BEFORE THE

PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority To Increase its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations.	)	**Docket No. 13-035-184**

Direct Testimony and Exhibits of

Michael P. Gorman

On behalf of

The Federal Executive Agencies

April 17, 2014

BRUBAKER & ASSOCIATES, INC.

Project 9908

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STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Affidavit of Michael P. Gorman

Michael P. Gorman, being first duly sworn, on his oath states:

1. My name is Michael P. Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Federal Executive Agencies in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes are my direct testimony and exhibits which were prepared in written form for introduction into evidence in the Public Service Commission of Utah, Docket No. 13-035-184.

3. I hereby swear and affirm that the testimony and exhibits are true and correct and that they show the matters and things that they purport to show.

_____
Michael P. Gorman

Subscribed and sworn to before me this 15th day of April, 2014.

_____
Notary Public

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Direct Testimony of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q WHAT IS YOUR OCCUPATION?

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

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

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

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of the Federal Executive Agencies ("FEA"). The FEA represents numerous federal customers within the area serviced by Rocky Mountain Power ("RMP" or "Company"). These entities include, but are not limited to, military installations, post offices and federal buildings. Mainly, Hill Air Force Base represents a significant customer to the Company.

Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A My testimony will address the Company's overall rate of return including return on equity, embedded debt cost and capital structure.

SUMMARY

Q PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATIONS.

A I recommend the Public Service Commission of Utah (the "Commission" or "PSCU") award RMP a return on common equity of 9.40%.

My recommended return on equity of 9.40% would result in an overall cost of capital of 7.74% as developed on my Exhibit FEA___(MPG-1).

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

I will also respond to RMP witness Dr. Samuel Hadaway's proposed return on equity of 10.0%. For the reasons discussed below, Dr. Hadaway's recommended return on equity is excessive and should be rejected.

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

A I performed three versions of the Discounted Cash Flow ("DCF") model, Risk Premium ("RP") study, and Capital Asset Pricing Model ("CAPM") to a proxy group of publicly traded companies that have investment risk similar to RMP. Based on these assessments, I estimate RMP's current market cost of equity to be 9.40%.

Electric Utility Industry Market Outlook

Q PLEASE DESCRIBE THIS SECTION OF YOUR TESTIMONY.

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

Based on the assessments described below, I find the credit rating outlook of the industry to be strong and supportive of the industry's financial integrity, and electric utilities' stocks have exhibited strong price performance over the last several years.

Further, the electric utility industry is funding large capital expenditure programs, which is creating significant demands for external capital. Credit rating agencies and market participants have embraced the utilities' need for significant amounts of external capital by meeting the capital market demands of electric utilities at near historical low capital market costs. All of this supports my belief that RMP should have sufficient access to capital to support its capital program, and relatively moderate capital costs are currently available and expected to be available for the next several years.

Based on this review of credit outlooks and stock price performance, I conclude that the market continues to embrace the electric utility industry as a safe-haven investment, and views utility equity and debt investments as low-risk securities.

Q PLEASE DESCRIBE ELECTRIC UTILITIES' CREDIT RATING OUTLOOK.

A Electric utilities' credit ratings have improved over the recent past and the credit outlook is Stable to Improving. Standard & Poor's ("S&P") recently published a report titled "U.S. Regulated Utilities Look Forward To Stability In 2014." In that report, S&P noted the following:

> **Effect on ratings**
>
> Although the median investor-owned regulated utility corporate credit rating remains at 'BBB+', credit quality actually improved as many companies entered the low 'A' rating category and the already limited number of speculative-grade utilities continued to diminish. Last year, we raised the ratings on 42 utility holding companies and operating subsidiaries.

*** * ***

Industry Ratings Outlook

The prospective rating movement for U.S. regulated utilities, as measured by outlooks and CreditWatch listings, is limited, with 6% of companies having positive outlooks or positive CreditWatch listings and 5% carrying negative outlooks. (It is important to note that outlooks and CreditWatch placements do not predict rating changes. Rather, they highlight the potential for rating changes and their direction.) With the remaining 88% of the industry having stable outlooks, and with only a modest influence on the sector's business risk and financial risk profiles as a result of economic volatility, we expect few rating changes in the sector in the near-to-intermediate term.[1]

* * *

Credit Strength Underlies Solid Access To Funding

Liquidity remains adequate for most utilities and investor appetite for utility debt remains healthy, with deals continuing to be oversubscribed at very attractive rates with tenors as far as five years, and in some cases longer. The amount of medium- to long-term debt and hybrid securities issued during 2013 was about $35.5 billion. The relative certainty of financial performance by utilities operating under relatively predictable regulatory frameworks, and effective monopoly position, and long-lived assets continue to make the utility sector attractive to investors. These strengths have served to mute any impact on the industry from turbulence in the global financial markets and the slow pace of the economic recovery.

Similarly, Fitch states:

Rating Outlook

Stable Ratings Outlook: Fitch Ratings expects the ratings and ratings outlook for the overall U.S. Utilities, Power, and Gas (UPG) sector to remain stable in 2014. Fitch expects modest earnings growth from recent rate base additions and continued maturation of capex projects. Broad macroeconomic conditions remain favorable for the sector; Fitch expects modest economic growth, tepid inflation, low natural gas prices, and a favorable interest rate environment.

[1] *Standard & Poor's RatingsDirect*: "Industry Economic and Ratings Outlook: U.S. Regulated Utilities Look Forward to Stability in 2014," January 22, 2014 at 4 and 7, emphasis added.

* * *

Stable Utility and Utility Parent Company Ratings

> Within the context of gradual recovery, low inflation, and stable commodity prices, Fitch expects regulated utilities to maintain their solid investment-grade credit profile. Issuer Default Ratings (IDRs) should remain on the cusp of 'BBB+' to 'A–', with more than 90% of debt issuances being rated in the 'A' category. Long-term debt instrument ratings of Fitch's entire universe of regulated utilities carry investment-grade ratings, a testament to the sound credit profile of the industry.[2]

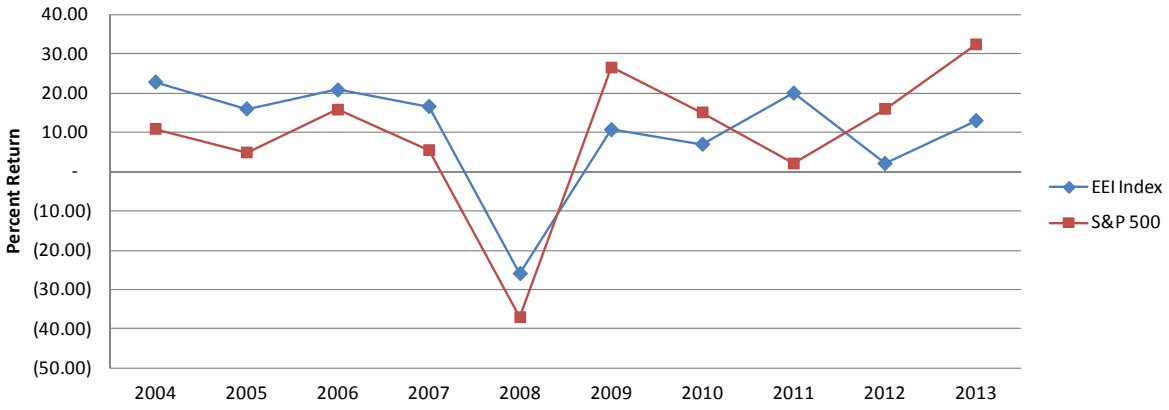
Q PLEASE DESCRIBE ELECTRIC UTILITY STOCK PRICE PERFORMANCE OVER THE LAST SEVERAL YEARS.

A As shown in the graph below, the EEI has recorded electric utility stock price performance compared to the market. The EEI data shows that its Electric Utility Index has outperformed the market in downturns and trailed the market during recovery. This supports my conclusion that utility stock investments are regarded by market participants as a moderate to low-risk investment.

[2] *FitchRatings*: "2014 Outlook: Utilities, Power, and Gas," December 12, 2013 at 1-2, emphasis added.

FIGURE 1

Index Comparison



Source: EEI Q4 2013 Stock Performance Financial Update, at Page 1.

Q WHAT ARE THE IMPORTANT TAKEAWAY POINTS FROM THIS ASSESSMENT OF ELECTRIC UTILITY INDUSTRY CREDIT AND INVESTMENT RISK OUTLOOKS?

A Credit rating agencies consider the electric utility industry to be stable and believe investors will continue to provide an abundance of capital to support utilities' large capital programs and at moderate capital costs. All of this supports the continued belief that electric utility investments are generally regarded as safe-haven or low-risk investments, and the market embraces low-risk investments – like utility investments. The demand for low-risk investments will provide funding for electric utilities in general.

RATE OF RETURN

RMP Investment Risk

Q PLEASE DESCRIBE THE MARKET'S ASSESSMENT OF THE INVESTMENT RISK OF RMP.

