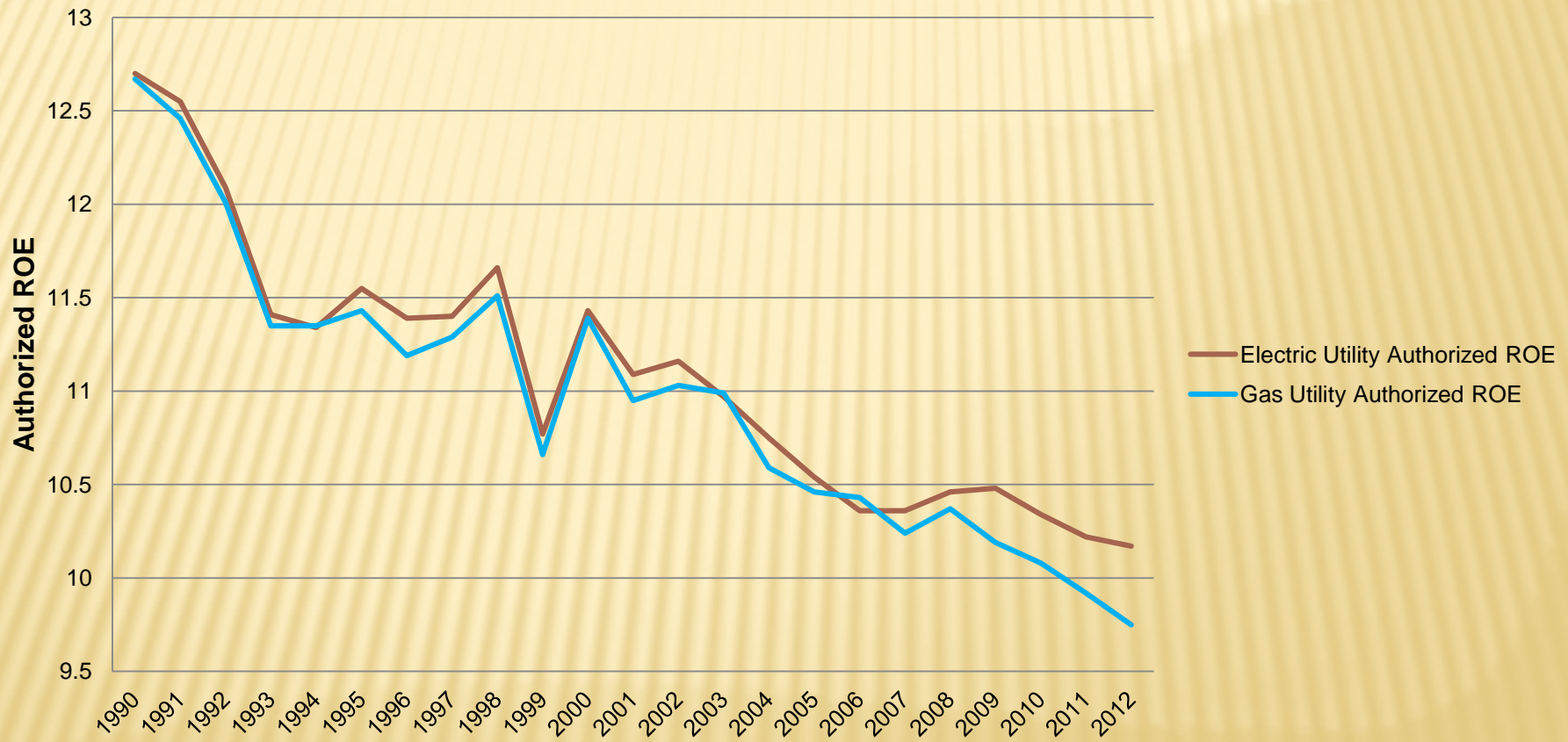


A Brief Overview

RETURN ON EQUITY FOR U.S. UTILITIES

AVERAGE AUTHORIZED ROE CONTINUE DECADES-LONG DOWNWARD TREND

Average Authorized ROEs in Rate Case Decisions



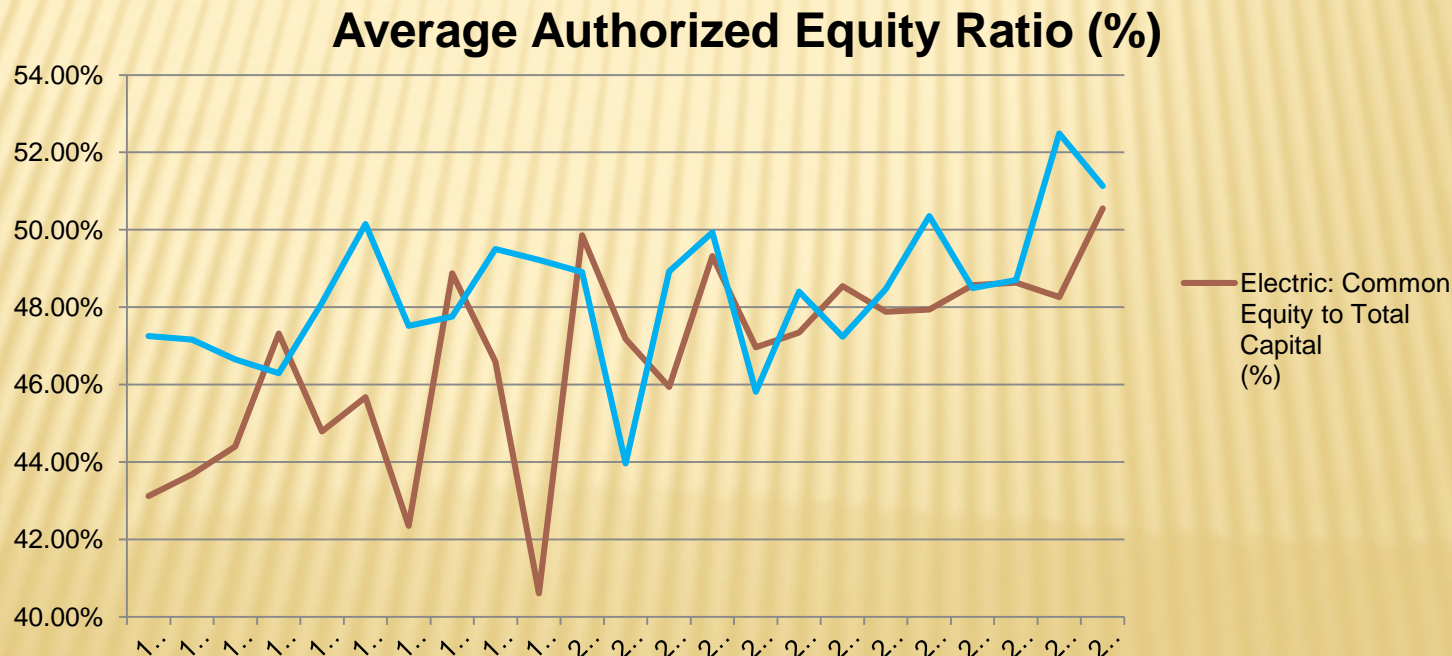
IS THIS TREND JUSTIFIED?

- ✗ U.S. Interest rates have continued to decline over the same period.
 - + Risk-free rate used in models...



IS THIS TREND JUSTIFIED?

- ✗ Utilities need the ability to attract capital.
 - + Debt costs have followed the interest rate trends
 - + Equity ratio's are increasing



IS THIS TREND JUSTIFIED?

