

**STATE OF MICHIGAN**  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

\* \* \* \* \*

In the matter of the application of )  
**UPPER PENINSULA POWER COMPANY** )  
for authority to increase retail electric rates )  
\_\_\_\_\_ )

Case No. U-16417

EXHIBIT TO ACCOMPANY THE  
  
DIRECT TESTIMONY OF  
PAUL R. MOUL  
FOR  
UPPER PENINSULA POWER COMPANY

June 30, 2011

Upper Peninsula Power Company  
Index of Schedules

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Upper Peninsula Power Company  
Capitalization and Financial Statistics  
2006-2010, Inclusive

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	
	(Millions of Dollars)					
Amount of Capital Employed						
Permanent Capital	\$ 131.6	\$ 104.6	\$ 96.9	\$ 94.0	\$ 80.3	
Short-Term Debt	\$ 9.0	\$ 10.4	\$ 6.8	\$ 1.3	\$ 15.4	
Total Capital	<u>\$ 140.6</u>	<u>\$ 115.0</u>	<u>\$ 103.7</u>	<u>\$ 95.3</u>	<u>\$ 95.7</u>	
Capital Structure Ratios						<u>Average</u>
Based on Permanent Capital:						
Long-Term Debt	41.3%	39.0%	43.0%	45.3%	35.5%	40.8%
Common Equity <sup>(1)</sup>	58.7%	61.0%	57.0%	54.7%	64.5%	59.2%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Based on Total Capital:						
Total Debt incl. Short Term	45.1%	44.5%	46.8%	46.0%	45.8%	45.6%
Common Equity <sup>(1)</sup>	54.9%	55.5%	53.2%	54.0%	54.2%	54.4%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Rate of Return on Book Common Equity <sup>(1)</sup>	8.2%	-2.0%	1.2%	11.1%	6.1%	4.9%
Operating Ratio <sup>(2)</sup>	89.3%	95.9%	92.2%	90.9%	92.4%	92.1%
Coverage incl. AFUDC <sup>(3)</sup>						
Pre-tax: All Interest Charges	4.04 x	0.96 x	1.76 x	4.13 x	2.69 x	2.72 x
Post-tax: All Interest Charges	2.69 x	0.60 x	1.19 x	2.93 x	2.04 x	1.89 x
Coverage excl. AFUDC <sup>(3)</sup>						
Pre-tax: All Interest Charges	3.81 x	0.92 x	1.72 x	4.13 x	2.69 x	2.65 x
Post-tax: All Interest Charges	2.46 x	0.57 x	1.15 x	2.93 x	2.04 x	1.83 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	13.6%	NMF	20.1%	0.0%	0.0%	8.4%
Effective Income Tax Rate	44.3%	NMF	75.0%	38.3%	38.7%	49.1%
Internal Cash Generation/Construction <sup>(4)</sup>	94.2%	73.9%	34.5%	122.1%	96.0%	84.1%
Gross Cash Flow/ Avg. Total Debt <sup>(5)</sup>	42.8%	19.5%	12.9%	30.9%	26.1%	26.4%
Gross Cash Flow Interest Coverage <sup>(6)</sup>	7.20 x	3.23 x	1.78 x	4.57 x	3.72 x	4.10 x

See Page 2 for Notes.

Upper Peninsula Power Company  
Capitalization and Financial Statistics  
2006-2010, Inclusive

Notes:

- (1) Excludes Accumulated Other Comprehensive Income ("OCI").
- (2) Total operating expenses, maintenance, depreciation and taxes other than income taxes as a percent of operating revenues.
- (3) Coverage calculations represent the number of times available earnings, both including and excluding AFUDC (allowance for funds used during construction) as reported in its entirety, cover fixed charges.
- (4) Internal cash generation/gross construction is the percentage of gross construction expenditures provided by internally-generated funds from operations after payment of all cash dividends divided by gross construction expenditures.
- (5) Gross Cash Flow (sum of net income, depreciation, amortization, net deferred income taxes and investment tax credits, less total AFUDC) plus interest charges, divided by interest charges.
- (6) Gross Cash Flow plus interest charges divided by interest charges.

Source of Information: FERC Form No. 1

Combination Group  
Capitalization and Financial Statistics <sup>(1)</sup>  
2006-2010, Inclusive

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	
	(Millions of Dollars)					
Amount of Capital Employed						
Permanent Capital	\$ 7,169.3	\$ 6,749.0	\$ 6,439.8	\$ 5,893.3	\$ 5,857.8	
Short-Term Debt	\$ 192.8	\$ 259.3	\$ 370.8	\$ 435.1	\$ 399.4	
Total Capital	<u>\$ 7,362.1</u>	<u>\$ 7,008.3</u>	<u>\$ 6,810.6</u>	<u>\$ 6,328.4</u>	<u>\$ 6,257.2</u>	
Market-Based Financial Ratios						<u>Average</u>
Earnings/Price Ratio	14 x	14 x	13 x	15 x	16 x	15 x
Market/Book Ratio	138.6%	115.9%	133.5%	165.9%	159.4%	142.7%
Dividend Yield	4.6%	5.5%	4.6%	3.6%	4.1%	4.5%
Dividend Payout Ratio	66.8%	78.5%	62.3%	59.7%	65.6%	66.6%
Capital Structure Ratios						
Based on Permanent Capital:						
Long-Term Debt	52.7%	52.5%	49.5%	49.6%	50.5%	51.0%
Preferred Stock	0.7%	1.0%	1.1%	1.3%	1.3%	1.1%
Common Equity <sup>(2)</sup>	46.6%	46.5%	49.4%	49.1%	48.2%	48.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Based on Total Capital:						
Total Debt incl. Short Term	54.3%	54.9%	55.1%	53.4%	54.4%	54.4%
Preferred Stock	0.6%	1.0%	1.1%	1.2%	1.2%	1.0%
Common Equity <sup>(2)</sup>	45.0%	44.1%	43.8%	45.4%	44.3%	44.5%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Rate of Return on Book Common Equity <sup>(2)</sup>	9.9%	8.3%	8.4%	9.6%	8.7%	9.0%
Operating Ratio <sup>(3)</sup>	83.8%	86.6%	87.7%	86.5%	86.4%	86.2%
Coverage incl. AFUDC <sup>(4)</sup>						
Pre-tax: All Interest Charges	3.33 x	2.96 x	3.02 x	3.60 x	3.01 x	3.18 x
Post-tax: All Interest Charges	2.50 x	2.32 x	2.32 x	2.71 x	2.36 x	2.44 x
Overall Coverage: All Int. & Pfd. Div.	2.46 x	2.30 x	2.26 x	2.63 x	2.31 x	2.39 x
Coverage excl. AFUDC <sup>(4)</sup>						
Pre-tax: All Interest Charges	3.21 x	2.80 x	2.86 x	3.47 x	2.93 x	3.05 x
Post-tax: All Interest Charges	2.38 x	2.16 x	2.17 x	2.58 x	2.28 x	2.31 x
Overall Coverage: All Int. & Pfd. Div.	2.34 x	2.14 x	2.11 x	2.50 x	2.23 x	2.26 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	10.1%	16.8%	9.2%	8.9%	5.0%	10.0%
Effective Income Tax Rate	34.9%	29.1%	34.7%	37.2%	34.8%	34.1%
Internal Cash Generation/Construction <sup>(5)</sup>	105.4%	82.9%	77.1%	72.3%	88.7%	85.3%
Gross Cash Flow/ Avg. Total Debt <sup>(6)</sup>	24.0%	22.3%	24.3%	24.5%	22.9%	23.6%
Gross Cash Flow Interest Coverage <sup>(7)</sup>	5.18 x	4.91 x	5.29 x	5.01 x	4.65 x	5.01 x
Common Dividend Coverage <sup>(8)</sup>	4.79 x	4.73 x	5.54 x	5.52 x	4.44 x	5.00 x

See Page 2 for Notes.

Combination Group  
 Capitalization and Financial Statistics  
2006-2010, Inclusive

Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group.
- (2) Excluding Accumulated Other Comprehensive Income ("OCI") from the equity account.
- (3) Total operating expenses, maintenance, depreciation and taxes other than income taxes as a percent of operating revenues.
- (4) Coverage calculations represent the number of times available earnings, both including and excluding AFUDC (allowance for funds used during construction) as reported in its entirety, cover fixed charges.
- (5) Internal cash generation/gross construction is the percentage of gross construction expenditures provided by internally-generated funds from operations after payment of all cash dividends divided by gross construction expenditures.
- (6) Gross Cash Flow (sum of net income, depreciation, amortization, net deferred income taxes and investment tax credits, less total AFUDC) plus interest charges, divided by interest charges.
- (7) Gross Cash Flow plus interest charges divided by interest charges.
- (8) Common dividend coverage is the relationship of internally-generated funds from operations after payment of preferred stock dividends to common dividends paid.

Basis of Selection:

The Combination Group includes companies that (i) have publicly traded common stock, (ii) are included in The Value Line Investment Survey, (iii) are engaged in the natural gas and electric utility business, (iv) operate in the North Central Region of the U.S., (v) they have not recently reduced or are expected to reduce their common dividend, (vi) they do not have major interstate pipeline operations, and (vii) are not currently the target of a merger or acquisition

Ticker	Company	Corporate Credit Ratings		Stock Traded	S&P Stock Ranking	Value Line Beta
		Moody's	S&P			
LNT	Alliant Energy	A2/A3	A-/BBB+	NYSE	B	0.70
BKH	Black Hills Corp.	Baa2	BBB-	NYSE	B	0.80
CMS	CMS Energy Corp.	Baa2	BBB-	NYSE	B	0.75
DTE	DTE Energy Co.	Baa1	BBB+	NYSE	B+	0.75
EDE	Empire District	Baa2	BBB-	NYSE	B+	0.70
MGEE	MGE Energy Inc.	A1	AA-	NDQ	B+	0.65
VVC	Vectren Corp.	A3	A-	NYSE	B+	0.70
WEC	Wisconsin Energy	A2	A-	NYSE	A	0.60
XEL	Xcel Energy	A3/Baa1	A-	NYSE	B	0.65
	Average	<u>A3</u>	<u>BBB+</u>		<u>B+</u>	<u>0.70</u>

Note: Ratings are those of utility subsidiaries

Source of Information: Utility COMPUSTAT  
 Moody's Investors Service  
 Standard & Poor's Corporation  
 S&P Stock Guide

Standard & Poor's Public Utilities  
Capitalization and Financial Statistics <sup>(1)</sup>  
2006-2010, Inclusive

