DEPOSITIONS OF RONALD L. BIBLE

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

THE STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION, Complainant,	Case No. EC-2002-1
vs.	
UNION ELECTRIC COMPANY, d/b/a AMERENUE, Respondent.	

DEPOSITION OF RONALD L. BIBLE
TAKEN ON BEHALF OF THE RESPONDENT
APRIL 16, 2002

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UNION ELECTRIC COMPANY, d/b/a AMERENUE, Respondent.	April 16, 2002 Jefferson City, MO

DEPOSITION OF RONALD L. BIBLE,

a witness, sworn and examined on the 16th day of April, 2002, between the hours of 8:00 a.m. and 6:00 p.m. of that day at the Missouri Public Service Commission, Room 810, Governor State Office Building, in the City of Jefferson, County of Cole, State of Missouri, before

KRISTAL R. MURPHY, CSR, RPR, CCR
ASSOCIATED COURT REPORTERS
714 West High Street
Post Office Box 1308
JEFFERSON CITY, MISSOURI 65102
(573) 636-7551

Notary Public, within and for the State of Missouri, in the above-entitled cause, on the part of the Respondent, taken pursuant to agreement.

A P P E A R A N C E S

FOR THE COMPLAINANT:

NATHAN WILLIAMS
Legal Counsel
STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION
Eighth Floor
Governor State Office Building
Jefferson City, Missouri 65101
573.751.5239

FOR THE RESPONDENT:

ROBERT J. CYNKAR
Attorney at Law
COOPER & KIRK
1500 K Street, N.W., Suite 200
Washington, D.C. 20005
202.220.9600

FOR THE STATE OF MISSOURI:

RONALD MOLTENI
Assistant Attorney General
MISSOURI ATTORNEY GENERAL'S OFFICE
Supreme Court Building
Jefferson City, Missouri 65101
573.751.3321

FOR THE OFFICE OF THE PUBLIC COUNSEL:

JOHN B. COFFMAN
Deputy Public Counsel
OFFICE OF THE PUBLIC COUNSEL
P.O. Box 7800
Jefferson City, Missouri 65102
573.751.5565

FOR THE LACLEDE GAS COMPANY

MICHAEL C. PENDERGAST
Vice President
Associate General Counsel
THE LACLEDE GAS COMPANY
Suite 1520
720 Olive Street
St. Louis, Missouri 63101-2338
314.342.0532

ALSO PRESENT: Greg Meyer, PSC Staff
Roberta McKiddy, PSC Staff
David Murray, PSC Staff
Lena Mantle, PSC Staff
Mark Burdette, OPC Staff
Johannes P. Pfeifenberger, The Brattle Group
Kathleen C. McShane, CFA, Foster Associates, Incorporated

EXHIBIT INSTRUCTIONS:

Copy and attach.

I N D E X

E X H I B I T S   I N D E X

(EXHIBIT NOS. 1 THROUGH 11 WERE MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

RONALD L. BIBLE, being duly sworn, testified as follows:

DIRECT EXAMINATION BY MR. CYNKAR:

Q. This is the deposition of Ronald L. Bible in Case No. EC-2002-1.

Good morning again, Mr. Bible.

A. Good morning.

Q. I know you've had experience in depositions now and so you know basically the ground rules.

The key thing is that we both articulate our responses so the stenographer can take them down, and not respond by nods of the head and so forth.

In addition, if there is any question that you don't understand, feel free, as I know you will, to say so and explain the basis of your misunderstanding. I'll try to clear it up.

And with that, are you on any medication or have any medical problem that would prevent you from understanding the questions today and answering truthfully?

A. No.

Q. Okay. Now, you have now filed testimony in the March filing of the Staff which is Exhibit 2 for purposes of this deposition, I believe?

A. Yes.

Q. Oh, no. That's your original one. I'm sorry. That's what we're calling the original one.

You can keep that since we will be using it.

A. I filed this one too.

MR. CYNKAR: Yes. So we'll just have all of these in front of you to make it easy.

Exhibit 3 is the current testimony. Exhibit 4 is your red-lined pages with the corrections that you've identified that have been made in your corrected pages, which is Exhibit 5.

And just so you don't forget, for purposes of the record, Mr. Williams brought to our attention that there were a couple other corrections to be made, and if you want to put those on the record right now and we'll just make sure that we get those, which I believe it was page 16 of Exhibit 3.

MR. WILLIAMS: On line 15 of page 16 of Exhibit 3 the first occurrence of 14.60 should also be changed to 14.30. And while the -- on the red-lined version which is of the correction sheets, which is --

MR. CYNKAR: The red-line is Exhibit 4.

THE WITNESS: The red-lined version was changed.

MR. WILLIAMS: Exhibit 4 is correct while the corrected page is incorrect on Schedule 15.

The date under the 30-year U.S. Treasury Bond should be January 14th of 2002, not January 6th.

MR. CYNKAR: Okay. Is there anything else?

MR. WILLIAMS: Not that I'm aware of.

MR. CYNKAR: Okay.

BY MR. CYNKAR:

Q. Mr. Bible, if you could identify for the record the changes that you made between your testimony filed in July of 2001 and March of 2002?

A. What do you mean by the changes I made? It's two separate filings.

Q. Right. And there's differences -- it's filings in the same case, and your testimony from July is not the same as your testimony in March. Correct? There's differences between --

A. No. The testimony is the same. The inputs are different.

Q. Okay. So what do you think are the changes between the two?

A. The inputs. I mean interest rates, growth rates, stock prices. I mean, pretty much the inputs that go into the models.

Q. Okay. So that is from your perspective the most significant things that are different there?

A. Well, the inputs, yes, those are the most significant changes.

Q. Which are numbers?

A. For the most part, yeah.

Q. Are there nonnumerical changes to the testimony in March?

A. I think some of the economic philosophy, some of the prospects that come out of Value Line, Standard & Poor's, their interpretation of where the stock market is at.

Quantitative is a big part of it. There is qualitative information that has changed too, so --

Q. And those qualitative changes come from the various kinds of analysts and those sorts of sources that you were just describing?

A. From analysts, from department -- governmental departments, Bureau of Labor Statistics, all of the references that I cited in the testimony.

Q. And those come from those sources and not from any sort of independent analysis or study you've done between July and March?

A. Not -- no, not in these filings.

Q. Okay. Now, could you describe for us -- your cost of equity between July and March has

declined. What is the reason for that?
A. Well, my cost of equity didn't decline. The cost of equity for the Company declined.
Q. Okay. What is the reason for your estimate of the cost of equity for the Company declining?
A. Well, the inputs changed.
Q. Is there any particular input that figures more prominently than others in producing that change?
A. No, not really. I mean, the stock prices changed. The dividend basically stayed the same. I would say I was pretty much right on as far as the forward-looking dividend for the Company. It didn't change in about a year.
Q. What role did interest rates play in the change of your estimate of cost of equity?
A. Well, the interest rates that I use and the models that I use are a crosscheck. The DCF model doesn't directly have an input for interest rates.
Q. So does it not play a role then in your estimate of cost of equity?
A. Not directly.
Q. How does it indirectly?
A. Again, it goes into the models that I use as a crosscheck on the DCF model.
Q. So how would the interest rates in the -- by

"the other models," you mean CAPM and risk premium analysis?

A. Yep.

Q. In your deposition testimony last time around I believe you said that those crosschecks would not cause you to change or reconsider your DCF estimate unless they were double your DCF estimate.

Is that pretty much how, then, interest rates might affect your DCF estimate?

A. No. I said that -- what I actually said in the previous deposition was, unless they doubled, it wouldn't cause me to go back and rethink or even look at the DCF. I mean, even if the interest rates doubled, I'm not going to automatically go back and change my DCF model just because of that.

It might cause me to pause and say, Well, maybe I need to look at it, but, offhand, it's not going to cause me to just automatically go back and change it.

Q. In your experience, has a change in interest rates ever caused you to change your DCF model?

A. No.

Q. What is the relationship of interest rates to a company's cost of funds?

A. In general, if interest rates were to go up, and I'm talking longer term rates, in particular, a company's cost of debt capital could go up. It depends on the company.

That causing their debt capital costs to go up may cause equity investors to look at that company as potentially being more risky because they have more fixed expenses, and that may cause them to require a higher return on equity. Again, it depends on the company.

Q. Does the interest rate have any direct effect on the cost of equity for a company?

A. To the extent that if a company went out and borrowed money and the interest rates were higher, then, yes, it would.

Q. How is that captured in your analysis, that phenomenon you just described?

A. In my analysis for the whole thing?

Q. Uh-huh.

A. Well, I mean, a company provides me with the embedded cost of debt, so if their rates went higher, they borrowed money, it would be in their embedded cost of debt that they provided me, so that would be captured in the model.

Q. How dependent are interest rates on the actions of the Federal Reserve?

A. Well, the Federal Reserve controls the discount rate and the federal funds rate. The markets really greatly influence the borrowing costs and interest rates in general, so...

Q. On page 9 of your testimony you discuss --

A. Which testimony?

Q. I'm sorry. This is Exhibit 3. It's your March testimony.

You make a reference to the fact -- on the paragraph on lines 14 to 19, discussing the Federal Reserve lowering interest rates to stimulate a slowing economy. And that really is the basis of my question.

Does the -- how significant is the Federal Reserve's actions in terms of the setting of interest rates in your view?

