AVISTA RATE CASE

UE-991606 UG-991607

APPENDIX C

Exhibit ____ (SGH – 4)

APPENDIX C

SAMPLE COMPANY GROWTH RATE ANALYSES

Exhibit ___ (SGH-4)

LNT – Alliant Energy Corp. - LNT's sustainable growth rate has averaged only 0.06% over the most recent five year period (1995-1999). Absent the recent years in which per share earnings fell below dividend levels, the this company's sustainable growth averaged 1.5%. VL expects LNT's sustainable growth to exceed that historical growth rate level by the 2002-2004 period, reaching a level of about 2%. Although Value Line does not currently publish a book value growth estimate for LNT, that investor services projections imply a projected book value growth of about 2% from 1999 through 2004 (the mid-point of the 2003-2005 projection period). LNT's book value increased at a 2% rate of growth experienced over the past five years. LNT's earnings per share are projected to increase at a 2% rate (Zack's), a substantial increase over the historical growth of –4% (VL). Value Line's implied earnings growth rate (1999 through 2004) is approximately 3%. Finally, LNT's dividends grew at only a 1.5% historically according to Value Line, and are projected to little growth over the next five years (0.7%). Investors can reasonably expect a sustainable growth rate in the future of **2.25%** for LNT.

Regarding share growth, LNT's shares outstanding grew at a 26% rate over the past five years, due to the completion of a merger between WPL Holdings, IES Industries and Interstate Power (which now comprise LNT). Prior to that time, shares outstanding had shown no growth. Following 0.5% growth in 2000, the number of shares is projected by VL to increase at approximately a 0.5% rate through 2003-05. An expectation of share growth of **1%** for this company is reasonable.

AEE – Ameren Corp - AEE's sustainable growth rate averaged 1.13% for the five-year historical period. Absent negative results in 1997, the average historical sustainable growth for AEE is approximately 1.5%. However, VL projects the sustainable growth in 2000 to rise to 2.6%, and then rise by the 2003-05 period to a level of approximately 3.25%, through an increasing ROE and earnings retention. AEE's book value growth during the most recent five years (1%) is not specifically projected by Value Line, but, again, the data array published implies a forward book value growth between 1999 and 2004 of 3%. AEE's earnings per share are implied by Value Line to increase at a 4.4% rate (between 1999 and 2004), whle to Zack's projects a 3% rate. AEE's dividends grew at a 2.5% rate historically and dividends are expected to grow at only a 0.9% rate, moderating long-term growth expectations. Investors can reasonably expect a sustainable growth rate considerably higher than that recently established; **3.0%** is reasonable for this company.

Regarding share growth, AEE's shares outstanding grew at approximately a 7.7% rate over the past five years, due to a merger-related increase in the number of shares outstanding. The number of shares is expected to show no growth through 2003-05. An expectation of share growth of **0%** for this company is reasonable.

CHG – CH Energy Group - CHG's sustainable growth rate averaged 2.78% over the five-year historical period. VL projects that sustainable growth will increase by the 2003-2005 period to approximately 3%. CHG's book value, which increased at a 3% rate during the most recent five years, is expected to continue at a 3% rate in the future, approximating the sustainable growth projection. CHG's earnings per share are projected to increase at a 1.5% (VL) to 1% (Zack's) rate, and its dividends are expected to grow at only a 0.5% rate, moderating growth expectations. Historically CHG's earnings grew at a 3% rate and its dividends showed 1.5% growth, according to Value Line. The projected sustainable growth, earnings and book value growth rate data indicate that investors can expect the growth from CHG to be higher in the future than has existed in the past. Investors can reasonably expect a sustainable growth rate of **3.0%** for CHG.

Regarding share growth, CHG's shares outstanding grew at approximately a -1% rate over the past five years. CHG's growth rate in shares outstanding is expected to show a 0% rate of increase through 2002-04. An expectation of share growth of **0%** for this company is reasonable.

CIN – Cinergy Corp. - CIN's sustainable growth rate averaged about 2.5% over the five-year historical period. VL expects an increase in sustainable growth in 2000 to about 4.25% and, then a slight decline to approximately 3.9% by the 2003-05 period. CIN's projected book value growth rate also shows projected improvement. CIN's book value grew at a -1% rate during the most recent five years but is expected to increase at a 4% rate in the future. CIN's earnings per share are projected to increase at a 4.5% to 4.4% rate (VL & Zack's, respectively). Value Line shows a projected dividend growth for CIN of only 1.5%, which is well below sustainable growth projections. Historically CIN's earnings have growth at 3% and dividends produced a 1.5% rate of growth. Investors can reasonably expect a sustainable growth rate above historical averages—**3.5%** for this company is reasonable.

