

	Page 1		Page
1	STATE OF MISSOURI	1	
-	PUBLIC SERVICE COMMISSION		
2		2	, 5
	In the Matter of the Tariff Filing )		Cross-Examination by Mr. Micheel {
2	of the Empire District Electric	3	, , ,
4	Company to Implement a General ) Case No. ER-2004-0570		
7	Rate Increase for Retail Electric )	4	
5	Service Provided to Customers in )	5	$\overline{\mathbf{b}}$
5	Its Missouri Service Area	6	5
c	its missouri bervice Area	-	
6		7	
7	DEPOSITION OF DONALD MUDDY	8	3
~	DEPOSITION OF DONALD MURRY,	9	9
8		10	
9	a witness, produced, sworn and examined on the 10th day of		
10	November, 2004, between the hours of 8:00 a.m. and	11	1
11	6:00 p.m. of that day at the offices of the Missouri	12	2
	Public Service Commission, Governor Office Building, Room	13	
13	810, 200 Madison Street, in the City of Jefferson, County		
14	of Cole, State of Missouri, before	14	4
15		15	5
16	KELLENE K. FEDDERSEN, RPR, CSR, CCR	16	
	MIDWEST LITIGATION SERVICES		
17	714 West High Street	17	/
	P.O. Box 1308	18	8
18	Jefferson City, MO 65101	19	
	(573)636-7551		
19		20	
20	and Notary Public within and for the State of Missouri,	21	1
21	commissioned in Cole County, Missouri, in the	22	Ċ
22	above-entitled cause, on the part of the Staff of the		
23	MPSC, pursuant to agreement.	23	
24		24	4
25		25	5
	Page 2		Page
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	Page 5		Page 7
1	went emeritus, that was probably in '98 or '99.	1	Page 7 Q. Okay. Did any of the classes deal
2	Q. Okay. Thank you. Inasmuch as I'm an alum	2	specifically with the area of rate of return and/or cost
3	of the University of Nebraska, David said that the first	3	of capital for regulated utility companies?
4	order of business is to settle a wager on Saturday's game,	4	A. Well, sure.
5	but I know better.	5	Q. What was the course title of the course
6	A. I was going to say, I could probably be	6	that dealt most directly with that?
7	persuaded.	7	A. I thought you said did any of those
8	Q. What classes did you teach at the	8	courses, and the answer was sure.
9	University of Oklahoma?	9	Q. Okay. What was the course title, the title
10	A. Well, I taught a number of classes over	10	of the course that did deal specifically
11	that span. More recently I taught and this might have	11	A. No. That's what I just gave you, the title
12	changed slightly, but it is, I think, a pretty accurate	12	of the courses I was teaching.
13	description. I would teach a graduate course, and I don't	13	Q. The ones you named earlier?
14	even remember the official title, but we called it energy	14	A. Yes.
15	markets. It's economic analysis of energy markets or	15	Q. Okay. Did any of the classes deal
16	something like that. And I would teach that in the	16	specifically with the area of rate of return and/or cost
17	usually in the fall, and also then an undergraduate class	17	of capital for regulated electric utility companies?
18	that was government relations to business, and then in the	18	A. The way you're asking the question, I think
19	spring I'd teach a graduate course that was economics of	19	I need to amplify. I've had students who have written
20	regulation, and I'd teach undergraduate course in	20	dissertations on regulatory finance for me, and I wouldn't
21	government relations to business also.	21	call that a class. It's not a class. But all of these
22	And of course from time to time I've taught	22	classes had components that had to do with cost of capital
23	other courses or special seminars, something like that.	23	in regulatory in regulated industries. When I say
24	But that was probably the most common pattern the last	24	regulated, I think we're talking about utilities here.
25	number of years.	25	Q. Correct. Did any of the classes deal
	Page 6	Į	Page 8
1	Q. Okay. Would it be correct, then, to say	1	specifically with use of the discounted cash flow model?
2			specifically with use of the discounted cash now models
	that economics of regulation deals specifically with	2	A. Sure.
3	that economics of regulation deals specifically with utility regulation?	2 3	
			A. Sure.
3	utility regulation?	3	A. Sure. Q. Are the students that major in finance at
3	<b>utility regulation?</b> A. Yeah, the way I taught it, it did. The	3	<ul> <li>A. Sure.</li> <li>Q. Are the students that major in finance at the University of Oklahoma exposed to the concepts</li> </ul>
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2 (Pages 5 to 8)

	Page 9		Page 11
1	the basics of finance.	ask you to read that again. I think I would	say yes to
2	Q. You believe that the University of Oklahoma	that, but I'd probably want to put words are	ound quotes
3	is adequation preparing its finance graduates to take	around the word primary or something like	that. It's
4	responsible jobs in the area of finance?	certainly not exclusive, and the word prima	ry doesn't
5	A. I can't speak to that. I would presume as	imply that it's exclusive.	
6	well as one would expect in a Big 12 university.	And I think in some instances the	e models
7	Faculty's qualified.	are more reliable than in others, and so I do	on't think
8	Q. Would you agree that the objective of the	that's a as a general statement, that may	/ be overly
9	University of Oklahoma is to prepare its finance students	strong, but as a general principle, I certainly	y agree with
10	to have a good understanding of the concepts and	ít.	
11	fundamentals of finance in order to apply this knowledge	Q. Do you believe that if the all	owed return
12	in the real world?	on equity is based on the utility compa	any's cost of common
13	A. That sounds like it might have come out of	equity, that this will allow the compan	y to raise capital
14	the one College of Business brochures. I don't know.	and maintain its financial integrity?	
15	You're asking me about a program that I have not directed,	A. If it's a true measure of the cost	of
16	so I don't I'm not critical of it. I'm just not privy	capital in the sense that it's the opportunity	cost of
17	to say exactly what they how they are competitive.	capital in the marketplace, the answer is ye	·S.
18	Q. So you're saying you don't know?	Q. Do you believe that the cost	of capital is
19	A. I'm not saying I didn't know. I'm saying I	a cost of service, just as salaries paid (	to utility
20	don't think I well, if you want to read the question	engineers are a cost of service?	
21	again, I'll be glad to try to answer it more precisely.	A. I think the labor market and the	financial
22	Q. Would you agree that the objective of the	markets operate differently, and in that sen	ise I have
23	University of Oklahoma is to prepare its finance students	trouble transposing from one of those mark	kets directly
24	to have a good understanding of the concepts and	into the others. There are issues in the lab	or market
25	fundamentals of finance in order to apply this knowledge	that we like to think don't exist in financial	markets.
	. Page 10		Page 12
1	in the real world?	I'd say that's a very bad analogy.	1450.12
2	A. In a general sense, I think the answer to	, , ,	
		Q. Well, are you saying, the	n, that the cost
3	that is yes.	Q. Well, are you saying, the of capital should not be included in	
3			
1	that is yes.	of capital should not be included in	
4	that is yes. Q. Do you believe that setting the allowed	of capital should not be included in the cost of service?	a determination of
4 5	that is yes. Q. Do you believe that setting the allowed rate of return for a utility company equal to the cost of	of capital should not be included in the cost of service?         A. No, I didn't say that at all.	a determination of
4 5 6	that is yes. Q. Do you believe that setting the allowed rate of return for a utility company equal to the cost of capital balances the interests of ratepayers and	a of capital should not be included in the cost of service?         b A. No, I didn't say that at all.         c Q. Okay. In what sense is it	n a determination of t a bad analogy?
4 5 6 7	that is yes. Q. Do you believe that setting the allowed rate of return for a utility company equal to the cost of capital balances the interests of ratepayers and investors?	<ul> <li>of capital should not be included in the cost of service?</li> <li>A. No, I didn't say that at all.</li> <li>Q. Okay. In what sense is in Why does the analogy fail?</li> </ul>	a determination of t a bad analogy?
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3 (Pages 9 to 12)

	Page 13	İ.	Page 15
1	A. No. It's a bad analogy in the sense the	1	decision.
2	way the markets function. We go back to the original	2	Q. I'm looking at your direct testimony,
3	question, if you really want to delve on this, I'll try to	3	page 29, lines 19 and 20. You said, I relied primarily on
4	understand it better and explain it as I understand it.	4	the results of the DCF analysis. Direct testimony,
5	But I think you asked me a question about	5	page 29, lines 19 and 20.
6	the cost of service, is the words that I heard, of capital	6	A. I must have different pagination. Well,
7	that was similar to the cost of an engineer. That's how I	7	you have to read the whole sentence.
8	heard it, and I said, no, I didn't think so, because the	8	Q. Okay.
9	markets were guite different, and I think that's factually	9	A. It says, using forecasted earnings per
10	correct.	10	share information at current market prices. That's
11	Q. My question or my intent was to ask whether	11	singling out one of the DCF analysis that I used as
12	the cost of capital is a cost of service, just as the cost	12	opposed to other DCF analysis that I used. In that
13	of obtaining professional services of an engineer is a	13	context, I certainly agree with that statement.
14	cost of service.	14	
15	A. The answer to that is yes.	15	Q. But primarily on the DCF, this qualifies the way that you apply the DCF?
16	Q. Okay. If another state authorizes a return	16	
	on equity that is higher than the utility's cost of common		A. Yes. That was a specific DCF calculation
17		17	that I was referring to at that instance.
18	equity in that state, do you believe that makes it	18	Q. And am I correct to understand that you
19	appropriate for Missouri to do the same thing, that is to	19	used the capital asset pricing model, also known as CAPM,
20	authorize its utilities to earn a higher return on equity	20	primarily as a check to verify the reasonableness of your
21	than their cost of equity?	21	recommendation?
22	A. On its face, and all other things equal,	22	A. I think that's a I think that's a fair
23	the answer would be no, I don't think so. I do think it	23	statement. I may have put a little more weight on it than
24	may be relevant information, though.	24	just thinking of it as a corroboration, but I think that's
25	Q. Do you believe that setting the return on	25	a fair statement.
		1	
		1	
	Page 14		Page 16
1	equity for a utility equal to the cost of capital is	1	Q. And at least in this respect that we've
2	equity for a utility equal to the cost of capital is consistent with the policies announced or principles	2	Q. And at least in this respect that we've just talked about in these couple of questions, your
2 3	equity for a utility equal to the cost of capital is consistent with the policies announced or principles announced in the Hope and Bluefield cases?		Q. And at least in this respect that we've just talked about in these couple of questions, your approach to the ROE recommendation was similar to the
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4 (Pages 13 to 16)

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	Page 17		Page 19
1	results of David Murray's?	1	Q. So you're saying, then, that investors may
2	A. I wouldn't disagree with that. I think	2	not look at it as a company of perpetual life, but does
3	that's probably correct.	3	the DCF model assume that?
4	Q. Now, the DCF model is based on certain	4	A. That's my point. If one is using the data
5	assumptions, isn't it?	5	in the marketplace to determine what's in the minds of the
6	A. Of course.	6	investors, that's what's important. One assumption or one
7	Q. Would you please state what some of those	7	method of the DCF is to assume that the stream lasts in
8	assumptions are?	8	perpetuity, and that's an assumption that has got to
9	A. Some of the assumptions are and then it	9	produce returns, and that's the assumption the company's
10	depends on what you mean by the DCF model. The concept of	10	going to last forever. I said that falls that's
11	the DCF model is to is to take market information which	11	probably not likely to be an assumption on our part in
12	is available in the form of market prices, known dividend	12	reality when we enter the market.
13	payments and earnings per share information and infer from	13	Q. Well, what I'm trying to get at is, is the
14	that what the discount rate is for that anticipated stream	14	assumptions that underlie the development of the DCF model
15	of returns, and then by that inference determine what the	15	and the equation that's used in applying it, not
16	cost of capital in the minded investor is. That's	16	whether not what the investors in real life
17	essentially the concept of DCF.	17	A. And that, you see, is the problem. You're
18	So you're making an assumption about each	18	trying to define it mathematically, and what we're trying
19	one of those elements. Namely, the market price	19	to use is market information to infer what's the cost of
20	represents prices in an efficient market by investors that	20	capital in the minds of the investors.
21	are motivated to maximize the expected value of that	21	Q. You made calculations using the DCF model
22	earning stream. You're making an assumption about the	22	and the equation that arises from that, did you not?
23	accuracy of the dividend information in the minds of the	23	A. I used the DCF method to estimate cost of
24	investors and their expectations, You're making	24	capital under several different circumstances.
25	assumptions about the earnings per share assumptions on	25	Q. In the schedules that you prepared and
		1	
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$\vdash$	Page 18		Page 20
1	the part of the on the part of the investors.	1	attached to your direct testimony, I'm thinking in
2	the part of the on the part of the investors. So you're essentially assuming that those	2	attached to your direct testimony, I'm thinking in particular of Schedules 13 through 18, you did some
2 3	the part of the on the part of the investors. So you're essentially assuming that those data points are representative of the minds of the	2 3	attached to your direct testimony, I'm thinking in particular of Schedules 13 through 18, you did some calculations to show a cost of capital for Empire. Now,
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	Page 21		Page 23
1	to any particular situation. I'm talking about the	1	don't hold true, is it possible to still achieve a
2	derivation of that equation. Is it not correct that the	2	reliable cost of equity estimate through use of the DCF
3	equation can only be derived if you make certain	3	model?
4	assumptions?	4	A. Well, as I think I said earlier, the DCF
5	A. I think that's tautology, yes.	5	model can be used as indicative of cost of capital in
6	Q. I'll expose my ignorance. Tell me what	6	application, and I think that you're getting back to more
7	tautology is.	7	or less asking the question I stated affirmatively
8	A. It means it's obvious. Stating the	8	earlier.
9	question is stating the answer.	9	Q. So you'd say it's indicative of the cost of
10	Q. Does the DCF model assume constant payout	10	equity rather than a reliable cost of equity estimate; is
11	rate?	11	that a distinction you're making?
12	A. The DCF model as I used it assumed a	12	A. I think it may or may not be reliable. I
13	constant assumed a constant payout rate. The answer to	13	think it depends on the circumstances.
14	that's yes. I think to simplify it, yes.	14	Q. How does one go about achieving a reliable
15	Q. Okay. I just want to ask you about whether	15	cost of equity estimate if all of the assumptions that
16	some other assumptions are included in the derivation of	16	I've discussed with you do not hold true?
17	the equation that's used in the DCF model. Payout of less	17	A. Well, if none of those assumptions hold
18	than 100 percent of earnings, is that an assumption?	18	true, one needs to look at other things because one is
19	<ol> <li>As it's normally derived, yes, of course.</li> </ol>	19	probably not getting a reliable estimate of the DCF
20	Q. Constant priced earnings ratio?	20	exclusively.
21	A. That would be implied.	21	Q. I didn't mean if none of them. I meant
22	Q. Constant growth in cash dividends?	22	just not all.
23	A. As it's normally expressed, that would also	23	A. I think I think it would be an unusual
24	be true.	24	circumstance to say that investors expect returns to be
25	Q. Stability in interest rates over time?	25	constant in perpetuity, which I think was the first
		t	D 24
1	Page 22 A. I don't know that that's the case.	1	Page 24 assumption. I think that alone is probably not going to
2	Somebody's probably stated that as an assumption, but	2	hold, I mean, in the minds of certainly many, if not most,
3	the to have a constant discount rate, I don't think one	3	investors.
4	would have to have constant interest rates.	4	Then the question is, is this DCF analysis
5	Q. Stability in required rates of return over	5	useful information to determine the cost of capital in the
6	time?	6	marketplace? And answer is, in my opinion, in my
7	A. Excuse me?	7	experience, in most circumstances it's a very useful tool
8	Q. Stability in required rates of return over	8	and it accurately reflects what a rational investor is
9	time?	9	evaluating when a rational investor enters the market, and
10	A. I think if you're saying we are assuming	10	that's important information. It's not exclusive. It's
111	that the rate of return is constant over time, that's	11	not mechanical.
12	implied from the normal expression of the DCF.	12	Q. You have sponsored rate of return testimony
13	Q. Stability in earned returns over time?	13	in many utility cases, have you not?
14	A. I'm sure that would be a statement. I	14	A. In a number of cases, yes.
15	think if one was really looking at it carefully, you'd	15	Q. Both here in Missouri and in other states?
16	have to define the term stability.	16	A. Yes.
17	Q. Are you aware of any period in which all of	17	<b>-</b>
18	those assumptions that I've just gone through have held	18	
19	true?	19	
20	A. Now I think we're going from a mathematical	20	
21	derivation to the application?	21	
22	Q. Correct.	22	
23	A. And the answer is no, I don't think so for	23	the increases and decreases in interest rates?
24	the reasons I mentioned earlier about efficient markets.	24	
25	Q. Even if some or all of those assumptions	25	trying to make sure I – I want to make sure I understood
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	Pose 25		Dame 27
1	Page 25 the question.	1	Page 27 Q. Do you recall approximately what they were
2	Q. I said cost of common equity.	2	then?
3	A. Is it correlated to interest rates?	3	A. If you want to go to the federal funds
4	Q. Yes.	4	rate, I think it was being set by Federal Reserve at that
5	A. And you say common equity of utilities?	5	point in time. I believe they were at a percent, percent
6	Q. Yes.	6	and a half.
7	A. I don't I would suspect to be so. I	7	Q. Do you recall what you believe would be the
8	think it would probably depend on the time service, the	8	general direction of long-term interest rates after 1993?
9	circumstances at a particular point in time were that to	9	A. Long-term rates, if you're talking about
10	be true. I think over a long series it's the case. I	10	the year 1994, I presume, since you're saying or you
11	think over a short series it certainly does not have to	11	said after 19 I'm sorry. I misunderstood. Did you say
12	be.	12	1993?
13	Q. But it's generally true that as one goes	13	Q. Yes.
14	up, the other goes up; as interest rates go up, the cost	14	A. I misspoke. I was thinking 2003.
15	of common equity goes up, as interest rates go down, the	15	Q. Okay. Maybe I need to go back to this
16	cost of common equity goes down?	16	previous question then.
17	<ol> <li>That would be the general expectation over</li> </ol>	17	A. Yes. I didn't understand the question, or
18	a long period of time.	18	I misinterpreted the question. You're asking me what was
19	Q. Do you recall what the level of interest	19	the interest rates ten years ago?
20	rates was in the first proceeding in which you filed	20	Q. Yes. Were interest rates extremely low in
21	testimony?	21	1993?
22	A. Heavens no. I have no idea. I would be	22	<ol> <li>Not as you've used the word extremely low.</li> </ol>
23	I would be speculating. That was before the run-up in the	23	Certainly I wouldn't describe them as certainly low or as
24	'70s, and if I remember more or less correctly in the late	24	extremely low.
25	'60s the interest rate, the corporate bond rate was	25	Q. Okay. Do you recall what you believed at
ľ	Page 26	ľ	Page 28
1	probably in the 6, 7 percent, but I'm speculating.	1	that time would be the general direction of long-term
2	Q. Okay. Do you believe it's important to	2	interest rates after 1993?
3	have an understanding about the context of the level of	3	A. I don't remember what I thought rates would
4	interest rates now as they compare to past levels of	4	be at that period.
5	interest rates?	5	Q. Did you
6	A. Is it important?	6	A. I'm trying to recall the circumstances of
7	Q. Yes.	7	the market, and I can't I can't pinpoint it that well.
8	A. Certainly.	8	Q. Did you co-author an article about that
ľ	Q. Why?	9	time about the correlation of the decrease in allowed
10		10	returns with the decrease in interest rates?
11	indicative of overall market positions for capital, and it	11	A. You're talking about a Public Utilities
12		12	Fortnightly article, is that the article you're referring
13	think I think one learns something by comparing present	13	to?
14 15	rates to past rates and present rates to forecasted rates. Q. Do you know the last time interest rates	14 15	<ul> <li>Q. Yes.</li> <li>A. Yes. The answer is yes. I didn't remember</li> </ul>
16		16	
17	•	17	the date, so I wasn't positive what it was about then. Q. Okay. And did you conclude in that that
18		18	commissions did not allow returns to continue to fall with
19	recently. I mean, they started moving back up. But I	19	interest rates because they believed that interest rates
20		20	would not continue to fall and would probably rise again?
21	• / 1	21	A. I think you're quoting from the article,
22			
		22	· · · ·
23	Q. Do you believe interest rates were	22 23	and I'd like to put that in context, if I may. Q. Sure.
1	Q. Do you believe interest rates were extremely low in 1993?		and I'd like to put that in context, if I may.
23	<ul> <li>Q. Do you believe interest rates were</li> <li>extremely low in 1993?</li> <li>A. Yes, I think by a historical perspective</li> </ul>	23	and I'd like to put that in context, if I may. Q. Sure.