A. I don't know what you mean by "significant." Define "significant" for me.

Q. Well, could you explain what you mean by the sentence on lines 15 to 17 when you say, In August 1999, the Federal Reserve began raising the discount rate. Increases continued until January 2001 when the Federal Reserve began lowering interest rates to help stimulate a slowing economy."

What did you mean by that?

A. Well, just what it says. The Fed from time to time will raise or lower rates depending on what they see as the economic prospects in order to stimulate an economy, or if they think the economy is overheated, they may want to try to cool it off a little bit.

Q. And the raising or lowering of rates that the Fed does, what relationship does that have to interest rates?

A. Well, it will cause short-term borrowing costs to go up or down, depending on which direction they move it.

Q. So the Fed's actions, in your view, then, do have a direct impact on interest rates?

A. On these interest rates, yes.

Q. By "these interest rates," you're referring to what interest rates?

A. The Fed-- these right here, the discount rate.

Q. And the Fed's discount rate, does it have any impact on any other interest rates?

A. Not directly, no.

Q. Does it have any impact at all?

A. Not directly, no.

Q. Well, directly or indirectly?

A. It could indirectly, yes.

Q. How?

A. Well, I mean, if you look in terms of a yield curve of maturities between short- and long-term, typically -- in the example if you increased short-term rates, there have been times where short-term rates have been higher than long-term rates, and that might cause people to prefer long-term rates. If the demand goes up for long-term rates, then that may suppress the price or the interest rate that people pay and vice versa. It works itself out in the marketplace.

Q. If you turn to page 16 of Exhibit 3, again, which is your current testimony, the paragraph that covers lines 13 through 20, which we talked about earlier which had the corrections of the 14.6 to the 14.3 number, why did you put that paragraph in your testimony?

A. Which lines again?

Q. Lines 13 through 20.

A. I was showing a range of what Ameren had earned as far as ROE and compared that with what had been earned by other electric utilities as listed in the Value Line report dated January 4, 2002.

Q. Did you take this into account in estimating your proposed rate of return for Ameren?

A. When you say take it into account, what do you mean?

Q. Well, it's here in your testimony, and you just described what it was showing, but your whole testimony is designed to propose a particular range of rates of return for Ameren.

And so how, if in any way, did you take the information in this paragraph into account in doing your analysis?

A. When you say do my analysis, you mean when I calculated my DCF model?

Q. Yes.

A. It's not included. That's not an input into my DCF model.

Q. Okay. Is there -- so this -- the information in this paragraph doesn't affect the numbers that you come out with at all?

A. Not directly, no.

Q. Does it in an indirect way?

A. It is something that I can look at, similar to the other models, and make a determination as far as where Ameren lies compared to other electric utilities as a comparison, a means of comparison.

Q. Once you've made that determination, does that ever affect the range that you propose in --

A. No. No. It doesn't factor into the model or the outputs that I use.

Q. How should the Commission take this paragraph into account in its rate-making proceedings?

A. I don't know how the Commission should take it.

Q. If Ameren's ROE was significantly below the average for the central electric utility industry, would that cause you to affect your judgment about the range for an estimated return for Ameren?

A. If their actual ROE was below that?

Q. Yes.

A. No.

Q. Is the yield on 10-year Treasury Notes normally below the yield of 30-year Treasury Bonds?

A. In a normal yield curve, it would be, yes.

Q. And why is that?

A. It's a shorter maturity, has less risk relative to that maturity and the time value of money. That would cause it to pay less of an interest rate.

Q. Is there more risk in utility bonds than in the 30-year Treasury Bond?

A. I have never done an analysis to determine that and I've never seen an analysis done to determine that.

Q. So you don't have an opinion on that?
A. No.
Q. Is the Federal Reserve an authoritative source for interest rate data for 30-year Treasury Bonds?
A. Yes, I would say it is.
Q. If you could turn to -- again, in your Exhibit 3, which is your current testimony, turn to page 25. On lines 14 to 15 -- and, again, this date has been changed to January 14th in the sentence, but the sentence reads, "The appropriate rate was determined to be 5.38 percent for the period January 14, 2002, as published on www.marketwatch.com."
What is www.marketwatch.com?
A. It's a financial news web site.
Q. And who produces it?
A. I -- I'm not sure. I think it's CNN.
Q. And why did you use it as a source for this figure?
A. It's an easy source to find the information.
Q. And why didn't you use the Federal Reserve as a source here?
A. Well, the Federal Reserve doesn't publish daily rates.

Q. And the 5.38 is a day rate?
A. Right. That's what it --
Q. I see.
A. -- as of that day had closed at.
Q. Okay. Now, we have been talking about the correction of the 14.60 number to the 14.30 number. It's in different places in here as we've talked about.
Now, where does the 14.3 number come from? What's the source of that?
A. It comes from the Company's annual report.
Q. And how did your awareness of a need for a correction between 14.6 and 14.3, how did that come about?
A. How did I become aware that --
Q. Right. Your testimony originally had 14.6 and you've changed it to 14.3. How did that come about that you felt a need to change it?
A. The Company sent me a data request asking me what the source of it was. And when I looked in the source, I realized I had made a mistake and corrected it.
Q. Did you personally collect the data that you set out in your schedules here?
A. What do you mean by did I personally collect

that?

Q. From the sources that you set out here. I mean, someone else didn't put these schedules together for you?

A. No, no. I put the schedules together.

Q. Okay. And after it became clear that the -- because of the various proceedings in the rate-making that the Staff was going to be filing new testimony, did -- was there any meetings of the Staff witnesses concerning the new testimony that was to be filed?

A. The only meeting that I recall was there was an information meeting just letting everybody know that they would be required to file new testimony. That's the only one I recall.

Q. Before you prepared your new testimony, did you speak with any other Staff member about it?

A. About the testimony that I prepared in March?

Q. No -- yes.

A. Before I prepared it? No.

Q. Yes.

A. No.

Q. After you prepared it, did anybody review it before you submitted it?

A. Yes.

Q. Who?

A. Nathan Williams, Greg Meyer. Typically, in my department everybody reviews everybody else's stuff to try to catch errors and things like that. So Roberta McKiddy and David Murray in my department reviewed it.

Q. Mr. Dottheim, did he review it?

A. I'm not aware. Mr. Williams might be aware whether or not Mr. Dottheim reviewed it. I don't recall giving Mr. Dottheim a copy of it. If somebody else did, it's possible he did review it.

Q. Mr. Schallenberg, did he review it?

A. Not that I know of. I didn't give him a copy of it.

Q. Besides grammatical types of editing things, did anyone suggest any changes to your draft testimony?

A. I recall the project coordinator asked me --

Q. Which is Greg Meyer?

A. Greg Meyer.

-- asked me to stop my DCF model growth at the update period.

Q. The update period is what period?

A. Well, September.

Q. And before that had you gone farther than that?

A. Yes. I had gone into, I think, February of this year.

Q. And why did he suggest that?

A. I -- all I recall is he was concerned about the Company objecting to any information beyond the update period being used, so --

Q. Do you know how much your rate of return proposal would lower UE's current rate of return?

A. No. I've never done that comparison.

Q. Do you know how your rate of return would ultimately affect UE's revenues?

A. No. No, I don't. Not a dollar figure, I don't.

Q. Do you have an opinion --

A. I don't do my calculations trying to come up with a specific number as far as revenue or rate of return, so...

Q. Do you have an opinion about whether UE is well managed?

A. No, I don't.

Q. Do you have an opinion about whether UE is poorly managed?

A. No, I don't.

Q. Have you made any determination or judgment about whether UE is earning excessively?

A. No, I haven't.

Q. Do you know how much each percentage point in your rate of return translates into dollars of rates?

A. No, I don't.

Q. If we return to Exhibit 3, again, and to schedule 17, now, am I correct that the data on which this schedule is based is data for electric utility companies in 2000?

A. No, I don't -- I don't think you can say it's for 2000. It's whenever the database was updated.

Q. It's not later than 2000 though?

A. It -- you mean earlier or --

Q. No. Meaning, like, 2001.

A. It could be. I don't --

Q. Well, if you -- if I understand, your sources are Value Line of December 7th, 2001, January 4, 2002, for columns 1, 2, 4 and 5. And at least my understanding of Value Line is that there wouldn't be 2001 data necessarily complete by January 4 of 2002?

A. What page are you looking at?

Q. Schedule 17-3, is --

A. Oh, 17--

Q. Yeah. Schedule 17 goes over three pages, I think, and your sources are at the bottom of the schedule, which is page 17-3. And the line I just read there was the first source, which is Value Line, and that's why I asked the question.

A. Well, January 4, 2002, certainly 2001 could be included in January 4, 2002, so...

Q. In your experience, have you ever seen Value Line have -- have data from the prior year complete by January 4 of the following year?

A. It's possible not for the whole year but certainly for part of the year.

Q. Okay.

A. Are you proposing that they wouldn't have any 2001 information available as of January 4, 2002?

Q. I'm asking you what was the scope --

A. Yes, I think it's possible, very likely, that as of January 4, 2002, they could have some 2001 information.

Q. Do you know whether the data on which this schedule is based includes 2001 data?

A. I don't recall, no.

Q. In your July testimony, I'm not going to -- we're done with that schedule.

In your July testimony, you defined the universe of potentially comparable companies as those having a total capital in the range of $5 to $6 billion. Now, as I understand it, in your March testimony you've expanded that range to $4 to $8 billion.

Why did you make the change?