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	
	(Millions of Dollars)					
Amount of Capital Employed						
Permanent Capital	\$ 17,554.1	\$ 16,665.3	\$ 15,615.3	\$ 14,318.9	\$ 14,401.2	
Short-Term Debt	<u>\$ 400.7</u>	<u>\$ 392.2</u>	<u>\$ 808.7</u>	<u>\$ 575.9</u>	<u>\$ 477.7</u>	
Total Capital	<u>\$ 17,954.8</u>	<u>\$ 17,057.5</u>	<u>\$ 16,424.0</u>	<u>\$ 14,894.8</u>	<u>\$ 14,878.9</u>	
Market-Based Financial Ratios						<u>Average</u>
Price-Earnings Multiple	15 x	14 x	14 x	16 x	16 x	15 x
Market/Book Ratio	141.1%	135.5%	177.7%	219.3%	206.7%	176.1%
Dividend Yield	4.7%	5.2%	4.3%	3.4%	3.7%	4.3%
Dividend Payout Ratio	72.6%	72.8%	63.0%	55.9%	62.5%	65.4%
Capital Structure Ratios						
Based on Permanent Capital:						
Long-Term Debt	52.3%	53.1%	54.0%	52.7%	53.7%	53.2%
Preferred Stock	1.3%	1.4%	1.7%	1.7%	1.7%	1.6%
Common Equity <sup>(2)</sup>	<u>46.4%</u>	<u>45.5%</u>	<u>44.4%</u>	<u>45.6%</u>	<u>44.6%</u>	<u>45.3%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Based on Total Capital:						
Total Debt incl. Short Term	53.8%	54.7%	57.1%	55.3%	55.8%	55.3%
Preferred Stock	1.2%	1.4%	1.5%	1.6%	1.7%	1.5%
Common Equity <sup>(2)</sup>	<u>45.0%</u>	<u>43.9%</u>	<u>41.4%</u>	<u>43.1%</u>	<u>42.5%</u>	<u>43.2%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Rate of Return on Book Common Equity <sup>(2)</sup>	10.7%	10.1%	12.1%	12.8%	11.9%	11.5%
Operating Ratio <sup>(3)</sup>	82.3%	83.7%	84.8%	84.8%	85.1%	84.1%
Coverage incl. AFUDC <sup>(4)</sup>						
Pre-tax: All Interest Charges	3.13 x	3.58 x	3.22 x	3.52 x	3.15 x	3.32 x
Post-tax: All Interest Charges	2.40 x	2.67 x	2.45 x	2.68 x	2.47 x	2.53 x
Overall Coverage: All Int. & Pfd. Div.	2.39 x	2.60 x	2.41 x	2.64 x	2.43 x	2.49 x
Coverage excl. AFUDC <sup>(4)</sup>						
Pre-tax: All Interest Charges	3.04 x	3.48 x	3.11 x	3.44 x	3.10 x	3.23 x
Post-tax: All Interest Charges	2.31 x	2.58 x	2.34 x	2.60 x	2.42 x	2.45 x
Overall Coverage: All Int. & Pfd. Div.	2.30 x	2.50 x	2.30 x	2.56 x	2.38 x	2.41 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	6.6%	7.8%	7.7%	5.1%	3.5%	6.1%
Effective Income Tax Rate	34.5%	31.9%	32.6%	34.2%	32.8%	33.2%
Internal Cash Generation/Construction <sup>(5)</sup>	109.3%	100.0%	80.6%	88.4%	90.0%	93.7%
Gross Cash Flow/ Avg. Total Debt <sup>(6)</sup>	24.6%	25.8%	22.4%	22.3%	20.4%	23.1%
Gross Cash Flow Interest Coverage <sup>(7)</sup>	5.26 x	5.44 x	4.77 x	4.55 x	4.17 x	4.84 x
Common Dividend Coverage <sup>(8)</sup>	4.97 x	4.68 x	4.79 x	4.63 x	4.16 x	4.65 x

See Page 2 for Notes.

Standard & Poor's Public Utilities  
Capitalization and Financial Statistics  
2006-2010, Inclusive

Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group.
- (2) Excluding Accumulated Other Comprehensive Income ("OCI") from the equity account
- (3) Total operating expenses, maintenance, depreciation and taxes other than income taxes as a percent of operating revenues.
- (4) Coverage calculations represent the number of times available earnings, both including and excluding AFUDC (allowance for funds used during construction) as reported in its entirety, cover fixed charges.
- (5) Internal cash generation/gross construction is the percentage of gross construction expenditures provided by internally-generated funds from operations after payment of all cash dividends divided by gross construction expenditures.
- (6) Gross Cash Flow (sum of net income, depreciation, amortization, net deferred income taxes and investment tax credits, less total AFUDC) as a percentage of average total debt.
- (7) Gross Cash Flow (sum of net income, depreciation, amortization, net deferred income taxes and investment tax credits, less total AFUDC) plus interest charges, divided by interest charges.
- (8) Common dividend coverage is the relationship of internally-generated funds from operations after payment of preferred stock dividends to common dividends paid.

Source of Information: Annual Reports to Shareholders  
Utility COMPUSTAT

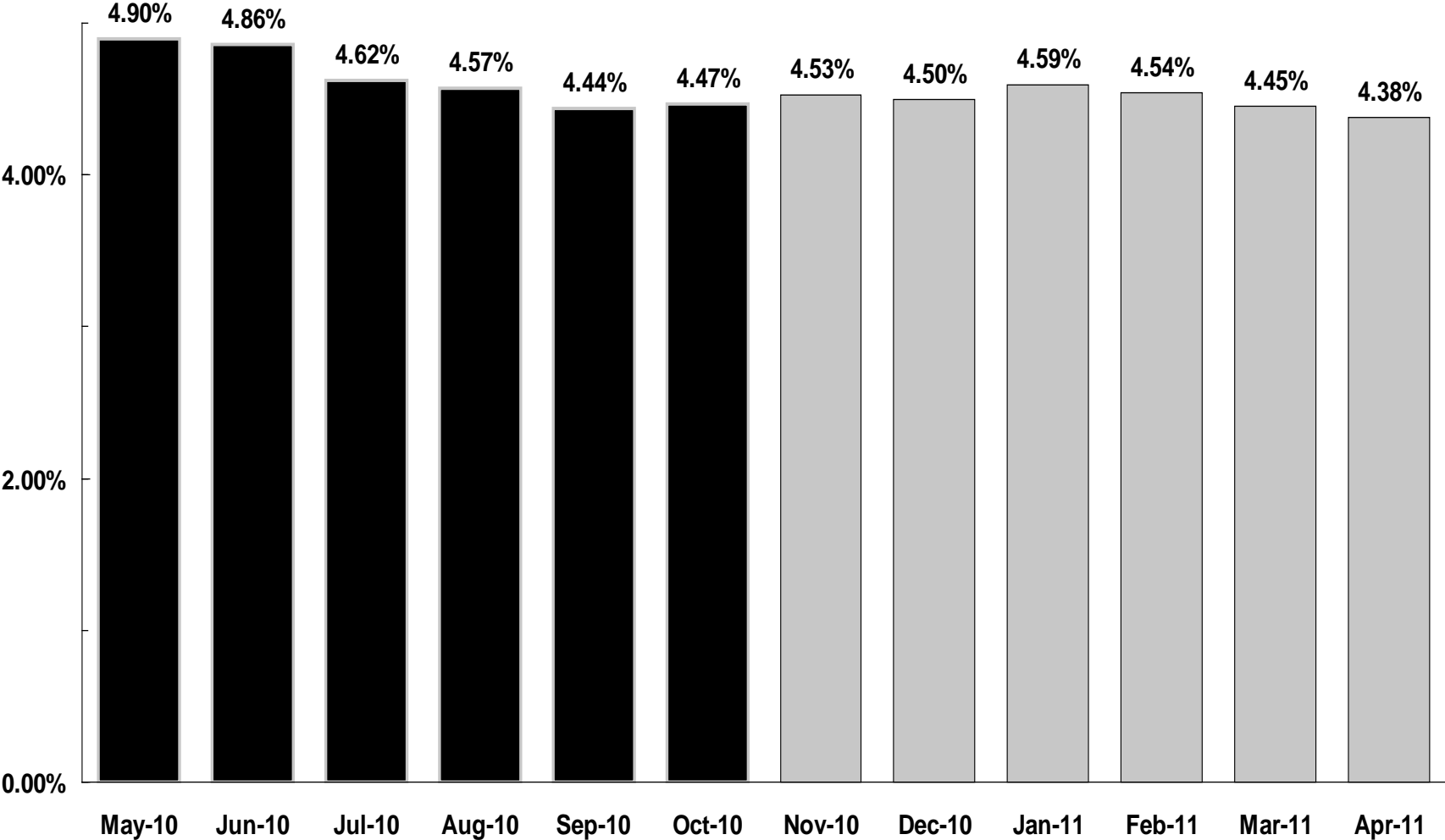
**Standard & Poor's Public Utilities**  
Company Identities

	Ticker	Credit Rating <sup>(1)</sup>		Common Stock Traded	S&P Stock Ranking	Value Line Beta
		Moody's	S&P			
Ameren Corporation	AEE	Baa2	BBB-	NYSE	B	0.80
American Electric Power	AEP	Baa2	BBB	NYSE	B	0.70
CMS Energy	CMS	Baa2	BBB-	NYSE	B	0.75
CenterPoint Energy	CNP	Baa2	BBB	NYSE	B	0.80
Consolidated Edison	ED	A3	A-	NYSE	B+	0.65
Constellation Energy Group	CEG	Baa2	BBB+	NYSE	B	0.80
DTE Energy Co.	DTE	Baa1	BBB+	NYSE	B+	0.75
Dominion Resources	D	A3	A-	NYSE	A-	0.70
Duke Energy	DUK	A3	A-	NYSE	B	0.65
Edison Int'l	EIX	A3	BBB+	NYSE	B	0.80
Entergy Corp.	ETR	Baa2	BBB	NYSE	A	0.70
EQT Corp.	EQT	Baa1	BBB	NYSE	B+	1.15
Exelon Corp.	EXC	A3	BBB	NYSE	B+	0.85
FirstEnergy Corp.	FE	Baa2	BBB-	NYSE	A-	0.80
Integrus Energy Group	TEG	A2	A-	NYSE	B	0.90
NextEra Energy Inc.	NEE	A2	A-	NYSE	A	0.75
NICOR Inc.	GAS	A2	AA	NYSE	B+	0.75
NiSource Inc.	NI	Baa2	BBB-	NYSE	B	0.85
Northeast Utilities	NU	Baa1	BBB	NYSE	B	0.70
NRG Energy Inc.	NRG	Ba3	BB-	NYSE	NR	1.15
ONEOK, Inc.	OKE	Baa2	BBB	NYSE	A-	0.95
PEPCO Holdings, Inc.	POM	Baa2	BBB+	NYSE	B	0.80
PG&E Corp.	PCG	A3	BBB+	NYSE	B	0.55
PPL Corp.	PPL	Baa2	BBB	NYSE	A-	0.65
Pinnacle West Capital	PNW	Baa2	BBB-	NYSE	B	0.70
Progress Energy, Inc.	PGN	A3	BBB+	NYSE	B	0.60
Public Serv. Enterprise Inc.	PEG	Baa1	BBB	NYSE	B+	0.80
SCANA Corp.	SCG	Baa1	BBB+	NYSE	B+	0.70
Sempra Energy	SRE	A2	A	NYSE	A-	0.80
Southern Co.	SO	A3	A	NYSE	A-	0.55
TECO Energy	TE	Baa1	BBB	NYSE	B	0.85
Wisconsin Energy Corp.	WEC	A2	A-	NYSE	A	0.60
Xcel Energy Inc	XEL	A3	A-	NYSE	B	0.65
Average for S&P Utilities		<u>Baa1</u>	<u>BBB+</u>		<u>B+</u>	<u>0.76</u>

