STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

The Staff of the Missouri Public Service Commission,	
Complainant,	
vs.	Case No. EC-2002-1
Union Electric Company, d/b/a AmerenUE,	
Respondent.	

DEPOSITION OF MARK BURDETTE
TAKEN ON BEHALF OF THE RESPONDENT

JUNE 20, 2002

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DEPOSITION OF MARK BURDETTE,

a witness, produced, sworn and examined on the 20th day of June, 2002, between the hours of 8:00 a.m. and 6:00 p.m. of that day at the offices of the Office of the Public Counsel, Governor Office Building, Room 650, in the City of Jefferson, County of Cole, State of Missouri, before

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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 Union Electric Company, d/b/a AmerenUE, pursuant to agreement.

APPEARANCES

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ALSO PRESENT: Johannes Pfeifenberger, The Brattle Group
Bente Villadsen, The Brattle Group
Ron Bible, MoPSC Staff
Roberta McKiddy, MoPSC Staff

SIGNATURE INSTRUCTIONS:

Presentment waived; signature requested.

EXHIBIT INSTRUCTIONS:

Attached to original.

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EXHIBITS INDEX

MARK BURDETTE, being sworn, testified as follows:

DIRECT EXAMINATION BY MR. WOLSKI:

Q. Welcome, Mr. Burdette. I want to first, I think, start by going around the room and having everyone state their appearance so we've got it on the record.

A. Okay.

Q. And obviously you are the witness, but you can start with your name and your business address.

A. Mark Burdette. I'm a Financial Analyst with the Missouri Office of the Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102-7800.

MR. WOLSKI: For everyone else, just your name.

MS. O'NEILL: Ruth O'Neill from Public Counsel.

MR. WILLIAMS: Nathan Williams, Associate Attorney in the General Counsel's Office, for the Staff.

MS. VILLADSEN: Bente Villadsen, The Brattle Group, Cambridge.

MR. PFEIFENBERGER: Johannes Pfeifenberger with The Brattle Group, Cambridge.

MR. WOLSKI: And I'm Victor Wolski with Cooper & Kirk, counsel representing Ameren today.

BY MR. WOLSKI:

Q. I take it Ms. O'Neill is representing you.

She's your counsel for the deposition, correct?
A. Correct.
Q. Have you ever been deposed before?
A. No.
Q. Well, then, to make sure that you understand the groundrules, I'll go through a few explanations of what we're doing.
A deposition, as you might know or might have been told by Ms. O'Neill, is a procedure for taking your testimony under oath in connection with a pending legal action. And even though we're sitting here informally in the very warm conference room, everything you're saying is just as if you were in the hearing room of the Commission, and your testimony then is given under penalty of perjury just as if you were testifying before the Commission. You understand that?
A. Uh-huh. Yes.
Q. And as you can see, the court reporter is taking down everything that we say during the course of the deposition, and after the deposition she'll prepare a written transcript and you'll be asked to review it and to sign it as testimony in this action and also to make whatever corrections you would like to make. You understand that?
A. Yes.

rephrase the question or you can ask the court reporter to read it back to see if when it's read back it makes more sense. And if you don't ask for a clarification, I'll assume that you did understand the question the way it was phrased.
A. All right.
Q. Okay. And as you might guess, the court reporter can't easily transcribe two people speaking at the same time, so that it's important for you to wait until I finish my question before you start answering it, and also I will endeavor to not interrupt you so that you can -- you're done with your answer before I would ask the next question.
And also the court reporter can't transcribe nonverbal responses, like a shake of your head yes or no. So it's important that you give a verbal response to questions. Do you understand?
A. Okay. Yes.
Q. Mr. Burdette, is there any reason at all why you wouldn't be able to give truthful and accurate testimony to the best of your recollection in today's deposition?
A. No.
Q. And do you have any medical condition or problems that might interfere with your ability to give truthful and accurate testimony in today's deposition?
A. No.

Q. Okay. And throughout the deposition, obviously, I'll be asking you questions, and I'd like you to answer them to the best of your ability. If you're not certain of the answer but you can make a reasonable guess or reasonable estimate of the answer, I would ask that you try to give me your best response you can.
If I ask a question and your counsel objects to the question, unless -- which she might do from time to time for purposes of getting it on the record. Unless she instructs you not to answer the question, you should go forward and answer the question. Do you understand that?
A. Okay. Yes.
Q. And I assume that she'll be pretty clear if she's instructing you not to answer. I don't imagine it would come up. I won't say that, but it'll be clear.
MS. O'NEILL: One thing I will add to that is, if you don't know something, it's okay to say you don't know. If you're guessing because you're not sure of the actual point of the question, you can ask for a clarification.
THE WITNESS: Okay.
BY MR. WOLSKI:
Q. In fact, that's important. Let me add that point, that if you don't understand my question, if you have any problem with it at all, please, you can either ask me to

Q. And are you currently taking any drugs or other medication that might interfere with your ability to give truthful and accurate testimony in today's deposition?
A. No.
Q. And could you briefly explain the steps that you've taken to prepare for this deposition?
A. I reread my testimony. I've been working on testimony for this case, so I -- no particular steps beyond just preparation for the case.
Q. So reviewing the materials that you used for your testimony and reviewing the testimony, I suppose, that you're rebutting?
A. Correct.
Q. Okay. How long have you worked at OPC?
A. Just over seven years.
Q. Did you work anywhere else between business school and employment here at OPC?
A. Yes. I was an electrical engineer at three separate jobs.
Q. Okay. And since joining OPC, how long have you been working on rate of return issues in rate cases?
A. Since the first day.
Q. So that would be the full seven years?
A. Yep. Yes.
Q. And had you had any familiarity with that

topic prior to coming to OPC?

A. Through business school.

Q. But when you were an electrical engineer, you had no rate of return?

A. Correct.

Q. Now, your testimony's rebuttal testimony on the topic of cost of capital, correct?

A. Yes.

Q. And I take it that it's rebutting, then, the testimony of Staff Witness Ron Bible?

A. Primarily rebutting the -- well, it's labeled rebuttal testimony. It's more a cost of capital analysis on my own -- on my own part, even though it's labeled rebuttal. This was OPC's first round.

Q. Okay. And are there any areas -- I take it you did read Mr. Bible's testimony prior to preparing your own; is that correct?

A. Correct.

Q. Are there any areas of disagreement that you might have with Mr. Bible and his testimony?

MS. O'NEILL: I'm going to object to the form of that question as way too broad. Could you rephrase it perhaps?

BY MR. WOLSKI:

Q. Could you identify the areas of disagreement

A. So I would not adopt his testimony as my own.

Q. Okay. Understood. Would it be right to say that, to the extent that you have a substantial disagreement with the way that Mr. Bible had performed his analysis, that that disagreement would be reflected in the way that you do your own analysis in your rebuttal?

MS. O'NEILL: I'm going to object to the form of that question, too. Can you rephrase that? It's very confusing to me. Mark might understand it, but --

THE WITNESS: I would have to rephrase your question to answer your question.

BY MR. WOLSKI:

Q. Do you want to give it a shot?

A. That's fine. It's not a big area. To me, it sounds like to me what you said is I did my testimony the way I did my testimony. There are differences between my testimony and Ron's. Would those differences constitute areas that I believe we differ?

Q. Uh-huh.

A. That's true.

Q. Now, if there was -- if there was a particular method or approach used by Mr. Bible that you thought was incorrect, would you have pointed that out in your rebuttal testimony on cost of capital?

A. Not necessarily.

that you might have, that you have with Mr. Bible in the way that he performed his cost of capital analysis in this case?

MS. O'NEILL: I'm going to object again. Can you be more specific about -- cost of capital is the whole thing. Can you break it down?

BY MR. WOLSKI:

Q. Well, I think -- do you understand?

A. I understand the question. I'm not sure how easy the question is to answer. There are certain aspects of Mr. Bible's analysis that I would not have done the same way. There was nothing singularly so glaring as to jump out at me. For this round of testimony I primarily read his testimony in the whole, looked at his results, looked at his analysis.

I can always find something to disagree with for any analyst. I don't know that there's any singular areas that would jump out at me that I disagree with him.

Q. So sitting here today, then, in other words, there's nothing -- there's nothing that you can -- there's nothing right now that you can identify that was in his testimony that, as you said, jumps out at you as having been wrong?

A. I said that with the caveat that I'm not saying that I agree with everything he did.

Q. Sure.

Q. Do you agree with Mr. Bible's recommendation in this case?

A. My recommendation overlaps the upper portion of Mr. Bible's range. I would agree with him on that. I would not agree on the lower half of his range. That isn't what I recommended. We differ in that area.

Q. Is there anything that's in your testimony that you no longer agree with, that you've changed your mind on since it had been written?

A. Not that I'm aware of at this time.

Q. So as of now, you stand on what you -- you stand on what you've submitted?

A. Yes.

Q. And are there any particular corrections that you know that you would have to make?

A. Not that I have discovered to this point.

Q. And are you working on any cross-surrebuttal testimony on this topic for the case?

A. I am filing surrebuttal testimony, yes.

Q. And what were the witnesses that you would be cross-rebutting or surrebutting?

A. To this point, I've addressed Kathleen McShane. I will be going through all the company witnesses to determine any areas that they've addressed that I need to address. It's not determined completely.

Q. And in Kathleen McShane's testimony, do you know which particular aspects of her testimony that you would be rebutting?

MS. O'NEILL: I'm going to object to that question at this point in time. His testimony has not been filed yet. It's not complete yet, and it wouldn't be appropriate for him to attempt to summarize something that's not in completed form.

BY MR. WOLSKI:

Q. Well, as you sit here today, you've read Kathleen McShane's testimony, haven't you?

A. I have.

Q. Are there any aspects of that that you think were inaccurate?

A. Yes.

Q. Could you identify those?

A. Her application of the discounted cash flow model, her application of the capital asset pricing model, her application of the comparable earnings analysis, her conclusions, her justification, her sources of support.

Q. Okay. On that last point, could you repeat that one?

A. Sources of support. I believe some of the documents that she's used to support her analysis do not do that.

Q. Okay. Do you know which documents those are --

A. I haven't --

Q. -- as you sit here?

A. I haven't completed that yet.

Q. And as you're sitting here today, can you recall what you believe was in error in her application of the DCF model?

MS. O'NEILL: Again, I'm going to object that this is going to surrebuttal testimony that hasn't been filed yet.

THE WITNESS: Yeah. I guess I feel like I'm going to object, too. I mean, I'm in the middle of an analysis, writing surrebuttal testimony that is not complete, and basically this seems to me like you're trying to get an up on what I'm going to say about Ms. McShane before my testimony is filed.

BY MR. WOLSKI:

Q. Well, you are giving testimony right here. You can give your opinion right here as an expert witness.

MS. O'NEILL: Well, hold on. Don't answer yet.

At this point in time, I believe that he's already told you that his analysis is ongoing. I believe it would be inappropriate -- this is my objection -- for him to

continue to give you part of an analysis that's not been completed yet. It would be misleading and -- possibly misleading. It may not be misleading. I don't know how far he is.

But at this point I'm going to instruct him not to answer questions about his surrebuttal testimony that has not been filed.

BY MR. WOLSKI:

Q. Okay. Again, I think if you recall the question, it had nothing to do with your surrebuttal. It said, as you sit here now, can you identify aspects of her application of the DCF that you find were in error? And you are an expert and have read the testimony of Ms. McShane. Presumably you would have an opinion on it now.

MS. O'NEILL: I'm going to object if you're asking him for specifics. If you're asking for generalities, he can answer in generalities. But since he's still undergoing the analysis, I would object to asking for anything that's a conclusion of his analysis.

BY MR. WOLSKI:

Q. We'll move on. We might come back to this topic later. We can discuss it at that point.

You had also -- actually, let me ask one other thing. Are there other areas in which you would be providing surrebuttal testimony or surrebuttal analysis as

an expert in this case? You said that you were going to review other company witnesses' testimony. Are there other particular areas that have been assigned to you by OPC as issues for this case?

A. Not specifically at this point.

Q. Are there issues that you typically have had assigned to you in the past that you would be looking at in this case?

A. Potentially. Those decisions develop as other parties' testimony comes together -- or I'm sorry, not other parties -- other OPC witnesses' testimony comes together, the determination could be that I -- that OPC wants a little more support on a particular issue. It has varied case to case.

Q. But right now you don't know -- there are no other additional issues that have been assigned to you?

A. No.

Q. Okay. Now, do you have a copy of your rebuttal testimony in front of you?

A. I do.

Q. I wonder if you could turn to Appendix D, which is on page 27.

A. Okay.

Q. Now, could you explain why the -- why this particular appendix was included in your testimony?

A. It is standard – it's standard information that is usually supplied on rate of return testimony. Most analysts put it at the beginning of their testimony in their usual boilerplate. I pull it out of the body of the testimony and attach it as appendices.

