part of a company?

A. Yes.

Q. There is no practical things that constrain them?

A. There could be.

Q. What could they be?

A. What their costs are.

Q. And do you have a view of how significant the costs of production are in terms of setting prices?

A. In general, no.

Q. In terms of the market?

A. Not in general, no.

Q. Do you have any judgment about the relationship of production costs to the price of a good or service?

A. Yes.

Q. And what is that?

A. If you have lower production costs, it would afford you the opportunity -- or could afford you the opportunity to lower your prices.

Q. And is achieving lower production costs for the same amount of output one measure of efficiency?

A. It could be construed as a measure of efficiency.

Q. How would it not be construed as a measure of efficiency?

A. It would depend on what your definition of "efficiency" is.

Q. What is your definition of "efficiency"?

A. I don't have one.

Q. Does efficiency play any role in your analytical work at the Commission? Not the whole Commission but your particular portfolio. Does that concept play any role?

A. I don't have a portfolio.

Q. I mean, but in terms of your responsibilities that you're assigned to. I mean, you don't do everything that the other members of the Staff does. Correct?

A. That's correct.

Q. And would it be fair to say that you -- that one of your areas of expertise is rate of return analysis and calculation. Is that fair?

A. Yes.

Q. Is that your primary one, would you say?

A. No, I wouldn't say it's the primary one.

Q. What other kinds of tasks are you assigned to?

A. I'm the manager of the department and I supervise the employees. We do mergers, finance cases.

Q. In terms of -- let me focus a little bit.

Beyond the kind of administrative responsibilities and so forth you might have, in terms of your analytical tasks that would go into testimony to the Commission on either a rate case or other matters, what besides rate of return calculations are you involved in?

A. Evaluating finance cases, evaluating mergers.

Q. Okay. Now, in the context of all of that work, the concept of efficiency doesn't play a role?

A. I try to be as efficient as I can when I do that work.

Q. No, I know. I'm sure we all try to.

But in the context of -- well, actually let me ask you: When you're being efficient in your work, what do you mean?

A. In that context, I try not to waste time. I try to get things done as soon as I can. We're usually under a deadline, so I have to meet the deadline.

Q. But besides managing your own time and own activity, if I understand your testimony earlier, the concept of efficiency doesn't play a role in your analysis in any of those other subjects that you mentioned?

A. Yes, it does.

Q. It does.

But yet if I understood you -- and I may be confused and I really do apologize.

I thought you testified that you don't have a definition of efficiency.

A. Not a general definition.

Q. Well, for purposes of your work in calculating rate of return, do you have a definition of efficiency?

A. Yes.

Q. What is that?

A. It's the efficient market hypothesis that postulates that all known information is readily available in the marketplace and is known by investors, pretty much everybody.

Q. I see.

So that's part of the premise of the DCF calculation really?

A. It's part of the modern portfolio theory.

Q. In terms of your work in terms of calculating the appropriate rate of return, however, if I understand what you just said, that efficiency refers to access to information. Correct?

A. Yes.

Q. Okay. Is there a concept of efficiency with respect to the actual performance of a utility that plays a role in your analysis?

A. Yes.

Q. And what is that?

A. The efficient market hypothesis, in that all information about a company is public and known by investors, analysts, everybody who might be looking at the company.

Q. I'm sorry. I may have been unclear.

With respect to a utility producing electricity, in that task is there any concept of efficiency that relates to your work?

A. Yes.

Q. What is that?

A. As I just said, the efficient market --

Q. Okay. I may be confused. I really do apologize.

A. It's going to be the marketplace's interpretation of whether or not a company is efficient.

Unless it's a secret, people will know whether or not the company is efficient, and they will factor that into the price they're willing to pay for the dividend that they expect to get and the growth they expect to get from the investment in that company.

Q. Okay. In your testimony on page 3, on line 5, you refer to -- you say there, quote, For services that operate efficiently and have the ability to achieve economies of scale, a monopoly is the most efficient form of market organization.

Now, we'll talk about monopoly and so forth later.

But in terms of that phrase, "operate efficiently," how do you define "operational efficiency"?

A. Well, in the context of this, if you'll look further, basically, if you have that kind of situation where you have a marketplace and you have providers of goods of services in that marketplace who are competing for whatever volume of goods and services are out there, it would be more efficient for a single provider to provide that -- those goods and services because they can get the economies of scale.