Note: <sup>(1)</sup> Ratings are those of utility subsidiaries

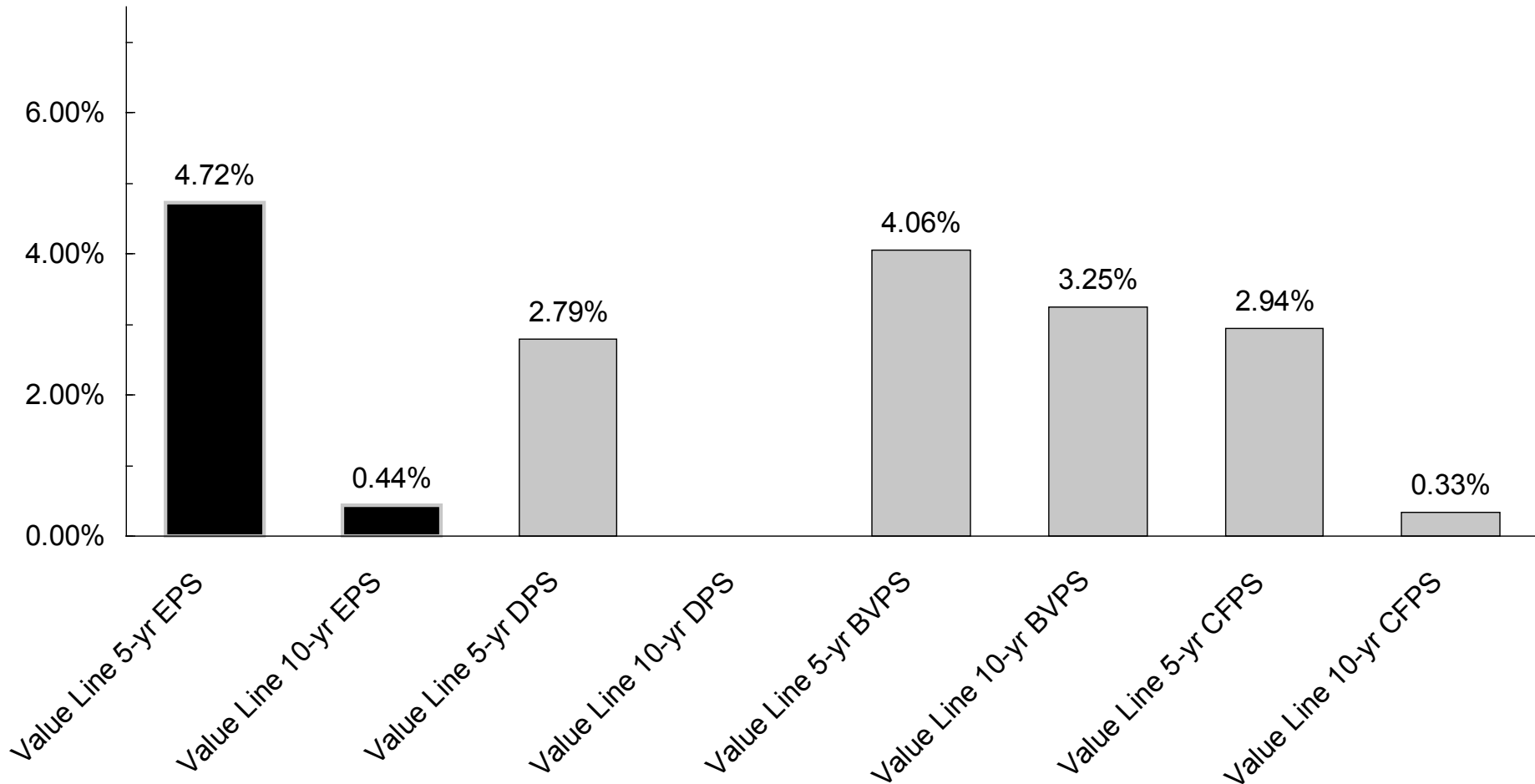
Source of Information: Moody's Investors Service  
Standard & Poor's Corporation  
Standard & Poor's Stock Guide  
Value Line Investment Survey for Windows

# Combination Group Monthly Dividend Yield



# Combination Group

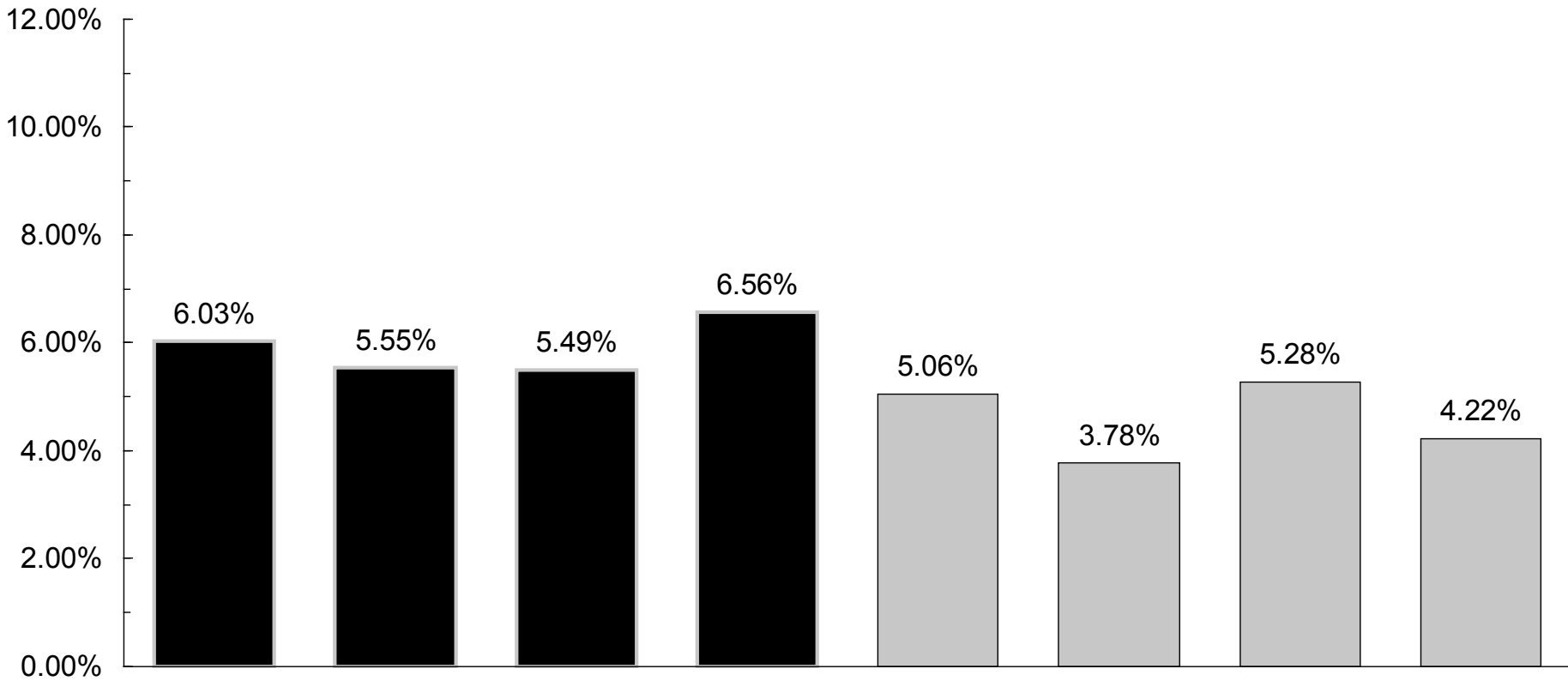
## Historical Growth Rates



Earnings per Share=EPS      Book Values per Share=BVPS  
 Dividends per Share=DPS      Cash Flow per Share=CFPS  
 Percent Retained to Common Equity=BxR