Q. And do you think that this discussion is important to your testimony?

A. I believe it's part of the legal foundation underlying what we do.

Q. So that in doing your testimony, you were attempting to fit in with the legal foundation that's contained in the appendix?

A. Within the framework of the legal opinions interpreted to me by OPC lawyers and interpreted through policies of Public Counsel.

Q. You cite a couple of cases in the appendix. One is the Bluefield Waterworks case?

A. Yes.

Q. Have you read the Bluefield case?

A. I have.

Q. And how recently did you read it?

A. Oh, it's – the entire case, probably within the last couple of years. I can't give you a firm date.

Q. And the FPC vs. Hope Natural Gas case, is that – have you also read that one?

A. I can't – I can't cite cases, no.

Q. And you're not sure, then – let me rephrase that.

I take it, then, that you don't know whether the return that you recommend in this case would be considered fair under Missouri court standards?

A. I have legal counsel as an expert witness to assist me in decisions and judgments like that.

Q. But again, and you're not – you don't know whether Missouri law or Missouri – you don't know whether the courts in Missouri might apply the legal requirements for fair rate of return differently than the United States Supreme Court?

A. I am not specifically aware of that, no.

Q. And you have a quote here from the Bluefield case, lines 17 through 30 of page 27?

A. Correct.

Q. I'd like you to take a look at that quote. In this case the Supreme Court says, A public utility is entitled to such rates as will permit it to earn a return and value the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties.

A. The same, yes.

Q. Within the last few years?

A. Probably, yes.

Q. And does the same thing hold true for the Permian Basin area rate case as you cite on page 28?

A. Yes.

Q. So you read those – you read that case, that opinion within the last few years?

A. I have read those, correct.

Q. Now, your appendix on the legal requirement for fair rate of return only discusses United States Supreme Court cases. Are you aware of any legal requirements under Missouri law, under Missouri Constitution or the Missouri case law that concerns appropriate rate of return?

A. I'm not aware of specific citations or cases. Specific local information would be – I would learn through discussions with attorneys, discussions of particular cases. I can't say that I have not read a Missouri law, but I couldn't tell you what it is, and I can't tell you that there is one.

Q. Okay. And that would also mean that you couldn't say whether you had read any Missouri cases dealing with the rate of return requirements?

A. Legal cases?

Q. Yes.

Do you see that –

A. I do.

Q. – statement?

In calculating the rate of return that you recommend for UE in this case, did you look at returns on investment in business undertakings in the same general part of the country as UE?

A. I know that one of my comparable companies is from Wisconsin. I would consider that general part of the country. I did not perform a specific analysis of midwestern returns.

Q. And you looked at businesses that were not in the same general part of the country as Union Electric, correct?

A. Correct.

Q. In calculating the rate of return that you recommend in this case for Union Electric, did you look at any returns on investment in business undertakings, actually to quote from the Bluefield case, in other business undertakings which are attended by corresponding risks and uncertainties? Did you look at other businesses other than public utilities?

A. No.

Q. Now, further down in the passage that you quote in your appendix, the sentence that begins on line 23 reads. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate under efficient and economical management to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties, end quote.

Did you follow that sentence?

A. I did.

Q. Now, what analysis did you do to confirm that the returns you're recommending are reasonably sufficient to assure confidence in the financial soundness of UE?

A. I checked my recommendation with times interest earned to be sure that Ameren would not be in violation of their covenants and that they had sufficient coverage for their interest expense.

Q. Is there anything else that you did to confirm that the returns would be reasonably sufficient to assure confidence in the financial soundness of UE?

A. General comparison of my recommended return with the returns that my analysis showed me for other utilities.

Q. Did you do any additional analysis to determine if the returns you're recommending are adequate to maintain and support UE's credit?

A. I said I had performed times interest earned

to be sure that they would not be in violation of any of their covenants, which would certainly affect their credit.

Q. Are you aware of any firms or agencies whose business it is to evaluate the credit riskiness of companies?

A. I am.

Q. Could you name some of those, which ones that you know of?

A. Moody's, Standard & Poor's, Fitch, Duff & Phelps, I believe. There are several.

Q. You know more than me, then. Do you know how Standard & Poor's reacted to the rate cut proposed by the Staff in this case?

A. I read the report. I cannot -- I cannot quote the report. I believe it was they changed their outlook. They did not change rating. They changed an outlook.

Q. Did you know that Standard & Poor's revised its credit outlook for Ameren from stable to negative?

A. Yes, I would have known that.

Q. Do you know how Moody's evaluated the impact of the rate cut proposed by Staff?

A. I believe Moody's issued a statement that said that if Staff's reduced revenue requirement was put into place, that Ameren would have lower earnings.

Q. Did you know Moody's assigned a negative

outlook to Ameren because of the proposed rate cut by the Staff?

A. I know that a negative outlook had been proposed and that the -- that the pending rate case or the pending cases had been mentioned. I cannot address whether Moody's decision was based entirely on that fact.

Q. But it certainly contributed to the decision from what you remember of the report?

A. I would say that's accurate from what I read.

Q. And in this case the Office of the Public Counsel is recommending deeper rate cuts than the Staff, isn't it?

A. I -- I wouldn't comment on an overall -- on the overall case. We've been through so many discussions on settlements and different scenarios that bottom line every issue of Staff's case compared to bottom line every issue of OPC's case, I can't comment on that.

Q. And would you characterize the Standard & Poor's credit outlook as relating to the financial soundness of the company?

A. I would label the Standard & Poor's reports as opinions pertaining to some but not necessarily all aspects of the financial soundness of the company.

Q. And would a -- as you understand the terminology, would a negative credit outlook from Standard &

Poor's reflect a question as to whether a company could support its credit and maintain its credit?

A. I would -- I interpret a negative outlook as Standard & Poor's having the opinion that, if certain circumstances come to pass, if certain scenarios come together in the proper way, it could impact the company's ability.

Q. Is the same thing true for the Moody's outlook, the negative outlook from Moody's?

A. In general, yeah, I would view those the same.

Q. In making your rate of return recommendation in this case, have you analyzed how Union Electric's proper discharge of its public duties might require increased investment in infrastructure?

A. Can you repeat that?

Q. Sure.

MR. WOLSKI: Actually, maybe if you'd read it.

THE REPORTER: "Question: In making your rate of return recommendation in this case, have you analyzed how Union Electric's proper discharge of its public duties might require increased investment in infrastructure?"

MS. O'NEILL: Can I ask you for a clarification for that?

MR. WOLSKI: Sure.

MS. O'NEILL: Are you asking whether or not this rate of return will affect its ability to borrow money or is this question related to whether or not Union Electric will have the ability to build further plant with money it's getting from rates --

MR. WOLSKI: I guess --

MS. O'NEILL: -- currently getting from rates?

MR. WOLSKI: I guess the question would cover both. Let me break it up into two.

BY MR. WOLSKI:

Q. In doing your rate of return recommendation, did you consider whether UE's proper discharge of its public duties, in order to fulfill that public duties, that Union Electric might need to invest more in infrastructure going forward?

A. I formulated a return that I believe will provide Union Electric the ability to continue its safe and adequate service.

In terms of specifics regarding whether they have to have a huge increase in infrastructure replacement, I did not address their specific management scenarios or goals going forward.

Q. Okay. So then I take it that there was no determination made by you whether there would be -- whether Union Electric would be investing in increased generation or increased transmission capacity?

A. Did you say "an" authoritative source or "the"?

Q. An authoritative source.

A. I believe it is an authoritative source.

Q. And do you believe ValueLine's reliable?

A. Yeah, I believe ValueLine is reliable.

Q. And does that mean you believe that you can rely on the data that's in ValueLine's reports because you trust that if ValueLine put its name on it, the data has some inherent reliability?

A. I believe that it is in ValueLine's best interest as a company to put out factual information or they would very quickly lose respectability among analysts and people would not trust ValueLine. Do I think that ValueLine never makes a mistake? No.

Q. Would you also find First Call to be a reliable source?

A. In the same context, yes. I believe as an enterprise it is in their best interest to be a source of solid and reliable information, and at this point I have little reason to doubt that.

Q. And First Call would also then be an authoritative source?

A. An authoritative source, yes.

Q. I believe in your testimony you also cite

A. Nothing beyond the assumption of a usual and normal and reasonable level of investment.

Q. And could you define what you mean by a normal or reasonable level of investment?

A. I believe utilities should -- well, not just I believe. I mean, regulation in general assumes that it is part of the duty of the utility to make sure that they maintain their infrastructure, they maintain their system so that they can continue to provide safe and adequate service.

Q. And is that reasonable or normal amount of investment any particular percentage of the company's current assets? Is there some range that you believe is the normal range --

A. No.

Q. -- for investment?

And in making your rate of return recommendation, did you try to calculate whether there would be increasing demands on Union Electric's capacity in the future that would require an increase in investment?

A. No.

Q. In your testimony you use data from ValueLine in your rate of return calculations, don't you?

A. Correct.

Q. And in your opinion, is ValueLine an authoritative source of financial data?

Brealey & Myers' Textbook Principles of Corporate Financing. Do you recall that?

A. Principles of Corporate Finance, yes.

Q. Corporate finance. It says financing. I must have been misled. Sorry. I think we might have found something to correct in your deposition, page 8, line 13. I take it that you --

A. Oh, that's my boo-boo, isn't it? Principles of Corporate Finance.

Q. And that's a -- I take it that you considered that this text, Principles of Corporate Finance, is authoritative for purposes of rate of return calculations?

A. One of many textbooks, yes.

Q. And you also use data from Ibbotson & Associates?

A. I do.

Q. You also consider Ibbotson to be a reliable authority?

A. Yes, in the same context as First Call and ValueLine.

Q. That Ibbotson has in its own interests to put out accurate information?

A. Correct.

Q. Are there any other sources that you relied upon for financial data for your testimony in this case?

A. The First Call information was through QuoteCom, which is their parent. It is possible that -- well, it is definite that I read information and looked at numbers put out by QuoteCom.

I read articles and looked at numbers from Yahoo Finance, Smart Money, Stock Selector. Just in general as part of my analysis, I search and read as much information as I can find on the company without necessarily copying it or printing it off or making notations.

Q. How did you learn to perform DCF calculations? Was that something that you learned as an undergraduate or did you learn it when you were in business school?

A. Discounted cash flow philosophy is a basic tenet of finance. You don't get an MBA in finance without learning the application of and the meaning of discounted cash flow.

In terms of specific application to Missouri regulation, I was trained by the analyst previously employed by OPC, I received some training by an outside consultant hired by OPC, and I was thrust into battle writing testimony.

Q. And who was the previous OPC analyst that was doing rate of return that trained you?

A. His name was John Tuck.

Q. John Tuck?

A. Correct.

Q. And who's the outside consultant?

A. Steven Hill.

Q. Hill. And where does -- is he with a particular firm?

A. Hill & Associates, I believe.

Q. Do you recall which text you might have used in business school to learn discounted cash flow methodology?

A. Part of it was Principles of Corporate Finance by Brealey & Myers.

Q. If we could turn to your Schedule MB-3, page 1. In your DCF analysis to come up with growth estimates, you use, I believe, 11 different numbers per company. Is that --

A. Yes, I think that's -- yeah, 11.

Q. And with these 11, you take the lowest individual number and the highest individual number and an average number for each company in putting together the range?

A. I perform a variety of statistical -- let me back up.

I present my results in a variety of ways to try to cover, portray an accurate representation of the data. I show the low, I show the high, the high/low

average, the median, the overall average. Those are all intended to just give as complete a picture as possible of the numbers that are calculated.

Q. And the high/low average, would that be just average just using the high and the low?

A. Uh-huh. Yes.

Q. So on page MB -- Schedule MB-3 page 1, when we get to the bottom table, which is averages and ranges, just so I understand what everything represents, the first column of overall averages, that would be overall average, that would be for each company, the average of all 11 numbers, or I guess one of them had only 10 numbers, but all 11 numbers together?

A. Correct.

Q. And then you've got the lowest for that company, the highest for that company, the high/low average, which is essentially the midpoint between the lowest and highest?

A. Yes.

Q. And median, which is the -- if you put them in a row from the lowest to the highest and pick the one that was smack in the middle ordinate-wise, like if you have 11 it would be number 6, right?

A. Correct.

Q. And the last columns you have average

historical and average projected. Is there any reason why those don't have numbers for the individual companies?

A. No, there isn't. In fact --

Q. Do you usually put those in?

A. Well, the average historical and average projected columns themselves are a relatively recent addition to my testimony, which is probably why I obviously forgot to pull the averages over.

Now, the overall company averages at the bottom of those columns are accurate, but I did not obviously remember or finish filling out the individual numbers there.

Q. Are you aware of any other analysts who perform DCF calculations in the same manner, that they would present it by looking at a range of 10, 11 different numbers and give the low, the high, the high/low average, et cetera, the way you do?

A. Specifically?

Q. Yes.

A. Not that I'm aware of.

Q. And the end result that you get here of the low average, the average for the lows and the average of the highs, would you say that those in themselves represent a reasonable range for the growth estimates?