A The market's assessment of RMP's investment risk (i.e., PacifiCorp) is described by credit rating analysts' reports. RMP's current corporate and senior secured bond ratings from S&P and Moody's are "A-" and "A," and "A1" and "A3," respectively.[3] Both rating agencies have a Stable outlook for RMP.

Specifically, S&P states the following:

> **Initial Analytical Outcome ("Anchor") And Rating Result**
>
> The stand-alone credit profile (SACP) of 'a-' on PacifiCorp, which is one notch higher than our 'bbb+' group credit profile [(GCP)] on parent holding company MidAmerican Energy Holdings Co. (MEHC), reflecting our assessment of PacifiCorp's business risk and financial risk profiles. Under our group rating methodology, we consider PacifiCorp to be a core subsidiary of the MEHC group. PacifiCorp's issuer credit rating is one notch higher than the 'bbb+' GCP on the parent because the utility's SACP is stronger and there is sufficient regulatory and structural insulation.
>
> *** * ***
>
> **Business Risk: Excellent**
>
> We base our assessment of PacifiCorp's business risk profile as "excellent," as defined in our criteria, on the company's "strong" competitive profile, "very low" industry risk derived from the regulated utility industry, and the "very low" country risk of the U.S., where the utility operates. PacifiCorp's competitive position reflects the stable

[3] *SNL Financial*, online April 4, 2014.

> regulatory framework of the low-risk regulated utility. We consider the utility's geographical, market, and regulatory diversity over its six-state service territory a strength because these factors provide extensive market diversity. About 70% of retail revenue is derived from residential and commercial customers, providing cash flow diversity and at least a base level of usage. PacifiCorp serves a total of 1.7 million retail customers, in Utah, Wyoming, and Idaho through its Rocky Mountain Power operating unit; and in Oregon, Washington, and California through its Pacific Power unit, which provides a high level of cash flow diversity.[4]

RMP's Proposed Capital Structure

Q WHAT IS RMP'S PROPOSED CAPITAL STRUCTURE?

A RMP's proposed capital structure is shown in Table 1 below.

TABLE 1

RMP's Proposed Capital Structure
(June 30, 2015)

Description	Weight
Long-Term Debt	48.38%
Preferred Stock	0.02%
Common Equity	51.60%
Total Regulatory Capital Structure	100.00%

Source: Direct Testimony of Bruce Williams, page 2.

I will not raise issues with RMP's capital structure in this case.

[4] *Standard & Poor's RatingsDirect Summary: "PacifiCorp," March 31, 2014 at 2-4.*

RETURN ON EQUITY

Q PLEASE DESCRIBE WHAT IS MEANT BY A "UTILITY'S COST OF COMMON EQUITY."

A A utility's cost of common equity is the return investors require on an investment in the utility. Investors expect to achieve their return requirement from receiving dividends and stock price appreciation.

Q PLEASE DESCRIBE THE FRAMEWORK FOR DETERMINING A REGULATED UTILITY'S COST OF COMMON EQUITY.

A In general, determining a fair cost of common equity for a regulated utility has been framed by two hallmark decisions of the U.S. Supreme Court: Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W. Va., 262 U.S. 679 (1923) and Fed. Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944).

These decisions identify the general standards to be considered in establishing the cost of common equity for a public utility. Those general standards provide that the authorized return should: (1) be sufficient to maintain financial integrity; (2) attract capital under reasonable terms; and (3) be commensurate with returns investors could earn by investing in other enterprises of comparable risk.

Q PLEASE DESCRIBE THE METHODS YOU HAVE USED TO ESTIMATE RMP'S COST OF COMMON EQUITY.

A I have used several models based on financial theory to estimate RMP's cost of common equity. These models are: (1) a constant growth Discounted Cash Flow ("DCF") model using consensus analysts' growth rate projections; (2) a constant growth DCF using sustainable growth rate estimates; (3) a multi-stage growth DCF model; (4) a Risk Premium model; and (5) a Capital Asset Pricing Model ("CAPM"). I have applied these models to a group of publicly traded utilities that have investment risk similar to RMP's.

Risk Proxy Group

Q HOW DID YOU SELECT A UTILITY PROXY GROUP SIMILAR IN INVESTMENT RISK TO RMP TO ESTIMATE ITS CURRENT MARKET COST OF EQUITY?

A I relied on an electric utility proxy group that I determined to be comparable in investment risk to RMP. My recommended proxy group is the same proxy group used by RMP's witness Dr. Hadaway to estimate RMP's return on equity.

Q PLEASE DESCRIBE WHY YOU BELIEVE YOUR PROXY GROUP IS REASONABLY COMPARABLE IN INVESTMENT RISK TO RMP.

A The proxy group is shown in Exhibit FEA___(MPG-2). This proxy group has an average corporate credit rating from S&P of "BBB+," which is one notch below S&P's corporate credit rating for RMP of "A-." The proxy group's corporate

credit rating from Moody's of "A3" is identical to RMP's corporate credit rating from Moody's of "A3."

The proxy group has an average common equity ratio of 46.6% (including short-term debt) from SNL Financial ("SNL") and 49.0% (excluding short-term debt) from *The Value Line Investment Survey* ("*Value Line*") in 2013. The proxy group's common equity ratio is lower and more reasonable than RMP's 51.6% common equity ratio. RMP's inflated common equity ratio indicates that the proxy group has less financial risk than RMP.

I also compared RMP's business risk to the business risk of the proxy group based on S&P's ranking methodology. RMP has an S&P business risk profile of "Excellent," which is identical to the S&P business risk profile of the proxy group.[5] The S&P business risk profile score indicates that RMP's business risk is comparable to that of the proxy group.

I believe that my proxy group reasonably approximates the investment risk of RMP, and can be used to estimate a fair return on equity for RMP.

[8]S&P ranks the business risk of a utility company as part of its corporate credit rating review. S&P considers total investment risk in assigning bond ratings to issuers, including utility companies. In analyzing total investment risk, S&P considers both the business risk and the financial risk of a corporate entity, including a utility company. S&P's business risk profile score is based on a six-notch credit rating starting with "Vulnerable" (highest risk) to "Excellent" (lowest risk). The business risk of most utility companies falls within the lowest risk category, "Excellent," or the category one notch lower (more risk), "Strong." *Standard & Poor's RatingsDirect:* "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," May 27, 2009.

Discounted Cash Flow Model

Q PLEASE DESCRIBE THE DCF MODEL.

A The DCF model posits that a stock price is valued by summing the present value of expected future cash flows discounted at the investor's required rate of return or cost of capital. This model is expressed mathematically as follows:

$$P_0 = \frac{D_1}{(1+K)^1} + \frac{D_2}{(1+K)^2} \ldots \frac{D_\infty}{(1+K)^\infty} \quad \text{where} \quad \text{(Equation 1)}$$

P_0 = Current stock price
D = Dividends in periods 1 - ∞
K = Investor's required return

This model can be rearranged in order to estimate the discount rate or investor-required return, "K." If it is reasonable to assume that earnings and dividends will grow at a constant rate, then Equation 1 can be rearranged as follows:

$$K = D_1/P_0 + G \quad \text{(Equation 2)}$$

K = Investor's required return
D_1 = Dividend in first year
P_0 = Current stock price
G = Expected constant dividend growth rate

Equation 2 is referred to as the annual "constant growth" DCF model.

Q PLEASE DESCRIBE THE INPUTS TO YOUR CONSTANT GROWTH DCF MODEL.

A As shown in Equation 2 above, the DCF model requires a current stock price, expected dividend, and expected growth rate in dividends.

Q WHAT STOCK PRICE HAVE YOU RELIED ON IN YOUR CONSTANT GROWTH DCF MODEL?

A I relied on the average of the weekly high and low stock prices of the utilities in the proxy group over a 13-week period ending on March 28, 2014. An average stock price is less susceptible to market price variations than a spot price. Therefore, an average stock price is less susceptible to aberrant market price movements, which may not be reflective of the stock's long-term value.

A 13-week average stock price reflects a period that is still short enough to contain data that reasonably reflect current market expectations, but the period is not so short as to be susceptible to market price variations that may not reflect the stock's long-term value. In my judgment, a 13-week average stock price is a reasonable balance between the need to reflect current market expectations and the need to capture sufficient data to smooth out aberrant market movements.

Q WHAT DIVIDEND DID YOU USE IN YOUR CONSTANT GROWTH DCF MODEL?

A I used the most recently paid quarterly dividend, as reported in *Value Line*.[6] This dividend was annualized (multiplied by 4) and adjusted for next year's growth to produce the D_1 factor for use in Equation 2 above.

[6] *The Value Line Investment Survey*, January 31, February 21, and March 21, 2014.

Q WHAT DIVIDEND GROWTH RATES HAVE YOU USED IN YOUR CONSTANT GROWTH DCF MODEL?

A There are several methods that can be used to estimate the expected growth in dividends. However, regardless of the method, for purposes of determining the market-required return on common equity, one must attempt to estimate investors' consensus about what the dividend or earnings growth rate will be, and not what an individual investor or analyst may use to make individual investment decisions.