# Combination Group

## Five-Year Projected Growth Rates



IBES/First Call EPS

Zacks EPS

Morningstar ESP

Value Line EPS

Value Line DPS

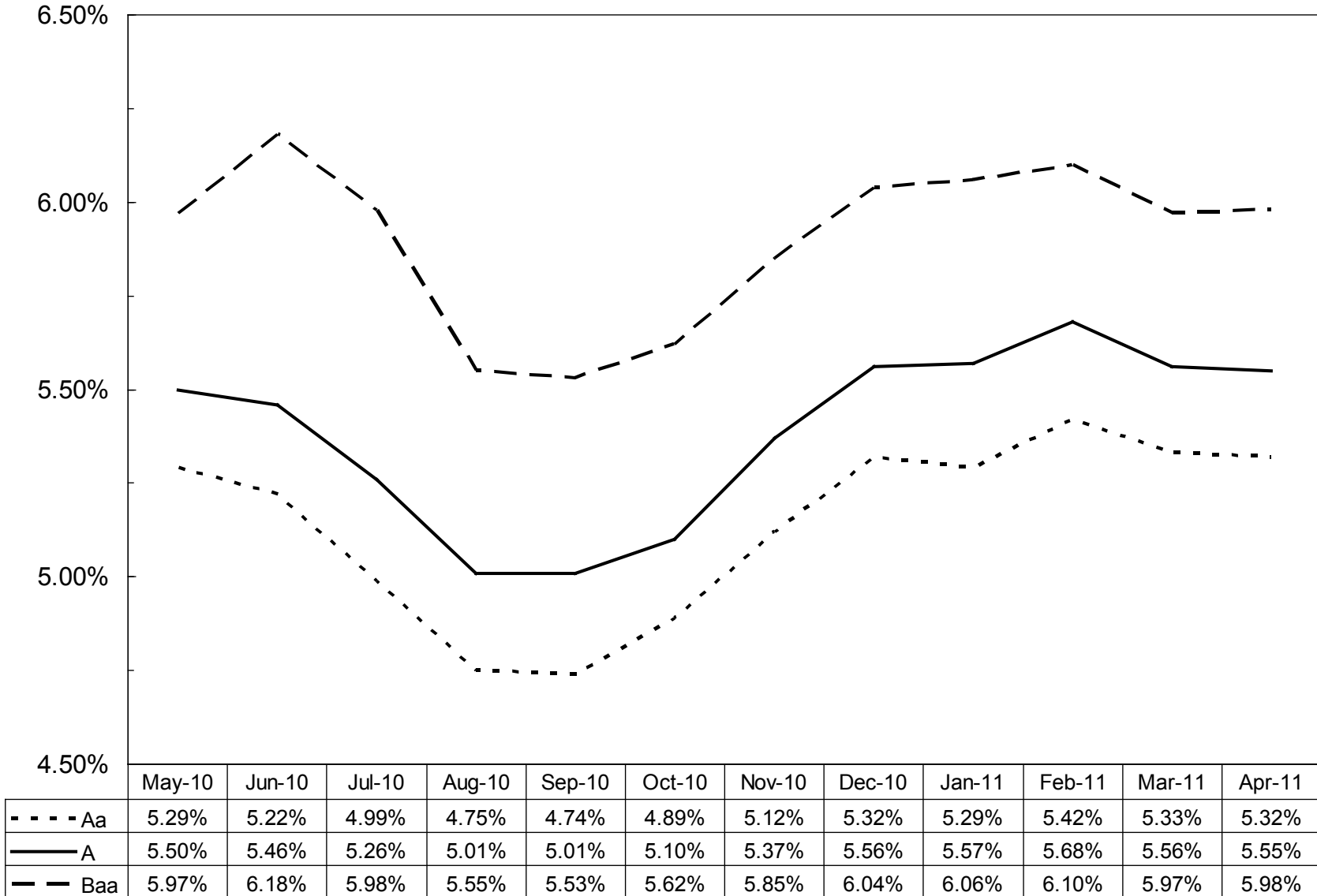
Value Line BVPS

Value Line CFPS

Value Line BxR

Earnings per Share=EPS      Book Values per Share=BVPS  
 Dividends per Share=DPS      Cash Flow per Share=CFPS  
 Percent Retained to Common Equity=BxR

## Interest Rates for Investment Grade Public Utility Bonds

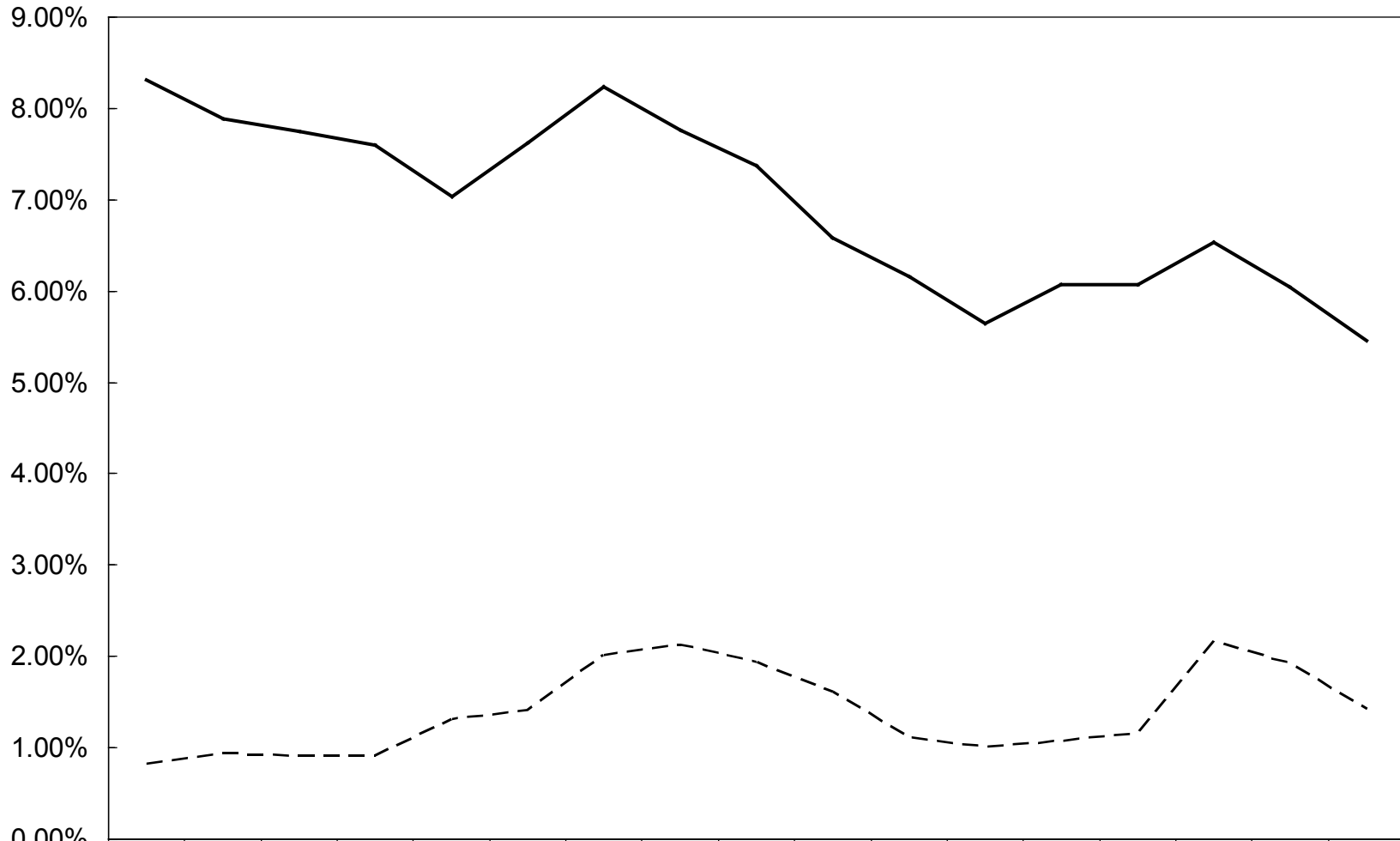


**Interest Rates for Investment Grade Public Utility Bonds  
 Yearly for 2006-2010  
 and the Twelve Months Ended April 2011**

<u>Years</u>	<u>Aa Rated</u>	<u>A Rated</u>	<u>Baa Rated</u>	<u>Average</u>
2006	5.84%	6.07%	6.32%	6.08%
2007	5.94%	6.07%	6.33%	6.11%
2008	6.18%	6.53%	7.24%	6.65%
2009	5.75%	6.04%	7.06%	6.28%
2010	5.24%	5.46%	5.96%	5.55%
<b>Five-Year Average</b>	<u>5.79%</u>	<u>6.03%</u>	<u>6.58%</u>	<u>6.13%</u>
 <b><u>Months</u></b>				
May-10	5.29%	5.50%	5.97%	5.59%
Jun-10	5.22%	5.46%	6.18%	5.62%
Jul-10	4.99%	5.26%	5.98%	5.41%
Aug-10	4.75%	5.01%	5.55%	5.10%
Sep-10	4.74%	5.01%	5.53%	5.10%
Oct-10	4.89%	5.10%	5.62%	5.20%
Nov-10	5.12%	5.37%	5.85%	5.45%
Dec-10	5.32%	5.56%	6.04%	5.64%
Jan-11	5.29%	5.57%	6.06%	5.64%
Feb-11	5.42%	5.68%	6.10%	5.73%
Mar-11	5.33%	5.56%	5.97%	5.62%
Apr-11	5.32%	5.55%	5.98%	5.62%
<b>Twelve-Month Average</b>	<u>5.14%</u>	<u>5.39%</u>	<u>5.90%</u>	<u>5.48%</u>
<b>Six-Month Average</b>	<u>5.30%</u>	<u>5.55%</u>	<u>6.00%</u>	<u>5.62%</u>
<b>Three-Month Average</b>	<u>5.36%</u>	<u>5.60%</u>	<u>6.02%</u>	<u>5.66%</u>