A. Not necessarily.

Q. And using your analysis as it's presented on page 1, how would one determine what would be a reasonable range for estimating future growth for DCF purposes?

A. Well, it's in a way kind of a reiterative process of looking at the data, looking at the specific numbers, seeing if there are any aberrations; for example, if the overall average is significantly lower or higher than the high/low average, if the median is significantly different.

It's a process of observing all of the numbers that are there, trying to see trends, trying to see data points that perhaps don't fit with the others and coming to a conclusion of what most accurately represents that group of numbers.

Q. Okay. And in trying to determine if there are aberrations, you said you look for significant differences. How would you define a significant difference between the high/low average and the average, for instance? How large does a difference have to be for it to be significant in your mind?

A. I do not have preconceptions. It is case by case, sometimes company by company.

Q. Could it be as much as, say, a 60 percent difference between the two?

A. What are you asking me concerning the

50 percent difference?

Q. Well, if you were to -- in trying to pinpoint aberrations in the analysis or aberrations in the data --

A. Yes.

Q. -- I think you'd said you would compare various things such as the high/low average relative to the overall average, I believe was one of the things you would look for significant differences.

And I guess as -- I know you said you have no preconceived notion of it, but as a general rule, is there a percentage difference beyond which you can say certainly that there looks like there's a problem, there's a red flag? The high/low average is 30 percent of the overall average. Something's wrong here. What would -- what would cause the red flag to go up?

A. No, I don't believe there's a specific percentage. It isn't uncommon at all to find the exact -- it isn't uncommon at all to find a single company with growth rates put out by different sources that differ quite a bit.

No, there aren't set rules. It would -- if the numbers are drastically different or something jumps out at me, then I would look into why that might be or the reasoning for that.

Q. So if the -- let's just take DPL, Inc. for

instance here, the first line. If your overall average was 3.83 but the high/low average were 7.28, would that be the sort of thing that would jump out at you?

A. Potentially. It would show me at the very least that there was a -- that the high average growth rate is probably an outlier. It's pulling the midpoint of the high/low up, but the overall average is remaining low. So I probably have a high outlier at that point.

Q. Is there any other approach that you would use to determine whether you had a high outlier or a low outlier?

A. Not beyond just looking at the data and seeing what, you know, what -- what might be a number that could potentially be a high outlier in one case could be right in the ballpark in another case.

Q. So that's something that you determine after you look at the data, and it differs from case to case, I guess is what you're saying?

MS. O'NEILL: Actually, can you ask just one of those questions, please?

BY MR. WOLSKI:

Q. Okay. It differs from case to case, then, correct?

A. The general approach would not differ. Perhaps specific -- specific areas of concerns, specific

areas to look at could certainly differ case to case.

Q. Now, your recommendation to the Commission is a cost of equity range of, I believe it was 9.4 to 9.83 percent, is that --

A. 9.4 to 9.83, correct.

Q. And those numbers, 9.4 and 9.83, are derived entirely by application of DCF -- of the DCF model to Ameren-specific information, correct?

A. No. I looked at a group of proxy companies.

Q. But did the number 9.4 percent come from anything that you saw in a proxy company or was it the result of performing calculations using Ameren data?

A. I would categorize it or characterize it as the result of looking at all of my data.

Q. Okay. And specifically do you recall how the number 9.4 percent was derived?

A. From page 17 of my testimony, using Ameren's projected retention growth of 3.39 percent and the 6.01 percent dividend yield produces a DCF cost of equity of 9.40 percent. So the 9.40 percent does correspond to Ameren's projected retention growth plus Ameren's 6.01 percent dividend yield.

Q. Okay.

A. The applicability or appropriateness of that number absolutely was considered in conjunction with the data of my proxy group.

Q. But the 9.4 percent itself is based on Ameren data?

A. Yes.

Q. And the same thing is true for the 9.83 percent, the upper end of your recommendation?

A. 9.83 percent is the combination of Ameren's maximum dividend yield and maximum projected growth rate, again considered in conjunction with the results and values that I got with the proxy group.

Q. Now, earlier I think you mentioned that the DCF model is, I'll paraphrase what you said, that it was so basic to finance theory that you can't graduate business school without having been taught it. Could you --

A. Did you say that you can't graduate business school without having been taught it?

Q. DCF, yes.

A. I can't -- I can't say that.

Q. That's what I thought you said earlier.

A. I didn't graduate from business school without being taught it.

Q. Okay. Well, could you explain in your own words what the DCF model is supposed to be calculating?

A. The DCF model is supposed to be calculating investors' expectations on cost of equity capital.

A. I think it would be safe to say that at the time and implementation of that order, that it would certainly change.

Q. And you know what FERC Order 2000 is, I take it?

A. I am not aware of FERC Order 2000 by name.

Q. Are you aware that FERC issued an order in December of '99 that further elaborated on the open access requirements of transmission systems?

A. That is a perfect example of the type of piece of information that could have been passed on to me by an attorney, could have been passed on to me by an economist, could have been passed around as part of office procedure. I can't tell you specifically that I read that order or specifically what it says.

Q. But certainly the changes in the open access rules regarding transmission have changed the way that the industry operates relative to the pre-FERC Order 888 days, correct?

MS. O'NEILL: I'm going to object to that because it calls for a conclusion, but you can answer it if you know.

THE WITNESS: My answer would be an assumption. Could you repeat the question?

THE REPORTER: "Question: But certainly the

Q. So it's their expectations for the future?

A. Correct.

Q. I guess, and that's why it's discounted cash flow, because what you -- because you're discounting future flows of cash to the present?

A. Correct.

Q. So the DCF model is essentially a forward-looking model?

A. Yes.

Q. And that's why it's appropriate for use to determine a rate of return that's going forward into the future, I guess?

A. Yes, if properly applied.

Q. Now, in your work, are you familiar with the general economic conditions of the electric industry?

A. Yes. I mean, it's an area that I try to keep up on, we as an office try to keep up with each other, passing articles around. It's an area that if I have questions I may talk to an attorney or talk to one of our economists. So yes.

Q. And you know what FERC Order 888 is?

A. Yes.

Q. And FERC Order 888 had a pretty large impact on economic conditions of the electric industry, wouldn't you say?

changes in the open access rules regarding transmission have changed the way that the industry operates relative to the pre-FERC Order 888 days, correct?"

THE WITNESS: I would think that various differing companies would have, yes, differing changes or impacts due to that. I couldn't speak specifically about specific changes to a specific company.

BY MR. WOLSKI:

Q. How about to the electric utility industry overall, has the open access requirements transmission changed the shape of the industry?

MS. O'NEILL: Again, I'm going to object to that. I think that calls for a legal conclusion and a conclusion outside the area which he's providing testimony in this case. But if he wants -- but if he has an answer, I'm not going to direct him not to answer.

THE WITNESS: I believe certainly that changes in the way things are done like that would certainly have potential impact on the industry.

BY MR. WOLSKI:

Q. Is it your opinion that the open access changes have had an impact on economic conditions --

MS. O'NEILL: Same objection.

MR. WOLSKI: -- of the electric utility industry?

MS. O'NEILL: Same objection. I'm not going to -- you can answer if you want, if you know.

THE WITNESS: I'm unsure of what you -- what are you trying to encompass by using the term economic conditions?

BY MR. WOLSKI:

Q. Well, let me turn to something in your testimony. Page 8, the bottom line, the sentence that begins on the last line of page 8 and carries over to the next page, Historical growth rates can provide an indication of how the company has done in the past, but they are relevant to a forward-looking cost of capital analysis only to the extent that future economic conditions will mimic historical conditions.

So I guess what I'm asking is, you use the phrase "future economic conditions" in your testimony. What do you take that to mean?

MS. O'NEILL: I don't object to that question. I object to the other one.

THE WITNESS: In that reference, it could encompass everything from the business cycle to interest rates, general economic outlook. If you have five years of history that the country was in a major recession and now we're at the beginning of a boom, you would certainly have to question how applicable the data is. So economic

conditions on page 9, line 2, is a relatively broad term.

BY MR. WOLSKI:

Q. And would that encompass things such as changes in the open access rules for transmission in an industry?

A. Yes, I would believe so.

Q. So that economic conditions as used on page 9 of your testimony could be different after a change in the rules concerning access to transmission lines of electric utilities relative to the previous time period?

A. If the kind of change you're talking about would impact the potential expenses of the company, impact potential revenues, impact potential risk or competition, depending on whether they do impact and to what extent, then, yes, it would affect the conditions faced by the company.

Q. And do you happen to know what the impact has been of the open access transmission rules for electric utility companies that you looked at in doing your rate of return analysis?

A. I would not attempt to characterize specific differences, no. I have kept up on and read changes in the industry as a whole. Some of the kinds of changes you're talking about I would put in an economic sense; in other words, an economist.

Q. You mentioned that economic conditions as you used the term on page 9 of your testimony was fairly broad in its meaning. I think you mentioned business cycle, business cycle is one aspect of that.

Would whether or not the country's in a recession or not be one of those factors?

A. What's relevant are the changes. I don't know that it matters necessarily if the company's in a recession or a boom if there are no changes. If the current -- if the current conditions going forward next year are going to be exactly the way they were last year and the year before, then that could be more important than -- let me back up.

If we're going from recession in the past, recession in the future versus basic change, that would have different ramifications. I won't -- I can't say that just because you label it a recession that's necessarily a bad thing. If we've been in a recession for two years and we're looking two years into the future, economic conditions have not necessarily changed.

Q. Do you know if we -- if this country has been in a recession recently?

A. Depends on which article you'd like me to read. There are analysts, economic analysts, economists, financial analysts who have said that they do indeed believe we're in a recession for a couple of quarters. Other

articles I have read have stated that it didn't -- if it was a recession, it was certainly a soft recession.

I know that we experienced some recessionary tendencies. What the actual outcome or the official word, I would -- the answer would depend on the latest source that I read.

Q. And would the existence of a period of time in which the economy was in a recession in the range of data that you're analyzing for rate of return have any particular significance to your mind?

A. To the extent that any economic condition would have an impact on cost of capital, perceived riskiness in the market, other sorts of market-based factors, economic factors -- repeat the question.

Q. I guess I can try to rephrase it. I guess, would the presence of a period of time in which there had been a recession in the range of data that you're looking at cause any particular concerns about your use of the data, I guess is what I'm --

A. I don't know if I would use "particular concerns." It would certainly be something I'd take into account.

Q. Is it something you would need to make any adjustments for?

A. I think that would -- that would depend on a case-by-case basis.

Q. Now, in your view, is the economy improving now going forward?

MS. O'NEILL: Are you asking for his opinion as a financial analyst in this case? Are you asking for his personal opinion?

MR. WOLSKI: Well --

THE WITNESS: I'm not sure.

BY MR. WOLSKI:

Q. I'll get his personal opinion when we're off the record. Your opinion as to what future economic conditions are, since it determines whether or not information is relevant that you're using, according to the testimony.

A. If I had to say one way or the other, if I had to choose black or white right now, I'd say yes, the economy seems to be improving.

Q. And is that taken into consideration in the analysis that you did and your rate of return recommendation?

A. It's taken into consideration in the sense that all expectations of the economy by the market are going to be reflected in stock prices, they're going to be reflected in potential future interest rates.

Q. Have you done rate of return analysis for any

industries other than the electric utility industry?

A. I do not believe I have done that as part of filed testimony.

MS. O'NEILL: If I can clarify, did you say utility industry or electric utilities industry?

MR. WOLSKI: Electric.

BY MR. WOLSKI:

Q. Well, let me ask, in your work as a rate of return analyst, do you have some knowledge of the cost of equity for gas distribution businesses?

A. I do.

Q. Okay. And have you ever performed rate of return calculations for a gas distribution company?

A. I have.

Q. And could you say as a general matter whether gas distribution businesses have a lower cost of equity than electric utilities?

A. I can't.

Q. So that in your opinion there is no -- there's not necessarily a difference in perceived risks between investment in a gas distribution company and investment in an electric utility?

A. I would not make a judgment on a general relationship, no.

Q. If a particular company had both gas

distribution and electric operations and you were trying to isolate in your role as a rate of return analyst the cost of equity for each portion of the business for any particular company, would the gas distribution side of the business have a lower cost of equity?

A. I wouldn't prejudge whether it had a lower or higher cost. I would perform an analysis, select an appropriate group of proxy companies and see what the data showed me.

Q. So it's possible that a gas distribution business that's part of the company could have higher risks or lower risks than the rest of the company and it would really depend on the company?

A. Yes, I think it would depend on the company.

Q. Now, one of the companies that's in your sample that you selected was DPL, Inc.?

A. Correct.

Q. Now, are you aware that DPL spun off its gas distribution business in 2000?

A. I would have been aware of that at some point. I probably couldn't have told you that sitting here without you telling me first.

Q. Okay. Just trying to be helpful.

Do you have a copy of your data request response by any chance in this case?