- ✖ Creative recovery mechanisms outside of a rate-case reduce earnings risk for the shareholders.
 - + Formula Rate Plans
 - + Decoupling
 - + O&M Trackers
 - + Fuel Trackers
 - + CWIP
 - + Federally mandated cost tracking (RTOs)

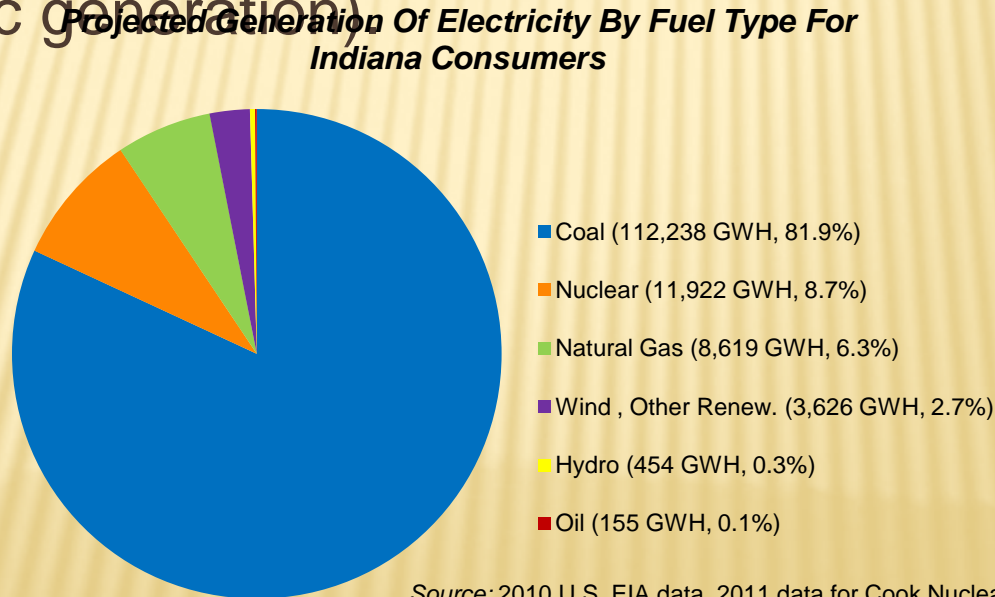
INDIANA COMMISSION'S RECENT FINDINGS

“Trackers that adjust rates for incremental investments or for costs that are nearly certain to be increasing serve to adjust the base line earnings for post rate case changes and address issues primarily associated with regulatory lag. Trackers that adjust rates for cost changes that are more unknown and that are equally likely to decrease or increase address the risk of volatile earnings results. The general effect of these trackers is to reduce the uncertainty of the earnings that an investor can expect.”¹

1. Final Order, Cause No. 44075; Feb. 13, 2013; Page 43

THE “OTHER SIDE OF THE COIN”

- ✗ The electric utility industry is facing increasing uncertainty which equals risk.
- + EPA is in a constant state of flux with regards to emissions, particularly for coal plants (46% of U.S. electric generation)



THE “OTHER SIDE OF THE COIN”

✖ Aging infrastructure is in need to be updated or replaced.

+ Age of Indiana’s Coal-Based Generation...

Years Old	Number of Coal-Based Units	MW of Generation (Summer Rating)	Percent of Total Coal-Based Generation
Over 50	27	1,995.7	13.0%
40-50	14	3,144.9	20.5%
30-40	14	6,533.1	42.5%
20 -30	8	3,595.7	23.4%
10-20	0	0	0
0-10	1	96.0	0.6
Total	64	15,365.4	100%

THE “OTHER SIDE OF THE COIN”

- ✕ Disruptive technology
 - + Small Solar and Wind
 - + Micro-grids
 - + Commercially viable electric storage

THE “OTHER SIDE OF THE COIN”

- ✗ FERC incentivizes transmission investment with ROE adders.

“The Commission [FERC] also will expect that before seeking an incentive return on equity (ROE) based on the risks and challenges of a project, an applicant would take all reasonable steps to mitigate risks, including seeking incentives designed to reduce those risks, such as construction work in progress, pre-commercial cost recovery and abandoned plant cost recovery.”²

A BALANCED APPROACH

- ✘ Commissions need to find the proper balance when setting the ROE for utilities.
- “The results of any return computation may be tempered by the Commission's duty to balance the respective interests involved in ratemaking. The end result of the Commission's Orders must be measured as much by the success with which they protect the broad public interest entrusted to our protection as by the effectiveness with which they allow utilities to maintain credit and attract capital.”³