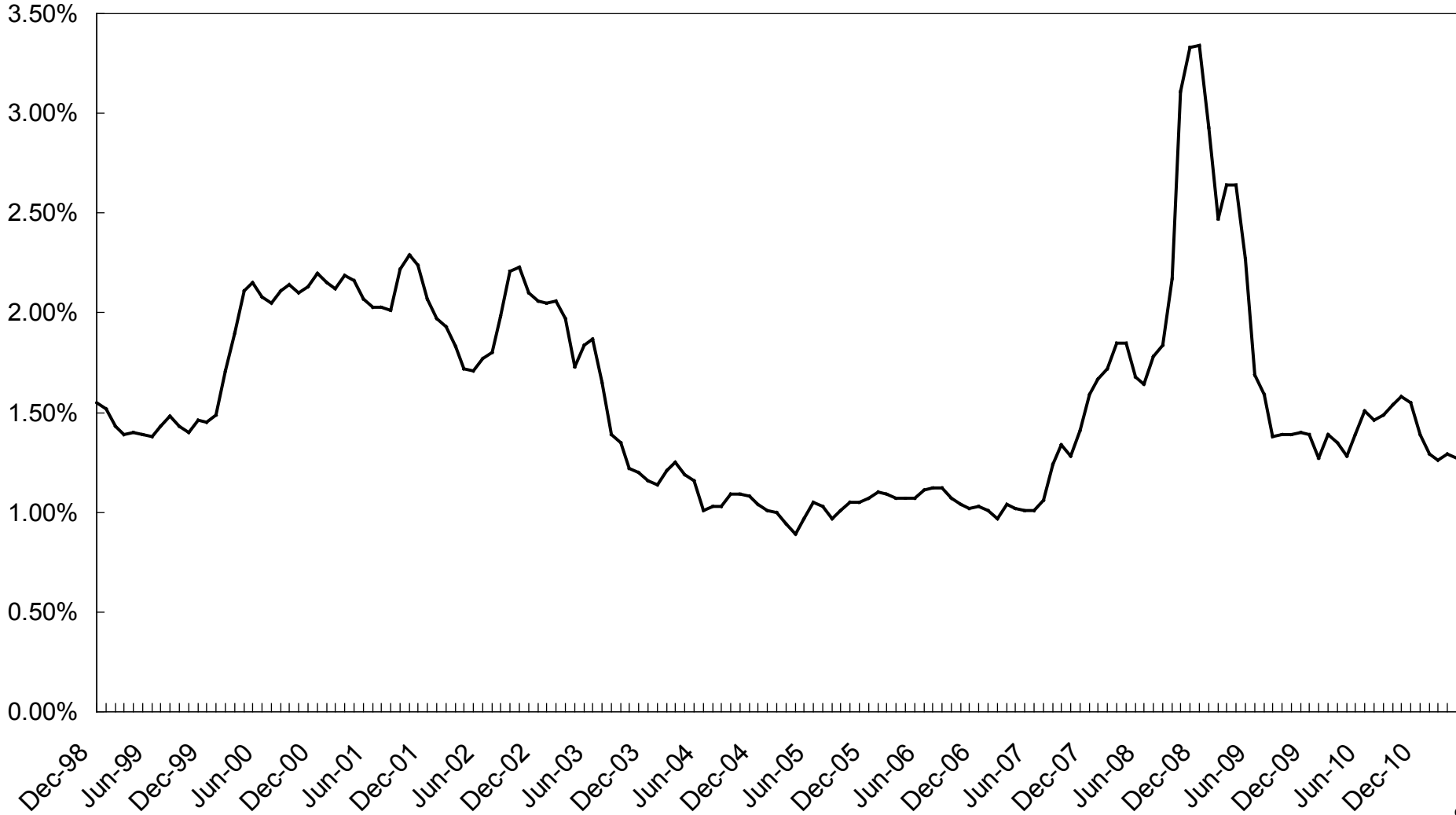
Source: Mergent Bond Record

# Yields on A-rated Public Utility Bonds and Spreads over 20-Year Treasuries



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
— A-rated Public Utility	8.31%	7.89%	7.75%	7.60%	7.04%	7.62%	8.24%	7.76%	7.37%	6.58%	6.16%	5.65%	6.07%	6.07%	6.53%	6.04%	5.46%
- - - Spread vs. 20-year	0.82%	0.94%	0.92%	0.91%	1.32%	1.42%	2.01%	2.13%	1.94%	1.62%	1.12%	1.01%	1.08%	1.16%	2.17%	1.93%	1.43%

# Interest Rate Spreads A-rated Public Utility Bonds over 20-Year Treasuries



**A rated Public Utility Bonds over 20-Year Treasuries**

Year	A-rated Public Utility	20-Year Treasuries		Year	A-rated Public Utility	20-Year Treasuries		Year	A-rated Public Utility	20-Year Treasuries	
		Yield	Spread			Yield	Spread			Yield	Spread
Dec-98	6.91%	5.36%	1.55%								
Jan-99	6.97%	5.45%	1.52%	Jan-04	6.15%	5.01%	1.14%	Jan-09	6.39%	3.46%	2.93%
Feb-99	7.09%	5.66%	1.43%	Feb-04	6.15%	4.94%	1.21%	Feb-09	6.30%	3.83%	2.47%
Mar-99	7.26%	5.87%	1.39%	Mar-04	5.97%	4.72%	1.25%	Mar-09	6.42%	3.78%	2.64%
Apr-99	7.22%	5.82%	1.40%	Apr-04	6.35%	5.16%	1.19%	Apr-09	6.48%	3.84%	2.64%
May-99	7.47%	6.08%	1.39%	May-04	6.62%	5.46%	1.16%	May-09	6.49%	4.22%	2.27%
Jun-99	7.74%	6.36%	1.38%	Jun-04	6.46%	5.45%	1.01%	Jun-09	6.20%	4.51%	1.69%
Jul-99	7.71%	6.28%	1.43%	Jul-04	6.27%	5.24%	1.03%	Jul-09	5.97%	4.38%	1.59%
Aug-99	7.91%	6.43%	1.48%	Aug-04	6.14%	5.07%	1.07%	Aug-09	5.71%	4.33%	1.38%
Sep-99	7.93%	6.50%	1.43%	Sep-04	5.98%	4.89%	1.09%	Sep-09	5.53%	4.14%	1.39%
Oct-99	8.06%	6.66%	1.40%	Oct-04	5.94%	4.85%	1.09%	Oct-09	5.55%	4.16%	1.39%
Nov-99	7.94%	6.48%	1.46%	Nov-04	5.97%	4.89%	1.08%	Nov-09	5.64%	4.24%	1.40%
Dec-99	8.14%	6.69%	1.45%	Dec-04	5.92%	4.88%	1.04%	Dec-09	5.79%	4.40%	1.39%
Jan-00	8.35%	6.86%	1.49%	Jan-05	5.78%	4.77%	1.01%	Jan-10	5.77%	4.50%	1.27%
Feb-00	8.25%	6.54%	1.71%	Feb-05	5.61%	4.61%	1.00%	Feb-10	5.87%	4.48%	1.39%
Mar-00	8.28%	6.38%	1.90%	Mar-05	5.83%	4.89%	0.94%	Mar-10	5.84%	4.49%	1.35%
Apr-00	8.29%	6.18%	2.11%	Apr-05	5.64%	4.75%	0.89%	Apr-10	5.81%	4.53%	1.28%
May-00	8.70%	6.55%	2.15%	May-05	5.53%	4.56%	0.97%	May-10	5.50%	4.11%	1.39%
Jun-00	8.36%	6.28%	2.08%	Jun-05	5.40%	4.35%	1.05%	Jun-10	5.46%	3.95%	1.51%
Jul-00	8.25%	6.20%	2.05%	Jul-05	5.51%	4.48%	1.03%	Jul-10	5.26%	3.80%	1.46%
Aug-00	8.13%	6.02%	2.11%	Aug-05	5.50%	4.53%	0.97%	Aug-10	5.01%	3.52%	1.49%
Sep-00	8.23%	6.09%	2.14%	Sep-05	5.52%	4.51%	1.01%	Sep-10	5.01%	3.47%	1.54%
Oct-00	8.14%	6.04%	2.10%	Oct-05	5.79%	4.74%	1.05%	Oct-10	5.10%	3.52%	1.58%
Nov-00	8.11%	5.98%	2.13%	Nov-05	5.88%	4.83%	1.05%	Nov-10	5.37%	3.82%	1.55%
Dec-00	7.84%	5.64%	2.20%	Dec-05	5.80%	4.73%	1.07%	Dec-10	5.56%	4.17%	1.39%
Jan-01	7.80%	5.65%	2.15%	Jan-06	5.75%	4.65%	1.10%	Jan-11	5.57%	4.28%	1.29%
Feb-01	7.74%	5.62%	2.12%	Feb-06	5.82%	4.73%	1.09%	Feb-11	5.68%	4.42%	1.26%
Mar-01	7.68%	5.49%	2.19%	Mar-06	5.98%	4.91%	1.07%	Mar-11	5.56%	4.27%	1.29%
Apr-01	7.94%	5.78%	2.16%	Apr-06	6.29%	5.22%	1.07%	Apr-11	5.55%	4.28%	1.27%
May-01	7.99%	5.92%	2.07%	May-06	6.42%	5.35%	1.07%				
Jun-01	7.85%	5.82%	2.03%	Jun-06	6.40%	5.29%	1.11%				
Jul-01	7.78%	5.75%	2.03%	Jul-06	6.37%	5.25%	1.12%	Average:			
Aug-01	7.59%	5.58%	2.01%	Aug-06	6.20%	5.08%	1.12%	12-months			1.42%
Sep-01	7.75%	5.53%	2.22%	Sep-06	6.00%	4.93%	1.07%	6-months			1.34%
Oct-01	7.63%	5.34%	2.29%	Oct-06	5.98%	4.94%	1.04%	3-months			1.27%
Nov-01	7.57%	5.33%	2.24%	Nov-06	5.80%	4.78%	1.02%				
Dec-01	7.83%	5.76%	2.07%	Dec-06	5.81%	4.78%	1.03%				
Jan-02	7.66%	5.69%	1.97%	Jan-07	5.96%	4.95%	1.01%				
Feb-02	7.54%	5.61%	1.93%	Feb-07	5.90%	4.93%	0.97%				
Mar-02	7.76%	5.93%	1.83%	Mar-07	5.85%	4.81%	1.04%				
Apr-02	7.57%	5.85%	1.72%	Apr-07	5.97%	4.95%	1.02%				
May-02	7.52%	5.81%	1.71%	May-07	5.99%	4.98%	1.01%				
Jun-02	7.42%	5.65%	1.77%	Jun-07	6.30%	5.29%	1.01%				
Jul-02	7.31%	5.51%	1.80%	Jul-07	6.25%	5.19%	1.06%				
Aug-02	7.17%	5.19%	1.98%	Aug-07	6.24%	5.00%	1.24%				
Sep-02	7.08%	4.87%	2.21%	Sep-07	6.18%	4.84%	1.34%				
Oct-02	7.23%	5.00%	2.23%	Oct-07	6.11%	4.83%	1.28%				
Nov-02	7.14%	5.04%	2.10%	Nov-07	5.97%	4.56%	1.41%				
Dec-02	7.07%	5.01%	2.06%	Dec-07	6.16%	4.57%	1.59%				
Jan-03	7.07%	5.02%	2.05%	Jan-08	6.02%	4.35%	1.67%				
Feb-03	6.93%	4.87%	2.06%	Feb-08	6.21%	4.49%	1.72%				
Mar-03	6.79%	4.82%	1.97%	Mar-08	6.21%	4.36%	1.85%				
Apr-03	6.64%	4.91%	1.73%	Apr-08	6.29%	4.44%	1.85%				
May-03	6.36%	4.52%	1.84%	May-08	6.28%	4.60%	1.68%				
Jun-03	6.21%	4.34%	1.87%	Jun-08	6.38%	4.74%	1.64%				
Jul-03	6.57%	4.92%	1.65%	Jul-08	6.40%	4.62%	1.78%				
Aug-03	6.78%	5.39%	1.39%	Aug-08	6.37%	4.53%	1.84%				
Sep-03	6.56%	5.21%	1.35%	Sep-08	6.49%	4.32%	2.17%				
Oct-03	6.43%	5.21%	1.22%	Oct-08	7.56%	4.45%	3.11%				
Nov-03	6.37%	5.17%	1.20%	Nov-08	7.60%	4.27%	3.33%				
Dec-03	6.27%	5.11%	1.16%	Dec-08	6.52%	3.18%	3.34%				