Q. Right. But I think we were sliding into the discussion of monopoly, which we'll get there.

But as I've understood your testimony -- and what's confusing me -- is you've described the access to information of investors being able to make a judgment about whether Utility A was operating efficiently.

And that is sort of the efficiency of investors getting that information, which is part of portfolio theory as you're educating me here.

But the part that I don't think you've addressed yet is that if investors have an impression that the company is operating efficiently, what in your mind does the company operating efficiently mean?

A. Well, I don't know what investors perceptions of a company operating efficiently means.

Q. Well, what do those words mean to you?
I'm not trying to ask you -- I don't want you to stand in the shoes of investors.
But there is this fact that a utility will either behave efficiently or not efficiently. Correct?
A. (Nods head.)
Q. And all I'm trying to understand is, what is a utility doing when it is behaving efficiently in your view?
A. It would be operating in a manner where investors would perceive them operating efficiently, and that would be reflected in the price that the investors are willing to pay.
Q. So is it fair, if I understand you then, that the concept of efficiency as it relates to your work is a matter of investors judgment and expectations?
A. In relation -- in relation to what you've asked me, yes.
Q. Well, I'm not sure how I've limited it, so I'm not -- I'm confused by your last response.
In your mind how have I limited the question? I was trying to be fairly broad to understand the building blocks here.
A. Well, the way I understand you asking it is, the investors expectation as far as efficiency.

Q. No. I'm sorry. I'm not making myself clear.
Take investors expectations away.
A company can operate efficiently or not. Correct?
A. Yes.
Q. Regardless of whether there is going to be an investor or not, it could be, you know, privately held. It doesn't matter. It could be a mom and pop store, could be whatever, a company could behave efficiently or not.
When any company is behaving efficiently, what does that mean in your mind?
A. I still have to take it back to the investors perceptions.
Q. Okay. Because I wasn't trying to limit it to the investors perceptions.
Would we agree, then, that your perception of the bottom line concept of efficiency is inherently related to investors perceptions?
A. For purposes of rate of return and the DCF model, yes.
Q. Okay. I apologize. I don't mean to be thick. I wish I'd taken more economics in college myself.
Okay. This is where I wish I had our copies.
MR. CYNKAR: Excuse me for one second.
I think it's a little early for a break, but is

everybody okay? I thought we'd go maybe for about another half an hour or so and then take a break. Is that okay?

MR. WILLIAMS: Unless you want to take one now to discuss them.

MR. CYNKAR: No. I just wanted to ask him to pick something out of here.

Okay. I'll let him do that.

Okay. Oh. Great.

I want to make sure I have these in the exact way that they're . . .

All right.

BY MR. CYNKAR:

Q. I have in my hand the Cost of Capital - Practitioner's Guide by David Parcell, a 1997 edition. And we have xerox copies of those. And I'm happy to make those part of the record or not. This is the volume that you folks cited in your response.

Do you recognize it?

A. Yes.

Q. Now, I don't have them written down exactly the way they're listed here, but just for sort of ease of reference, this is page 2-12 and 2-13.

And there are five criteria that -- there are five criteria that, I guess, Professor Morin uses there for setting a fair rate of return.

There is capital attraction, and then I think it's rate level stabilities they have there next.

Do I have that? Correct. I'm reading from my own crib sheet here.

And then I think there is management efficiency. Is that correct?

And the consumer rationing and fairness -- there we go. Thank you -- and fairness to investors.

Now, first of all, do you agree that those are basic criteria of a fair rate of return?

A. That these are the basic criteria?

Q. Yes.

A. I would say they are factors to consider. I wouldn't call them criteria.

Q. So Professor Morin calls them five major criteria.

A. I thought we were dealing with Parcell's book.

Q. Parcell. I'm sorry. You're right. Not enough coffee this morning.

Parcell cites these as five major criteria of a fair return.

So --

A. No. Actually, he says Bonbright suggests --

Q. Okay.

A. -- five major criteria.

I don't take that as him citing these are the criteria for a fair rate of return.

Q. So it is your view that Mr. Parcel does not embrace these as the criteria for a fair rate of return?

A. I don't see anywhere in here where he says that.

Q. Okay. From your perspective, though -- from your perspective, is it fair to say that these are factors that should be considered?

