

Common Stock 126,462,407 shs.
as of 10/31/12
MARKET CAP: $3.6 billion (Mid Cap)

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | 15-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1771.1 | 1461.1 | 1464.5 | 1583.3 | 1605.7 | 1726.8 | 1839.0 | 1858.2 | 2056.2 | 2171.0 | 2250 | 2340 | Revenues ($mill) | 2700 |
| 72.0 | 108.1 | 100.1 | 134.9 | 165.3 | 168.4 | 136.8 | 141.3 | 203.9 | 214.0 | 255 | 270 | Net Profit ($mill) | 340 |
| 53.4% | 43.1% | 25.0% | 31.0% | 25.4% | 27.5% | 24.8% | 29.4% | 29.0% | 30.4% | 30.0% | 30.0% | Income Tax Rate | 30.0% |
| -- | 5.0% | -- | -- | -- | 10.4% | -- | -- | 10.4% | 10.0% | 10.0% | 10.0% | AFUDC % to Net Profit | 10.0% |
| 71.6% | 66.2% | 53.8% | 52.1% | 50.0% | 50.6% | 49.8% | 53.4% | 53.6% | 49.5% | 51.0% | 50.5% | Long-Term Debt Ratio | 50.0% |
| 22.9% | 33.2% | 45.6% | 47.2% | 49.3% | 48.9% | 49.7% | 46.1% | 46.0% | 50.0% | 49.0% | 49.5% | Common Equity Ratio | 50.0% |
| 4272.4 | 3127.3 | 3049.2 | 3000.4 | 3124.2 | 3738.3 | 4400.1 | 4866.8 | 5180.9 | 5531.0 | 6100 | 6550 | Total Capital ($mill) | 7600 |
| 3995.4 | 3909.5 | 3911.0 | 3947.7 | 4071.6 | 4803.7 | 5533.5 | 5771.7 | 6309.5 | 6745.4 | 7250 | 7500 | Net Plant ($mill) | 8500 |
| 4.4% | 7.0% | 5.5% | 6.2% | 6.7% | 5.8% | 4.2% | 4.4% | 5.5% | 5.2% | 5.5% | 5.5% | Return on Total Cap'l | 6.0% |
| 5.9% | 10.2% | 7.1% | 9.4% | 10.6% | 9.1% | 6.2% | 6.2% | 8.5% | 7.6% | 8.5% | 8.5% | Return on Shr. Equity | 9.0% |
| 7.3% | 10.3% | 7.1% | 9.5% | 10.7% | 9.2% | 6.2% | 8.3% | 8.5% | 7.7% | 8.5% | 8.5% | Return on Com Equity D | 9.0% |
| NMF | 4.9% | 3.2% | 4.3% | 5.5% | 4.3% | 1.2% | .8% | 3.1% | 2.2% | 3.0% | 3.0% | Retained to Com Eq | 4.0% |
| 120% | 53% | 56% | 55% | 49% | 53% | 80% | 87% | 63% | 72% | 66% | 65% | All Div'ds to Net Prof | 57% |

**ELECTRIC OPERATING STATISTICS**

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -2.0 | +6.2 | +1.0 |
| Avg. Indust. Use (MWH) | 5145 | 5460 | 5589 |
| Avg. Indust. Revs. per KWH (¢) | 5.67 | 5.82 | 6.22 |
| Capacity at Peak (Mw) | 1807 | 6756 | 6784 |
| Peak Load, Summer (Mw) | 4545 | 5485 | 5549 |
| Annual Load Factor (%) | 54.5 | 55.0 | 55.5 |
| % Change Customers (yr-end) | +.9 | +.3 | +.1 |
| Fixed Charge Cov. (%) | 221 | 267 | 287 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '09-'11 to '15-'17 |
|---|---|---|---|
| Revenues | -6.0% | -1.0% | 2.5% |
| "Cash Flow" | -6.0% | 1.5% | 5.0% |
| Earnings | -- | 1.0% | 7.5% |
| Dividends | -4.5% | 7.0% | 3.0% |
| Book Value | -3.0% | 6.0% | 5.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | 421.8 | 487.8 | 528.5 | 440.1 | 1858.2 |
| 2010 | 459.8 | 495.2 | 644.4 | 456.8 | 2056.2 |
| 2011 | 481.7 | 524.9 | 678.2 | 486.2 | 2171.0 |
| 2012 | 475.7 | 566.3 | 695.8 | 512.2 | 2250 |
| 2013 | 520 | 575 | 710 | 535 | 2340 |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2009 | .10 | .35 | .73 | .10 | 1.28 |
| 2010 | .27 | .47 | 1.01 | .05 | 1.80 |
| 2011 | .27 | .38 | .98 | .16 | 1.79 |
| 2012 | .21 | .48 | 1.09 | .22 | 2.00 |
| 2013 | .25 | .50 | 1.10 | .25 | 2.10 |