S&P Composite Index and S&P Public Utility Index  
Long-Term Corporate and Public Utility Bonds  
 Yearly Total Returns  
 1928-2007

Year	S & P Composite Index	S & P Public Utility Index	Long Term Corporate Bonds	Public Utility Bonds
1928	43.61%	57.47%	2.84%	3.08%
1929	-8.42%	11.02%	3.27%	2.34%
1930	-24.90%	-21.96%	7.98%	4.74%
1931	-43.34%	-35.90%	-1.85%	-11.11%
1932	-8.19%	-0.54%	10.82%	7.25%
1933	53.99%	-21.87%	10.38%	-3.82%
1934	-1.44%	-20.41%	13.84%	22.61%
1935	47.67%	76.63%	9.61%	16.03%
1936	33.92%	20.69%	6.74%	8.30%
1937	-35.03%	-37.04%	2.75%	-4.05%
1938	31.12%	22.45%	6.13%	8.11%
1939	-0.41%	11.26%	3.97%	6.76%
1940	-9.78%	-17.15%	3.39%	4.45%
1941	-11.59%	-31.57%	2.73%	2.15%
1942	20.34%	15.39%	2.60%	3.81%
1943	25.90%	46.07%	2.83%	7.04%
1944	19.75%	18.03%	4.73%	3.29%
1945	36.44%	53.33%	4.08%	5.92%
1946	-8.07%	1.26%	1.72%	2.98%
1947	5.71%	-13.16%	-2.34%	-2.19%
1948	5.50%	4.01%	4.14%	2.65%
1949	18.79%	31.39%	3.31%	7.16%
1950	31.71%	3.25%	2.12%	2.01%
1951	24.02%	18.63%	-2.69%	-2.77%
1952	18.37%	19.25%	3.52%	2.99%
1953	-0.99%	7.85%	3.41%	2.08%
1954	52.62%	24.72%	5.39%	7.57%
1955	31.56%	11.26%	0.48%	0.12%
1956	6.56%	5.06%	-6.81%	-6.25%
1957	-10.78%	6.36%	8.71%	3.58%
1958	43.36%	40.70%	-2.22%	0.18%
1959	11.96%	7.49%	-0.97%	-2.29%
1960	0.47%	20.26%	9.07%	9.01%
1961	26.89%	29.33%	4.82%	4.65%
1962	-8.73%	-2.44%	7.95%	6.55%
1963	22.80%	12.36%	2.19%	3.44%
1964	16.48%	15.91%	4.77%	4.94%
1965	12.45%	4.67%	-0.46%	0.50%
1966	-10.06%	-4.48%	0.20%	-3.45%
1967	23.98%	-0.63%	-4.95%	-3.63%
1968	11.06%	10.32%	2.57%	1.87%
1969	-8.50%	-15.42%	-8.09%	-6.66%
1970	4.01%	16.56%	18.37%	15.90%
1971	14.31%	2.41%	11.01%	11.59%
1972	18.98%	8.15%	7.26%	7.19%
1973	-14.66%	-18.07%	1.14%	2.42%
1974	-26.47%	-21.55%	-3.06%	-5.28%
1975	37.20%	44.49%	14.64%	15.50%
1976	23.84%	31.81%	18.65%	19.04%
1977	-7.18%	8.64%	1.71%	5.22%
1978	6.56%	-3.71%	-0.07%	-0.98%
1979	18.44%	13.58%	-4.18%	-2.75%
1980	32.42%	15.08%	-2.76%	-0.23%
1981	-4.91%	11.74%	-1.24%	4.27%
1982	21.41%	26.52%	42.56%	33.52%
1983	22.51%	20.01%	6.26%	10.33%
1984	6.27%	26.04%	16.86%	14.82%
1985	32.16%	33.05%	30.09%	26.48%
1986	18.47%	28.53%	19.85%	18.16%
1987	5.23%	-2.92%	-0.27%	3.02%
1988	16.81%	18.27%	10.70%	10.19%
1989	31.49%	47.80%	16.23%	15.61%
1990	-3.17%	-2.57%	6.78%	8.13%
1991	30.55%	14.61%	19.89%	19.25%
1992	7.67%	8.10%	9.39%	8.65%
1993	9.99%	14.41%	13.19%	10.59%
1994	1.31%	-7.94%	-5.76%	-4.72%
1995	37.43%	42.15%	27.20%	22.81%
1996	23.07%	3.14%	1.40%	3.04%
1997	33.36%	24.69%	12.95%	11.39%
1998	28.58%	14.82%	10.76%	9.44%
1999	21.04%	-8.85%	-7.45%	-1.69%
2000	-9.11%	59.70%	12.87%	9.45%
2001	-11.88%	-30.41%	10.65%	5.85%
2002	-22.10%	-30.04%	16.33%	1.63%
2003	28.70%	26.11%	5.27%	10.01%
2004	10.87%	24.22%	8.72%	6.03%
2005	4.91%	16.79%	5.87%	3.02%
2006	15.80%	20.95%	3.24%	3.94%
2007	5.49%	19.39%	2.60%	5.20%
Geometric Mean	10.04%	8.92%	5.81%	5.45%
Arithmetic Mean	11.95%	11.24%	6.13%	5.72%
Standard Deviation	20.02%	22.43%	8.52%	7.84%
Median	13.38%	12.05%	4.11%	4.55%

**Tabulation of Risk Rate Differentials for  
 S&P Public Utility Index and Public Utility Bonds  
 For the Years 1928-2007, 1952-2007, 1974-2007, and 1979-2007**

<b><u>Total Returns</u></b>	<u>Range</u>		<u>Midpoint</u>	<u>Point Estimate</u>	<u>Average of the Midpoint of Range and Point Estimate</u>
	<u>Geometric Mean</u>	<u>Median</u>		<u>Arithmetic Mean</u>	
<b><u>1928-2007</u></b>					
S&P Public Utility Index	8.92%	12.05%		11.24%	
Public Utility Bonds	<u>5.45%</u>	<u>4.55%</u>		<u>5.72%</u>	
Risk Differential	<u>3.47%</u>	<u>7.50%</u>	<u>5.49%</u>	<u>5.52%</u>	<u>5.51%</u>
<b><u>1952-2007</u></b>					
S&P Public Utility Index	11.14%	14.00%		12.65%	
Public Utility Bonds	<u>6.15%</u>	<u>5.07%</u>		<u>6.45%</u>	
Risk Differential	<u>4.99%</u>	<u>8.93%</u>	<u>6.96%</u>	<u>6.20%</u>	<u>6.58%</u>
<b><u>1974-2007</u></b>					
S&P Public Utility Index	12.98%	15.94%		14.90%	
Public Utility Bonds	<u>8.45%</u>	<u>8.39%</u>		<u>8.79%</u>	
Risk Differential	<u>4.53%</u>	<u>7.55%</u>	<u>6.04%</u>	<u>6.11%</u>	<u>6.08%</u>
<b><u>1979-2007</u></b>					
S&P Public Utility Index	13.62%	16.79%		15.41%	
Public Utility Bonds	<u>8.83%</u>	<u>8.65%</u>		<u>9.15%</u>	
Risk Differential	<u>4.79%</u>	<u>8.14%</u>	<u>6.47%</u>	<u>6.26%</u>	<u>6.37%</u>

**Value Line Betas**

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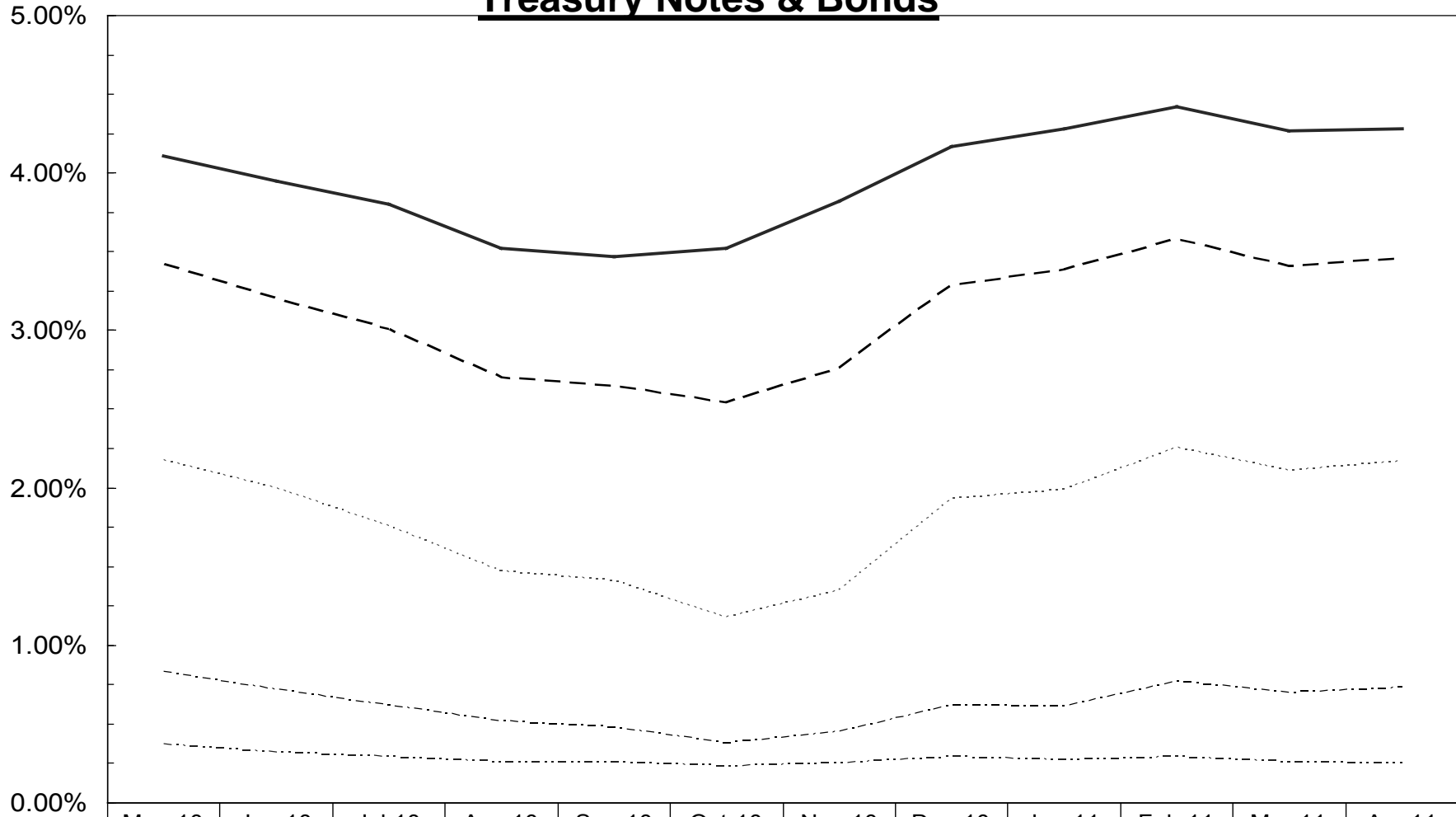
**Combination Group**

