

ORIGINAL



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September 25, 2003

Ms. Blanca S. Bayo, Director  
Division of Commission Clerk  
and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

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Re: ~~Docket No. 981834-TP~~  
Petition of Competitive Carriers for Commission Action to Support Local  
Competition in BellSouth Telecommunications Inc.'s Service Territory

Docket No. 990321-TP  
Petition of ACI Corp. d/b/a Accelerated Connections, Inc. for generic  
investigation to ensure that BellSouth Telecommunications, Inc., Sprint-Florida,  
Incorporated, and GTE Florida Incorporated comply with obligation to provide  
alternative local exchange carriers with flexible, timely, and cost-efficient  
physical collocation

Dear Ms. Bayo:

Please find enclosed for filing an original and 15 copies of the Surrebuttal Testimonies  
of Allen E. Sovereign, James H. Vander Weide and Charles Bailey/Barbara K. Ellis on  
behalf of Verizon Florida Inc. in the above matters. Service has been made as  
indicated on the Certificate of Service. If there are any questions regarding this filing,  
please contact me at 813-483-1256.

Sincerely,

*Richard A. Chapkis*

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DNs 09254-03 SOVEREIGN  
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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that copies of the Surrebuttal Testimonies of Allen E. Sovereign, James H. Vander Weide and Charles Bailey/Barbara K. Ellis on behalf of Verizon Florida Inc. in Docket Nos. 981834-TP/990321-TP were sent via electronic mail and U.S. mail on September 25, 2003 to the parties on the attached list.

*Richard A. Chapkis*

---

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition of Competitive Carriers for )  
Commission action to support local )  
Competition in BellSouth Telecommunications ) Docket No. 981834-TP  
Inc.'s service territory )  
\_\_\_\_\_)  
In re: Petition of ACI Corp. d/b/a Accelerated )  
Connections, Inc. for generic investigation to )  
ensure that BellSouth Telecommunications, )  
Inc., Sprint-Florida, Incorporated, and GTE ) Docket No. 990321-TP  
Florida Incorporated comply with obligation to )  
provide alternative local exchange carriers )  
with flexible, timely, and cost-efficient physical )  
collocation. )  
\_\_\_\_\_)

**SURREBUTTAL TESTIMONY OF**

**JAMES H. VANDER WEIDE**

**ON BEHALF OF**

**VERIZON FLORIDA INC.**

**SUBJECT: COST OF CAPITAL**

**September 26, 2003**

DOCUMENT NUMBER-DATE

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1           **SURREBUTTAL TESTIMONY OF JAMES H. VANDER WEIDE**

2   **I.       INTRODUCTION**

3   **Q.       PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4   A.       My name is James H. Vander Weide. I am Research Professor of Finance  
5           and Economics at the Fuqua School of Business of Duke University. I am  
6           also President of Financial Strategy Associates, a firm that provides  
7           strategic and financial consulting services to clients in the electric, gas,  
8           insurance, telecommunications, and water industries. My business  
9           address is 3606 Stoneybrook Drive, Durham, North Carolina.

10

11 **Q.       ARE YOU THE SAME JAMES H. VANDER WEIDE WHO SUBMITTED**  
12 **DIRECT TESTIMONY IN THIS PROCEEDING?**

13 A.       Yes, I am.

14

15 **Q.       WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

16 A.       The purpose of my surrebuttal testimony is twofold. First, it updates the  
17           cost of capital recommendation in my direct testimony to reflect cost of  
18           capital studies I have prepared since I submitted my direct testimony.  
19           Second, it responds to the recommended costs of capital for Verizon  
20           Florida Inc. ("Verizon FL") proposed by Mr. Steven E. Turner on behalf of  
21           AT&T Communications of Southern States, LLC ("AT&T") and Mr. Pete  
22           Lester on behalf of the Division of Economic Regulation of the Florida  
23           Public Service Commission ("Staff").

24

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**II. UPDATED COST OF CAPITAL RECOMMENDATION**

**Q. WHY ARE YOU UPDATING YOUR COST OF CAPITAL RECOMMENDATION IN THIS PROCEEDING?**

A. My direct testimony was filed on February 4, 2003. In May 2003, I performed my annual update of Verizon's cost of capital studies. Because I have updated my cost of capital studies since the time my direct testimony was filed, Verizon FL asked me to update my recommendation based on my most recent cost of capital studies.

**Q. ARE YOUR UPDATED COST OF CAPITAL STUDIES BASED ON THE SAME METHODOLOGIES YOU USED IN ARRIVING AT THE RECOMMENDED COST OF CAPITAL PRESENTED IN YOUR DIRECT TESTIMONY?**

A. Yes.

**Q. WHAT IS YOUR UPDATED COST OF CAPITAL RECOMMENDATION FOR USE IN VERIZON FL'S TELRIC-COMPLIANT COLLOCATION COST STUDIES IN THIS PROCEEDING?**

A. My updated recommended cost of capital for use in Verizon FL's TELRIC-compliant collocation cost studies in this proceeding is 16.85%. This recommendation is based on my updated 12.03% estimate of the competitive market cost of capital and my 4.82% estimate of the risk premium required to allow Verizon FL an opportunity to earn the 12.03% competitive market cost of capital. The schedules supporting my updated

1 recommendation are attached as Exhibit JWV-1.

2

3 **III. RESPONSE TO MR. TURNER**

4 **Q. WHAT IS MR. TURNER'S RECOMMENDED COST OF CAPITAL FOR**  
5 **VERIZON FL IN THIS PROCEEDING?**

6 A. Mr. Turner recommends a 9.63% cost of capital for Verizon FL.

7

8 **Q. DOES MR. TURNER RECOMMEND THE SAME COST OF CAPITAL**  
9 **FOR VERIZON FL THAT HE RECOMMENDS FOR BELLSOUTH AND**  
10 **SPRINT?**

11 A. No. Mr. Turner recommends a 10.24% cost of capital for BellSouth and a  
12 9.85% cost of capital for Sprint. Mr. Turner's recommended costs of  
13 capital for BellSouth and Sprint are both higher than his recommended  
14 cost of capital for Verizon FL, and his recommended cost of capital is  
15 *significantly* higher for BellSouth than for Verizon FL.

16

17 **Q. HOW DOES THE RISK OF INVESTING IN VERIZON FL'S LOCAL**  
18 **EXCHANGE BUSINESS COMPARE TO THE RISK OF INVESTING IN**  
19 **THE LOCAL EXCHANGE BUSINESSES OF BELLSOUTH AND**  
20 **SPRINT?**

21 A. The risk of investing in Verizon FL's local exchange business is  
22 indistinguishable from the risks of investing in the local exchange  
23 businesses of BellSouth and Sprint. All three companies face the risks of  
24 high operating leverage, uncertain demand, rapidly changing technology,  
25 and regulation under the TELRIC standard.



1

2 **Q. DOES MR. TURNER'S CLIENT AT&T AGREE WITH YOUR OPINION**  
3 **THAT VERIZON FL'S PLANT IS SUBJECT TO THE SAME RISKS AS**  
4 **BELLSOUTH'S AND SPRINT'S?**

5 A. Yes. When asked by Staff if "Verizon's plant is exposed to similar wear  
6 and tear, market competition, and technological changes as BellSouth"  
7 and Sprint, AT&T responded:

8 Yes. There is no reason whatsoever to expect that  
9 technological changes affect the two companies' plant  
10 differently, nor is there any showing that wear and tear  
11 should be substantially different in various parts of the state.

12 As for market competition, both companies are exposed to  
13 the similar same [*sic*] competitive regime. [AT&T Response  
14 to Staff's 6<sup>th</sup> Set of Interrogatories, Nos. 101 and 102.]

15

16 **Q. WHY ARE INVESTORS' PERCEPTIONS OF RISK RELEVANT TO**  
17 **YOUR ASSESSMENT OF MR. TURNER'S RECOMMENDED COST OF**  
18 **CAPITAL FOR VERIZON FL?**

19 A. Investors' perceptions of risk are relevant because investors will only invest  
20 in a company if they expect to earn a return that is commensurate with  
21 returns that they could earn on other investments of similar risk. Because  
22 the capital market data and evidence in this proceeding show that Verizon  
23 FL's competitive market cost of capital is significantly higher than any of  
24 Mr. Turner's recommendations, investors will have no incentive to invest in  
25 Verizon FL if any of Mr. Turner's recommendations are adopted.

1

2 **Q. DOES MR. TURNER PROVIDE ANY ECONOMIC SUPPORT FOR HIS**  
3 **COST OF CAPITAL RECOMMENDATIONS?**

4 A. No. Mr. Turner fails to support his cost of capital recommendations with  
5 any capital market data or evidence. He simply recommends that the  
6 Commission use the same cost of capital found in each company's last  
7 UNE proceeding.

8

9 **Q. HOW DID THE COMMISSION ARRIVE AT ITS COST OF CAPITAL**  
10 **FINDING IN VERIZON FL'S LAST UNE PROCEEDING?**

11 A. The Commission adopted the cost of capital recommendation of the Staff.  
12 However, Verizon FL is appealing this and other aspects of the  
13 Commission's UNE decision.

14

15 **Q. HAS THE STAFF PRESENTED COST OF CAPITAL TESTIMONY IN**  
16 **THIS PROCEEDING?**

17 A. Yes. The Staff recommends a cost of capital of 11.12% for Verizon FL  
18 based on the cost of capital evidence contained in the rebuttal testimony of  
19 Staff Witness Mr. Lester.

20

21 **Q. ARE THERE ANY DIFFERENCES BETWEEN THE STAFF'S COST OF**  
22 **CAPITAL TESTIMONY IN THIS PROCEEDING AND ITS TESTIMONY IN**  
23 **THE UNE PROCEEDING?**

24 A. Yes. The primary difference is that the Staff's cost of capital testimony in  
25 this proceeding specifically recognizes the FCC's recent clarification that

1 the risk-adjusted cost of capital used in TELRIC-compliant cost studies  
2 should reflect the risks associated with a fully-competitive  
3 telecommunications marketplace. Here, the Staff (1) relies on a large  
4 proxy group of companies operating in competitive markets and (2)  
5 employs a market value capital structure to estimate Verizon FL's TELRIC-  
6 compliant cost of capital. In contrast, the Staff's recommended 9.63% cost  
7 of capital in the UNE proceeding was based on a small proxy group of  
8 telecommunications companies and a book value capital structure. As a  
9 result, Staff's testimony in the prior UNE proceeding was not consistent  
10 with the FCC's TELRIC pricing principles.

11

12 **Q. CAN YOU SUMMARIZE YOUR CRITICISMS OF MR. TURNER'S 9.63%**  
13 **RECOMMENDED COST OF CAPITAL FOR VERIZON FL?**

14 A. Yes. First, Mr. Turner inconsistently recommends different costs of capital  
15 for companies with the same risk. Under his proposal, investors would  
16 have no incentive to invest in Verizon FL's local exchange business  
17 because they could earn a higher return on investments in BellSouth and  
18 Sprint.

19

20 Second, Mr. Turner's recommended cost of capital is not supported by any  
21 capital market data or evidence in this proceeding. The evidence shows  
22 that Verizon FL's cost of capital is significantly higher than Mr. Turner's  
23 recommendation.

24

25 Third, Mr. Turner's recommended cost of capital is based on Staff's

1 testimony in Verizon FL's last UNE proceeding, whereas Staff now  
2 recommends a significantly higher cost of capital. Staff's testimony in this  
3 proceeding properly recognizes the FCC's recent clarification on the proper  
4 cost of capital to be used in TELRIC-compliant cost studies.

5

6 Finally, Mr. Turner's recommendation fails to recognize that the Order in  
7 Verizon FL's last UNE proceeding is being appealed and that, as a result,  
8 the 9.63% cost of capital from the UNE proceeding may be overturned.

9

10 **IV. RESPONSE TO MR. LESTER**

11 **Q. HOW DID MR. LESTER ARRIVE AT HIS 11.12% RECOMMENDED**  
12 **COST OF CAPITAL FOR VERIZON FL?**

13 A. Mr. Lester arrived at his recommended 11.12% cost of capital in several  
14 steps. First, he identified a large group of risk proxy companies operating  
15 in competitive markets. Second, he estimated Verizon FL's cost of equity  
16 by applying a quarterly version of the DCF model to stock price, dividend,  
17 and growth data for his proxy companies. Third, he calculated the average  
18 market value capital structure of both his proxy company group and the  
19 three regional holding companies ("RHCs") with investment-grade bond  
20 ratings. Finally, he used his estimate of Verizon FL's cost of equity and  
21 market value capital structure, along with Verizon FL's estimate of the cost  
22 of debt, to calculate Verizon FL's weighted average cost of capital.

23

24 **A. PROXY COMPANIES**

25 **Q. WHY DID MR. LESTER USE A GROUP OF COMPANIES OPERATING**

1           **IN COMPETITIVE MARKETS AS RISK PROXIES FOR VERIZON FL?**

2    A.    On page 5 of his rebuttal testimony, Mr. Lester states:

3           I believe the risks facing the wireline telecommunications  
4           network, including collocation, have risen to the level of risks  
5           faced by companies in competitive markets. Current risk  
6           factors for the incumbent local exchange carriers' (ILECs')  
7           network include wireless substitution, partial network bypass  
8           by alternative local exchange carriers (ALECs), cable  
9           telephony, and internet services. Bypass risk is moderated  
10          somewhat by the financial distress in the ALEC sector.

11

12          In addition, in announcing its Triennial review of unbundled  
13          network elements (UNEs), the Federal Communications  
14          Commission (FCC) clarified that the risk-adjusted cost of  
15          capital used in calculating UNE prices should reflect the risks  
16          associated with a competitive market.

17

18    **Q.    DO YOU AGREE WITH MR. LESTER'S OPINION THAT INCUMBENT**  
19    **WIRELINE TELECOMMUNICATIONS COMPANIES FACE**  
20    **COMPETITIVE RISKS THAT ARE SIMILAR TO THE RISKS FACED BY**  
21    **COMPANIES OPERATING IN COMPETITIVE MARKETS?**

22    A.    Yes. Mr. Lester correctly recognizes that incumbent wireline  
23    telecommunications companies face competitive risks similar to the  
24    competitive risks faced by other companies operating in competitive  
25    markets. For this reason alone, it is reasonable for Mr. Lester to use a

1 proxy group of companies operating in competitive markets.

2

3 **Q. MR. LESTER'S STATEMENT ON PAGE 5 OF HIS REBUTTAL**  
4 **TESTIMONY REFERS TO THE ANNOUNCEMENT OF THE FCC'S**  
5 **TRIENNIAL REVIEW ORDER. HAS THE FINAL *TRIENNIAL REVIEW***  
6 ***ORDER* BEEN ISSUED?**

7 A. Yes. The *Triennial Review Order* was issued on August 21, 2003.

8

9 **Q. DID THE FCC REITERATE IN ITS PUBLISHED ORDER THAT THE**  
10 **RISK-ADJUSTED COST OF CAPITAL USED IN TELRIC-COMPLIANT**  
11 **COST STUDIES SHOULD REFLECT THE RISKS ASSOCIATED WITH A**  
12 **COMPETITIVE MARKET?**

13 A. Yes. In paragraphs 680 and 683 of the Triennial Review Order, the FCC  
14 stated:

15 To ensure that UNE prices set by the states appropriately  
16 reflect the risks associated with new facilities and new  
17 services, we think it would be helpful to clarify two types of  
18 risks that should be reflected in the cost of capital. First, we  
19 clarify that a TELRIC-based cost of capital should reflect the  
20 risks of a competitive market. The objective of TELRIC is to  
21 establish a price that replicates the price that would exist in a  
22 market in which there is facilities-based competition. In this  
23 type of competitive market, all facilities-based carriers would  
24 face the risk of losing customers to other facilities-based

1 carriers, and that risk should be reflected in TELRIC prices.

2 ...

3 Second, we clarify that a TELRIC-based cost of capital  
4 should reflect any unique risks (above and beyond the  
5 competitive risks discussed above) associated with new  
6 services that might be provided over certain types of  
7 facilities. [*Review of the Section 251 Unbundling Obligations*  
8 *of Incumbent Local Exchange Carriers, Implementation of*  
9 *the Local Competition Provisions of the Telecommunications*  
10 *Act of 1996, Deployment of Wireline Services Offering*  
11 *Advanced Telecommunications Capability*, CC Docket Nos.  
12 01-338, 96-98, 98-147 at ¶¶ 680, ¶¶ 683 (rel. Aug. 21, 2003)  
13 (“Triennial Review Order”)]

14

15 **Q. WHAT SPECIFIC RISK PROXY COMPANIES DID MR. LESTER USE TO**  
16 **ESTIMATE VERIZON FL’S COST OF EQUITY?**

17 A. Mr. Lester used a proxy group of 657 Value Line companies with positive  
18 dividend and earnings growth rates, as estimated by Value Line.

19

20 **Q. HOW DOES MR. LESTER’S PROXY GROUP OF VALUE LINE**  
21 **COMPANIES DIFFER FROM YOUR PROXY GROUP OF COMPANIES**  
22 **IN THE S&P INDUSTRIALS?**

23 A. Mr. Lester’s proxy group is generally quite similar to my proxy group of  
24 S&P Industrials. The primary difference is that Mr. Lester’s group includes  
25 regulated utilities, while my group does not.

1 **Q. WHY DID YOU EXCLUDE REGULATED UTILITIES FROM YOUR RISK**  
2 **PROXY GROUP?**

3 A. I excluded regulated utilities because competition is not as advanced in the  
4 electric and natural gas utility markets as in telecommunications. In  
5 addition, I excluded regulated utilities because the FCC's standard  
6 requires the risk-adjusted cost of capital in TELRIC-compliant cost studies  
7 to reflect the risks of a market with full facilities-based competition.

8

9 **Q. WHAT EFFECT DID MR. LESTER'S INCLUSION OF REGULATED**  
10 **UTILITIES HAVE ON HIS COST OF CAPITAL RESULTS?**

11 A. As shown in Exhibit JWV-2, if Mr. Lester had excluded regulated utilities  
12 from his proxy group of Value Line companies, his estimate of Verizon FL's  
13 cost of equity would have increased from 12.64% to 12.75%, and the  
14 average equity percentage in the capital structure of his proxy group of  
15 companies would have increased from 74.4% to 76.45%.

16

17 **B. DCF MODEL**

18 **Q. DO YOU AGREE WITH MR. LESTER'S USE OF THE QUARTERLY DCF**  
19 **MODEL TO ESTIMATE VERIZON FL'S COST OF EQUITY?**

20 A. Yes. Since Mr. Lester's proxy companies pay dividends quarterly, the  
21 quarterly DCF model provides the most accurate estimate of the return  
22 investors require on investments in these companies.

23

24 **Q. DO YOU AGREE WITH MR. LESTER'S USE OF A 4% FLOTATION**  
25 **COST ALLOWANCE IN ESTIMATING VERIZON FL'S COST OF**



1           **EQUITY?**

2    A.    Yes. A flotation cost allowance is required to compensate Verizon FL for  
3           the costs it would incur to finance its investment in its telecommunications  
4           network under the TELRIC standard. While I generally recommend the  
5           use of a 5% flotation cost allowance, the difference between a 5% flotation  
6           cost estimate and Mr. Lester's 4% flotation cost estimate is immaterial.  
7           Indeed, for competitive market proxy groups, a flotation cost allowance  
8           impacts the cost of equity result by only approximately 10 basis points.