A. My data request response?

Q. Yeah. There was data requests submitted to OPC.

A. No, I do not have copies of that.

Q. Okay. Well, this is a -- this contains a number of data request responses which I guess we can mark this as an exhibit.

MR. WILLIAMS: Would you mind a five- or ten-minute break?

MR. WOLSKI: Sure.

(A BREAK WAS TAKEN.)

(BURDETTE EXHIBIT NO. 1 WAS MARKED FOR IDENTIFICATION BY THE REPORTER.)

BY MR. WOLSKI:

Q. Before we broke, I guess, I wanted to draw your attention to this, which we've marked as Exhibit 1 for this deposition, which is -- which I hope will you recognize as a number of responses to data requests that you had submitted to us.

A. Yes.

Q. Does that look familiar? Now, if you could turn to page -- in the first portion of this you've got some ValueLine sheets?

A. Uh-huh.

Q. And turn to the one on DPL, if you could.

A. Okay.

MS. O'NEILL: Before we get any further, I think Mark had a correction to some prior testimony that he wanted to let you know about.

THE WITNESS: I just realized, you had asked me about location in various parts of the country of comparable companies, and I made a mention of one that was based in Wisconsin. I was confusing my cases. That was a proxy company of a case that I just filed today that was unrelated to Ameren. So that reference was inaccurate.

BY MR. WOLSKI:

Q. So then there were no companies in the same general part of the country?

A. I'd have to look again to answer that. I just know the one that I threw out there wasn't correct. Well, DPL is in Ohio. That's certainly midwest.

Q. Okay. Speaking of DPL, we're looking at the ValueLine sheet for them --

A. Yes.

Q. -- that you had submitted. I guess about halfway down the page there's the long rectangular block that says business and has a description of it.

A. Yes.

Q. And the second column at this top it says, Sold gas distribution business October 2000.

A. Yes.

Q. We were talking about that before the break. Now, I wondered if you could look on this sheet at the book value per share line for the company.

A. Okay.

Q. And in 1999 it was 9.20?

A. Yes.

Q. And then it plummets in the year 2000 to 6.80?

A. Yes.

Q. Now, could that be explained by the selling of the gas distribution business in 2000, do you know?

A. I don't know.

Q. Is it a possibility that the gas distribution business sale could affect the book value per share?

A. Yes.

Q. Okay. Maybe it actually would be appropriate, could you explain in your own words or the words of a textbook that you happen to remember what book value per share means?

A. Book value per share is the net worth of the company, which is the assets minus the liabilities divided by the common shares outstanding.

Q. And how are the assets measured, do you know?

A. According to GAAP.

Q. And would that be just the value of the

capital that had been contributed over time or would it be the actual valuation of the stuff that the company owns?

A. My initial reaction to that is book value, but I know that all states do not necessarily in terms -- depending on the assets, I believe that there would be opportunity that some of those assets could be at market value. Primarily for regulated assets I would believe that that's at book value, depending on the state.

Q. So as you understand it, this DPL, Inc. sheet, for instance, the book value per share means the value of the assets of the company, which may or may not be market value, divided by the number of shares?

A. Correct. So a drop in book value such as you talk about in 1999 to 2000, if they sold assets and did not reduce the number of shares outstanding, then book value would drop.

Q. Okay. Now, and this drop in book value is essentially an accounting matter, right? I mean, the company presumably got its money's worth for whatever it sold off so that the same amount of value would still be connected with the company?

A. Oh, I can't address that. I mean, that would be within management, however they put the deal together. I mean, you can't assume that every sale the company makes is in the best interests of the company. You'd like to think

that that is true, but I can't address whether that is true.

Q. Now, would it be true that the future conditions, future economic conditions for the company DPL, Inc. after they've spun off the gas distribution operations wouldn't mimic their historical conditions when they had gas distribution operations?

A. The large -- the large center block that you had referenced before labeled business, the first -- the first column there, second line, says that electricity constitutes 79 percent of revenues in 2000 and natural gas was 18 percent.

So the spinoff of the natural gas section would impact the company only to the extent that they earned earnings from that area. Obviously if you're pushing 80 percent of your earnings from regulated electricity, that's going to be the primary driver.

Q. But a reduction of 18 percent of your business or a change in 18 percent of the composition of your business, would that be a significant change in your mind?

A. It would be a change. I wouldn't use significant or some other modifier until I've done a specific analysis.

Q. Okay. If we could look at Schedule MB-3 to your testimony, page 4 of that schedule.

A. Okay.

Q. Now, look at the upper table on the left, the historical growth/compound growth table you have for DPL.

A. Yes.

Q. And the right-hand column of that portion of the page is the book value per share column?

A. Yes.

Q. And you have the numbers down there going from 1995 through 2001, and we see that, as we noted in the ValueLine report, in 1999 the book value per share was 9.20, then it dropped to 6.80 in 2000 and is 6.90 for 2001?

A. Correct.

Q. And I believe you testified that it's possible that the book value per share could have dropped because of the sale of the gas distribution business, which was 16 percent of the company, correct?

A. Yes. I believe -- I mean, any sale of assets could potentially affect book value of stock.

Q. Now, if you look at the compound growth rates that you've calculated on this table underneath the historical data, the next table down.

A. Yes.

Q. That third column for book value per share, the 1996 through 2000 compound growth rate is negative 2.58 percent because of the -- I guess exactly because of the drop from '99 to 2000, right? The reason it's negative is

A. Correct.

Q. And you actually use that negative number in your range of data on MB-3, Schedule MB-3 page 1, don't you? That gets plugged in?

A. It's included as one of the 11 for DPL, or however many DPL has.

Q. So then that would figure in on the -- I'm sorry. I'll let you get to the page first.

Okay. So on Schedule MB-3 page 1, the negative 0.69 figures in on the average of lows, for instance, on the bottom table of the averages and ranges because that's the low for DPL?

A. Yes.

Q. And also would figure in to the high/low average for DPL?

A. Yes.

Q. And also would figure into the overall average for DPL?

A. Yes.

Q. And I guess would also then figure in to the averages of each of those columns including DPL and the other companies, correct, in that it's one of the lows --

A. Yes.

Q. -- figure in, et cetera?

Now, does it seem at all odd to you that book

because there was a big drop in book value per share from '99 to 2000?

A. Well, the reason it's negative is because overall it drops from 1996 to 2000 from 7.55 down to 6.80. It wouldn't have mattered whether the 9.20 was there or not.

Q. But the 6.80 that it dropped down to was lower than any number over the previous five years, correct?

A. Correct.

Q. And then for the 1997 to 2001 compound growth rates, again now you've pushed forward one year to 2001, and that also is negative 3.73 percent, again because the book value per share in the most recent year in the average is much lower than what it had been in the first five, correct? That is why it's negative?

A. Well, it's because it's lower than it was in '97.

Q. And once again, both of these low numbers book value per share could be because of the sale of this gas distribution, correct?

A. Potentially, yes.

Q. And the -- I was going to say the bottom line, but it's actually the middle line on this page. The middle line calculation you then get for the average compound growth for book value per share is actually then negative, negative 0.69 percent?

value per share growth expected growth would be negative? Is that consistent with what the DCF model is based upon?

A. Which question do you want me to answer?

Q. Is having negative growth in book value per share, having a negative number as your estimate for future and sustained growth consistent with the premises of the DCF method?

A. If your analysis showed that you honestly believed that the company was going to negatively grow going forward, then you could insert or consider negative growth in the DCF.

Q. Is it your view that there are public utilities in this country that investors expect negative growth going forward from?

A. That would depend on the certain -- the specifics of the company. If the company is in a position of being forced, let's say, to liquidate assets for some reason and that was going to be coming again in the future, in a couple more years they were going to have to divest themselves of this, that or the other thing, then certainly an investor may expect that company to have negative book value per share growth.

Q. But in the DCF model, isn't the growth factor supposed to be a sustained growth factor? I believe you stated in your testimony that sustained growth is the measure.

A. That's correct. The 0.9 that I calculated was one measure of 11 that I can look at to see what has happened with the company. You then look at that number and decide, do I think that the reason that number exists, that that reason still exists going forward, or is the reason that negative book value -- that book value per share is a negative number is that -- does the reason for that no longer exist?

Q. Would the fact that a growth number for DCF for the DCF model's purposes was negative be an indication to you that it's some sort of outlier that shouldn't be included in the analysis?

A. At the initial point of forming 11 different growth rates of various types to look at, no, I don't think it's appropriate at that point to throw out a negative growth rate because I think it's legitimate to consider. What has this company done? Why does this growth rate exist? It is negative. It is factually negative. Therefore, I'll look at it and see what I think of that.

Now, whether that negative growth rate should be a huge part of your final sustainable growth recommendation or whether it is something insignificant to ignore depends on the company.

Q. Under the D-- or using the DCF *model*, is it

your sample is FirstEnergy, I believe; is that correct?

A. Yes.

Q. And FirstEnergy is the result of a merger between Centerior and Ohio Edison in 1997, isn't it?

A. I believe that's -- yes, I would have read that.

Q. Now, a merger of two companies will have a major effect on measures like dividends per share, wouldn't it?

A. Usually, yes.

Q. Because the two companies might have different payout rates and you've got to rationalize them when the two merge together, correct?

A. Potentially, yes.

Q. Now, the ValueLine sheet for FirstEnergy that you have there in Exhibit 1, in the first column on the left there's the block of text that says, FirstEnergy was formed through the affiliation of Ohio Edison and Centerior Energy. Do you see that passage?

A. Are you in the middle block under business or the --

Q. I'm sorry. The left-hand column, the first block at the top that's got text.

A. Oh, I see. Under FirstEnergy was formed. Okay.

appropriate to consider that a company would have negative growth, negative sustained growth going forward? Is that consistent with the DCF model?

A. Technically, the DCF assumes constant growth going forward of earnings per share, dividends per share and book value. I have never reached a conclusion with a company where my final sustainable growth rate recommendation or the number that I believe is appropriate is negative. I've never gotten to the point where the number I want to plug into the DCF is a negative number.

That's completely different from the consideration of negative numbers in forming your sustainable growth rate analysis or your -- in forming the sustainable growth rate you're going to put in the DCF. So I don't see those as the same.

Q. But in forming your sustainable growth rate that you're calculating, is it rational to include negative growth? Would investors expect negative growth?

A. Certainly investors could expect negative growth if that's where they believe the company is headed. There's a big difference between an investor choosing to invest in a stock that they think is going to have negative growth versus the financial numbers for that company showing negative growth.

Q. Okay. Another company that you've included in

Q. The last sentence of this block says, quote, Data prior to 1998 reflect Ohio Edison on a stand-alone basis and are not comparable with FirstEnergy data.

A. I see that.

Q. Now, what do the words "not comparable" mean in this context?

A. It means that you would have to take into consideration the changes and that you would not necessarily be able to make one-to-one comparisons.

Q. So essentially the data prior to 1998 was for a different company. It was for Ohio Edison, not the Ohio Edison merged Centerior company that became FirstEnergy?

A. Correct, which is exactly the same paragraph as exists on Ameren's ValueLine sheet and exactly exists for Ameren as well.

Q. Okay. We might look at that. Your Schedule MB-3, page 6.

A. Yes.

Q. For FirstEnergy you happen to use data that goes back before 1998. Did you make any correction to add in the Centerior data to the data from this chart?

A. I did not. Where I would take into consideration changes such as that would be in my determination of a final sustainable growth rate. If I've got historical information that is questionable or if I'm not sure of the validity or the applicability, then I would tend to focus on projected growth rates rather than historical.

Q. I notice here the historical growth rate of dividends per share, smack dab in the middle of your page 5, for ValueLine -- from the ValueLine table is negative 2.6 percent?

A. Yes.

Q. Now, does that -- in the context of the DCF model, does a negative 2.6 percent growth rate in dividends per share make sense?

A. In terms of making sense, I believe investors would look at the actual data that exists. If the company shows a record of no or negative dividend growth, I believe that they would look at that and consider it.

Whether they would then decide that those numbers would fittingly be stuck into the DCF to determine a cost of capital, I wouldn't -- I wouldn't venture a guess.

Again, I have never been in the position of an ultimate dividend yield. If I was analyzing a company and came up with a negative dividend yield, I would most likely resort to an even heavier reliance on comparables.

Q. Now, if because of a merger the dividend payout rate changed, that would have a -- could have a large effect on dividend per share growth, wouldn't it?

A. It could. Dividend per share growth rate, I mean, dividends can change because of management decision as much as a merger. If utility management decided that they needed more internally generated funds and one way to get that is to slash dividends, investors would experience negative growth in the dividends.

Q. Now, the ValueLine historical growth numbers we're looking at here for FirstEnergy Corp, your legend underneath it says, Average of five and ten-year if both are available. Do you know if that was an average of five and ten?

A. The dividends per share?

Q. Yes.

A. Is ten year only because there was not a number -- there was not a number posted for the past five years.

Q. So that this ten-year number goes back and includes the dividends per share of Ohio Edison as distinct from FirstEnergy Corp, correct?