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1	rates in the previous years when the basic interest rate,	1	A. I believe 1 used it in a FERC case or two
2	the long-term interest rate was over 20 percent in many	2	at the time when I believe FERC was more or less
3	cases, and commissions were allowing approximately 13,	3	prescribing it, and so I think I can say that I have used
4	13.5 percent, which raises the question how can you borrow	4	it, but that was a number of years ago.
5	money at 20 percent and earn a return on equity which is a	5	Q. Would that be the only reason you know of
6	higher risk investment of roughly 13, 14 percent.	6	to use that form?
7	And then that's what that article was	7	A. I can tell you why I don't or why I
8	really addressing was the disconnect that occurred when	8	normally would not. I think what we're trying to do in
9	rates got extremely high and in looking at the time series	9	the DCF, as I stated earlier, is to determine from the
10	that was available then as allowed returns versus interest	10	data what we think investors are using to make their
11	rates. Since interest rates have come back down, and I'd	11	decisions.
12	never heard I'd never found anybody observe that prior	12	The quarterly model, if I understand how
13	to this time, that as interest rates actually came back	13	you're using, I think I do, you're assuming the investors
14	down and dropped below the 14 percent level or whatever	14	are making a very precise discount of the dividends
15	commissions were generally allowing, bounced around in	15	
	- , .	16	they're going to get each quarter. And I think most
16 17	that range, that rates actually fell below that level, that the commissions were not following it down	17	investors, especially utility investors, don't fine tune their investment that precisely. I think they're more
11/	that the commissions were not following it down. And that was so what you're doing is	11/	likely to buy and hold. I think they're more likely to
19	you're reading from one side of the point as opposed to	19 20	look at dividends as an income stream and for retirement
20	both sides of the point. And the point here was that	20	and those sorts of things.
	commissions tend not to steer very far either right or	21	And this, of course, is changing also as to
22	left, because they tend generally to stay down the middle		who may be buying these utilities. So it's my
23	of the road, at least in that point in time. I've not	23	interpretation that investors are not that precise in
24	revisited that information, but that was pretty clear that	24	choosing what that income stream looks like, and that's
25	period when interest rates were so very volatile.	25	why I do not use it normally.
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	Page 33		Page 2
1	necessarily a company that is just like the one one is	1	cost of capital based on stock prices over a 52-week
2	evaluating, which is a reasonable thing to do, but one may	2	period and utilizing historical and future earnings per
3	be wanting to look for companies that are good reference	3	share to determine growth factor, correct?
4	points or benchmarks for setting a return for the company	4	A. Yes, that's correct.
5	in question.	5	Q. And that produces cost of capital in the
6	And I think that happens to be important in	6	range of 7.16 percent to 8.99 percent for Empire?
7	the company in question here because I think Empire has	7	A. Yes. Yes.
8	got some financial pressures, and I think it's important	8	Q. And again, that was similar to the cost of
9	to know what the returns would be for healthy companies.	9	capital for the average of the comparable companies but
10	Q. Do you believe that it's appropriate to	10	slightly less?
11	select a comparable group of companies that includes	11	A. Right.
12	companies that are diversified energy companies?	12	Q. And in Schedule 16, you did a similar
13	A. For electric companies?	13	calculation as to Schedule 15 except that it was based or
14	Q. Yes.	14	current stock prices, correct?
15	<ol> <li>I would certainly look at that very hard.</li> </ol>	15	A. Yes.
16	I don't think it's irrelevant by any means.	16	Q. And that produced a cost of capital in the
17	Q. Now I want to ask some questions about your	17	range of 7.26 percent to 7.34 percent for Empire?
18	Schedules 13 through 18 of your direct testimony. In	18	A. Yes.
19	Schedule 13, you've calculated Empire's cost of capital	19	Q. And again, that was similar to the cost of
20	based on stock prices over a 52-week period and utilizing	20	capital for the comparable companies, for the average of
21	dividends per share to determine the growth factor; is	21	the comparable companies but slightly less?
22	that correct?	22	A. Right.
23	A. That's correct. And it's dividends per	23	Q. So the lowest cost of capital for Empire
24	share both historically and forecasted.	24	derived in any of these schedules is 5.70 percent, and th
25	Q. Correct. And that produced a cost of	25	highest cost of capital for Empire is 8.99 percent?
		<u> </u>	
1	Page 34 capital range of 5.70 percent to 7.53 percent for Empire?	Ι.	Page 3
2	A. That's correct.	1 2	A. I think that's correct, yes.
3	Q. And that was similar to the cost of capital	3	Q. And the high cost of capital on those four
4	for the comparable companies that you listed there but	4	schedules for Empire is still less than the cost of
5	slightly less than those?	5	capital that David Murray recommended in his direct
6	A. Yes. I mean, it's significantly different	6	testimony, which was 9.29 percent, the high end, the hig end of his cost of capital?
7	obviously from Pinnical West, but other the others it's	7	•
, 8	very representative, I guess.	8	<ul> <li>A. That's my recollection.</li> <li>O. Schedules 17 and 18 attached to your direct</li> </ul>
9	Q. I'm thinking primarily about the average of	9	Q. Schedules 17 and 18 attached to your direct testimony both differ from those other schedules that I'v.
10	the comparable companies.	10	
			asked you about in that they rely exclusively on estimate
11	A. Lunderstand	11	of future earnings not share arough for determining on
	A. I understand. O. Now, Schedule 14, this was a similar	11	of future earnings per share growth for determining G?
12	Q. Now, Schedule 14, this was a similar	12	A. That's correct.
11 12 13 14	Q. Now, Schedule 14, this was a similar calculation but based on current stock prices, is that	12 13	<ul><li>A. That's correct.</li><li>Q. And in both of those schedule, the S&amp;P for</li></ul>
12 13 14	Q. Now, Schedule 14, this was a similar calculation but based on current stock prices, is that correct, and again utilizing dividends per share to	12 13 14	<ul> <li>A. That's correct.</li> <li>Q. And in both of those schedule, the S&amp;P for future earnings per share growth for Empire was</li> </ul>
12 13 14 15	Q. Now, Schedule 14, this was a similar calculation but based on current stock prices, is that correct, and again utilizing dividends per share to determine the growth factor achieved?	12 13 14 15	<ul> <li>A. That's correct.</li> <li>Q. And in both of those schedule, the S&amp;P for future earnings per share growth for Empire was</li> <li>2.00 percent, correct?</li> </ul>
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12 13 14 15 16 17 18 19 20 21 22	<ul> <li>Q. Now, Schedule 14, this was a similar calculation but based on current stock prices, is that correct, and again utilizing dividends per share to determine the growth factor achieved?</li> <li>A. Yes. As I understand your question, you've described it correctly.</li> <li>Q. And that produced a cost of capital range of 5.80 percent to 5.88 percent?</li> <li>A. Yes.</li> <li>Q. And again, that was similar to the cost of capital for the average of the comparable companies but</li> </ul>	12 13 14 15 16 17 18 19 20 21 22	<ul> <li>A. That's correct.</li> <li>Q. And in both of those schedule, the S&amp;P for future earnings per share growth for Empire was</li> <li>2.00 percent, correct?</li> <li>A. That's right.</li> <li>Q. And ValueLine's estimate of future earnings per share growth is 6.00 percent?</li> <li>A. Yes.</li> <li>Q. In Schedule 17, which is based on stock prices over a 52-week period, you calculated Empire's cost of capital as 7.70 percent to 13.53 percent, correct?</li> </ul>
12 13 14 15 16 17 18 19 20 21 22 23	<ul> <li>Q. Now, Schedule 14, this was a similar calculation but based on current stock prices, is that correct, and again utilizing dividends per share to determine the growth factor achieved?</li> <li>A. Yes. As I understand your question, you've described it correctly.</li> <li>Q. And that produced a cost of capital range of 5.80 percent to 5.88 percent?</li> <li>A. Yes.</li> <li>Q. And again, that was similar to the cost of capital for the average of the comparable companies but slightly less?</li> </ul>	12 13 14 15 16 17 18 19 20 21 22 23	<ul> <li>A. That's correct.</li> <li>Q. And in both of those schedule, the S&amp;P for future earnings per share growth for Empire was</li> <li>2.00 percent, correct?</li> <li>A. That's right.</li> <li>Q. And ValueLine's estimate of future earnings per share growth is 6.00 percent?</li> <li>A. Yes.</li> <li>Q. In Schedule 17, which is based on stock prices over a 52-week period, you calculated Empire's cost of capital as 7.70 percent to 13.53 percent, correct?</li> <li>A. Yes.</li> </ul>
12 13 14 15 16 17 18 19 20 21 22	<ul> <li>Q. Now, Schedule 14, this was a similar calculation but based on current stock prices, is that correct, and again utilizing dividends per share to determine the growth factor achieved?</li> <li>A. Yes. As I understand your question, you've described it correctly.</li> <li>Q. And that produced a cost of capital range of 5.80 percent to 5.88 percent?</li> <li>A. Yes.</li> <li>Q. And again, that was similar to the cost of capital for the average of the comparable companies but</li> </ul>	12 13 14 15 16 17 18 19 20 21 22	<ul> <li>A. That's correct.</li> <li>Q. And in both of those schedule, the S&amp;P for future earnings per share growth for Empire was</li> <li>2.00 percent, correct?</li> <li>A. That's right.</li> <li>Q. And ValueLine's estimate of future earnings</li> <li>per share growth is 6.00 percent?</li> <li>A. Yes.</li> <li>Q. In Schedule 17, which is based on stock</li> <li>prices over a 52-week period, you calculated Empire's cos of capital as 7.70 percent to 13.53 percent, correct?</li> </ul>

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	Page 37		Page 39
1	for the average of the comparable companies, but the high	1	how you arrived at that 11.88 percent. It appears to me
2	end is much higher than for the high end for the average	2	that might have been a mathematical error. Can you tell
3	of the comparable companies?	3	me how you determined
4	A. That's correct.	4	A. Well, I don't see why it's okay. Maybe
5	Q. Now, if the ValueLine estimate of future	5	I'm missing a point. The 5.88 plus the 6 would be the
6	earnings growth were not included in this calculation,	6	11.88.
7	what would be the high end of the cost of capital range on	7	Q. Let me correct that. You're right.
8	Schedule 17?	8	A. Okay.
9	A. I guess I don't understand the question.	9	Q. That's not the one where I saw possibly a
10	I'm not sure what you're asking me to admit.	10	mathematical error.
11	Q. Okay. My understanding of the	11	The low end of that range is similar to the
12	determination of the cost of capital for Empire on	12	low end for the comparable companies, for the average of
13	Schedule 17, for the low end of the range, you added the	13	the comparable companies?
14	5.70 percent for the 52-week yield and the 2 percent,	14	A. That's correct.
15	which came from the S&P estimate of the earnings per share	15	Q. And the high end of that range for Empire
16	growth, to come up with 7.70 percent, correct?	16	is quite a bit higher than the high end of the range for
17	A. Yes.	17	the average of the comparable companies, more than
18	Q. And to determine the high end of the cost	18	3 percent higher?
19	of capital range you added the 7.53 percent of the 52-week	19	A. If you want to characterize it that way.
20	yield and the 6 percent which ValueLine estimated for the	20	It seems to be mathematically correct.
21	future earnings growth, correct?	21	Q. Would it be do you think it would be
22	A. Yes.	22	fair to say, then, that were it not for ValueLine's
23	Q. So what I'm asking you is, what result	23	estimate of future earnings per share growth, the high end
24	would you have come to if you had not utilized the	24	of your cost of capital range for Empire would not exceed
25	ValueLine estimate of future earnings per share growth or	25	10 percent on any of these six schedules?
1			· · ·
⊢	Dage 39		Page 40
	Page 38	1	Page 40 A. The mathematical calculation you're
1	had not been available?	1	
1 -	had not been available?	[ ]	A. The mathematical calculation you're
2	had not been available? A. You're saying if I had not used if I'd	2	A. The mathematical calculation you're describing for the DCF, if you remove the ValueLine, I
2	had not been available? A. You're saying if I had not used if I'd only used Standard & Poor's? Q. Yes.	2	A. The mathematical calculation you're describing for the DCF, if you remove the ValueLine, I think the numbers are correct.
2 3 4	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> </ul>	2	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> </ul>
2 3 4 5	had not been available? A. You're saying if I had not used if I'd only used Standard & Poor's? Q. Yes.	2 3 4 5	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> </ul>
2 3 4 5 6	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> <li>Q. Well, my my understanding is that it</li> </ul>	2 3 4 5 6	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> <li>upon ValueLine's estimate of future earnings growth per</li> </ul>
2 3 4 5 6 7	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> <li>Q. Well, my my understanding is that it</li> <li>would be 7.53 plus 2 percent, is that right, because you</li> </ul>	2 3 4 5 6 7	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> <li>upon ValueLine's estimate of future earnings growth per share?</li> </ul>
2 3 4 5 6 7 8	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> <li>Q. Well, my my understanding is that it</li> <li>would be 7.53 plus 2 percent, is that right, because you</li> <li>would still add in the S&amp;P estimate of future earnings per share growth?</li> </ul>	2 3 4 5 6 7 8	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> <li>upon ValueLine's estimate of future earnings growth per share?</li> <li>A. The results of the DCF to produce the high</li> </ul>
2 3 4 5 6 7 8 9	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> <li>Q. Well, my my understanding is that it</li> <li>would be 7.53 plus 2 percent, is that right, because you</li> <li>would still add in the S&amp;P estimate of future earnings per share growth?</li> <li>A. Oh, I see what you're I understand your</li> </ul>	2 3 4 5 6 7 8 9	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> <li>upon ValueLine's estimate of future earnings growth per</li> <li>share?</li> <li>A. The results of the DCF to produce the high</li> <li>end is heavily dependent upon the ValueLine forecast of</li> </ul>
2 3 4 5 6 7 8 9 10	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> <li>Q. Well, my my understanding is that it</li> <li>would be 7.53 plus 2 percent, is that right, because you</li> <li>would still add in the S&amp;P estimate of future earnings per share growth?</li> <li>A. Oh, I see what you're I understand your question, yes. Answer to that is yes.</li> </ul>	2 3 4 5 6 7 8 9 10	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> <li>upon ValueLine's estimate of future earnings growth per</li> <li>share?</li> <li>A. The results of the DCF to produce the high</li> <li>end is heavily dependent upon the ValueLine forecast of</li> <li>earnings.</li> </ul>
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2 3 4 5 6 7 8 9 10 11 12	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> <li>Q. Well, my my understanding is that it</li> <li>would be 7.53 plus 2 percent, is that right, because you</li> <li>would still add in the S&amp;P estimate of future earnings per share growth?</li> <li>A. Oh, I see what you're I understand your</li> <li>question, yes. Answer to that is yes.</li> <li>Q. So in that case, then, it would have been</li> <li>9.53 percent?</li> </ul>	2 3 4 5 6 7 8 9 10 11 12	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> <li>upon ValueLine's estimate of future earnings growth per share?</li> <li>A. The results of the DCF to produce the high</li> <li>end is heavily dependent upon the ValueLine forecast of</li> <li>earnings.</li> <li>Q. And you recommended an ROE for Empire of 12 percent?</li> </ul>
2 3 4 5 6 7 8 9 10 11 12 13	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> <li>Q. Well, my my understanding is that it</li> <li>would be 7.53 plus 2 percent, is that right, because you</li> <li>would still add in the S&amp;P estimate of future earnings per share growth?</li> <li>A. Oh, I see what you're I understand your</li> <li>question, yes. Answer to that is yes.</li> <li>Q. So in that case, then, it would have been</li> <li>9.53 percent?</li> <li>A. Yes. I understand your question. I'm</li> </ul>	2 3 4 5 6 7 8 9 10 11 12 13	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> <li>upon ValueLine's estimate of future earnings growth per</li> <li>share?</li> <li>A. The results of the DCF to produce the high</li> <li>end is heavily dependent upon the ValueLine forecast of</li> <li>earnings.</li> <li>Q. And you recommended an ROE for Empire of</li> <li>12 percent?</li> <li>A. Yes.</li> </ul>
2 3 4 5 6 7 8 9 10 11 12 13 14	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> <li>Q. Well, my my understanding is that it</li> <li>would be 7.53 plus 2 percent, is that right, because you</li> <li>would still add in the S&amp;P estimate of future earnings per share growth?</li> <li>A. Oh, I see what you're I understand your</li> <li>question, yes. Answer to that is yes.</li> <li>Q. So in that case, then, it would have been</li> <li>9.53 percent?</li> <li>A. Yes. I understand your question. I'm agreeing with that.</li> </ul>	2 3 4 5 6 7 8 9 10 11 12 13 14	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> <li>upon ValueLine's estimate of future earnings growth per</li> <li>share?</li> <li>A. The results of the DCF to produce the high</li> <li>end is heavily dependent upon the ValueLine forecast of</li> <li>earnings.</li> <li>Q. And you recommended an ROE for Empire of</li> <li>12 percent?</li> <li>A. Yes.</li> <li>Q. 12.00?</li> </ul>
2 3 4 5 6 7 8 9 10 11 12 13 14 15	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> <li>Q. Well, my my understanding is that it</li> <li>would be 7.53 plus 2 percent, is that right, because you</li> <li>would still add in the S&amp;P estimate of future earnings per share growth?</li> <li>A. Oh, I see what you're I understand your</li> <li>question, yes. Answer to that is yes.</li> <li>Q. So in that case, then, it would have been</li> <li>9.53 percent?</li> <li>A. Yes. I understand your question. I'm agreeing with that.</li> <li>Q. Okay. Which, again, would be very close to</li> </ul>	2 3 4 5 6 7 8 9 10 11 12 13 14 15	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> <li>upon ValueLine's estimate of future earnings growth per</li> <li>share?</li> <li>A. The results of the DCF to produce the high</li> <li>end is heavily dependent upon the ValueLine forecast of</li> <li>earnings.</li> <li>Q. And you recommended an ROE for Empire of</li> <li>12 percent?</li> <li>A. Yes.</li> <li>Q. 12.00?</li> <li>A. That's correct.</li> </ul>
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	<ul> <li>had not been available?</li> <li>A. You're saying if I had not used if I'd</li> <li>only used Standard &amp; Poor's?</li> <li>Q. Yes.</li> <li>A. Well, that would be the 7.7 percent.</li> <li>Q. Well, my my understanding is that it</li> <li>would be 7.53 plus 2 percent, is that right, because you</li> <li>would still add in the S&amp;P estimate of future earnings per share growth?</li> <li>A. Oh, I see what you're I understand your</li> <li>question, yes. Answer to that is yes.</li> <li>Q. So in that case, then, it would have been</li> <li>9.53 percent?</li> <li>A. Yes. I understand your question. I'm agreeing with that.</li> <li>Q. Okay. Which, again, would be very close to the high end of the cost of capital range for the average of the comparable companies, which as I read Schedule 17</li> </ul>	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	<ul> <li>A. The mathematical calculation you're</li> <li>describing for the DCF, if you remove the ValueLine, I</li> <li>think the numbers are correct.</li> <li>Q. Would it also be fair to say that your</li> <li>analysis of Empire's cost of capital is heavily dependent</li> <li>upon ValueLine's estimate of future earnings growth per</li> <li>share?</li> <li>A. The results of the DCF to produce the high</li> <li>end is heavily dependent upon the ValueLine forecast of</li> <li>earnings.</li> <li>Q. And you recommended an ROE for Empire of</li> <li>12 percent?</li> <li>A. Yes.</li> <li>Q. 12.00?</li> <li>A. That's correct.</li> <li>Q. It seems that you disregarded the</li> <li>calculations of Empire's cost of capital that are shown on</li> </ul>
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	Q. That's not my question. My question is, as	1	think it requires judgement as to what the meaning of this
2	I read these Schedules 13, 14, 15 and 16, the high end of	2	is and whether it makes sense.
3	the range of your calculation of Empire's cost of capital	3	Q. And in this case, the risk differential
4	does not exceed 10 percent on any of those.	4	achieved a significant importance in reducing your
5	A. I'll accept that.	5	reliance on the results of the DCF?
6	Q. Okay.	6	A. That's my recollection of my interpretation
7	A. I can go back and check it, but I can	7	of these data at that time.
8	accept that.	8	Q. Do you know why ValueLine's estimate of
9	Q. So would you say that you relied on the	9	Empire's future earnings growth is so much greater than
10	calculations that are in Schedules 13, 14, 15 and 16 or	10	S&P's estimate of Empire's future earnings growth?
11	did you disregard them?	11	A. I cannot distinguish those two numbers, and
12	A. Well, I did not disregard them or I would	12	I guess the answer is no, I do not. I cannot tell you why
13	not have made I would not have reported the	13	S&P's forecast is so much lower than ValueLine's.
14	calculations. If I thought they wouldn't have some	14	Q. Did you do any investigation or analysis to
15	analytical value, I wouldn't have made the calculations to	15	determine why it would be so much higher, why ValueLine's
16	begin with.	16	would be so much higher?
17	Q. But the ROE you recommended was 12.00	17	Q. Well, I was I can say that I recall
18	percent, which was more than 2 percent higher than any of	18	trying to understand why they were different, and so in
19	those produced?	19	that sense I'm sure I did investigate, and, of course, I
20	A. That's correct.	20	had people working with me and I was asking them. I
21	Q. So what weight did you give them in coming	21	cannot sit here today and pinpoint the difference, and I
22	up with your ROE recommendation?	22	don't know that I ever felt that I comfortably knew the
23	A. I gave them little weight, as I think I	23	difference.
24	explained in my testimony, and nor did I and I also	24	Q. Do you believe that a 6 percent growth rate
25	think I mentioned in my testimony that I gave little	25	is sustainable for Empire?
		<u>}</u>	
	Page 42		Page 44
1	weight to the 13.53 percent which I calculated as well.	1	A. Well, this was a forecast out for, I guess,
2	Q. Why did you give little weight to the	2	four years at the time, three to five years at the time of
3	results that are shown this Schedules 13, 14, 15 and 16?	3	the testimony, and I think that's a fair time horizon for
4	A. Primarily because there was not sufficient	4	many investors. Sustainable indefinitely? No, I don't
5	differential between that and the at that time corporate	1 _	
6		5	think that.
	bond rate to represent the risk differential between	5	
7	bond rate to represent the risk differential between common equity for Empire and the bond market. There was		think that.
		6	think that. Q. But you believe that it's sustainable for
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11 (Pages 41 to 44)