9

10   **Q.    HOW DID MR. LESTER ESTIMATE THE GROWTH COMPONENT OF**  
11   **HIS DCF MODEL?**

12   A.    Mr. Lester estimated the growth component of his DCF model by  
13           averaging Value Line's estimates of dividend and earnings growth for each  
14           of his proxy companies.

15

16   **Q.    DO YOU AGREE WITH MR. LESTER'S USE OF THE AVERAGE OF**  
17   **VALUE LINE'S FORECASTED DIVIDEND AND EARNINGS GROWTH**  
18   **RATES AS HIS ESTIMATE OF GROWTH IN HIS DCF MODEL?**

19   A.    No. Value Line's current average *dividend* growth forecast for Mr. Lester's  
20           companies is based on its assumption that the average Value Line  
21           company is in the process of adjusting to a lower target dividend payout  
22           ratio. As shown below, dividends must grow at the same rate as earnings  
23           once the companies have achieved their new target dividend payout ratio.  
24           Thus, Value Line's forecasted *earnings* growth rate is a better estimate of  
25           long-run dividend growth than its current forecasted *dividend* growth rate.

1

2 **Q. DO YOU HAVE ANY EVIDENCE THAT VALUE LINE'S AVERAGE**  
3 **DIVIDEND FORECAST FOR THE COMPANIES IN MR. LESTER'S RISK**  
4 **PROXY GROUP IS BASED ON THE ASSUMPTION OF A DECLINING**  
5 **DIVIDEND PAYOUT RATIO?**

6 A. Yes. As shown in Mr. Lester's work papers, the average earnings growth  
7 forecast for the companies in Mr. Lester's risk proxy group is greater than  
8 the average dividend growth forecast for these companies. Whenever  
9 earnings are expected to grow at a faster rate than dividends, the dividend  
10 payout ratio will necessarily decline.

11

12 **Q. SUPPOSE THAT ANALYSTS EXPECT A COMPANY'S DIVIDENDS TO**  
13 **GROW BY LESS THAN ITS EARNINGS OVER THE NEXT SEVERAL**  
14 **YEARS BECAUSE OF THE COMPANY'S TRANSITION TO A NEW,**  
15 **LOWER TARGET DIVIDEND PAYOUT RATIO. DOES THIS IMPLY**  
16 **THAT ANALYSTS' EARNINGS GROWTH PROJECTIONS FOR THIS**  
17 **COMPANY CANNOT BE USED TO ESTIMATE THE "G" TERM IN THE**  
18 **DCF MODEL?**

19 A. No. To illustrate, suppose that a company's current dividend payout ratio  
20 is approximately 75 percent and that the company intends to adjust its  
21 dividend payout ratio to 60 percent. Once the company achieves its new  
22 dividend payout target, dividends will grow at the same rate as earnings.  
23 As long as the transition is relatively short, the earnings growth forecast  
24 would still be a good estimate of long-term dividend growth in the DCF  
25 Model. (To illustrate why the earnings growth forecast would be a good

1 estimate of long-term dividend growth, consider that, for any one year  
2 period of time, a company's earnings growth rate is given by the equation:

3

$$4 \quad G_E = \frac{E_t}{E_{t-1}}$$

5

6 Assuming that the company has achieved its new dividend payout ratio of  
7 60%, its dividend growth rate is given by the equation:

8

$$9 \quad G_D = \frac{D_t}{D_{t-1}} = \frac{.6E_t}{.6E_{t-1}} = \frac{E_t}{E_{t-1}}$$

10

11 Thus, once the company achieves its new dividend payout ratio, dividends  
12 must grow at the same rate as earnings.)

13

14 **Q. WHAT DCF RESULT WOULD MR. LESTER HAVE OBTAINED IF HE**  
15 **HAD USED THE VALUE LINE EARNINGS GROWTH FORECASTS TO**  
16 **ESTIMATE GROWTH IN THE DCF MODEL?**

17 **A.** If Mr. Lester had used the Value Line earnings growth forecasts, as shown  
18 on Exhibit JVW-3, he would have obtained a DCF result of 13.97% -- a  
19 result that is virtually the same as the 13.95% cost of equity I obtained for  
20 my proxy group of companies. (The 13.97% DCF result is calculated by  
21 eliminating all companies with a cost of equity either below the 7.90%  
22 lower bound used by Staff or above a standard deviation from the mean.)

23

24 **C. CAPITAL STRUCTURE**

25 **Q. WHY DOES MR. LESTER RECOMMEND USING A MARKET VALUE**

1           **CAPITAL STRUCTURE TO ESTIMATE VERIZON FL'S TELRIC-**  
2           **COMPLIANT COST OF CAPITAL?**

3    A.    On page 6 of his rebuttal testimony, Mr. Lester states:

4                   Financial theory supports the use of market value capital  
5                   structures. Market values are the best expression of an  
6                   asset's earning power, cash flow, and debt service ability.  
7                   Further, the goal of firms in competitive markets is to  
8                   maximize their shareholders' wealth. A cost of capital based  
9                   on a market value capital structure is consistent with this  
10                  goal.

11

12   **Q.    DO YOU AGREE WITH MR. LESTER'S STATEMENT THAT FINANCIAL**  
13   **THEORY SUPPORTS THE USE OF MARKET VALUE CAPITAL**  
14   **STRUCTURES TO ESTIMATE A COMPANY'S COST OF CAPITAL?**

15   A.    Yes. Financial theory undoubtedly supports the use of market value,  
16    rather than book value, capital structures to estimate a company's  
17    weighted average cost of capital. In reaching this conclusion, financial  
18    economists correctly recognize that investors make investment decisions  
19    based on market prices rather than accounting values.

20

21   **Q.    WHAT IS THE DIFFERENCE BETWEEN A MARKET VALUE CAPITAL**  
22   **STRUCTURE AND A BOOK VALUE CAPITAL STRUCTURE?**

23   A.    A market value capital structure measures the debt and equity components  
24    of a company's capital structure in terms of the market values of debt and  
25    equity, while a book value capital structure measures the capital structure

1 components in terms of the amounts of debt and equity shown on the  
2 company's books. Book value capital structures should not be used in  
3 forward-looking cost studies because book values inherently reflect  
4 historical, embedded, and accounting costs rather than forward-looking  
5 economic costs.

6

7 **Q. WHAT SPECIFIC MARKET VALUE CAPITAL STRUCTURE DID MR.**  
8 **LESTER USE TO ESTIMATE VERIZON FL'S COST OF CAPITAL?**

9 A. Mr. Lester used a market value capital structure containing 71% equity and  
10 29% debt to estimate Verizon FL's weighted average cost of capital.

11

12 **Q. HOW DID MR. LESTER ARRIVE AT HIS RECOMMENDED 71%**  
13 **EQUITY/29% DEBT MARKET VALUE CAPITAL STRUCTURE?**

14 A. His recommended market value capital structure was based primarily on  
15 his estimate of the average market value capital structure of BellSouth,  
16 SBC, and Verizon, using debt values as of December 31, 2002, and equity  
17 values as of February 2003.

18

19 **Q. WHAT IS THE LATEST AVERAGE MARKET VALUE CAPITAL**  
20 **STRUCTURE FOR THE RHCS USING REPORTED DATA FROM VALUE**  
21 **LINE?**

22 A. As shown in Exhibit JVW-4, the most recent average market value capital  
23 structure for BellSouth, SBC, and Verizon, using data from Value Line,  
24 contains 74.4% equity and 25.6% debt.

25

1 Q. **WHAT IS THE AVERAGE MARKET VALUE CAPITAL STRUCTURE OF**  
2 **MR. LESTER'S PROXY GROUP EXCLUDING THE REGULATED**  
3 **UTILITIES?**

4 A. As noted above and shown in Exhibit JVW-2, the average market value  
5 capital structure of Mr. Lester's proxy group of competitive companies,  
6 excluding the regulated utilities, contains 76.45% equity and 23.55% debt,  
7 based on the data provided in Mr. Lester's work papers.

8  
9 Q. **DO MR. LESTER'S DATA SUPPORT YOUR RECOMMENDED 75%**  
10 **EQUITY/25% DEBT MARKET VALUE CAPITAL STRUCTURE FOR**  
11 **VERIZON FL?**

12 A. Yes. These data provide additional support for my recommended 75%  
13 equity/25% debt market value capital structure for Verizon FL.

14  
15 Q. **IN YOUR CALCULATIONS OF THE MARKET VALUE CAPITAL**  
16 **STRUCTURES FOR YOUR PROXY COMPANIES, DID YOU INCLUDE**  
17 **BOTH SHORT-TERM AND LONG-TERM DEBT IN THE DEBT**  
18 **COMPONENT OF THE CAPITAL STRUCTURE?**

19 A. Yes. To be conservative, I included both short-term and long-term debt in  
20 my calculations of the average total debt in the capital structures of both  
21 the S&P Industrials and the telecommunications companies. If I had  
22 excluded short-term debt from total capital, the percentage of debt in the  
23 capital structure of my proxy companies would have been even lower, and  
24 the percentage of equity would have been higher.

25

1 Q. DID MR. LESTER ALSO INCLUDE SHORT-TERM DEBT IN HIS  
2 CAPITAL STRUCTURE CALCULATIONS FOR HIS PROXY  
3 COMPANIES?

4 A. Yes.

5

6 Q. IS THERE ANY REASON WHY SHORT-TERM DEBT SHOULD BE  
7 EXCLUDED FROM THE MARKET VALUE CAPITAL STRUCTURES  
8 USED TO DETERMINE THE COST OF CAPITAL INPUT IN TELRIC-  
9 COMPLIANT COST STUDIES?

10 A. Yes. The proxy companies Mr. Lester and I examined primarily use short-  
11 term debt to finance working capital requirements, including investment in  
12 inventories and receivables. Short-term debt is generally not used to  
13 finance investments in long-term assets such as Verizon FL's investment  
14 in telecommunications network facilities. In addition, working capital is not  
15 included in the investment component of TELRIC cost studies. Thus, there  
16 are strong economic arguments for excluding short-term debt in the capital  
17 structure when calculating the weighted average cost of capital for use in  
18 TELRIC cost studies. If Mr. Lester had not included short-term debt in his  
19 capital structure calculations for his proxy companies, the reported  
20 percentage of equity is 76% for his telecommunications companies, and,  
21 for his large proxy group, 77% (even if regulated utilities remain in the  
22 proxy group).

23

24 Q. ON PAGE 7 OF HIS REBUTTAL TESTIMONY, MR. LESTER SUGGESTS  
25 THAT THE COMMISSION SHOULD USE A CONSERVATIVE

1           **APPROACH, “SINCE MARKET VALUES FOR EQUITY VARY**  
2           **CONSIDERABLY AND CAN RESULT IN VERY HIGH LEVELS OF**  
3           **EQUITY IN THE CAPITAL STRUCTURE.” DOES HIS ARGUMENT**  
4           **REFUTE YOUR RECOMMENDED 75% EQUITY/25% DEBT CAPITAL**  
5           **STRUCTURE FOR VERIZON FL?**

6    A.    No. My recommended 75% equity/25% debt capital structure is not only a  
7           reasonable estimate of the current market value capital structure for  
8           companies operating in competitive markets, but, as I have shown, is also  
9           a conservative estimate of the market value capital structure that has  
10          characterized these competitive companies in each of the last five years.  
11          Whatever variability occurs in market value capital structures is already  
12          accounted for in my conservative estimate of the appropriate market value  
13          capital structure in this proceeding.

14  
15    **Q.    WHAT COST OF CAPITAL WOULD RESULT IF MR. LESTER HAD**  
16           **USED A 75% EQUITY/25% DEBT CAPITAL STRUCTURE AND THE**  
17           **12.75% DCF RESULT FOR HIS PROXY COMPANIES EXCLUDING THE**  
18           **UTILITIES?**

19    A.    Mr. Lester would have obtained a cost of capital of 11.41%, as shown  
20           Exhibit JVW-5.

21  
22    **Q.    WHAT COST OF CAPITAL WOULD RESULT IF MR. LESTER HAD**  
23           **USED A 75% EQUITY/25% DEBT CAPITAL STRUCTURE AND THE**  
24           **13.97% DCF RESULT FOR HIS PROXY COMPANIES USING THE**  
25           **VALUE LINE EARNINGS GROWTH FORECAST?**



1 A. Mr. Lester would have obtained a cost of capital of 12.33%, as also shown  
2 Exhibit JVV-5.

3

4 **Q. ON PAGE 7 OF HIS REBUTTAL TESTIMONY, MR. LESTER STATES**  
5 **THAT, IF THE COMMISSION WERE TO REJECT THE USE OF A**  
6 **MARKET VALUE CAPITAL STRUCTURE, HE WOULD RECOMMEND A**  
7 **CAPITAL STRUCTURE CONTAINING 60% EQUITY AND 40% DEBT,**  
8 **BECAUSE SUCH A CAPITAL STRUCTURE WOULD BE CONSISTENT**  
9 **WITH PREVIOUS COMMISSION DECISIONS. DO YOU AGREE WITH**  
10 **MR. LESTER'S ALTERNATIVE RECOMMENDATION TO USE A**  
11 **CAPITAL STRUCTURE CONTAINING 60% EQUITY AND 40% DEBT?**

12 A. No. Mr. Lester's alternative capital structure contains significantly less  
13 equity and more debt than the average market value capital structure of  
14 telecommunications companies or a large proxy group of companies  
15 operating in competitive markets. Mr. Lester was correct when he stated in  
16 his rebuttal testimony, "Financial theory supports the use of market value  
17 capital structures." Furthermore, the FCC's TELRIC guidelines require that  
18 TELRIC cost studies be based on forward-looking economic costs, not  
19 historical, embedded, or accounting costs. The only capital structure that  
20 is consistent with the FCC's requirement is a market value capital  
21 structure.

22

23

24 **D. REQUIRED RISK PREMIUM**

25 **Q. WHAT IS THE PURPOSE OF YOUR RECOMMENDATION THAT A RISK**

1           **PREMIUM BE ADDED TO YOUR ESTIMATE OF VERIZON FL'S**  
2           **COMPETITIVE MARKET COST OF CAPITAL?**

3    A.    My recommended risk premium is required to allow Verizon FL an  
4           opportunity to earn its market cost of capital under the TELRIC standard.  
5           TELRIC-compliant cost studies are based on the assumption that  
6           collocation rates will be sufficient to allow Verizon FL to recover all variable  
7           and fixed costs of providing collocation services and to earn a fair rate of  
8           return on its investment in collocation arrangements. In practice, Verizon  
9           FL will not be able to recover these costs because competitors have the  
10          option to cancel their monthly lease of collocation arrangements before  
11          these costs can be fully recovered. Since Verizon FL will not have an  
12          opportunity to earn its market cost of capital—regardless of whether the  
13          Commission accepts Mr. Lester's 11.12% estimate or my 12.03% estimate  
14          of Verizon FL's cost of capital—a risk premium is required to allow Verizon  
15          FL an opportunity to actually earn its cost of capital.

16

17   **Q.    DO YOU HAVE ANY EVIDENCE THAT VERIZON FL WILL NOT HAVE**  
18           **AN OPPORTUNITY TO EARN ITS COST OF CAPITAL ON ITS**  
19           **INVESTMENT IN COLLOCATION ARRANGEMENTS UNDER THE**  
20           **TELRIC STANDARD?**

21   A.    Yes. Verizon FL's monthly recurring charges are designed to allow the  
22          Company an opportunity to recover its investment in collocation  
23          arrangements over their useful life. If Verizon FL makes investments in  
24          collocation arrangements and its ALEC customers cancel their monthly  
25          lease for these facilities before the investment in these facilities is fully

1 recovered, then Verizon FL will have no opportunity to earn its cost of  
2 capital. To determine whether Verizon FL has experienced such losses in  
3 practice, I asked Verizon FL to provide me with data on the number of  
4 collocation arrangements that have been requested by ALECs and  
5 provisioned for them and the current status of these arrangements. Of the  
6 698 collocation arrangements that Verizon FL has provisioned for its ALEC  
7 competitors since 1999, only 240 are still in service. (See Exhibit JVW-6.)  
8 Thus, ALECs have cancelled nearly two-thirds of the total number of  
9 collocation arrangements they have ordered within the last few years --  
10 before Verizon FL has had an opportunity to earn its cost of capital on its  
11 investment in these arrangements.

12

13 **Q. DOES MR. LESTER HAVE ANY COMMENTS ON YOUR**  
14 **RECOMMENDATION TO ADD A REQUIRED RISK PREMIUM TO YOUR**  
15 **ESTIMATE OF VERIZON FL'S COMPETITIVE MARKET COST OF**  
16 **CAPITAL?**

17 A. Yes. On page 11 of his rebuttal testimony, Mr. Lester states:

18 I believe it is unnecessary. The risk of an ALEC customer  
19 canceling its monthly lease is comparable to the risk of a  
20 customer not buying a product or service. That risk is faced  
21 by companies in competitive markets. Such companies face  
22 significant risks of underutilized investment and the inability  
23 to recover sunk costs. I believe a cost of capital that reflects  
24 the risks associated with companies in competitive markets  
25 encompasses this risk and is the appropriate cost of capital

1 for pricing collocation services.

2

3 In addition, allowing a cost of capital that reflects the risks  
4 associated with a competitive market is consistent with the  
5 intent of TELRIC pricing, which is to simulate a competitive  
6 market for UNEs.

7

8 **Q. DO YOU AGREE WITH MR. LESTER'S OPINION THAT YOUR  
9 REQUIRED REGULATORY RISK PREMIUM IS "UNNECESSARY"?**

10 A. No. The data shown in Exhibit JWV-6 demonstrate that Verizon FL will  
11 have no opportunity to recover its investment in collocation arrangements  
12 or to earn its cost of capital on this investment unless the required risk  
13 premium is added to the competitive market cost of capital.

14

15 **Q. DO YOU AGREE WITH MR. LESTER'S OPINION THAT COMPETITIVE  
16 COMPANIES "FACE SIGNIFICANT RISKS OF UNDERUTILIZED  
17 INVESTMENT AND THE INABILITY TO RECOVER SUNK COSTS" AND  
18 THAT COMPENSATION FOR THIS RISK IS ALREADY INCLUDED IN  
19 THE COMPETITIVE MARKET COST OF CAPITAL?**

20 A. No. Mr. Lester fails to recognize that, while competitive companies face  
21 some risk of under-recovery of sunk costs, they generally include a  
22 sufficient premium in their rates to fairly compensate them for this risk.  
23 Thus, the ability of competitive companies to earn more than their cost of  
24 capital if their investment is fully utilized compensates them for the risk that  
25 their investment may be underutilized. In contrast, Verizon FL's rates only

1 allow Verizon FL an opportunity to recover its investment and earn its cost  
2 of capital if its investments are always fully utilized. The data in Exhibit 6  
3 demonstrate that Verizon FL's investment in collocation arrangements  
4 have been substantially underutilized. Thus, a risk premium is required to  
5 give Verizon FL the same opportunity as competitive companies have to  
6 recover its investment and earn a return on that investment.