As predictors of future returns, security analysts' growth estimates have been shown to be more accurate than growth rates derived from historical data.[7] That is, assuming the market generally makes rational investment decisions, analysts' growth projections are more likely to influence investors' decisions which are captured in observable stock prices than growth rates derived only from historical data.

For my constant growth DCF analysis, I have relied on a consensus, or mean, of professional security analysts' earnings growth estimates as a proxy for investor consensus dividend growth rate expectations. I used the average of analysts' growth rate estimates from three sources: Zacks, SNL, and Reuters. All such projections were available on March 27, 2014, and all were reported online.

[7] *See, e.g.,* David Gordon, Myron Gordon, and Lawrence Gould, "Choice Among Methods of Estimating Share Yield," *The Journal of Portfolio Management*, Spring 1989.

Each consensus growth rate projection is based on a survey of security analysts. There is no clear evidence whether a particular analyst is most influential on general market investors. Therefore, a single analyst's projection does not as reliably predict consensus investor outlooks as does a consensus of market analysts' projections. The consensus estimate is a simple arithmetic average, or mean, of surveyed analysts' earnings growth forecasts. A simple average of the growth forecasts gives equal weight to all surveyed analysts' projections. Therefore, a simple average, or arithmetic mean, of analyst forecasts is a good proxy for market consensus expectations.

Q WHAT ARE THE GROWTH RATES YOU USED IN YOUR CONSTANT GROWTH DCF MODEL?

A The growth rates I used in my DCF analysis are shown in Exhibit FEA___(MPG-3). The average growth rate for my proxy group is 5.27%.

Q WHAT ARE THE RESULTS OF YOUR CONSTANT GROWTH DCF MODEL?

A As shown in Exhibit FEA___(MPG-4), the average and median constant growth DCF returns for my proxy group are 9.28% and 9.33%, respectively.

Q DO YOU HAVE ANY COMMENTS ON THE RESULTS OF YOUR CONSTANT GROWTH DCF ANALYSIS?

A Yes. The constant growth DCF analysis for my proxy group was based on a long-term sustainable growth rate of 5.27%. This growth rate is higher than my

estimate of a maximum long-term sustainable growth rate of 4.7% which I discuss later in this testimony. I believe the constant growth DCF analysis produces slightly overstated return estimates.

Q WHAT IS YOUR ESTIMATE OF A MAXIMUM LONG-TERM SUSTAINABLE GROWTH RATE?

A A long-term sustainable growth rate for a utility stock cannot exceed the growth rate of the economy in which it sells its goods and services. Hence, a reasonable proxy for the long-term maximum sustainable growth rate for a utility investment is best proxied by the projected long-term Gross Domestic Product ("GDP"). *Blue Chip Financial Forecasts* projects that over the next 5 and 10 years, the U.S. nominal GDP will grow in the range of 4.8% to 4.6%. As such, the average growth rate over the next 10 years is around 4.7%, which I believe is a reasonable proxy of long-term sustainable growth.[8]

I discuss in my multi-stage growth DCF analysis academic and investment practitioner evidence that accepts the projected long-term GDP growth outlook as a maximum sustainable growth rate projection. Hence, recognizing the long-term GDP growth rate as a maximum sustainable growth is logical, and generally consistent with academic and economic practitioner accepted practices.

[8] *Blue Chip Financial Forecasts*, December 1, 2013 at 14.

Sustainable Growth DCF

Q PLEASE DESCRIBE HOW YOU ESTIMATED A SUSTAINABLE LONG-TERM GROWTH RATE FOR YOUR SUSTAINABLE GROWTH DCF MODEL.

A A sustainable growth rate is based on the percentage of the utility's earnings that is retained and reinvested in utility plant and equipment. These reinvested earnings increase the earnings base (rate base). Earnings grow when plant funded by reinvested earnings is put into service, and the utility is allowed to earn its authorized return on such additional rate base investment.

The internal growth methodology is tied to the percentage of earnings retained in the company and not paid out as dividends. The earnings retention ratio is 1 minus the dividend payout ratio. As the payout ratio declines, the earnings retention ratio increases. An increased earnings retention ratio will fuel stronger growth because the business funds more investments with retained earnings.

The payout ratios of the proxy group are shown in my Exhibit FEA___(MPG-5). These dividend payout ratios and earnings retention ratios then can be used to develop a sustainable long-term earnings retention growth rate. A sustainable long-term earnings retention ratio will help gauge whether analysts' current three- to five-year growth rate projections can be sustained over an indefinite period of time.

The data used to estimate the long-term sustainable growth rate is based on the Company's current market to book ratio and on *Value Line's* three- to

five-year projections of earnings, dividends, earned returns on book equity, and stock issuances.

As shown in Exhibit FEA___(MPG-6), page 1, the average sustainable growth rate for the proxy group using this internal growth rate model is 4.74%.

Q WHAT IS THE DCF ESTIMATE USING THESE SUSTAINABLE LONG-TERM GROWTH RATES?

A A DCF estimate based on these sustainable growth rates is developed in Exhibit FEA___(MPG-7). As shown there, a sustainable growth DCF analysis produces proxy group average and median DCF results of 8.73% and 8.61%, respectively.

Multi-Stage Growth DCF Model

Q HAVE YOU CONDUCTED ANY OTHER DCF STUDIES?

A Yes. My first constant growth DCF is based on consensus analysts' growth rate projections, so it is a reasonable reflection of rational investment expectations over the next three to five years. The limitation on the constant growth DCF model is that it cannot reflect a rational expectation that a period of high/low short-term growth can be followed by a change in growth to a rate that is more reflective of long-term sustainable growth. Hence, I performed a multi-stage growth DCF analysis to reflect this outlook of changing growth expectations.

Q WHY DO YOU BELIEVE GROWTH RATES CAN CHANGE OVER TIME?

A Analyst projected growth rates over the next three to five years will change as utility earnings growth outlooks change. Utility companies go through cycles in making investments in their systems. When utility companies are making large investments, their rate base grows rapidly, which accelerates their earnings growth. Once a major construction cycle is completed or levels off, growth in the utility rate base slows, and its earnings growth slows from an abnormally high three- to five-year rate to a lower sustainable growth rate.

As major construction cycles extend over longer periods of time, even with an accelerated construction program, the growth rate of the utility will slow simply because rate base will slow, and the utility has limited human and capital resources available to expand its construction program. Hence, the three- to five-year growth rate projection should be used as a long-term sustainable growth rate but not without making a reasonable informed judgment to determine whether it considers the current market environment, the industry, and whether the three- to five-year growth outlook is sustainable.

Q PLEASE DESCRIBE YOUR MULTI-STAGE GROWTH DCF MODEL.

A The multi-stage growth DCF model reflects the possibility of non-constant growth for a company over time. The multi-stage growth DCF model reflects three growth periods: (1) a short-term growth period, which consists of the first five years; (2) a transition period, which consists of the next five years (6 through 10); and (3) a long-term growth period, starting in year 11 through perpetuity.

For the short-term growth period, I relied on the consensus analysts' growth projections described above in relationship to my constant growth DCF model. For the transition period, the growth rates were reduced or increased by an equal factor, which reflects the difference between the analysts' growth rates and the long-term sustainable growth rate. For the long-term growth period, I assumed each company's growth would converge to the maximum sustainable long-term growth rate.

Q WHY IS THE GDP GROWTH PROJECTION A REASONABLE PROXY FOR THE MAXIMUM SUSTAINABLE LONG-TERM GROWTH RATE?

A Utilities cannot indefinitely sustain a growth rate that exceeds the growth rate of the economy in which they sell services. Utilities' earnings/dividend growth is created by increased utility investment or rate base. Such investment, in turn, is driven by service area economic growth and demand for utility service. In other words, utilities invest in plant to meet sales demand growth, and sales growth, in turn, is tied to economic growth in their service areas.

The Energy Information Administration ("EIA") has observed that utility sales growth tracks, albeit is lower than, the U.S. GDP growth, as shown in Exhibit FEA___(MPG-8). Utility sales growth has lagged behind GDP growth for more than a decade. As a result, nominal GDP growth is a very conservative proxy for electric utility sales growth, rate base growth, and earnings growth. Therefore, the U.S. GDP nominal growth rate is a conservative proxy for the highest sustainable long-term growth rate of a utility.

Q IS THERE RESEARCH THAT SUPPORTS YOUR POSITION THAT, OVER THE LONG TERM, A COMPANY'S EARNINGS AND DIVIDENDS CANNOT GROW AT A RATE GREATER THAN THE GROWTH OF THE U.S. GDP?

A Yes. This concept is supported in both published analyst literature and academic work. Specifically, in a textbook entitled "Fundamentals of Financial Management," published by Eugene Brigham and Joel F. Houston, the authors state as follows:

> The constant growth model is most appropriate for mature companies with a stable history of growth and stable future expectations. Expected growth rates vary somewhat among companies, but dividends for mature firms are often expected to grow in the future at about the same rate as nominal gross domestic product (real GDP plus inflation).[9]

Q IS THERE ANY ACTUAL INVESTMENT HISTORY THAT SUPPORTS THE NOTION THAT THE CAPITAL APPRECIATION FOR STOCK INVESTMENTS WILL NOT EXCEED THE NOMINAL GROWTH OF THE U.S. GDP?