A. Well, things change. A company's total capitalization will change, and so I broadened the range.

I can tell you specifically when I input the parameters into the filter for Value Line, no companies fell out at 5 to 6 billion. The annual report for Ameren indicated the total capitalization of something a little bit over 6 billion. So what I did was I broadened -- I lowered and raised the two end points on the range until I had some companies fall out from the filter in Value Line.

Q. And if -- Ameren, as you're saying, had total capital of around 6 billion?

A. According to the annual report, yes.

Q. Okay. So then the range that you're using now is sort of plus or minus 2 billion from that point?

A. Well, that's the way it comes out, yes.

That's not the way I set it up.

Q. And, I'm sorry. How did you set it up then? What were you looking for in terms of setting a range? What was your standard?

A. I wasn't looking for anything other than companies to fall out of the filter. The way the filter works is you put in the parameters, and then it will go through the database and display the names. Until I got to 4 to 8 billion, it didn't display any names.

Q. Where were you coming from?

A. Five to 6.

Q. You are going up from that?

A. Up on one end and down on the other.

Q. Right. So you were expanding the range?

A. Right.

Q. And why did you stop there? Why didn't you expand it further?

A. I didn't need it. It wasn't necessary. I had some names fall out that met the criteria, so...

Q. How many names fell out that met the criteria, the number you have here?

A. I don't recall exactly. I can count them.

I count eleven --

Q. Okay.

A. -- in these schedules on my March filing. I may have miscounted, but that's the way it looks like to me.

Q. You're referring to schedule 17?

A. Yes.

Q. And the eleven, where are you counting those from? Column 7?

A. Column 4.

Q. Column 4.

Now, the -- to fall out, what are you counting when you say you're counting eleven? Does the word "yes" appear?

A. Yes.

Q. Okay. So there is one, two, three, four -- there's four yeses there. Right?

A. Well, on the first page -- there's three pages of it. As you pointed out, it goes to 17-3.

Q. Right. But there's no subsequent -- oh, I'm sorry. There's a couple. Okay. I see.

I count eight, but that doesn't -- I'm not sure that makes that much of a difference.

But, anyway, in terms of the number of companies that fell out, did you have any predetermined number in mind that you thought was appropriate?

A. No.
Q. When you're doing this kind of analysis in cases, does that number change? I mean, does it -- how do you know when you're comfortable with a number that falls out for purposes of identifying comparables?
A. Well, considering that this is comparable companies and it is not used directly to determine the return on equity or rate of return for the Company, I don't have any predetermined number. It's not really that significant. It's not that important.
It's merely a crosscheck. It isn't used directly to determine the return on equity or rate of return for the Company, so it's not a critical factor to have any particular number of comparable.
Q. So in your view, this crosscheck, as you call it, is that not significant?
A. No, it is not. And that's the view of other Commissions, by the way.
Q. Which other Commissions?
A. I don't recall exactly, but I know I've read some Reports and Orders where Commissions have come -- well, actually Oregon in a recent one came out and said that they would not use the other models as directly determining return on equity and rate of

return. It's not appropriate. They use the model -- specific model that they have determined is appropriate.

Q. Is that a recent Oregon decision?

A. I don't remember the date. It was probably last year.

So it's not just my opinion.

Q. Allegheny Energy is one of the comparable companies that you used?

A. Yes.

Q. Are you aware of any recent changes in Allegheny's line of business?

A. When you say "recent," what do you mean?

Q. Within the last two years.

A. I don't recall specifically any changes in the line of business.

Q. Another comparable that you used was Alliant Energy?

A. Yes.

Q. Do you know what the origin of Alliant Energy is?

A. What do you mean by "origin"?

Q. Well, has it existed -- did it exist before 1998?

A. I don't recall. And, again, your line of questioning is insignificant because I don't use this to determine directly the return on equity and rate of return for the Company.

Q. With respect to Alliant, these are the Value Line sheets that you provided in response to data requests, and this is Exhibit 6. And I just had a question there. And you also refer to it in Exhibit 3, schedule 19. And in that schedule you set out the three comparables that you're using, Allegheny, Alliant, and Cinergy, and you have data from 2001 and from 1991 there.

And if you look at the Value Line sheet, which is Exhibit 6, in this block up in the upper left-hand corner, the last sentence, it says, "Data prior to 1998 are for WPL Holdings only, and are not comparable with Alliant Energy data."

Earlier in that block it describes Alliant being formed through a merger of WPL, with IES Industries, and Interstate Power.

Is it fair to say, then, for purposes of your crosscheck on your cost of capital that WPL is a company that essentially is comparable to Alliant, which is a comparable you're using?

A. I didn't make any comparison between WPL and Alliant.

Q. Well, but you're using 1991 data for Alliant, and that by definition is WPL data, according to the source that you have.

So from your perspective, is it fair to say that they are comparable companies for purposes of your analysis?

A. I'm not making any comparison between these two companies. Based -- well, that's not what this analysis is.

Q. In your schedule 19, for example, the first column under "Dividends Per Share" is 1991 data which you identify as being Alliant Energy data. And your source for that that you've given us is Value Line. And Value Line says everything before '98 is for WPL Holdings only, so that's not an Alliant number on your schedule?

A. Okay.

Q. Okay. So all I'm asking you then is what I thought was not actually a controversial thing, was that in your view WPL is essentially the same thing as Alliant Energy as you're using data for WPL from this sheet?

A. Okay.

Q. Is that fair to say? I mean, this -- this $1.80 is not Alliant Energy's $1.80. It's WPL's $1.80

under dividends per share for 1991.

A. Okay.

Q. Okay. And so is it fair to say that for purposes of the analysis you're doing on schedule 19, it is your judgment that WPL is the same as Alliant Energy?

A. No. Like I said, I'm not making any comparison.

Q. Well, then, you've mislabeled the $1.80 here?

A. No, I haven't.

Q. That's not $1.80 for Alliant --

A. The entity in question, Alliant Energy, okay, the entity in question, the whole entity, in 1991 made a buck-eighty.

Q. That's not true.

A. Yes, it is.

Q. What's the source?

A. Right here (indicated).

Q. They just said it is information for WPL Holdings.

A. Then why did they include it on this sheet?

The entity in question on this sheet -- Mr. Cynkar, basically what happens when companies do their business and they have earnings and capitalization that they borrow, they have options that they can do with that money. They can pay it out in dividends. They can retain it in the company. They can buy other companies. They can merge with them, just like Ameren did.

You know, you want to say this isn't comparable. Ameren is in the same situation. So to me that would make them more comparable. Prior to 1997 they were Union Electric. Post-1997, they are AmerenUE.

But when a company makes those decisions, one of the decisions it can make is whether or not they'll merge with another company. Those are things they do with their capital.

So this entity in 1991 made a buck-eighty, and this entity in 2001 made $2. So this entity grew its earnings from 1.80, however it did that to grow its earnings. Whether it bought other companies and merged with them or invested in other projects, or whatever, it grew those earnings from a buck-eighty to $2.

Q. Would it be fair --

A. And that's what I am reflecting here. I'm not comparing WPL with Alliant.

Now, that said, it still doesn't make any difference because I don't use this to come up with a return on equity and a rate of return for AmerenUE or any other company.

Q. Would it be fair to say, then, in light of what you have just described, that the entity in 1991 was called WPL. It then acquired or merged with some other entities and became Alliant by the end of 2001?

A. I would say that's fair.

Q. I'd like to turn now to your July testimony, which I believe is Exhibit 2, and I'd like to turn to schedule 23.

And I'm going to give you three other exhibits. Exhibit 7 is the Value Line for Cinergy dated January 5th, 2001. Exhibit 8 is Constellation's Value Line sheet, dated March 9th, 2001. And Exhibit 9 is Potomic Electric Power's Value Line sheet, date March 9th, 2001.

Now, I would like to direct your attention on schedule 23 of Exhibit 2 to column 4.

And column 4 is entitled, Projected three- to five-year EPS growth Value Line. And for Cinergy, the number entered there is 5.50 percent. Correct?

A. Yes.

Q. Now, for column 4 you identify the source as Value Line reports for January 5th and March 9th, 2001, and you produced those in response to our data request.

And just so I understand how this works, that 5.50 percent figure, am I correct that that is this number on Value Line in this little box in the left where it says "Annual Rates"?

A. Yes.

Q. And it has earnings and there is 5.50?

A. Yes.

Q. Great. Now, for Constellation -- I'm just going to -- I just want to make sure I understand how Value Line relates to this chart. I'm just going to take you through these three.

For Constellation the number on schedule 23 is 13 percent. And, again, when you look at the Value Line, which is Exhibit 8, I guess it is -- is that correct?

A. Yes.

Q. -- the same place, in the left-hand side of the annual rates over there, you have earnings and you have 13.0 percent, and that's where that number comes from?

A. Yes.

Q. Okay. And then for Potamic Electric Power, the number on schedule 23 is 7 percent. And, again, looking on the Value Line, which is Exhibit 9, if you look in the same location on Value Line, the annual rates and earnings, it's 7.0 percent, and that's where that number comes from over there --

A. Yes.

Q. -- correct?

Okay. And that's because this -- this number on Value Line is this projected three- to five-year EPS growth calculated by Value Line?

A. Yes.

Q. Okay. Now, if we could turn to your March testimony, which, again, is Exhibit 3, and your schedule 20.

Now, you already have the Value Line for Alliant, which I guess is Exhibit 6. Allegheny's is Exhibit 10. And Cinergy's is Exhibit 11, and here is that.