7

8 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

9 A. Yes.

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| COMPANY                      | Price  | Dividend | Growth | Cost of Equity |
|------------------------------|--------|----------|--------|----------------|
| 3M CO                        | 129.67 | 2.64     | 11.5%  | 13.91%         |
| ABBOTT LABORATORIES          | 39.35  | 0.94     | 12.3%  | 15.15%         |
| ADOBE SYSTEMS INC.           | 33.26  | 0.05     | 12.7%  | 12.88%         |
| ALBERTO-CULVER CO -CL B      | 48.82  | 0.42     | 11.3%  | 12.31%         |
| ALBERTSONS INC               | 19.16  | 0.76     | 8.9%   | 13.52%         |
| ALCOA INC                    | 21.04  | 0.60     | 11.4%  | 14.78%         |
| ANHEUSER-BUSCH COS INC       | 48.42  | 0.78     | 11.8%  | 13.71%         |
| AUTODESK INC                 | 15.82  | 0.12     | 12.8%  | 13.70%         |
| AUTOMATIC DATA PROCESSING    | 32.50  | 0.48     | 12.5%  | 14.26%         |
| AVERY DENNISON CORP          | 54.21  | 1.44     | 11.4%  | 14.55%         |
| AVON PRODUCTS                | 57.73  | 0.84     | 11.6%  | 13.32%         |
| BAKER-HUGHES INC             | 28.93  | 0.46     | 13.0%  | 14.90%         |
| BARD (C.R.) INC              | 62.20  | 0.88     | 11.9%  | 13.58%         |
| BAUSCH & LOMB INC            | 33.91  | 0.52     | 13.3%  | 15.14%         |
| BECTON DICKINSON & CO        | 33.64  | 0.40     | 11.5%  | 12.90%         |
| BIOMET INC                   | 30.03  | 0.10     | 15.0%  | 15.40%         |
| BLACK & DECKER CORP          | 37.89  | 0.48     | 11.3%  | 12.79%         |
| BRUNSWICK CORP               | 20.46  | 0.50     | 10.3%  | 13.17%         |
| CARNIVAL CORP                | 25.75  | 0.42     | 13.3%  | 15.26%         |
| CATERPILLAR INC              | 51.62  | 1.40     | 10.9%  | 14.10%         |
| CENTEX CORP                  | 60.03  | 0.16     | 14.6%  | 14.92%         |
| CHEVRONTXACO CORP            | 64.24  | 2.80     | 7.3%   | 12.31%         |
| CIGNA CORP                   | 49.16  | 1.32     | 10.8%  | 13.97%         |
| CIRCUIT CITY STORES INC      | 5.48   | 0.07     | 12.7%  | 14.22%         |
| COCA-COLA CO                 | 40.93  | 0.88     | 11.1%  | 13.64%         |
| COCA-COLA ENTERPRISES        | 19.47  | 0.16     | 13.5%  | 14.49%         |
| COLGATE-PALMOLIVE CO         | 55.87  | 0.72     | 11.4%  | 12.92%         |
| CONAGRA FOODS INC            | 20.99  | 0.99     | 8.4%   | 13.88%         |
| COOPER INDUSTRIES LTD        | 37.18  | 1.40     | 10.9%  | 15.36%         |
| COOPER TIRE & RUBBER         | 13.17  | 0.42     | 10.7%  | 14.46%         |
| COORS (ADOLPH) -CL B         | 50.63  | 0.82     | 10.9%  | 12.80%         |
| CUMMINS INC                  | 24.92  | 1.20     | 8.2%   | 13.79%         |
| CVS CORP                     | 23.70  | 0.23     | 11.8%  | 12.95%         |
| DANAHER CORP                 | 68.03  | 0.10     | 14.0%  | 14.18%         |
| DARDEN RESTAURANTS INC       | 18.69  | 0.08     | 14.6%  | 15.12%         |
| DISNEY (WALT) CO             | 18.10  | 0.21     | 14.0%  | 15.40%         |
| DOW CHEMICAL                 | 30.08  | 1.34     | 9.4%   | 14.62%         |
| DOW JONES & CO INC           | 37.77  | 1.00     | 11.5%  | 14.64%         |
| DU PONT (E I) DE NEMOURS     | 40.83  | 1.40     | 8.6%   | 12.57%         |
| EASTMAN CHEMICAL CO          | 29.69  | 1.76     | 7.2%   | 14.05%         |
| EASTMAN KODAK CO             | 30.66  | 1.80     | 6.6%   | 13.34%         |
| EATON CORP                   | 76.10  | 1.76     | 10.6%  | 13.32%         |
| ECOLAB INC                   | 50.59  | 0.58     | 12.7%  | 14.07%         |
| ELECTRONIC DATA SYSTEMS CORP | 17.17  | 0.60     | 10.8%  | 14.93%         |
| EMERSON ELECTRIC CO          | 48.25  | 1.57     | 10.0%  | 13.82%         |
| ENGELHARD CORP               | 23.26  | 0.40     | 10.8%  | 12.82%         |

| COMPANY                     | Price | Dividend | Growth | Cost of Equity |
|-----------------------------|-------|----------|--------|----------------|
| FLUOR CORP                  | 35.11 | 0.64     | 11.6%  | 13.76%         |
| FORTUNE BRANDS INC          | 45.78 | 1.08     | 11.0%  | 13.78%         |
| GENERAL DYNAMICS CORP       | 57.53 | 1.20     | 10.9%  | 13.36%         |
| GENERAL MILLS INC           | 45.73 | 1.10     | 10.6%  | 13.43%         |
| GENERAL MOTORS CORP         | 35.29 | 2.00     | 5.9%   | 12.36%         |
| GILLETTE CO                 | 31.28 | 0.65     | 9.9%   | 12.32%         |
| GRAINGER (W W) INC          | 44.63 | 0.72     | 11.4%  | 13.30%         |
| HEINZ (H J) CO              | 29.61 | 1.62     | 7.8%   | 14.14%         |
| HILTON HOTELS CORP          | 12.47 | 0.08     | 14.1%  | 14.87%         |
| HONEYWELL INTERNATIONAL INC | 22.53 | 0.75     | 11.3%  | 15.25%         |
| IMS HEALTH INC              | 14.73 | 0.08     | 12.4%  | 13.04%         |
| INGERSOLL-RAND CO LTD       | 41.29 | 0.68     | 11.8%  | 13.75%         |
| INTL FLAVORS & FRAGRANCES   | 32.21 | 0.60     | 10.5%  | 12.68%         |
| ITT INDUSTRIES INC          | 56.24 | 0.64     | 12.2%  | 13.55%         |
| JOHNSON CONTROLS INC        | 77.24 | 1.44     | 12.4%  | 14.62%         |
| KB HOME                     | 47.55 | 0.30     | 12.7%  | 13.45%         |
| KELLOGG CO                  | 31.66 | 1.01     | 8.7%   | 12.40%         |
| KERR-MCGEE CORP             | 41.18 | 1.80     | 7.8%   | 12.85%         |
| LIMITED BRANDS INC          | 13.69 | 0.30     | 12.8%  | 15.42%         |
| LIZ CLAIBORNE INC           | 31.65 | 0.22     | 12.5%  | 13.33%         |
| LOCKHEED MARTIN CORP        | 47.49 | 0.48     | 11.7%  | 12.89%         |
| MARATHON OIL CORP           | 23.52 | 0.92     | 9.0%   | 13.56%         |
| MATTEL INC                  | 22.02 | 0.05     | 13.1%  | 13.37%         |
| MAY DEPARTMENT STORES CO    | 20.64 | 0.95     | 7.9%   | 13.22%         |
| MCCORMICK & CO              | 24.50 | 0.44     | 10.3%  | 12.40%         |
| MCGRAW-HILL COMPANIES       | 57.94 | 1.08     | 12.1%  | 14.32%         |
| MEREDITH CORP               | 40.68 | 0.38     | 11.5%  | 12.60%         |
| MICROSOFT CORP              | 25.19 | 0.08     | 13.8%  | 14.18%         |
| NEW YORK TIMES CO -CL A     | 45.06 | 0.54     | 11.0%  | 12.41%         |
| NIKE INC -CL B              | 52.96 | 0.56     | 13.6%  | 14.87%         |
| NORDSTROM INC               | 16.68 | 0.40     | 10.2%  | 13.01%         |
| NORTHROP GRUMMAN CORP       | 85.31 | 1.60     | 13.1%  | 15.35%         |
| NUCOR CORP                  | 40.01 | 0.80     | 11.7%  | 14.07%         |
| OCCIDENTAL PETROLEUM CORP   | 30.43 | 1.04     | 10.6%  | 14.63%         |
| OMNICOM GROUP               | 58.59 | 0.80     | 13.2%  | 14.84%         |
| PALL CORP                   | 20.69 | 0.36     | 13.2%  | 15.29%         |
| PARKER-HANNIFIN CORP        | 39.93 | 0.76     | 11.1%  | 13.34%         |
| PENNEY (J C) CO             | 18.75 | 0.50     | 9.7%   | 12.81%         |
| PEPSICO INC                 | 40.84 | 0.60     | 11.3%  | 13.03%         |
| PITNEY BOWES INC            | 33.53 | 1.20     | 10.4%  | 14.62%         |
| RADIOSHACK CORP             | 22.99 | 0.22     | 12.9%  | 14.04%         |
| ROCKWELL AUTOMATION         | 21.73 | 0.66     | 11.0%  | 14.59%         |
| ROHM & HAAS CO              | 31.25 | 0.84     | 9.6%   | 12.73%         |
| SEARS ROEBUCK & CO          | 26.48 | 0.92     | 8.8%   | 12.83%         |
| SHERWIN-WILLIAMS CO         | 27.36 | 0.62     | 9.9%   | 12.55%         |
| SNAP-ON INC                 | 27.14 | 1.00     | 10.0%  | 14.33%         |
| TRIBUNE CO                  | 47.39 | 0.44     | 12.7%  | 13.81%         |
| TYCO INTERNATIONAL LTD      | 14.35 | 0.05     | 14.0%  | 14.42%         |

| COMPANY                   | Price | Dividend | Growth | Cost of Equity |
|---------------------------|-------|----------|--------|----------------|
| UNITED TECHNOLOGIES CORP  | 60.92 | 0.98     | 12.0%  | 13.91%         |
| UST INC                   | 29.24 | 2.00     | 5.9%   | 13.73%         |
| VF CORP                   | 38.41 | 1.00     | 9.5%   | 12.53%         |
| VULCAN MATERIALS CO       | 32.63 | 0.98     | 11.7%  | 15.27%         |
| WAL-MART STORES           | 54.52 | 0.30     | 14.0%  | 14.66%         |
| WASTE MANAGEMENT INC      | 21.06 | 0.01     | 13.2%  | 13.26%         |
| WENDY'S INTERNATIONAL INC | 27.91 | 0.24     | 12.9%  | 13.93%         |
| WINN-DIXIE STORES INC     | 13.41 | 0.20     | 11.9%  | 13.67%         |
| WRIGLEY (WM) JR CO        | 57.06 | 0.82     | 11.2%  | 12.89%         |
| WYETH                     | 39.13 | 0.92     | 11.5%  | 14.29%         |
| Market Weighted Average   |       |          |        | 13.95%         |

Source: Standard & Poor's Compustat Database Price is average of April 2003 high and low prices. Dividend is the annual dividend rate as reported by Compustat Growth rate is the I/B/E/S mean estimate of long-term growth rate as reported by Compustat.

Notes: In applying the DCF Model to the S&P Industrials, I included in the DCF analysis only those companies in the S&P Industrial group which have a reported stock price, pay a dividend, have a positive growth rate, have at least three analysts' long-term growth estimates, and have at least one common share outstanding To be conservative, I also eliminated those 25% of companies with the highest and lowest DCF results, those companies with cost of equity results equal to or below the April 2003 average yield on Moody's A-rated industrial bonds or equal to or above 20%. The weighted average DCF result for all four quartiles of the S&P Industrials was 14.18%. Elimination of the 1<sup>st</sup> and 4<sup>th</sup> quartiles of the S&P Industrials had a negligible effect on the market value capital structure.

Notation:

- $d_0$  = Quarterly dividend (annual dividend divided by 4).
- $P_0$  = Average of the monthly high and low stock prices April 2003
- FC = Flotation costs expressed as a percent of gross proceeds (5 percent).
- $g$  = I/B/E/S mean forecast of future earnings growth April 2003.
- $k$  = Cost of equity using the quarterly version of the DCF Model as shown by the formula below:

$$k = \left[ \frac{d_0(1+g)^{\frac{1}{4}}}{P_0} + (1+g)^{1/4} \right]^4 - 1$$



Capital Structure of the S&P Industrials  
 and Telecommunications Companies at Year End  
 (\$ in Millions)

| Year<br>End | S&P Industrials |               |                    | Telecom Companies |               |                    |
|-------------|-----------------|---------------|--------------------|-------------------|---------------|--------------------|
|             | Market<br>Value | Total<br>Debt | Percen<br>t Equity | Market<br>Value   | Total<br>Debt | Percen<br>t Equity |
| 1998        | 2,091,436       | 375,052       | 84.79%             | 286,225           | 46,966        | 85.90%             |
| 1999        | 2,463,210       | 433,174       | 85.04%             | 349,250           | 62,533        | 84.81%             |
| 2000        | 2,114,218       | 452,639       | 82.37%             | 373,828           | 104,323       | 78.18%             |
| 2001        | 2,267,945       | 571,038       | 79.89%             | 331,916           | 110,617       | 75.00%             |
| 2002        | 1,850,815       | 593,937       | 75.71%             | 244,352           | 93,517        | 72.32%             |
| Total       | 10,787,624      | 2,425,840     | 81.64%             | 1,585,572         | 417,956       | 79.14%             |

Source: Standard & Poor's Compustat Database. Values are at December 31 each year. Telecommunications companies are BellSouth, SBC, and Verizon.

Weighted Average Cost of Capital  
Using 75% Equity/25% Debt Capital Structure

| Source of Capital | Cost Rate | Percent | Weighted Cost |
|-------------------|-----------|---------|---------------|
| Debt              | 6.26%     | 25.00%  | 1.57%         |
| Equity            | 13.95%    | 75.00%  | 10.46%        |
| Cost of Capital   |           |         | 12.03%        |

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| Industry | Company Name           | DCF Result | MV Capital Structure |
|----------|------------------------|------------|----------------------|
| CHEMDIV  | 3M Company             | 9.12%      | 94.40%               |
| MEDSUPPL | Abbott Labs.           | 13.42%     | 88.51%               |
| INDUSRV  | ABM Industries Inc.    | 11.08%     | 100.00%              |
| INSPRPTY | ACE Limited            | 23.67%     | 80.98%               |
| SOFTWARE | Adobe Systems          | 11.02%     | 100.00%              |
| INSLIFE  | AEGON Ins. Group       | 17.38%     | 75.96%               |
| INSLIFE  | AFLAC Inc.             | 15.31%     | 93.20%               |
| CHEMDIV  | Air Products & Chem.   | 11.57%     | 76.21%               |
| CHEMDIV  | Albemarle Corp.        | 12.03%     | 84.98%               |
| COSMETIC | Alberto Culver 'B'     | 14.53%     | 89.72%               |
| GROCERY  | Albertson's Inc.       | 8.19%      | 57.02%               |
| MINING   | Alcan Inc.             | 10.18%     | 67.88%               |
| MINING   | Alcoa Inc.             | 11.41%     | 71.64%               |
| MARITIME | Alexander & Baldwin    | 10.32%     | 81.81%               |
| MEDSUPPL | Allergan Inc.          | 12.19%     | 93.26%               |
| FINANCL  | Alliance Capital Mgmt. | 14.06%     | 75.89%               |
| FINANCL  | Allied Capital Corp.   | 24.48%     | 69.74%               |
| INSPRPTY | Alistate Corp.         | 11.77%     | 85.68%               |
| TELESERV | ALLTEL Corp.           | 10.43%     | 77.44%               |
| TOBACCO  | Altria Group           | 14.75%     | 80.14%               |
| FINANCL  | Ambac Fin'l Group      | 11.99%     | 88.89%               |
| FINANCL  | Amer. Int'l Group      | 14.96%     | 80.77%               |
| BUILDING | Amer. Woodmark         | 8.59%      | 94.66%               |
| MEDSUPPL | AmerisourceBergen      | 22.99%     | 75.91%               |
| STEEL    | Ampco-Pittsburgh       | 11.33%     | 89.30%               |
| BANK     | AmSouth Bancorp.       | 12.73%     | 54.83%               |
| OILPROD  | Anadarko Petroleum     | 17.05%     | 71.48%               |
| INSTRMNT | Analogic Corp.         | 9.03%      | 99.09%               |
| ALCO-BEV | Anheuser-Busch         | 9.16%      | 86.80%               |
| FINANCL  | Aon Corp.              | 9.74%      | 65.24%               |
| BUILDING | Apogee Enterprises     | 15.58%     | 76.32%               |
| RESTRNT  | Applebee's Int'l       | 9.52%      | 94.88%               |
| MACHINE  | Applied Ind'l Techn.   | 13.22%     | 78.54%               |
| PACKAGE  | AptarGroup             | 9.50%      | 80.80%               |
| CHEMSPEC | Arch Chemicals         | 8.73%      | 54.15%               |
| FOODPROC | Archer Daniels Mid'l'd | 14.86%     | 61.53%               |
| MEDSUPPL | Arrow Int'l            | 8.13%      | 98.16%               |
| BANKMID  | Assoc. Banc-Corp       | 13.65%     | 70.02%               |
| THRIFT   | Astoria Financial      | 15.30%     | 97.80%               |
| SOFTWARE | Autodesk Inc           | 8.48%      | 100.00%              |
| SOFTWARE | Automatic Data Proc    | 14.28%     | 99.53%               |
| DRUG     | Aventis ADR            | 17.29%     | 78.64%               |
| CHEMSPEC | Avery Dennison         | 9.22%      | 87.50%               |
| COSMETIC | Avon Products          | 12.14%     | 90.13%               |
| ELECEQ   | Baldor Electric        | 8.15%      | 83.30%               |
| PACKAGE  | Ball Corp.             | 12.81%     | 73.57%               |
| EUROPEAN | Banco Bilbao Vis. ADR  | 15.41%     | 73.33%               |
| EUROPEAN | Banco Santander ADR    | 14.06%     | 71.90%               |
| TIRE     | Bandag Inc.            | 8.56%      | 83.83%               |
| BANK     | Bank of America        | 12.41%     | 60.12%               |
| BANK     | Bank of Hawaii         | 11.05%     | 81.29%               |