A. I think it would be fair to take these into consideration, yes.

Q. Okay. We were talking about it -- since we're spending some time on it, why don't we wrap it up.

There is a reference here to management efficiency criteria.

A. Are you referring to this?

Q. Yes, I am, exactly.

So it's written there as criteria, but I understand from your perspective that that's a factor.

And from your perspective, this book here says from Mr. Parcell, quote, This strives to reward management efficiency and discourage inefficiency, close quote.

Would you agree with that description of this factor?

A. That's what it says.

Q. That's what it says.

But would you agree that that's what you should do in taking into account this factor of management efficiency?

A. You're asking me here now if I agree with this?

Q. Yes.

A. I -- I can't say whether I agree with it or not. I mean, I haven't evaluated this with regards to what they mean by reward or discourage inefficiency.

I mean, I haven't evaluated this or studied it. So I couldn't say one way or the other whether I would agree with that or not.

Q. So in terms of your analysis in this case, is it fair to say that you have not tried to set a fair rate of return that would discourage inefficiency?

A. Say that again.

Q. I said, so in the context of this case, if I understood what you just said, that you didn't necessarily agree or disagree with this statement that the management efficiency factor strives to reward management efficiency and discourage inefficiency; you haven't really considered it. Is that correct?

A. Well, I said I haven't evaluated this statement.

Q. Okay.

Well --

A. I mean, you're presupposing that this is the criteria.

Q. Well, no.

I'm saying, if you haven't evaluated this statement, the concept that one factor to go into -- or let me ask it this way. This may be more straightforward.

In setting a fair rate of return, should one factor that you consider be discouraging inefficiency?

A. If you're asking me if I set rates of return to discourage inefficiency, I would say, no --

Q. Okay.

A. -- not specifically.

Q. In any way.

A. No.

Q. Okay. And then I'm just going to ask you the corresponding question then.

Is it fair to say that you don't in any way set rates to reward management efficiency?

A. In the context of a rate case, whether a management acts efficiently or inefficiently is something that management is going to do, and they're going to do that irrespectively of what rate of return is suggested, set, authorized.

Q. So does that mean the answer to my question is, no, that you do not consider rewarding management efficiency in proposing a fair rate of return?

A. No.

Q. Okay. Now, if you'll turn to your testimony -- I'll take that back.

In the context of your testimony on page 6, on lines 26 to 28, I'm going to read this and ask you a few questions.

It says, quote, Pennsylvania -- which is the Supreme Court of Pennsylvania case that we talked about -- is included in my testimony to illustrate the following point: Captive ratepayers of public utilities should not be forced to bear the brunt of poor or inept management that results in unnecessarily higher costs, close quote.

In light of the exchange we just had, I'm a little confused if it's your view that in setting a fair rate of return you're not trying to discourage inefficiency.

I read this sentence in your testimony as suggesting that you feel that that is indeed something you should consider.

Would you explain --

A. All I'm saying here is captive ratepayers of public utilities should not be forced to bear the brunt of poor and inept management that results in unnecessarily higher costs.

Q. Okay. Then is it fair to say that that proposition that captive ratepayers should not be forced to bear the brunt of poor and inept management, that that policy goal is achieved elsewhere, not in setting rate of return.

Is that fair?

A. What this is saying here is, if a company has unnecessarily higher costs, you shouldn't set rates to allow them to capture unnecessarily higher costs and just pass that -- arbitrarily pass that on to ratepayers.

Q. Well, unnecessarily higher costs can occur because of inefficiency. Correct?

A. It can.

Q. Okay. And to the extent that inefficiency is the cause of unnecessarily higher costs, your rate of return analysis is not intended to address that problem?

A. What do you mean by rate of return, address that problem?

Q. Well, I'm harkening back to what you said was that the factor of rewarding or discouraging -- well, in this context, discouraging inefficiency was not part of your calculation of a fair return in this case. It was not part of your consideration. That was your earlier testimony.

A. Not directly. But if my rates come in at a certain level and the company's costs exceed that because they're inefficient, then I'm certainly not going to adjust my rates up just because they're inefficient. Their costs are excessive.