A. That single number does, yes.

Q. So this number really doesn't represent any dividends per share historical growth figure for the company FirstEnergy Corp?

A. Only to the extent that it would be a number that represents a portion of what a company did that was

going to become FirstEnergy, but in terms of being actually FirstEnergy Company dividends, historical dividend growth, no, it is not.

Q. Okay. What is the sustainable growth rate that you calculate based on the FirstEnergy Corp figures for FirstEnergy Corp?

A. I did not formulate specific sustainable growth rates per company. It was done as a proxy group.

Q. So you couldn't compare any of the members of the proxy group on an individual basis to Ameren in regards to the sustainable growth rate?

A. Did you ask if I couldn't?

Q. If you had.

A. I did not.

Q. You did not. Okay. And would it have been possible for you to calculate the numbers that appear on the FirstEnergy table in Schedule MB-3 by including the Centerior data for pre-1998, adding that in, since Ohio Edison is only one portion of FirstEnergy?

A. I believe that's probably theoretically possible if you had took into account the exchange ratios and different things like that. I certainly wouldn't sit here and say that it would necessarily be an easy venture, but I believe you could probably do it.

Q. But not having done it, that means that the

only data that you have for FirstEnergy Corporation is the data beginning in 1998, correct?

A. In terms of historical, and then I -- my projected data for FirstEnergy is, of course, for FirstEnergy.

Q. Another company that's in your sample is Southern Company, and I take it that you're aware that in September 2000 Southern Company began to spin off its power marketing and trading subsidiary, Mirant?

A. Again, it would be a piece of information that I would have read at some point. I probably could not have named that company to you.

Q. Okay. We can turn to the Southern Company ValueLine sheet in your data request response. I believe you have already?

A. Yes.

Q. Okay. And again, in that -- I'm not sure. Does this block have a name, the upper left column block of text below the institutional decisions? Is there any --

A. Not that I have ever seen.

Q. Okay. Because it would make things easier if it did. Okay. We'll call it Joey. In this block it begins, In September 2000 Southern conducted an initial public offering in its global independent power marketing trading subsidiary called Mirant. And it goes on to say that it – that the company and Mirant shared 1.8 billion in gross proceeds.

Was that something you were aware of when you looked at the Southern Company numbers?

A. In the sense that I would have read that piece of information.

Q. And then it goes on to say that in April 2001 management spun off the remaining 80.3 percent stake in Mirant to Southern investors by giving them shares in the sub. Is that something that you were aware of when you looked at this?

A. Having read that information, yes.

Q. Now, we know exactly how it was spun off. It was spun off by giving shares of stock of Mirant to the investors of Southern Company. Wouldn't that necessarily have the effect of reducing book value per share of the Southern Company stock itself?

A. Again, that would depend on more factors than just the sale. I'd have to know more about the total transaction to really be able to answer that question.

Q. Okay. For purposes of the question, if you assumed that the spinoff was done in the following manner: The assets of Mirant, 80 percent of the shares of Mirant were owned by the Southern Company itself. What they did was they printed pieces of paper corresponding to shares of

ownership of Mirant and distributed those on a pro rata basis to the shareholders so that prior to the spinoff the shareholders owned through Southern Company 80 percent of Mirant. After the spinoff, the shareholders owned 80 percent of the shares of Mirant.

Now, if it were done in that manner, wouldn't it necessarily lower the book value per share of Southern Company because those assets, the Mirant assets are being removed off the books?

A. If you assume that stockholders equity is assets minus liabilities and they received a cash in-flow on the issuance of that stock, and if assets rose based on the cash that they received, I don't know that I can necessarily say for sure that book value would go down.

Q. Okay. Let's see what actually happened, though. In 2000, book value per share of Southern Company was 15.67, and in 2001 it was 11.30. Does that seem to be consistent with the idea that the spinoff in 2001 reduced book value per share?

A. It's consistent with the fact that those two events seem to have happened at the same time period. I wouldn't go so far as to making the connection until I looked further into it.

Q. Is that the sort of thing that you would want to look at to determine whether the data that you were using

for Southern Company was comparable through all the years of the data?

A. Only to the extent that I believe it would affect my overall analysis, and given that I've already said that this is one of 11 growth rates and that I tend to focus on projected, I would not be that concerned about that number.

Q. In the little box in the upper left, the last sentence says, A full-page report on Mirant Corp can be found in issue 6.

Did you look at the Mirant Corp report to try to combine that financial information with the financial information of what remained of Southern Company?

A. No.

Q. In the Schedule MB-3 to your testimony, page 8 is your Southern Company page?

A. Yes.

Q. Now, again, the upper left-hand corner table, the compound growth table –

A. Yes.

Q. – using historical data, we can see in the book value per share column on the right from year 2000 it was 15.67 and it dropped to 11.30 in 2001, correct?

A. Yes.

Q. And again, as we said, 2001 was when the rest

of Mirant was spun off, correct?

A. Yes.

Q. Okay. And as a consequence of that number, that 11.30 number of book value per share being the lowest one on the whole range of historical data that you have from '95 to 2001, that means that the compound growth rates that you calculated for the period of 1997 through 2001 which includes that book value per share number end up being negative, right?

A. Correct.

Q. Negative 5.35 percent?

A. Yes.

Q. Again, the overall average compound growth rate in book value per share that you have for Southern Company based on the historical data ends up being negative 0.13 percent, correct?

A. Correct.

Q. Now, that's another negative number in book value per share. Does it bother you now that you've got a second number representing negative growth –

A. Does it bother me?

Q. – in your range of numbers in your DCF calculation?

A. No.

Q. Does it bother you that the company in question had spun off its marketing and trading sub and that spinoff happened to occur in the very year that the book value per share dropped by 4. -- $4.37?

A. No.

Q. Do you think that that's the sort of thing that would cause you to question the accuracy of that particular projection?

A. It's the sort of thing that would cause me to focus more strongly on my projected growth rates, which is what I did.

Q. Okay. Now, you used, I guess, 11 different growth rate measurements in your analysis, I think we established, right?

A. Correct.

Q. Is there any particular growth rate that you believe's most representative of what investors expect?

A. No single -- no. No. I would not choose a single one out of that 11 to try to put on top of the others.

Q. Are there any that are -- are there some group of them that are better than the others? Can you name, say, three that are better than the rest?

A. I tend to try to focus on projected.

Q. Okay.

A. My growth rates that are absolutely forward

looking.

Q. And what is the reason for that?

A. Technically, the DCF is a forward-looking model. We're setting rates at a forward-looking perspective. We've already discussed potential changes in economic conditions in the industry for utilities.

So I have come to the conclusion as an analyst that, not a particular single projected growth rate, but that just keeping with the theory of the DCF as well as the fact that we're setting rates going forward, that projected growth rates are what I believe I feel more comfortable making analysis or making recommendations based on projected growth rates.

Q. And the growth rates that you're trying to determine are to be sustainable, supposed to measure the sustainable growth that you believe is consistent with investors' expectations?

A. Correct.

Q. Is there any particular authoritative source that says that that's how you -- that is the sort of growth factor you look for?

A. That you look for a sustainable growth rate?

Q. Yeah. Where does that come from?

A. That's basic -- that's a basic tenant of the discounted cash flow model.

Q. If we could turn actually to the page we were looking at before, Schedule MB-3 page 1, there seemed to be a -- I think there was a mistake that I wanted to ask you about. I assume it's a mistake. In the projected growth section, the middle, the middle table.

A. Yes.

Q. For company DPL, Inc.

A. Yes.

Q. That first column that's br+sv.

A. Yes.

Q. There's no number there. Is there -- the DPL, Inc. page itself, which is Schedule MB-page 4, it looks like you have a projected br+sv growth number in the corner there, the lower right-hand corner.

A. Yes. That was -- that was not -- the projected growth br+sv retention growth for DPL was not included because we are setting rates going forward for a regulated electric utility. The returns on equity that go into the projected growth analysis on average 25 percent are so far out of line of what's reasonable for an electric utility that that number is meaningless.

Q. Is that more meaningless than the negative numbers you put down? Is it reasonable for a utility to have -- FirstEnergy to have negative 2.6 percent dividend per share growth?

A. In the sense of what I consider in making my recommendation, yes, it is more substantial or more significant.

Q. But earlier you said that the negative numbers didn't bother you because you were using 11, that since you had 11 it was okay to include something that was negative.

Why wouldn't it be okay to include the 16.35 percent if that's the number that you came up with calculating br+sv the way you calculated it for everybody else?

A. The reason that the negative historical growth was not a concern to me is because I was able to calculate that number but am able to not consider it in my analysis. If I see a negative growth rate in dividends per share, I can disregard that number in forming what I believe is a reasonable expectation for that company going forward.

So I already am focusing on projected growth rates. Once I get into focusing on projected growth rates, then I can look at a calculated projected growth rate and see that it is completely unreasonable to include in this analysis for a regulated electric utility.

Q. How much higher is the 16.35 percent growth than what you think is reasonable for a regulated utility? What is the upper bound?

A. The upper bound for growth, for sustainable growth for the DCF would depend in part on what the dividend yield is. It's not a matter of whether the growth rate itself is out of line. The question is, how did that growth rate come about? The retention growth rate we're talking about of over 16 percent is based on a return of equity of 25 percent on average.

Now, potentially I could find a 16 percent growth rate that was extremely applicable or absolutely applicable to that company, based on economic conditions, but a growth rate going forward for a regulated utility based on a 25 percent return on equity I don't believe is reasonable.

Q. And where do you -- well, for DPL on Schedule MB-5, your cost of equity range --

A. MB-5?

Q. MB-5, page 1. I'm sorry. Schedule MB-5, page 1, you've got numbers --

A. Hold on.

Q. I'm sorry.

A. MB-5?

Q. Yes.

A. Okay. What about this?

Q. The line of data -- or line of numbers for DPL, Inc.

A. Yes.

Q. The last three columns on the right are the cost of equity, and your low number was 3.52 percent?

A. Yes.

Q. Do you consider that reasonable for a regulated utility?

A. No.

Q. Then why wasn't that thrown off the table like the 16.35 percent was thrown off in your table on Schedule MB-3 page 1?

A. It's just a matter of when they're thrown off. Schedule MB-5 presents raw data for the Commission.

Q. And the Commission doesn't see MB-3, page 1?

A. If they want to look through my schedules, certainly they can. My job is to go through this data, decipher what I believe it means, pull out what I believe is relevant and form a recommendation based on what I believe is the relevant information.

I calculated negative growth rates but did not consider them in my final analysis or at least did not put a lot of importance in them in determining sustainable growth.

Q. Well, is there anything on -- or do you do anything in your testimony to indicate that any of these numbers on Schedule MB-5 should be thrown out by the Commission?

A. Do I do anything in testimony that tells the

Commission that I think any of the numbers on Schedule MB-5 should be thrown out, is that what you said?

Q. Yes.

A. I make an overall recommendation. If I've got average numbers on a proxy group from 4.4 to 13.51 and I recommend something in the high 9s, then that's an indication to the Commission that I believe the other ends of the range are not appropriate.

Q. Looking at Schedule MB-5, page 1 --

A. Yes.

Q. -- for the moment. Do you happen to know what the average bond yield is for a regulated utility these days?

A. Any regulated utility?

Q. To the industry on an average.

A. No, I don't.

Q. Electric utilities.

A. I know that, or at least from what I have read, they are trending down, but as far as what the actual average is right now, no, I don't know.

Q. Would you know if it would be 7 to 7 1/2 percent range, would that seem about what it would be, or do you have any idea?

A. Did you ask about bond yield?

Q. Yeah.

A. I wouldn't -- it would be something that I have read, something I could read again. I'm not going to venture a number right now off the top of my head. No, I don't know.

Q. Do you know what Ameren's bond yield is?

A. I know what Ameren's overall embedded cost of long-term debt is, or I can find that number.

Q. Well, in this case you used --

A. 6.82 percent.

Q. 6.82 percent.

The third column from the right on Schedule MB-5, page 1 --

A. Yes.

Q. -- the cost of equity, the low number range, you have a cost of equity for Ameren listed that's lower than their embedded cost of debt. Is that --

A. The number that's there, yes.

Q. 6.38 percent.

A. Yeah. Schedule MB-5 is entitled DCF Cost of Common Equity Calculations, which is what they are. Those are raw calculations based on dividend yield and growth rates.

Q. But does it seem reasonable to you that the cost of equity for Ameren could be below the cost of debt?

A. No. That's why I didn't recommend the number that was below the cost of debt.

Q. But doesn't it seem odd that a lot of these numbers in the low end of your cost of equity range fall below what the cost of debt is?

A. As a financial analyst that's been doing regulated rate of return for seven years, no, I don't think that's odd at all.

Q. You think that it -- you think that a cost of equity of 4.77 percent for a regulated utility for Southern Company is at all -- could possibly be reasonable given debt costs?