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| Industry  | Company Name                                 | DCF Result | MV Capital Structure |
|-----------|--|------------|----------------------|
| BANKCAN   | Bank of Montreal                             | 12.16%     | 79.30%               |
| BANK      | Bank of New York                             | 10.86%     | 76.45%               |
| BANKCAN   | Bank of Nova Scotia                          | 13.87%     | 83.43%               |
| BANK      | Banknorth Group                              | 14.35%     | 91.99%               |
| PUBLISH   | Banta Corp.                                  | 9.15%      | 81.77%               |
| MEDSUPPL  | Bard (C.R.)                                  | 13.26%     | 95.14%               |
| DIVERSIF  | Barnes Group                                 | 12.09%     | 60.47%               |
| FURNITUR  | Bassett Furniture                            | 12.45%     | 94.97%               |
| MEDSUPPL  | Baxter Int'l Inc.                            | 13.18%     | 86.60%               |
| BANK      | BB&T Corp.                                   | 15.17%     | 57.19%               |
| MEDSUPPL  | Beckman Coulter                              | 7.96%      | 71.66%               |
| MEDSUPPL  | Becton Dickinson                             | 9.59%      | 87.10%               |
| TELESERV  | BellSouth Corp.                              | 8.36%      | 66.24%               |
| ENTRTAIN  | Belo Corp. 'A'                               | 14.88%     | 56.35%               |
| PACKAGE   | Bemis Co.                                    | 11.42%     | 78.03%               |
| MINING    | BHP Billiton Ltd. ADR                        | 12.14%     | 80.47%               |
| MEDSUPPL  | Biomet                                       | 15.65%     | 98.85%               |
| RETAILSP  | Blair Corp.                                  | 14.07%     | 92.05%               |
| FINANCL   | Block (H&R)                                  | 14.64%     | 88.45%               |
| HOUSEPRD  | Blyth Inc.                                   | 13.04%     | 85.64%               |
| RESTRNT   | Bob Evans Farms                              | 10.17%     | 92.68%               |
| DEFENSE   | Boeing                                       | 13.71%     | 64.66%               |
| DEFENSE   | Bombardier Inc. 'B'                          | 22.37%     | 31.70%               |
| AUTO-OEM  | BorgWarner                                   | 10.24%     | 63.16%               |
| PAPER     | Bowater Inc.                                 | 11.75%     | 47.51%               |
| OILINTEG  | BP PLC ADR                                   | 9.21%      | 87.27%               |
| MACHINE   | Briggs & Stratton                            | 9.69%      | 62.10%               |
| DRUG      | Bristol-Myers Squibb<br>British Amer Tobacco | 8.39%      | 87.50%               |
| TOBACCO   | ADR  | 15.10%     | 62.41%               |
| SHOE      | Brown Shoe                                   | 10.48%     | 68.24%               |
| ALCO-BEV  | Brown-Forman 'B'                             | 8.91%      | 95.84%               |
| INDUSRV   | Buckeye Partners L.P.                        | 12.05%     | 72.22%               |
| INDUSRV   | C.H. Robinson                                | 17.74%     | 100.00%              |
| CHEMDIV   | Cabot Corp.                                  | 11.05%     | 68.67%               |
| GASDIVRS  | Cabot Oil & Gas 'A'                          | 9.24%      | 68.04%               |
| BEVERAGE  | Cadbury Schweppes                            | 12.94%     | 77.51%               |
| DEFENSE   | CAE Inc.                                     | 11.06%     | 49.33%               |
| BANKCAN   | Can. Imperial Bank                           | 11.78%     | 71.23%               |
| RAILROAD  | Can. National Railway                        | 11.24%     | 66.92%               |
| ELECFGN   | Canon Inc. ADR                               | 9.76%      | 93.34%               |
| FINANCL   | Capital One Fin'l                            | 10.96%     | 52.96%               |
| THRIFT    | Capitol Fed. Fin'l                           | 25.94%     | 100.00%              |
| MEDSUPPL  | Cardinal Health                              | 14.96%     | 91.86%               |
| TIRE      | Carlisle Cos.                                | 10.39%     | 72.68%               |
| MACHINE   | Cascade Corp.                                | 13.81%     | 66.81%               |
| GROCERY   | Casey's Gen'l Stores                         | 12.57%     | 74.06%               |
| MACHINE   | Caterpillar Inc.                             | 9.99%      | 48.61%               |
| RESTRNT   | CBRL Group                                   | 13.34%     | 86.87%               |
| RECREATE  | Cedar Fair L.P.                              | 13.31%     | 75.62%               |
| HOMEBUILD | Centex Corp.                                 | 11.62%     | 36.48%               |
| TELESERV  | CenturyTel Inc.                              | 13.27%     | 55.92%               |

| Industry | Company Name            | DCF Result | MV Capital Structure |
|----------|-------------------------|------------|----------------------|
| THRIFT   | Charter One Fin'l       | 16.52%     | 95.61%               |
| PACKAGE  | Chesapeake Corp.        | 19.29%     | 32.46%               |
| OILINTEG | ChevronTexaco           | 9.11%      | 80.18%               |
| INSPRPTY | Chubb Corp.             | 12.78%     | 85.46%               |
| HOUSEPRD | Church & Dwight         | 9.43%      | 73.32%               |
| INSPRPTY | Cincinnati Financial    | 16.09%     | 93.10%               |
| INDUSRV  | Cintas Corp.            | 13.27%     | 88.35%               |
| FINANCL  | Citigroup Inc.          | 15.10%     | 56.31%               |
| BANK     | City National Corp.     | 12.85%     | 83.18%               |
| RETAILSP | Claire's Stores         | 8.31%      | 89.13%               |
| HOUSEPRD | Clorox Co.              | 10.67%     | 90.10%               |
| TRUCKING | CNF Inc.                | 8.82%      | 63.07%               |
| HOMESRVS | Coachmen Ind.           | 12.57%     | 93.52%               |
| BEVERAGE | Coca-Cola               | 11.43%     | 94.79%               |
| BEVERAGE | Coca-Cola Bottling      | 22.74%     | 42.77%               |
| BEVERAGE | Coca-Cola Enterprises   | 21.35%     | 40.14%               |
| HOUSEPRD | Colgate-Palmolive       | 8.64%      | 87.69%               |
| BANKMID  | Comerica Inc.           | 13.66%     | 56.25%               |
| BANK     | Commerce Bancorp NJ     | 17.70%     | 99.18%               |
| BANKMID  | Commerce Bancshs.       | 10.49%     | 86.62%               |
| THRIFT   | Commercial Federal      | 11.14%     | 85.53%               |
| STEEL    | Commercial Metals       | 8.69%      | 59.49%               |
| SOFTWARE | Computer Associates     | 14.19%     | 67.41%               |
| FOODPROC | ConAgra Foods           | 11.01%     | 66.58%               |
| MEDSUPPL | Cooper Cos.             | 17.00%     | 84.98%               |
| TIRE     | Cooper Tire & Rubber    | 11.09%     | 46.64%               |
| ALCO-BEV | Coors (Adolph) 'B'      | 10.01%     | 94.11%               |
| FINANCL  | Countrywide Financial   | 11.65%     | 20.08%               |
| ELECTRNX | Cubic Corp.             | 9.07%      | 88.78%               |
| MACHINE  | Curtiss-Wright          | 11.84%     | 96.36%               |
| DIVERSIF | Danaher Corp.           | 13.94%     | 89.89%               |
| RESTRNT  | Darden Restaurants      | 13.80%     | 81.66%               |
| MEDSUPPL | Datascope Corp.         | 9.42%      | 100.00%              |
| MACHINE  | Deere & Co.             | 22.47%     | 74.19%               |
| AIRTRANS | Delta Air Lines         | 10.34%     | 9.82%                |
| MEDSUPPL | Dentsply Int'l          | 12.12%     | 79.28%               |
| GASDIVRS | Devon Energy            | 9.96%      | 53.48%               |
| MEDSUPPL | Diagnostic Products     | 10.81%     | 98.29%               |
| OFFICE   | Diebold Inc.            | 8.89%      | 91.10%               |
| STEELINT | Dofasco                 | 18.29%     | 71.41%               |
| FOODPROC | Dole Food               | 15.42%     | 68.54%               |
| RETAIL   | Dollar General Corp.    | 14.05%     | 81.76%               |
| PAPER    | Domtar Inc.             | 10.23%     | 57.07%               |
| MACHINE  | Donaldson Co.           | 13.48%     | 90.04%               |
| PUBLISH  | Donnelley (R.R.) & Sons | 13.59%     | 66.03%               |
| MACHINE  | Dover Corp.             | 9.78%      | 82.43%               |
| CHEMICAL | Dow Chemical            | 13.55%     | 68.87%               |
| NWSPAPER | Dow Jones & Co.         | 8.44%      | 94.27%               |
| FOODPROC | Dreyer's Grand          | 23.23%     | 93.73%               |
| CHEMICAL | Du Pont                 | 8.58%      | 83.40%               |
| CHEMDIV  | Eastman Chemical        | 12.36%     | 52.32%               |
| FINANCL  | Eaton Vance Corp.       | 12.48%     | 93.01%               |

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| Industry | Company Name          | DCF Result | MV Capital Structure |
|----------|-----------------------|------------|----------------------|
| CHEMSPEC | Ecolab Inc.           | 10.88%     | 89.29%               |
| SOFTWARE | Electronic Data Sys.  | 8.92%      | 60.17%               |
| BUILDING | ElkCorp               | 23.53%     | 70.90%               |
| ELECEQ   | Emerson Electric      | 9.25%      | 81.16%               |
| CHEMSPEC | Engelhard Corp.       | 9.58%      | 80.55%               |
| GASDIVRS | Enterprise Products   | 16.99%     | 79.44%               |
| GASDIVRS | Equitable Resources   | 12.92%     | 74.89%               |
| FURNITUR | Ethan Allen Interiors | 12.76%     | 99.12%               |
| INSPRPTY | Everest Re Group Ltd. | 12.29%     | 100.00%              |
| INDUSRV  | Expeditors Int'l      | 16.46%     | 99.95%               |
| OILINTEG | Exxon Mobil Corp.     | 8.43%      | 95.60%               |
| INFOSER  | FactSet Research      | 17.48%     | 100.00%              |
| SOFTWARE | Fair Isaac            | 20.96%     | 94.40%               |
| RETAIL   | Family Dollar Stores  | 12.82%     | 100.00%              |
| FINANCL  | Fannie Mae            | 12.10%     | 12.94%               |
| BUILDSUP | Fastenal Co.          | 15.49%     | 100.00%              |
| ELECEQ   | Federal Signal        | 13.82%     | 58.27%               |
| CHEMSPEC | Ferro Corp.           | 8.66%      | 47.22%               |
| BANKMID  | Fifth Third Bancorp   | 16.25%     | 78.65%               |
| SOFTWARE | First Data Corp.      | 17.04%     | 89.13%               |
| BANKMID  | First Midwest Bancorp | 13.36%     | 82.20%               |
| BANKMID  | First Tenn. National  | 13.46%     | 87.40%               |
| BANK     | First Va. Banks       | 12.23%     | 99.32%               |
| BANKMID  | FirstMerit Corp.      | 13.48%     | 99.93%               |
| BANK     | FleetBoston Fin'l     | 9.84%      | 49.73%               |
| FOODWHOL | Fleming Cos.          | 15.49%     | 5.60%                |
| CEMENT   | Florida Rock          | 10.90%     | 94.85%               |
| BUILDING | Fluor Corp.           | 14.31%     | 84.32%               |
| DIVERSIF | Fortune Brands        | 12.52%     | 86.14%               |
| ELECEQ   | Franklin Electric     | 13.74%     | 97.18%               |
| FINANCL  | Franklin Resources    | 8.59%      | 93.18%               |
| FINANCL  | Freddie Mac           | 14.09%     | 10.59%               |
| RETAIL   | Fred's Inc. 'A'       | 18.75%     | 99.57%               |
| OILINTEG | Frontier Oil          | 23.49%     | 68.14%               |
| FINANCL  | Gallagher (Arthur J.) | 16.50%     | 100.00%              |
| TOBACCO  | Gallaher Group ADR    | 13.07%     | 61.98%               |
| NWSPAPER | Gannett Co.           | 11.07%     | 78.62%               |
| RETAILSP | Gap (The) Inc.        | 8.79%      | 85.03%               |
| DIVERSIF | GATX Corp.            | 18.59%     | 15.33%               |
| DEFENSE  | Gen'l Dynamics        | 10.75%     | 85.41%               |
| ELECEQ   | Gen'l Electric        | 13.70%     | 98.95%               |
| FOODPROC | Gen'l Mills           | 10.96%     | 62.30%               |
| AUTO-OEM | Genuine Parts         | 11.53%     | 84.64%               |
| CHEMICAL | Georgia Gulf          | 13.85%     | 47.88%               |
| STEELINT | Gibraltar Steel       | 14.07%     | 57.03%               |
| DRUG     | GlaxoSmithKline ADR   | 7.95%      | 94.67%               |
| THRIFT   | Golden West Fin'l     | 15.57%     | 100.00%              |
| BROKERS  | Goldman Sachs         | 8.06%      | 31.63%               |
| MACHINE  | Graco Inc.            | 15.23%     | 99.21%               |
| BUILDING | Granite Construction  | 14.06%     | 82.21%               |
| THRIFT   | GreenPoint Fin'l      | 11.88%     | 93.62%               |
| CHEMSPEC | G't Lakes Chemical    | 8.67%      | 66.22%               |

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| Industry | Company Name          | DCF Result | MV Capital Structure |
|----------|-----------------------|------------|----------------------|
| RETAILSP | Hancock Fabrics       | 16.53%     | 100.00%              |
| PUBLISH  | Harland (John H.)     | 8.70%      | 84.59%               |
| RECREATE | Harley-Davidson       | 15.45%     | 94.94%               |
| ELECTRNX | Harman Int'l          | 16.99%     | 80.22%               |
| ELECTRNX | Harris Corp.          | 12.96%     | 86.91%               |
| METALFAB | Harsco Corp.          | 11.14%     | 60.41%               |
| ADVERT   | Harte-Hanks           | 14.29%     | 97.15%               |
| FINANCL  | Hartford Fin'l Svcs.  | 9.62%      | 81.75%               |
| RETAILSP | Haverty Furniture     | 11.00%     | 57.59%               |
| MEDSERV  | HCA Inc.              | 9.72%      | 74.23%               |
| INSRPTY  | HCC Insurance Hldgs.  | 12.74%     | 100.00%              |
| SOFTWARE | Henry (Jack) & Assoc. | 16.25%     | 100.00%              |
| FOODPROC | Hershey Foods         | 12.90%     | 90.72%               |
| COMPUTER | Hewlett-Packard       | 8.54%      | 85.82%               |
| BANK     | Hibernia Corp. 'A'    | 11.60%     | 72.88%               |
| DIVERSIF | Hillenbrand Inds.     | 13.33%     | 90.55%               |
| OILINTEG | Holly Corp.           | 8.48%      | 90.87%               |
| BUILDSUP | Home Depot            | 16.05%     | 97.62%               |
| FURNITUR | HON Industries Inc.   | 9.16%      | 94.78%               |
| DIVERSIF | Honeywell Int'l       | 7.95%      | 77.67%               |
| HLTHSYS  | Hooper Holmes         | 11.17%     | 98.91%               |
| FOODPROC | Hormel Foods          | 12.09%     | 87.14%               |
| HOMEILD  | Horton D.R.           | 19.26%     | 46.54%               |
| FINANCL  | Household Int'l       | 15.69%     | 15.56%               |
| ELECEQ   | Hubbell Inc. 'B'      | 8.42%      | 91.63%               |
| BANK     | Hudson United Bancorp | 16.76%     | 85.16%               |
| BUILDSUP | Hughes Supply         | 8.02%      | 55.39%               |
| BANKMID  | Huntington Bancshs.   | 7.91%      | 60.03%               |
| MACHINE  | IDEX Corp.            | 12.85%     | 75.39%               |
| METALFAB | Illinois Tool Works   | 12.11%     | 91.96%               |
| HLTHSYS  | IMS HEALTH            | 10.36%     | 92.41%               |
| THRIFT   | Independence Cmnty    | 22.64%     | 100.00%              |
| MACHINE  | Ingersoll-Rand        | 8.75%      | 65.08%               |
| SEMICON  | Intel Corp.           | 8.53%      | 98.71%               |
| FOODPROC | Interstate Bakeries   | 8.23%      | 40.87%               |
| COMPUTER | Int'l Business Mach.  | 11.64%     | 82.87%               |
| PAPER    | Int'l Paper           | 12.03%     | 52.44%               |
| MEDSUPPL | Invacare Corp.        | 10.69%     | 73.16%               |
| DIVERSIF | ITT Industries        | 8.58%      | 83.56%               |
| INSLIFE  | Jefferson-Pilot Corp. | 12.21%     | 95.01%               |
| MACHINE  | JLG Industries        | 9.49%      | 41.65%               |
| INSLIFE  | John Hancock Fin'l    | 14.36%     | 85.86%               |
| MEDSUPPL | Johnson & Johnson     | 12.92%     | 98.12%               |
| AUTO-OEM | Johnson Controls      | 12.45%     | 76.42%               |
| MACHINE  | Kaydon Corp.          | 9.65%      | 82.07%               |
| HOMEILD  | KB Home               | 9.78%      | 50.68%               |
| INSTRMNT | Keithley Instruments  | 11.70%     | 99.50%               |
| FOODPROC | Kellogg               | 8.08%      | 65.55%               |
| APPAREL  | Kellwood Co.          | 11.16%     | 65.72%               |
| METALFAB | Kennametal Inc.       | 16.25%     | 71.62%               |
| BANK     | KeyCorp               | 11.53%     | 38.90%               |
| FURNITUR | Kimball Int'l 'B'     | 13.80%     | 99.45%               |

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| Industry  | Company Name          | DCF Result | MV Capital Structure |
|-----------|-----------------------|------------|----------------------|
| HOUSEPRD  | Kimberly-Clark        | 9.68%      | 88.76%               |
| GASDIVRS  | Kinder Morgan         | 18.78%     | 62.15%               |
| GASDIVRS  | Kinder Morgan Energy  | 21.04%     | 73.73%               |
| NWSPAPER  | Knight Ridder         | 10.54%     | 75.48%               |
| SHOE      | K-Swiss Inc.          | 12.20%     | 100.00%              |
| HOUSEPRD  | Lancaster Colony      | 9.95%      | 100.00%              |
| RESTRNT   | Landry's Restaurants  | 15.77%     | 71.18%               |
| METALFAB  | Lawson Products       | 8.58%      | 94.47%               |
| FURNITUR  | La-Z-Boy Inc.         | 10.80%     | 87.08%               |
| NWSPAPER  | Lee Enterprises       | 9.70%      | 77.27%               |
| BROKERS   | Legg Mason            | 11.81%     | 80.00%               |
| FURNITUR  | Leggett & Platt       | 12.45%     | 78.71%               |
| BROKERS   | Lehman Bros. Holdings | 9.52%      | 22.27%               |
| MACHINE   | Lennox Int'l          | 8.39%      | 60.68%               |
| DRUG      | Lilly (Eli)           | 11.69%     | 94.93%               |
| RETAILSP  | Limited Brands        | 9.87%      | 93.79%               |
| MACHINE   | Lincoln Elec Hldgs.   | 11.00%     | 94.13%               |
| MACHINE   | Lindsay Mfg.          | 10.88%     | 100.00%              |
| SEMICOND  | Linear Technology     | 13.03%     | 100.00%              |
| DEFENSE   | Lockheed Martin       | 14.01%     | 73.24%               |
| RESTRNT   | Lone Star Steakhouse  | 21.14%     | 100.00%              |
| BUILDSUP  | Lowe's Cos.           | 15.82%     | 88.30%               |
| CHEMSPEC  | Lubrizol Corp.        | 10.39%     | 78.52%               |
| RETAILSP  | Luxottica Group ADR   | 14.04%     | 79.39%               |
| BANK      | M&T Bank Corp.        | 14.04%     | 67.66%               |
| HOMEBUILD | M.D.C. Holdings       | 11.02%     | 77.84%               |
| CHEMSPEC  | MacDermid Inc.        | 10.92%     | 62.85%               |
| AUTO-OEM  | Magna Int'l 'A'       | 10.14%     | 75.17%               |
| MACHINE   | Manitowoc Co.         | 9.75%      | 49.49%               |
| HOTELGAM  | Marcus Corp.          | 10.37%     | 54.85%               |
| HOTELGAM  | Marriott Int'l        | 8.04%      | 72.85%               |
| FINANCL   | Marsh & McLennan      | 15.28%     | 87.49%               |
| BANKMID   | Marshall & Ilsley     | 12.27%     | 78.17%               |
| BUILDING  | Masco Corp.           | 13.43%     | 70.20%               |
| COAL      | Massey Energy         | 19.39%     | 55.68%               |
| DIVERSIF  | Matthews Int'l        | 10.05%     | 87.39%               |
| APPLIANC  | Maytag Corp.          | 8.14%      | 60.14%               |
| FINANCL   | MBIA Inc.             | 10.84%     | 87.50%               |
| FINANCL   | MBNA Corp.            | 19.26%     | 70.75%               |
| NWSPAPER  | McClatchy Co.         | 10.71%     | 78.99%               |
| FOODPROC  | McCormick & Co.       | 10.16%     | 82.95%               |
| PUBLISH   | McGraw-Hill           | 9.70%      | 91.04%               |
| MEDSUPPL  | McKesson Corp.        | 11.32%     | 82.23%               |
| NWSPAPER  | Media General 'A'     | 8.73%      | 59.42%               |
| MEDSUPPL  | Medtronic Inc.        | 17.26%     | 95.57%               |
| MEDSUPPL  | Mentor Corp.          | 16.81%     | 98.83%               |
| BANK      | Mercantile Bankshares | 13.04%     | 90.41%               |
| DRUG      | Merck & Co.           | 11.46%     | 92.93%               |
| INSPRPTY  | Mercury General       | 16.37%     | 93.74%               |
| PUBLISH   | Meredith Corp.        | 10.37%     | 83.29%               |
| INSLIFE   | MetLife Inc.          | 16.46%     | 84.60%               |
| FURNITUR  | Miller (Herman)       | 8.83%      | 82.68%               |



