Q. Referring to page 50, lines 15-28: Please explain the merit of using analysts' forecasts in view Wall Street's loss of credibility (page 34, line 1). Would it be appropriate to discount analysts' forecasts in this analysis if investors now discount these forecasts in forming their expectations? Please explain.

A. Ms. McShane believes that there is merit in using analysts' forecasts for utilities for the reasons given at page 51, lines 1-15. Ms. McShane does not believe that the forecasts should be discounted, and notes the following:

(1) Ms. McShane relies on growth forecasts for relatively pure-play utilities, which operate in mature industries. The reasonableness of the long-term growth forecasts can be assessed against the long-term growth potential of the economy, to which, it is widely accepted, earnings growth rates across industries should converge. The growth forecasts for utilities are generally within the range of the longer-term nominal growth forecasts for the economy.

(2) The "optimistic bias" of analysts generally has been attributed to an incentive to attract the investment banking business of the affected companies. The same cannot be said of *Value Line* analysts, who provide widely accessible independent research. The analysts' consensus forecast earnings growth rates for the utilities utilized by Ms. McShane have not been shown to be systematically higher than the corresponding *Value Line* growth rates.

(3) Further, given the recent Wall Street experience, it may be expected that analysts are likely not only to be more vigilant in their supporting

research, but also to be conservative in their forecasts on a go-forward basis. Conservatism is also more likely to characterize the forecasts of the companies themselves (which are inputs to the analysts' forecasts and recommendations).