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Alliant Energy	0.70
Black Hills Corp.	0.80
CMS Energy Corp.	0.75
DTE Energy	0.75
Empire District Electric Co.	0.70
MGE Energy	0.65
Vectren Corp.	0.70
Wisconsin Energy	0.60
Xcel Energy Inc.	<u>0.65</u>
Average	<u><u>0.70</u></u>

Source of Information:  
Value Line Investment Survey  
March 25, 2011  
May 6, 2011

## Yields on Treasury Notes & Bonds



	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11
----- 1-Year	0.37%	0.32%	0.29%	0.26%	0.26%	0.23%	0.25%	0.29%	0.27%	0.29%	0.26%	0.25%
----- 2-Year	0.83%	0.72%	0.62%	0.52%	0.48%	0.38%	0.45%	0.62%	0.61%	0.77%	0.70%	0.73%
..... 5-Year	2.18%	2.00%	1.76%	1.47%	1.41%	1.18%	1.35%	1.93%	1.99%	2.26%	2.11%	2.17%
- - - 10-Year	3.42%	3.20%	3.01%	2.70%	2.65%	2.54%	2.76%	3.29%	3.39%	3.58%	3.41%	3.46%
———— 20-Year	4.11%	3.95%	3.80%	3.52%	3.47%	3.52%	3.82%	4.17%	4.28%	4.42%	4.27%	4.28%

**Yields for Treasury Constant Maturities  
 Yearly for 2006-2010  
 and the Twelve Months Ended April 2011**

<u>Years</u>	<u>1-Year</u>	<u>2-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>7-Year</u>	<u>10-Year</u>	<u>20-Year</u>
2006	4.93%	4.82%	4.77%	4.75%	4.76%	4.79%	4.99%
2007	4.52%	4.36%	4.34%	4.43%	4.50%	4.63%	4.91%
2008	1.82%	2.00%	2.24%	2.80%	3.17%	3.67%	4.36%
2009	0.47%	0.96%	1.43%	2.19%	2.81%	3.26%	4.11%
2010	0.32%	0.70%	1.11%	1.93%	2.62%	3.21%	4.03%
<b>Five-Year Average</b>	<u>2.41%</u>	<u>2.57%</u>	<u>2.78%</u>	<u>3.22%</u>	<u>3.57%</u>	<u>3.91%</u>	<u>4.48%</u>
<b><u>Months</u></b>							
May-10	0.37%	0.83%	1.32%	2.18%	2.86%	3.42%	4.11%
Jun-10	0.32%	0.72%	1.17%	2.00%	2.66%	3.20%	3.95%
Jul-10	0.29%	0.62%	0.98%	1.76%	2.43%	3.01%	3.80%
Aug-10	0.26%	0.52%	0.78%	1.47%	2.10%	2.70%	3.52%
Sep-10	0.26%	0.48%	0.74%	1.41%	2.05%	2.65%	3.47%
Oct-10	0.23%	0.38%	0.57%	1.18%	1.85%	2.54%	3.52%
Nov-10	0.25%	0.45%	0.67%	1.35%	2.02%	2.76%	3.82%
Dec-10	0.29%	0.62%	0.99%	1.93%	2.66%	3.29%	4.17%
Jan-11	0.27%	0.61%	1.03%	1.99%	2.72%	3.39%	4.28%
Feb-11	0.29%	0.77%	1.28%	2.26%	2.96%	3.58%	4.42%
Mar-11	0.26%	0.70%	1.17%	2.11%	2.80%	3.41%	4.27%
Apr-11	0.25%	0.73%	1.21%	2.17%	2.84%	3.46%	4.28%
<b>Twelve-Month Average</b>	<u>0.28%</u>	<u>0.62%</u>	<u>0.99%</u>	<u>1.82%</u>	<u>2.50%</u>	<u>3.12%</u>	<u>3.97%</u>
<b>Six-Month Average</b>	<u>0.27%</u>	<u>0.65%</u>	<u>1.06%</u>	<u>1.97%</u>	<u>2.67%</u>	<u>3.32%</u>	<u>4.21%</u>
<b>Three-Month Average</b>	<u>0.27%</u>	<u>0.73%</u>	<u>1.22%</u>	<u>2.18%</u>	<u>2.87%</u>	<u>3.48%</u>	<u>4.32%</u>

Source: Federal Reserve statistical release H.15

**Measures of the Risk-Free Rate & Corporate Bond Yields**

The forecast of Treasury and Corporate yields  
 per the consensus of nearly 50 economists  
 reported in the Blue Chip Financial Forecasts dated May 1, 2011

Year	Quarter	Treasury					Corporate	
		1-Year Bill	2-Year Note	5-Year Note	10-Year Note	30-Year Bond	Aaa Bond	Baa Bond
2011	Second	0.3%	0.8%	2.2%	3.5%	4.6%	5.2%	6.1%
2011	Third	0.4%	0.9%	2.4%	3.7%	4.7%	5.3%	6.3%
2011	Fourth	0.6%	1.2%	2.6%	3.8%	4.8%	5.5%	6.4%
2012	First	0.9%	1.5%	2.8%	4.0%	4.9%	5.6%	6.6%
2012	Second	1.3%	1.9%	3.0%	4.2%	5.1%	5.8%	6.8%
2012	Third	1.8%	2.2%	3.3%	4.4%	5.2%	5.9%	6.9%

**April 29, 2011**

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The Median of Estimated  
**PRICE-EARNINGS RATIOS**  
of all stocks with earnings

**16.8**

<b>26 Weeks</b>	<b>Market Low</b>	<b>Market High</b>
<b>Ago</b>	<b>3-9-09</b>	<b>7-13-07</b>
<b>15.8</b>	<b>10.3</b>	<b>19.7</b>

The Median of Estimated  
**DIVIDEND YIELDS**  
(next 12 months) of all dividend  
paying stocks under review

**1.9%**

<b>26 Weeks</b>	<b>Market Low</b>	<b>Market High</b>
<b>Ago</b>	<b>3-9-09</b>	<b>7-13-07</b>
<b>2.1%</b>	<b>4.0%</b>	<b>1.6%</b>

The Estimated Median Price  
**APPRECIATION POTENTIAL**  
of all 1700 stocks in the hypothesized  
economic environment 3 to 5 years hence

**55%**

<b>26 Weeks</b>	<b>Market Low</b>	<b>Market High</b>
<b>Ago</b>	<b>3-9-09</b>	<b>7-13-07</b>
<b>60%</b>	<b>185%</b>	<b>35%</b>

**ANALYSES OF INDUSTRIES IN ALPHABETICAL ORDER WITH PAGE NUMBER**

Numeral in parenthesis after the industry is rank for probable performance (next 12 months).

PAGE		PAGE		PAGE		PAGE	
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Auto Parts (9) .....	981	*Entertainment Tech (59) .....	2008	Metals & Mining (Div.) (14) .....	1563	Retail Building Supply (80) .....	1133
Bank (89) .....	2501	Environmental (36) .....	400	Natural Gas Utility (70) .....	546	Retail (Special Lines) (21) .....	2165
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*Beverage (64) .....	1961	*Foreign Electronics (22) .....	1975	Office Equip/Supplies (32) .....	1422	Securities Brokerage (39) .....	1791
Biotechnology (94) .....	826	Funeral Services (77) .....	1825	Oil/Gas Distribution (41) .....	617	Semiconductor (17) .....	1346
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Chemical (Basic) (10) .....	1575	Heavy Truck/Equip Makers (78) .....	160	Paper/Forest Products (30) .....	1157	Steel (73) .....	739
Chemical (Diversified) (4) .....	2423	Homebuilding (96) .....	1120	Petroleum (Integrated) (13) .....	501	Telecom. Equipment (63) .....	946
Chemical (Specialty) (24) .....	559	Hotel/Gaming (76) .....	2337	Petroleum (Producing) (55) .....	2385	Telecom. Services (33) .....	922
Coal (23) .....	606	Household Products (86) .....	1182	Pharmacy Services (68) .....	972	Telecom. Utility (5) .....	1037
Computers/Peripherals (20) .....	1399	Human Resources (90) .....	1627	Pipeline MLPs (88) .....	626	Thrift (93) .....	1501
Computer Software/Svcs (62) .....	2566	Industrial Services (61) .....	375	Power (82) .....	1211	*Tobacco (37) .....	1990
Diversified Co. (40) .....	1750	Information Services (75) .....	428	Precious Metals (26) .....	1553	Toiletries/Cosmetics (25) .....	1008
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\*Reviewed in this week's issue.

In three parts: This is Part 1, the Summary & Index. Part 2 is Selection & Opinion. Part 3 is Ratings & Reports. Volume LXVI, No. 36.

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**Table 2-1:** Basic Series: Summary Statistics of Annual Total Returns

Series	Geometric Mean (%)	Arithmetic Mean (%)	Standard Deviation (%)	Distribution (%)
Large Company Stocks	9.9	11.9	20.4	
Small Company Stocks*	12.1	16.7	32.6	
Long-Term Corporate Bonds	5.9	6.2	8.3	
Long-Term Government Bonds	5.5	5.9	9.5	
Intermediate-Term Government Bonds	5.4	5.5	5.7	
U.S. Treasury Bills	3.6	3.7	3.1	
Inflation	3.0	3.1	4.2	

Data from 1926–2010. \* The 1933 Small Company Stocks Total Return was 142.9 percent.