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| Industry | Company Name            | DCF Result | MV Capital Structure |
|----------|-------------------------|------------|----------------------|
| AUTO-OEM | Modine Mfg.             | 8.53%      | 76.60%               |
| ELECTRNX | Molex Inc.              | 11.04%     | 99.53%               |
| ALCO-BEV | Molson Inc. Ltd. 'A'    | 12.12%     | 69.68%               |
| INFOSER  | Moody's Corp.           | 18.25%     | 95.77%               |
| BANK     | Morgan (J.P.) Chase     | 11.94%     | 50.19%               |
| BROKERS  | Morgan Stanley          | 7.99%      | 29.64%               |
| SEMICOND | Motorola Inc.           | 11.73%     | 67.28%               |
| INSTRMNT | MTS Systems             | 10.86%     | 82.32%               |
| DIVERSIF | Myers Inds.             | 16.92%     | 51.74%               |
| DRUG     | Mylan Labs.             | 10.79%     | 99.58%               |
| FOODWHOL | Nash Finch Co.          | 16.84%     | 14.16%               |
| BANKMID  | National City Corp.     | 10.92%     | 42.81%               |
| BANK     | National Commerce Fin'l | 17.96%     | 65.61%               |
| GASDIVRS | National Fuel Gas       | 10.12%     | 50.84%               |
| INSLIFE  | Nationwide Fin'l        | 10.28%     | 83.40%               |
| BANKCAN  | Nat'l Bank of Canada    | 13.31%     | 75.25%               |
| FINANCL  | Neuberger Berman        | 11.92%     | 92.32%               |
| THRIFT   | New York Community      | 25.00%     | 94.17%               |
| NWSPAPER | New York Times          | 10.39%     | 89.86%               |
| HOUSEPRD | Newell Rubbermaid       | 8.69%      | 71.49%               |
| SHOE     | NIKE Inc. 'B'           | 10.62%     | 91.75%               |
| OILPROD  | Noble Energy            | 11.52%     | 69.82%               |
| TELEFGN  | Nokia Corp. ADR         | 16.18%     | 98.55%               |
| MINING   | Noranda Inc.            | 26.44%     | 36.31%               |
| MACHINE  | Nordson Corp.           | 10.56%     | 73.32%               |
| RETAIL   | Nordstrom Inc.          | 8.68%      | 61.22%               |
| CHEMDIV  | Norsk Hydro ADR         | 11.82%     | 65.19%               |
| BANK     | North Fork Bancorp      | 16.53%     | 77.03%               |
| BANKMID  | Northern Trust Corp.    | 11.81%     | 80.75%               |
| DEFENSE  | Northrop Grumman        | 8.13%      | 61.87%               |
| DRUG     | Novo Nordisk ADR        | 15.42%     | 98.11%               |
| COSMETIC | Nu Skin Enterprises     | 26.41%     | 91.09%               |
| STEEL    | Nucor Corp.             | 15.69%     | 87.43%               |
| GASDIVRS | Ocean Energy            | 19.70%     | 73.43%               |
| BANKMID  | Old Nat'l Bancorp       | 11.94%     | 57.08%               |
| INSPRPTY | Old Republic            | 9.33%      | 96.22%               |
| DRUGSTOR | Omnicare Inc.           | 11.91%     | 76.21%               |
| ADVERT   | Omnicom Group           | 11.52%     | 86.34%               |
| GASDIVRS | ONEOK Inc.              | 9.28%      | 31.25%               |
| APPAREL  | Oshkosh B'Gosh 'A'      | 8.56%      | 92.43%               |
| MARITIME | Overseas Shipholding    | 10.45%     | 38.76%               |
| MEDSUPPL | Owens & Minor           | 11.07%     | 62.31%               |
| CHEMSPEC | Park Electrochemical    | 15.66%     | 100.00%              |
| DIVERSIF | Parker-Hannifin         | 11.52%     | 75.09%               |
| GASDIVRS | Palina Oil & Gas        | 20.62%     | 92.50%               |
| SOFTWARE | Paychex Inc.            | 18.02%     | 100.00%              |
| CHEMSPEC | Penford Corp.           | 16.84%     | 49.71%               |
| DIVERSIF | Pentair Inc.            | 11.95%     | 70.84%               |
| THRIFT   | People's Bank           | 13.34%     | 86.05%               |
| RETAILSP | Pep Boys                | 14.66%     | 39.94%               |
| BEVERAGE | Pepsi Bottling Group    | 16.08%     | 61.20%               |
| BEVERAGE | PepsiAmericas Inc.      | 13.41%     | 56.24%               |

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| Industry | Company Name            | DCF Result | MV Capital Structure |
|----------|-------------------------|------------|----------------------|
| BEVERAGE | PepsiCo Inc.            | 10.90%     | 95.55%               |
| OILINTEG | Petroleo Brasileiro ADR | 17.61%     | 58.83%               |
| DRUG     | Pfizer Inc.             | 20.89%     | 95.30%               |
| DRUG     | Pharmacia Corp.         | 12.10%     | 93.73%               |
| ELECFGN  | Phillips Electronics NV | 14.36%     | 73.19%               |
| RETAILSP | Pier 1 Imports          | 15.17%     | 98.17%               |
| FOODPROC | Pilgrim's Pride 'B'     | 16.94%     | 41.20%               |
| ELECTRNX | Pioneer-Standard        | 7.92%      | 40.98%               |
| OFFICE   | Pitney Bowes            | 8.03%      | 67.56%               |
| GOLDSILV | Placer Dome             | 9.72%      | 78.38%               |
| INSPRPTY | PMI Group               | 10.95%     | 83.04%               |
| BANK     | PNC Financial Serv.     | 14.18%     | 63.94%               |
| OILPROD  | Pogo Producing          | 10.83%     | 75.23%               |
| RECREATE | Polaris Inds.           | 13.89%     | 98.30%               |
| PAPER    | Pope & Talbot           | 16.86%     | 42.83%               |
| BANK     | Popular Inc.            | 13.79%     | 52.05%               |
| CHEMDIV  | PPG Inds.               | 9.33%      | 75.86%               |
| CHEMSPEC | Praxair Inc.            | 9.87%      | 73.67%               |
| FINANCL  | Price (T. Rowe) Group   | 10.00%     | 96.78%               |
| HOUSEPRD | Procter & Gamble        | 9.10%      | 86.34%               |
| INSPRPTY | Progressive (Ohio)      | 14.73%     | 91.38%               |
| INSLIFE  | Protective Life         | 11.43%     | 76.95%               |
| NWSPAPER | Pulitzer Inc.           | 13.03%     | 74.23%               |
| HOMEILD  | Pulte Homes             | 10.65%     | 55.44%               |
| CHEMSPEC | Quaker Chemical         | 9.81%      | 89.29%               |
| STEEL    | Quanex Corp.            | 11.20%     | 87.33%               |
| GASDIVRS | Questar Corp.           | 8.67%      | 60.13%               |
| TOBACCO  | R.J. Reynolds Tobacco   | 17.60%     | 68.19%               |
| BROKERS  | Raymond James Fin'l     | 8.66%      | 88.82%               |
| PAPER    | Rayonier Inc.           | 12.13%     | 57.81%               |
| DEFENSE  | Raytheon Co.            | 16.28%     | 54.55%               |
| MACHINE  | Regal-Beloit            | 8.65%      | 53.13%               |
| BANK     | Regions Financial       | 9.65%      | 60.05%               |
| COSMETIC | Regis Corp.             | 10.35%     | 76.79%               |
| INSLIFE  | Reinsurance Group       | 15.82%     | 80.43%               |
| OFFICE   | Reynolds & Reynolds     | 8.78%      | 83.20%               |
| FOODPROC | Riviana Foods           | 9.50%      | 99.34%               |
| INSPRPTY | RLI Corp.               | 12.62%     | 100.00%              |
| MACHINE  | Robbins & Myers         | 9.69%      | 50.30%               |
| PACKAGE  | Rock-Tenn 'A'           | 10.59%     | 48.13%               |
| CHEMSPEC | Rohm and Haas           | 12.25%     | 67.76%               |
| INDUSRV  | Rollins Inc.            | 16.64%     | 99.97%               |
| MACHINE  | Roper Inds.             | 13.49%     | 72.14%               |
| THRIFT   | Roslyn Bancorp          | 17.20%     | 46.95%               |
| RETAILSP | Ross Stores             | 13.06%     | 100.00%              |
| REIT     | Rouse Co.               | 9.92%      | 42.67%               |
| BANKCAN  | Royal Bank of Canada    | 14.31%     | 81.76%               |
| RECREATE | Royal Caribbean Cruises | 8.21%      | 30.32%               |
| OILINTEG | Royal Dutch Petr.       | 8.64%      | 80.98%               |
| CHEMSPEC | RPM Int'l               | 14.07%     | 60.42%               |
| RESTRNT  | Ruby Tuesday            | 13.08%     | 99.29%               |
| GROCERY  | Ruddick Corp.           | 7.96%      | 75.44%               |

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| Industry | Company Name            | DCF Result | MV Capital Structure |
|----------|-------------------------|------------|----------------------|
| HOMEILD  | Ryland Group            | 13.24%     | 64.29%               |
| FOODPROC | Sara Lee Corp.          | 10.17%     | 72.15%               |
| MACHINE  | Sauer-Danfoss           | 15.92%     | 55.69%               |
| DRUG     | Schering-Plough         | 11.06%     | 97.73%               |
| OILFIELD | Schlumberger Ltd.       | 11.14%     | 76.34%               |
| BROKERS  | Schwab (Charles)        | 13.39%     | 87.54%               |
| NWSPAPER | Scripps (E.W.) 'A'      | 10.89%     | 89.51%               |
| SOFTWARE | SEI Investments         | 16.83%     | 98.15%               |
| INSRPTY  | Selective Ins. Group    | 12.64%     | 99.38%               |
| FOODPROC | Sensient Techn.         | 9.13%      | 65.85%               |
| INDUSRV  | ServiceMaster Co.       | 10.71%     | 71.95%               |
| OILINTEG | Shell Transport         | 9.62%      | 74.29%               |
| CHEMSPEC | Sherwin-Williams        | 11.96%     | 86.51%               |
| CHEMSPEC | Sigma-Aldrich           | 8.45%      | 87.26%               |
| FINANCL  | SLM Corporation         | 15.35%     | 49.11%               |
| MACHINE  | Smith (A.O.)            | 14.62%     | 74.38%               |
| FOODPROC | Smucker (J.M.)          | 13.20%     | 86.38%               |
| PACKAGE  | Sonoco Products         | 11.78%     | 67.59%               |
| ELECFGN  | Sony Corp. ADR          | 17.90%     | 70.24%               |
| BANK     | SouthTrust Corp.        | 16.85%     | 62.76%               |
| AIRTRANS | Southwest Airlines      | 11.44%     | 83.91%               |
| INSRPTY  | St. Paul Cos.           | 23.44%     | 74.66%               |
| AUTO-OEM | Standard Motor Prod.    | 16.31%     | 44.88%               |
| HOMEILD  | Standard Pacific Corp.  | 9.23%      | 59.38%               |
| OFFICE   | Standard Register       | 13.55%     | 68.10%               |
| DIVERSIF | Standex Int'l           | 13.81%     | 63.98%               |
| MACHINE  | Stanley Works           | 12.95%     | 81.77%               |
| HOTELGAM | Starwood Hotels         | 9.31%      | 45.22%               |
| BANK     | State Street Corp.      | 14.84%     | 90.59%               |
| THRIFT   | Staten Island Bancorp   | 25.63%     | 100.00%              |
| STEEL    | Steel Technologies      | 18.17%     | 54.74%               |
| MACHINE  | Stewart & Stevenson     | 16.74%     | 81.90%               |
| SEMICOND | STMicroelectronics      | 9.25%      | 84.81%               |
| EDUC     | Strayer Education       | 11.29%     | 100.00%              |
| MEDSUPPL | Stryker Corp.           | 20.98%     | 93.37%               |
| BANK     | SunTrust Banks          | 11.43%     | 59.25%               |
| AUTO-OEM | Superior Inds. Int'l    | 12.40%     | 100.00%              |
| FOODWHOL | SUPERVALU INC.          | 12.44%     | 43.72%               |
| ELECTRNX | Symbol Technologies     | 12.73%     | 88.13%               |
| BANK     | Synovus Financial       | 20.16%     | 84.30%               |
| FOODWHOL | Sysco Corp.             | 18.46%     | 92.63%               |
| RETAILSP | Talbots Inc.            | 12.78%     | 93.10%               |
| CANENRGY | Talisman Energy         | 11.41%     | 69.55%               |
| RETAIL   | Target Corp.            | 11.89%     | 72.69%               |
| BANKMID  | TCF Financial           | 15.76%     | 90.13%               |
| DIVERSIF | Teleflex Inc.           | 10.25%     | 76.43%               |
| TELEFGN  | Telefonos de Mexico ADR | 13.03%     | 71.54%               |
| TELESERV | Telephone & Data        | 8.78%      | 54.59%               |
| MACHINE  | Tennant Co.             | 10.05%     | 93.39%               |
| GASDIVRS | TEPPCO Partners L.P.    | 15.23%     | 58.01%               |
| DIVERSIF | Textron Inc.            | 13.17%     | 71.25%               |

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| Industry | Company Name            | DCF Result | MV Capital Structure |
|----------|-------------------------|------------|----------------------|
| MACHINE  | Thomas Inds.            | 8.02%      | 92.87%               |
| INFOSER  | Thomson Corp.           | 11.51%     | 82.43%               |
| OILFIELD | Tidewater Inc.          | 8.74%      | 96.90%               |
| RETAILSP | Tiffany & Co.           | 12.46%     | 92.51%               |
| METALFAB | Timken Co.              | 14.93%     | 66.62%               |
| RETAILSP | TJX Companies           | 13.87%     | 92.40%               |
| BANKCAN  | Toronto-Dominion        | 15.74%     | 78.10%               |
| OILINTEG | Total Fina Elf ADR      | 13.16%     | 89.32%               |
| FINANCL  | Total System Svcs.      | 18.90%     | 100.00%              |
| AUTO     | Toyota Motor ADR        | 9.00%      | 63.82%               |
| INSRPTY  | Transatlantic Hldgs.    | 12.74%     | 100.00%              |
| CANENRGY | TransCanada Pipe.       | 10.82%     | 37.57%               |
| CHEMSPEC | Tredegar Corp.          | 12.86%     | 62.73%               |
| NWSPAPER | Tribune Co.             | 11.42%     | 74.82%               |
| FOODPROC | Tyson Foods 'A'         | 21.64%     | 42.89%               |
| BANKMID  | U.S. Bancorp            | 15.38%     | 55.74%               |
| INDUSRV  | UniFirst Corp.          | 9.73%      | 80.45%               |
| FOODPROC | Unilever NV (NY Shs)    | 11.23%     | 70.75%               |
| FOODPROC | Unilever PLC ADR        | 12.47%     | 71.55%               |
| RAILROAD | Union Pacific           | 8.65%      | 59.94%               |
| BANK     | Union Planters          | 10.40%     | 66.63%               |
| DEFENSE  | United Industrial Corp. | 9.97%      | 100.00%              |
| AIRTRANS | United Parcel Serv.     | 8.43%      | 92.37%               |
| DIVERSIF | United Technologies     | 11.39%     | 82.51%               |
| MEDSERV  | UnitedHealth Group      | 17.29%     | 94.14%               |
| FINANCL  | Unitrin Inc.            | 11.79%     | 100.00%              |
| TOBACCO  | Universal Corp.         | 8.88%      | 58.68%               |
| BUILDING | Universal Forest        | 10.39%     | 62.06%               |
| INSLIFE  | UNUMProvident Corp.     | 8.90%      | 60.36%               |
| TOBACCO  | UST Inc.                | 10.28%     | 85.07%               |
| APPAREL  | V.F. Corp.              | 10.36%     | 77.96%               |
| OILINTEG | Valero Energy           | 8.10%      | 54.02%               |
| CHEMSPEC | Valspar Corp.           | 12.76%     | 68.21%               |
| DIVERSIF | Viad Corp.              | 9.97%      | 80.85%               |
| AUTO     | Volvo AB ADR            | 14.69%     | 52.98%               |
| CEMENT   | Vulcan Materials        | 8.31%      | 76.13%               |
| DRUGSTOR | Walgreen Co.            | 9.85%      | 100.00%              |
| OFFICE   | Wallace Computer Serv.  | 11.41%     | 83.67%               |
| RETAIL   | Wal-Mart Stores         | 13.79%     | 90.62%               |
| DIVERSIF | Walter Inds.            | 20.59%     | 16.27%               |
| THRIFT   | Washington Federal      | 11.88%     | 100.00%              |
| THRIFT   | Washington Mutual       | 17.76%     | 71.53%               |
| NWSPAPER | Washington Post         | 12.00%     | 87.12%               |
| MACHINE  | Watts Inds. 'A'         | 14.31%     | 76.27%               |
| PAPER    | Wausau-Mosinee          | 24.58%     | 72.77%               |
| THRIFT   | Webster Fin'l           | 13.30%     | 91.18%               |
| CHEMSPEC | Wellman Inc.            | 21.10%     | 49.68%               |
| BANK     | Wells Fargo             | 15.10%     | 66.76%               |
| RESTRNT  | Wendy's Int'l           | 9.62%      | 86.03%               |
| TRUCKING | Werner Enterprises      | 10.74%     | 95.98%               |
| MEDSUPPL | West Pharmac. Svcs.     | 10.34%     | 59.38%               |
| GASDIVRS | Western Gas Res.        | 14.97%     | 67.38%               |

| Industry | Company Name         | DCF Result | MV Capital Structure |
|----------|----------------------|------------|----------------------|
| PAPER    | Weyerhaeuser Co.     | 12.03%     | 67.48%               |
| APPLIANC | Whirlpool Corp.      | 8.20%      | 68.66%               |
| PUBLISH  | Wiley (John) & Sons  | 13.82%     | 83.64%               |
| BANK     | Wilmington Trust     | 11.18%     | 91.85%               |
| SHOE     | Wolverine World Wide | 11.83%     | 87.96%               |
| STEEL    | Worthington Inds.    | 19.29%     | 79.74%               |
| ADVERT   | WPP Group ADR        | 10.70%     | 80.65%               |
| FOODPROC | Wrigley (Wm.) Jr.    | 10.68%     | 100.00%              |
| DRUG     | Wyeth                | 9.23%      | 83.17%               |
| GASDIVRS | XTO Energy           | 17.50%     | 78.62%               |
| MACHINE  | York Int'l           | 10.08%     | 51.22%               |
| BANK     | Zions Bancorp.       | 10.76%     | 79.08%               |
| Average  |                      | 12.75%     | 76.45%               |