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## MIDWEST LITIGATION SERVICES Phone: 1.800.280.DEPO(3376)

	Page 4		Page 47
1	Q. What types of issues and/or events would		ompany like Microsoft which historically has not paid a
2	impact a company's capital structure?	2 di	ividend and a utility which historically is paying
3	A. The capital expenditure obviously has a	3 di	ividends to ratepayers
4	major influence on their capital issuances and their	4	Q. Okay.
5	issuance of different forms of capital, and their issuance	5	A or customers who expect investors who
6	of different forms of capital influence their capital		xpect it.
7	structure.	7	Q. Then let me reask the question with regard
8	Q. So future investment needs would be one?		o the electric utility industry. Is it appropriate for
9	A. Of course.		uch a company to have a targeted dividend payout ratio?
10	Q. Expected revenues?	10	<ol> <li>To the extent that a company has expected</li> </ol>
11	A. Expected revenues and the profile of those	[	amings, I think that a payout ratio is implied from an
12	revenues.		xpected dividend policy. That seems to be just a
13	Q. Expected expenses?	1	nathematical calculation.
14	A. Well, if you're if you're talking about	14	Q. Do you think that the targeted dividend
15	cash flow net of expenses, the answer is yes, of course.		ayout ratio should be based on an average of various
16	Q. Amount of dividends paid?		xpected scenarios of the company's performance in the
17	A. Of course.	1	ear future?
18	Q. Newly issued common equity and debt	18	A. Again, you're asking me a management
19	issuances?		uestion, and I don't think I'm knowledgable enough in
20	A. I've already said that.		nancial planning to answer that.
21	Q. Level of retained earnings?	21	Q. Do you think that dividend policy should
22	A. Well, that's retained earnings is		ake into account the amount of investment that the
23	another way of saying what's left over after paying		ompany may need to make over some long period of time?
24	dividends.	24	<ol> <li>I don't see how you could plan dividends</li> </ol>
25	Q. Okay. Do you believe it's important for a	25 w	ithout taking into account capital expenditures and
1 2	Page 40 company to have a written dividend policy? A. Again, that's a management issue, and I	1 re 2	Page 48 etained earnings that would go into capital expenditures. Q. Do you know if Empire has a targeted
1	company to have a written dividend policy?	2	etained earnings that would go into capital expenditures.
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12 (Pages 45 to 48)

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	Page 49		Page 51
1	time to roughly fall in that category, and that was based	1	stated it, there's certainly circumstances where that
2	on experience and looking at a number of companies. I did	2	might be a good strategy on the part of the company or I
3	not make any particular study other than for this case	3	could see that being the case. I do not think that's the
4	other than what's represented in Schedule DAM-7, and that	4	case for Empire.
5	showed that from '99 through 2003 estimate, the payout	5	Q. Do you believe that a payout ratio of
6	ratio of those five companies average about 70 percent.	6	70.8 percent is more healthy than a payout ratio of
7	And I think that sentence is just a reflection that that	7	100 percent or more?
8	looked to me to be what I expect in that period of time	8	A. I think as I'm using as I use the term
9	for utilities.	9	healthy, and maybe I should even use the term
10	Q. Do you know what Empire's dividend payout	10	representative of what one would expect, I think I
11	ratio has been in recent years?	11	think if the company is maintaining its dividend and has a
12	A. Well, I recorded that in Schedule DAM-7.	12	retained earnings of 30 percent, that that signals the
13	Q. And would it be fair to characterize that	13	company's in better financial condition because it has
14	as near or above 100 percent consistently?	14	retained earnings than a company that year after year does
15	A. Yes. It even goes beyond that schedule.	15	not have retained earnings. And that's going to be
16	It goes back, I think, a number of years.	16	especially the case when the company has expansion it has
17	Q. Okay. Would you agree that if Empire were	17	to consider.
18	to reduce its dividend, that would also reduce the	18	Q. Do you believe that a company with a payout
19	dividend payout ratio, other things being equal?	19	ratio that's consistently above 100 percent would not be
20	A. By definition, yes.	20	considered healthy by investors?
21	Q. Do you believe that Empire might realize	21	A. I think it's a signal to the investors, and
22	some financial benefits if it were to cut its dividends so	22	I rather than my judgment, what I tried to represent in
23	its dividend payout ratio would come closer to what you	23	my testimony is what I think that people who are writing
24	refer as a healthy payout ratio of 70.8 percent?	24	about Empire I'm being more specific now writing
25	A. I think my rebuttal to Mr. Murray on that	25	about Empire in the financial community, and that is there
	Page 50		Page 52
	subject is that I think it would be a very unfortunate		is enough being written about Empire's exposed dividend,
2	thing if they were forced to cut their dividend, and I	2	I'll describe it that way, that I think it may I think
3	could see the company doing it because I think they may	3	it's an issue with potential investors. And so in that
4	get in a position where they can no longer maintain the	Ι.	
		4	sense, my opinion is almost irrelevant; however, I
5	dividend that they've been paying for, I think, 11 years.	5	certainly concur with those positions.
6	dividend that they've been paying for, I think, 11 years. And I don't have I'm not privy to any information with	5 6	certainly concur with those positions. Q. Is it your belief that the write that
6	dividend that they've been paying for, I think, 11 years. And I don't have I'm not privy to any information with regard to the company's dividend plans or policies.	5 6 7	certainly concur with those positions. Q. Is it your belief that the write that the writing about Empire that you're talking about is
6 7 8	dividend that they've been paying for, I think, 11 years. And I don't have I'm not privy to any information with regard to the company's dividend plans or policies. Q. Why do you think it would be very	5 6 7 8	certainly concur with those positions. Q. Is it your belief that the write that the writing about Empire that you're talking about is important or very important?
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	Page 53	1	Page 55
1	Empire as a company which could be forced to reduce its	1	of those theories on how they affect the cost of capital?
2	dividend in the near term, and they would price it	2	A. You'd probably have to ask me some specific
3	accordingly and invest in it accordingly.	3	questions about that. I've read about various ideas about
4	Q. If a company were to cut its dividend,	4	dividend policy, but I don't feel like I'm an expert in
5	would you agree that this would allow the company to	5	dividend policy.
6	utilize a greater amount of internal equity for	6	Q. Okay. Are you familiar with the dividend
7	investments in plant and equipment?	7	irrelevance theory proposed by Miller and Modigliani?
8	<ol> <li>By definition, if they don't pay as much in</li> </ol>	8	A. I'm familiar with Modigliani and Miller,
9	dividend, there's a larger retained earnings.	9	yes.
10	Q. Wouldn't the use of internal equity for	10	Q. And does that indicate that a company's
11	such investments reduce the amount of external equity that	11	dividend policy doesn't affect the cost of capital?
12	the company needs?	12	A. Their theory would imply that and as a
13	A. Not necessarily.	13	matter of fact, I think that's in my testimony. Their
14	Q. In what circumstance would it not?	14	theory would imply that you can change dividend policy. I
15	A. If the signal of reducing dividend causes	15	happen to think that's probably not viewed as broadly
16	the market price to drop and causes the cost of debt to	16	today as it once was, and I have some trouble with that,
17	increase because of the reaction of in one case the bond	17	with generalizing about that proposition.
18	raters, in the other case the equity investors, the cost	18	Q. So are you saying that that's not an
19	of the capital being raised to put with this small stream	19	accurate statement about their theory or that you don't
20	of retained earnings would be greater. And that's when	20	believe that their theory is accurate?
21	this policy of forcing a dividend reduction would actually	21	A. It is an accurate statement about their
22	backfire.	22	theory. Their theory is now I don't remember exactly
23	Q. Would you agree that the issuance of	23	how old, but let's say 30 or 40 years old, and I think
24	external or new equity would cause a dilution in the	24	there's some other thinking that's more recent about
	company's earnings per share?	25	Modigliani and Miller.
25	company a carmings per smare:		
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25			
25	A. I don't know. Dilution is a strange word	1	- Page 56
	Page 54	1 2	Page 56
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1 2	Page 54 A. I don't know. Dilution is a strange word in that case.	2	Page 56 Q. Okay. You're familiar with the bird in the hand theory? I think there was reference to that maybe in
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	Page 57		Page 59
1	current time period. So that's the theory, yes.	1	think I responded earlier, I think it depends on the
2	Q. Which of those theories do you believe has	2	circumstances.
· 3	the most merit?	3	Q. Okay.
4	A. Oh, I think depends on the circumstances to	4	A. In a narrowly defined instant, I think the
5	which has the most merit.	5	question you're asking is I don't have any problem with
6	Q. Do you believe that a company's future	6	it, but I just think it's more complicated than that.
7	investment needs should influence the company's dividend	7	Q. If the costs of issuing new equity are
8	policy?	8	passed on to ratepayers, doesn't that take away from
9	A. As I understand the question, sure.	9	the take away the incentive for the company to avoid
10	Q. Which is more expensive to a company,	10	issuing common stock?
11	internal equity generated by retaining the company's	11	A. I certainly wouldn't think so. The key
12	earnings or external equity obtained by issuing new common	12	thing that comes to mind there and I'd want to think
13	stock?	13	about this in more detail because I think again that's a
14	A. I think that depends on the circumstances.	14	dynamic question, but the sort of thing that comes to mind
15	Q. What factors would influence the conclusion	15	is the concept of the lag of regulation. We're talking
16	you come to?	16	about the allowance and passing through costs. To me,
17	A. The cost of raising capital, which would be	17	that's a consideration that you'd have to take into
18	the alternative cost of using internally generated funds,	18	account, what your alternatives are over that time period,
19	would be the first thing I think of, just off the top of	19	when you'd recover it, not recover it.
20	my head.	20	Q. Would the incentive be reduced to just the
21	Q. Would there be some cost of raising capital	21	regulatory lag of recovering it?
22	in connection with any external equity issuance?	22	A. I doubt it, but I can't think of anything
24	<ul> <li>A. Yes.</li> <li>Q. Wouldn't that then make it more expensive</li> </ul>	23	at the moment. I think it's probably a more complicated
24	in any case than simply retaining the earnings?	24	issue than that. Q. Would you agree that earnings per share are
	in any case and simply reasoning the cartinitys.	25	Q. Hould you agree that carmings per share are
			Page 60
1	A. Would you elaborate? I'm sorry. I'm	1	diluted when new common stock is issued?
2	not I'm not sure I'm following the question.	2	A. Generally speaking, yes.
3	Q. Okay. It seems to me that where you retain		in denerally speaking, yes
		3	Q. Would you agree that for every new share
4	the earnings there's not a cost associated with raising	3	, , , , , , , , , , , , , , , , , , , ,
4			Q. Would you agree that for every new share
1	the earnings there's not a cost associated with raising	4	Q. Would you agree that for every new share issued a dividend will be paid?
5	the earnings there's not a cost associated with raising the capital; whereas, if you A. You don't have acquisition costs. Q. Right.	4 5	<ul><li>Q. Would you agree that for every new share</li><li>issued a dividend will be paid?</li><li>A. I probably should go back to that previous</li></ul>
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5 6 7 8 9 10 111 12 133 14 15 166 17 18 19 20 21 22 23	<ul> <li>the earnings there's not a cost associated with raising the capital; whereas, if you</li> <li>A. You don't have acquisition costs.</li> <li>Q. Right.</li> <li>A. I understand that. Okay.</li> <li>Q. And as I understood it, and you're saying that in some cases this may be less than others, but in all cases it's greater than just utilizing retained earnings, is that not so?</li> <li>A. I think what's I think what I'm having trouble with in and it may just be the phrasing of the question, and I want to make sure I'm understanding it. It seems to me that there are more things to consider than just the cost of a substitute dollar for retained earning. The question is what are you going to do with those retained earnings? For example, when do you need retained earnings? Can you park them somewhere for a return until you need them? What do you think are going to happen to interest rates in the future?</li> </ul>	4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	<ul> <li>Q. Would you agree that for every new share issued a dividend will be paid?</li> <li>A. I probably should go back to that previous question and say it's diluted if you're issuing number of shares of common stock and earnings are constant. I think in a sense the question the answer is yes, but I want to make sure it's correct. I'm sorry. I interrupted you.</li> <li>Q. Would you agree that for every new share issued, a dividend will be paid?</li> <li>A. I think that's to be expected.</li> <li>Q. And the amount of the dividend will be the same as the dividend that's paid on the to the existing shareholders?</li> <li>A. If they're the same class of stock and same obligations, yes.</li> <li>Q. Has it been your position in your direct testimony that if Empire cuts its dividend, this will cause Empire's cost of common equity to increase?</li> <li>A. I don't remember exactly how I phrased it, but I think I said something like most probably or</li> </ul>
5 6 7 8 9 100 111 122 133 14 155 166 177 188 199 200 211 222	<ul> <li>the earnings there's not a cost associated with raising the capital; whereas, if you</li> <li>A. You don't have acquisition costs.</li> <li>Q. Right.</li> <li>A. I understand that. Okay.</li> <li>Q. And as I understood it, and you're saying that in some cases this may be less than others, but in all cases it's greater than just utilizing retained earnings, is that not so?</li> <li>A. I think what's I think what I'm having trouble with in and it may just be the phrasing of the question, and I want to make sure I'm understanding it. It seems to me that there are more things to consider than just the cost of a substitute dollar for retained earning? For example, when do you need retained earnings? For example, when do you need retained earnings? Can you park them somewhere for a return until you need them? What do you think are going to happen to interest rates in the future?</li> </ul>	4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	<ul> <li>Q. Would you agree that for every new share issued a dividend will be paid?</li> <li>A. I probably should go back to that previous question and say it's diluted if you're issuing number of shares of common stock and earnings are constant. I think in a sense the question the answer is yes, but I want to make sure it's correct. I'm sorry. I interrupted you.</li> <li>Q. Would you agree that for every new share issued, a dividend will be paid?</li> <li>A. I think that's to be expected.</li> <li>Q. And the amount of the dividend will be the same as the dividend that's paid on the to the existing shareholders?</li> <li>A. If they're the same class of stock and same obligations, yes.</li> <li>Q. Has it been your position in your direct testimony that if Empire cuts its dividend, this will cause Empire's cost of common equity to increase?</li> <li>A. I don't remember exactly how I phrased it, but I think I said something like most probably or something like that. I can't say it's certainty. I think</li> </ul>

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15 (Pages 57 to 60)

	Page 61	Page 63
1	Q. And, in fact, you looked at five companies	1 to continue a financial policy that's causing
	2 that had cut their dividends as support for that position?	2 deterioration in the financial ratios of the company in
3	3 A. I looked at five companies who cut	3 the hope that some future event will cause these financial
1	· · · · · · · · · · · · · · · · · · ·	4 ratios to improve?
1 !	5 of a major event in the marketplace, and I looked at five	5 A. Well, I think I think that's a case
	6 companies since that point in time, and there was	6 where it depends on the circumstances. I think you have
	7 significant changes in price earnings ratio that occurred	7 to know what the company's being faced with to determine
1 I	8 in a subsequent year after the year in which they cut the	8 whether or not they have an intervention strategy that
	9 dividend.	9 would change whatever is causing that.
	0 Q. Is your position that if Empire cut its	10 Q. If a company is having some financial
1	•	11 difficulty, how long do you think that can continue and
	2 equity to increase, is that position consistent with	12 still be considered a temporary problem?
	3 Miller and Modigliani's theory?	13 A. I don't know. I would presume that would
1	4 A. No. I think as we said earlier their	14 depend on a number of circumstances, including the kind of
	5 theory would essentially be neutral on that, or that would	15 industry, what's causing it, many factors. I certainly
	6 be implied, I think. If you assume the markets are	16 don't have a benchmark time in mind.
1	7 efficient, which is an extremely strong assumption to	17 Q. Generally speaking, what issues do
	8 begin with, and you assume that Modigliani and Miller	18 investors consider when investing in the stock of a
	9 would cover the circumstances, the answer to that is	19 company?
1	0 absolutely correct.	20 A. Well, if we look at quantitatively, our
	Q. Would you agree, then, that theories don't	21 discussion about the discounted cash flow earlier I think
	2 always hold true and that you have to look at facts and	22 captures what we think investors look to rationally, which
	3 circumstances in a particular case to determine if a	23 is a stream of returns relative to the level of the
	24 particular theory makes sense?	24 investment. To characterize the reliability of that
	25 A. Absolutely.	25 estimate about the stream returns, I think investors
┝		
	Page 62 1 Q. If an equities analyst publicly expressed	Page 64 1 should look I say should because I think a lot of
	2 concern about a company's dividend payout ratio, do you	2 investors don't look very much and some look a lot. So I
Ţ	<ul> <li>3 believe this would cause investors to be more cautious</li> </ul>	3 think it's hard to say, generalize and say what investors
	4 about investing in the company's common stock?	4 do. But I think they look to such factors as the market,
	5 A. I'm sorry. I missed I lost track of the	5 the growth, management, competition.
	6 question. I'm sorry.	6 Q. How about expectations of future levels of
	7 Q. The premise is, if an equities analyst	7 interest rates?
	8 publicly expressed concern about a company's dividend	8 A. That would be a factor, yes. But one has
	9 payout ratio, would that cause investors to be more	9 to ask the question why. If it's an investor looking for
	10 cautious about investing in the company's common stock?	
	11 A. If it's an analyst that the investors	11 investment, then they'd be very interested in interest
	12 believe and look to, yes.	12 rates. If you're buying a speculative west coast software
1	13 Q. And if investors are more cautious about	13 company, you probably wouldn't consider the interest rate
E	14 investing in stock, does that put downward pressure on	14 very important in your decision process. So speculating
t	15 price of the stock?	15 on long-term capital gain and not expecting dividends,
	16 A. Normally, yes.	16 anything in between. So those are different kinds of
	17 Q. And if so, would that cause the company's	17 investments.
	18 costs of common equity to increase?	18 Q. It would depend upon the extent to which
	19 A. Yes.	19 earnings correlate to interest rates?
	20 <b>Q. Do you believe that it's important for a</b>	20 A. That's a good way to express it, I think.
	21 company to react to its current financial situation and	21 Q. In your direct testimony you indicated that
	<ul> <li>company to react to its current financial situation and</li> <li>then pursue strategies to improve its financial health?</li> </ul>	21 Q. In your direct testimony you indicated that 22 historical dividend growth rates have very limited value
	22 then pursue strategies to improve its financial health?	22 historical dividend growth rates have very limited value
	22       then pursue strategies to improve its financial health?         23       A. If I understand that question correctly, of	<ul> <li>historical dividend growth rates have very limited value</li> <li>in a DCF analysis when dividends are flat. Is there a way</li> </ul>

16 (Pages 61 to 64)