Okay. Now, we start with Alliant -- or Allegheny, I'm sorry, is first in your schedule 20 -- you have 9.33 percent in column 4, the same place. But when you look at the Value Line for Allegheny in the same place, the number that is in the corresponding spot as it was in the other Value Line is 14.0 percent.

A. Yes.

Q. Where does the 9.33 percent number come from?
A. You add earnings, dividends, and book value and divide it by three.
Q. And why didn't you do that in your earlier testimony?
A. Why didn't I calculate it that way?
Q. Yes. You just took this number straight from Value Line in your other testimony.
A. Right.
Q. And you've just described doing something different here. Why did you do it differently?
A. Well, I reflected on something I put in the Interrogatories and Admissions the two times you sent us those, and it comes out of Parcells. Parcells talks about when a company earns money, it has the option of paying the money out in dividends or retaining it. If it retains it, it can grow its book value. If it pays it out in dividends, it can grow its dividend.
Now, a company, if it keeps growing its dividend indefinitely, potentially not retaining any moneys, then it can't grow the company and can't grow the earnings, so they are interrelated.
And this time I decided to look at it from

the perspective of averaging those three growths to get a better perspective on what I felt was the potential for earnings per share growth regardless of what the actual earnings per share growth figure was.

Q. And what were those three growths that you averaged again?

A. Earnings, dividends, and book value.

Q. So column 4 is an average of EPS, VVPS, and DPS?

A. Correct.

Q. That's not labeled that way though?

A. Okay. So I didn't label it that way.

Q. It does make a difference.

That same calculation was made for Alliant Energy and Cinergy?

A. Well, I'll correct you. No, it doesn't make any difference, because, as I said before, I do not use these to directly determine return on equity and rate of return for Ameren. So you're -- you're incorrect. It doesn't make that much difference.

Q. Then why did you make the change?

A. Like I said, I wanted to see what all three average rates would come out to be.

Q. What does it matter by your light since this doesn't matter at all?

A. It's my preference as far as my analysis. It can matter to me if I want it to matter to me.
Q. Is there any -- well --
In your view, are we in a recession?
A. When you say "we," you mean me and you?
Q. Is this country?
A. Is this country?
I really don't have an opinion on that.
Q. In --
A. It depends on who you talk to. You can talk to 100 economists, and half of them can say we're in a recession; half of them would say we aren't in a recession. Another bunch of them would say we never were in a recession, even if somebody else says we were, so...
Q. Have you done any kind of analysis yourself for the state of the economy in Missouri?
A. No, I haven't.
Q. So you have no sense whether the economy of Missouri is slowing or growing?
A. No, I don't.
Q. Do you know whether the population in Missouri is growing?
A. No, I haven't looked at that or done any analysis on that. It might be a good idea.

Q. Do you know what the unemployment rate in Missouri is?

A. No, I don't offhand.

Q. Do you know how the price of electricity in St. Louis compares to the price of electricity in other major metropolitan areas in the United States?

A. No, I haven't done that analysis.

Q. Have you done any analysis of UE's transmission infrastructure needs over the next five years?

A. No, I haven't done that analysis.

Q. Have you done any analysis of UE's generation capacity needs over the next five years?

A. No, I haven't done that analysis either.

Q. With respect to Missouri's needs for electricity over the next five years, does it matter whether Ameren builds generation capacity or buys electricity on the wholesale market?

A. I don't have an opinion on that.

Q. Do you know if UE is one of the lowest cost producers of electricity in the midwest?

A. I have read that.

Q. Do you agree?

A. I have no -- nothing to base that on as far as whether I agree or not. I haven't done an analysis on that.

Q. On page 11 of your testimony --

A. Which testimony?

Q. Good point. Your March testimony, which is Exhibit 3 -- and, actually, your discussion of energy prices begins on page 10, starting on line 21, and goes through line 5.

And in the context of discussing trends in energy prices there, you specifically mention gasoline prices and home heating oil costs.

Are you with me?

A. Yes.

Q. Okay. Have you analyzed trends in natural gas prices?

A. No, I haven't done that analysis.

Q. Have you analyzed trends in wholesale electric power prices?

A. No, I have not.

Q. Why not?

A. Well, I haven't been to the moon either, so it doesn't -- I mean, it doesn't factor in.

Q. Well, why did you mention the trends in gasoline prices and home heating oil prices in an electric rate case?

A. These are general economic trends.

Q. Isn't the trend concerning wholesale electric prices more relevant to a rate-making for an electric utility?

A. As far as offering general economic trends, it's no more or less relevant than gasoline prices and home heating oil costs. I mean --

Q. Okay. If we refer to your July testimony again, which is Exhibit 2, and on page 14, there's a couple of sentences starting on line 29 going to page 15, line 1, in which you say, "UE, incorporated in Missouri in 1922, supplies electric service in Missouri and Illinois. UE accounts for 72 percent of Ameren's revenues, 75 percent of operating income, and 77 percent of total assets. UE mainly engages in selling electricity, 96 percent of UE's operating revenues, in Missouri and a small area of Illinois."

In describing the relationship of UE to Ameren there, you identified revenues, operating income, and total assets. Correct?

A. Yeah.

Q. Now, keep that page open.

And in your March testimony, which is, again, Exhibit 3, on the same page, page 14, beginning at line 29 through page 15 and it goes over a little bit into line 2, you now write, "AmerenUE, originally incorporated in Missouri in 1922, supplies electric service in Missouri and Illinois. AmerenUE accounts for 70 percent of Ameren's revenues, 74 percent of cash flow. Ameren mainly engages in selling electricity, 95 percent of AmerenUE's operating revenues in Missouri and in a small area of Illinois."

In your current testimony, you have focused on revenues and cash flow. Why did you make the change from operating income and total assets to cash flow?

A. I would say it's because the sources cited them that way, the Standard & Poor's rating them direct, because that's where that information comes from.

Q. Is it -- would it be fair to say that cash flow is generally considered an important measure of a firm's financial performance?

A. I would say it depends on who's looking at it, but it can be an important measure.

Q. Okay. Is cash flow an important measure of a firm's ability to invest in new plant and assets?

A. It could be.

Q. In what circumstances could it be?

A. Well, if the company has more cash flow, it has more cash available to invest in whatever,

whatever it wants to.

Q. When you -- I'm done with that exhibit.

A. Okay.

Q. When you do the CAPM method, you calculate an average of historic returns on stocks and an average of historic returns on government bonds. Correct?

A. That's correct.

Q. And the difference between those is the market risk premium?

A. I mean, that's not the market risk premium. That's what we use to estimate the market risk premium.

Q. Fair enough. Fair enough. Now, as I understand it, there's two ways of calculating average historic returns. One way is an arithmetic, or simple average, and one is a geometric, or compound average; is that correct?

A. Well, that's two ways. I don't know if that's the only two ways.

Q. Do you know of any other?

A. Well, instead of using averages, you could use medians. I mean, I'm sure there are other ways to calculate averages other than simple arithmetic and geometric, but --

Q. Do you know if experts in this field use any of those other ways?

A. I don't recall off the top of my head any specific instances.

Q. Do you know if there's any consensus of opinion of how to calculate those averages for the CAPM method?

A. Well, I don't think it would apply specifically to the CAPM method. I mean, there are a couple of general ways, and, as I said, I'm sure others, the arithmetic and geometric.

Q. Or the simple and compound?

A. Right.

Q. And do you know whether there is a consensus among experts in your field to prefer one to the other of those?

A. I -- I have never done -- seen any research that's been done that has polled experts to ask them what they prefer, whether they prefer arithmetic or compound.

Q. I have a question about the errata sheet that you submitted with respect to your other -- I wasn't going to put it in as an exhibit, but do you have a copy? This is the errata sheet.

The -- if you want to just refer to mine, you certainly can.

You refer to page 150 of your deposition, which is Exhibit 1. Have you got that?

Okay. The point at which -- I can just read this into the record for one second. Thank you.

You identify at page 1, line 1, that you want to add a sentence, "I did not want to because it wasn't necessary for my analysis."

A. That's correct.

Q. And that -- that discussion there actually begins on page 149 on line 20. And for purposes of the record, it begins with a question for me in which I say, "Okay. Now, you didn't do a risk premium analysis on your comparable companies?"

Answer: "That's correct."

Question: "Why not?"

Answer: "Because I didn't want to."

Question: "And why didn't you want to?"

Answer: "I just didn't want to." And you would say, "I did not want to because it wasn't necessary for my analysis."

Why wasn't it necessary for your analysis?

A. Why wasn't it necessary for me to do a risk premium on the comparable companies?

Q. Yes, sir.

A. Just -- I mean, it just isn't necessary for me to do it. There's nothing -- there's no rules that require me to do a risk premium on comparable companies as part of my analysis.

Q. So it's basically your judgment?

A. Yes.

Q. Are there any standard treatises which informed your judgment on that?

A. As far as whether or not I should do a risk premium analysis on comparable companies for my analysis?

Q. Right.

A. No. There is no treatises that address whether or not I should do a risk premium analysis on comparable companies for my analysis.

Q. So how would you say that someone should evaluate your judgment. If the question is, Is Ron Bible right or wrong in making that judgment, how would a neutral third party --

A. That's a good question.

I think in a broader context of whether or not my recommendations are reasonable, in a broader context of not just return on equity but rate of return as far as what my recommendation is because that's what goes against revenue, and I think in a broader context of where my recommendation falls in comparison to weighted returns on equity and rates of returns that other Commissions are authorizing. That's how I think my judgment should be evaluated.