Source of data: Discounted cash flow data from Mr. Lester's work papers; industry identification from the Value Line Investment Survey for Windows, March 2003, the time of Mr. Lester's analysis.

| Company Name           | Price  | Dividend | Proj<br>EPS<br>Growth<br>Rate | DCF<br>Result |
|------------------------|--------|----------|-------------------------------|---------------|
| 3M Company             | 125.10 | 2.64     | 10.00                         | 12.44%        |
| Abbott Labs.           | 35.94  | 0.98     | 10.00                         | 13.16%        |
| ABM Industries Inc.    | 12.95  | 0.38     | 8.50                          | 11.85%        |
| Adobe Systems          | 25.94  | 0.06     | 9.50                          | 9.76%         |
| AEGON Ins. Group       | 9.95   | 0.67     | 13.50                         | 21.67%        |
| AFLAC Inc.             | 31.49  | 0.28     | 13.00                         | 14.05%        |
| Air Products & Chem.   | 38.34  | 0.86     | 13.50                         | 16.18%        |
| Albemarle Corp.        | 23.11  | 0.56     | 12.00                         | 14.85%        |
| Alberto Culver 'B'     | 48.37  | 0.42     | 13.50                         | 14.53%        |
| Albertson's Inc.       | 18.81  | 0.76     | 5.50                          | 10.01%        |
| Alcan Inc.             | 28.00  | 0.60     | 11.50                         | 14.01%        |
| Alcoa Inc.             | 20.01  | 0.60     | 8.00                          | 11.41%        |
| Alexander & Baldwin    | 24.80  | 0.90     | 8.50                          | 12.66%        |
| Allergan Inc.          | 65.75  | 0.39     | 16.50                         | 17.22%        |
| ALLETE                 | 19.35  | 1.13     | 3.50                          | 9.94%         |
| Alliance Capital Mgmt. | 27.67  | 2.35     | 4.00                          | 13.51%        |
| Allstate Corp.         | 32.18  | 0.92     | 7.50                          | 10.74%        |
| ALLTEL Corp.           | 43.18  | 1.41     | 10.50                         | 14.31%        |
| Altria Group           | 38.99  | 2.64     | 9.00                          | 16.89%        |
| Ambac Fin'l Group      | 46.75  | 0.40     | 11.50                         | 12.50%        |
| Amer. Express          | 33.14  | 0.32     | 11.00                         | 12.12%        |
| Amer. Int'l Group      | 48.97  | 0.19     | 15.50                         | 15.97%        |
| Amer. States Water     | 24.39  | 0.88     | 6.00                          | 10.04%        |
| Amer. Woodmark         | 38.26  | 0.20     | 15.50                         | 16.13%        |
| AmerisourceBergen      | 53.52  | 0.10     | 18.50                         | 18.73%        |
| Ametek Inc.            | 32.15  | 0.24     | 11.50                         | 12.37%        |
| Ampco-Pittsburgh       | 12.70  | 0.40     | 11.50                         | 15.20%        |
| AmSouth Bancorp.       | 20.70  | 0.95     | 8.00                          | 13.26%        |
| Anadarko Petroleum     | 46.25  | 0.40     | 11.00                         | 12.00%        |
| Analogic Corp.         | 46.61  | 0.32     | 14.00                         | 14.82%        |
| Anheuser-Busch         | 45.97  | 0.78     | 10.00                         | 11.96%        |
| Aon Corp.              | 19.26  | 0.60     | 9.00                          | 12.58%        |
| Applebee's Int'l       | 25.05  | 0.06     | 13.00                         | 13.28%        |
| Applied Ind'l Techn.   | 16.00  | 0.48     | 13.50                         | 17.09%        |
| AptarGroup             | 29.58  | 0.26     | 9.00                          | 10.00%        |
| Arch Chemicals         | 16.01  | 0.80     | 5.00                          | 10.57%        |
| Archer Daniels Midl'd  | 10.86  | 0.24     | 15.00                         | 17.67%        |
| Arrow Int'l            | 40.91  | 0.32     | 8.50                          | 9.39%         |
| Assoc. Banc-Corp       | 34.54  | 1.24     | 11.00                         | 15.21%        |
| Astoria Financial      | 25.37  | 0.82     | 12.50                         | 16.34%        |
| Atmos Energy           | 21.61  | 1.20     | 11.00                         | 17.56%        |
| Autodesk Inc.          | 13.78  | 0.12     | 12.50                         | 13.52%        |
| Automatic Data Proc.   | 31.79  | 0.48     | 13.00                         | 14.79%        |
| Avery Dennison         | 54.16  | 1.44     | 7.50                          | 10.51%        |
| Avista Corp.           | 10.15  | 0.48     | 3.50                          | 8.69%         |
| Avon Products          | 51.34  | 0.84     | 12.00                         | 13.92%        |
| Baldor Electric        | 21.80  | 0.52     | 7.00                          | 9.68%         |
| Ball Corp.             | 52.13  | 0.36     | 19.00                         | 19.86%        |
| Banco Bilbao Vis. ADR  | 8.58   | 0.36     | 12.50                         | 17.50%        |
| Banco Santander ADR    | 6.35   | 0.25     | 9.00                          | 13.54%        |
| Bandag Inc.            | 29.28  | 1.28     | 4.50                          | 9.34%         |

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|                            |       |      |       |        |
|----------------------------|-------|------|-------|--------|
| Bank of America            | 68.34 | 2.64 | 9.00  | 13.45% |
| Bank of Hawaii             | 30.90 | 0.76 | 11.50 | 14.38% |
| Bank of Montreal           | 41.30 | 1.32 | 10.50 | 14.23% |
| Bank of New York           | 22.25 | 0.76 | 7.50  | 11.38% |
| Bank of Nova Scotia        | 51.45 | 1.60 | 10.00 | 13.61% |
| Banknorth Group            | 22.32 | 0.64 | 13.50 | 16.93% |
| Banta Corp.                | 27.79 | 0.72 | 7.00  | 9.92%  |
| Bard (C.R.)                | 59.58 | 0.90 | 13.00 | 14.79% |
| Barnes Group               | 18.76 | 0.80 | 11.00 | 16.01% |
| Bassett Furniture          | 12.05 | 0.80 | 8.00  | 15.66% |
| Baxter Int'l Inc.          | 28.77 | 0.60 | 13.50 | 15.99% |
| BB&T Corp.                 | 32.59 | 1.16 | 11.50 | 15.69% |
| Beckman Coulter            | 33.30 | 0.36 | 10.50 | 11.75% |
| Becton Dickinson           | 33.80 | 0.40 | 12.00 | 13.39% |
| BellSouth Corp.            | 21.21 | 0.84 | 4.50  | 8.88%  |
| Belo Corp. 'A'             | 19.50 | 0.31 | 19.00 | 20.98% |
| Bemis Co.                  | 40.31 | 1.12 | 10.50 | 13.73% |
| BHP Billiton Ltd. ADR      | 11.15 | 0.28 | 12.50 | 15.47% |
| Biomet                     | 29.92 | 0.10 | 17.00 | 17.41% |
| Black & Decker             | 35.17 | 0.48 | 8.50  | 10.05% |
| Blair Corp.                | 22.80 | 0.60 | 13.00 | 16.13% |
| Block (H&R)                | 39.78 | 0.72 | 15.50 | 17.69% |
| Blyth Inc.                 | 24.73 | 0.22 | 9.50  | 10.52% |
| Bob Evans Farms            | 23.02 | 0.44 | 10.00 | 12.21% |
| Boeing                     | 26.74 | 0.68 | 9.50  | 12.43% |
| BorgWarner                 | 47.00 | 0.72 | 12.00 | 13.80% |
| Bowater Inc.               | 36.74 | 0.80 | 17.00 | 19.68% |
| BP PLC ADR                 | 39.27 | 1.67 | 4.50  | 9.21%  |
| Briggs & Stratton          | 39.12 | 1.29 | 9.50  | 13.31% |
| British Ame Tobacco<br>ADR | 19.25 | 1.10 | 11.50 | 18.29% |
| Brown Shoe                 | 26.32 | 0.40 | 10.50 | 12.26% |
| Brown-Forman 'B'           | 69.65 | 1.50 | 8.00  | 10.44% |
| Brunswick Corp             | 18.26 | 0.50 | 7.50  | 10.60% |
| Buckeye Partners L.P.      | 36.00 | 2.60 | 5.50  | 13.66% |
| Burlington Northern        | 24.34 | 0.48 | 6.50  | 8.70%  |
| C.H. Robinson              | 31.47 | 0.32 | 16.00 | 17.23% |
| Cabot Corp.                | 21.13 | 0.52 | 12.00 | 14.90% |
| Cabot Oil & Gas 'A'        | 24.44 | 0.16 | 13.00 | 13.77% |
| Cadbury Schweppes          | 20.45 | 0.70 | 13.00 | 17.08% |
| CAE Inc.                   | 4.12  | 0.12 | 9.50  | 12.86% |
| California Water           | 25.10 | 1.13 | 7.50  | 12.63% |
| Can. Imperial Bank         | 46.30 | 1.64 | 8.00  | 12.04% |
| Can. National Railway      | 41.55 | 0.63 | 8.50  | 10.22% |
| Canon Inc. ADR             | 35.81 | 0.24 | 9.00  | 9.76%  |
| Capital One Fin'l          | 27.71 | 0.11 | 15.50 | 15.98% |
| Capitol Fed. Fin'l         | 30.69 | 0.88 | 15.00 | 18.47% |
| Cardinal Health            | 56.95 | 0.10 | 18.50 | 18.72% |
| Carlisle Cos.              | 41.70 | 0.88 | 11.50 | 13.97% |
| Carnival Corp.             | 21.88 | 0.42 | 9.00  | 11.20% |
| Cascade Corp.              | 14.07 | 0.40 | 9.00  | 12.26% |
| Cascade Natural Gas        | 18.55 | 0.96 | 3.00  | 8.67%  |
| Casey's Gen'l Stores       | 10.85 | 0.10 | 13.50 | 14.59% |
| Caterpillar Inc            | 45.63 | 1.42 | 10.00 | 13.61% |
| CBRL Group                 | 25.95 | 0.02 | 16.00 | 16.09% |
| Cedar Fair L.P.            | 23.50 | 1.68 | 7.00  | 15.19% |

|                         |       |      |       |        |
|-------------------------|-------|------|-------|--------|
| Gen. Vermont Pub. Serv. | 16.88 | 0.88 | 9.50  | 15.57% |
| Centex Corp.            | 50.03 | 0.16 | 17.00 | 17.39% |
| CenturyTel Inc.         | 27.73 | 0.24 | 13.50 | 14.53% |
| Charter One Fin'l       | 28.35 | 0.96 | 12.50 | 16.52% |
| Chubb Corp.             | 46.68 | 1.43 | 14.00 | 17.68% |
| Church & Dwight         | 28.85 | 0.30 | 13.00 | 14.23% |
| CIGNA Corp.             | 42.45 | 1.32 | 4.50  | 7.93%  |
| Cincinnati Financial    | 35.50 | 1.00 | 17.50 | 20.99% |
| Cinergy Corp.           | 31.50 | 1.85 | 3.00  | 9.45%  |
| Cintas Corp.            | 32.16 | 0.28 | 12.00 | 13.02% |
| Citigroup Inc.          | 33.17 | 0.80 | 11.00 | 13.82% |
| City National Corp.     | 45.96 | 0.83 | 14.50 | 16.67% |
| Claire's Stores         | 22.05 | 0.16 | 8.00  | 8.82%  |
| CLARCOR Inc.            | 34.32 | 0.49 | 9.00  | 10.63% |
| Clayton Homes           | 10.50 | 0.06 | 10.00 | 10.66% |
| Cleco Corp.             | 12.00 | 0.92 | 6.50  | 15.26% |
| Clorox Co.              | 42.31 | 0.90 | 12.50 | 15.01% |
| CNF Inc.                | 28.61 | 0.40 | 10.00 | 11.61% |
| Coachmen Ind.           | 10.81 | 0.24 | 17.00 | 19.73% |
| Coca-Cola               | 37.55 | 0.88 | 9.50  | 12.20% |
| Colgate-Palmolive       | 50.15 | 0.96 | 8.50  | 10.68% |
| Comerica Inc.           | 40.50 | 2.00 | 8.00  | 13.66% |
| Commerce Bancshs.       | 37.70 | 0.66 | 8.00  | 9.98%  |
| Commercial Federal      | 22.47 | 0.37 | 8.00  | 9.86%  |
| Commercial Metals       | 13.26 | 0.32 | 7.50  | 10.23% |
| Computer Associates     | 13.83 | 0.08 | 10.50 | 11.17% |
| ConAgra Foods           | 22.21 | 0.99 | 7.00  | 12.06% |
| Constellation Energy    | 26.50 | 1.04 | 9.50  | 14.05% |
| Cooper Cos.             | 29.35 | 0.06 | 18.00 | 18.25% |
| Cooper Inds.            | 37.37 | 1.40 | 6.00  | 10.20% |
| Cooper Tire & Rubber    | 13.25 | 0.42 | 12.50 | 16.26% |
| Coors (Adolph) 'B'      | 46.31 | 0.82 | 12.50 | 14.59% |
| Corn Products Int'l     | 29.46 | 0.40 | 10.00 | 11.56% |
| Countrywide Financial   | 52.17 | 0.52 | 14.50 | 15.69% |
| Cubic Corp.             | 14.80 | 0.14 | 13.00 | 14.12% |
| Curtiss-Wright          | 55.26 | 0.64 | 13.00 | 14.37% |
| CVS Corp.               | 25.15 | 0.23 | 10.00 | 11.05% |
| Danaher Corp.           | 63.68 | 0.10 | 13.00 | 13.18% |
| Darden Restaurants      | 17.26 | 0.08 | 15.00 | 15.56% |
| Datascope Corp.         | 24.55 | 0.20 | 9.50  | 10.43% |
| Delta Air Lines         | 8.53  | 0.10 | 15.50 | 16.92% |
| Dentsply Int'l          | 35.73 | 0.19 | 14.50 | 15.14% |
| Devon Energy            | 49.50 | 0.20 | 8.50  | 8.96%  |
| Diagnostic Products     | 34.15 | 0.24 | 19.00 | 19.87% |
| Diebold Inc.            | 35.59 | 0.68 | 10.50 | 12.72% |
| Dole Food               | 32.80 | 0.60 | 17.50 | 19.75% |
| Dollar General Corp.    | 9.89  | 0.13 | 15.50 | 17.09% |
| Dominion Resources      | 54.79 | 2.58 | 10.50 | 16.02% |
| Domtar Inc.             | 11.08 | 0.12 | 11.00 | 12.26% |
| Donaldson Co.           | 34.32 | 0.36 | 13.50 | 14.75% |
| Donnelley (R.R.) & Sons | 18.01 | 1.00 | 9.00  | 15.44% |
| Dover Corp.             | 24.97 | 0.56 | 8.50  | 11.06% |
| Dow Chemical            | 26.43 | 1.34 | 13.00 | 19.09% |
| Dow Jones & Co          | 34.71 | 1.00 | 9.50  | 12.82% |
| DTE Energy              | 41.50 | 2.06 | 8.50  | 14.22% |



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|-----------------------|-------|------|-------|--------|
| Du Pont               | 35.67 | 1.40 | 7.50  | 11.96% |
| Eastman Chemical      | 31.24 | 1.76 | 11.50 | 18.19% |
| Eaton Corp.           | 68.55 | 1.76 | 7.00  | 9.89%  |
| Eaton Vance Corp.     | 25.16 | 0.32 | 9.00  | 10.45% |
| Ecolab Inc.           | 48.04 | 0.58 | 12.50 | 13.92% |
| Electronic Data Sys.  | 15.00 | 0.60 | 8.00  | 12.57% |
| Emerson Electric      | 46.58 | 1.57 | 5.50  | 9.25%  |
| ENDESA ADR            | 12.01 | 0.64 | 4.00  | 9.89%  |
| Energen Corp.         | 30.56 | 0.73 | 8.00  | 10.71% |
| Engelhard Corp.       | 20.32 | 0.42 | 10.00 | 12.39% |
| Entergy Corp.         | 45.90 | 1.44 | 7.00  | 10.54% |
| Enterprise Products   | 20.15 | 1.38 | 6.50  | 14.30% |
| Equitable Resources   | 37.46 | 0.70 | 14.00 | 16.24% |
| Ethan Allen Interiors | 27.85 | 0.24 | 12.50 | 13.51% |
| Everest Re Group Ltd. | 53.08 | 0.36 | 17.00 | 17.83% |
| Exelon Corp.          | 49.12 | 1.84 | 9.50  | 13.84% |
| Expeditors Int'l      | 34.53 | 0.13 | 20.00 | 20.47% |
| Exxon Mobil Corp.     | 34.92 | 0.92 | 7.00  | 9.97%  |
| FactSet Research      | 24.89 | 0.20 | 18.00 | 18.99% |
| Fair Isaac            | 47.58 | 0.08 | 19.00 | 19.21% |
| Family Dollar Stores  | 26.54 | 0.30 | 14.00 | 15.35% |
| Fannie Mae            | 62.95 | 1.56 | 11.00 | 13.89% |
| Fastenal Co.          | 29.93 | 0.06 | 13.50 | 13.74% |
| Federal Signal        | 13.92 | 0.80 | 11.50 | 18.33% |
| Ferro Corp.           | 20.38 | 0.58 | 7.00  | 10.21% |
| Fifth Third Bancorp   | 52.53 | 1.10 | 14.00 | 16.51% |
| First Data Corp.      | 33.82 | 0.08 | 17.00 | 17.29% |
| First Midwest Bancorp | 26.19 | 0.76 | 11.50 | 14.91% |
| First Tenn. National  | 38.33 | 1.23 | 11.00 | 14.76% |
| First Va. Banks       | 40.54 | 1.14 | 9.00  | 12.23% |
| FirstEnergy Corp.     | 29.86 | 1.50 | 7.00  | 12.71% |
| FirstMerit Corp.      | 19.12 | 1.00 | 8.50  | 14.53% |
| FleetBoston Fin'l     | 24.36 | 1.40 | 3.50  | 9.84%  |
| Florida Rock          | 32.85 | 0.40 | 11.00 | 12.41% |
| Fluor Corp.           | 29.35 | 0.64 | 17.50 | 20.19% |
| Fortune Brands        | 41.57 | 1.09 | 14.50 | 17.66% |
| FPL Group             | 57.27 | 2.42 | 4.00  | 8.65%  |
| Franklin Electric     | 49.42 | 0.52 | 14.00 | 15.25% |
| Franklin Resources    | 31.93 | 0.31 | 7.00  | 8.09%  |
| Freddie Mac           | 54.05 | 0.96 | 12.00 | 14.09% |
| Frontier Oil          | 17.10 | 0.20 | 9.00  | 10.33% |
| Fuji Photo ADR        | 30.89 | 0.21 | 8.00  | 8.77%  |
| Fuller (H.B.)         | 21.30 | 0.45 | 6.50  | 8.86%  |
| Gallagher (Arthur J.) | 24.48 | 0.72 | 14.00 | 17.53% |
| Gallaher Group ADR    | 38.70 | 1.80 | 10.00 | 15.43% |
| Gannett Co.           | 69.90 | 0.96 | 14.00 | 15.64% |
| Gen'l Dynamics        | 56.39 | 1.24 | 10.00 | 12.54% |
| Gen'l Electric        | 23.80 | 0.76 | 8.50  | 12.15% |
| Gen'l Mills           | 42.29 | 1.10 | 15.00 | 18.15% |
| Genuine Parts         | 28.16 | 1.19 | 7.00  | 11.79% |
| Gibraltar Steel       | 17.61 | 0.16 | 16.00 | 17.10% |
| Gillette              | 30.72 | 0.65 | 7.00  | 9.38%  |
| GlaxoSmithKline ADR   | 34.16 | 1.15 | 6.50  | 10.28% |
| Golden West Fin'l     | 71.92 | 0.34 | 16.50 | 17.07% |
| Graco Inc.            | 26.56 | 0.33 | 12.00 | 13.46% |