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	Page 65		Page 67
1	adjust for it is to recognize that that's probably not	1	Q. What do you know about him?
2	that's probably not the primary thing that investors are	2	A. I read the book Buffet at one time, and I
3	really considering, because we're talking about investor	3	follow some of his pronouncements from time to time.
4	expectations. And if we believe that the history doesn't	4	Q. Do you regard him as an authority on
5	reflect the future, then that in effect is adjusting for	5	financial markets?
6	it, and I think I took that into account.	6	A. The answer to that is yes, I think he's
7	And I'm not sure that there's any	7	demonstrated he either understands financial markets very
8	mathematical way to take that into account. I think that	8	well or he is extremely, extremely lucky.
9	has to be a qualitative judgment matter.	9	Q. Does a utility company compete for capital
10	Q. If a utility company's value is based on	10	with other utility companies?
11	its high dividend payout ratio, do you believe it's more	11	A. Of course.
12	important for an investor to look at historical at the	12	Q. Are they the only companies that a utility
13	historical and projected growth in dividends per share to	13	must compete with for capital?
14	determine the investors' expectations than it is to look	14	A. No.
15	at earnings per share growth?	15	Q. Would you agree that investors' required
16	A. Since dividends have to come out of	16	returns in the broader market, that is in the market that
17	earnings, and if I remember the hypothetical you're	17	includes non-utility stock, influence the required returns
18	establishing, and if the dividends have been constant, I	18	for utilities?
19	would think the investors would be very concerned about	19	A, Yes.
20	the earnings and potential of either capital gains or	20	Q. Are you aware of whether certain debt
21	dividends, because what they're interested in is the	21	contracts will limit the amount of dividends that can be
22	future, not the history.	22	paid in certain situations by a company?
23	Q. Future earnings rather than dividend	23	A. I think you're asking me am I aware that
24	history?	24	interest obligations precede the payment of dividends, and
25	A. They're interested in their future returns,	25	the answer is yes.
	· · · · · · · · · · · · · · · · · · ·	L	······································
	Page 66		Page 68
1	however they come, and they're not going to come through	1	Q. Can they also do they sometimes also
2	dividends if there's not earnings to have dividends, to	2	limit the amount of dividends that can be paid? I'm
. 3	get dividends.	3	thinking about an indenture.
4	Q. Do you believe it's important for a rate of	4	A, Yes,
5	return witness in a utility case to review and understand	5	Q. Why would lenders impose such covenants on
6	the various viewpoint about the prospects of the stock	6	a company?
7	market, the level of interest rates and the expected	7	A. Because they could have a precedential
8	equity risk premiums when recommending a rate of return?	8	claim on the income stream and it would protect their
9	A. I should think the answer to that's yes, if	9	investment.
10	I understand.	10	Q. In your rebuttal testimony, you indicate
11	Q. Do you know Jeremy Siegel or are you	11	that at a minimum Staff witness David Murray's
12	familiar with his writings and work?	12	recommendation regarding Empire's return on equity
13	A. I can't place anything he's written at the	13	contributed to Empire being placed on S&P's credit watch
14	moment, and so I can't say that I can cite something he's	14	with negative implications; is that correct?
15	written.	15	A. I think that's a little more definite than
16	Q. Do you know him by reputation? A. Well, I can't I can't put him in the	16	I stated. I think I said I didn't as I recall, and I'd
		17	be glad to see if we can find it. As I recall that
18	right category. So the answer is that I'm not able to sit	18	statement, it was more to the effect of I cannot be
19 20	here and tell you exactly who he is and what he's done. Q. Do you know Cliff Asmus or are you familiar	19 20	certain what was in the minds of the writers. Q. Page 1, and I have it noted as line 16 to
120		20	• - ·
1 24	with his writings and work?	141	17. It may begin a little before that. I'm not sure.
21	with his writings and work?	22	1 Wall can Standard P. Danie and that
22	A. I don't know, but I don't think so. I just	22	A. Well, see, Standard & Poor's said that
22 23	A. I don't know, but I don't think so. I just don't know.	23	well, we could look at that. Standard & Poor's said that
22 23 24	<ul> <li>A. I don't know, but I don't think so. I just don't know.</li> <li>Q. How about Warren Buffet?</li> </ul>	23 24	well, we could look at that. Standard & Poor's said that the credit watch, and that's on line 18, reflects
22 23	<ul> <li>A. I don't know, but I don't think so. I just don't know.</li> <li>Q. How about Warren Buffet?</li> </ul>	23	well, we could look at that. Standard & Poor's said that

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17 (Pages 65 to 68)

2Service Commission Staff in Empire's pending general rate2calculate the F3is ultimately endorsed by the MPSC. I guess that implies3coverage ratio4it's Mr. Murray's.4your rebuttal the F5Now, if you go back to page 3, when I say5A. I gue6you stated that the question is, you stated the6that was develop	Page 71 You develop the methodology to
2Service Commission Staff in Empire's pending general rate2calculate the F3is ultimately endorsed by the MPSC. I guess that implies3coverage ratio4it's Mr. Murray's.4your rebuttal the F5Now, if you go back to page 3, when I say5A. I gue6you stated that the question is, you stated the6that was develop	you develop the methodology to
3       is ultimately endorsed by the MPSC. I guess that implies       3       coverage ratio         4       it's Mr. Murray's.       4       your rebuttal the         5       Now, if you go back to page 3, when I say       5       A. I guest         6       you stated that the question is, you stated the       6       that was developed	
4it's Mr. Murray's.4your rebuttal t5Now, if you go back to page 3, when I say5A. I gue6you stated that the question is, you stated the6that was developed	FO to total debt and the FFO to interest
5Now, if you go back to page 3, when I say5A.I gue6you stated that the question is, you stated the6that was developed	s that are shown in Schedules 3 and 4 to
6 you stated that the question is, you stated the 6 that was develop	estimony?
,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	ss the right answer to that is to say
The standard of Chaffle and second at the Hard Structure of the Ha	ed under my direction, because actually it
7 adoption of Staff's recommended allowed return will result 7 was an accounta	nt who works for me who developed those
8 in financial ratios below S&P's published guidelines and 8 numbers. She c	id also talk to an internal audit within
9 medians, why is this important? I point out the role of 9 the company to	verify some of the numbers and also I think
10 Standard of S&P. 10 maybe to certify	her calculation.
11 Oh, what I was looking for was on line 11 11 But I	used her I used her expertise to
12 on page 3. The question is, are you aware of why S&P may 12 determine the to	tal funds from operations calculation. It
13 have issued a statement about Staff testimony in this case 13 is similar to one	5 we've seen elsewhere.
14 while it is still in progress? And the answer was, of 14 Q. And	when you say she talked to someone in
15 course I'm not I cannot know for certain why Standard & 15 the company,	you're talking about Empire?
16 Poor's would comment on Staff testimony in Credit Watch, 16 A. Yes.	
17 but it would seem to relate the impact the Staff 17 Q. And	not S&P?
18 recommendations would have on critical financial ratios of 18 A. That	s correct.
19 Empire if the Commission were to adopt them. 19 Q. Did	you use any reference source to
20 And that's because they were that in my 20 determine that	t this methodology accurately approximates
21 rebuttal I pointed out that the Staff recommendation would 21 how S&P wou	d calculate those ratios if it were to make
22 violate two of the conditions at least of Standard & 22 the calculation	15?
23 Poor's for a creditworthy company, and that those same 23 A. I thin	k the answer to that is yes, because
	he S&P guidelines. One I believe was
25 used the criteria that he laid out in his testimony, and I 25 issued in June.	The other one's issued some date in the
Page 70	Page 72
	s an update, I believe. And I think there's
2 accounting staff or in his testimony to show that. 2 some definition	in those documents. It's been
	since This read them. I connet any how
3 Q. Are you aware of anything in the S&P report 3 sufficiently long	since I've read them, I cannot say how
	inition was. And I know that she also was
4 that you referred to that indicates that S&P believes the 4 specific the def	
4that you referred to that indicates that S&P believes the4specific the def5Staff is not recommending a return on common equity that's5reviewing some	nition was. And I know that she also was
4that you referred to that indicates that S&P believes the4specific the def5Staff is not recommending a return on common equity that's5reviewing some6equivalent to its cost of common equity?6operation, but	inition was. And I know that she also was accounting definitions of funds from I'm not an accountant.
4that you referred to that indicates that S&P believes the4specific the def5Staff is not recommending a return on common equity that's5reviewing some6equivalent to its cost of common equity?6operation, but7A.I don't remember anything like that.7Q.So	inition was. And I know that she also was accounting definitions of funds from I'm not an accountant. You made an attempt at least to
4that you referred to that indicates that S&P believes the4specific the def5Staff is not recommending a return on common equity that's5reviewing some6equivalent to its cost of common equity?6operation, but7A.I don't remember anything like that.7Q.So8Q.Does that S&P report indicate that Staff's8calculate the	inition was. And I know that she also was accounting definitions of funds from I'm not an accountant. You made an attempt at least to m in the same way that S&P would calculate
4that you referred to that indicates that S&P believes the4specific the def5Staff is not recommending a return on common equity that's5reviewing some6equivalent to its cost of common equity?6operation, but7A. I don't remember anything like that.7Q. So8Q. Does that S&P report indicate that Staff's8calculate the9return on equity recommendation is a problem?9them; is that	inition was. And I know that she also was accounting definitions of funds from I'm not an accountant. You made an attempt at least to In in the same way that S&P would calculate right?
4that you referred to that indicates that S&P believes the4specific the def5Staff is not recommending a return on common equity that's5reviewing some6equivalent to its cost of common equity?6operation, but7A. I don't remember anything like that.7Q. So8Q. Does that S&P report indicate that Staff's8calculate the9return on equity recommendation is a problem?9them; is that	inition was. And I know that she also was accounting definitions of funds from I'm not an accountant. You made an attempt at least to I'm in the same way that S&P would calculate right? Ink the answer is made the attempt, so
4that you referred to that indicates that S&P believes the4specific the def5Staff is not recommending a return on common equity that's5reviewing some6equivalent to its cost of common equity?6operation, but7A.I don't remember anything like that.7Q.So8Q.Does that S&P report indicate that Staff's8calculate the9return on equity recommendation is a problem?9them; is that10A.I don't remember it used the word problem.10A.I the11I thought I quoted the concern that was expressed by S&P.11the answer is y	inition was. And I know that she also was accounting definitions of funds from I'm not an accountant. You made an attempt at least to in in the same way that S&P would calculate right? Ink the answer is made the attempt, so es.
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	be other non-cash items which I think are not included	1	insufficient, and I did a coverage test and I thought that
2	here, but I don't think we had that information if there	2	was adequate.
3	was such a thing.	3	Q. Do you believe that the returns on equity
4	Q. Do you have any way I'm sorry,	4	that other states allow for utility companies reflect the
5	A. And the with regard to the debt	5	cost of common equity for those utilities?
6	calculation, there may be other pieces of debt, such as	6	A. Their allowed returns reflect
7	commercial paper or I don't think there would be any	7	Q. Yes.
8	current maturities, but I guess that's possible, that	8	A. Allowed returns represent allowed returns,
9	might show up. But, of course, if it went into the	9	which may be more than or less than the real cost of
10	denominator, it would make the ratio even lower.	10	equity.
11	Q. Do you have any way of estimating how	11	Q. Are they intended to reflect the cost of
12	significant those effects might be?	12	common equity?
13	A. No, because we were in this case from the	13	MR. SWEARENGEN: Excuse me just a second.
14	information from the Staff's schedules.	14	Are you asking that from the standpoint of what the law
15	Q. I think you may have touched on this. Do	15	might require them to do or what he thinks is in the minds
16	you know whether S&P might have excluded any debt when	16	of each of the commissions? Maybe you can clarify that.
17	making its own FFO to average total debt calculation?	17	BY MR. KRUEGER:
18	A. I think what I said was that their debt was	18	Q. I'm asking whether you believe that they do
19	rather I think it was rather encompassing, as I	19	reflect the cost of common equity.
20	remember. As I just said, I think it includes commercial	20	A. Well, I've worked both for and in
21	paper. I think it may include short-term borrowings. But	21	opposition to some issues at the Federal Energy Regulatory
22	if you increase the denominator, you're going to lower the	22	Commission, Federal Power Commission, and in a number of
23	ratio result. So that would make this a rather	23	states, and I believe that the allowed returns in all the
24	conservatively high estimate.	24	jurisdictions that I am familiar with, the objective was
25	Q. My question is whether they might have	25	to set an allowed return that was equal to the cost of
			<u></u>
1	Page 74	ļ	Page 76
1	excluded any debt.	1	capital, and I don't I don't find any major distinction
2	A. I don't recall. There may be, but I don't	2	among the jurisdictions that I can that comes to mind.
3	recall what it was. I have as I'm sitting here, my	3	Q. When you observed what returns on common
4	recollection is that their debt measure was rather	4	equity other states have allowed, how much research do you
5	inclusive as opposed to excluding items, but 1 don't know.	5	do to determine why those returns were set at the level
6	I don't remember if I did know.	6	where they're set?
7	Q. In making your calculations, did you	7	A. Are you talking about the numbers that I
8	calculate the average total debt or did you use the total	8	reported in my testimony?
9	debt at some specific point in time?	9	Q. Well, I'm thinking specifically about the
10	A. Well, you can see on Schedule rebuttal	10	Ohio and Illinois cases that you cited on page 30 of your
11	Schedule 3, the level of debt was the debt was the rate	11	direct testimony.
12	base, which was the rate base from Staff Accounting	12	A. Oh, I didn't look into those cases
13	Schedule 2 times the debt ratio. So that was a calculated	13	
14	number, and that's shown on line 13, Schedule 3.	14	states and those were returns that were released by the
15	Q. Why did you not calculate these ratios,	15	Regulatory Associates, or RA, and I did not investigate
16	these financial ratios in support of the recommendation	16	behind those allowed returns.
17	you made in your direct testimony?	17	Q. Have you compared the extent of Empire's
18	A. I don't know that I considered it that	18	
19	important until I saw the testimony of Mr. Murray, and	19	extent to which your comparable companies rely on natural
20	because it seemed to tie to the Standard & Poor's	20	gas to generate electricity?
21	statement and that seemed to be very relevant based on his	21	A. I did not use generation fuel as a
22		22	-
23	of financial integrity of my recommendation because my	23	
24	et telandar integrity of my recommendation because my	1	
	direct testimony I was trying to determine that I thought	24	reliance on purchased power with the extent to which your
		24 25	
25		24 25	

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1	A. No. It's the same, same question.	1	approximately 6 and a half percent was the Baa bond
2	Q. Okay.	2	rating, and the 7.2 percent or whatever return on common
3	A. Or same answer.	3	equity for Empire is not relevant. And we talked then
4	MR. KRUEGER: That's all my questions.	4	about the other issues of Empire and its maintaining its
5	MR. SWEARENGEN: Take a break.	5	dividend and the market acceptance of Empire. These
6	(A BREAK WAS TAKEN.)	6	factors are all relevant.
7	CROSS-EXAMINATION BY MR. MICHEEL:	7	Q. And how did you determine what the
8	Q. Dr. Murry, Mr. Krueger asked you some	8	appropriate spread should be for the ROE vis-a-vis the
9	questions about your teaching of regulatory finance, and	9	bond, the Baa bond that you're talking about?
10	you indicated in response to questions that you didn't use	10	A. Well, I didn't I didn't calculate a risk
11	a textbook but you offered up articles for your students	11	premium in that sense, if that's the implication of the
12	to read.	12	question. I think I think generally one has to have in
13	A. I said normally I would use, yes. I think	13	mind a number that's that's at least on the order of
14	I mentioned Howell and Rasmussen because that happened to	14	4 percent as a credible number.
15	be one I remembered I used once as a text. But that class	15	Q. And how
16	was a graduate class. You don't think of it as a textbook	16	A. And so it was more of a of an evaluation
17	driven class.	17	that these numbers are not really credible, and I and I
18	Q. And what articles would you offer to these	18	think in many ways I know why they were not credible
19	graduate students or recommend in the reading list?	19	because they represented, for example, historical
20	A. Well, I almost hate to admit it, but I	20	dividends that were constant and companies were not rating
21	think my reading list changed from semester to semester	21	their dividend, and that was not a realistic thing for
22	depending on what I wanted to cover, But I would always	22	investors to be expecting, and that means that one would
23	have them read some classics like Bondbright, Alfred	23	not use that kind of analysis. I pointed that out in my
24	Cohen, Cose. I might have them read Modigliani and	24	testimony,
25	Miller. The basic approach was to and often a lot of	25	Q. And how did you arrive at the 4 percent
		1	
		t	
	Page 78		Page 80
1	things that were relatively current during a if you can	1	spread?
2	things that were relatively current during a if you can put in the context of teaching regulatory course during	2	spread? A. I'm just saying that I just gave you
2 3	things that were relatively current during a if you can put in the context of teaching regulatory course during the time of deregulation of natural gas and electricity,	2 3	<ul> <li>A. I'm just saying that I just gave you</li> <li>then an average estimate of what's probably historically a</li> </ul>
2 3 4	things that were relatively current during a if you can put in the context of teaching regulatory course during the time of deregulation of natural gas and electricity, often there were some things that were current that I	2 3 4	<ul> <li>spread?</li> <li>A. I'm just saying that I just gave you</li> <li>then an average estimate of what's probably historically a</li> <li>low number or a reasonable but low number between</li> </ul>
2 3 4 5	things that were relatively current during a if you can put in the context of teaching regulatory course during the time of deregulation of natural gas and electricity, often there were some things that were current that I might not even agree with but I thought were good reading,	2 3 4 5	<b>spread?</b> A. I'm just saying that I just gave you then an average estimate of what's probably historically a low number or a reasonable but low number between between a non-AAA bond and common equity for a typical
2 3 4 5 6	things that were relatively current during a if you can put in the context of teaching regulatory course during the time of deregulation of natural gas and electricity, often there were some things that were current that I might not even agree with but I thought were good reading, and might be from something like Public Utilities	2 3 4 5 6	<ul> <li>A. I'm just saying that I just gave you</li> <li>then an average estimate of what's probably historically a low number or a reasonable but low number between</li> <li>between a non-AAA bond and common equity for a typical utility. That's a ballpark number. That's not an</li> </ul>
2 3 4 5 6 7	things that were relatively current during a if you can put in the context of teaching regulatory course during the time of deregulation of natural gas and electricity, often there were some things that were current that I might not even agree with but I thought were good reading, and might be from something like Public Utilities Fortnightly or one of the investment bankers or something	2 3 4 5 6 7	<b>spread?</b> A. I'm just saying that I just gave you then an average estimate of what's probably historically a low number or a reasonable but low number between between a non-AAA bond and common equity for a typical utility. That's a ballpark number. That's not an analytical number.
2 3 4 5 6 7 8	things that were relatively current during a if you can put in the context of teaching regulatory course during the time of deregulation of natural gas and electricity, often there were some things that were current that I might not even agree with but I thought were good reading, and might be from something like Public Utilities Fortnightly or one of the investment bankers or something like that.	2 3 4 5 6 7 8	<ul> <li>spread?</li> <li>A. I'm just saying that I just gave you then an average estimate of what's probably historically a low number or a reasonable but low number between between a non-AAA bond and common equity for a typical utility. That's a ballpark number. That's not an analytical number.</li> <li>Q. And did you use any sort of analytical way</li> </ul>
2 3 4 5 6 7 8 9	things that were relatively current during a if you can put in the context of teaching regulatory course during the time of deregulation of natural gas and electricity, often there were some things that were current that I might not even agree with but I thought were good reading, and might be from something like Public Utilities Fortnightly or one of the investment bankers or something like that. Q. Do you keep the syllabuses for your	2 3 4 5 6 7 8 9	<ul> <li>spread?</li> <li>A. I'm just saying that I just gave you</li> <li>then an average estimate of what's probably historically a low number or a reasonable but low number between</li> <li>between a non-AAA bond and common equity for a typical utility. That's a ballpark number. That's not an analytical number.</li> <li>Q. And did you use any sort of analytical way to determine that spread in arriving at 12 percent?</li> </ul>
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1	just the lowest investment grade bond or is there some	1	Α.	I have people working with me, yes.
2	other	2	, Q.	And who were those folks?
3	A. No. You can use a AAA grade for that	3	Α.	I guess in this case I had probably four
4	matter. In this case, Empire is a lower grade bond, and	4	people wi	ho helped me in different ways in testimony and
5	so you'd be interested in that.	5	rebuttal in	n this case.
6	Q. My question was historically what do you	6	Q.	Why don't you tell me those four people?
7	use when you do? I recognize you didn't do it in this	7	Α.	One is Mike Knapp. Another is Mark
8	case.	8	Cichetti, a	a third is Zhen Zhu, and a fourth would be
9	A. Well, I just I answered that I have done	9	Audrey O	sborn. And my administrative assistant is Angela
10	it on occasion and I have read testimony of others, and it	10	Nisk, and	she obviously helped with preparation.
11	depends on the circumstances.	11	Q.	And what did Mr. Knapp do?
12	Q. And when was the last time that you did it?	12	Α.	He's a Ph.D. economist, and he works in a
13	A. I have no idea.	13	lot of diffe	erent areas in reviewing what I write. He
14	Q. Do you think you've done it within the last	14		e methodologies I use very well, so he's able to
15	year?	15		t. He knows the field well. He's able to argue
16	A. Probably, or I reviewed someone else's	16		about various issues, and so he's generally a
17	testimony which had those calculations.	17	good colle	
18	Q. But you can't tell me specifically?	18	Q.	Did he argue with you about any issues in
19	A. Well, you could if you're trying to get	19	this test	
20	that specific, there are DR responses, and I think they	20	A.	I'm sure he did. He usually does.
21	came from you, that show various long-term risk premium	21	Q.	And what issues did he argue with you
22	from Ibbotson Associates, and you can reference those.	22	about?	And whice issues and he argue with you
23	But the numbers don't change. The time series may change,	23	авоце: А.	I don't recall precisely.
24	but the numbers don't change.	24	Q.	Does he provide
25	Q. And so	25	A.	He's outspoken.
	Page 82			Page 84
1	A. So I'm cognizant of that and I look at	1	Q.	Did he provide a written critique?
2	those, and I've responded to some of those in the DR.	2	Ā.	No.
3	Q. And the appropriate benchmark to look at is	3	Q.	Did he provide you any e-mails?
4	the Ibbotson Associates book? Is that the one we should	4	Ā.	Probably.
5	use?	5	Q.	So if I asked you a DR for those e-mails,
6	A. Ibbotson Associates I think probably has	6	you'd sh	are those with me?
7	the recognized time series of returns for both equities as	7	А.	Sure.
8	well as dividends.	8	Q.	Mr. Sheting, I don't know if I
9	Q. And when you say recognized time series,	9	Ā.	Cichetti.
10	what do you mean?	10	Q.	Can you spell that?
11	A. I mean representing historical time series	11	Ă.	C-i-c-h-e-t-t-i.
12	of both debt instruments as well as equity instruments.	12	Q.	And what did Mr. Cichetti help you with?
13	Q. And in your opinion, what's the appropriate	13	A.	Same sort of thing. He's got he's an
14	time series that we should be looking at for that, how	14	expert wit	mess in his own right, and he's he worked on
15	many years?	15		hese issues and responded to some of my
16	A. That depends on the circumstances,	16	questions.	· ·
17	Ibbotson's goes back, I think, to 1926.	17	Q.	What issues did he work on specifically?
18	Q. In the circumstance in this case, what time	18	A.	I remember discussing the Modigliani and
19	series did you look at?	19		e with him at one point. Both Dr. Knapp and
20	A. I told you I didn't make that special	20		ichetti read my testimony in its drafting stage
21	calculation in this case.	21		I make comments on it.
22	Q. In response to some of Mr. Krueger's	22	Q.	And what did you discuss with Mr. Cichetti
23	questions, you indicated that somebody else had helped you	23	-	g Modigliani and Miller?
24	with your testimony. Is my understanding correct about	24	A.	I think the assumptions I mean, I can't
25	that?	25		r. I think the assumptions around that issue
1		1 2 3	(enernie)	
		23	remember	