Q. Okay. Good answer.

If we turn to your March testimony, which is Exhibit 3 again, and if we turn to page 24, and particularly lines 14 to 15 which we talked about a little earlier -- and, again, that's one of those where the date has been corrected --

A. That's correct.

Q. -- so that the sentence reads, "The average yield for 30-year Treasury Bonds on January 14, 2002 was 5.38 percent."

Now, as we talked about earlier that is the Treasury Bond yield for that particular day, January 14th, 2002. Correct?

A. As of the close of that day.

Q. Right. How is that an average yield?

A. Well, I would say that whatever Treasury Bonds were quoted as of the end of the day, the average for those would be 5.38.

Q. So it's sort of like if you would say a stock -- the stock price for a particular stock on a particular day is really the average of the prices that the stock was getting during the course of the day? Is that what you mean?

A. No, no. See, what you're -- the comparison you're making there is the stock price of a company, so it's the stock.

Treasury Bonds, there are more than one Treasury Bond.

Q. But these are 30-year -- is there more than one 30-year Treasury Bond?

A. Well, yes, there are. I mean, if there was only one, then I'm sure the price would be astronomical because of the demand for it.

Q. I see what you're saying.

A. So these are -- there are numerous bonds that people buy that are 30-year maturities from the Treasury.

Q. And on January 14th, their average yield was 5.38 percent?

A. It closed at 5.38, yes.

Q. Okay. Now, if you turn the page, again, it happens to be lines 14 to 15, and it was, again, a line we talked about before, which says, "The appropriate rate was determined to be 5.38 percent for the period January 14th, 2002 as published on www.marketwatch.com."

Again, here, by "period," you mean a particular day --

A. Yes.

Q. -- January 14th?

A. At the closing.

Q. Right. Now, why did you choose January 14th?

A. It was probably at the point where I got in my testimony and doing this analysis. It was probably that day, and so at the end of the day, I looked it up and put it in my testimony that day.

Q. Now, this is outside the test period. Correct?

A. Yes.

Q. And you earlier were saying that you pulled back your DCF analysis to end in September when you had gone into February.

Why didn't you feel it was appropriate to pick a date for this number --

A. Well, once again, as I've said a number of times before, I did not use this to directly determine the return on equity and rate of return for AmerenUE. And until you can understand that, I think you're going to have a lot of questions and confusion over why I did a lot of this stuff.

Q. To issue equity, is it true that a company incurs flotation costs?

A. It's been my experience that companies can typically price an issue at a discount to the underwriter, and they incur no direct flotation cost because of that. Now, they may have costs with regards to legal fees, printing, and things such as that, registration fees. So if those are included in flotation costs, then there may be.

Q. Do you know whether Ameren has recently issued any common stock?

A. Not that I'm aware of. I know they issued a security that's convertible. That's all I'm aware of.

Q. Under what circumstances should a utility recover flotation costs?

A. It's the position of this Commission that a company, if they issue during the update or test period, issue common stock, that if they can show there are flotation costs, they can recover those on a dollar-for-dollar basis.

Q. If we refer to your March testimony again, and on page 2, on line 20, you estimate UE's return on common equity to be in a range of 8.91 percent to 9.91 percent with a midpoint of 9.41 percent --

A. Yes.

Q. -- which as you explained in answers to, I believe, our data requests, that range is essentially plus or minus .5 percent around the midpoint; is that correct?

A. Yes.

Q. Now, that plus or minus .5 percent range, why did you choose that?

A. Didn't I answer that in the last deposition?

Q. I don't think so.

A. You don't think so?

Q. You're free to check, but I honestly don't think I asked that question.

A. It seems like I did.

Q. Well, even if you did, what's the answer?

A. Would you repeat the question?

Q. Yes. Why did you choose the range of plus or minus .5 percent around the midpoint in determining your range for AmerenUE's return on common equity?

A. In my judgment, 50 basis points is an adequate number to use around a midpoint for an estimation such as this to develop a range.

Q. To advert to our earlier discussion about doing a risk premium analysis on comparables, is there any other basis for your judgment, or is that your personal judgment which should be evaluated in the way you described earlier?

A. You mean is there any treatise that deals with my judgment as far as my analysis and using 50 basis points around the midpoint?

Q. Well, is there anything other than your own thinking that you refer to, whether it's a treatise or any other scholar or a policy of the staff to determine that plus or minus .5 percent is a reasonable range?

A. No, there is no specific reference. From my experience and my judgment, that's an adequate number to use around a midpoint to develop a range.

MR. CYNKAR: Why don't we take a five-minute break?

MR. CYNKAR: Sounds good to me.

(A RECESS WAS TAKEN.)

MR. CYNKAR: Back on the record.

BY MR. CYNKAR:

Q. We were just talking about that plus or minus .5 percent range around your midpoint for your return of equity estimate, and you said that it was your judgment that that was an appropriate range.

How did you form your judgment with respect to that?

A. I'm not sure I understand what you're asking.

Q. Well, what did you look to to shape your judgment that that was a reasonable range, range of different growth rates that those calculations were giving you, any sense of that?

A. No. Just my experience in doing this for close to 30 years, this kind of work, that 50 basis points is an adequate amount to use around the midpoint to develop a range for analysis.

Q. So the results from any of your other -- as you've made very clear, the results from your other methods didn't inform that the historical growth rates or the projected growth rates, those ranges didn't shape your judgment at all about this?

A. No. Like I said, the CAPM, the risk premium, the comparable company analysis, those don't factor directly into the calculations that I do for return on equity and rate of return for AmerenUE.

Q. Your DCF midpoint, which, again, is on page 2 of your testimony, line 20, is 9.--

A. Which testimony again?

Q. This is again your March testimony.

A. Page 2?

Q. Page 2, line 20.

-- is 9.41 percent. And that represents

your estimate of the Company's cost of equity. Right?

A. That's correct.

Q. Okay. So it's not their actual cost of equity?

A. No.

MR. CYNKAR: We're done.

MR. MOLTENI: No questions.

(PRESENTMENT WAIVED; SIGNATURE REQUESTED.)

____
RONALD L. BIBLE

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

____
Notary Public in and for County, State of Missouri

C E R T I F I C A T E

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, KRISTAL R. MURPHY, CSR, RPR, CCR, with the firm of Associated Court Reporters, do hereby certify that pursuant to agreement, there came before me,

RONALD L. BIBLE,

at the Missouri Public Service Commission, Room 810, Governor State Office Building, in the City of Jefferson, County of Cole, State of Missouri, on the 16th day of April, 2002, who was first duly sworn to testify to the whole truth of his knowledge concerning the matter in controversy aforesaid; that he was examined and his examination was then and there written in machine shorthand by me and afterwards typed under my supervision, and is fully and correctly set forth in the foregoing 54 pages; and the witness and counsel waived presentment of this deposition to the witness, by me, and that the signature may be acknowledged by another notary public, and the deposition is now herewith returned.

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

Given at my office in the City of Jefferson, State of Missouri, this 16th day of April, 2002.

KRISTAL R. MURPHY, CSR, RPR, CCR

COSTS: (Computation of court costs based on payment within 30 days.)

ERRATA SHEET

Deposition of: Ronald L. Bible

Case Caption: EC-2002-1

Date Taken: November 12, 2001

Page	Line	Correction	Reason
P. 105	l. 6	Change "higher" to "likely"	"LIKELY" MORE CORRECTLY CONVEYS WHAT I WAS STATING
p. 150	l. 1	Add – I did not want to because it wasn't necessary for my analysis	This clarifies my original response.

Ronald L. Bible

Signature

role of the Staff in a rate case like this one?

A. My understanding is, to determine just and reasonable rates and balance the shareholder and the ratepayers interest.

MR. CYNKAR: Colleagues, before I say close the curtain on this, speak now or forever hold your piece.

No worried looks.

All right. Thanks. That's it.

THE COURT REPORTER: Signature?

MR. WILLIAMS: Probably ought to do that.

THE COURT REPORTER: Waive presentment, obtain signature?

MR. WILLIAMS: Yes.

Ronald L. Bible

RONALD L. BIBLE

subscribed and sworn to before me this 28th day of November, 2001.

Rosemarie Riedl

Notary Public in and for
County
State of Missouri

ORIGINAL

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION,	)	
Complainant,	)	
vs.	)	Case No. EC-2002-1
UNION ELECTRIC COMPANY d/b/a AMERENUE,	)	
	)	November 12, 2001
Respondent.	)	Jefferson City, Mo

DEPOSITION OF RONALD L. BIBLE,

a witness, sworn and examined on the 12th day of November, 2001, between the hours of 8:00 a.m. and 6:00 p.m. of that day at the Capital Plaza Hotel in the City of Jefferson, County of Cole, State of Missouri, before

PATRICIA A. STEWART, RPR, CSR, CCR
Registered Merit Reporter
ASSOCIATED COURT REPORTERS
714 West High Street
P.O. Box 1308
Jefferson City, Missouri 65102
(573) 636-7551

within and for the State of Missouri, in the above-entitled cause, on the part of the Respondent, taken pursuant to notice.