A Yes. This is evident by a comparison of the compound annual growth of the U.S. GDP compared to the geometric growth of the U.S. stock market. Ibbotson & Associates measures the historical geometric growth of the U.S. stock market over the period 1929-2012 to be approximately 5.6%. During this same time

[9] *Fundamentals of Financial Management*, Eugene F. Brigham and Joel F. Houston, Eleventh Edition 2007, Thomson South-Western, a Division of Thomson Corporation at 298.

period, the U.S. nominal compound annual growth of the U.S. GDP was approximately 6.3%.[10]

As such, the compound geometric growth of the U.S. nominal GDP has been lower but comparable to the nominal growth of the U.S. stock market capital appreciation. This historical relationship indicates the U.S. GDP growth outlook is a conservative estimate of the long-term sustainable growth of U.S. stock investments.

Q HOW DID YOU DETERMINE A SUSTAINABLE LONG-TERM GROWTH RATE THAT REFLECTS THE CURRENT CONSENSUS OUTLOOK OF THE MARKET?

A I relied on the consensus analysts' projections of long-term GDP growth. *Blue Chip Financial Forecasts* publishes consensus economists' GDP growth projections twice a year. These consensus analysts' GDP growth outlooks are the best available measure of the market's assessment of long-term GDP growth. These analyst projections reflect all current outlooks for GDP, as reflected in analyst projections, and are likely the most influential on investors' expectations of future growth outlooks. The consensus economists' published GDP growth rate outlook is 4.8% to 4.6% over the next 10 years.[11]

Therefore, I propose to use the consensus economists' projected 5- and 10-year average GDP consensus growth rates of 4.8% and 4.6%, respectively,

[10] *Ibbotson & Associates 2012 Valuation Yearbook* inflation rate of 3.0%, and U.S. Bureau of Economic Analysis, November 2012.

[11] *Blue Chip Economic Indicators*, March 10, 2014 at 14.

as published by *Blue Chip Economic Indicators,* as an estimate of long-term sustainable growth. *Blue Chip Economic Indicators'* projections provide real GDP growth projections of 2.6% and 2.4%, and GDP inflation of 2.1%[12] over the 5-year and 10-year projection periods, respectively. This consensus GDP growth forecast represents the most likely views of market participants because it is based on published consensus economist projections.

Q DO YOU CONSIDER OTHER SOURCES OF PROJECTED LONG-TERM GDP GROWTH?

A Yes, and these sources corroborate my consensus analysts' projections. The U.S. EIA in its *Annual Energy Outlook* projects real GDP out until 2040. In its *2013 Annual Report*, the EIA projects real GDP through 2040 to be in the range of 2.0% to 2.9%, with a midpoint or reference case of 2.5%.[13]

Also, the Congressional Budget Office ("CBO") makes long-term economic projections. The CBO is projecting real GDP growth of 2.3% to 2.0% during the next 5 and 10 years, respectively, with GDP price inflation of 2.0%.[14] The CBO's real GDP and GDP inflation projections are slightly lower than the consensus economists.

The real GDP and nominal GDP growth projections made by the U.S. EIA and those made by the CBO support the use of the consensus analyst 5-

[12] *Id*.
[13] *DOE/EIA Annual Energy Outlook 2013 With Projections to 2040*, April 2013 at 56.
[14] *CBO: The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013 at 64.

year and 10-year projected GDP growth outlooks as a reasonable estimate of market participants' long-term GDP growth outlooks.

Q WHAT STOCK PRICE, DIVIDEND, AND GROWTH RATES DID YOU USE IN YOUR MULTI-STAGE GROWTH DCF ANALYSIS?

A I relied on the same 13-week stock price and the most recent quarterly dividend payment data discussed above. For stage one growth, I used the consensus analysts' growth rate projections discussed above in my constant growth DCF model. The first stage growth covers the first five years, consistent with the term of the analyst growth rate projections. The second stage, or transition stage, begins in year 6 and extends through year 10. The second stage growth transitions the growth rate from the first stage to the third stage using a linear trend. For the third stage, or long-term sustainable growth stage, which starts in year 11, I used a 4.7% long-term sustainable growth rate, which is based on the consensus economists' long-term projected nominal GDP growth rate.

Q WHAT ARE THE RESULTS OF YOUR MULTI-STAGE GROWTH DCF MODEL?

A As shown in Exhibit FEA___(MPG-9), the average and median DCF returns on equity for my proxy group are 8.83% and 8.94%, respectively.

Q PLEASE SUMMARIZE THE RESULTS FROM YOUR DCF ANALYSES.

A The results from my DCF analyses are summarized in Table 2 below:

TABLE 2

Summary of DCF Results

Description	Proxy Group Average	Proxy Group Median
Constant Growth DCF Model (Analysts' Growth)	9.28%	9.33%
Constant Growth DCF Model (Sustainable Growth)	8.73%	8.61%
Multi-Stage Growth DCF Model	8.83%	8.94%
Average	8.95%	8.96%

My DCF studies indicate a return on equity range of 8.70% to 9.30%. I conclude that a reasonable DCF return for RMP in this case is 9.00%.

Risk Premium Model

Q PLEASE DESCRIBE YOUR BOND YIELD PLUS RISK PREMIUM MODEL.

A This model is based on the principle that investors require a higher return to assume greater risk. Common equity investments have greater risk than bonds because bonds have more security of payment in bankruptcy proceedings than common equity and the coupon payments on bonds represent contractual obligations. In contrast, companies are not required to pay dividends or guarantee returns on common equity investments. Therefore, common equity securities are considered to be more risky than bond securities.

This risk premium model is based on two estimates of an equity risk premium. First, I estimated the difference between the required return on utility common equity investments and U.S. Treasury bonds. The difference between

the required return on common equity and the Treasury bond yield is the risk premium. I estimated the risk premium on an annual basis for each year over the period 1986 through 2013. The common equity required returns were based on regulatory commission-authorized returns for electric utility companies. Authorized returns are typically based on expert witnesses' estimates of the contemporary investor-required return.

The second equity risk premium estimate is based on the difference between regulatory commission-authorized returns on common equity and contemporary "A" rated utility bond yields by Moody's. I selected the period 1986 through 2013 because public utility stocks consistently traded at a premium to book value during that period. This is illustrated in Exhibit FEA___(MPG-10), which shows that the market to book ratio since 1986 for the electric utility industry was consistently above a multiple of 1.0x. Over this period, regulatory authorized returns were sufficient to support market prices that at least exceeded book value. This is an indication that regulatory authorized returns on common equity supported a utility's ability to issue additional common stock without diluting existing shares. It further demonstrates that utilities were able to access equity markets without a detrimental impact on current shareholders.

Based on this analysis, as shown in Exhibit FEA___(MPG-11), the average indicated equity risk premium over U.S. Treasury bond yields has been 5.34%. Of the 28 observations, 22 indicated risk premiums fall in the range of 4.41% to 6.31%. Since the risk premium can vary depending upon market

conditions and changing investor risk perceptions, I believe using an estimated range of risk premiums provides the best method to measure the current return on common equity using this methodology.

As shown in Exhibit FEA___(MPG-12), the average indicated equity risk premium over contemporary Moody's utility bond yields was 3.94% over the period 1986 through June 2013. The indicated equity risk premium estimates based on this analysis primarily fall in the range of 3.03% to 4.89% over this time period.

Q DO YOU BELIEVE THAT THESE EQUITY RISK PREMIUM ESTIMATES ARE BASED ON A TIME PERIOD THAT IS TOO LONG OR TOO SHORT TO DRAW ACCURATE CONCLUSIONS CONCERNING CONTEMPORARY MARKET CONDITIONS?

A No. The time period I use in this risk premium study is a generally accepted period to develop a risk premium study using "expectational" data.

Contemporary market conditions can change dramatically during the period that rates determined in this proceeding will be in effect. A relatively long period of time where stock valuations reflect premiums to book value is an indication that the authorized returns on equity and the corresponding equity risk premiums were supportive of investors' return expectations and provided utilities access to the equity markets under reasonable terms and conditions. Further, this time period is long enough to smooth abnormal market movement that might distort equity risk premiums. While market conditions and risk

premiums do vary over time, this historical time period is a reasonable period to estimate contemporary risk premiums.

Alternatively, studies have recommended that use of "actual achieved investment return data" in a risk premium study should be based on long historical time periods. The studies find that achieved returns over short time periods may not reflect investors' expected returns due to unexpected and abnormal stock price performance. Short-term abnormal actual returns would be smoothed over time and the achieved actual investment returns over long time periods would approximate investors' expected returns. Therefore, it is reasonable to assume that averages of annual achieved returns over long time periods will generally converge on the investors' expected returns.

My risk premium study is based on expectational data, not actual investment returns, and, thus, need not encompass a very long historical time period.

Q BASED ON HISTORICAL DATA, WHAT RISK PREMIUM HAVE YOU USED TO ESTIMATE RMP'S COST OF COMMON EQUITY IN THIS PROCEEDING?