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1         the issue of Madiglain valuation of dividend, valuation         1         Cabors.           3         Q. And what vasa Mr. Cichett's view?         A. I don't know that it differs from my view.         A. She was - ahe did the - as I testified           4         A. I don't know that it differs from my view.         A. She was - ahe did the - as I testified           6         work and how it's used and applied. I am probably more suspect of the market efficiency position than he is if         A. She was - ahe did the - as I testified           6         the market efficiency position than he is if         A. Neal, what schedules did she prepars for you?           10         departure or any kind of a gob between us that might be         evented on the flow of funds calculations. Every fund cancer of the remarking that schedules did she prepars for you?           11         Q. What questions did Mr. Cichetti have for         Q. Mod what schedules did she prepars for you?           12         Gentarion the is if         all of them prepare base whold. Concer diff for           13         A. I don't remember. He's a colleague, and he dose.         10           14         all of them prepare base whold. Ange base whold down for your           15         G. Mod yabs schedules.         11           16         A. He probably did at the very end a red line.         11           17         testimmory?         A. Me probably. The only thim your		Page 85		Page 87
3       Q. And what was Pr. Cichett's view?       3       A she was - she did the - as I testing?         4       A. I don't know that it differs from my view.       5       A previously, she's an accountant, MBA, and beid a number         6       work and how it's used and applied. I am probably more suspect of the market efficiency position than he is if         7       work and how it's used and applied. I am probably more suspect of the market efficiency position than he is if       worked on the flow of thinds calculations. Everything that         9       departure on my kind of a gap between us that might be       worked on the flow of thinds calculations. Everything that         10       don't memember. He's a colleague, and he       mathed use and bis if         11       a. I don't memember. He's a colleague, and he       mathed use and applied. I comment on what I do and I comment on what I d	1		1	
4       A       I don't know that it differs from my view.       4       previously, she's an accountant, MBA, and she did a number         5       I man, he's very familiar with the tory, with the original work and how it's used and applied. Tam probably more       5       of things related to preparation of the erstellads, and she did a number         7       usapext of the market efficiency position than he is if       a work and how it's used and applied. Tam probably more         9       departure or any kind of a gap between us that might be       fmings related to preparation of the schedules, and she did a number         9       departure or any kind of a gap between us that might be       fmings related to preparation of the schedules and she did a prepare for you?         10       Q. What questions did Mr. Cichetti have for       all of them markes they would come of of her         12       you?       all of them prepared because they would come of of her         13       A. T fon't remember. He's a colleague, and he       dial of them prepared because they would come of of her         14       O. The probably did at the very end a red line       fmin marking, bit's we ben firk. Aspp. Hight have been me, she         15       or, He probably did at the very end a red line       fmin marking, bit's we ben firk. Aspp. Hight have been me, she         17       think verything else 1 got from him was telphoric. Hes       fmin analysis, Hee probably have, and he did a number	2	of dividends versus earnings and that concept.	2	Q. And what did you discuss with Ms. Osborn?
4       A. 1 don't know that it differs from my view.       4       previously, she's an accountant, MSA, and bet do a number         6       Innear, he wery finalita with the two, with the original       of things related to preparation of the schedules, and she         7       suppect of the market efficiency position than he is if       or worked an the flow of fund calculations. Everything that         9       departure or any kind of a gap between us that might be       or more sure.       9         10       there's a -if you're looking for a point of intellectual       9       espanse         10       there's a -if you're looking for a point of intellectual       9       espanse         11       Q. What questions did Hr. Cichetti have for       11       al of them marksed.       9         11       al of them marksed.       9       Q. And what schedules did she propaby had       11         12       orany written response or any marked up draft of your       12       11       11       11       11       11       11       11       11       11       11       12       11       12       11       12       12       12       12       12       12       12       12       12       12       12       12       12       12       12       12       12       12       12	3	Q. And what was Mr. Cichetti's view?	3	A. She was she did the as I testified
5       Incan, hes very familiar with the two, with the originally       5       of things related to preparation of the schedules, and she         6       work and how it's used and applied. I am probably more       suspect of the market efficiency position than he is if         7       suspect of the market efficiency position than he is if       every the ontry fund of aga petween us that might be         10       departure or any kind of aga petween us that might be       every the ontry thing the closent they would come off or fore         11       Q. What questions did Hr. Cichetti have for       10       A. I don't remember. He's a colleague, and he         15       O. Did he send you any data or any e-mails       10       off the marke sing (dim that he does.         16       testimony?       10       A. Well, in feab analysis, she probably thad         16       or any written response or any marked up draft of your       16       them. Might have been hr. Kapp. Hight have been nor, she         17       a. M. He probably did at the very end a red line       10       or marked in the dinse, in the diasese, but         18       in Taldiassee, and 1       11       or you have a copy of that red line?         18       indort work with him face to face on this case. I       12         19       indort work with him face to face on this case. I       12       a. No,         11	4	A. I don't know that it differs from my view.	4	
6         Work and how it's used and applied. I amprobably more suspect of the market efficiency position than he is if if there's a - if you're looking for a point of intellectual 9         6         worked on the flow of hunds calculations. Everything that was on her computer I think has been provided in data response.           9         betrer. Ern not sure.         9         Q. Muta questions did Mr. Cichetti have for you?         9         Q. And what schedules did she prepare for you?           10         there's and signed between us that might be there. The not sure.         9         Q. And what schedules did her prepare for you?           11         all of them prepared because they would come off of her         11         all of them prepared for you?           14         Othere Senty our any data - or any e-mails         originally           15         O. Did he sendy you any data - or any e-mails         16           16         A. He probably did at the very end a red line 10         16           17         tablet on only thing 1 gat for bom hin win was telephonic. He's 11         16           16         tablet own whith fire close con the case. I 12         14           16         tablet we whith make to face on thic case. I 12         14           16         tablet we hill halbassee, Jut 16         12           16         there red lines or change the red 16         13         on to stomething that you 're offering as	5	I mean, he's very familiar with the two, with the original	5	
support of the market efficiency position than he is if there's a if you're looking for a point of intellectual departure or any kind of a gap between us that might be there. I'm not sure.         7         was on her computer I think has been provided in data response.           0         there. I'm not sure.         9         Q. And what schedules did she prepare for you?           11         d. I don't remember. He's a colleague, and he comments on what I do and I comment on what he does.         11         all did them originally?           12         A. I don't remember. He's a colleague, and he comments on what I do and I comment on what he does.         12         Who did them originally?           13         A. I don't remember. He's a colleague, and he comments on what I do and I comment on what he does.         13         all did the moriginally?           14         Coll he send you any data or any e-mails or any written response or any marked up draft or your testimony?         14         Who did them originally?           15         or any written response or any marked up draft or your testimony?         14         Who did them originally?           16         he made some edition comments?         A. He probably did at the very end a red line organized in the affice, the tax goes her. Knapp, Might have been me, she might have very fing else I got from him writhing. I to have keed him have the dialsassee, hut in readinassee, and I spent some time in Talianssee, hut in talianssee, and I spent some time in Talianssee, hut in talianssee, and I beacher do units on the watant of a gan bea weak the pre	6		6	
8         there's a - if you're looking for a point of intellectual         9         response.           9         departure or any kind of a gap between us that might between uses they would come off of her machine, but she didn't necessarily do the sectodues           11         Q.         What questions did Mr. Cichett have for and that do and I comment on what he does.         11         all of them prepared because they would come off of her machine, but she didn't necessarily do the schedules           12         You 7         makine, but she didn't necessarily do the schedules         orginals/.           13         A.         I don't remember. He's a colleague, and he         in makine, but she didn't necessarily do the schedules           14         O. What questions did Mr. Cichett have for you?         14         Q. Whith working on           15         Q. Did he send you any data - or any e-mails         in might have done it under my direction. The way we're           17         might have done it under my direction. The way we're         in optical it he office, her kets, gost hord Angale Nik,           16         think everything 1 got from him was telephonic. He's         20         but the schedules and its complete.           16         think everything 1 got from him was telephonic	7		7	-
9       Q. And what schedules did sperpars for you?         10       there. I'm not sure.       A. Well, in final analysis, she propars for you?         10       What questions did Mr. Cichetti have for       I         11       Q. What questions did Mr. Cichetti have for       I         12       You?       A. Well, in final analysis, she propars for you?         13       A. I don't remember. He's a colleague, and he       I       II did them originally.         14       Comments on what I do and 1 comment on what he does.       A. Well, whoever might have been working on         15       or any written response or any marked up draft of your       I       M. Well, in the originally.         15       or any written response or any marked up draft of your       I       M. Well, whoever might have been knoking on         16       in which me ale some editorial comments, and that's       I       But the schedules cont form An Ostom. So we feed into         10       in ratianassee, and I spent some time in Tallahassee, but?       I       Q. Do you hold yourset out as an expert I         21       takket to there.       24       Q. And so the extant that there's         22       Q. You don't save documents?       A. No       24       Q. And so the extant that there's         23       A. I doubt it.       1       1       A cost th	8		8	
10       there. I'm not sure.       10       A. Well, in final analysis, she probably had         11       Q. What questions did Mr. Cichetti have for       all of them prepared because they would come off of her         12       you?       A. I don't remember. He's a colleague, and he       all of them prepared because they would come off of her         13       A. I don't remember. He's a colleague, and he       all of them prepared because they would come off of her         14       comments on what I do and I comment on what he does.       h. Well, whoever might have been working on         16       or any written response or any marked up dart of your       is       h. Well, whoever might have been working on         16       or any written response or any marked up dart of your       is       h. Well, whoever might have been working on         16       in all of the send you any data - or any e-mails       in which he made some editorial comments, and that's       in which he made some editorial comments, and that's         17       think everything else I got from him was telephonic. He's       in all and so to the extant that there's         21       I doubt it.       Page 86       A. No.         22       Q. You don't save cal lines.       A. No.         23       A. I doubt it.       G. Wen diat the wey end a cap of that real line.       G. You don't save cal lines.         24       L	9		9	O. And what schedules did she prepare for you?
11       Q. What questions did Mr. Cichetti have for       11       all of them prepared because they would come off of her         12       your       12       machine, but she didn't necessarily do the schedules         13       A. I don't remember. He's a colleague, and he       13       originally.         14       comments on what I do and I comment on what he does.       14       Q. Who did them originally?         15       Q. Did he send you any data or any e-mails       15       A. Well, whoever might have been mory. she         18       or any written response or any marked up draf of your       15       A. Well, whoever might have been mory. she         18       A. He probably did at the very end a red line       16       time schedules come form Ann Osborn. So we feed into         10       probably the only thing I got from him in writing. I       19       time schedules come form Ann Osborn. So we feed into         11       taiked to him by phone.       21       Q. Do you hold yourself out as an expert I         14       taiked to him by phone.       22       A. I doubt it.       23       A. No.         15       A. I doubt it.       14       and so to the extent that there's       25         2       Q. You don't save documents?       3       A. I doubt it.       17       A. No.         16	10	there. I'm not sure.	10	-
12       You?       12       machine, but she didn't necessarily do the schedules         13       A. I don't remember, He's a colleague, and he comments on what I do and I comment on what he does.       9       What does and the comment on what he does.         15       Q. Did he send you any data - or any e-mails       16       Or any written response or any marked up draft of your         16       or any written response or any marked up draft of your       16       Well, whoever might have been working on         16       or any written response or any marked up draft of your       16       Well, whoever might have been working on         16       n. He probably did at the very end a red line       16       in which he made some editorial comments, and that's         19       in which he made some editorial comments, and that's       10       Use the work with min are to face on this case. I         21       I didn't work with him face to face on this case. I       21       Q. Do you have a copy of that red line?         22       Q. You don't save documents?       24       Q. And so to the extent that there's         23       A. I doubt it.       25       Q. You don't save documents?       2         3       A. I doubt it.       2       No.       2         4       Q. You don't save documents?       1       No.         5       A	11		111	
13       A. I don't remember. He's a colleague, and he       13       originally.         14       comments on what I do and I comment on what he does.       14       Q. Who dithem originally?         15       Q. Di dhe send you any data - or any e-mails       15       A. Wei, whoever might have been working on         15       variable of any written response or any marked up draft of your       16       Who dithem originally?         17       testimony?       17       the probably did at the very end a red line       18       and the moriginally.         19       in which he made some editorial comments, and that's       19       but the schedules come from Ann Osborn. So we feed into         20       probably the only thing I got from him in writing. I       20       Q. Do you have a copy of that red line?       21       Q. Do you have a nexpert in         21       tanket of hims by phone.       23       A. No.       23       A. No.         22       A. I doubt it.       12       not something that you're offering as an expert?       2       A. No.         23       A. I doubt it.       11       not something that you're offering as an expert?       2       A. Wel, I have - I have accounting as a -       3       and I use accounting as a -       3       and I use accounting as a -       3       and I use accounting as a -       3	12	you?	12	
14       comments on what I do and I comment on what he does.       14       Q. Who did them originally?         15       Q. Did he send you any data or any e-mails       15       A. Well, whoever might have been working on         16       or any written response or any marked up draft of your       16       M. Well, whoever might have been me, she might have been me, she might have been me, she parameter in the schedules come from Ann Osbom. So we feed into         17       bin Wich he made some editorial comments, and that's probably the only thing I got from him in writing. I       10       the schedules come from Ann Osbom. So we feed into         10       in Talbabasee, and I spent some time in Talbabasee, but       12       Q. Do you have a copy of that red line?       20         11       think everything else I got from him was telephonic. He's       14       Q. And so to the extent that there's         16       accounting information attached to your testimony, that's       21       A. No.         12       talked to him by phone.       23       A. I doubt it.       24       Q. And so to the extent that there's         14       A. I doubt it.       Page 86       1       not something that you're offering as an expert?         15       A. I doubt it.       1       and I use accounting as a tool, but I am not testifying as         16       A. I doubt it.       1       an expert accountat. </td <td>13</td> <td>A. I don't remember. He's a colleague, and he</td> <td></td> <td></td>	13	A. I don't remember. He's a colleague, and he		
15       Q. Did he send you any data or any e-mails       15       A. Well, whoever might have been working on         16       or any written response or any marked up drat of your       16       them. Might have been Mr. Khapp. Might have been mr., she         17       testmony?       16       the probably did at the very end a red line       17         18       A. He probably did at the very end a red line       18       might have done it under my direction. The way we're         19       in which he made some editorial comments, and that's       19       but the schedules come from An Osborn. So we feed into         20       probably the only thing 1 got from him was telephonic. He's       20       that everything else 1 got from him was telephonic. He's         21       in Tallahassee, and I spent some time in Tallahassee, but       21       Q. Do you hold yourself out as an expert in         23       idin't work with him face to face on this case. I       23       A. No.         24       talked to him by phone.       24       Q. And so to the extent that there's         25       Q. You don't save documents?       2       A. Well, I have I have accounting as a not, but I an not testifying as         3       A. I doubt it.       10       and Use accounting as a tool, but I an not testifying as         4       Q. Why not?       4       and we on.       6<		•		
16       or any written response or any marked up draft of your       16       them. Might have been Mr. Knapp. Might have been me, she         17       testimony?       might have done it under my direction. The way were         18       A. He probably did at the very end a red line       17       might have done it under my direction. The way were         19       in which he made some editorial comments, and that's       19       but the schedules come from Ann Osborn. So we feed into         20       probably the only thing I got from him in writing. I       20       that base and it's compiled.         21       think everything else I got from him was telephonic. He's       21       dust place and it's compiled.         21       talked to him by phone.       23       A. No.       24         22       Q. Do you have a copy of that red line?       23       A. No.         23       A. I doubt it.       24       A. I doubt it.       25         2       Q. You adon't save red lines.       1       not something that you're offering as an expert?         3       A. I doubt it.       24       A. Well, I have - I have accounting as a       3         4       Q. Why not?       5       A. Udoubt it.       2       A. Well, I have - I have accounting as a         3       A. I doubt it.       20	15		- ·	
17       testimony?       17       might have done it under my direction. The way we're         18       A. He probably did at the very end a red line       18       organized in the office, the text goes through Angle Nick,         19       but the schedules come from Ann Osborn. So we feed into       10         11       think everything l got from him in writing. I       10       that place and it's compiled.         11       in Tallahassee, and I spent some time in Tallahassee, but       12       A. No.         12       talked to him by phone.       20       Do you have a copy of that red line?       21         14       talked to him by phone.       22       A. No.       24       Q. And so to the extent that there's         25       Q. Do you have a copy of that red line?       25       accounting information attached to your testimony, that's         26       You don't save documents?       2       A. Well, I have – I have accounting as a –         3       A. I doubt it.       11       not something that you're offering as an expert?         2       Q. You said you also spoke with Zhen Zhu.       11       not something that you're offering sa an expert?         3       A. I accept the red lines or change the red       5       Q. You indicated in response to a question         6       inres and move on.       6		-	-	· · · · · · · · · · · · · · · · · · ·
18       A. He probably did at the very end a red line       19       in which he made some editorial comments, and that's         19       in which he made some editorial comments, and that's       10       probably the only thing I got from him in writing. I         20       probably the only thing I got from him is writing. I       10       Ut the schedules come from Ann Osbom. So we feed into         21       think everything else I got from him is writing. I       Q. Do you hold yourself out as an expert in         22       in Tallahassee, and I spent some time in Tallahassee, but       20       A. No.         23       talked to him by phone.       23       A. No.         24       talked to him by phone.       23       A. No.         25       Q. Do you have a copy of that red line?       24       A. No.         24       talked to him by phone.       25       accounting information attached to your testimony, that's         26       You don't save documents?       2       A. Well, I have - I have accounting as a -         3       A. I doubt it.       5       Q. You don't save documents?       3         4       Q. Why not?       5       A. Well, I have - I have accounting as a -       3         5       A. Taccept the red lines or change the red       16       for Mr. Krueger that, with respect to the ValueLine		-		
<ul> <li>in which he made some editorial comments, and that's</li> <li>probably the only thing 1 got from him in writing. I</li> <li>think everything else 1 got from him in writing. I</li> <li>think everything else 1 got from him in writing. I</li> <li>think everything else 1 got from him was telephonic. He's</li> <li>I didn't work with him face to face on this case. I</li> <li>I didn't work with him face to face on this case. I</li> <li>I alked to him by phone.</li> <li>Q. Do you have a copy of that red line?</li> <li>Page 86</li> <li>A. I doubt it.</li> <li>Q. You don't save documents?</li> <li>A. I don't save red lines.</li> <li>Q. Why not?</li> <li>A. I don't save red lines.</li> <li>Q. You said you also spoke with Zhen Zhu.</li> <li>Could you spell that and tell me what you spoke to Mr. Zhu</li> <li>a that's Dr. Zhen Zhu, and it's Z-h-e-n, last</li> <li>not ansme?</li> <li>A. That's Dr. Zhen Zhu, and it's Z-h-e-n, last</li> <li>not serve aluation of earnings versus dividends in a</li> <li>broader sense, and so th dat hat - or m these five</li> <li>wher I got that dat from these five</li> <li>where I got that dat from these five</li> <li>where I got that dat alf and that's written</li> <li>in of Data Request, which was just the data.</li> <li>Q. Did he have any questions about your</li> <li>a. A. No, not that I creall.</li> <li>Q. Did he have any questions about your</li> <li>A. Think he did, and I think you have that</li> <li>in a Data Request, which was just the data.</li> <li>Q. Did he have any questions about your</li> <li>A. No, not that I creall.</li> <li>Q. I believe you talked about a Ms. Osborn.</li> </ul>		•		
20       probably the only thing I got from him writing. I       20       that place and it's compiled.         21       think everything else I got from him was telephonic. He's       20       Do you hold yourself out as an expert in         22       in Tallahassee, and I spent some time in Tallahassee, but       21       Q. Do you hold yourself out as an expert in         23       I didn't work with him face to face on this case. I       24       Q. And so to the extent that there's         24       I addit work with him ace to face on this case. I       24       Q. And so to the extent that there's         25       Q. Do you have a copy of that red line?       24       Q. And so to the extent that there's         25       Q. You don't save documents?       2       A. Well, I have ~- I have accounting as a         3       A. I don't save red lines.       3       an expert accountant.         5       A. I accept the red lines or change the red       5       Q. You adid you also spoke with Zhen Zhu.         6       lines and move on.       7       Q. You said you also spoke with Zhen Zhu.       8         7       A. That's Dr. Zhen Zhu, and it's Z-h-e-n, last       10       A. Yes.         11       name Zhu, Z-h-u. And he and I have been doing some work       11       Q. And so is it your view that the 6 percent         12       omparter				
21       think everything else I got from him was telephonic. He's       21       Q. Do you hold yourself out as an expert in         21       I didn't work with him face to face on this case. I       22       accounting?         23       I didn't work with him face to face on this case. I       23       A. No.         24       taked to him by phone.       23       A. No.         25       Q. Do you have a copy of that red line?       23       A. No.         26       You don't save documents?       24       A. Well, I have — I have accounting as a expert?         2       Q. You don't save red lines.       3       and I use accounting as a tool, but I am not testifying as         3       A. I don't save red lines or change the red       5       Q. You said you also spoke with Zhen Zhu.         7       Q. You said you also spoke with Zhen Zhu.       7       6 percent growth rate, that you didn't believe that that         8       growth rate could go on indefinitely. Do you remember       9       that and tell me what you spoke to Mr. Zhu         9       A. That's Dr. Zhen Zhu, and it's Z-h-e-n, last       10       A. Yes.         11       name Zhu, Z-h-u. And he and t have been doing some work       11       Q. And so is it your view that the 6 percent         13       broader sense, and so the datat hat - from these five       growth rate? </td <td></td> <td></td> <td></td> <td></td>				
22       in Tallahassee, and I spent some time in Tallahassee, but       23       accounting?         23       I didn't work with him face to face on this case. I       23       A. No.         24       talked to him by phone.       23       A. No.         25       Q. Do you have a copy of that red line?       23       A. No.         26       Do you have a copy of that red line?       24       Q. And so to the extent that there's         27       Q. You don't save a copy of that red line?       25       accounting information attached to your testimony, that's         27       Q. You don't save documents?       3       1       not something that you're offering as an expert?         2       A. I don't save red lines.       3       and I use accounting as a tool, but I am not testifying as         3       A. I accept the red lines or change the red       5       Q. You indicated in response to a question         6       lines and move on.       6       from Kr. Krueger that, with respect to the ValueLine         7       Q. You said you also spoke with Zhen Zhu.       6       Gercent growth rate, that you didn't believe that that         8       gout?       name Zhu, Z-hu. And he and I have been doing some work       1       A. Yes.         1       name Zhu, Z-hu. And he and I have been doing some work       1 <td< td=""><td></td><td></td><td></td><td>• • • • • • • • • • • • • • • • • • • •</td></td<>				• • • • • • • • • • • • • • • • • • • •
23       I didn't work with him face to face on this case. I       23       A. No.         24       talked to him by phone.       23       A. No.         25       Q. Do you have a copy of that red line?       24       Q. And so to the extent that there's         26       Q. You don't save a copy of that red line?       25       accounting information attached to your testimony, that's         24       Q. You don't save documents?       an to something that you're offering as an expert?         2       Q. You don't save documents?       and J use accounting as a tool, but I am not testifying as         3       A. I don't save red lines or change the red       5       Q. You said you also spoke with Zhen Zhu.       5         3       Could you spell that and tell me what you spoke to Mr. Zhu       6       growth rate, that you didn't believe that that         4       Q. You said you also spoke with Zhen Zhu.       7       6       Percent growth rate, that you didn't believe that that         5       A. That's Dr. Zhen Zhu, and it's Z-h-e-n, last       9       6       Fercent growth rate, that you widen't believe that that         10       A. That's Dr. Zhen Zhu, and it's Z-h-e-n, last       10       A. Yes.         11       name Zhu, Z-h-u. And he and I have been doing some work       11       Q. And so is it your view that the 6 percent         13 <td></td> <td></td> <td></td> <td>-</td>				-
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A. Ann Usborn, yes. Or excuse me. Audrey 25 be derived one way, but, in fact, as far as application's	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	<ul> <li>A. I doubt it.</li> <li>Q. You don't save documents?</li> <li>A. I don't save red lines.</li> <li>Q. Why not?</li> <li>A. I accept the red lines or change the red</li> <li>lines and move on.</li> <li>Q. You said you also spoke with Zhen Zhu.</li> <li>Could you spell that and tell me what you spoke to Mr. Zhu about?</li> <li>A. That's Dr. Zhen Zhu, and it's Z-h-e-n, last</li> <li>name Zhu, Z-h-u. And he and I have been doing some work on the evaluation of earnings versus dividends in a</li> <li>broader sense, and so the data that from these five</li> <li>companies with dividend reductions actually were on his</li> <li>computer, and that or he had that data file, and that's</li> <li>where I got that data. He's an econometrician.</li> <li>Q. And did he send you any e-mails, written</li> <li>information regarding this case?</li> <li>A. I think he did, and I think you have that</li> <li>in a Data Request, which was just the data.</li> <li>Q. Did he have any questions about your</li> <li>testimony or things he disagreed with?</li> <li>A. No, not that I recall.</li> </ul>	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	<ul> <li>not something that you're offering as an expert? <ul> <li>A. Well, I have I have accounting as a and I use accounting as a tool, but I am not testifying as an expert accountant.</li> <li>Q. You indicated in response to a question from Mr. Krueger that, with respect to the ValueLine 6 percent growth rate, that you didn't believe that that growth rate could go on indefinitely. Do you remember that answer?</li> <li>A. Yes.</li> <li>Q. And so is it your view that the 6 percent growth rate that you're utilizing is not a sustainable growth rate?</li> <li>A. It's not sustainable indefinitely. That's what I testified to.</li> <li>Q. It's only sustainable for the three to five year?</li> <li>A. As I pointed out, it's estimated a growth between now and three and five years out.</li> <li>Q. And is it your belief that the DCF model requires a growth rate, an indefinite growth rate or a growth rate that's a snapshot of five years?</li> </ul> </li> </ul>
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22 (Pages 85 to 88)