APPEARANCES

FOR THE COMPLAINANT:

NATHAN WILLIAMS
Legal Counsel
PUBLIC SERVICE COMMISSION
P. O. Box 899
Jefferson City, Missouri 65102
(573) 751-3234

FOR THE RESPONDENT:

ROBERT J. CYNKAR
GORDON T. TODD
Attorneys at Law
COOPER & KIRK
1500 K Street, N.W.
Suite 200
Washington, D.C. 20005
(202) 220-9655

AND

JAMES J. COOK
Managing Associate General Counsel
AMEREN
One Ameren Plaza
1901 Chouteau Avenue
P. O. Box 66149, MC 1310
St. Louis, Missouri 63166-6149
(314) 554-2237

ALSO PRESENT: Johannes P. Pfeifenberger
Suedeen Kelly
Jerry Birdsong
Greg Meyer
David Murray

SIGNATURE INSTRUCTIONS:

Obtain signature; waive presentment.

EXHIBIT INSTRUCTIONS:

Attached to the deposition.

I N D E X

E X H I B I T S

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

RONALD L. BIBLE, having been sworn, testified as follows:

DIRECT EXAMINATION BY MR. CYNKAR:

Q. Good morning, Mr. Bible. This is your deposition in Case No. EC-2002-1. My name is Bob Cynkar, as I said before, representing AmerenUE.

I'm here with several other colleagues.

To my right is Mr. Gordon Todd from our firm, and various other hangers-on who I won't necessarily bother to introduce. We've all met before here.

MR. WILLIAMS: Why don't we go ahead and do that.

MR. CYNKAR: You want to go ahead and do that?

MR. WILLIAMS: Sure.

MR. CYNKAR: All right. Well, I'll tell you what, for simplicity sake, why don't we just go around the table and everyone just say your name and affiliation.

Johannes, I think you're next.

MR. PFEIFENBERGER: My name is Johannes Pfeifenberger. I'm with The Brattle Group in Cambridge, Mass.

MR. COOK: Jim Cook, AmerenUE.

MR. BIRDSONG: Jerry Birdsong from AmerenUE.

MS. KELLY: Suedeen Kelly from the University of New Mexico School of Law.

MR. MEYER: Greg Meyer, Missouri Public Service Commission.

MR. MURRAY: Dave Murray, Missouri Public Service Commission.

MR. WILLIAMS: Nathan Williams, Missouri Public Service Commission.

MR. BIBLE: Ron Bible, Missouri Public Service Commission.

BY MR. CYNKAR:

Q. Mr. Bible, have you ever been deposed before?

A. Yes.

Q. And how many times?

A. Two other times.

Q. All in cases for the Public Service Commission?

A. Yes.

Q. And what were those cases?

Do you remember the names?

A. One was a rate case for St. Joe Light & Power. Another was a civil/criminal case involving Southwest Gas, Southern Union and ONEOK.

Q. Thank you.

Since you have experience in testifying in depositions, the ground rules you probably know, but let me just go over a couple of them.

One very practical one is that all of your answers have to be oral since we're taking down the testimony. And so shaking your head and nodding -- normal means of communication outside of a deposition don't work here. So you have to say yes or no to questions.

Do you understand that?

A. Yes.

Q. In addition, it's very important -- and I will try to observe this myself -- that we not cut each other off or try to speak over each other, because the court reporter can only take down one person at a time. So we have to try to hold back and let the other fellow take a breath before we talk.

Do you understand that?

A. Yes.

Q. Okay. During the course of the deposition, your counsel has the right to object to any question that I may pose to you, and he certainly has the right to do that.

But in the context of a deposition where there is no one to rule on those depositions -- those objections -- excuse me -- you have to answer my question after he lodges his objection unless he explicitly instructs you not to answer the question because of grounds of privilege.

Do you understand that?
A. Yes.
Q. Okay. We've scheduled this deposition to go for most of today. How long it will actually go during the day I can't anticipate, but this is not designed to be any kind of endurance contest. And we'll try to take regular breaks.
However, if we are going on and you want to take a break, just let me know and we'll do that. We've got coffee here and so forth, and the facilities are down the hall.
In addition, are you taking any medication that would interfere with your ability to understand the questions here or answer them?
A. No.
Q. During the course of my questioning I may ask you a question that may be confusing. I may be mixing up terms of art that you're very familiar with and probably are second nature to you but are not to me. And that is purely unintentional.
And if I ask you a question that you don't understand or in your view I'm confusing something, please just say so, and I'll be happy to try to rephrase the question or be clearer in whatever question I'm going to ask you.

Okay?

A. Yes.

Q. Now, in starting out, I think one sort of rule of thumb that I'm going to use in terms of definitions is that when I'm using the word "Ameren," I'm referring to sort of the whole Ameren, involving the consolidated company of UE and CIPS and so forth.

And that the convention I'll follow is that when I refer to UE, that is Union Electric here in Missouri which is the subject of the rate case that is before us.

Is that okay with you? Is that a good rule of thumb?

A. Yes.

Q. I think what I'd like to do first, we have already marked as Exhibit 1. This is your revised testimony, and I just want to give you a copy.

MR. CYNKAR: And, Nathan, here is a copy for yourself.

MR. WILLIAMS: Okay.

BY MR. CYNKAR:

Q. And this is the testimony that you are sponsoring in this case. Is that true?

A. Um, assuming that it is the one I filed, yes.

Q. Yeah. I mean, you certainly can check it later, and if it in any way doesn't conform to the revised one that was served on us, we can correct that.

Now, the subject of your testimony is the rate of return that should be afforded to UE going forward. Is that correct?

A. Yes.

Q. Okay. And that is a subject that is very important in the setting of the rates for UE. True?

A. I would assume it is, yes.

Q. And the allowed return on equity can have a great effect on UE's rates. Correct?

A. The allowed return on equity can have a greater or not so great effect on anybody's rates.

Q. In this case does the rate of return that you're proposing have a great effect on the ultimate level of rates that the Staff is proposing?

A. That would depend on what you would define as "great."

Q. How would you define "great"?

A. I really don't have a specific definition of "great."

Q. Do you know how your analysis of rate of return fits into the overall Staff case proposing level of rates for UE?

A. What do you mean by "fits in"?

Q. Well, what role it plays in ultimately determining the rates that are being proposed by the Staff.

A. When I determine rate of return, it is calculated against rate base to come up with a revenue figure, and that is worked into the rates that the company is allowed to charge.

Q. And in the context of that being worked in, do you know the impact the rate of return you're calculating has on the ultimate rate being proposed by the Staff?

A. What do you mean by "impact"?

Q. Well, when your rate of return is being worked in, that affects the ultimate number that is being proposed by the Staff for UE's rates. Correct?

A. That's correct.

Q. And there are a number of different variables that the Staff is considering that affects the rate proposal of the Staff. Correct?

A. That's my understanding.

Q. Okay. Do you know how your rate of return variable compares to the other variables that make up the Staff's ultimate rate proposal?

A. When you say "compare," what do you mean?

Q. Well, do you know what the other variables are that the Staff considered in proposing the rates that the

Staff has proposed in this case?
A. I know some of them.
Q. But you really have not examined them all?
A. No.
Q. When were you assigned to this case?
A. Are you looking for the date?
Q. In general terms. Not a specific date.
A. It would be earlier this year.
Q. January, February, that time frame?
A. If you're talking about EC-2002-1, it was probably after that.
Q. I'm talking about the earnings audit of UE that was started before, and I think it was started towards the end of last year, if memory serves.
Were you involved in that?
A. You were referring to EC-2002-1. That's what I thought you were talking about.
Q. Okay. So you were assigned to EC-2002-1 a little later than January, February of this year?
A. That's my guess.
Q. Okay. Now, not referring specifically to that case number but to the Staff's earning audits that led up to the complaint that was filed by the Staff, were you involved in that work?
A. I wasn't involved in the earnings audits.

Q. Were you involved in any way in work that led up to the filing of the complaint in this case?
A. Yes.
Q. And what was that involvement?
A. I did some rough estimates of rate of return.
Q. And when about did you do those?
A. Earlier this year.
Q. Would that have been before you were actually officially assigned to EC-2002-1?
A. Yes.
Q. So is the January, February time frame for that involvement accurate?
A. It could have been even before that. I don't recall exactly.
Q. It couldn't have been before January if it was earlier this year.
Do you think it was before 2001?
A. It could have been.
Q. Okay. Now, after you were actually assigned to this case, what was your specific assignment for your work in this case?
A. To determine an estimate of the rate of return.
Q. And what information in general terms did you review to prepare to calculate that rate of return?
A. Well, the stuff that is in my testimony.

I looked at historical information on the company's book value, earnings, dividends per share, looked at analyst projections, historical stock prices, dividends, interest rates, those things in general.

Q. Okay. In response to our discovery earlier, you-all produced this document to us --

MR. CYNKAR: And, Nathan, this is one of the documents that I don't have copies of.

BY MR. CYNKAR:

Q. If you'll just take a look at that, that was what we were given.

And does that pretty much capture the documents and the material that you looked at?

A. Do you want me to look at all of that?

Q. Well, I just want to --

A. It looks familiar.

Q. It looks familiar?

A. Yes.

Q. As I explained to your counsel earlier in the grand scheme of things, Fed Ex did not deliver certain things here. So we are going to get you copies of that. But I'll give you a copy of that as soon as I can, and I apologize for not having one here right now.

I'm not going to ask you a lot of questions about all of those pieces of paper.

Does that pretty much look like the material you produced in response to our request?

A. It looks pretty much like it, yes.

MR. CYNKAR: Okay. I'm going to have this marked as Exhibit 2.

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

BY MR. CYNKAR:

Q. When did you start drafting your testimony in this case?

A. This is a guess. I'd say April of this year.

Q. And in the context of developing your rate of return analysis, you considered all of the factors that you believed important?