A The equity risk premium should reflect the relative market perception of risk in the utility industry today. I have gauged investor perceptions in utility risk today in Exhibit FEA___(MPG-13). On that schedule, I show the yield spread between utility bonds and Treasury bonds over the last 34 years. As shown on this schedule, the average utility bond yield spreads over Treasury bonds for "A" and "Baa" rated utility bonds for this historical period are 1.55% and 1.96%,

respectively. The utility bond yield spreads over Treasury bonds for "A" and "Baa" rated utilities during 2013 are 1.03% and 1.53%, respectively. The current average "A" and "Baa" rated utility bond yield spreads over Treasury bond yields are now lower than the 34-year average spreads.

A current 13-week average "A" rated utility bond yield of 4.56%, when compared to the current Treasury bond yield of 3.68% as shown in Exhibit FEA___(MPG-14), page 1 implies a yield spread of around 88 basis points. This current utility bond yield spread is lower than the 34-year average spread for "A" utility bonds of 1.55%. Similarly, the current spread for the "Baa" utility yields of 1.35% is lower than the 34-year average spread of 1.96%.

These utility bond yield spreads are clear evidence that the market considers the utility industry to be a relatively low-risk investment and demonstrates that utilities continue to have strong access to capital.

Q HOW DID YOU ESTIMATE RMP'S COST OF COMMON EQUITY WITH THIS RISK PREMIUM MODEL?

A I added a projected long-term Treasury bond yield to my estimated equity risk premium over Treasury yields. The 13-week average 30-year Treasury bond yield, ending March 28, 2014 was 3.68%, as shown in Exhibit FEA___(MPG-14), page 1. *Blue Chip Financial Forecasts* projects the 30-year Treasury bond yield to be 4.50%, and a 10-year Treasury bond yield to be 3.70%.[15] Using the projected 30-year Treasury bond yield of 4.50%, and a Treasury bond risk

[15] *Blue Chip Financial Forecasts*, April 1, 2014 at 2.

premium of 4.41% to 6.31%, as developed above, produces an estimated common equity return in the range of 8.91% (4.50% + 4.41%) to 10.81% (4.50% + 6.31%). My risk premium estimates fall in the range of 8.91% to 10.81%.

I next added my equity risk premium over utility bond yields to a current 13-week average yield on "Baa" rated utility bonds for the period ending March 28, 2014 of 5.03%. Adding the utility equity risk premium of 3.03% to 4.89%, as developed above, to a "Baa" rated bond yield of 5.03%, produces a cost of equity in the range of 8.06% (5.03% + 3.03%) to 9.92% (5.03% + 4.89%).

Q WHAT IS YOUR RECOMMENDED RETURN FOR RMP BASED ON YOUR RISK PREMIUM STUDY?

A My recommendation considers both utility security risk and market interest rate risk. Current interest rate spreads suggest the market is embracing utility investments as relatively low-risk investment alternatives. This is clearly evident from the low utility bond spreads relative to Treasury bonds currently compared to the historical time period studied. (See Exhibit FEA___(MPG-13) and Exhibit FEA___(MPG-14)). Also, the market is pricing "Baa" utility bonds to produce lower yields compared to general corporate "Baa" bonds. On average over time, "Baa" utility bond yields are higher than "Baa" corporate bond yields, but not currently. (*Id*.) All of this supports my conclusion that the utility industry is perceived as a low-risk stable investment.

On the other hand, the Federal Reserve has been procuring long-term Treasury and collateralized bonds in an effort to stimulate the U.S. economy.

This stimulus has reduced long-term interest rates. This government stimulus initiative has been reduced and is expected to be suspended in the near future. The suspension of the Federal Reserve's stimulus in long-term interest rate markets could cause long-term market interest rates to increase. I believe there is additional risk in long-term interest rate markets created by this Federal Reserve stimulus policy.

I recommend giving more weight to the high-end of my risk premium results to reflect the greater current market interest rate risk. I propose to provide 70% weight to the high-end of my risk premium estimates and 30% to the low-end of my risk premium estimates. Providing more weight to the high-end risk premium captures the greater market interest rate risk. This results in a risk premium estimate over Treasury bond yields of 10.24%,[16] and a risk premium estimate over "Baa" utility bond yields of 9.36%.[17]

My risk premium analyses produce a return estimate in the range of 9.36% to 10.24%, with a midpoint of approximately 9.80%.

Capital Asset Pricing Model ("CAPM")

Q PLEASE DESCRIBE THE CAPM.

A The CAPM method of analysis is based upon the theory that the market-required rate of return for a security is equal to the risk-free rate, plus a risk

[16] 70% (10.81) + 30% (8.91) = 10.24.
[17] 70% (9.92) + 30% (8.06) = 9.36.

premium associated with the specific security. This relationship between risk and return can be expressed mathematically as follows:

$R_i = R_f + B_i \times (R_m - R_f)$ where:

R_i = Required return for stock i
R_f = Risk-free rate
R_m = Expected return for the market portfolio
B_i = Beta - Measure of the risk for stock

The stock-specific risk term in the above equation is beta. Beta represents the investment risk that cannot be diversified away when the security is held in a diversified portfolio. When stocks are held in a diversified portfolio, firm-specific risks can be eliminated by balancing the portfolio with securities that react in the opposite direction to firm-specific risk factors (e.g., business cycle, competition, product mix, and production limitations).

The risks that cannot be eliminated when held in a diversified portfolio are non-diversifiable risks. Non-diversifiable risks are related to the market in general and are referred to as systematic risks. Risks that can be eliminated by diversification are regarded as non-systematic risks. In a broad sense, systematic risks are market risks, and non-systematic risks are business risks. The CAPM theory suggests that the market will not compensate investors for assuming risks that can be diversified away. Therefore, the only risk that investors will be compensated for are systematic or non-diversifiable risks. The beta is a measure of the systematic or non-diversifiable risks.

Q PLEASE DESCRIBE THE INPUTS TO YOUR CAPM.

A The CAPM requires an estimate of the market risk-free rate, the company's beta, and the market risk premium.

Q WHAT DID YOU USE AS AN ESTIMATE OF THE MARKET RISK-FREE RATE?

A As previously noted, *Blue Chip Financial Forecasts*' projected 30-year Treasury bond yield is 4.50%.[18] The current 30-year Treasury bond yield is 3.68%, as shown in Exhibit FEA___(MPG-14), page 1. I used *Blue Chip Financial Forecasts*' projected 30-year Treasury bond yield of 4.50% for my CAPM analysis.

Q WHY DID YOU USE LONG-TERM TREASURY BOND YIELDS AS AN ESTIMATE OF THE RISK-FREE RATE?

A Treasury securities are backed by the full faith and credit of the United States government, so long-term Treasury bonds are considered to have negligible credit risk. Also, long-term Treasury bonds have an investment horizon similar to that of common stock. As a result, investor-anticipated long-run inflation expectations are reflected in both common-stock required returns and long-term bond yields. Therefore, the nominal risk-free rate (or expected inflation rate and real risk-free rate) included in a long-term bond yield is a reasonable estimate of the nominal risk-free rate included in common stock returns.

[18] *Blue Chip Financial Forecasts*, April 1, 2014 at 2.

Treasury bond yields, however, do include risk premiums related to unanticipated future inflation and interest rates. A Treasury bond yield is not a risk-free rate. Risk premiums related to unanticipated inflation and interest rates are systematic or market risks. Consequently, for companies with betas less than 1.0, using the Treasury bond yield as a proxy for the risk-free rate in the CAPM analysis can produce an overstated estimate of the CAPM return.

Q WHAT BETA DID YOU USE IN YOUR ANALYSIS?

A As shown in Exhibit FEA___(MPG-15), the proxy group average *Value Line* beta estimate is 0.77.

Q HOW DID YOU DERIVE YOUR MARKET RISK PREMIUM ESTIMATE?

A I derived two market risk premium estimates, a forward-looking estimate and one based on a long-term historical average.

The forward-looking estimate was derived by estimating the expected return on the market (as represented by the S&P 500) and subtracting the risk-free rate from this estimate. I estimated the expected return on the S&P 500 by adding an expected inflation rate to the long-term historical arithmetic average real return on the market. The real return on the market represents the achieved return above the rate of inflation.

Morningstar's *Stocks, Bonds, Bills and Inflation 2013 Classic Yearbook* estimates the historical arithmetic average real market return over the period

1926 to 2012 as 8.7%.[19] A current consensus analysts' inflation projection, as measured by the Consumer Price Index, is 2.2%.[20] Using these estimates, the expected market return is 11.10%.[21] The market risk premium then is the difference between the 11.10% expected market return, and my 4.50% risk-free rate estimate, or approximately 6.60%.

The historical estimate of the market risk premium was also estimated by Morningstar in *Stocks, Bonds, Bills and Inflation 2013 Classic Yearbook*. Over the period 1926 through 2012, Morningstar's study estimated that the arithmetic average of the achieved total return on the S&P 500 was 11.8%,[22] and the total return on long-term Treasury bonds was 6.1%.[23] The indicated market risk premium is 5.7% (11.8% - 6.1% = 5.7%). The average of my market risk premium estimates is 6.3% (6.9% to 5.7%).

