# APPENDIX C
# SAMPLE COMPANY GROWTH RATE ANALYSES

## ELECTRIC UTILITIES

**CV – Central Vermont Public Service** - CV's sustainable growth rate has averaged only 0.8% over the most recent five year period (1999-2003), including a set-back with substantially low growth in 2001. Also, the company's sustainable growth in the most recent year, about 3%, indicates an increasing growth trend. VL expects CV's sustainable growth to rise above that historical growth rate level and reach 3.95% by the 2007-2009 period. CV's book value growth rate is expected to be 3% over the next five years, a significant increase from the 0.5% rate of growth experienced over the past five years, but below internal growth projections. Also, CV's earnings per share are projected to increase at a 6% (VL) rate—above the indicated sustainable growth rate—but its dividends are expected to show 3.5% growth over the next five years, moderating long-term sustainable growth expectations. Over the past five years, CV's earnings growth was negative 3% (giving rise to the expectation for much higher growth in the future) while its dividends increased at only a 1% rate. Investors can reasonably expect long-term sustainable growth rate in the future to be higher than the past but not as high as the company's earnings growth projections; a growth rate of **4.25%** is reasonable for CV.

Regarding share growth, CV's shares outstanding increased at a 1% rate over the past five years. The growth the number of shares is projected by VL to increase at about a the same rate—1.1%—between 2003 and the 2007-0 period. An expectation of share growth of **1%** for this company is reasonable.

**FE – FirstEnergy Corp.** - FE's sustainable growth rate averaged 3.82% over the five-year historical period, with negative results in the most recent year, Absent those recent results, the company's historical sustainable growth was 4.8%. VL projects that the internal growth will moderate slightly through 2007-09, bringing sustainable growth to 4.1%. FE's book value, which increased at a 6.5% rate during the most recent five years, is expected to decline to a 4.5% rate in the future, similar to the sustainable growth projection. FE's earnings per share are projected to increase at a 1.5% (VL) to 4.0% (First Call) to 6.1% (Zack's) rate, indicating the variability of that growth rate measure. FE's dividends are expected to grow at a 2% rate, moderating long-term growth expectations. Historically FE's earnings grew at an 6% rate, according to Value Line and its dividends showed essentially no growth. On a compound growth rate basis using 2003 projections as the final year, FE's earnings grew at only about a 1% rate historically. The projected sustainable growth, earnings and book value growth rate data indicate that investors can expect the growth from FE in the future to be similar to or lower than that which has existed in the past. Investors can reasonably expect a sustainable growth rate of **4.0%** for FE.

Regarding share growth, FE's shares outstanding showed a 9% increase over the past five years. However, FE's growth rate in shares outstanding is expected to fall to a 0% rate of increase through 2007-09. Those projections indicate that future share growth will be below past averages. An expectation of share growth of **2.0%** for this company is reasonable.

**PGN – Progress Energy** - PGN's sustainable growth rate has averaged only 3.3% over the most recent five year period, with one sub-par year. Absent that year, the average sustainable growth rate is approximately 4%. VL expects PGN's sustainable growth to approximate that historical growth rate level to about 3.5% by the 2007-2009 period. PGN's book value growth rate is expected to be 5% over the next five years, far below the 9% rate of growth experienced over the past five years. PGN's earnings per share are projected to increase at a rate of 1.5% (VL) to 3.8% (First Call & Zack's). However, like many other electric companies, its dividends are expected to grow at a somewhat lower rate, in this case, 2.5%. Over the past five years, PGN's earnings growth was 4.5% while its dividends increased at a 3% rate. Investors can reasonably expect a sustainable growth rate in the future of **3.75%** for PGN.

Regarding share growth, PGN's shares outstanding increased at approximately an 11% rate over the past five years due to a merger. That rate of increase is expected to slow in the future to 0.80% through 2007-2009. An expectation of share growth of **2%** for this company is reasonable.

**SO – Southern Company** - SO's sustainable growth rate has averaged 3.70% over the most recent five year period. VL expects SO's sustainable growth to rise above that historical growth rate level and reach approximately 4.6% by the 2007-2009 period. SO's book value growth rate is expected to be 6% over the next five years, up dramatically from the -1% rate of growth experienced over the past five years. Also, SO's earnings per share are projected to increase at a 4.0% (First Call), to 4.5% (Zack's), to 5% (VL) rate—at or above the projected sustainable growth rate. However, its dividends are expected to grow at 3%. Over the past five years, SO's earnings growth was 2% according to Value Line while its dividends increased at a 1.5% rate. Investors can reasonably expect a higher sustainable growth rate in the future — **4.5%** for SO is reasonable.