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	Page 89.		Page 9
1	concerned, what's in the minds of the investors may be	1	Q. And that's something standard for use in
2	something else.	2	the field of regulatory economics, is it not?
3	Q. What did you review to prepare for this	3	A. Yeah. That was the application he had in
4	deposition?	4	the mind at the time.
5	A. I read my testimony and my rebuttal	5	Q. When you were a young professor, that is
6	testimony, and I also looked over the DRs that were had	6	something that you looked to, was it not?
7	been sent out earlier.	7	A. Certainly, I had his textbook and I
8	Q. Did you talk with anybody at the company	8	assigned things from it's not really a textbook. It
9	prior to having your deposition today?	9	was a publication by the institute at Michigan State. As
10	A. I called Mr. Dave Gibson and told him I was	10	I recall, that's where it was originally or the one I'm
11	going to be here and I wanted to make sure that that was	11	thinking of was published, and I've assigned from it.
12	in concurrence with his expectations, and he said yes.	12	Q. And that brings me to my next question.
13	That's all we discussed.	13	What books do you believe are authoritative in the field
14	Q. You didn't discuss anything else?	14	of regulatory economics? Would Dr. Gordon's book, the
15	A. No.	15	Cost of Capital to a Public Utility, published in 1974, be
16	Q. Did you talk with any of your colleagues	16	one of those?
17	about this deposition?	17	A. It was a major publication at the time.
18	A. Well, sure. Told them I had a deposition.	18	Q. Do you think it's an authoritative
19	Q. Who do you believe are the most influential	19	publication?
20	individuals in the field of regulatory economics?	20	<ol> <li>Authoritatively to authoritative today,</li> </ol>
21	<ol> <li>You'll have to define what you mean by</li> </ol>	21	I would say sure, in its context, what it represents.
22	influential.	22	Q. What about, for example, Dr. Warren's book,
23	Q. Who are the people that you look to?	23	Regulatory Finance, do you think that's an authoritative
24	A. Well, I guess it depends on the topic. It	24	book
25	seems to be any time that there's an issue that we're	25	A. Certainly.
1	Page 90 investigating, we almost start over again to see who is	1	Page 9: Q in the field of regulatory economics?
2	working in that particular area. And with the	2	A. Certainly, I think it's and if you want
3	availability of the Internet and more journal articles	3	me to qualify authoritative, I think that doesn't mean
4	electronically, that gets much easier. Plus I notice	4	it's everything in it is
5	there's a lot of new names pop up all the time because	5	Q. I'm not asking
6	there's more things available through that process than	6	A. That I necessarily agree with everything
7	there used to be through just a library of journals or a	7	that's in it, but it's a very comprehensive book and I
8	library of publications.	8	cite it and refer to it.
9	Q. Who do you consider your mentor in this	9	Q. Those are books that you as both a
10	field?	10	professor of economics and as an expert witness would look
11	A. Probably Hasker Wald. If you're talking	11	to?
12	about a mentor, who I learned a lot from, kinds of persons	12	A. Yes, and I've I've assigned from them
13	would have been Hasker Wald. That's one party that comes	13	and I've looked through them and referred to them.
14	very much I guess comes very much to mind.	14	Q. And those are recognized textbooks in this
15	Q. Do you believe that Dr. Myron Gordon is an	15	field, aren't they?
16	influential individual in the field of regulatory	16	A. I'm not sure about that. I don't think of
17	economics?	17	either one of them as a textbook. I certainly don't think
110	A. I think he was very influential at an	18	of Gordon's publication as a textbook at all.
18	earlier period, and I think that I think he cast a very	19	Whether Roger Moran uses his book as a
19			tend i destriktensi. Verstil beste he sels bles Abet ettestion
19 20	long shadow in that sense.	20	text, I don't know. You'll have to ask him that question.
19 20 21	long shadow in that sense. Q. Is he the individual who essentially	21	I probably would not use it as a text, but I use it as a
19 20 21 22	long shadow in that sense. Q. Is he the individual who essentially invented the discounted cash flow method?	21 22	I probably would not use it as a text, but I use it as a source.
19 20 21 22 23	long shadow in that sense. Q. Is he the individual who essentially invented the discounted cash flow method? A. It's associated at one time it was even	21 22 23	I probably would not use it as a text, but I use it as a source. Q. I think he does use it as a textbook when I
19 20 21 22	long shadow in that sense. Q. Is he the individual who essentially invented the discounted cash flow method? A. It's associated at one time it was even	21 22	I probably would not use it as a text, but I use it as a source.

23 (Pages 89 to 92)

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1	Page 93 criticize Mr. Allen's use of a sustainable growth rate.		Page 9
2	A. Yes.		Q. I mean, so you don't know sitting here what
2 3		2	those empirical financial articles are?
4		3	A. I can't give you the author and cite the
5	call fundamental flaws. Is that a proper understanding of	4	articles. As I recall, there's like several people looked
5	that testimony appearing on page 17, lines 3 through 15? A. Yes.	5	at this question, and they essentially all say the same
7		6	thing, that the that the correlation of price or value
	Q. And the first thing you say, it's difficult	7	is closer to other things than to the VR/SV. One is the
8 9	to estimate the components of a sustainable growth rate; is that correct?	8	analyst I think the most common calculation is the
		9	analyst growth rate. And as I recall, there's even a
10	A. Yes.	10	distinction made among analysts, and ValueLine is placed
11	Q. Can it be done?	11	very high, which is one of the reasons I rely on it.
12	A. Can those four be estimated?	12	Q. Are those articles that you're talking
13	Q. Yes.	13	about, the empirical financial literature, are they
14	A. Sure.	14	discussing the use of historical growth rate, the VR plus
15	Q. Are you aware of any academic papers that	15	SV, as opposed to projected growth rate to determine VR
16	indicate that the sustainable growth rate, the VR plus SV,	16	plus SV?
17	is not an appropriate growth calculation for use in the	17	<ol> <li>Probably, but I don't recall positively the</li> </ol>
18	DCF?	18	methodology in calculating it.
19	A. We were just talking about Roger Moran's	19	Q. But you believe it's probably criticism of
20	book, and I think his book criticizes the VR/SV, as I	20	use of historical growth rates?
21	recall. I'm trying to think what sources I've seen that	21	<ol> <li>No. The criticism was of the VR plus SV.</li> </ol>
22	criticize it. This statement is not original with me,	22	The methodology in which they were calculating how much
22	that the calculation of a growth rate. It's been	23	was historical and how much might have been forecasted is
23		E	
	approached from several different directions. The	24	what I don't recall.
23	approached from several different directions. The calculation of the growth rate is more direct and probably	24 25	what I don't recall. Q. Have you used the VR plus SV growth rate in
23 24 25	calculation of the growth rate is more direct and probably Page 94 more reliable through other methods than using the VR plus	25	Q. Have you used the VR plus SV growth rate in Page 9 any of your testimonies?
23 24 25 .1 2	calculation of the growth rate is more direct and probably Page 94 more reliable through other methods than using the VR plus SV.	25 1 2	Q. Have you used the VR plus SV growth rate in Page 9 any of your testimonies? A. I don't think so. I may have used it
23 24 25 .1 2 3	calculation of the growth rate is more direct and probably Page 94 more reliable through other methods than using the VR plus SV. Q. Whose thought was this originally?	25 1 2 3	Q. Have you used the VR plus SV growth rate in Page 9 any of your testimonies? A. I don't think so. I may have used it indirectly when others have used it and I've pointed out
23 24 25 1 2 3 4	Calculation of the growth rate is more direct and probably Page 94 more reliable through other methods than using the VR plus SV. Q. Whose thought was this originally? A. As I'm sitting here, I can't tell you. I'd	25 1 2 3 4	Q. Have you used the VR plus SV growth rate in Page 9 any of your testimonies? A. I don't think so. I may have used it indirectly when others have used it and I've pointed out that there was maybe a superior way to calculate. So I
23 24 25 1 2 3 4 5	Calculation of the growth rate is more direct and probably Page 94 more reliable through other methods than using the VR plus SV. Q. Whose thought was this originally? A. As I'm sitting here, I can't tell you. I'd have to go back and look at some things.	25 1 2 3 4 5	Q. Have you used the VR plus SV growth rate in Page 9 any of your testimonies? A. I don't think so. I may have used it indirectly when others have used it and I've pointed out that there was maybe a superior way to calculate. So I can't say I positively have never used it. I don't recail
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	Page 97	Į	Page 99
1		1	Q. And would you agree with me that ValueLine,
z	So it was we were rather convinced that they're not	2	that growth, that 6 percent growth estimate is just the
3	promoting any method, and that was the case I say 6 to 12	3	opinion of one analyst?
4	months ago.	4	A. No, I would not. It's an opinion of one
5	Q. What do you think that the most reliable	5	research one analytical source or one financial source.
6	technique is to determine the growth rate component of the	6	Q. And so is it your I just want to
7	DCF?	7	understand this. Is it your testimony that ValueLine
8	A. I told you just a moment ago, I think it's	8	somehow goes out and looks at other analysts' growth
9	analyst forecast. It's whatever investors think is the	9	estimates for Empire in arriving at their 6 percent?
10	growth rate, and that probably would change from time to	10	A. I don't know how they precisely what
11	time. And to think it's a mechanical process of saying	11	they precisely look at to bring it in house, and I have
12	this is the right answer, and to think that that's going	12	not checked this recently, but my recollection of what
13	to be the right answer for a long period of time, all	13	ValueLine does is they have a person follows a security,
14	those things are suspect.	14	and that person makes a recommendation to a group, and
15	Q. But your best	15	it's the group recommendation or it's the ValueLine
16	A. And I think today that there is enough	16	recommendation that comes out of that.
17	information available that analysts are looking or what	17	Q. When I look at the ValueLine
18	analysts are convincing investors is the growth rate is	18	recommendation, I've got a copy of your work papers here
19	probably what is germane.	19	and I've got the page from ValueLine regarding the Empire
20	· · · -	20	District and the earnings growth at 6 percent. I see the
21		21	name here of Paul E. Debbas, D-e-b-a-s, CFA, as the
22	· · · · ·	22	individual that did that report.
23		23	A. That's the person that writes the report,
24		24	as I understand it, and follows that company, but that
25		25	doesn't mean the forecasts are all his, as I understand
		1	
Γ	Page 98		Page 100
1		1	the ValueLine process. It's a publication and it's a
2		2	commercial publication, and this has been described in the
3		3	past and I'm sitting here telling you my recollection of
4	-	4	it. It goes through essentially a review committee
5		5	process, and that's that would be distinguished from a
6		6	particular analyst sitting and saying, okay, here's what I
17		7	think.
8		8	Q. Let me ask you about that review committee
g		9	process, then. What you're saying is that more than the
10		10	analyst who writes that bit about Empire, everybody in
1		11	that group has their own growth rate estimates for Empire
1		12	and then they settle on the 6 percent?
13		13	A. I don't know what happens inside of
14		14	ValueLine when you close the door.
1		15	Q. So you really don't know sitting there how
1		16	ValueLine arrived at that 6 percent?
	· ·	1	A. I told you what I understood was the
1	7 sit here and tell you that I can cite an article about it,	17	A. I told you what I understood was the
1		17 18	process in ValueLine when they sort of opened the door a
1	but I'm sure there must be because there's bound to be.		
1	<ul> <li>but I'm sure there must be because there's bound to be.</li> <li>Q. Now, you use the ValueLine estimate, is</li> </ul>	18	process in ValueLine when they sort of opened the door a
11	<ul> <li>but I'm sure there must be because there's bound to be.</li> <li>Q. Now, you use the ValueLine estimate, is</li> <li>that correct, in determining your growth rate?</li> </ul>	18 19	process in ValueLine when they sort of opened the door a crack.
11 19 20	<ul> <li>but I'm sure there must be because there's bound to be.</li> <li>Q. Now, you use the ValueLine estimate, is</li> <li>that correct, in determining your growth rate?</li> <li>A. Yes. And Standard &amp; Poor's for earnings,</li> </ul>	18 19 20	process in ValueLine when they sort of opened the door a crack. Q. And who told you that?
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11 19 20 2	<ul> <li>but I'm sure there must be because there's bound to be.</li> <li>Q. Now, you use the ValueLine estimate, is</li> <li>that correct, in determining your growth rate?</li> <li>A. Yes. And Standard &amp; Poor's for earnings,</li> <li>but I use ValueLine primarily.</li> <li>Q. But ValueLine primarily, and that's where</li> </ul>	18 19 20 21 22	process in ValueLine when they sort of opened the door a crack. Q. And who told you that? A. As I remember, it was something that was written about the ValueLine process a few years ago. Q. Did you
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Page 101 1 Q. Did you call ValueLine to find out how they	Page 103 1 They'd be more likely to know that than I would.
2 arrived at the 6 percent?	•
3 A. No, of course not. Or I say of course not.	2 Q. Let me ask you this: Why did you pick the 3 highest growth estimate?
4 I did not.	
5 Q. Are you aware that the Standard & Poor's	
6 growth rate for Empire District, according to your work	
7 papers, the five-year projected EPS growth rate is	6 that I calculated or the highest growth estimate. Because 7 it's relevant.
8 2 percent?	
9 A. Sure.	
10 Q. And are you aware that that's based on four	
11 analysts who cover	
12 A. Yes.	· · · · · · · · · · · · · · · · · · ·
13 Q Empire for a living?	
	13 generally available and S&P is not.
<ol> <li>A. There are four people, and Empire is among</li> <li>the companies that they cover, yes.</li> </ol>	14 Q. Generally available to who?
	15 A. Public libraries and locations where you
16 Q. And those folks probably do it for a 17 living, correct?	16 don't find Standard & Poor's.
	17 Q. Is, for example, Thompson growth estimates,
······································	18 consensus growth estimates generally available on the
19 that's probably that I think can be determined, but I	19 Internet?
20 don't happen to know who they are, and they are	20 A. Yes.
21 professional analysts.	21 Q. And that's a consensus growth rate, right?
22 Q. And so those four folks at least believe	22 A. That's right.
23 that it's going to be 2 percent?	23 Q. What I'm trying to understand, Dr. Murry,
24 A. That's a consensus that comes out of the	24 is other than the fact that S&P is generally or excuse
25 four, yes.	25 me ValueLine is generally available, why did you choose
Page 102	
1 Q. So some could be higher, some could be	Page 104 1 to utilize primarily or rely heavily on the 6 percent
2 lower?	2 growth rate, the highest growth rate out there?
3 A. That is correct.	3 A. I think ValueLine is in the past and
4 Q. Other than the S&Ps, are there other	4 present a very reputable source and widely recognized
5 analysts growth projections consensus such as Thompson and	5 source, and I have always considered the rest of my
6 IBES?	6 data came from ValueLine for that same reason. I have
7 A. Well, as I I'm trying to remember who	7 felt that way for some time and still feel that way.
8 was whom, who's who. 1 think that you're getting	8 Q. Do you think S&P, Standard & Poor's, is a
9 essentially the same people when you use the term IBES,	9 reputable source?
10 Thompson and Standard & Poor's. I'd have to double check	10 A. Of course.
11 that, but I believe that's correct.	11 Q. Do you think Thompson Financial is a
12 Q. So it's your view that those are not	12 reputable source?
13 independent companies?	13 A. To my knowledge, their reporting is
14 A. I think there's at least no, I didn't	14 accurate.
15 say that.	15 Q. Do you think IBES is a reputable source?
16 Q. Okay. I'm sorry.	16 A. I'd say the same thing about them.
17 A. Talking about the analysts. These are not	17 Q. And what is it about ValueLine that gives
18 Standard & Poor's analysts among those four, and I	18 you the warm fuzzies over Thompson Financial, IBES or
19 think I can't sit here and tell you positively. I	19 Standard & Poor's?
	20 A. Let me I tried to answer that question.
20 think there's an overlap.	
20 think there's an overlap. 21 Q. How many equity analysts cover Empire	21 I think ValueLine is widely recognized. I think it is
	<ol> <li>I think ValueLine is widely recognized. I think it is</li> <li>generally more widely recognized historically. There has</li> </ol>
21 Q. How many equity analysts cover Empire	······································
21 Q. How many equity analysts cover Empire 22 District Electric?	<ul><li>generally more widely recognized historically. There has</li><li>been empirical testing of ValueLine to show you that. And</li></ul>
21       Q. How many equity analysts cover Empire         22       District Electric?         23       A. I don't know.	<ul><li>generally more widely recognized historically. There has</li><li>been empirical testing of ValueLine to show you that. And</li></ul>