Q HOW DOES YOUR ESTIMATED MARKET RISK PREMIUM RANGE COMPARE TO THAT ESTIMATED BY MORNINGSTAR?

A Morningstar's analysis indicates that a market risk premium falls somewhere in the range of 6.0% to 6.7%. My market risk premium falls in the range of 5.7% to 6.6%. My average market risk premium of 6.2% is within Morningstar's range.

Morningstar estimates a forward-looking market risk premium based on actual achieved data from the historical period of 1926 through 2012. Using this

[19] *Morningstar, Inc., Ibbotson SBBI 2013 Classic Yearbook*; Market Results for Stocks, Bonds, Bills, and Inflation 1926-2012 at 88.
[20] *Blue Chip Financial Forecasts*, April 1, 2014 at 2.
[21] { [(1 + 0.087) ∗ (1 + 0.022)] – 1 } ∗ 100.
[22] *Morningstar, Inc. Ibbotson SBBI 2013 Classic Yearbook* at 87.
[23] *Id*.

data, Morningstar estimates a market risk premium derived from the total return on large company stocks (S&P 500), less the income return on Treasury bonds. The total return includes capital appreciation, dividend or coupon reinvestment returns, and annual yields received from coupons and/or dividend payments. The income return, in contrast, only reflects the income return received from dividend payments or coupon yields. Morningstar argues that the income return is the only true risk-free rate associated with Treasury bonds and is the best approximation of a truly risk-free rate.[24] I disagree with this assessment from Morningstar, because it does not reflect a true investment option available to the marketplace and therefore does not produce a legitimate estimate of the expected premium of investing in the stock market versus that of Treasury bonds. Nevertheless, I will use Morningstar's conclusion to show the reasonableness of my market risk premium estimates.

Morningstar's range is based on several methodologies. First, Morningstar estimates a market risk premium of 6.7% based on the difference between the total market return on common stocks (S&P 500) less the income return on Treasury bond investments. Second, Morningstar found that if the New York Stock Exchange (the "NYSE") was used as the market index rather than the S&P 500, that the market risk premium would be 6.5%, not 6.7%. Third, if only the two deciles of the largest companies included in the NYSE were considered, the market risk premium would be 6.0%.[25]

[24] *Morningstar, Inc., Ibbotson SBBI 2013 Valuation Yearbook: Market Results for Stocks, Bonds, Bills, and Inflation 1926-2012* at 55.

[25] Morningstar observes that the S&P 500 and the NYSE Decile 1-2 are both large capitalization benchmarks. *Id.* at 54.

Finally, Morningstar found that the 6.7% market risk premium based on the S&P 500 was influenced by an abnormal expansion of price-to-earnings ("P/E") ratios relative to earnings and dividend growth during the period 1980 through 2001. Morningstar believes this abnormal P/E expansion is not sustainable.[26] Therefore, Morningstar adjusted this market risk premium estimate to normalize the growth in the P/E ratio to be more in line with the growth in dividends and earnings. Based on this alternative methodology, Morningstar published a long-horizon supply-side market risk premium of 6.0%.[27]

Q WHAT ARE THE RESULTS OF YOUR CAPM ANALYSIS?

A As shown in Exhibit FEA___(MPG-16), based on Morningstar's market risk premium of 6.7%, a risk-free rate of 4.50%, and a beta of 0.77, my CAPM analysis produces a return of 9.65%.

This CAPM estimate reflects a projected risk-free rate that is approximately 70 basis points higher than the current long-term risk-free rate as proxied by the U.S. Treasury security. Using this projected Treasury bond yield largely captures the additional risk in the marketplace related to the uncertainty of long-term interest rates after the Federal Reserve discontinues its economic stimulus intervention.

[26] *Morningstar, Inc., Ibbotson SBBI 2013 Valuation Yearbook: Market Results for Stocks, Bonds, Bills, and Inflation 1926-2012* at 54.

[27] *Id*.

Return on Equity Summary

Q BASED ON THE RESULTS OF YOUR RETURN ON COMMON EQUITY ANALYSES DESCRIBED ABOVE, WHAT RETURN ON COMMON EQUITY DO YOU RECOMMEND FOR RMP?

A Based on my analyses, I estimate RMP's current market cost of equity to be 9.40%.

TABLE 3

Return on Common Equity Summary

Description	Results
DCF	9.00%
Risk Premium	9.80%
CAPM	9.65%

My recommended return on common equity of 9.40% is the midpoint of my estimated range of 9.00% to 9.80%. The high-end of my estimated range is based on my risk premium studies, and the low-end is based on my DCF studies. The midpoint of this range reflects current market capital costs, increased interest rate risk in the current market due to Federal Reserve policies and other factors, and represents fair compensation to RMP's investors for the total investment risk of its regulated utility.

Financial Integrity

Q WILL YOUR RECOMMENDED OVERALL RATE OF RETURN SUPPORT AN INVESTMENT GRADE BOND RATING FOR RMP?

A Yes. I have reached this conclusion by comparing the key credit rating financial ratios for RMP, at my proposed return on equity and the Company's proposed capital structure, to S&P's benchmark financial ratios using S&P's new credit metric ranges.

Q PLEASE DESCRIBE THE MOST RECENT S&P FINANCIAL RATIO CREDIT METRIC METHODOLOGY.

A S&P publishes a matrix of financial ratios that correspond to its assessment of the business risk of the utility company and related bond rating. On May 27, 2009, S&P expanded its matrix criteria[28] by including additional business and financial risk categories. Based on S&P's most recent credit matrix, the business risk profile categories are "Excellent," "Strong," "Satisfactory," "Fair," "Weak," and "Vulnerable." Most electric utilities have a business risk profile of "Excellent" or "Strong." The financial risk profile categories are "Minimal," "Modest," "Intermediate," "Significant," "Aggressive," and "Highly Leveraged." Most of the electric utilities have a financial risk profile of "Aggressive." RMP has an "Excellent" business risk profile and a "Significant" financial risk profile.

Q PLEASE DESCRIBE S&P'S USE OF THE FINANCIAL BENCHMARK RATIOS IN ITS CREDIT RATING REVIEW.

A S&P evaluates a utility's credit rating based on an assessment of its financial and business risks. A combination of financial and business risks equates to the overall assessment of RMP's total credit risk exposure. S&P publishes a matrix of financial ratios that defines the level of financial risk as a function of the level of business risk.

[28]S&P updated its 2008 credit metric guidelines in 2009, and incorporated utility metric benchmarks with the general corporate rating metrics. *Standard & Poor's RatingsDirect*: "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," May 27, 2009.

S&P publishes ranges for three primary financial ratios that it uses as guidance in its credit review for utility companies. The three primary financial ratio benchmarks it relies on in its credit rating process include: (1) Total Debt to Total Capital; (2) Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"); and (3) Funds From Operations ("FFO") to Total Debt.[29]

Q HOW DID YOU APPLY S&P'S FINANCIAL RATIOS TO TEST THE REASONABLENESS OF YOUR RATE OF RETURN RECOMMENDATIONS?

A I calculated each of S&P's financial ratios based on RMP's cost of service for its retail jurisdictional electric operations. While S&P would normally look at total consolidated RMP financial ratios in its credit review process, my investigation in this proceeding is not the same as S&P's. I am attempting to judge the reasonableness of my proposed cost of capital for rate-setting in RMP's retail regulated utility operations. Hence, I am attempting to determine whether my proposed rate of return will in turn support cash flow metrics, balance sheet strength, and earnings that will support an investment grade bond rating and RMP's financial integrity.

[29] *Standard & Poor's RatingsDirect*: "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," May 27, 2009.

Q DID YOU INCLUDE ANY OFF-BALANCE SHEET DEBT EQUIVALENTS?

A Yes. As shown on page 3 of my Exhibit FEA___(MPG-17), I included $271 million of off-balance sheet debt equivalents including purchased power agreements and operating leases and their associated interest and depreciation expenses. I included these debt equivalents in my credit metric calculations.

Q PLEASE DESCRIBE THE RESULTS OF THIS CREDIT METRIC ANALYSIS FOR RMP.

A The S&P financial metric calculations for RMP at a 9.40% return are developed on Exhibit FEA___(MPG-17), page 1.

RMP's adjusted total debt ratio is approximately 49.3%. This is within the "Aggressive" utility guideline range of 50% to 60%. This total debt ratio will support an investment grade bond rating.

As shown in Exhibit FEA___(MPG-17), page 1, column 1, based on an equity return of 9.40%, RMP will be provided an opportunity to produce a debt to EBITDA ratio of 3.2x. This is within S&P's "Significant" guideline range of 3.0x to 4.0x.[30] This ratio also supports an investment grade credit rating.

Finally, RMP's retail operations FFO to total debt coverage at a 9.40% equity return is 22%, which is within S&P's "Significant" metric guideline range of 20% to 30%. The FFO/total debt ratio will support an investment grade bond rating.