Regarding share growth, SO's shares outstanding increased at approximately a 2.5% rate over the past five years. The number of shares is expected to grow at a 1.3% rate through 2007-09. An expectation of share growth of **1.5%** for this company is reasonable.

**AEE – Ameren Corp.** - AEE's sustainable growth rate averaged only about 2% over the most recent five-year period, with a poor year in 2002. Absent the that year AEE's sustainable growth averaged 2.6%. VL projects, by the 2007-09 period, sustainable growth will approximate 1.6%. AEE's projected book value, however, indicates improvement -- book value grew at a 1.5% rate during the most recent five years but is expected to rise at an 4% rate in the future, according to Value Line. Value Line projects a rate of earnings increase for AEE of -0.5%, while Firat Call and Zack's project 3% and 2.9%, respectivley. Dividends are expected to grow at a 0% rate, moderating long-term growth expectations. Historically AEE's earnings grew at a 2.5%

rate while its dividends increased at a 0.5% rate. Therefore, investors can reasonably expect a long-term sustainable growth rate from this company of **3.0%.**

Regarding share growth, AEE's shares outstanding grew at a 4.4% rate over the past five years. The five-year average level of share growth is expected to decrease to approximately 3.3% annually through 2007-09. An expectation of share growth of **4%** for this company is reasonable.

**Cinergy Corp. – CIN** - CIN's sustainable growth rate has averaged 3.19% over the most recent five year period with a declining trend. VL expects CIN's sustainable growth to rise above that historical average growth rate level to about 4% by the 2007-2009 period. CIN's book value growth rate is expected to be 4.5% over the next five years, up slightly from the 4% rate of growth experienced over the past five years. Also, CIN's earnings per share are projected to increase at a 3.5% (VL) to 4.0% (First Call), to 3.7% (Zack's) rate—all at or below the indicated internal growth rate. Also, its dividends are expected to grow at only 2%, moderating long-term growth rate expectations. Over the past five years, CIN's earnings growth was 3% while its dividends increased at a 0.5% rate. Investors can reasonably expect a sustainable growth rate in the future of **4.0%** for CIN.

Regarding share growth, CIN's shares outstanding increased at approximately a 3% rate over the past five years due to a share issuance in 2002 and 2003The number of shares outstanding in 2007-2009 is expected to show a 1.5% increase from 2000 levels. An expectation of share growth of **2%** for this company is reasonable.

**CNL – Cleco Corp.** - CNL's sustainable growth rate averaged 5.05% for the five-year period, with the results in the most recent year, below that average. VL expects sustainable growth to continue at a 4.8% level through the 2007-09 period. CNL's book value growth is expected to continue to increase at a 2% rate, below the historical level of 5.5%. CNL's earnings per share is projected to show no growth over the next five years, and its dividends are expected to grow at only a 0.5% rate, according to Value Line (CNL is not followed by First Call or Zack's). Historically CNL's earnings increased at a 6.5% rate and its dividends increased at a 2.5% rate of growth, according to Value Line. Investors can reasonably expect sustainable growth from CNL to be below past averages, a sustainable internal growth rate of **4.5%** is reasonable for this company.

Regarding share growth, CNL's shares outstanding grew at approximately a 1.3% rate over the past five years. The growth in the number of shares is expected by VL to be 0.6% through 2007-09. An expectation of share growth of **1%** for this company is reasonable.

**EDE – Empire District Electric** - EDE's sustainable internal growth rate averaged –1.15% over the five-year historical period, with several negative growth years. VL projects EDE's sustainable growth to rise to a level of 2% through 2007-09—a substantial improvement over historical results. Also, EDE's book value growth rate is expected to continue in the future at 2.5%, higher than the historical level of 1.5%, also pointing to increasing growth expectations for this company. EDE's earnings per share

are projected to increase at 6% to 10% according to VL & Zack's, respectively, while the analysts' surveyed by First Call project earnings growth at 2.0%, a substantial difference. EDE's dividends are expected to remain at a constant level over the next five years (i.e., showing 0% growth). Sustainable growth has been relatively inconsistent for this company, historically and is expected to trend upward in the future. Dividend growth has been non-existent. Also Value Line's earnings growth projection is skewed upward by their inclusion of the company's 2001 earnings in is "base" three-year period. From 2003 through the mid-point of the 2007-2009 period, Value Line's projected earnings per share indicate a 4% growth rate. Investors can reasonably expect a sustainable growth rate of **3.25%** from EDE.