Q. No. I understand that.

But you did not get -- in your hypothetical just now, you did not get to the particular number you proposed because of any conscious judgment on your part that the company was being inefficient?

A. No.

MR. CYNKAR: Why don't we take a five-minute, ten-minute break. I've got -- it's ten to ten, I guess it is. So let's come back at ten o'clock.

(A RECESS WAS TAKEN.)

BY MR. CYNKAR:

Q. All right. Just finishing up a little bit of what we were talking about and then we'll move on to another subject.

If I understand you correctly then, when we were talking about efficiency and investors, an investor's judgment about whether a company is well managed will ultimately affect the cost of equity?

A. It can, yes.

Q. Turning the corner to sort of a higher level subject, generality here, would it be fair to say that you have concluded that it is appropriate for UE's rates to be cut?

A. I haven't made that determination or a judgment on that.

Q. Do you believe that UE is earning excessively?

A. I haven't made a determination or a judgment on that.

Q. Do you know how the rate of return you are proposing compares to the rate of return UE has achieved over the last six years?

A. No, not specifically.

Q. Well, have you looked at it?

A. No, not specifically. I haven't done any comparison of those rates of returns.

Q. Do you know what they are?

A. I don't recall. I mean --

Q. Did you consider them in formulating your testimony?

A. When you say "consider them," what do you mean by "consider them"?

Q. Well, the Staff has filed a complaint saying that UE's rates should be cut. Correct?

A. That's my understanding, yes.

Q. Okay. And it is the Staff's view that the

premise for that is that UE has excess earnings.
Isn't that true?
A. That's my understanding, yes.
Q. Okay. And you don't disagree with that, I wouldn't think?
A. No.
Q. You have no independent basis to disagree with that?
A. No.
Q. Now, on page 16 of your testimony, starting at line 13, you refer to AmerenUE's ROE, return on equity, from 1996 to 2000.
And I guess that illustrates my question.
You refer to this past ROE in your testimony, and so, therefore, is it fair to conclude that you considered it in formulating your recommended rate of return?
A. It depends on what you mean by "considered it."
Q. Well, what role did it play in your analysis of a correct rate of return for UE?
A. I didn't use it in any fashion to determine the correct rate of return for UE. I used it as a reference point.
Q. What does using as a reference point mean?
A. Just for reference, to see what it was.

And just to be technically accurate, that's not rate of return. It's return on equity.

Q. Return on equity. I'm sorry. You're right.

Now, there is, I believe -- and I don't think -- you testified earlier about your familiarity with the EARP. You indicated that you weren't really that familiar with either the first or the second EARPs.

Is that fair?

A. It's all relative. You know, I don't consider myself to be very familiar with it.

Q. If I recall your testimony, you said you hadn't read all of it?

A. That's correct.

Q. And to what extent are you familiar with it?

A. I'm familiar that it's an experimental alternative rate plan. I'm familiar with it's an alternative to rate base regulation, traditional regulation. I understand that it was implemented prior to my employment at the Commission.

Q. And when did you start at the Commission?

A. 1997.

Q. So it has been in place since before you got there?

A. That's my understanding, yes.

Q. Are you familiar with the report that the Staff filed on February 1, 2001 entitled Report Regarding the Experimental Alternative in Regulation Plans of Union Electric Company d/b/a AmerenUE?

And this was filed in Case No. EM-96-149.

Are you familiar with this document?

A. Somewhat.

Q. How are you familiar with it?

A. I provided estimates as far as rate of return that other Staff used in preparing that report.

Q. Okay. So you evaluated -- you analyzed UE's ROE under the EARP, is that correct, as part of this report?

A. When you say analyze their ROE, what are you referring to?

Q. Well, I was just using my own words. I wasn't trying to mischaracterize it. I was just trying to describe the work that you just said you did on UE's ROE for this purpose, for the purpose of this report.

A. Well, like I said, I provided an estimate of rate of return for purposes of the report.

MR. CYNKAR: Okay. I'll tell you what, we will have more copies of this, but I would like to have this marked as Exhibit 3.

(EXHIBIT NO. 3 WAS MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

BY MR. CYNKAR:

Q. I'm going to show this to you, but just for purposes of the record, on page 12 I have highlighted two sentences which read, quote, UE has consistently earned over a 12.61 percent ROE. UE's present rates are excessive even though UE's customers receive half of the excess earnings between a 12.61 percent ROE and a 14.00 percent ROE for UE, and a larger percentage, about 14.00 percent ROE.