| Cal-endar | QUARTERLY DIVIDENDS PAID B■† Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2008 | .27 | .29 | .29 | .29 | 1.14 |
| 2009 | .29 | .30 | .30 | .30 | 1.19 |
| 2010 | .30 | .31 | .31 | .31 | 1.23 |
| 2011 | .31 | .32 | .32 | .32 | 1.27 |
| 2012 | .32 | .33 | .33 | .33 | |

**BUSINESS:** Westar Energy, Inc., formerly Western Resources, is the parent of Kansas Gas & Electric Company. Westar supplies electricity to 688,000 customers in Kansas. Electric revenue sources: residential and rural, 42%; commercial, 37%; industrial, 21%. Sold investment in ONEOK in 2003 and 85% ownership in Protection One in 2004. 2011 depreciation rate: 4.2%. Estimated plant age: 14 years. Fuels: coal, 51%; nuclear, 8%; gas, 41%. Has 2,424 employees. BlackRock, Inc. owns 5.9% of common; off. & dir., less than 1% (3/12 proxy). Chairman: Charles Q. Chandler IV. Chief Executive Officer and President: Mark A. Ruelle. Inc.: Kansas. Address: 818 South Kansas Avenue, Topeka, Kansas 66612. Telephone: 785-575-6300. Internet: www.westarenergy.com.

**Westar Energy reported good results for the third quarter.** Revenues advanced modestly for the period, and share earnings compared favorably with the prior-year tally. Greater revenue from the retail and transmission businesses more than offset a top-line decline from the wholesale unit. We expect a favorable comparison for the fourth quarter, and higher revenues and earnings for full-year 2012.

**We look for solid top- and bottom-line growth from 2013 onward.** A rate increase of roughly $50 million approved earlier in the year should continue to boost retail sales. This line ought to experience modest growth from its residential and commercial operations. Meanwhile, the transmission business should post a strong top-line advance, though we expect further weakness from the wholesale line.

**Investment in operations ought to further support results.** Large environmental projects at the Jeffrey and La Cygne energy centers have been coming along nicely. Elsewhere, the Prairie Wind joint venture is also progressing well. The project has begun construction on a double-circuit 345 kilovolt transmission line, with right-of-way clearing in foundation construction running a little ahead of plan. The line, which is tracking favorably with respect to the budget, should be completed in 2014. On the regulatory front, the company's 2012 filings to update prices for transmission, air quality controls, and energy efficiency programs are complete. Plans for 2013 include updating riders along with an abbreviated rate case to recover its share of costs incurred for the La Cygne air quality project.

**This stock remains favorably ranked for year-ahead relative price performance.** Looking further out, we anticipate higher revenues and share earnings for the company by 2015-2017. Moreover, Westar earns good marks for Safety, Price Stability, and Earnings Predictability. In addition, the stock has below-average volatility (Beta: 0.70). However, investors seeking strong appreciation potential can probably find better choices elsewhere, as the stock is trading within our Target Price Range. Even so, conservative, income-oriented accounts may find this issue's healthy dividend yield attractive.

*Michael Napoli, CFA* *December 21, 2012*

(A) EPS diluted from 2010 onward. Excl. nonrecur gains (losses): '96, ($0.19); '97, $7.97; '98, ($1.45); '99, ($1.31); '00, $1.07; '01, 27¢; '02, ($12.06); '03, 77¢; '08, 39¢; '11, 14¢. Next egs. rep't due in late February/early March. (B) Div'ds paid in early Jan., April, July, and Oct. ■ Div'd reinvest. plan avail. † Shareholder invest. plan avail. (C) Incl. reg. assets. In 2011: $8.32/sh. (D) Rate base determined: fair value; Rate allowed on common equity in '12: 10.0%; earned on avg. com. eq., '11: 8.2%. Regul. Clim.: Avg. (E) In mill.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 75 |
| Earnings Predictability | 80 |

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