[30] *Standard & Poor's RatingsDirect*: "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," May 27, 2009 at 4.

At my recommended return on equity of 9.40% and the Company's proposed capital structure, RMP's financial credit metrics are supportive of its current investment grade utility bond rating.

RESPONSE TO RMP WITNESS DR. SAMUEL HADAWAY

Q WHAT RETURN ON COMMON EQUITY IS RMP PROPOSING FOR THIS PROCEEDING?

A RMP is proposing to set rates based on a return on equity of 10.00%. RMP's return on equity proposal is based on the analyses and judgment of Dr. Samuel Hadaway. Dr. Hadaway's results are summarized at page 29 of his direct testimony.

Q DO DR. HADAWAY'S METHODOLOGIES SUPPORT HIS 10.00% RETURN ON EQUITY?

A No. As discussed in detail below, Dr. Hadaway's own analyses would support a return on equity in the range of 8.9% to 9.4% if it is adjusted to reflect current market data and his models are properly applied. These adjustments to Dr. Hadaway's return on equity estimates support my recommended return on equity of 9.40%.

Q DOES DR. HADAWAY EXPRESS CONCERNS ABOUT THE RELIABILITY OF MEASURING A UTILITY'S RETURN ON EQUITY BASED ON DCF AND RISK PREMIUM STUDIES IN THIS CASE?

A Yes. At pages 12 through 15 and 45-46 of his direct testimony, Dr. Hadaway states he discounts the results of many of his studies because they are produced through some of the historically lowest government induced interest rates. He believes that this government intervention makes it difficult to interpret the qualitative models and estimate a utility's cost of equity. He acknowledges that utility stock prices have increased which has driven down utility dividend yields, but he believes that the market volatility for utility stocks remains high. Based on this assessment, he believes using a lower DCF return will understate the cost of equity for utility companies.

Q PLEASE RESPOND.

A I appreciate Dr. Hadaway's concern about government stimulus efforts in long-term interest rates.

These Federal Reserve efforts have driven down interest rates and have maintained relatively low long-term interest rates for several years. This Federal Reserve intervention in long-term interest rate markets likely will be further tapered or terminated in the near future. However, the impact on long-term interest rates once the Federal Reserve discontinues its economic stimulus effort is not well known, nor can it be accurately predicted. Indeed, interest rates have already increased in anticipation of the termination of these Federal

Reserve stimulus activities. It is simply not known how much, if any, long-term interest rates will increase from current levels, or whether they have already fully accounted for the termination of the Federal Reserve's quantitative easing program. Nevertheless, I do agree that this Federal Reserve program does introduce risk or uncertainty in long-term interest rate markets. Because of this uncertainty, caution should be made estimating RMP's current return on common equity in this case.

However, all market indicators suggest that utilities' cost of capital today is at a historically low level, and will remain at historically low levels for the foreseeable future. This is evident by observing utility bond yields, stock dividend yields, and robust valuation metrics of utility stocks.

For example, as shown on my Exhibit FEA___(MPG-18), for the proxy group, utility stock valuations based on market-to-book ratio, and price-to-earnings ratio and market price to cash flow metrics, all exhibit very strong valuations of utility stocks. This again is clear evidence that investors are embracing utility investments (both equity and debt investments) as low-risk stable investments.

Because of the market's preference and demand for stable low-risk investments, utility security prices have been bid up, and their cost of capital has declined. As such, it would be an injustice to customers to ignore this historically low capital cost to utilities in developing the utilities' cost of service and rates.

Q IS THERE CERTAINTY THAT THE TAPERING OF THE FED'S QUANTITATIVE EASING POLICY WILL RESULT IN AN INCREASE IN UTILITIES' COST OF CAPITAL?

A No. The Fed has tapered its quantitative easing three times in the last four months, and interest rates for utility securities have not increased, but rather have been stable to slightly lower. This is shown on my Exhibit FEA___(MPG-19). Treasury yields, as well as interest rates for utility bonds rated "Baa" and "A," have actually decreased in the 13-week period ending March 28, 2014, compared to the 26-week average. This is significant because two of the three times the Fed has announced tapering of the quantitative easing program have taken place in the last 13 weeks: once in January 2014, and again in March 2014.

In these steps, the Fed reduced its procurement of collateralized mortgage agreements and Treasury securities from $85 billion a month prior to December 2013, down to about $55 billion a month currently. Despite this tapering of the Fed's quantitative easing, utilities' cost of capital has not increased. In fact, 30-year treasury yields have fallen 33 basis points, "Baa" and "A" rated utility bond yields have fallen 33 and 35 basis points, respectively, since December 13, 2013, the Friday before the Fed's first tapering announcement

While the Fed's quantitative easing does create uncertainty about future interest rates, it is not proper to interpret the risk as a certainty that interest rates will increase once the Fed's quantitative easing is terminated.

Q PLEASE DESCRIBE THE METHODOLOGY USED BY DR. HADAWAY TO SUPPORT HIS RETURN ON COMMON EQUITY RECOMMENDATION.

A Dr. Hadaway develops his return on common equity recommendation using three versions of the DCF model, and two utility risk premium analyses. I have summarized Dr. Hadaway's results in Table 4 under column 1. Under column 2, I show the results of Dr. Hadaway's analyses adjusted for updated data and more reasonable application of the models.

As shown in Table 4, using consensus economists' projection of GDP growth rather than Dr. Hadaway's inflated GDP growth estimates, his own DCF analyses would support a return on equity for RMP in the range of 8.7% to 9.1%, with an average of 8.9%. Proper adjustments to Dr. Hadaway's utility risk premium estimates to reflect the unadjusted equity risk premium would reduce this estimate from 10.2% to 9.3%. Therefore, Dr. Hadaway's return on equity estimate with reasonable adjustments will produce a return on equity for RMP in the range of 8.9% to 9.3%.

TABLE 4

Summary of Dr. Hadaway's Return on Equity Estimate

Description	Hadaway Results[1] (1)	Adjusted Hadaway Results[2] (2)
DCF Analysis		
Constant Growth (Analysts' Growth)	9.1%	9.1%
Constant Growth (GDP Growth)	9.6% - 9.7%	8.7%
Multi-Stage Growth Model	9.5% - 9.6%	8.8%
Indicated DCF Range	9.1% - 9.7%	8.9%
Risk Premium Analysis		
Forecasted Utility Yield + Equity Risk Premium	10.1%	9.3%
3-Mo. Average Utility Yield + Equity Risk Premium	10.0%	9.3%
Risk Premium Estimate	10.0%	9.3%
Proposed Return on Equity	10.0%	
Adjusted Return on Equity		8.9% - 9.3%

Sources:
[1]Hadaway Direct at 29.
[2] Exhibit FEA___(MPG-20), and pp. 48-52.

Q PLEASE DESCRIBE DR. HADAWAY'S CONSTANT GROWTH DCF ANALYSIS.

A Dr. Hadaway's constant growth DCF analysis is shown on his Exhibit RMP___(SCH-5), page 2. As shown on that exhibit, Dr. Hadaway's constant growth DCF analysis is based on a recent stock price, an annualized dividend and an average of three growth rates: (1) *Value Line*; (2) Zacks; and (3) Thomson.

Q ARE DR. HADAWAY'S DCF ESTIMATES RELIABLE?

A No, for at least two reasons. First, Dr. Hadaway's constant growth DCF based on analyst growth rates produces a high return estimate because his analyst growth DCF study is based on growth rate estimates of 4.98%, which is higher than the consensus growth outlook of the U.S. GDP.

Second, his GDP growth rate used in his constant growth and multi-stage growth models is based on an inflated GDP growth rate of 5.63%. (Exhibit RMP___(SCH-5), page 3). This GDP growth is excessive and not reflective of current market participant consensus outlooks.

Q PLEASE DESCRIBE DR. HADAWAY'S CONSTANT GROWTH DCF MODEL USING ANALYSTS' GROWTH RATE PROJECTIONS.

A Dr. Hadaway develops his constant growth DCF study using analysts' growth projections on his Exhibit RMP___(SCH-5), page 2. As shown on that exhibit, he relies on projected growth rates from *Value Line*, Zacks and Thomson. He relies on an average growth rate of 4.98% for his proxy group. This methodology produces a DCF return of 9.1%.

As noted above, the group average growth rate of 4.98% is above a reasonable estimate of a long-term sustainable growth of around 4.7%. As such, Dr. Hadaway's DCF estimate is approximately 30 basis points higher than that which would be produced through a reasonable and sustainable long-term growth rate estimate.

As such, Dr. Hadaway's constant growth DCF analysis is overstated because it relies on excessive growth rates.

Q HOW DID DR. HADAWAY DEVELOP HIS GDP GROWTH RATE?

A He states that the GDP growth rate is based on the achieved GDP growth over the last 10, 20, 30, 40, 50, and 60-year periods. Dr. Hadaway's projected GDP growth rate is unreasonable. Historical GDP growth over the last 20 and 40-year periods was strongly influenced by the actual inflation rate experienced over that time period.