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|-----------------------|-------|------|-------|--------|
| Grainger (W.W.)       | 44.60 | 0.72 | 8.50  | 10.34% |
| Granite Construction  | 15.58 | 0.34 | 14.50 | 17.13% |
| Green Mountain Pwr.   | 20.42 | 0.76 | 16.50 | 21.08% |
| GreenPoint Fin'l      | 42.34 | 1.25 | 13.00 | 16.52% |
| G't Lakes Chemical    | 21.01 | 0.36 | 7.50  | 9.43%  |
| Harland (John H.)     | 23.19 | 0.30 | 11.50 | 13.01% |
| Harley-Davidson       | 37.03 | 0.14 | 18.00 | 18.47% |
| Harris Corp.          | 30.91 | 0.32 | 15.00 | 16.25% |
| Harsco Corp.          | 28.70 | 1.05 | 8.50  | 12.69% |
| Harte-Hanks           | 17.97 | 0.12 | 11.50 | 12.28% |
| Hartford Fin'l Svcs.  | 35.85 | 1.08 | 9.00  | 12.46% |
| Haverty Furniture     | 10.50 | 0.23 | 10.00 | 12.53% |
| HCA Inc.              | 41.37 | 0.08 | 15.00 | 15.23% |
| HCC Insurance Hldgs.  | 24.55 | 0.26 | 17.50 | 18.80% |
| Henry (Jack) & Assoc. | 11.20 | 0.14 | 16.00 | 17.52% |
| Hershey Foods         | 63.45 | 1.31 | 12.00 | 14.43% |
| Hibernia Corp. 'A'    | 17.73 | 0.60 | 11.00 | 14.96% |
| Hillenbrand Inds.     | 49.95 | 1.00 | 14.50 | 16.91% |
| Home Depot            | 22.15 | 0.24 | 18.50 | 19.84% |
| HON Industries Inc.   | 27.00 | 0.52 | 8.50  | 10.69% |
| Honda Motor ADR       | 18.25 | 0.13 | 10.00 | 10.82% |
| Hooper Holmes         | 4.92  | 0.05 | 11.00 | 12.18% |
| Hormel Foods          | 20.69 | 0.42 | 12.00 | 14.39% |
| Horton D.R.           | 17.10 | 0.28 | 16.00 | 17.99% |
| Household Int'l       | 28.08 | 1.00 | 11.50 | 15.69% |
| Hubbell Inc. 'B'      | 31.03 | 1.32 | 6.00  | 10.78% |
| Hudson United Bancorp | 31.59 | 1.20 | 17.00 | 21.70% |
| Hudson's Bay Co.      | 8.19  | 0.36 | 5.00  | 9.89%  |
| Hughes Supply         | 22.03 | 0.40 | 11.50 | 13.62% |
| Huntington Bancshs.   | 19.22 | 0.64 | 7.00  | 10.76% |
| IDEX Corp.            | 27.59 | 0.56 | 13.50 | 15.92% |
| Illinois Tool Works   | 59.03 | 0.95 | 13.00 | 14.91% |
| Imperial Oil Ltd.     | 31.94 | 0.54 | 6.50  | 8.39%  |
| IMS HEALTH            | 15.00 | 0.08 | 12.50 | 13.13% |
| Ingersoll-Rand        | 38.16 | 0.68 | 10.50 | 12.57% |
| Interstate Bakeries   | 9.60  | 0.28 | 7.50  | 10.80% |
| Int'l Business Mach.  | 77.73 | 0.60 | 7.50  | 8.37%  |
| Int'l Paper           | 34.95 | 1.00 | 17.00 | 20.53% |
| Invacare Corp.        | 30.94 | 0.05 | 10.50 | 10.69% |
| ITT Industries        | 53.92 | 0.64 | 12.50 | 13.90% |
| Jefferson-Pilot Corp. | 38.09 | 1.32 | 7.00  | 10.92% |
| JLG Industries        | 4.64  | 0.02 | 14.50 | 15.01% |
| John Hancock Fin'l    | 27.76 | 0.32 | 14.00 | 15.38% |
| Johnson & Johnson     | 52.81 | 0.87 | 12.00 | 13.93% |
| Johnson Controls      | 75.60 | 1.44 | 12.50 | 14.75% |
| Kaydon Corp           | 17.10 | 0.48 | 9.00  | 12.22% |
| KB Home               | 43.86 | 0.30 | 15.00 | 15.82% |
| Keithley Instruments  | 10.83 | 0.16 | 9.50  | 11.19% |
| Kellogg               | 29.00 | 1.01 | 8.00  | 11.97% |
| Kellwood Co.          | 25.07 | 0.64 | 13.00 | 16.04% |
| KeyCorp               | 23.74 | 1.22 | 9.00  | 14.95% |
| KeySpan Corp.         | 32.40 | 1.78 | 12.50 | 19.08% |
| Kimball Int'l 'B'     | 13.90 | 0.64 | 14.50 | 20.09% |
| Kimberly-Clark        | 44.40 | 1.36 | 7.50  | 10.97% |
| Kinder Morgan Energy  | 36.41 | 2.58 | 12.50 | 21.04% |

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|-----------------------|-------|------|-------|--------|
| Knight Ridder         | 60.37 | 1.08 | 10.50 | 12.57% |
| Korea Electric ADR    | 8.22  | 0.23 | 8.50  | 11.70% |
| Kraft Foods           | 27.86 | 0.60 | 14.50 | 17.09% |
| K-Swiss Inc.          | 23.08 | 0.04 | 12.00 | 12.20% |
| Kyocera Corp. ADR     | 53.14 | 0.52 | 7.50  | 8.60%  |
| Laclede Group         | 23.00 | 1.34 | 11.50 | 18.42% |
| Lancaster Colony      | 37.32 | 0.81 | 9.00  | 11.49% |
| Landry's Restaurants  | 15.61 | 0.10 | 19.50 | 20.30% |
| Lauder (Estee)        | 28.09 | 0.20 | 9.50  | 10.31% |
| Lawson Products       | 25.14 | 0.64 | 6.50  | 9.35%  |
| La-Z-Boy Inc.         | 17.06 | 0.42 | 10.50 | 13.36% |
| Lee Enterprises       | 31.33 | 0.68 | 10.00 | 12.51% |
| Legg Mason            | 48.13 | 0.44 | 11.50 | 12.57% |
| Leggett & Platt       | 18.68 | 0.52 | 11.00 | 14.25% |
| Lennox Int'l          | 13.41 | 0.38 | 10.00 | 13.28% |
| Lilly (Eli)           | 57.00 | 1.34 | 9.00  | 11.69% |
| Limited Brands        | 11.56 | 0.40 | 9.00  | 12.98% |
| Lincoln Elec Hldgs.   | 19.30 | 0.64 | 11.00 | 14.88% |
| Lindsay Mfg.          | 18.34 | 0.14 | 12.50 | 13.40% |
| Linear Technology     | 30.02 | 0.20 | 15.00 | 15.80% |
| Loews Corp.           | 43.59 | 0.60 | 7.50  | 9.05%  |
| Lone Star Steakhouse  | 19.67 | 0.66 | 17.50 | 21.66% |
| Lubrizol Corp.        | 28.23 | 1.04 | 12.00 | 16.36% |
| Luxottica Group ADR   | 11.17 | 0.17 | 10.00 | 11.75% |
| M&T Bank Corp.        | 78.83 | 1.20 | 12.00 | 13.79% |
| M.D.C. Holdings       | 36.14 | 0.32 | 9.00  | 10.01% |
| MacDermid Inc.        | 21.71 | 0.08 | 9.50  | 9.92%  |
| Magna Int'l 'A'       | 53.03 | 1.36 | 10.00 | 12.97% |
| Manitowoc Co.         | 18.14 | 0.28 | 15.00 | 16.86% |
| Manpower Inc.         | 29.32 | 0.20 | 9.00  | 9.78%  |
| Marcus Corp.          | 13.40 | 0.22 | 14.50 | 16.47% |
| Marriott Int'l        | 30.00 | 0.28 | 9.00  | 10.06% |
| Marsh & McLennan      | 40.29 | 1.12 | 13.00 | 16.31% |
| Marshall & Ilsley     | 26.61 | 0.64 | 11.00 | 13.81% |
| Masco Corp.           | 17.95 | 0.57 | 15.50 | 19.37% |
| Massey Energy         | 9.20  | 0.16 | 10.00 | 12.01% |
| Matthews Int'l        | 22.66 | 0.11 | 15.50 | 16.09% |
| Maytag Corp.          | 23.47 | 0.72 | 8.50  | 12.01% |
| MBIA Inc.             | 37.08 | 0.68 | 9.50  | 11.61% |
| MBNA Corp.            | 13.00 | 0.32 | 18.50 | 21.57% |
| McClatchy Co.         | 52.62 | 0.44 | 15.50 | 16.51% |
| McCormick & Co.       | 23.11 | 0.44 | 11.00 | 13.22% |
| McDonald's Corp.      | 12.77 | 0.25 | 6.50  | 8.69%  |
| McGraw-Hill           | 55.37 | 1.08 | 10.50 | 12.76% |
| McKesson Corp.        | 25.91 | 0.24 | 18.50 | 19.65% |
| Media General 'A'     | 49.18 | 0.76 | 10.00 | 11.78% |
| Medtronic Inc.        | 44.70 | 0.28 | 15.50 | 16.26% |
| Mentor Corp.          | 17.29 | 0.08 | 15.50 | 16.06% |
| Mercantile Bankshares | 36.49 | 1.20 | 9.50  | 13.30% |
| Merck & Co.           | 51.87 | 1.46 | 8.50  | 11.72% |
| Mercury General       | 35.72 | 1.32 | 13.00 | 17.41% |
| Meredith Corp.        | 38.59 | 0.38 | 12.50 | 13.66% |
| MetLife Inc.          | 26.27 | 0.21 | 16.50 | 17.47% |
| MGE Energy            | 26.35 | 1.35 | 6.00  | 11.77% |
| MGIC Investment       | 38.30 | 0.10 | 8.00  | 8.29%  |

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|                         |       |      |       |        |
|-------------------------|-------|------|-------|--------|
| Miller (Herman)         | 15.66 | 0.15 | 12.00 | 13.12% |
| Modine Mfg.             | 14.64 | 0.50 | 6.00  | 9.82%  |
| Molex Inc.              | 21.22 | 0.10 | 9.00  | 9.54%  |
| Molson Inc. Ltd. 'A'    | 31.42 | 0.44 | 19.50 | 21.25% |
| Moody's Corp.           | 44.21 | 0.18 | 16.00 | 16.49% |
| Morgan (J.P.) Chase     | 22.81 | 1.36 | 6.00  | 12.74% |
| Motorola Inc.           | 8.26  | 0.16 | 15.00 | 17.34% |
| MTS Systems             | 11.58 | 0.24 | 14.50 | 16.99% |
| Myers Inds.             | 9.45  | 0.21 | 12.50 | 15.13% |
| Mylan Labs.             | 27.95 | 0.13 | 11.50 | 12.04% |
| National City Corp.     | 27.83 | 1.22 | 7.00  | 11.97% |
| National Commerce Fin'l | 24.00 | 0.74 | 16.00 | 19.77% |
| National Fuel Gas       | 20.20 | 1.07 | 4.00  | 9.86%  |
| Nationwide Fin'l        | 23.28 | 0.52 | 7.00  | 9.51%  |
| Nat'l Bank of Canada    | 31.50 | 1.04 | 9.50  | 13.31% |
| New Jersey Resources    | 32.95 | 1.24 | 9.50  | 13.86% |
| New York Times          | 44.47 | 0.54 | 12.00 | 13.42% |
| Newell Rubbermaid       | 25.25 | 0.84 | 9.00  | 12.83% |
| NICOR Inc.              | 29.54 | 1.84 | 6.00  | 13.05% |
| NIKE Inc. 'B'           | 46.58 | 0.56 | 14.00 | 15.43% |
| NiSource Inc.           | 16.96 | 1.16 | 8.00  | 15.90% |
| Noble Energy            | 35.60 | 0.16 | 15.00 | 15.54% |
| Nokia Corp. ADR         | 13.34 | 0.30 | 12.00 | 14.65% |
| Nordson Corp.           | 24.22 | 0.60 | 9.00  | 11.84% |
| Nordstrom Inc.          | 16.66 | 0.40 | 7.50  | 10.21% |
| Norsk Hydro ADR         | 39.12 | 1.40 | 10.00 | 14.16% |
| North Fork Bancorp      | 31.79 | 1.08 | 12.50 | 16.53% |
| Northern Trust Corp.    | 30.47 | 0.68 | 10.00 | 12.58% |
| Northrop Grumman        | 83.75 | 1.60 | 6.00  | 8.13%  |
| Northwest Nat. Gas      | 24.68 | 1.27 | 5.00  | 10.74% |
| Novartis AG ADR         | 36.27 | 0.53 | 7.00  | 8.64%  |
| Novo Nordisk ADR        | 29.90 | 0.42 | 15.00 | 16.69% |
| NSTAR                   | 40.09 | 2.17 | 4.00  | 9.99%  |
| Nu Skin Enterprises     | 9.25  | 0.28 | 10.00 | 13.51% |
| Nucor Corp.             | 40.96 | 0.84 | 16.00 | 18.50% |
| NUI Corp.               | 15.53 | 0.98 | 5.00  | 12.07% |
| Ocean Energy            | 20.90 | 0.16 | 13.50 | 14.41% |
| Old Nat'l Bancorp       | 22.00 | 0.76 | 8.50  | 12.46% |
| Old Republic            | 26.51 | 0.67 | 7.00  | 9.84%  |
| Omnicare Inc.           | 25.52 | 0.09 | 21.00 | 21.45% |
| Omnicom Group           | 52.08 | 0.80 | 14.50 | 16.34% |
| ONEOK Inc.              | 17.65 | 0.68 | 8.00  | 12.40% |
| Oshkosh B'Gosh 'A'      | 23.93 | 0.28 | 8.50  | 9.83%  |
| Otter Tail Corp.        | 24.75 | 1.08 | 4.00  | 8.81%  |
| Overseas Shipholding    | 16.04 | 0.60 | 6.50  | 10.74% |
| Owens & Minor           | 16.26 | 0.33 | 9.50  | 11.83% |
| Parker-Hannifin         | 38.42 | 0.76 | 15.00 | 17.39% |
| Patina Oil & Gas        | 34.45 | 0.24 | 12.50 | 13.32% |
| Paychex Inc.            | 26.53 | 0.44 | 17.00 | 19.03% |
| Pentair Inc.            | 35.70 | 0.84 | 13.50 | 16.31% |
| People's Bank           | 25.20 | 1.46 | 7.00  | 13.61% |
| Peoples Energy          | 36.08 | 2.12 | 6.00  | 12.64% |
| PepsiAmericas Inc.      | 11.46 | 0.04 | 19.00 | 19.43% |
| PepsiCo Inc.            | 37.30 | 0.62 | 12.00 | 13.95% |
| Petroleo Brasileiro ADR | 13.00 | 0.90 | 11.00 | 19.22% |

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|                         |       |      |       |        |
|-------------------------|-------|------|-------|--------|
| Pfizer Inc.             | 29.19 | 0.62 | 17.50 | 20.12% |
| Pharmacia Corp.         | 40.55 | 0.56 | 17.00 | 18.69% |
| Phila. Suburban         | 20.81 | 0.56 | 10.50 | 13.63% |
| Philips Electronics NV  | 15.97 | 0.32 | 18.50 | 20.99% |
| Piedmont Natural Gas    | 34.69 | 1.66 | 6.50  | 11.91% |
| Pier 1 Imports          | 14.85 | 0.24 | 14.50 | 16.44% |
| Pioneer-Standard        | 8.02  | 0.12 | 10.00 | 11.72% |
| Pitney Bowes            | 30.75 | 1.20 | 5.50  | 9.85%  |
| Placer Dome             | 9.31  | 0.10 | 10.00 | 11.24% |
| PMI Group               | 25.88 | 0.10 | 12.00 | 12.45% |
| PNC Financial Serv.     | 45.02 | 1.92 | 13.00 | 18.10% |
| Pogo Producing          | 39.67 | 0.20 | 11.50 | 12.09% |
| Polaris Inds.           | 46.08 | 1.24 | 11.50 | 14.66% |
| Popular Inc.            | 33.71 | 0.88 | 12.00 | 15.08% |
| Potash Corp.            | 60.36 | 1.00 | 11.00 | 12.93% |
| PPG Inds.               | 44.42 | 1.73 | 7.50  | 11.93% |
| PPL Corp.               | 35.63 | 1.57 | 7.00  | 12.00% |
| Praxair Inc.            | 52.06 | 0.86 | 7.50  | 9.36%  |
| Price (T. Rowe) Group   | 25.56 | 0.68 | 5.00  | 7.94%  |
| Procter & Gamble        | 80.99 | 1.70 | 8.00  | 10.38% |
| Progress Energy         | 39.39 | 2.26 | 6.00  | 12.48% |
| Protective Life         | 26.86 | 0.63 | 9.00  | 11.69% |
| Public Serv. Enterprise | 34.20 | 2.16 | 4.00  | 11.01% |
| Pulitzer Inc.           | 41.38 | 0.72 | 18.00 | 20.15% |
| Pulte Homes             | 45.98 | 0.16 | 16.50 | 16.92% |
| Quaker Chemical         | 19.89 | 0.86 | 7.00  | 11.90% |
| Quanex Corp.            | 31.66 | 0.68 | 11.50 | 14.02% |
| Questar Corp.           | 28.16 | 0.74 | 9.00  | 12.01% |
| R.J. Reynolds Tobacco   | 40.40 | 3.80 | 6.50  | 17.32% |
| Rayonier Inc.           | 42.01 | 1.52 | 12.50 | 16.80% |
| Regal-Beloit            | 15.67 | 0.48 | 9.00  | 12.52% |
| Regions Financial       | 32.22 | 1.20 | 7.50  | 11.73% |
| Regis Corp.             | 22.75 | 0.12 | 13.50 | 14.12% |
| Reynolds & Reynolds     | 24.28 | 0.44 | 11.00 | 13.11% |
| Riviana Foods           | 25.43 | 0.68 | 8.00  | 11.04% |
| RLI Corp.               | 25.78 | 0.36 | 14.00 | 15.67% |
| Robbins & Myers         | 14.70 | 0.22 | 12.50 | 14.26% |
| Rock-Tenn 'A'           | 12.78 | 0.32 | 12.50 | 15.46% |
| Rohm and Haas           | 27.55 | 0.84 | 13.50 | 17.15% |
| Roper Inds.             | 27.46 | 0.35 | 14.50 | 16.03% |
| Roslyn Bancorp          | 19.43 | 0.56 | 14.50 | 17.98% |
| Ross Stores             | 33.46 | 0.23 | 14.00 | 14.82% |
| Royal Bank of Canada    | 56.39 | 1.72 | 11.50 | 15.09% |
| Royal Caribbean Cruises | 12.80 | 0.52 | 5.00  | 9.51%  |
| Royal Dutch Petr.       | 40.23 | 1.60 | 5.00  | 9.42%  |
| RPM Int'l               | 9.43  | 0.52 | 13.50 | 20.16% |
| Ruby Tuesday            | 17.94 | 0.05 | 18.00 | 18.34% |
| Ruddick Corp.           | 12.38 | 0.36 | 7.50  | 10.79% |
| Ryland Group            | 38.65 | 0.08 | 16.00 | 16.25% |
| Sara Lee Corp.          | 19.00 | 0.62 | 8.00  | 11.72% |
| SCANA Corp.             | 30.20 | 1.40 | 8.00  | 13.31% |
| Schering-Plough         | 16.60 | 0.71 | 4.00  | 8.71%  |
| Schlumberger Ltd.       | 40.17 | 0.75 | 17.00 | 19.29% |
| Schwab (Charles)        | 7.40  | 0.04 | 13.50 | 14.14% |
| Scripps (E.W.) 'A'      | 77.25 | 0.60 | 15.50 | 16.44% |