A. Yes.

Q. And, basically, so I don't have to go through this, all of those important considerations are recounted in your testimony that is Exhibit 1 here. Correct?

A. Are you asking me, did everything that I thought about, did I write down in my testimony?

Q. No. I'm asking you, everything that you thought was significant in terms of calculating the rate of return you have recounted in your testimony, your written testimony here. Correct?

A. Everything that I thought was significant I wrote down in my testimony. Is that the question?

Q. Yes.

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

Q. And is there any reason why you would leave out something that you thought was significant for calculating rate of return?

A. I wouldn't say I left anything out. If I didn't feel it was appropriate to document it in my testimony, I wouldn't have put it in there.

Q. What do you mean by feel appropriate to document in your testimony?

A. Well, people have thoughts all of the time and conceptual ideas, that they don't necessarily write them down. So, I mean, I may have had some thought processes that might have influenced my thinking, but I didn't write all of those thoughts down.

Q. But for our purposes here -- because we certainly wouldn't want to know all of those thought processes necessarily -- but in terms of all of the -- what you felt to be were the important factors for calculating the rate of return, so we could know, you know, what the basis of your testimony is, those are recounted here. Is that fair?

A. Yes.

Q. Okay. Now, why didn't you use any Missouri companies in your comparables for your analysis?
A. Because I didn't feel it was appropriate to use them.
Q. Why?
A. There is an argument that there is circularity, in that if the Commission sets the rates for a company, then the circularity of influencing your decision or your thoughts as far as what the rates should be in a specific case.
Q. Do you agree with that argument?
A. I accept it.
Q. And so it obviously was a building block of your analysis?
A. It was something that I took into consideration when I did my analysis.
Q. As a result, then, is it fair to say that you believe that the performance of companies outside of Missouri is relevant to the analysis of rate of return?
A. In general or specifically this case?
Q. Well, specifically to this case.
A. It has a relevance.
Q. I mean, you're using that performance to evaluate the reasonableness of your own analysis. Correct?

A. To evaluate the reasonableness, yes.

Q. So to that extent it has a relevance?

A. Yes.

Q. Okay. And those companies outside of Missouri are in turn regulated by public service commissions in their jurisdictions. Correct?

A. Well, with deregulation I'm not familiar with all of the states that are deregulated. So I can't say for sure that, you know, all companies that would be included in the comparable analysis would be regulated.

Q. What about your comparable analysis?

A. I did not check to see if they were regulated or deregulated.

Q. So, then, in the context of your analysis, you did not take a look at the practices or principles governing other commissions regulating companies in their jurisdiction?

A. That's correct.

Q. Some of the comparable companies you chose -- now, you ended up with three comparable companies. Correct?

A. The final group was three, yes.

Q. Okay. Now, do some of those companies earn revenues through interstate transmission of electricity?

A. I don't know.

Q. Do you know when the first experimental alternative regulation plan -- which we can call an EARP for short -- was negotiated?

A. No.

Q. Do you know when it began?

A. No.

Q. Have you ever reviewed the EARP?

A. Parts of it.

Q. Do you know how long Union Electric has been operating under the EARP?

A. If I recall, it's been, like, five years.

Q. Would it sort of refresh your recollection if I said that the first EARP started in 1995?

Does that sound right to you?

A. I don't recall. I mean, I wasn't here.

Q. Okay. Taking 1995, what is your view of how interest rates have moved since 1995 to the present?

A. Which interest rates?

Q. Well, what do you think are the most important interest rates for purposes of your analysis?

A. Risk-free rate, utility bond yields.

Q. And how have those rates moved since 1995?

A. Down.

Q. Consistently down?

A. Rates never move consistently in one direction or another.

Q. I'm going to ask you a few questions about your background, so I'm going to be referring to this, but I'm not going to obviously get into all of this.

Now, you graduated from Colorado State in 1976. Correct?

A. Yes.

Q. And according to your testimony, you have a degree in social science from that university?

A. Yes.

Q. Okay. Did you study economics at all when you were there?

A. Yes.

Q. Did you have any finance courses?

A. Yes.

Q. Do you recall how many?

A. At Colorado State?

Q. Yes.

A. No, I don't recall. It would be a guess.

Q. Do you know the subject matter of the finance courses? Do you recall those?

A. Yes.

Q. Could you just briefly summarize those?

A. Financial theory, analysis of financial statements, determination of the cost of capital, there is investment theory included, those kind of things.

Q. I see.

Do you happen to recall what were the major course books you used in that time?

A. You mean the titles of them?

Q. Even if you don't remember the exact title, do you remember the authors or anything about them?

A. No.

Q. So those aren't the sort of things you've kept on your shelf since college days?

A. No.

Q. Okay. I still have a lot of my law books. That's why I ask. I'm a pack-rat.

After graduating from Colorado State, did you go directly to Southern Illinois University or did you have a gap there?

A. No. I had a gap there.

Q. What did you do?

A. I was in the Air Force.

Q. And what did you do in the Air Force?

I'm sorry. You did statistical analysis there.

A. Yes.

Q. And how long were you in the Air Force?

A. Six years.

Q. And were you in the Air Force while you were attending SIU?

A. Yes.

Q. And why did you decide to leave the Air Force?

A. I finished my MBA and decided that I'd like to see what the civilian world had to offer.

Q. In your MBA, your testimony recounts that you had an emphasis on finance and investments. Is that correct?

A. Yes.

Q. Do you recall the kind of finance courses you had when you were doing your MBA?

A. In general.

Q. Could you just generally summarize those for me?

A. Very similar to undergraduate courses. A lot of it emphasizes more to managerial, the concept of it.

Q. Okay. Do you happen to recall any of the major treatises or course books that you used in the context of studying for your MBA in finance?

A. No.

Q. So you didn't keep any of those on your shelf either?

A. No.

Q. Now, you're not a lawyer?

A. No.

Q. And never had any legal training?
A. Business law classes.
Q. Okay. But you never started to go to law school and decided it was a waste of time or anything like that?
A. No.
Q. Many of us think we should have.
Now, have you ever been an investment advisor?
A. What do you mean by "investment advisor"?
Q. Well, have you ever as a matter of earning your living advised other people on how to invest in stocks or bonds?
A. Yes.
Q. When was that?
A. When I was with American Express.
Q. And what did your role as an analyst planner there have you do?
A. Help individuals and companies develop portfolios, investment portfolios.
Q. Did you specialize in any particular segment of the market?
A. As far as investments, asset allocation.
Q. What does that mean?
A. Helping individuals and couples determine the proper assets to allocate their resources to.

Q. Have you ever written any articles in professional journals or publications?

A. Yes.

Q. How many?

A. I don't recall. Five or six.

Q. Now, do you recall the subjects?

A. One of them was on capital investment for Industrial Engineer Magazine. One of them was on productivity enhancement measurement for the Health Care Management Information Systems Society.

Q. How long ago was that article written?

A. Mid '80s.

Q. Do you recall any of the other articles?

A. Not specifically as far as the titles or subject.

Q. Okay.

In response to our interrogatories -- and I know a number of the folks on the Staff were involved in responding to our discovery -- there were a couple of different treatises that were cited.

One is called the Cost of Capital - Practitioners Guide by Parcell.

Are you familiar with that work?

A. Yes.

Q. And the other is Regulatory Finance, Utilities

Cost of Capital by Roger Morin.

Are you familiar with that work?

A. Yes.

Q. And do you think that those two are reliable authorities?

A. Yes.

Q. In addition, I think they both refer to Brealey and Myers Principles of Corporate Finance.

Are you familiar with that work?

A. In the context of those works I am, yes.

Q. Okay. Are you familiar with another work called Corporate Finance by Ross, Westerfield and Jaffee?

A. Not specifically.

Q. I don't know if that would ring any bells, but that is used as a standard text at SIU's college of business administration. I didn't know if that rings any bells with you, Ross, Westerfield and Jaffee.

A. (Shakes head.)

I guess it would depend on when they started using it.

Q. I think it's been around for a while. But that's all right.

Now, if I understand not only your testimony but the responses to interrogatories, is it fair to say that ratemaking doesn't set the revenue a utility will actually earn. Is that fair?

A. Say that again.

Q. Ratemaking does not set the revenue a utility will actually earn?

A. That's correct.

Q. And that's because it only sets a rate that it may -- that may produce revenues that it may earn, depending upon a lot of other factors in the marketplace. Correct?

A. That's correct.

Q. Okay. Now, is it fair to say that the discounted cash flow method which you use -- which, again, I'll just call DCF for shorthand -- in part tries to measure investors expectations of future cash flows?

A. The DCF model is an expectation model.

Q. Right.

And what does that mean?

A. What the model measures is given the dividend and the estimated growth, it shows what investors are willing to pay for that, and imparts their expectation as far as the return they would get from that investment.

Q. Okay.

The rate of return that is set by the Commission obviously does greatly affect the revenue that will be earned?

A. It depends on what you mean by "greatly affect."

Q. Well, why don't you describe for me how you believe it affects the revenues that will be ultimately earned.

A. The rate of return is one factor that is used in determining the rates that the company is allowed to charge.

Q. Right. That's the fact.

And so how significant is that in terms of the revenues that the company can ultimately achieve?

A. It's hard to say. It depends on the level the rate is set at, what other factors that go into setting the rates, what kind of volume of commodity the company sells. I mean, there is a lot of other factors involved.