**Table 10-1:** Building Blocks for Expected Return Construction

	Value (%)
<b>Yields (Riskless Rates)<sup>†</sup></b>	
Long-Term (20-year) U.S. Treasury Coupon Bond Yield	4.1
Intermediate-Term (5-year) U.S. Treasury Coupon Note Yield	1.7
Short-Term (30-day) U.S. Treasury Bill Yield	0.1
<b>Fixed Income Risk Premia<sup>‡</sup></b>	
Expected default premium: <i>long-term corporate bond total returns minus long-term government bond total returns</i>	0.1
Expected long-term horizon premium: <i>long-term government bond income returns minus U.S. Treasury bill total returns*</i>	1.7
Expected intermediate-term horizon premium: <i>intermediate-term government bond income returns minus U.S. Treasury bill total returns*</i>	1.1
<b>Equity Risk Premia<sup>§</sup></b>	
Long-horizon expected equity risk premium: <i>large company stock total returns minus long-term government bond income returns</i>	6.7
Intermediate-horizon expected equity risk premium: <i>large company stock total returns minus intermediate-term government bond income returns</i>	7.2
Short-horizon expected equity risk premium: <i>large company stock total returns minus U.S. Treasury bill total returns*</i>	8.2
Small Stock Premium: <i>small company stock total return minus large company stock total return</i>	4.9

<sup>†</sup> As of December 31, 2010. Maturities are approximate.

<sup>‡</sup> Expected risk premia for fixed income are based on the differences of historical arithmetic mean returns from 1970–2010.

<sup>§</sup> Expected risk premia for equities are based on the differences of historical arithmetic mean returns from 1926–2010

\* For U.S. Treasury bills, the income return and total return are the same.

**Comparable Earnings Approach**

Using Non-Utility Companies with  
Timeliness of 2, 3 & 4; Safety Rank of 1, 2 & 3; Financial Strength of B+, B++ & A;  
Price Stability of 90 to 100; Betas of .66 to .80; and Technical Rank of 3 & 4

<u>Company</u>	<u>Industry</u>	<u>Timeliness Rank</u>	<u>Safety Rank</u>	<u>Financial Strength</u>	<u>Price Stability</u>	<u>Beta</u>	<u>Technical Rank</u>
Alleghany Corp.	INSRPTY	4	2	A	90	0.80	3
Alliant Techsystems	DEFENSE	3	3	B+	95	0.80	3
AmerisourceBergen	MEDSUPPL	2	2	B++	95	0.70	4
Aon Corp.	FINSERV	3	2	A	100	0.70	3
Berkley (W.R.)	INSRPTY	4	3	B+	95	0.70	3
Bristol-Myers Squibb	DRUG	3	1	A	90	0.75	4
Brown & Brown	FINSERV	4	2	A	95	0.70	3
Church & Dwight	HOUSEPRD	3	1	A	100	0.60	3
Clorox Co.	HOUSEPRD	4	2	B++	100	0.60	3
Commerce Bancshs.	BANKMID	3	1	A	95	0.80	3
ConAgra Foods	FOODPROC	2	1	A	100	0.65	3
CVS Caremark Corp.	DRUGSTOR	3	1	A	90	0.80	3
DaVita Inc.	MEDSERV	3	3	B+	95	0.60	3
Ecolab Inc.	CHEMSPEC	3	1	A	95	0.80	4
Erie Indemnity Co.	INSRPTY	4	2	B++	100	0.70	3
Forest Labs.	DRUG	2	2	A	90	0.80	4
Gallagher (Arthur J.)	FINSERV	4	1	A	95	0.70	3
Gilead Sciences	DRUG	3	3	B+	90	0.70	3
Haemonetics Corp.	MEDSUPPL	3	2	B++	95	0.60	3
Hasbro Inc.	RECREATE	4	2	B++	90	0.75	4
HCC Insurance Hldgs.	INSRPTY	3	3	B+	90	0.80	3
Hershey Co.	FOODPROC	3	2	B++	100	0.65	4
Hormel Foods	FOODPROC	2	1	A	100	0.60	4
Int'l Flavors & Frag.	CHEMSPEC	3	1	A	100	0.80	3
Investors Bancorp	THRIFT	3	3	B+	90	0.75	3
J&J Snack Foods	FOODPROC	3	2	B++	90	0.70	4
Laboratory Corp.	MEDSERV	2	1	A	100	0.65	3
Lincare Holdings	MEDSERV	3	1	A	90	0.65	3
McCormick & Co.	FOODPROC	3	1	A	100	0.60	3
Molson Coors Brewing	BEVERAGE	3	2	B++	90	0.60	3
Northwest Bancshares	THRIFT	4	3	B+	90	0.80	3
Owens & Minor	MEDSUPPL	3	2	A	90	0.65	3
People's United Fin'l	THRIFT	4	3	B+	95	0.65	3
Philip Morris Int'l	TOBACCO	3	2	B++	90	0.75	4
Quest Diagnostics	MEDSERV	3	2	B++	95	0.70	3
Reynolds American	TOBACCO	4	2	B+	100	0.60	4
Rollins Inc.	INDUSRV	3	2	A	90	0.80	4
Schein (Henry)	MEDSUPPL	3	3	B+	95	0.75	3
Sherwin-Williams	BUILDSUP	4	2	A	90	0.70	3
Silgan Holdings	PACKAGE	3	3	B+	95	0.75	3
Suburban Propane	PIPEMLP	4	3	B+	95	0.75	4
Waste Connections	ENVIRONM	3	3	B+	95	0.75	3
Waste Management	ENVIRONM	3	2	A	95	0.80	3
Watson Pharmac.	DRUG	2	2	B++	90	0.75	3
Weis Markets	GROCERY	3	1	A	95	0.65	4
Average		<u>3</u>	<u>2</u>	<u>B++</u>	<u>94</u>	<u>0.71</u>	<u>3</u>
Combination Group	Average	<u>3</u>	<u>2</u>	<u>B++</u>	<u>98</u>	<u>0.70</u>	<u>4</u>

**Comparable Earnings Approach**  
Five -Year Average Historical Earned Returns  
for Years 2006-2010 and  
Projected 3-5 Year Returns

Company	2006	2007	2008	2009	2010	Average	Projected 2014-16
Alleghany Corp.	9.6%	8.8%	4.4%	4.4%	4.6%	6.4%	6.5%
Alliant Techsystems	31.9%	30.5%	42.9%	37.4%	26.5%	33.8%	14.0%
AmerisourceBergen	11.3%	15.9%	17.3%	18.8%	21.6%	17.0%	16.5%
Aon Corp.	12.2%	10.9%	11.7%	12.7%	8.5%	11.2%	15.5%
Berkley (W.R.)	20.8%	20.6%	16.5%	10.2%	10.5%	15.7%	13.0%
Bristol-Myers Squibb	13.6%	20.5%	25.7%	21.9%	19.6%	20.3%	20.0%
Brown & Brown	18.5%	17.4%	13.4%	11.2%	10.7%	14.2%	12.0%
Church & Dwight	16.5%	15.6%	15.1%	15.5%	15.3%	15.6%	15.0%
Clorox Co.	-	290.1%	-	NMF	NMF	290.1%	NMF
Commerce Bancshs.	15.2%	13.5%	12.0%	9.0%	11.0%	12.1%	10.0%
ConAgra Foods	12.8%	14.9%	9.7%	14.7%	15.8%	13.6%	14.0%
CVS Caremark Corp.	13.5%	8.4%	10.4%	10.6%	9.7%	10.5%	11.0%
DaVita Inc.	21.3%	19.7%	19.2%	19.8%	22.8%	20.6%	15.5%
Ecolab Inc.	21.9%	21.5%	29.5%	23.9%	24.9%	24.3%	26.5%
Erie Indemnity Co.	17.6%	20.6%	18.0%	12.0%	17.8%	17.2%	22.5%
Forest Labs.	30.7%	30.2%	25.6%	21.8%	24.0%	26.5%	13.5%
Gallagher (Arthur J.)	15.9%	21.6%	15.1%	14.9%	14.8%	16.5%	15.0%
Gilead Sciences	64.0%	46.7%	48.4%	40.5%	48.4%	49.6%	36.5%
Haemonetics Corp.	10.5%	11.4%	11.9%	12.5%	13.0%	11.9%	13.0%
Hasbro Inc.	15.0%	25.0%	22.1%	23.5%	26.0%	22.3%	25.0%
HCC Insurance Hldgs.	16.8%	15.6%	12.0%	11.7%	10.5%	13.3%	11.0%
Hershey Co.	81.8%	81.3%	135.3%	69.3%	65.2%	86.6%	30.0%
Hormel Foods	15.9%	15.8%	14.2%	16.1%	17.0%	15.8%	15.0%
Int'l Flavors & Frag.	23.6%	38.3%	38.6%	27.9%	26.3%	30.9%	17.0%
Investors Bancorp	1.7%	2.6%	1.9%	NMF	6.9%	3.3%	9.5%
J&J Snack Foods	11.2%	10.9%	8.8%	12.0%	12.7%	11.1%	13.0%
Laboratory Corp.	22.2%	29.4%	30.4%	25.3%	23.7%	26.2%	16.0%
Lincare Holdings	19.2%	30.8%	24.5%	15.1%	18.1%	21.5%	23.0%
McCormick & Co.	24.8%	23.5%	26.7%	23.2%	24.4%	24.5%	19.0%
Molson Coors Brewing	6.4%	7.1%	8.6%	10.0%	8.6%	8.1%	8.0%
Northwest Bancshares	8.5%	8.0%	7.8%	2.5%	4.4%	6.2%	7.0%
Owens & Minor	10.2%	11.8%	14.7%	14.3%	14.1%	13.0%	12.5%
People's United Fin'l	9.3%	3.4%	2.7%	2.0%	1.6%	3.8%	5.0%
Philip Morris Int'l	43.1%	39.1%	91.9%	NMF	NMF	58.0%	NMF
Quest Diagnostics	21.2%	16.7%	17.8%	18.3%	17.9%	18.4%	13.5%
Reynolds American	16.1%	18.1%	22.5%	20.8%	22.4%	20.0%	23.0%
Rollins Inc.	27.3%	27.7%	30.2%	30.2%	30.2%	29.1%	35.5%
Schein (Henry)	12.4%	13.2%	14.0%	13.3%	14.0%	13.4%	14.5%
Sherwin-Williams	28.9%	34.5%	29.7%	29.2%	28.7%	30.2%	24.5%
Silgan Holdings	28.4%	24.6%	25.1%	23.2%	26.1%	25.5%	16.5%
Suburban Propane	90.1%	74.2%	50.5%	45.9%	31.6%	58.5%	25.0%
Waste Connections	11.0%	12.8%	8.2%	8.7%	10.5%	10.2%	15.5%
Waste Management	16.0%	18.6%	18.4%	15.7%	16.2%	17.0%	20.5%
Watson Pharmac.	6.7%	8.2%	11.3%	11.7%	13.0%	10.2%	13.5%
Weis Markets	8.9%	7.1%	7.1%	9.1%	9.4%	8.3%	9.0%
Average						<u>26.9%</u>	<u>16.6%</u>
Average (excluding companies with values >20%)						<u>11.7%</u>	<u>12.0%</u>