A. I wouldn't assume that to be reasonable, no.

Q. So that what this table represents, then, is that there's a range of data that you looked at which includes a number of growth rates that are unreasonable for purposes of calculating cost of equity, right?

A. Yes.

Q. Okay. Now, the risk-free rate that you used in this case I think was 6. -- was it 5.36?

A. Correct.

Q. And that's even higher than several of the low cost of equity numbers on the table. So that clearly is not consistent with the determination of what would be a reasonable cost of equity, right?

A. What's it?

begins. As stated, no.

How would you determine whether the historical payout ratio is erratic or trended down or what sort of -- what would you look at in the ratio over time to determine if it's erratic or downward?

A. If it gets less each year, it would be downward. If it changes a lot, it would be erratic.

Q. And over how many years would you need to look to discern a trend, if it was three years, four years?

A. ValueLine shows data back ten years. I tend to not look at historical data past '97, I believe.

Q. But if you looked at seven years worth of data --

A. '95.

Q. -- and the payout ratio was trending downward the last four years you looked at, would that be a downward trend?

A. Yes.

Q. And a company's earnings are either paid out in dividends or they're retained, is that the two -- it's a binary function, it's retained or paid out?

A. Yes.

Q. So that if two-thirds is -- if one-third is paid out as dividends, then two-thirds would be retained because it sums to a hundred percent?

Q. The fact that numbers -- that a cost of equity for a utility would actually be lower than the risk-free rate?

A. No, I don't believe I would ever find that.

Q. What would be the range of reasonable cost of equity for the proxy companies that you looked at as a whole?

A. Which group of proxies?

Q. Your particular group, the five that you used. Did you come to some calculation of a reasonable range of equity returns?

A. I got an overall average cost of equity for all companies of 9.4 percent using average projected growth and the dividend yield that I calculated.

So for me, as for my analysis, using the appropriate expected dividend yield, focusing on projected growth and by my analysis and opinion, looking at average projected growth, I got 9.4 percent, which I believe is reasonable, and also is the bottom of my recommended range.

Q. Now, if we could turn to page 40 of your testimony. It's again one of the appendices. You have question in the middle of this page, is historical growth in dividends an accurate indicator of investors' growth expectations when the historical payout ratio has been erratic or trended downward over time? And the answer

A. Yes.

Q. Okay. So that if the retention ratio of a company trends upward, that would necessarily mean that the payout ratio is trending downward, correct?

A. Correct.

Q. Now, Schedule MB-3 to your testimony, page 3, I believe is data for our company. And if you look at the retention growth columns on the right side of the page, there's this retention ratio data, the first column of the three, and for 1999 it was .098, for 2000 it was .237, for 2001 it was .255.

So that would seem to indicate that if the retention ratio is trending upward, that the payout ratio must be trending downward, correct?

A. Correct.

Q. So would that -- and I guess if you look at the projected growth numbers from ValueLine, the same thing is true that the retention ratio is going from .230 in 2002 to .253 in 2003 to be I guess on average .271 from 2005 to 2007. So that also would indicate that the payout ratio would be a downward trend, correct?

A. Correct.

Q. Okay. Now, based on what you'd said in response to that question on page 40 of your testimony, this would tend to indicate that growth in dividends wouldn't be an accurate indicator of investors' growth expectations for this company?

A. Correct.

Q. Okay. Did you look at a growth in dividends as one of the factors in doing your DCF analysis for Ameren?

A. It's one of the 11. Not only the compound -- historical compound dividends per share, ValueLine historical growth dividends per share, I also calculate projected dividends per share.

Q. So you included those even though growth in dividends isn't an accurate indicator of investors' growth expectations under these conditions?

A. The one, two historical dividends per share growth rates and the projected dividends per share growth rate are standard growth rates that I calculate. Once you have them calculated, then you make the determination of how you consider them.

The question on page 40 concerns, once you have those calculated, how do you consider them? So I calculated them and then put them into context.

Q. Well, if the question on page 40 indicates that they would be inaccurate for purposes of DCF, and I would think that if something was inaccurate, was not an accurate indicator of investors' growth expectations, that the way to treat them would be to not use that number.

Wouldn't that be the case, or do you usually -- or do you use inaccurate indicators of investors' growth expectations in your DCF model?

A. No. You are -- you are looking at Schedule MB-3 page 1 and it seems making the assumption that just because a number appears there that it receive the exact same consideration as every other number that appeared there.

That is raw data that is calculated and presented. As an analyst, I then take that raw data and form my recommendation based on that data.

Q. So that in making your recommendation you would throw out, I presume, the growth -- historical growth numbers that you would find you believe are inaccurate for purposes of determining investors' expectations?

A. The primary cut for me, the first -- one of the first initial cuts would be that I focus on projected. Once I make the determination that I'm going to focus on projected growth rates, then the consideration of historical can be put into context, and if they are inaccurate or inappropriate, then they are not considered.

Q. Did you give any more consideration to these historical growth and dividends numbers than you did to the breav number for DPL, Inc. that is not included in the table?

A. Did I -- can you repeat that?

Q. Did you give any more consideration to these growth in dividends numbers we're talking about then you did to the DPL, Inc. number didn't appear in the projected growth table?

A. Well, the dividends per share calculations for Ameren, average compound growth historical was 0.37 percent. ValueLine historical growth was 1.75 percent. Dividends per share projected is 0.5 percent. My recommended sustainable growth for Ameren is 3.75 percent.

So no, I did not match my projected sustainable growth rate for Ameren to one of these dividends per share growth rates.

Q. And the numbers you just named, all are below the average growth number that you calculated by using the five sets of 11 growth projections or 11 growth numbers on your schedule, correct?

A. I'm sorry.

Q. 0.37 percent was below the average, 1.8 percent was below the average, the 0.5 percent was below the average?

A. Which average are you talking about?

Q. Your ultimate average number for -- overall average I guess is 4.89 percent.

A. You're talking about the comparables now or

the proxy group?

Q. Proxy group, yeah, 4.89 percent. For Ameren itself it was 2.18 percent.

A. Yes. Now, what's the question related to that?

Q. The question related to that is, do you do any calculations in which you include the Ameren averages with the comparable average?

A. Where I include the Ameren averages with the comparable averages? No.

Q. Now, MB-3, Schedule MB-3, page 4, this is the page again for DPL, Inc.

A. Yes.

Q. And looking at the retention growth columns on the right side on the upper right-hand table, the retention ratio numbers from 1996 -- actually, 1997 and 1998 they were the same. They were .242. Then they went up to .304, .369, .466. So yet again this is another upward trend in retention ratio and necessarily a downward trend in dividend payout, correct?

A. Correct. But as is the same with the case with Ameren, you also have to look at the context of how you get the number and what does it mean. A decreasing dividend payout, a decreasing payout ratio for DPL, if you look at the dividends per share for '98, '99, 2000, 2001, is not based on them cutting their dividend. It's based on the fact that earnings per share is growing faster than their increasing dividends.

The exact same is true with Ameren Corp on the page before. They have consistent dividend of $2.54 from '87 through 2001. Even though their retention ratio was increasing and their payout is decreasing, it is not because they're cutting dividends. It is because their earnings per share is increasing at a faster rate than dividends.

Even if dividends were increasing over that time, if earnings per share is increasing faster, payout ratio is still going to decrease.

Q. Of course, under the DCF model the dividends per share should be increasing every year, shouldn't they?

A. That's the theory, correct, which is why –

Q. That assumption doesn't necessarily hold, does it?

A. No, which is why that analysts routinely look at other growth rates and not just rely on a dividends per share growth rate.

Q. Okay. But again, you had said that historical growth in dividends isn't an accurate indicator of investors' growth expectations when you've got a payout ratio that's trended downward over time?

A. That's true.

Q. If it's not an accurate indicator of investors' growth expectations, it would follow that it's not an appropriate number to use in the DCF model if the DCF model is supposed to be determining investors' growth expectations, correct?

A. The question on 40 doesn't say that can't consider it. It says it's not an appropriate substitute.

Q. So even –

A. So is it appropriate – is it appropriate to perform a DCF and blindly choose a historical dividends per share growth rate to plug into the DCF? No, it is not.

Q. If the dividend per share – is the dividend per share number for DPL, Inc. affected at all by the equity returns that were being projected?

A. Can you repeat that?

Q. I'm sorry. Going again back to Schedule MB-3 page 4, is the projected growth – actually, I'm sorry. Is the equity return numbers that are being projected of 25.5, 24.8 and 26 percent, do they affect the dividend per share projections?

A. Not necessarily. The company could be – the company could be growing equity return and not increasing dividends. That would be management's decision.

Q. Now, if equity returns are were going up at 25 percent, as is projected for – 26.5 percent as projected

Q. So that would seem to indicate that you should not have included the dividend, historical dividend numbers for DPL in your table, and that certainly would affect then the average that you get for the comparables by including them, wouldn't it?

A. But would it seems – would it affect the averages? Yes.

Q. And it affects the number that you're presenting the Commission, correct, at least as far as the raw data that you chose to include?

MS. O'NEILL: I'm going to object to the form of your question. Can you rephrase it a little bit? I'm not quite sure what you're getting at.

MR. WOLSKI: Well, what I'm getting at is that –

MS. O'NEILL: It was just a little bit too long.

MR. WOLSKI: I can understand that.

BY MR. WOLSKI:

Q. What I'm getting at again is, again in your testimony you said that when the historical payout ratio is trended downward over time, that historical growth and dividends is not an accurate indicator of investors' growth expectations.

A. Okay.

in the ValueLine 2002 number here, and the company, as you said, was – did you say they could be retaining a lot more rather than paying out?

A. Certainly.

Q. Is that the reason that you said that the projected br+sv growth rate should be thrown out for your DPL, the 18.35 percent, because it's based on 26.5 percent equity returns?

A. You need to repeat that.

Q. The high equity returns on this page, Schedule MB-3, that are projected by ValueLine –

A. Yes.

Q. – I believe was given by you as the reason why the projected 18.35 percent br+sv growth number was not used by you on page 1 of Schedule MB-3 because you don't believe that equity returns of 25 percent are reasonable for a regulated utility, correct?

A. Correct.

Q. But the dividend per share numbers that are based on that same equity return you did use in the – on MB-3 page 1 for DPL, didn't you?

A. Dividends per share?

Q. Yes.

A. Yes.

Q. Wouldn't it have been consistent to throw those out, too? Wouldn't those have been affected by the high equity return number?

A. Not when dividends aren't expected to grow at 25 percent. They've got dividends per share growth rate of 1 percent.

Q. But the reason why it's a very low growth rate is based on these other projected numbers, and these other projected numbers I believe were the reasons why you didn't use the 16.35 percent number. It just seems to me that --

A. You'll have to explain to me how are those related. You just made a statement that I don't think I agree with.

Q. Well, what is wrong with the 25.8 percent equity return projection that ValueLine has for 2002 for DPL, Inc.?

A. Because we are setting return on equity for a regulated electric utility. You go out and you get proxy companies that should be operating under similar risks and similar return. I know enough about the industry and rates of return and risk of electric utility industries to know that regulated electric utilities are not earning 25 percent in the market.

So if you're looking at a company that has supposed growth rates based on returns that are not coming from regulated electric operations, those are inappropriate

returns to consider when formulating a sustainable growth rate for a regulated electric utility.

If DPL had showed projected dividends per share growing at 25 percent, I similarly would have thought that is not a sustainable growth rate. You cannot or it is unlikely that you can continue to grow dividends at a 25 percent pop every year, and I would have thrown that out.

That is not what the data represented. The data showed an estimate of 1 percent dividends per share growth rate for regulated electric utility. That is reasonable.

Q. But is it possible for dividend per share to be negative? Would that be reasonable, if the number showed that?

A. Growth rate?

Q. Yes.

A. Is it reasonable that that could exist? Yes. Is that a reasonable sustainable growth estimate to put into the DCF? Not for me.

Q. Is it your opinion that a survey of analysts' growth expectations would be more reliable than the projection of any one particular analyst?

A. In general, yes.

Q. So there is some advantage to taking an average based on a survey of a number of analysts?

A. Which is exactly why I use the group of proxy companies, yes.

Q. And the projections that are published by First Call, are those the projection of one analyst or are they a survey of several analysts?

A. It differs by company, however many analysts they have for each company. Generally, the larger the company, usually there's more analysts following that company.

Q. And would you happen to know how many analysts follow the companies that you analyzed in your rebuttal testimony, for instance Ameren or the five comparables?

A. Ameren, eight brokers.

Q. Does that seem to be about the same, roughly the same number for the other?

A. Allegheny, 15 brokers; Alliance, 8 brokers; Cinergy, 13 brokers.

Q. Now, is there any reason why you would consider the number that comes out of First Call as being the estimate of one person as opposed to the estimate of the seven different ones or fifteen different ones that they happened to survey?