26 (Pages 101 to 104)

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I .	Page 105	Ι.	Page 107
1	financial source. And the irony is it's what the investor		perform it on a group of comparable companies?
3	thinks that counts.	2	A. When for some reason one doesn't believe
4	Q. Okay. Let's unpack that. What empirical	3	the analysis of the subject company would give a
	testing is there that suggests that ValueLine is superior?	4	representative return that's relevant for or cost of
5	A. I mentioned that earlier.	5	capital that's relevant for a rate case.
1	Q. Mention it again.	6	Q. Do we have that case here with Empire?
	A. Okay. You're asking me about you're	7	A. Well, obviously I didn't think so because I
8	asking me about growth rates, and I told you that analyst	8	calculated cost of capital,
9	growth rates were superior, and my recollection was that	9	Q. Do you know if any witnesses in this
10	specifically the preferred was ValueLine.	10	proceeding thought it was appropriate to do a cost of
11	Q. And what empirical study is this?	11	capital analysis based on a group of comparable companies?
1	A. I told you I can't sit here and cite it.	12	A. Well, I think I saw in rebuttal that there
13 14	Q. But you've read one? A. That's my recollection, yes.	13	may have been an accusation of Vander Weide that he did
15	··· , ····· , , <u>···</u>	14	this, but I haven't read his testimony yet, so I don't
15	Q. Okay. Have you seen any studies that	15	know whether he did or not. I'm referring now just to I
17	indicate that S&P isn't on the mark or appropriate for use?	16	thought I picked that up in just reading through one of
18		17	the rebuttals I got in the last few days.
19	A. I don't remember a study that said one way or the other about S&P.	18	Q. So you haven't read Dr. Vander Weide's
20	Q. What about Thompson Financial, have you	19	testimony?
21	seen any studies that indicate that they're not on the	20	A. I haven't read it yet.
22	mark?	21	Q. Why did you think it was appropriate to do
23	A. I don't recall seeing anything that said	22	a DCF analysis just on Empire in this proceeding and
24	one way or the other about them. I told you I think they	23	Empîre alone?
25	report accurately. I'm not questioning the accuracy of	24	A. Well, as I think I've said in several
	report according. The net questioning the accuracy of		different ways, that I think the DCF calculations are
1	Page 106 their data.	1	Page 108 relevant, but I think there's some clear problems with the
2	Q. I'm just trying to understand if there are	2	DCF calculation for Empire, which I pointed out.
3	any other academic studies out there so I've covered the	3	Q. What's the appropriate time period to
4	waterfront. What about IBES, are there any	- T	
		4	
5	A. The same answer. I can't recall seeing one	45	analyze when performing a risk premium analysis?
5	A. The same answer. I can't recall seeing one on them.	5	<ul><li>analyze when performing a risk premium analysis?</li><li>A. I think that clearly depends on the</li></ul>
	-		<ul><li>analyze when performing a risk premium analysis?</li><li>A. I think that clearly depends on the circumstances and the purpose.</li></ul>
6	on them.	5 6	<ul> <li>analyze when performing a risk premium analysis?</li> <li>A. I think that clearly depends on the circumstances and the purpose.</li> <li>Q. For performing a risk premium analysis on</li> </ul>
6 7	on them. Q. Give me your understanding of this	5 6 7	<ul><li>analyze when performing a risk premium analysis?</li><li>A. I think that clearly depends on the circumstances and the purpose.</li></ul>
6 7 8	on them. Q. Give me your understanding of this empirical study that suggests the conclusions of this	5 6 7 8	<ul> <li>analyze when performing a risk premium analysis?</li> <li>A. I think that clearly depends on the circumstances and the purpose.</li> <li>Q. For performing a risk premium analysis on Empire District Electric, what is the appropriate time frame?</li> </ul>
6 7 8 9	on them. Q. Give me your understanding of this empirical study that suggests the conclusions of this empirical study that suggest that ValueLine is a better indicator of growth. A. As I recall, it was just a look back of the	5 6 7 8 9	<ul> <li>analyze when performing a risk premium analysis?</li> <li>A. I think that clearly depends on the circumstances and the purpose.</li> <li>Q. For performing a risk premium analysis on Empire District Electric, what is the appropriate time frame?</li> </ul>
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6 7 8 9 10 11 12 13 14 15 16	on them.         Q.       Give me your understanding of this         empirical study that suggests the conclusions of this         empirical study that suggest that ValueLine is a better         indicator of growth.         A.       As I recall, it was just a look back of the         history of performance based on what had been forecasted.         That's my recollection.         Q.       Was that ValueLine versus other estimates         or ValueLine versus historical growth of a company?         A.       I don't know that I understand the	5 6 7 8 9 10 11 12 13 14	<ul> <li>analyze when performing a risk premium analysis?</li> <li>A. I think that clearly depends on the circumstances and the purpose.</li> <li>Q. For performing a risk premium analysis on Empire District Electric, what is the appropriate time frame?</li> <li>A. The answer's still the same. It depends on the circumstances and the purpose.</li> <li>Q. How about for determining the cost of capital in a rate case proceeding such as this?</li> <li>A. I don't think I would do a and I did</li> </ul>
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6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	<ul> <li>on them.</li> <li>Q. Give me your understanding of this</li> <li>empirical study that suggests the conclusions of this</li> <li>empirical study that suggest that ValueLine is a better</li> <li>indicator of growth.</li> <li>A. As I recall, it was just a look back of the</li> <li>history of performance based on what had been forecasted.</li> <li>That's my recollection.</li> <li>Q. Was that ValueLine versus other estimates</li> <li>or ValueLine versus historical growth of a company?</li> <li>A. I don't know that I understand the</li> <li>question, but let me just answer the question that I</li> <li>that I think that you asked, and that is, it was ValueLine</li> <li>results compared to what actually occurred.</li> <li>Q. Let me ask you this: Should a cost of</li> </ul>	5 6 7 8 9 10 11 12 13 14 15 16 17 18	<ul> <li>analyze when performing a risk premium analysis?</li> <li>A. I think that clearly depends on the circumstances and the purpose.</li> <li>Q. For performing a risk premium analysis on Empire District Electric, what is the appropriate time frame?</li> <li>A. The answer's still the same. It depends on the circumstances and the purpose.</li> <li>Q. How about for determining the cost of capital in a rate case proceeding such as this?</li> <li>A. I don't think I would do a and I did not, do a strict risk premium analysis for Empire in this particular case.</li> <li>Q. If you were to do it, what time frame would you utilize?</li> </ul>
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6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	<ul> <li>on them.</li> <li>Q. Give me your understanding of this</li> <li>empirical study that suggests the conclusions of this</li> <li>empirical study that suggest that ValueLine is a better</li> <li>indicator of growth.</li> <li>A. As I recall, it was just a look back of the</li> <li>history of performance based on what had been forecasted.</li> <li>That's my recollection.</li> <li>Q. Was that ValueLine versus other estimates</li> <li>or ValueLine versus historical growth of a company?</li> <li>A. I don't know that I understand the</li> <li>question, but let me just answer the question that I</li> <li>that I think that you asked, and that is, it was ValueLine</li> <li>results compared to what actually occurred.</li> <li>Q. Let me ask you this: Should a cost of</li> <li>capital witness perform a DCF analysis on the common stock</li> <li>of the subject company or just perform a DCF analysis on a</li> </ul>	5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	<ul> <li>analyze when performing a risk premium analysis?</li> <li>A. I think that clearly depends on the circumstances and the purpose.</li> <li>Q. For performing a risk premium analysis on Empire District Electric, what is the appropriate time frame?</li> <li>A. The answer's still the same. It depends on the circumstances and the purpose.</li> <li>Q. How about for determining the cost of capital in a rate case proceeding such as this?</li> <li>A. I don't think I would do a and I did not, do a strict risk premium analysis for Empire in this particular case.</li> <li>Q. If you were to do it, what time frame would you utilize?</li> <li>A. I don't think I'd be interested in, as some people have done, looking at a period prior to World</li> </ul>
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6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24	<ul> <li>on them.</li> <li>Q. Give me your understanding of this</li> <li>empirical study that suggests the conclusions of this</li> <li>empirical study that suggest that ValueLine is a better</li> <li>indicator of growth.</li> <li>A. As I recall, it was just a look back of the</li> <li>history of performance based on what had been forecasted.</li> <li>That's my recollection.</li> <li>Q. Was that ValueLine versus other estimates</li> <li>or ValueLine versus historical growth of a company?</li> <li>A. I don't know that I understand the</li> <li>question, but let me just answer the question that I</li> <li>that I think that you asked, and that is, it was ValueLine</li> <li>results compared to what actually occurred.</li> <li>Q. Let me ask you this: Should a cost of</li> <li>capital witness perform a DCF analysis on the common stock</li> <li>of the subject company or just perform a DCF analysis on a</li> <li>group of comparable companies?</li> <li>A. I think it depends on the circumstance.</li> </ul>	5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	<ul> <li>analyze when performing a risk premium analysis?</li> <li>A. I think that clearly depends on the circumstances and the purpose.</li> <li>Q. For performing a risk premium analysis on Empire District Electric, what is the appropriate time frame?</li> <li>A. The answer's still the same. It depends on the circumstances and the purpose.</li> <li>Q. How about for determining the cost of capital in a rate case proceeding such as this?</li> <li>A. I don't think I would do a and I did not, do a strict risk premium analysis for Empire in this particular case.</li> <li>Q. If you were to do it, what time frame would you utilize?</li> <li>A. I don't think I'd be interested in, as some people have done, looking at a period prior to World War II, and I have problems with risk premium analysis as an independent calculation because of the structural change that's been occurring in the electric industry and what I think are probably changing perceptions on the part</li> </ul>
6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	on them. Q. Give me your understanding of this empirical study that suggests the conclusions of this empirical study that suggest that ValueLine is a better indicator of growth. A. As I recall, it was just a look back of the history of performance based on what had been forecasted. That's my recollection. Q. Was that ValueLine versus other estimates or ValueLine versus historical growth of a company? A. I don't know that I understand the question, but let me just answer the question that I that I think that you asked, and that is, it was ValueLine results compared to what actually occurred. Q. Let me ask you this: Should a cost of capital witness perform a DCF analysis on the common stock of the subject company or just perform a DCF analysis on a group of comparable companies?	5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	<ul> <li>analyze when performing a risk premium analysis?</li> <li>A. I think that clearly depends on the circumstances and the purpose.</li> <li>Q. For performing a risk premium analysis on Empire District Electric, what is the appropriate time frame?</li> <li>A. The answer's still the same. It depends on the circumstances and the purpose.</li> <li>Q. How about for determining the cost of capital in a rate case proceeding such as this?</li> <li>A. I don't think I would do a and I did not, do a strict risk premium analysis for Empire in this particular case.</li> <li>Q. If you were to do it, what time frame would you utilize?</li> <li>A. I don't think I'd be interested in, as some people have done, looking at a period prior to World War II, and I have problems with risk premium analysis as an independent calculation because of the structural change that's been occurring in the electric industry and</li> </ul>

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# MIDWEST LITIGATION SERVICES Phone: 1.800.280.DEPO(3376)

1 2	Page 109	Page 111
2	when you start looking very far back in history, you're	1 A. I don't understand the question.
	probably not representative of what the current market is	2 Q. Well, if you're going to perform a risk
3	and the way investors are looking at the current market.	3 premium analysis on a certain company and you get that
4	I think the information is relevant. As I	4 analysis for the market and you have a certain beta for
5	pointed out, there needs to be a sufficient gap, a	5 the subject company, is it appropriate to adjust the risk
6	reasonable gap between the bond market and the equity rate	6 premium based on the beta profile of the subject company?
7	market, but it's a question of how much you rely on that.	7 A. I would have to know more about that before
8	Q. So you would go from World War II to date?	8 I'd methodologically comment on it.
9	A. I just I said I wouldn't go to World	9 Q. So you don't have enough factors in there?
10	War I wouldn't go beyond World War II as some people	10 A. From the hypothetical you've described, I
11	have done, I don't think.	11 don't know how to answer.
12	Q. So 1945 forward?	12 Q. Let me ask you this: You also did a
13	A. I didn't say that either. I don't have a	13 capital asset pricing model as a check or as part reliance
14	time in mind. I didn't do it, so I didn't go down that	14 for your recommendation in this case; is that a proper
15	avenue.	15 understanding?
16	Q. Why didn't you do a risk premium in this	<ol> <li>A. I think you've characterized it accurately.</li> </ol>
17	proceeding?	17 Q. Why is it appropriate to use a beta in your
18	A. I think I just answered that. I said I	18 CAPM that was calculated using the New York Stock Exchange
19	have some real problems with risk premium in the current	19 as the market and a market return that incorporates not
20	marketplace.	20 only the New York Stock Exchange listed companies but also
21	Q. And elucidate for me those real problems.	21 the American Stock Exchange and the NASDAQ listed
22	<ol> <li>I already did. I'll repeat it.</li> </ol>	22 companies?
23	Q. That would be great.	23 A. I think they're both representative of
24	A. And that is that structural changes in the	24 market conditions. The competitive funds that one must
25	market have changed probably investors' perceptions of	25 look at as alternative investments to in this case Empire
1	Page 110 utility securities, and there's probably a differential	Page 112 1 certainly include smaller companies.
1	that's change there's probably things going on on the	1
2		2 Q. But on the one side of the equation, you
3	investors' side of the market that are hard to interpret,	2 Q. But on the one side of the equation, you 3 only used the New York Stock Exchange companies, and on
3	investors' side of the market that are hard to interpret,	3 only used the New York Stock Exchange companies, and on
3	investors' side of the market that are hard to interpret, and just saying mechanically you can pick a differential	<ul> <li>only used the New York Stock Exchange companies, and on</li> <li>the other side you used the American Stock Exchange and</li> </ul>
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	Page 113		Page 115
1	determining the current risk-free rate as you did in your	1	A. I'm not as I'm sitting here, I'm not
2	Schedule 20 to your direct testimony?	2	sure that there are or there aren't.
3	A. What's your question?	3	Q. Let me ask you this: Do you think it's
4	Q. My question is, why is it appropriate in	4	appropriate to use one electric proxy group for conducting
5	your CAPM analysis to one proxy for the risk-free rate	5	a DCF analysis and a different proxy group for conducting
6	when determining the risk premium and a different proxy	6	a risk premium analysis when you're looking at the same
7	when determining the current risk-free rate? And if it	7	company?
8	helps you out, I'm looking at the long-term corporate	8	A. Well, I didn't do it.
9	bonds return of 6.2 percent	9	Q. I understand that. Do you think it's
10	A. Right.	10	appropriate to do it that way?
11	Q where you used Ibbotson.	11	A. I can't judge methodologically whether it
12	A. Right,	12	would make sense or not for some reason. I did not do it.
13	Q. And the AAA corporate bonds return of 5.45	13	Q. Why didn't you do that?
14	percent where you used the Federal Reserve publication	14	A. I was looking for a benchmark set of
15	according to your work papers.	15	companies that were not in financial difficulty, that
16	A. Okay. I understand. The long – this is	16	would generate benchmark numbers for this rate case for me
17	looking at a historical CAPM, and the long-term corporate	17	to evaluate for my recommendation.
18	bond rate is the is the benchmark historical bond rate,	18	Q. Let me ask you this: Is there some reason
19	return on bonds. And then for the current rate, in this	19	you didn't review Dr. Vander Weide's testimony?
20	case I used AAA corporate bonds, which, in fact, is going	20	A. No. I intend to. I just haven't done it
21	to bias my results downward because the AAA rates is	21	yet. I guess the reason is I've been busy. I
22	actually going to be lower than the BBB rate, which is the	22	purposefully and you'd have to ask him, and I guess you
23	Empire result, current rating, which for that reason is a	23	probably will Friday.
24	very conservative estimate.	24	Q. I will.
25	Q. Well, if you compared an apples to apples	25	A. But you'll have to ask him. I purposefully
1		1	
	Dece 114		Deco 116
	Page 114 comparison of AAA to AAA, would there be no bias at all	1	Page 116 have not talked to him about this testimony because I
1	comparison of AAA to AAA, would there be no bias at all	1	have not talked to him about this testimony because $\widetilde{\mathbf{I}}$
2	comparison of AAA to AAA, would there be no bias at all because you'd be comparing apples to apples?	2	have not talked to him about this testimony because I thought we should do it independently. And I believe that
2 3	comparison of AAA to AAA, would there be no bias at all because you'd be comparing apples to apples? A. I think what I think you misunderstood	2 3	have not talked to him about this testimony because I thought we should do it independently. And I believe that there may have been a couple phone calls where we were.
2 3 4	comparison of AAA to AAA, would there be no bias at all because you'd be comparing apples to apples? A. I think what I think you misunderstood what I said. The 5.54 percent is the current return at	2 3 4	<ul> <li>have not talked to him about this testimony because I</li> <li>thought we should do it independently. And I believe that</li> <li>there may have been a couple phone calls where we were</li> <li>both on the phone at the same time with other people</li> </ul>
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Page 117 westors that buy utility stocks are that precise in sualizing their expected cash flows. Theoretically, is sound. Theoretically, mathematically it would be here precise to what the stream of earnings would be. You an look at financial you can look at financial reports and some of them will have a quarterly dividend schedule in them. Most of them probably do not. <b>Q. Let me ask you this: Do you know if Empire</b> <b>District Electric pays their dividends on a quarterly</b> <b>Pasis or an annual basis?</b> A. I probably have to verify that, look it up. think they pay on a quarterly basis. Probably have hat. This ValueLine I'm looking at, which is room early January 2004, shows a quarterly dividend of iz cents. That goes from December 31st, 2003, back to irst quarter 2000. Q. So investors would be aware, would they not, because the ubiquitous one they all use is ValueLine,	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18	Page 115 they had a they had a different revenue profile. Q. So it has to do with the vertical integration of the electric companies? A. Well, I'm not I think it has to do with a lot of things. I'm not going to try to sit here and just quickly dissect that much further. The cash flow of a gas distribution company looks different than the cash flow of electric companies generally. Q. I want to ask, do you have copies of your DR responses to our Data Requests with you? A. I don't think so. Q. Okay. That's fine. I can hand you some. I want to ask you some questions about this, specifically our Data Request 2102, which provided two hypothetical companies, and you indicated in your answer, Dr. Murry believes that the hypothetical company No. 2 method for estimating cost of for estimating capital structure
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<ul> <li>Q. Let me ask you this: Do you know if Empire</li> <li>District Electric pays their dividends on a quarterly basis or an annual basis?</li> <li>A. I probably have to verify that, look it up. think they pay on a quarterly basis. Probably have hat.</li> <li>This ValueLine I'm looking at, which is rom early January 2004, shows a quarterly dividend of 12 cents. That goes from December 31st, 2003, back to irst quarter 2000.</li> <li>Q. So investors would be aware, would they</li> </ul>	8 9 10 11 12 13 14 15 16 17	flow of electric companies generally. Q. I want to ask, do you have copies of your DR responses to our Data Requests with you? A. I don't think so. Q. Okay. That's fine. I can hand you some. I want to ask you some questions about this, specifically our Data Request 2102, which provided two hypothetical companies, and you indicated in your answer, Dr. Murry believes that the hypothetical company No. 2 method for estimating cost of for estimating capital structure
A. I probably have to verify that, look it up. think they pay on a quarterly basis. Probably have hat. This ValueLine I'm looking at, which is rom early January 2004, shows a quarterly dividend of 22 cents. That goes from December 31st, 2003, back to irst quarter 2000. Q. So investors would be aware, would they	9 10 11 12 13 14 15 16 17	<ul> <li>Q. I want to ask, do you have copies of your</li> <li>DR responses to our Data Requests with you?</li> <li>A. I don't think so.</li> <li>Q. Okay. That's fine. I can hand you some.</li> <li>I want to ask you some questions about this, specifically our Data Request 2102, which provided two hypothetical companies, and you indicated in your answer, Dr. Murry believes that the hypothetical company No. 2 method for estimating cost of for estimating capital structure</li> </ul>
A. I probably have to verify that, look it up. think they pay on a quarterly basis. Probably have hat. This ValueLine I'm looking at, which is rom early January 2004, shows a quarterly dividend of 2 cents. That goes from December 31st, 2003, back to irst quarter 2000. Q. So investors would be aware, would they	10 11 12 13 14 15 16 17	DR responses to our Data Requests with you?       A.       I don't think so.         Q.       Okay. That's fine. I can hand you some.         I want to ask you some questions about this, specifically         our Data Request 2102, which provided two hypothetical         companies, and you indicated in your answer, Dr. Murry         believes that the hypothetical company No. 2 method for         estimating cost of for estimating capital structure
<ul> <li>A. I probably have to verify that, look it up.</li> <li>think they pay on a quarterly basis. Probably have</li> <li>hat.</li> <li>This ValueLine I'm looking at, which is</li> <li>rom early January 2004, shows a quarterly dividend of</li> <li>i2 cents. That goes from December 31st, 2003, back to</li> <li>irst quarter 2000.</li> <li>Q. So investors would be aware, would they</li> </ul>	11 12 13 14 15 16 17	<ul> <li>A. I don't think so.</li> <li>Q. Okay. That's fine. I can hand you some.</li> <li>I want to ask you some questions about this, specifically our Data Request 2102, which provided two hypothetical companies, and you indicated in your answer, Dr. Murry believes that the hypothetical company No. 2 method for estimating cost of for estimating capital structure</li> </ul>
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hat. This ValueLine I'm looking at, which is rom early January 2004, shows a quarterly dividend of 2 cents. That goes from December 31st, 2003, back to irst quarter 2000. Q. So investors would be aware, would they	13 14 15 16 17	I want to ask you some questions about this, specifically our Data Request 2102, which provided two hypothetical companies, and you indicated in your answer, Dr. Murry believes that the hypothetical company No. 2 method for estimating cost of for estimating capital structure
This ValueLine I'm looking at, which is rom early January 2004, shows a quarterly dividend of 2 cents. That goes from December 31st, 2003, back to irst quarter 2000. Q. So investors would be aware, would they	14 15 16 17	our Data Request 2102, which provided two hypothetical companies, and you indicated in your answer, Dr. Murry believes that the hypothetical company No. 2 method for estimating cost of for estimating capital structure
rom early January 2004, shows a quarterly dividend of 2 cents. That goes from December 31st, 2003, back to irst quarter 2000. Q. So investors would be aware, would they	15 16 17	companies, and you indicated in your answer, Dr. Murry believes that the hypothetical company No. 2 method for estimating cost of for estimating capital structure
2 cents. That goes from December 31st, 2003, back to irst quarter 2000. Q. So investors would be aware, would they	16 17	believes that the hypothetical company No. 2 method for estimating cost of for estimating capital structure
verter 2000. Q. So investors would be aware, would they	17	estimating cost of for estimating capital structure
Q. So investors would be aware, would they		
•	18	
not, because the ubiquitous one they all use is ValueLine,	1	would be unorthodox and in almost all cases inappropriate
had Burnston and a survey to the track of the	19	for ratemaking.
hat Empire uses a quarterly dividend?	20	A. I recall that.
A. Yes. Investors who want to know and	21	Q. What cases would it be appropriate for
nvestors who expect a check would know that, yes.	22	ratemaking?
• •	·	A. Let's speak about what you call Company 2
. ,	i i	here in a general way, which I think is using market value
Q. Is it appropriate to use a gas company	25	as opposed to book value, if I understand the
Page 118 proxy group to determine the cost of capital for an electric company such as Empire?	1 2	Page 120 hypothetical. In cases where I've seen that it's useful or actually required almost is in cases where there's been
A. I have looked at gas companies as relevant	3	an acquisition of assets and the acquisition is a market
to electric companies in the past. I think it might be	4	valuation that may not be reflected in book value, and the
relevant. I don't think I'd substitute gas companies for	5	recovery costs of that are appropriate for ratemaking.
electric companies. I don't think I've ever done that.	6	And I and that's one I'm just thinking of. There may
Q. You've never done it?	7	be others.
A. I don't think I've ever substituted gas	8	Q. Let me ask you this: Would this method be
companies for electric companies. I've looked at them	9	appropriate for use in this proceeding?
both.	10	A. If I understand it correctly, I didn't do
Q. And why wouldn't you substitute a gas	11	that. So I guess I think I prefer what I did, which is
company for an electric company? Are their risk profiles	12	looking at book value, if I understand the this is a
different?	13	hypothetical case.
A. I think in today's market there's	14	Q. I understand that.
sufficient difference that I would be more comfortable	15	A. So I'm trying to respond to that.
using electric companies in cases I can think of.	16	Q. If somebody did a hypothetical like that in
Q. What are the differences between an	17	this proceeding, would it be appropriate?
electric company and a gas company that make those	18	A. All I can say is that I didn't do it
differences sufficient, to use your term?	19	really. That's kind of the beginning and the end of my
A. As electric companies become closer to wire	20	thoughts about that. I I haven't seen I haven't
companies, some of the differences may actually be	21	seen evidence that would persuade me that I should change
reconverging. For a period of time I think the big		what I did.
	1	
electric companies and gas companies were mostly were		acquisition of assets that you mentioned as perhaps
,		reason for utilizing this type of hypothetical, are the
	<ul> <li>broxy group to determine the cost of capital for an electric company such as Empire?</li> <li>A. I have looked at gas companies as relevant to electric companies in the past. I think it might be relevant. I don't think I'd substitute gas companies for electric companies. I don't think I've ever done that.</li> <li>Q. You've never done it?</li> <li>A. I don't think I've ever substituted gas companies for electric companies. I've looked at them both.</li> <li>Q. And why wouldn't you substitute a gas company for an electric company? Are their risk profiles different?</li> <li>A. I think in today's market there's sufficient difference that I would be more comfortable using electric companies in cases I can think of.</li> <li>Q. What are the differences between an electric companies become doser to wire companies, some of the differences may actually be reconverging. For a period of time I think the big difference, a big different was the generation of the</li> </ul>	A. Yes. A lot of places they can find that.       24         Q. Is it appropriate to use a gas company       25         Page 118       1         coroxy group to determine the cost of capital for an electric company such as Empire?       2         A. I have looked at gas companies as relevant       3         co electric companies in the past. I think it might be relevant. I don't think I'd substitute gas companies for 5       5         electric companies. I don't think I've ever done that.       6         Q. You've never done it?       7         A. I don't think I've ever substituted gas companies for electric companies. I've looked at them 9       9         both.       10         Q. And why wouldn't you substitute a gas company for an electric company? Are their risk profiles 12       11         company for an electric company? Are their risk profiles 12       13         A. I think in today's market there's 14       14         sufficient difference that I would be more comfortable 15       15         using electric companies in cases I can think of.       16         Q. What are the differences between an 17       17         A. As electric companies become doser to wire 20       20         companies, some of the differences may actually be 21       21         reconverging. For a period of time I think the big 21       22