Q. In your view is there any way of ranking the significance in terms of ultimate impact of those range of factors?

A. Not in general. It's just specific to the case.

Q. Well, in the case of UE in this case, is there a way of doing that?

A. Again, it depends on what you mean by "significance."

Q. Well, if I understand you correctly, there is a range of factors that will affect the revenue that a company ultimately can achieve. Is that fair?

A. Yes.

Q. Okay. And one of those is the rate of return that is set by the Commission. Correct?

A. It can, yes.

Q. Okay. And there are many other factors too. Correct?

A. Yes.

Q. And in this particular case, is it your view that all of those factors are equal in terms of their ultimate effect on UE's revenues?

A. If you say equal as far as on a numerical sense, I couldn't say.

Q. I mean, that's fine. If you don't know, that's a perfectly respectable answer. I'm not trying to ask you to say something that you don't know the answer to.

So you haven't analyzed the significance of the rate of return calculation on UE's ultimate revenues in any way?

A. I haven't compared what rate of return in this case means numerically versus what depreciation means numerically versus what cost of service means numerically versus what volume of commodity the company is going to sell based on those rates to be able to determine --

Q. Okay.
A. -- what the revenue is going to be for Ameren. And I don't think anybody has.
Q. Okay.
Have you done any comparison -- we were just talking about rate of return versus other factors, and you were talking about the volume of the commodity that UE can sell and how no one has done an analysis of those factors to each other.
Have you done any analysis of how your rate of return could ultimately affect the commodity that the company can sell?
A. Have I analyzed my rate of return against the commodity?
Q. Well, you used the phrase "commodity." By that I presume you meant electricity?
A. No. I'm talking about any commodity the company sells.
Q. Okay.
A. That's what generates the revenue.
Q. Right.
But for purposes of this case, the focus is on electricity. Correct?
A. Okay.
Q. Okay. So let's agree on that just to simplify

things.

So you, if I understand you correctly, said there are a number of factors in the rate setting process, including rate of return, that ultimately affects the amount of electricity that UE can sell.

Do I understand you correctly?

A. No, I didn't say --

Q. Okay. I'm sorry. I don't mean to be thick, but why don't you explain to me what you mean.

A. A rate of return doesn't determine how much a company sells.

Q. What does it do?

A. Rate of return goes into the rates that the company can charge.

Q. And what does rate of return affect?

A. It's a component of the rates.

Q. Right. What does it stand for? What does rate of return mean?

Is it --

A. It's the rate of return on rate base.

Q. So how is it related to the cost of equity?

A. Well, the cost of equity is the component of cost of capital. Cost of capital are used -- is used synonymously with rate of return.

Q. And so the return that the Commission sets, is it fair to say that that would greatly affect the access to capital of a company?

A. I can't say that it would or it wouldn't.

Q. Is it your -- does it have any relationship to the access to capital?

A. There is a lot of factors that go into determining and actually resulting in a company's access to capital.

Q. Okay. What are some of the other factors besides the rate of return set by the Public Service Commission?

A. A company's credit rating, investors perceptions as far as the prospects for the company, investors alternative, investment opportunities, the amount of capital that the company would need.

Q. Let me ask you, just so I understand it, if the Commission sets a rate of return that is comparatively high, is it fair to suggest that that would attract investors, all other things being equal?

A. I don't know what you mean by "comparatively high."

Q. Well, compared to other similar investments.

A. Are you asking me if the Commission set a high rate of return compared to other investments, that that would enhance the company's access to capital?

Q. Yes.

A. It's possible, but then it's possible it may not.

Q. And that's because of factors other than the rate of return?

A. That's correct.

Q. But is it fair to say as a practical matter, keeping those other factors equal, just so we're comparing the same thing, if you have companies where -- if you had two investment opportunities as an investor -- let's say they are two utilities and all of the other factors we're going to assume are the same.

If the Commission over here for Company A sets a rate of return -- let's just pick a number. We'll call it ten. And for Company B the Commission sets a rate of return of five.

If I understand the operation of rate of return, wouldn't it be fair to say in that hypothetical that an investor would want to invest in Company A because that investor would get more return on his or her money?

Is that fair?

A. If you unrealistically said everything else being equal?

Q. Uh-huh.

A. Yes.

Q. Okay.

On page 2 -- starting on page 2 of your testimony -- and maybe if we could refer to it. And this goes on -- I guess it goes on pages 2 to 7. You discuss the economic and legal rationale for regulation.

Now, we earlier were talking about you're not a lawyer and haven't had any legal training. Correct?

A. Yes.

Q. Okay. Now, I'm going to ask -- the next group of questions I'm going to ask you about focuses on these pages.

So I understand that you're not a lawyer, and if there is something you can't answer, just say so. I'm not going to belabor the point.

Now, in this section you quote -- or cite and quote from a number of initially United State Supreme Court cases, articulating what you believe to be the legal basis that you must use when determining a fair and reasonable return for a public utility. Correct?

A. Yes.

Q. Okay. And you also cite a case from the Pennsylvania Supreme Court, correct, on page 6, I believe it is?

A. Yes.

Q. Okay. Now, given that you don't have any legal training, how did you happen to select these four cases for your testimony?

A. Through review of the published documents that document the results of those cases and pulling out what seemed appropriate for rate setting.

Q. And is there a reason why you didn't choose any case after 1944?

A. No.

Q. Have you ever read Munn versus Illinois?

A. Yes.

Q. When was the last time you read it?

A. Last week.

Q. Good preparation.

A. I didn't memorize it. I read it.

Q. Don't worry. I won't give you a law school class kind of quiz on it.

Had you ever read it before you submitted this testimony?

A. Yes.

Q. What was the occasion for that?

A. It would have been for a rate case.

Q. Okay. And I'm just going to go through these cases briefly.

Have you read Bluefield?

A. Yes.

Q. The same answer, both in preparation for today in the context of earlier testimony?
A. Yes.
Q. The same thing with the Natural Gas Pipeline case?
A. Yes.
Q. And Hope also?
A. Yes.
Q. What was the statute the Supreme Court was construing in Hope?
A. I don't recall.
Q. Do you think that was significant in terms of the legal principles there?
A. I would imagine it is.
Q. Did you take that into account when you prepared your testimony, even if you can't recall it now?
A. No.
Q. If I understand you correctly, you surveyed more Supreme Court cases than just these and selected these for purposes of your testimony.
Did I understand that correctly?
A. Are you saying did I read more Supreme Court cases than these?
Q. Yes.
A. No.

Q. Why not?

A. No particular reason.

Q. Isn't it a fact that these are the four cases that have been cited by the Staff repeatedly in rate of return testimony for a long time?

A. Yes.

Q. So is it fair to say as a practical matter that you just used that as a guide for choosing the cases?

A. Yes.

Q. And in preparing this testimony you did not read Duquesne Light Company versus Barasch?

A. No.

Q. Have you ever read Duquesne Light Company versus Barasch?

A. No.

Q. Why didn't you cite any Missouri Supreme Court cases?

A. No reason.

Q. Have you ever read a Missouri Supreme Court case?

I don't recommend it as fun reading.

A. No, I don't recall that I have.

Q. Have you ever read the Takings Clause to the Fifth Amendment to the United States Constitution?

A. No.

Q. Have you ever read the Takings Clause in the Missouri Constitution?

A. No.

Q. I'm going to show you this. I'm just going to ask you about one phrase.

I'm referring to the document that is Staff's responses to Union Electric Company's first set of interrogatories.

MR. CYNKAR: I don't necessarily feel a need to make this an exhibit, but, Nathan, if you want, we can do that. It's really a matter of practice, if you'd prefer.

BY MR. CYNKAR:

Q. That underlined phrase over there, and I'm just going to ask you a question about that.

In that answer, which I think is the answer to Interrogatory No. 49, the answer is, Utility regulation acts as a substitute for the, quote, economic control of market competition, close quote.

Have I read that correctly?

A. Yes.

Q. Now, are you familiar with that answer?

A. Yes.

Q. Okay. Do you agree with that statement?

A. Yes.

Q. Could you explain what the economic control of market competition means?

A. It acts as a substitute for competition.

Q. Okay. And what are the aspects of that?

A. Of acting as a substitute or just --

Q. Yes, yes.

What does competition do that utility regulation is also trying to do?

A. My understanding of competition in a business environment would be more than one provider of a good or service, with the potential for competition as far as level of service, prices that would be charged, those kind of things.

Q. Okay. I'm holding in my -- well, I've got resting in front of me a book that is called Principles of Public Utility Rates by Bonbright, Danielsen and Kamerschen.

Are you familiar with Bonbright?

A. No.

Q. Have you ever heard of Bonbright before?

A. No.

Q. Let me ask you a question.

What I'm trying to understand -- and what I want to talk to you about a little bit -- was this notion of economic control of market competition and the relationship of regulation and competition. So that's the subject of my next couple of questions.

What role does competition have in setting prices?

Could I have my -- if you want to keep that in front of you for reference, you can. I want to keep it moving.

A. Typically when you have competing companies, there is the opportunity for one or more company to sell their good of service for less in order to attract market share.

Q. And if they sell it for less, there is a good chance that they could get a bigger market share?

A. That's potentially true.

Q. And if they do that, they could make more money?

A. That's potentially true.

Q. And that, of course, is their goal?

A. Yes.

Q. Okay. And how would a company in your example go about being able to sell product for less?

A. By pricing it lower than their competitors.

Q. And what would allow them to do that?

A. Well, they control the prices they would charge, so they would just do it.

Q. That's purely a matter of discretion on the