A. I'm sir. What was that?

Q. Is there any particular reason why you would consider the estimate that comes from First Call to be the

estimate of one analyst as opposed to the estimate of, say, the eight analysts that they surveyed on AmerenUE?

A. Is there any reason that I think the number that First Call put out is --

Q. No. I'm sorry. Do you consider the number that First Call put out to be the recommendation or the projection rather of one analyst or the average projection of eight analysts?

A. My understanding is that First Call is by definition a consensus forecast.

Q. Okay. And if you were going to combine the projection of First Call with the projection of another company that only used one analyst, would you give them equal weight or would you just throw the extra analyst into the pile, so if you have eight for First Call and one additional analyst you now have nine pieces of data to average?

A. I did not multiply the First Call recommendation by the number of people making the recommendation and then add it to ValueLine's projection.

Q. Is there any reason why you didn't do that?

A. No.

Q. But doing it that way does tend to give greater weight to the ValueLine analyst relative to the number of analysts that were part of the consensus for First

Cali, wouldn't it?

A. Would it give more weight to the ValueLine number? Yes, I think that would be true.

Q. But there was no particular reason why you chose to give more weight to the ValueLine number?

A. I guess it would be a negative. I have -- I have never read literature or seen an analysis where First Call's numbers were adjusted or manipulated in any way like that. I've never seen literature on that. I've never seen it done in testimony. I've never seen it done for a hearing. I've never, I suppose, had the professional motivation to go there.

Q. Now, for purposes of calculating dividend yield for Ameren in this case, I believe you used -- did you use six weeks of prices?

A. I calculated two separate dividend yields.

We're going to have to take a break here in a minute. I don't know if you want to do it now or --

Q. Why don't we do that now?

(A BREAK WAS TAKEN.)

BY MR. WOLSKI:

Q. In your CAPM calculations, you computed a dividend yield for Ameren, I believe, over -- was it a six-week period?

A. In CAPM calculations?

course of doing this job, six weeks seems to be long enough that I still feel that it's pretty current, but you can do away with some of the day-to-day fluctuations.

Q. Would you agree with this statement I'm about to read to you?

A. Okay.

Q. However, for purposes of determining the market required return on common equity, one must attempt to estimate what the consensus of investors believe the dividend or earnings growth rate will be and not what an individual investor or analyst may use to form individual investment decisions.

A. You must use what?

MS. O'NEILL: Could we see it?

MR. WOLSKI: Sure. Well, let me --

THE WITNESS: Actually, I can --

MS. O'NEILL: Can you remember?

BY MR. WOLSKI:

Q. However, for purposes of determining the market required return on common equity, one must attempt to estimate what the consensus of investors believe the dividend or earnings growth rate will be and not what an individual investor or analyst may use to form individual investment decisions.

A. Yes, I would agree with that.

Q. Yes.

A. No, I didn't.

Q. I'm sorry. For DCF.

A. Correct.

Q. I stand corrected. And that was a six-week period ending -- is that May of 2002? It's MB-4, page 1, I guess. It goes from March 28th, 2002 through May 3rd, 2002.

A. Correct.

Q. Now, is there any reason that you picked six weeks rather than a longer period, like three months or six months?

A. As it states in my testimony, the theory of the DCF, that it is, in fact, spot dividend yield. It should be the dividend yield that you can achieve as an investor on the day you buy your stock.

So pretty much categorically I think one year, six months, even pushing three-month-old stock prices are not relevant to the DCF because they don't reflect what you as an investor can achieve today.

Six weeks was chosen because spot prices are or can be inherently volatile. Even small jumps day to day can have a big impact on dividend yield.

Q. So you wouldn't pick then just one day?

A. No, because you could choose the next day and get a pretty different dividend yield. But just over the

Q. Now, in your CAPM calculations, you calculated the risk-free rate using an average of the yield on the ten-year treasuries and on 30-year treasury bonds. Do I understand that correctly?

A. Correct.

Q. And is there a reason why you didn't rely solely on an average of ten-year treasuries or an average of 30-year treasuries?

A. In the past I had used exclusively 30-year treasuries, 30-year government bonds, and some analysts still do that. In literature, the ten-year is gaining popularity because, No. 1, the government's doing away with the 30-year.

No. 2, the ten-year is a shorter time frame, and my belief is that the market in general simply doesn't believe that a 30-year rate can be as applicable on a risk-free rate. There's a certain amount of risk contained within that number.

So the switch primarily to the average was a compromise. The other decision would have been to go only to the 10 and ignore the 30 altogether.

Q. So that I guess your decision was whether to use the 30 at all?

A. Correct. And because I believe there are still some -- well, I know it's a fact. From reading and articles and just financial literature, I know that there are still analysts and investors out that there are looking at the 30-year bond.

Q. But do you think that that might -- that might result in inaccurate calculations due to the fact that the government is no longer selling 30-year bonds?

A. Well, obviously I believe that is somewhat of a potential or could be a potential because I chose to average them rather than rely only on the 30-year.

Q. And what is -- as you understand it, what is the impact on the bond yield of the 30-year, what is the impact of the government's decision to not be issuing any more but merely to be retiring the ones that are out there? How does that affect the yield on the 30?

A. I just read something about this. I believe, if I'm remembering correctly, they said that actually what is happening is the yield on the 30s are going down because they are becoming more scarce. As they become more scarce, the demand is going up, the price is going up, which drives the yield down.

Q. Again, that's solely a -- that's solely a -- I won't say solely. That's primarily the result of the fact that they aren't being issued anymore so that there's fewer of them out there? That's the reason they're scarce is the government's no longer issuing 30-year bonds?

correct?

A. That's true.

Q. And is there any -- is there a particular authority that instructs you to use the total as opposed to the income returns?

A. It's actually the different perspective on that is, I have yet to read an authority that tells me to use simply the income until this case.

Q. Okay. In this case, did you learn of one?

A. Well, somebody quoted -- somebody I know that there was a quote from Brealey & Myers. Moran has a quote, I believe.

Q. Why don't we introduce another exhibit just to round out your library shelf. This is a page from Ibbotson Associates Valuation Edition 2001 Yearbook on Stocks, Bonds, Bills and Inflation. It's page 68 of that, and we will -- I'm not sure this is the page I want.

(BURDETTE EXHIBIT NO. 2 WAS MARKED FOR IDENTIFICATION BY THE REPORTER.)

BY MR. WOLSKI:

Q. At the bottom of page 68, the paragraph on income return says, Another point to keep in mind when calculating the equity risk premium is that the income return on the appropriate horizon treasury security, rather than the total return, is used in the calculation.

A. Yes.

Q. Okay. Now, you mentioned Ibbotson, I believe, and Brealey & Myers in your testimony as being two sources of -- authoritative, not the authoritative, but among the --

A. Among the many authoritative.

Q. -- authoritative.

A. Okay.

Q. And I was wondering, do you -- do you agree with the views of Ibbotson and Brealey & Myers that market risk premiums should be calculated using arithmetic averages instead of geometric averages?

A. I guess the most accurate way to answer that is that I am currently in a state of somewhat professional flux. I've read articles and been in discussions on both sides of the issue, arithmetic and geometric. At this point, I have been trying to take in all the information, learn as much as I can.

Until the time that I feel particularly confident either agreeing with Ibbotson or whoever, I've tried to take a relatively conservative approach. I haven't drastically reduced the 7.3 percent Ibbotson market premium, you know, in regards to some certain kind of average.

Q. In calculating the -- in your CAPM calculations, I believe you were looking at the total return on the treasuries and not the income return; is that

It goes through a description of what the income return is and what the total return is, but the last sentence of the paragraph on the next page concludes, quote, The income return is thus used in the estimation of the equity risk premium because it represents the truly riskless portion of the return.

Was this something that you had not seen before?

A. Yes, I have read that.

Q. Okay.

MS. O'NEILL: Is there a -- just so the record's complete, is this document, is there like -- are there subsections to this document? Do you have a whole document that we can look at?

MR. WOLSKI: I don't have a whole document that we can look at. We probably can get you one. You might even have it in your library.

MS. O'NEILL: It looks like it's Chapter 4. Do you know what the title of Chapter 4 is?

MR. WOLSKI: We can get that for you.

MR. PFEIFENBERGER: The title is in the upper corner.

MR. WOLSKI: The Equity Risk Premium is the chapter.

BY MR. WOLSKI:

Q. Mr. Burdette, does that seem -- does the Ibbotson explanation seem reasonable to you? Is there anything that you would disagree with in that paragraph?

A. On first read, without further analysis, I don't know that I would agree with all of it. Ibbotson makes note specifically that they assume that the bond is sold before maturity, but if you hold the bond to maturity, your final return is riskless. Once you've invested in the bond, if you hold it and do not sell it, you are going to get a return of the face value of the bond.

Ibbotson also does not specifically apply this material to utilities, and in many financial resources and publications utilities are a different enough animal that there are specific references made to differences in utilities, just like with S & P. So yes, I have read this.

Q. Excuse me. Would the differences in the utility make a difference for purposes of determining what the risk-free rate is for treasuries now?

A. I haven't performed a complete analysis. I really don't feel comfortable getting into the details of -- into the details of those.

Q. Fair enough. Now, in your determination of the market risk premium, what was the maturity of the bonds that you used, do you know?

A. Specifically, I do not. I relied primarily on

the final numbers. I read the Ibbotson chapter, relied primarily on what is their generally, what I have seen, reproduced market premium.

Q. Okay. Now, did you use a six-week average in order to get the T-bond yield, the Treasury bond yield rather for the CAPM analysis?

A. No.

Q. What did you use? Was it one day?

A. I used ValueLine's rate, yes, as presented in ValueLine.

Q. Was there any reason why you wouldn't use the same approach as you did with the DCF yield and look at several weeks?

A. Is there a reason? No.

Q. So would it have been -- is the use of just the spot price of one day more prone to a particular variation of trading on that day so that a six-week average might have given a more reliable number?

A. I don't know that I could categorize it as more reliable. It would give you a different number. In general you see less fluctuations in bond yields than you do in the stock market. So I don't believe you probably would be looking at trying to rid yourself of as much volatility.

Q. But there still would be some volatility?

A. I would assume.

Q. And you wouldn't happen to know what the volatility was over the six-week period ending May 3rd, 2002 that you looked at for the stock yield?

A. I do not.

Q. Is it your standard practice to not -- to take just one spot price for the Treasury bond yield as opposed to doing an average?

A. Yes.

Q. And is there a particular reason why you wouldn't do the average like you did for the DCF analysis?

A. No.

Q. Do you know if other analysts do averages of the Treasury bond yield in order to get the risk-free number?

A. I've never seen that.

Q. Really? Did you consider using --

A. That I remember. I've never seen that that I remember. I should --

Q. Okay. So you can't remember ever having seen that?

A. Yes.

Q. You're not saying --

A. Correct. I cannot ever remember not having ever seen that, no. Let me expand just a second. It is -- I know for -- I know that I have seen company-sponsored

testimony over the course of my history here, I have seen company-sponsored testimony that has at different times done some things with the risk-free rate. In general, far and away what I have seen is a spot rate used for the risk-free rate.

Q. Did you consider using forecasted bond yield going forward, say consensus forecast?

A. I have read literature on that. I did not do that.

Q. Now, under your criteria for selecting sample companies, you came up with, I guess it was five companies, correct?

A. Yes.

Q. And were you surprised that the five companies in your sample were different than the companies that were in Mr. Bible's sample?

A. No.

Q. Is that common that you would have -- in trying to put together a group of comparable companies, there would be no overlap between different analysts' selection of comparable companies?

A. I've experienced every extreme. I've filed testimony that used exactly the same group as another analyst in the case. I've filed testimony that used one or two or none.

Q. Was there any part of the criteria that Mr. Bible used to select his sample companies that you believed was not appropriate?

A. I wouldn't -- I don't believe I would phrase it as judging his inappropriate as much as sticking to what I believe is appropriate.

Q. Okay. Is there anything that he did, is there some portion of the criteria that he used to select sample companies that you believe your approach is more appropriate than?

A. I don't remember the specifics of his selection criteria, so I can't answer that right now.

Q. On page 5 of your testimony, at line 11, you explain why you used proxy groups in your analysis?

A. Yes.

Q. And your response was, second sentence in your response, I want to ask you about, it can also provide a smoothing effect in calculations that might be affected by aberrations in the financial or market information for a single company.

And how many -- how many sample companies would you need in order to properly get a smoothing effect of the aberrations, the potential aberrations?

A. I've never filed with less than three. I feel much more comfortable with at least five. One basic fact

about regulatory rate of return analysis over the past few years, as with mergers and acquisitions and industry changes, it's much harder to come up with comparables. So it's a balancing act between maintaining your criteria with a standard that you believe is appropriate and not loosening your criteria, but at the same time you want to be sure to capture enough companies that you feel it's reasonable.

I don't have a number. If it's three, I feel like I wish I had more. If I have at least five, I usually feel like I'm in a good ballpark.