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|                            |        |      |       |        |
|----------------------------|--------|------|-------|--------|
| SEI Investments            | 25.12  | 0.12 | 16.50 | 17.08% |
| Selective Ins. Group       | 23.98  | 0.60 | 16.50 | 19.57% |
| Sensient Techn.            | 20.00  | 0.56 | 10.00 | 13.24% |
| ServiceMaster Co.          | 9.72   | 0.43 | 8.50  | 13.59% |
| Shell Transport            | 35.30  | 1.55 | 5.50  | 10.41% |
| Sherwin-Williams           | 26.28  | 0.62 | 9.50  | 12.22% |
| Sigma-Aldrich              | 42.48  | 0.36 | 10.50 | 11.48% |
| SLM Corporation            | 108.30 | 1.00 | 16.50 | 17.62% |
| Smith (A.O.)               | 25.14  | 0.56 | 16.50 | 19.23% |
| Smucker (J.M.)             | 34.42  | 0.80 | 13.50 | 16.27% |
| Sonoco Products            | 19.91  | 0.84 | 8.00  | 12.83% |
| South Jersey Inds.         | 31.91  | 1.54 | 5.50  | 10.90% |
| Southern Co.               | 28.58  | 1.40 | 3.50  | 8.88%  |
| SouthTrust Corp.           | 26.65  | 0.86 | 12.00 | 15.81% |
| Southwest Airlines         | 12.40  | 0.02 | 12.50 | 12.69% |
| Southwest Gas              | 20.41  | 0.86 | 11.00 | 15.95% |
| Sovereign Bancorp          | 13.59  | 0.10 | 11.00 | 11.85% |
| Standard Pacific Corp.     | 24.33  | 0.32 | 10.50 | 12.02% |
| Standard Register          | 15.39  | 0.92 | 11.00 | 18.08% |
| Standex Int'l              | 19.59  | 0.86 | 11.50 | 16.69% |
| Stanley Works              | 25.11  | 1.03 | 12.50 | 17.38% |
| Starwood Hotels            | 23.01  | 0.84 | 4.50  | 8.53%  |
| State Street Corp.         | 36.01  | 0.56 | 11.50 | 13.32% |
| Steel Technologies         | 10.03  | 0.20 | 16.00 | 18.43% |
| Strayer Education          | 55.30  | 0.26 | 17.50 | 18.08% |
| SunTrust Banks             | 56.17  | 1.82 | 8.50  | 12.21% |
| Superior Inds. Int'l       | 36.59  | 0.52 | 12.50 | 14.17% |
| SUPERVALU INC.             | 13.13  | 0.57 | 9.00  | 14.01% |
| Synovus Financial          | 19.42  | 0.66 | 16.50 | 20.68% |
| Sysco Corp.                | 24.32  | 0.44 | 15.00 | 17.18% |
| Talbots Inc.               | 23.48  | 0.36 | 11.50 | 13.29% |
| Target Corp.               | 26.34  | 0.26 | 12.50 | 13.66% |
| TCF Financial              | 40.80  | 1.30 | 12.50 | 16.28% |
| TECO Energy                | 10.37  | 1.42 | 4.00  | 19.65% |
| Tecumseh Products 'A'      | 43.00  | 1.28 | 8.00  | 11.39% |
| Teleflex Inc.              | 36.28  | 0.72 | 10.50 | 12.80% |
| Telefonos de Mexico<br>ADR | 29.13  | 1.15 | 8.00  | 12.51% |
| Telephone & Data           | 39.15  | 0.62 | 9.50  | 11.32% |
| Tennant Co.                | 31.05  | 0.84 | 11.50 | 14.68% |
| TEPPCO Partners L.P.       | 30.49  | 2.40 | 6.00  | 14.96% |
| Textron Inc.               | 35.10  | 1.35 | 15.00 | 19.68% |
| Thomas Inds.               | 24.97  | 0.34 | 9.50  | 11.06% |
| Thomson Corp.              | 38.77  | 1.11 | 13.50 | 16.92% |
| Tidewater Inc.             | 29.89  | 0.60 | 12.00 | 14.36% |
| Tiffany & Co.              | 23.04  | 0.19 | 11.00 | 11.96% |
| TJX Companies              | 16.30  | 0.12 | 15.00 | 15.88% |
| Tootsie Roll Ind.          | 27.47  | 0.27 | 7.50  | 8.60%  |
| Torchmark Corp.            | 35.80  | 0.36 | 10.00 | 11.16% |
| Toronto-Dominion           | 32.20  | 1.16 | 16.00 | 20.41% |
| Total Fina Elf ADR         | 66.45  | 2.55 | 7.50  | 11.86% |
| Total System Svcs.         | 15.20  | 0.08 | 17.50 | 18.15% |
| Toyota Motor ADR           | 48.66  | 0.43 | 8.50  | 9.50%  |
| Transatlantic Hldgs.       | 63.54  | 0.40 | 18.00 | 18.78% |
| TransCanada Pipe.          | 14.51  | 0.69 | 6.50  | 11.87% |
| Tredegar Corp.             | 11.59  | 0.16 | 14.00 | 15.65% |

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|                         |        |      |       |        |
|-------------------------|--------|------|-------|--------|
| Tribune Co.             | 43.41  | 0.44 | 17.50 | 18.75% |
| Trizec Properties       | 8.50   | 0.80 | 9.00  | 20.09% |
| U.S. Bancorp            | 20.75  | 0.82 | 11.50 | 16.16% |
| UGI Corp.               | 42.00  | 1.72 | 14.00 | 18.94% |
| UniFirst Corp.          | 18.53  | 0.16 | 12.50 | 13.52% |
| Unilever NV (NY Shs)    | 57.33  | 1.50 | 12.00 | 15.08% |
| Unilever PLC ADR        | 35.70  | 1.00 | 12.50 | 15.82% |
| Union Pacific           | 54.29  | 0.92 | 9.00  | 10.94% |
| Union Planters          | 27.47  | 1.33 | 9.00  | 14.60% |
| United Industrial Corp. | 12.05  | 0.40 | 11.50 | 15.41% |
| United Parcel Serv.     | 56.05  | 0.84 | 8.00  | 9.70%  |
| United Technologies     | 56.78  | 1.06 | 14.50 | 16.74% |
| Unitrin Inc.            | 24.56  | 1.66 | 4.50  | 12.05% |
| Universal Corp.         | 38.58  | 1.44 | 5.50  | 9.66%  |
| Universal Forest        | 16.18  | 0.09 | 14.00 | 14.66% |
| Unocal Corp.            | 26.40  | 0.80 | 6.00  | 9.39%  |
| UNUMProvident Corp.     | 12.60  | 0.59 | 6.50  | 11.79% |
| UST Inc.                | 29.20  | 2.00 | 2.00  | 9.47%  |
| V.F. Corp.              | 33.59  | 1.00 | 9.00  | 12.42% |
| Valspar Corp.           | 39.68  | 0.60 | 13.00 | 14.79% |
| Vectren Corp.           | 20.91  | 1.12 | 9.00  | 15.21% |
| Viad Corp.              | 20.65  | 0.36 | 12.50 | 14.56% |
| Volvo AB ADR            | 17.00  | 0.76 | 14.50 | 19.93% |
| Vulcan Materials        | 30.39  | 0.98 | 4.50  | 8.05%  |
| Walgreen Co.            | 28.39  | 0.15 | 16.00 | 16.64% |
| Wallace Computer Serv.  | 25.89  | 0.66 | 13.50 | 16.54% |
| Wal-Mart Stores         | 47.88  | 0.32 | 14.00 | 14.80% |
| Walter Inds.            | 9.38   | 0.12 | 20.00 | 21.61% |
| Washington Federal      | 21.82  | 0.84 | 11.50 | 16.04% |
| Washington Mutual       | 34.31  | 1.22 | 14.00 | 18.28% |
| Washington Post         | 673.40 | 5.80 | 18.50 | 19.57% |
| Watts Inds. 'A'         | 15.24  | 0.30 | 14.00 | 16.36% |
| Webster Fin'l           | 35.53  | 0.78 | 11.00 | 13.56% |
| Weis Markets            | 28.40  | 1.08 | 6.00  | 10.26% |
| Wells Fargo             | 45.64  | 1.20 | 15.00 | 18.18% |
| Wendy's Int'l           | 24.30  | 0.24 | 13.00 | 14.17% |
| Werner Enterprises      | 18.72  | 0.08 | 13.50 | 14.01% |
| West Pharmac. Svcs.     | 19.51  | 0.80 | 8.50  | 13.21% |
| Weyerhaeuser Co.        | 48.41  | 1.60 | 12.50 | 16.42% |
| WGL Holdings Inc.       | 25.58  | 1.28 | 5.50  | 11.11% |
| Whirlpool Corp.         | 46.97  | 1.36 | 9.00  | 12.32% |
| Wiley (John) & Sons     | 22.00  | 0.20 | 10.50 | 11.55% |
| Wilmington Trust        | 27.59  | 1.02 | 8.00  | 12.22% |
| Wolverine World Wide    | 16.10  | 0.22 | 11.00 | 12.59% |
| WPP Group ADR           | 30.50  | 0.32 | 12.00 | 13.23% |
| WPS Resources           | 38.73  | 2.17 | 4.50  | 10.73% |
| Wrigley (Wm.) Jr.       | 52.10  | 0.88 | 10.00 | 11.95% |
| Wyeth                   | 35.25  | 0.94 | 10.00 | 13.09% |
| XTO Energy              | 24.89  | 0.05 | 9.00  | 9.23%  |
| York Int'l              | 20.26  | 0.60 | 8.50  | 11.89% |
| Zions Bancorp.          | 42.37  | 0.84 | 10.50 | 12.80% |
| Average                 |        |      |       | 13.97% |

Source of data: Mr. Lester's work papers.

Market Capitalization of BellSouth, SBC, and Verizon  
(\$ in Billions)

| Company                | Total Debt | Market Cap | Total Cap | Market Value Equity Ratio |
|------------------------|------------|------------|-----------|---------------------------|
| BellSouth Corporation  | 16.60      | 50.50      | 67.1      | 75.3%                     |
| SBC Communications     | 20.30      | 86.00      | 106.3     | 80.9%                     |
| Verizon Communications | 54.10      | 109.40     | 163.5     | 66.9%                     |
| Total/Composite        | 91.00      | 245.90     | 336.9     | 73.0%                     |
| Average                |            |            |           | 74.4%                     |

Source of Data: The Value Line Investment Survey, July 4, 2003.



Staff's Weighted Average Cost of Capital  
 Using a 12.75% Cost of Equity and a 75% Equity/25% Debt Capital Structure

| Source of Capital      | Cost   |         | Weighted Cost |
|------------------------|--------|---------|---------------|
|                        | Rate   | Percent |               |
| Debt                   | 7.40%  | 25.00%  | 1.85%         |
| Equity                 | 12.75% | 75.00%  | 9.56%         |
| <b>Cost of Capital</b> |        |         | <b>11.41%</b> |

Staff's Weighted Average Cost of Capital  
 Using a 13.97% Cost of Equity and 75% Equity/25% Debt Capital Structure

| Source of Capital      | Cost   |        | Weighted Cost |
|------------------------|--------|--------|---------------|
|                        | Rate   | Ratio  |               |
| Debt                   | 7.40%  | 25.00% | 1.85%         |
| Equity                 | 13.97% | 75.00% | 10.45%        |
| <b>Cost Of Capital</b> |        |        | <b>12.33%</b> |

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| COCLLI8digit       | CO_Name                        | PROVISIONED | TERMINATED | IN SERVICE |
|--------------------|--------------------------------|-------------|------------|------------|
| BRTNFLXX           | EAX BUILDING                   | 6           | 5          | 1          |
| WSSDFLXA           | GTE - TAMPA WESTSIDE CO        | 33          | 17         | 16         |
| UNVRFLXA           | GTE - UNIVERSITY C.O.          | 21          | 16         | 5          |
| ALFAFLXA           | GTE ALAFIA CO                  | 1           | 1          |            |
| ABDLFLXA           | GTE AUBURNDALE CO              | 3           | 1          | 2          |
| BAYUFLXA           | GTE BAYOU CO                   | 13          | 9          | 4          |
| BHPKFLXA           | GTE BEACH PARK CO              | 29          | 17         | 12         |
| BRBAFLXA           | GTE BRADENTON BAY CO           | 7           | 7          |            |
| BRNDFLXA           | GTE BRANDON CO                 | 20          | 13         | 7          |
| CRWDFLXA           | GTE CARROLLWOOD CO             | 16          | 9          | 7          |
| CLWRFLXA           | GTE CLEARWATER CO              | 25          | 13         | 12         |
| CNSDFLXA           | GTE COUNTRYSIDE CO (PART OF CL | 24          | 16         | 8          |
| CYGRFLXA           | GTE CYPRESS GARDENS CO         | 1           |            | 1          |
| DNDNFLXA           | GTE DUNEDIN CO                 | 8           | 7          | 1          |
| ENWDFLXA           | GTE ENGLEWOOD CO               | 1           | 1          |            |
| FHSDFLXA           | GTE FEATHERSOUND CO            | 17          | 12         | 5          |
| GNDYFLXA           | GTE GANDY CO                   | 9           | 6          | 3          |
| HGLDFLXA           | GTE HIGHLANDS CO               | 6           | 5          | 1          |
| HDSNFLXA           | GTE HUDSON CO                  | 7           | 5          | 2          |
| HYPKFLXA           | GTE HYDE PARK CO               | 17          | 10         | 7          |
| INRKFLXX           | GTE INDIAN ROCKS CO            | 5           | 5          |            |
| KYSTFLXA           | GTE KEYSTONE C.O.              | 2           | 2          |            |
| LKLDLFLXA          | GTE LAKELAND MAIN CO           | 13          | 9          | 4          |
| LKLDLFLXN          | GTE LAKELAND NORTH CO          | 3           | 2          | 1          |
| LLMNFLXA           | GTE LEALMAN CO                 | 15          | 11         | 4          |
| LUTZFLXA           | GTE LUTZ CO                    | 2           | 2          |            |
| NPRCFLXA           | GTE NEW PORT RICHEY C.O.       | 11          | 8          | 3          |
| NGBHFLXA           | GTE NORTH GULF BEACH CO        | 16          | 12         | 4          |
| NRSDFLXA           | GTE NORTHSIDE CO               | 6           | 6          |            |
| OLDSFLXA           | GTE OLDSMAR CO                 | 7           | 5          | 2          |
| PLSLFLXA           | GTE PALMA SOLA CO              | 6           | 6          |            |
| PLMTFLXA           | GTE PALMETTO CO                | 1           | 1          |            |
| PSDNFLXA           | GTE PASADENA CO (ADDRESS VALID | 13          | 9          | 4          |
| PNLSFLXA           | GTE PINELLAS CO                | 21          | 12         | 9          |
| PTCYFLXA           | GTE PLANT CITY CO              | 7           | 6          | 1          |
| SRSTFLXA           | GTE SARASOTA CO                | 15          | 9          | 6          |
| SSDSFLXA           | GTE SARASOTA SOUTHSIDE CO      | 8           | 7          | 1          |
| SMNLFLXA           | GTE SEMINOLE CO                | 9           | 6          | 3          |
| SNSPFLXA           | GTE SEVEN SPRINGS CO           | 1           |            | 1          |
| SKWYFLXA           | GTE SKYWAY CO                  | 12          | 9          | 3          |
| SGBEFLXA           | GTE SOUTH GULF BEACH CO        | 4           | 4          |            |
| STGRFLXA           | GTE ST GEORGE CO               | 17          | 12         | 5          |
| SPBGFLXA           | GTE ST PETERSBURG MAIN         | 22          | 13         | 9          |
| SPBGFLXS           | GTE ST PETERSBURG SOUTH C.O.   | 5           | 5          |            |
| SLSPFLXA           | GTE SULPHUR SPRINGS CO         | 14          | 9          | 5          |
| SWTHFLXA           | GTE SWEETWATER CREEK CO        | 29          | 15         | 14         |
| TAMPFLXE           | GTE TAMPA EAST CO              | 28          | 14         | 14         |
| TAMPFLXX           | GTE TAMPA EAX BLDG             | 27          | 19         | 8          |
| TAMPFLXA           | GTE TAMPA MAIN                 | 26          | 3          | 23         |
| TRSPFLXA           | GTE TARPON SPRINGS CO          | 10          | 8          | 2          |
| TMTRFLXA           | GTE TEMPLE TERRACE CO          | 13          | 9          | 4          |
| VENCFLXA           | GTE VENICE CO                  | 4           | 4          |            |
| WNHNFLXC           | GTE WINTER HAVEN CO            | 10          | 6          | 4          |
| YBCTFLXA           | GTE YBOR CITY CO               | 15          | 10         | 5          |
| ZPHYFLXA           | GTE ZEPHYRHILLS CO             | 1           | 1          |            |
| LKLDLFLXE          | LAKELAND EAST                  | 3           | 2          | 1          |
| LRGOFLXA           | LARGO                          | 15          | 12         | 3          |
| SPRGFLXA           | SARASOTA SPRINGS               | 8           | 7          | 1          |
| WLCRFLXA           | WALLCRAFT                      | 10          | 8          | 2          |
| <b>Grand Total</b> |                                | <b>698</b>  | <b>458</b> | <b>240</b> |

Data from Verizon as of July 31, 2003.