Q WHY IS DR. HADAWAY'S DCF ESTIMATE EXCESSIVE IN COMPARISON TO THAT OF PUBLISHED MARKET ANALYSTS?

A The consensus economists' projected GDP growth rate is much lower than the GDP growth rate used by Dr. Hadaway in his DCF analysis. A comparison of Dr. Hadaway's GDP growth rate and consensus economists' projected GDP growth over the next five and ten years is shown in Table 5. As shown in this table, Dr. Hadaway's GDP rate of 5.63% reflects real GDP of 2.7% and an inflation outlook of 2.9%. However, consensus economists' projections of nominal GDP include GDP inflation projections over the next five and ten years of 2.1%.[31]

[31] *Blue Chip Economic Indicators*, March 10, 2014 at 14.

As is clearly evident in Table 5, Dr. Hadaway's historical GDP growth reflects historical inflation, which is much higher than, and not representative of, consensus market expected forward-looking inflation.

TABLE 5

GDP Projections

Description	GDP Inflation	Real GDP	Nominal GDP
Dr. Hadaway[1]	2.9%	2.7%	5.6%
Consensus Five-Year Projection[2]	2.1%	2.6%	4.8%
Consensus Ten-Year Projection[2]	2.1%	2.4%	4.6%

Sources:
[1]Exhibit RMP___(SCH-4).
[2]*Blue Chip Economic Indicators*, March 10, 2014 at 14.

As such, Dr. Hadaway's 5.63% nominal GDP growth rate is not reflective of consensus market inflation outlooks and should be rejected.

Q HOW WOULD DR. HADAWAY'S DCF ANALYSES CHANGE IF CURRENT MARKET-BASED GDP GROWTH RATE PROJECTIONS ARE INCLUDED IN HIS ANALYSIS RATHER THAN HIS EXCESSIVE GDP GROWTH RATE?

A As shown in Exhibit FEA___(MPG-20), I updated Dr. Hadaway's DCF analyses using a GDP growth rate of 4.7%. This GDP growth rate is the consensus economists' five- and ten-year projected growth rate of the GDP as published in *Blue Chip Economic Indicators*. As shown in Exhibit FEA___(MPG-20), using

this consensus economists' projected GDP growth rate, reduces Dr. Hadaway's long-term GDP growth DCF result from 9.6% to 8.77%, rounded to 8.8%.

Q PLEASE SUMMARIZE YOUR ADJUSTMENTS TO DR. HADAWAY'S DCF STUDIES.

A Using a more reasonable GDP growth rate, reduces the average DCF result produced by Dr. Hadaway's studies from 9.5% down to 8.9%. Dr. Hadaway's original estimates, and these updated and adjusted results are shown below in Table 6.

TABLE 6

Adjusted Hadaway DCF

Description	Range Average Hadaway DCF	Range Average Adjusted DCF
Constant Growth (Analysts' Growth)	9.1%	9.1%
Constant Growth (GDP Growth)	9.7%	8.7%
Multi-Stage Growth Model	9.6%	8.8%
Average	9.5%	8.9%

As shown above in Table 6, using a consensus economists' GDP forecast, rather than the GDP forecast derived by Dr. Hadaway, would support a return on equity for RMP of 8.9%.

Q PLEASE DESCRIBE DR. HADAWAY'S UTILITY RISK PREMIUM ANALYSIS.

A Dr. Hadaway's utility bond yield versus authorized return on common equity risk premium is shown in Exhibit RMP___(SCH-6). As shown in this exhibit, Dr. Hadaway estimated an annual equity risk premium by subtracting Moody's

average bond yield from the electric utility regulatory commission authorized return on common equity over the period 1980 through 2012. Based on this analysis, Dr. Hadaway estimates an average indicated equity risk premium over current utility bond yields of 3.41%.

Dr. Hadaway then adjusts this average equity risk premium using a regression analysis based on an expectation that there is an ongoing inverse relationship between interest rates and equity risk premiums. Based on this regression analysis, Dr. Hadaway increases his equity risk premium from 3.41%, up to 4.94% and 5.09%, respectively, relative to projected and current "A" rated bond yields of 5.78%, 4.98% and 5.26%. He then adds these inflated equity risk premiums to the projected and current "A" rated utility bond yields of 5.11% and 4.76%, respectively, to produce a return on equity in the range of 9.9% to 10.1%.

Q ARE DR. HADAWAY'S UTILITY RISK PREMIUM ANALYSES REASONABLE?

A No. Dr. Hadaway develops a forward-looking risk premium model, relying on forecasted interest rates and volatile utility spreads, which are highly uncertain and produce inaccurate results. Further, Dr. Hadaway's proposal to adjust the actual equity risk premium of 3.41% to reflect the inverse relationship between interest rates and utility risk premiums to 4.94% to 5.09% is unreasonable. This adjustment is inappropriate and not consistent with academic literature that

finds that this relationship should change with changes to investment risk and not simply changes to interest rates.

Q DO YOU HAVE ANY COMMENTS CONCERNING DR. HADAWAY'S FORECASTED UTILITY BOND YIELD OF 5.78%?

A Yes. Dr. Hadaway develops his forecasted utility bond yield based on the 3-month historical spread of A-rated utility bond yields and 30-year Treasury yields of 1.00% added to his projected long-term Treasury yield of 4.11%. This approach is unreasonable because Dr. Hadaway relies on projected interest rates. The accuracy of his projections are highly problematic. Indeed, while interest rates have been projected to increase over the last several years, those increased interest rate projections have turned out to be wrong.

Q WHY DO YOU BELIEVE THAT THE ACCURACY OF FORECASTED INTEREST RATES IS HIGHLY PROBLEMATIC?

A Over the last several years, observable current interest rates have been a more accurate predictor of future interest rates than economists' consensus projections. Exhibit FEA___(MPG-21) illustrates this point. On this exhibit, under Columns 1 and 2, I show the actual market yield at the time a projection is made for Treasury bond yields two years in the future. In Column 1, I show the actual Treasury yield and, in Column 2, I show the projected yield two years out.

As shown in Columns 1 and 2, over the last several years, Treasury yields were projected to increase relative to the actual Treasury yields at the time of the projection. In Column 4, I show what the Treasury yield actually turned out to be two years after the forecast. Under Column 5, I show the actual yield change at the time of the projections relative to the projected yield change.

As shown in this exhibit, over the last several years, economists consistently have been projecting that interest rates will increase. However, as shown under Column 5, those yield projections have turned out to be overstated in virtually every case. Indeed, actual Treasury yields have decreased or remained flat over the last five years, rather than increased as the economists' projections indicated. As such, current observable interest rates are just as likely to accurately predict future interest rates as are economists' projections.

Q WHY IS DR. HADAWAY'S USE OF A SIMPLE INVERSE RELATIONSHIP BETWEEN INTEREST RATES AND EQUITY RISK PREMIUMS NOT REASONABLE?

A Dr. Hadaway's belief that there is a simplistic inverse relationship between equity risk premiums and interest rates is not supported by academic research. While academic studies have shown that, in the past, there has been an inverse relationship with these variables, researchers have found that the relationship changes over time and is influenced by changes in perception of the risk of bond

investments relative to equity investments, and not simply changes to interest rates.[32]

In the 1980s, equity risk premiums were inversely related to interest rates, but that was likely attributable to the interest rate volatility that existed at that time. Interest rate volatility currently is much lower than it was in the 1980s.[33] As such, when interest rates were more volatile, the relative perception of bond investment risk increased relative to the investment risk of equities. This changing investment risk perception caused changes in equity risk premiums.

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

Importantly, Dr. Hadaway's analysis simply ignores investment risk differentials. He bases his adjustment to the equity risk premium exclusively on

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

[33]Morningstar SBBI, 2009 Yearbook at 95-96.

changes in nominal interest rates. This is a flawed methodology and does not produce accurate or reliable risk premium estimates. His results should be rejected by the Commission.

Q CAN DR. HADAWAY'S RISK PREMIUM ANALYSES BASED ON CURRENT AND PROJECTED YIELDS BE MODIFIED TO PRODUCE MORE REASONABLE RESULTS?

A Yes. Eliminating the inverse relationship adjustment to the equity risk premium of 3.41% and relying on an updated current "Baa" rated utility yield of 5.03% will result in a return on equity risk premium of 8.44%. Using Dr. Hadaway's equity risk premium of 5.09% as shown in his Exhibit RMP___(SCH-6) and the current "Baa" rated utility yield of 5.03% will result in a return of 10.12%. An updated risk premium study using Dr. Hadaway's methodology would be in the range of 8.44% to 10.12%, with a midpoint of 9.28%, rounded to 9.3%.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Qualifications of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q PLEASE STATE YOUR OCCUPATION.

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

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

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

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission ("ICC"). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was

promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

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

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

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

study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals ("RFPs") for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have participated in rate cases on rate design and class cost of service for electric, natural gas, water and wastewater utilities. I have also analyzed commodity pricing indices and forward pricing methods for third party supply agreements, and have also conducted regional electric market price forecasts.

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

Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the Federal Energy Regulatory Commission and numerous state regulatory commissions including: Arkansas, Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia,

Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

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

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

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