Q. Approximately how many times have you filed rate of return testimony in cases before the Commission, do you know?

A. I've got 21 cases listed in response to the DR. Some of those other cases, such as mergers or complaint cases, would also probably have included some sort of cost of capital or return on equity analysis. So I'd say 20 to 25 times.

Q. And do you know how many times you used a comparable group of three companies or fewer?

A. Never fewer. Using a comparable group of three, I mean guess, I'd say maybe two or three.

Q. In your opinion, would a utility that had nuclear generating operations be more of a risky investment or less of a risky investment than one that didn't?

A. Years ago, I mean talking seven years ago, no nuclear operations or matching nuclear operations was a standard criteria that I used for selection of comparable companies. As the industry has changed, as there have been mergers and acquisitions and reformations, it's very hard to include that as a criteria anymore.

Q. So it's no longer that significant, I guess?

A. It's not as significant as it has been. It is -- well, I guess it's not on my list, so I judged it to be not significant enough.

Q. How about whether or not a utility has fuel adjustment clauses, would that pose more or less investment risk than a company that didn't have a fuel adjustment clause?

A. In general, that has not been a consideration. It is something that I attempt to check on. If I end up with a mix, if I've got two or three companies with and two or three companies without, then I'll use those companies, all of them.

Q. Now, one of your sample criterion, I believe, was that the company not be in Missouri; is that correct?

A. Correct.

Q. And what is the purpose behind that criterion?

A. Well, the buzz word is circularity, which is if you've -- if you're before a commission looking for a

ruling and the only evidence you're presenting before that commission is based on other rulings that that commission has performed, then you're going to cycle yourself either up or down.

So circularity would be the reason. Don't present -- don't even set yourself up from the very beginning of a potential problem with a commission compounding positively or negatively past decisions that they've made.

Q. But your rate of return calculation ultimately was based on Ameren's operations, wasn't it, and Ameren is obviously located in Missouri. Isn't that a bit of a problem?

A. No, because circularity is an issue with proxy companies. The Missouri Public Service Commission is setting rates for AmerenUE. I believe it's relevant to look at financial information that's available for the company in question.

Q. But wouldn't the investors' expectations be formed in part by what rates they expected the Missouri Public Service Commission to set?

A. That's why I use a proxy group.

Q. Is there any other problem of circularity that could creep into the analysis if you're only looking at other regulated utilities? What if all the regulators in the country were providing rates of return that were very low compared to what nonregulated companies were getting, would that -- would you have a similar circularity problem or not?

A. If I ever saw any indication that there was any sort of consensus among state regulators in the least, then that might be a concern, but all you have to do is read one or two newsletters that delineate what the different states are doing and it's obvious that if you pull a selection from different states you're going to get different regulatory environments, different commission leanings, Republicans, Democrats, you know, high, low.

So no, I don't believe that using other regulated utilities is a circularity problem.

Q. Would you happen to know how the rate of return recommended by the Staff in this case compares with rates of return that have been approved by other commissions recently in other states?

A. Specifically, the only information I would have on that is what was presented in company testimony, which I would take with a bit of a grain of salt having not had -- having not have performed my own analysis of that.

Q. Based on the comparable companies that you looked at to confirm the DCF analysis you did on Ameren, what would you say would be the upper end or upper bound of

a reasonableness range of return on equity for Ameren? And I know that you gave your recommendation, but it's possible that -- is it possible that a higher number than what you recommended could be reasonable?

A. Of course not. I mean, you're not going to get me to sit here and say that I could have recommended a higher number and that would have been just as reasonable. I'm not going to agree to that. I made a recommendation that I believe was reasonable based on the analysis that I performed.

Q. So that means, then, that a number that is lower than yours would be unreasonable?

A. In my opinion -- in my opinion, I believe that the range that I recommended is a reasonable range.

Q. But a number that would be lower than the one you recommended would be as unreasonable as a number that would be higher than you recommended, correct, or is it only rates of return that are higher than what you recommend that you would find to be unreasonable?

A. No. You're asking my opinion. My personal opinion as an analyst is that, in this specific case applied to Ameren, that an ROE below my bottom of the range is out of my zone of reasonableness.

MR. WOLSKI: Okay. If we can take one break right now and resume in about two minutes.

(A BREAK WAS TAKEN.)

BY MR. WOLSKI:

Q. Just a few more questions, Mark.

A. Yes.

Q. On page 28 of your testimony, Appendix D, we talked about this before. The last sentence, you say here, While investor interests (profitability) are certainly pertinent to setting adequate utility rates, those interests do not exhaust the relevant considerations.

I was wondering what other relevant considerations you might think that there are in setting adequate utility rates. I guess in particular you're talking here about the Hope and Permian Basin rate cases. Is there any other interests that you remember are supposed to be relevant considerations?

A. Page 28, 5, 6 and 7 says that, While investor interests or profitability are certainly pertinent to setting adequate utility rates, those interests, which means the investors' interests, do not exhaust the relevant considerations, which says to me there are other considerations. There are just and reasonable rates. There would be the fact that a regulated rate is not guaranteed to even insure the ongoing stability of the company.

I guess I see this as a statement that it is not simply the shareholders and their wealth that is to be

considered. There are other parties.

Q. Would the efficiency of a utility be a consideration, a relevant consideration?

A. Efficiency would be a consideration in the sense that if a utility is able to increase efficiency between rate cases, then regulatory lag would enable them to garner excess profits until a rate case was filed.

Q. So then in that formulation one of the reasons for a rate case would be to recapture the gains that were accomplished through efficiency or distribute those gains to the ratepayers?

A. The purpose of a rate case would be to set just and reasonable rates. If the company's expenses have gone down, then just and reasonable rates would be based on the new current level of expenses.

Q. What if the utility instead were clearly operating inefficiently and costs went up, should a rate -- should the rates in the next rate case reflect the recovery of the incurred costs even though they were due to inefficiency?

A. As a matter of policy, as a matter of policy for Missouri Office of the Public Counsel, my belief is that if management has incurred imprudent expenses, those expenses should not be included in an analysis of reasonable expenses.

Q. So an expense would have to be determined imprudent in order to be disallowed, is that -- would that be the approach?

A. Yeah. You're getting into some legal areas and policy areas, which you can't -- you can't construe my answers to be legal, based on the law or based on anything except my position as a financial analyst.

My understanding of regulation and OPC's policy is, if it is shown before the Commission that expenses were imprudent, those expenses should not be allowed.

Q. So I guess, as a rate of return analyst, you're merely calculating what the return on assets for the company should be and you're not -- I take it you're not concerned at all in that role with whether particular costs are prudent or not and should be recovered or not?

A. Not specifically. That would be certainly included in the -- in terms of OPC's entire case. I mean, we have economists putting forth testimony. We have accountants putting forth testimony. Certainly an accountant in OPC could have a position in a case that certain costs were imprudent. That would be an issue for that accountant to take up. It wouldn't necessarily impact my recommendation either way.

Q. So that whether a company were operating

highly efficiently or inefficiently doesn't have a bearing on the rate of return calculation; is that correct?

A. In terms of weighted return -- or in terms of weighted return being defined as the cost of capital and the cost of capital being the weighted average of the cost of debt and all the components of capital structure and return on equity, efficient management could be reflected in stock price, could be reflected in overall reputation of the company, could be reflected in credit rating. I know S&P considers management efficiency, things like that.

In terms of crunching numbers, I do not have an explicit line item or an explicit consideration that takes into account management efficiency.

Q. Do you think that rate stability is a relevant consideration in setting rates in a rate case?

A. That would be a matter of policy, OPC policy that I really wouldn't feel comfortable getting into. You would have to ask a different OPC witness that question.

Q. And I guess since you said that efficiency or inefficiency isn't a particular factor in your equation, in your calculation of the rate of return, that providing incentives to a company to be efficient isn't a part of the rate of return calculus; is that correct?

A. On straight rate of return book value rate base regulation, my assumption as a financial analyst and I

believe OPC's assumption as consumer advocates is that the management is acting as efficient as they can. They're making the best decisions they know how to make for the company.

Separate from rate base book value rate of return regulation, incentive -- some sort of separate incentive plan may or may not be good policy. I wouldn't venture a guess on that or a speculation.

Q. And how would you define what just and reasonable rates are for a utility in a rate case? You said that's one of the -- that's the consideration. To your mind, what does just and reasonable mean?

A. I'll take you to the definition. To me, just and reasonable rate gives the utility the return of their operating, their cost of operations, and gives them a risk appropriate and reasonable return on capital employed.

Q. Do you think that one of the goals of a rate proceeding should be to provide a utility with the incentive to be innovative? Is that a relevant consideration in determining rates?

A. I believe I would -- I would put that into the lap of the Commission. As a financial analyst for Office of the Public Counsel, I don't know that I have a real strong opinion on the worth or not worth of specific kinds of innovation.

Q. Based on your experience as having been involved in a number of rate cases over the past seven years and also based on what you've learned in your education and experience -- I believe you have an MBA, correct?

A. Correct.

Q. Is it your opinion that people or companies can become more efficient if they're provided the proper incentives?

A. I don't know that I could categorically say yes or no to that. It has been my experience that companies like programs that allow them to make more money, but that would depend a lot on the definition of efficiency, and I don't believe I can answer that question.

Q. Well, you do think as a general matter that people and businesses do respond to incentives, correct?

A. What do you mean by incentive?

Q. I mean an opportunity that is provided to a person or a business based on their accomplishing or doing things a certain way. An incentive could be a negative incentive or a positive incentive.

A. So a negative -- an incentive could be positive or negative and your question is, do I believe people respond to incentives? Yes, I think probably in general people respond to incentives.

Q. One final thing. The bottom of page 20 of your testimony, Appendix E, you state, Pursuant to the above legislative directive, when developing the cost of equity capital for a public utility operating in Missouri, it is appropriate to do so with a view toward the public welfare, giving the utility an amount that will allow for efficient use of its facilities and the proper balance of interests between the ratepayers and the utility.

In making your rate of return recommendation in this case, did you evaluate whether the amount of money the utility had would, under your recommendation would allow for the efficient use of its facilities?

A. Under my recommendation, I checked to ensure that the company could meet its capital needs and ob-- needs and obligations, that the return I recommended was risk appropriate with what I found to be the risk and returns of other companies in the industry.

Once I'm comfortable with the return level that I'm recommending as reasonable, then just as it says it is appropriate to do so with a view towards the public welfare giving the utility an amount that will allow for efficient use of its facilities and the proper balance of interests between the ratepayers and utility, I then believe once I'm confident that my return is just and reasonable, then it falls on the utility to utilize those funds in a reasonable way.

MR. WILLIAMS: No.

MR. WOLSKI: -- I think we can call it a day.

MS. O'NEILL: Read and sign.

(PRESENTMENT WAIVED; SIGNATURE REQUESTED.)

MARK BURDETTE

subscribed and sworn to before me this day of , 2002.

Notary Public in and for County
State of Missouri

Q. And what is the --do you have a particular method or formula that you use to determine what is the proper balance of interests between the ratepayers and the utility?

A. Not a specific formula. I formulate what I believe is an objective cost of equity and cost of capital recommendation. Public Counsel as a matter of policy -- I mean, I've been here seven years. I know for a fact that Public Counsel has supported higher rates if those rates would provide what this office has judged a good benefit for consumers.

I've never ever been involved in a case where OPC's primary goal was simply the lowest return or the lowest rates. It's always a balance of what is good for the -- what is good for the company, what is good for the ratepayers. Is the goodness that would be brought to the ratepayers from this policy, how much is it going to cost? Do we believe that's worthwhile? I think that I -- I think I answered your question in there somewhere. If I didn't, you need to rephrase it or --

Q. There's an answer in there somewhere.

A. Ask it again.

Q. I think that's fine actually.

MR. WOLSKI: I don't think we have anything more. So unless you want to fire away --

CERTIFICATE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Kellene K. Feddersen, RPR, CSR, with the firm of Associated Court Reporters, do hereby certify that pursuant to agreement there came before me,

MARK BURDETTE,

at the offices of Office of the Public Counsel, Governor Office Building, Room 650, in the City of Jefferson, County of Cole, State of Missouri, on the 20th day of June, 2002, who was first duly sworn to testify to the whole truth of his knowledge concerning the matter in controversy aforesaid; that he was examined and his examination was then and there written in machine shorthand by me and afterwards typed under my supervision, and is fully and correctly set forth in the foregoing pages; and the witness and counsel waived presentment and signature of this deposition to the witness by me, and that the signature may be acknowledged by another notary public, and the deposition is now herewith returned.

I further certify that I am neither attorney or counsel for, nor related to, nor employed by, any of the parties to this action in which this deposition is taken; and further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, or financially interested in this action.

Given at my office in the City of Jefferson, County of Cole, State of Missouri, this 20th day of June, 2002. My commission expires March 28, 2003.

KELLENE K. FEDDERSEN, RPR, CSR
Notary Public, State of Missouri
(Commissioned in Cole County)

- B -

- D -