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	Page 121		Page 123
1	any other reasons?	1	My question to you is, is it correct that
2	A. Well, like I said, I don't know. That's an	2	Standard & Poor's has both qualitative and quantitative
3	instance where I'd actually been involved in those kinds	3	measures that they go over
4	of adjustments to a market to a capital structure, and	4	A. Of course.
5	I think they were I think they were appropriate in	5	Q to determine a specific range?
6	those instances. There might be others. I'm not sure.	6	A. They so state.
7	Q. Well, your answer says, in almost all cases	7	Q. And so just focusing on two or three of
8	it's inappropriate for ratemaking.	8	those, be it qualitative or quantitative measures, doesn't
9	A. Well	9	guarantee what Standard & Poor's is going to rate a
10	Q. And I'm trying to figure out because I want	10	specific company?
11	to know when it's appropriate.	11	A. No, it doesn't. But you have to remember
12	A. Well, I told you at least cases when I	12	when you read put my testimony in context, what really
13	thought it was appropriate, and almost says most of the	13	started me looking at these ratios was the fact that
14	time I think I wouldn't do that. My history in this	14	Standard & Poor's published a Credit Watch which stated
15	case, I did not. The history of my testimony has been	15	that there was a negative outlook, and the question,
16	that I have only rarely done that, and there's been	16	hypothetical question in that case is, can we discern
17	specific reasons why I did it when I did it.	17	anything about this, why they would single out Staff
18	Q. Can I infer from the fact	18	position and why they would link that. To me, that was an
19	A. I mean, I'll even point out in one instance	19	extraordinary announcement by a rating agency.
20	that's coming to mind that the market value was less than	20	Q. That's something that you don't see often
21	book and that was my recommendation on the capital	21	in your in your practice, you don't see companies put
22	structure.	22	on negative watch or positive watch based on actions of a
23	Q. Is it safe to infer because you did not do	23	regulatory body?
24	that method in this case you did not think it was	24	<ol> <li>This wasn't an action of a regulatory body.</li> </ol>
25	appropriate?	25	Q. Or the staff of a regulatory body?
		1	
	Page 122	<b>—</b> —	Page 124
1	A. I didn't consider it. That's all you can	1	A. This was specifically and we can dig it
2	really say about that.	2	out and read the words, but best recollection, without
3	Q. You didn't consider it?	3	taking that time, this was a specific statement, if the
4	A. No. I'm responding really to your	4	Commission adopts the recommendation by the Staff.
5	hypothetical question.	5	It's very common, of course, for a rating
6	Q. Let me ask you, sitting here today, would	6	agency to refer to something that came out of a regulatory
7	you consider doing that in this case?	7	commission for a regulated industry that was above or
8	A. I've already testified to that. I said I	8	below what was expected and how that might affect their
9	haven't seen anything from your hypothetical that would	9	view. That's not uncommon. But to single out testimony
10	make me reconsider it.	10	and the implications of that testimony, I don't read
11	Q. Well, take away the hypothetical. Use the	11	everything that they produce, and I'm not claiming I do.
12	numbers and what you know about Empire Electric Empire	12	I don't recall ever seeing that before.
13	District Electric Company. Do you think it's appropriate	13	Q. So this is the first time you've ever seen
14	to use that method in this case?	14	something like a pronouncement like that from Standard &
15	A. I use the capital structure that I	15	Popr's?
16	understood was consistent with the company's capital	16	A. I think it's safe to say it's
17	structure in their case, and I would if I were doing it	17	extraordinary, but you'd have to ask somebody who thinks
18	over, I'd do it the same way.	18	they read all of them or
19	Q. Let me there's been a lot of talk about	19	Q. And that's not you?
20	the Standard & Poor's rating systems, and you've done some	20	A. I have not done that.
21	calculations, my understanding, on some or someone in	21	Q. How did you become aware of the Standard &
22	your office did some calculations in your rebuttal	22	Poor's pronouncement?
23	testimony about various coverage ratios, funds from	23	-
24			
1 4 7		24	is that your question?
25	operations and various other coverage ratios from Standard & Poor's.	24 25	

31 (Pages 121 to 124)

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	Page 125		Page 127	No.
1	pronouncement, if that means you called Standard & Poor's	1	CERTIFICATE OF REPORTER	ų,
2	and got the document	2	STATE OF MISSOURI )	0.00
3	A. No, no. I got that	_	) \$5.	196
4	Q Mr. Gibson from the company gave it to	3	COUNTY OF COLE )	
5	you, Mr. Swearengen gave it to you.	4 5	T VELLENE V EEDDERSEN ROD COD COD and	S
6	A. I got that from the company, but I	6	I, KELLENE K. FEDDERSEN, RPR, CSR, CCR, and Notary Public within and for the State of Missouri, do	Contraction of
7	routinely the ask the company, or treasurer office or	7	hereby certify that the witness whose testimony appears in	
8	someone to send me what they have because they get them	8	the foregoing deposition was duly sworn by me; that the	
9	all and they keep them.	9	testimony of said witness was taken by me to the best of	4
10	Q. And do you know	10	my ability and thereafter reduced to typewriting under my	
11	A. And we don't necessarily get them in my	11	direction; that I am neither counsel for, related to, nor	Ľ.
12	office because we don't they go to people in securities	12	employed by any of the parties to the action to which this	
13	and people that subscribe to them, and we don't subscribe	13	deposition was taken, and further that I am not a relative	077332
14	to all of that. We subscribe to ValueLine, Standard &	14	or employee of any attorney or counsel employed by the	0000
15	Poor's.	15	parties thereto, nor financially or otherwise interested	-
16	Q. Do you know in arriving at their ratings	16 17	in the outcome of the action.	and the
17	whether or not companies do presentations to Standard &	17		et al la comp
18	Poor's and have input on the Standard & Poor's reports?	10	KELLENE K. FEDDERSEN, RPR, CCR	
19	A. I know companies make recommendations or	19	Notary Public, State of Missouri	A. C. LAND
20	make representations to the rating agencies.		(Commissioned in Cole County)	u^, du Pe
21	Q. Do you know whether or not the rating	20	My commission expires 3/28/05.	1
22	agencies provide drafts of the reports for companies to	21		10111111111111111111111111111111111111
23	review prior to publishing them?	22		No.
24	A. I know sometimes they do. I think	23		
25	sometimes they don't.	24		
25	sometimes they don't	25		
				-
	Page 126		Page 128	
1	Q. Do you know if they did that in the case of	1	SIGNATURE PAGE	
2	Empire District Electric?	2	STATE OF MISSOURI ) ) 55.	
3	A. I'm sure they have done so in the past. I	3	COUNTY OF COLE )	1
4	don't know if they did in this instance or not.	4	, , , , , , , , , , , , , , , , , , ,	
5	Q. Did you ask the company that?	5	I, Donald Murry, do hereby certify:	
6	<ol> <li>I haven't discussed that with the company.</li> </ol>	6	That I have read the foregoing deposition;	
7	MR. MICHEEL: Thanks a lot for your time.	7	That I have made such changes in form and/or	
8	Really appreciate it.	8 9	substance to the deposition as might be necessary to render the same true and correct;	and the second
9	(PRESENTMENT WAIVED; SIGNATURE REQUESTED.)	10	That having made such changes thereon, I hereby	
10		11	subscribe my name to the deposition.	
11		12	I declare under penalty of perjury that the	and and a second
12		13	foregoing is true and correct.	
13		14	Executed the day of, 2004, at	S. Marine
14		15	······································	
15		17		A STATE OF
16		l I	DONALD MURRY	
17		18		
18		10	Notary Public:	
19		19	My commission expires:	1
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21		21		1.1
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24		1.1	KF/Donald Murry	
25		24	Re: Empire District Electric Company	
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	ERRATA SHEET Witness: Donald Murry			
3	In Re: Empire District Electric Company			
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24 25	Reporter: Kellene K. Feddersen, RPR, CSR, CCR			
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2	Midwest Litigation Services 714 West High Street P.O. Box 1308 Jefferson City, MO 65102	Page 130		
2	714 West High Street P.O. Box 1308	Page 130		
2 3 4	714 West High Street P.O. Box 1308 Jefferson City, MO 65102	Page 130		
2 3 4 5	714 West High Street P.O. Box 1308 Jefferson City, MO 65102 Phone (573)636-7551 * Fax (573)636-9055 November 11, 2004 James Swearengen	Page 130		
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2 3 4 5 6	714 West High Street P.O. Box 1308 Jefferson City, MO 65102 Phone (573)636-7551 * Fax (573)636-9055 November 11, 2004 James Swearengen Brydon, Swearengen & England	Page 130		
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DONALD MURRY 11/10/2004 Page 128 1 SIGNATURE PAGE 2 STATE OF MISSOURI ) ss. 3 COUNTY OF COLE ì 4 I, Donald Murry, do hereby certify: 5 That I have read the foregoing deposition; 6 That I have made such changes in form and/or 7 substance to the deposition as might be necessary to 8 9 render the same true and correct; That having made such changes thereon, I hereby 10 11 subscribe my name to the deposition. I declare under penalty of perjury that the 12 13 foregoing is true and correct. Executed the 1st day of December 2004, at 14 15 16 Imy 17 DONALD MURRY 18 Notary Public: 19 My commission expires: 4 2005 20 OTAN CAROLYN S. HANES Oklahoma County SEAL #01019787 Notery Public in and for 21 Sude of Oklahoma My commission expires Dec. 4, 2005. 22 23 KF/Donald Murry Re: Empire District Electric Company 24 25

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Should read: Kahn, Coase. I might have them read Modigliani and Reason assigned for change:	Page: 77	
Reason assigned for change:		
Page: 83 Line: 8	reason assigned for challge.	
	Page: 83	Line: 8
	age: 83	Line: 8

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Should read: Cicchetti, a third is Zhen Zhu,	and a fourth would be				
Reason assigned for change: incorrect spelling					
Page: 83	Line: 10				
Should read: Nist, and she obviously helped	with preparation.				
Reason assigned for change: incorrect spelli					
Page: 84	Line: 9				
Should read: A. Cicchetti.					
Reason assigned for change: incorrect spelli	ng				
Page: 84	Line: 11				
Should read: A. $C - i - c - h - e - t - t - t$					
Reason assigned for change: incorrect spelli	ng				
Page: 84	Line: 12				
Should read: Q. And what did Mr. Cicchetti					
Reason assigned for change: incorrect spelling	ng				
Dec. 94					
Page: 84	Line: 20				
Should read: Mr. Cicchetti read my testimo					
Reason assigned for change: incorrect spelli	ng				
Page: 85	Line: 3				
Should read: Q. And what was Mr. Cicchett					
Reason assigned for change: incorrect spellin					
Reason assigned for change. Incontect spenn					
Page: 85	Line: 11				
Should read: Q. What questions did Mr. Cic					
Reason assigned for change: incorrect spellin					
	<i>b</i>				
Page: 86	Line: 24				
Should read: Q. I believe you talked about a					
Reason assigned for change: incorrect spelling					
Page: 86	Line: 25				
Should read: A. Audrey Osburn, yes. Or ex	xcuse me. Audrey				
Reason assigned for change: incorrect spellin					
Page: 87	Line: 1				
Should read: Osburn.					
Reason assigned for change: incorrect spelling	ng				
Page: 87	Line: 2				
Should read: Q. And what did you discuss w	ith Ms. Osburn?				

Reason assigned for change: incorrect spelli	ng
Page: 87	Line: 16
Should read: them. Might have been Dr. K	napp. Might have been me, she
Reason assigned for change: change Mr. to	Dr.
Page: 87	Line: 18
Should read: organized in the office, the tex	t goes through Angie Nist,
Reason assigned for change: incorrect spelli	ng
- <u>-</u>	
Page: 87	Line: 19
Should read: but the schedules come from A	
Reason assigned for change: incorrect spelli	ng
<b>D</b> <sub>1</sub> <b> </b>	
Page: 90	Line: 11
Should read: A. Probably Haskell Wald. If	
Reason assigned for change: incorrect spell	ing
D	
Page: 90	Line: 13
Should read: would have been Haskell Wal	
Reason assigned for change: incorrect spell	ing
Pages 01	L
Page: 91 Should read: O. What shout for example F	Line: 22
Should read: Q. What about, for example, D Reason assigned for change: incorrect spell	
Reason assigned for change. Incorrect spen.	
Page: 92	Line: 19
Should read: Whether Roger Morin uses hi	
Reason assigned for change: incorrect spell	
Page: 93	Line: 19
Should read: A. We were just talking about	Roger Morin's
Reason assigned for change: incorrect spell	
Page: 93	Line: 20
Should read: book, and I think his book crit	icizes the br plus sv, as I
Reason assigned for change: incorrect spell	ing / word omitted
Page: 94	Line: 1
Should read: more reliable through other mo	ethods than using the <b>b</b> r plus
Reason assigned for change: incorrect spell	ing
Page: 95	Line: 7
Should read: is closer to other things than to	
Reason assigned for change: incorrect spell	ing / word omitted

Line: 14 growth rate, the br plus g		
growth rate, the br plus		
g		
Line: 15		
th rate to determine br		
g		
Line: 21		
Should read: A. No. The criticism was of the <b>b</b> r plus sv. Reason assigned for change: incorrect spelling		
g		
Line: 25		
Should read: Q. Have you used the br plus sv growth rate in Reason assigned for change: incorrect spelling		
g		
Line: 4		
way to calculate growth. So I		
ady to calculate growth. 501		
Line: 21		
ho works with me contacted		
Reason assigned for change: incorrect spelling		
Line: 24		
Should read: that was even after they had the person on the phone Reason assigned for change: delete "take"		
Line: 8		
start averaging them together,		
insert "them together"		
Line: 13		
erson who follows a security,		
a security,		
Line: 10		
tion of wires <b>companies</b> ,		
s s s s s s s s s s s s s s s s s s s		
Line: 20		
Should read: relevant. I have some problems with how it might be		
Reason assigned for change: incorrect spelling		

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Page: 111	Line: 8	
Should read: I could logically comment on it.		
Reason assigned for change: incorrect spelling		
Page: 121	Line: 4	
Should read: of adjustments to a market based capital structure, and		
Reason assigned for change: delete "to a" / insert "based"		
Page: 121	Line: 12	
Should read: A. Well, I told you at least one case when I		
Reason assigned for change: word omitted / delete "is"		
Page: 121	Line: 21	
Should read: book value and that was my recommendation on the capital		
Reason assigned for change: insert "value"		

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