Regarding share growth, EDE's shares outstanding grew at about a 9.7% rate over the past five years, due primarily to a large equity issuance in 2002. The level of share growth is expected by VL to drop to 0.8% through 2007-09. An expectation of share growth of **3.5%** for this company is reasonable.

**ETR – Entergy Corp.** - ETR's internal sustainable growth rate has averaged 5.41% over the most recent five year period (1999-2003), with results in 2002 above the historical growth rate level. That higher level of growth is not expected to be sustained and sustainable growth is expected to be about 4.8% by the 2007-2009 period. However, ETR's book value growth rate is expected to be 6% over the next five years—an substantial increase from the 3.5% rate of growth experienced over the past five years also pointing to higher growth expectations for the future. ETR's earnings per share are projected to increase at a rate of from 6% (VL) to 6% (Zack's) to 5.5% (Firs Call). After showing negative growth historically ETR's dividends are expected to grow at a high 9%, supporting higher sustainable growth expectations. Over the past five years, ETR's earnings grew at a 7% rate while its dividends showed –6.5% growth. Investors can reasonably expect a sustainable growth rate in the future similar to past averages, **5.75%** is reasonable for for ETR.

Regarding share growth, ETR's shares outstanding grew at a –1.9% rate over the past five years. The number of shares outstanding is projected by VL to rise at approximately a 0.25% rate through 2007-09. However, the number of shares outstanding in the 2007-09 time frame will be below the number outstanding in 1999. An expectation of share growth of **0%** for this company is reasonable.

[Note: The Value Line publication which contains the data for HE and PNW—*Ratings & Reports*, Edition 11, February 13, 2004—contains projections for 2006-2008. For the other electric companies, published subsequently by Value Line, contain projections for the 2007-2008 period.]

**HE – Hawaiian Electric** - HE's sustainable growth rate has averaged 1.77% over the most recent five year period (1998-2002), with higher growth in the two most recent years, indicating an increasing trend. However, VL expects HE's sustainable growth to increase from that historical growth rate level to reach 2.9% by the 2006-2008 period. Also, HE's book value growth rate is expected to be 4.5% over the next five years, a significant increase from the 1.5% rate of growth experienced over the past five years.

Also, HE's earnings per share are projected to increase at a 2.5% (Value Line and First Call) to 3.5% (Zack's) rate. The company's dividends are expected to show no growth over the next five years. Over the past five years, HE's earnings grew at a 2.5% rate while its dividends increased at only a 0.5% rate. Investors can reasonably expect a sustainable growth rate in the future of **3.0%** for HE.

Regarding share growth, HE's shares outstanding grew at a 3.5% rate over the past five years. The number of shares is projected by VL to increase at about a 1.2% between 2002 and the 2006-08 period. An expectation of share growth of **2%** for this company is reasonable.

**Pinnacle West – PNW** - PNW's sustainable growth rate has averaged 6.09% over the most recent five year period with an downward trend. VL expects PNW's sustainable growth to fall below that historical average growth rate level to 3.5% by the 2006-2008 period. PNW's book value growth rate is expected to be 3.5% over the next five years, below the 5% rate of growth experienced over the past five years, confirming lower growth expectations for this firm. Also, PNW's earnings per share is projected to increase at a 1% (VL) to 4% (First Call) to 5% (Zack's) rate—both above and below the indicated internal growth rate. However, PNW's dividends are expected to grow at a 5% rate, increasing long-term growth rate expectations. Over the past five years, PNW's earnings growth was 6% while its dividends did not increase. Investors can reasonably expect a sustainable growth rate in the future of **4.75%** for PNW.

Regarding share growth, PNW's shares outstanding increased at approximately a 1.8% rate over the past five years due to a share issuance in 2002. The number of shares outstanding in 2006-2008 is expected to show effectively no increase from 2000 levels. An expectation of share growth of **0.25%** for this company is reasonable.