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**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF MISSOURI GAS ENERGY'S TARIFFS
TO IMPLEMENT A GENERAL RATE INCREASE FOR
NATURAL GAS SERVICE**

Case No. GR-2004-0209

DEPOSITION OF JOHN DUNN

May 6, 2004

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MAY 10 2004

STATE OF MISSOURI
PUBLIC SERVICE

In the Matter of Missouri Gas
Energy's Tariffs to Implement a Case No. GR-2004-0209
General Rate Increase for Natural
Gas Serviced.

DEPOSITION OF JOHN DUNN,
a witness, produced, sworn and examined on the 6th day of
May, 2004, between the hours of 8:00 a.m. and 6:00 p.m. of
that day at the law offices of the Missouri Public Service
Commission, 200 Madison Street, Room 810, in the City of
Jefferson, County of Cole, State of Missouri, before

KELLENE K. FEDDERSEN, RPR, CSR, CCR
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and Notary Public within and for the State of Missouri,
commissioned in Cole County, Missouri, in the
above-entitled cause, on the part of the Staff of the
Missouri Public Service Commission, pursuant to Notice.

1 indicate to you that they had any problems issuing debt or
2 equity?

3 A. I think in that area we have to go back to
4 the original answer, that they expend a substantial amount
5 of effort to raise capital, and you can interpret that as
6 problems or not. People are not beating their door down
7 like they are at General Motors to get capital placed with
8 the company, or General Electric. Those companies
9 actually operate banks where people can deposit funds on a
10 short-term basis.

11 Q. Could I have the annual report back, sir?
12 I want to talk for a while about the
13 discounted cash flow method. Are you familiar with that
14 method?

15 A. I am.

16 Q. And is that a generally accepted method to
17 determine the cost of common equity?

18 A. It is.

19 Q. And is that one of the methods that you
20 utilized in this rate proceeding?

21 A. It's the primary method I used.

22 Q. And is that a method that Mr. Murray
23 utilized in this proceeding?

24 A. It is.

25 Q. And is that a method that Mr. Allen

1 utilized in this proceeding?

2 A. Yes.

3 Q. And is the discounted cash flow method of
4 determining the cost of common equity the most accepted
5 methodology for ratemaking purposes?

6 A. Every survey I've seen says that it is at
7 the moment.

8 Q. And it's more accepted than, for example,
9 the capital asset pricing method?

10 A. That's correct.

11 Q. Or the risk premium analysis method?

12 A. That's correct.

13 Q. Why is that, sir?

14 A. I can't explain why it is. I think it's
15 probably a superior model. It's been less subjected to
16 criticism than the other two.

17 Q. And has that model been subjected to peer
18 review articles in various finance journals?

19 A. I don't believe that the discounted cash
20 flow model, as we use it in the regulatory environment, is
21 something that's been the subject of peer review articles.

22 Q. Has the discounted cash flow method been
23 accepted by numerous public service commissions for use?

24 A. It has.

25 Q. Has the discounted cash flow method been