Regarding share growth, CIN's shares outstanding grew at a 0.2% rate over the past five years. The level of growth in shares outstanding is expected by VL to increase at approximately a 0.14% rate through 2003-05. An expectation of share growth of **0.15%** for this company is reasonable for this company.

CEG – Constellation Energy Group - CEG's sustainable growth rate averaged 2.12% over the five-year period, but showed 3% growth in the most recent year (1999). CEG's sustainable growth is projected to increase to the 4% level in 2000 and VL projects, by the 2003-05 period, will rise to levels approximating 8%, through a nearly 30% increase in ROE. CEG's book value shows a somewhat less dramatic improvement -- book value grew at a 2.5% rate during the most recent five years but is expected to rise to a 5.5% rate in the future, according to Value Line. Value Line projects a rate of earnings increase for CEG of 11%, while Zack's projects 6.75%. Dividends are expected to grow at only a 0.5% rate, moderating growth expectations. Historically CEG's earnings grew at a 3.5% rate while its dividends increased at a 2.5% rate. Therefore, CEG's earnings can be expected to improve, but will not support dividend increases at the same rate. Investors can reasonably expect a long-term sustainable growth rate for CEG of **4.5%.**

Regarding share growth, CEG's shares outstanding grew at a 0.35% rate over the past five years. The five-year average level of share growth is expected to remain relavley constant and increase at approximately 0.3% rate through 2002-04. An expectation of share growth of **0.25%** for this company is reasonable.

PSD – Puget Sound Energy - PSD's sustainable internal growth rate averaged – 0.79% over the five-year historical period, and in years when growth was positive it was just barely so. However, going-forward, VL projects PSD's sustainable growth to rise to a level of approximately 2.3% through 2002-04. PSD's book value growth rate is expected to increase at only a 1% rate after declining historically. PSD's earnings per share are projected to increase at 5% to 3.5% (VL & Zack's), while its dividends are expected to show no growth. PSD had a 0.5% dividend growth rate, historically. Sustainable growth is expected to trend upward in the future close to the 2.5% level. Dividend growth has been very low and is expected to remain that way, and earnings are expected to grow at greater-than-average levels (3%-5%), offsetting the expectation of flat dividends. Therefore, investors can reasonably expect a sustainable growth rate of **2.5%**, from PSD.

Regarding share growth, PSD's shares outstanding grew at a 7% rate over the past five years, due to a merger in 1997; prior to which the shares outstanding showes no growth. The level of share growth is expected by VL to be approximately 1.5% through 2002-04. An expectation of share growth of **1%** for this company is reasonable.

RGS – RGS Energy Group - RGS's sustainable growth rate has averaged 1.99% over the most recent five year period (1995-1999), with 3% growth in the most recent year. VL expects RGS's sustainable growth to increase only slightly above that historical growth rate level to approximately 3.5% by the 2003-2005 period. RGS's book value growth rate is expected to be 3% over the next five years—an increase from the 1.5% rate of growth experienced over the past five years. Also, RGS's earnings per share are projected to increase at a 2.3% (Zack's) to 2.5% (VL) rate, but its dividends are expected to show no growth moderating sustainable growth expectations. Over the past five years, RGS's earnings grew at a 4.5% rate while its dividends increased at a 1% rate. Investors can reasonably expect a sustainable growth rate in the future to be somewhat higher than past averages, **2.75%** is reasonable for for RGS.

Regarding share growth, RGS's shares outstanding grew at a –1.67% rate over the past five years. The number of shares outstanding is projected by VL to fall at approximately a 1.69% rate through 2002-04. An expectation of share growth of **–1.0%** for this company is reasonable.

TE – TECO Energy - TE's sustainable growth rate averaged 3.91% for the five-year historical period, with the trend being downward (sustainable growth in the most recent year was about 2%). However, VL projects the sustainable growth to return by the 2002-04 period to a level 3.97%, approximating historical averages. TE's book value growth during the most recent five years (6%) expected to fall slightly to 5.5%. TE's earnings per share are projected by Value Line to increase at a 4%, while to Zack's projects a 4.88% rate. The company's earnings grew at 4.5% over the past five years, according to Value Line. TE's dividends grew at a 5.5% rate historically and dividends are expected to grow at a 4.5% rate in the future. Investors can reasonably expect a sustainable growth rate considerably higher than that recently established; **4.0%** is reasonable for this company.

Regarding share growth, TE's shares outstanding grew at approximately a 2.91% rate over the past five years, due to a acquisition-related increase in the number of shares outstanding. The number of shares is expected to decline slightly through 2003-05. An expectation of share growth of **0%** for this company is reasonable.