The 12.61 to 14.00 percent ROE range represents a substantial amount of excess earnings, of which only half must be shared by UE with its ratepayers, close quote.

And that's the stuff that I highlighted there.

And my question is, is did your rate of return work in the context of preparing that report form the basis for those statements?

A. I would assume it did.

Q. Okay.

Would you agree with those statements?

A. I have no reason not to.

I didn't prepare them.

Q. Okay. If I could have that back. I'm sorry. That's the only one we have.

On the same page there is another sentence that

I'm going to just read in the record and then show you.

And it's, quote, The significant difference between UE's ROE customer credit beginning sharing point of 12.61 percent ROE and what UE's authorized ROE would likely be if currently determined by the Commission represents earnings that UE is allowed under the EARP to retain in entirety that otherwise would not be considered reasonable for retention by UE under traditional regulation, close quote.

That's in the brackets right there.

Did your work with respect to this report provide the basis for that statement?

A. I would say the section that said what UE's authorized ROE would likely be would have.

Q. Your work --

A. Yes. The estimates that I gave for rate of return --

Q. Okay.

A. -- yes.

Q. And did you review a draft of this report before it was filed with the Commission?

A. I don't recall.

Q. Would it be normal that you would have reviewed it?

A. Not necessarily.

Q. Okay. I'm sorry. If I could have that back.
One more sentence -- I think it will be actually two more sentences -- I don't want to make myself into a liar here -- and then we'll move on.
The first sentence that I wanted to talk about is this one, quote, The Staff, however, would argue that the protection which the EARPs have provided UE from rate changes resulting from Staff excess earning complaint cases has continually put UE in a protected earnings position that has not necessarily benefited UE's ratepayers greater than traditional regulation would have, close quote.
And, again, I've read the red ink in brackets there.
And my question will be the same, Mr. Bible.
Did your work on this report provide the basis for that statement in any way?
A. It could have.
Q. Could you explain how it would have?
A. The part of excess earning?
Q. Yes.
A. They used my rates of return to determine if the company could potentially be in a position of excess earning.
Q. Okay. Now, your work in this context, your

work on the rate of return that -- let me back up.

You don't in any way disagree with that statement in that report?

A. I have no reason to disagree with it.

Q. Okay. Did your work on rate of return in the context of that report that possibly led to the statement about excess earnings, did that work play any role in your work on your rate of return proposal and your testimony in this case?

A. No.

Q. How come?

A. Why should it? It's two different cases.

Q. The same company though.

A. Two different cases.

Q. In your view does the level of earnings of a utility in prior years not bear on your calculation of what the proper rate of return is going forward?

A. In a sense of using the models, the company's prior earnings would have an influence on its dividend, and that would be factored into the model.

A company's prior earnings would be evaluated by investors, and that would be factored into the price they're willing to pay.

A company's historical earnings would be evaluated by analysts, and that could potentially have an impact on their estimate of the growth of the company.

So from that aspect, yes.

Q. Do you have any sense from your perspective of when the Staff became aware that UE was achieving excess earnings under the EARP?

A. Do I have a sense of when?

Q. Yes.

A. I don't really recall, because I have been approached from time to time in the past and asked to come up with an estimate. And I can't say it's necessarily true that anybody shared with me or anybody came to me and said UE is overearning.

So I really can't say that I have a good sense of when somebody or Staff made the determination outside of this report and in filing the complaint case.

Q. In terms of those requests for you to do some calculations on rate of return, could those requests have started relatively soon after you came on board with the Staff in '97?

A. Well, it's my understanding that the review is ongoing of the EARP.

I believe I did some calculations in 1999. If anybody else on my Staff was asked for an estimate prior to that, I don't recall.

Q. Okay. If I could -- thank you.

MR. CYNKAR: I'd like to mark -- and this I do have copies of -- this would be 4.

(EXHIBIT NO. 4 WAS MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

BY MR. CYNKAR:

Q. What has just been marked as Exhibit 4 is entitled Replacement Pages to Direct Testimony to Direct Testimony, Red Text and Strikethrough, Ronald L. Bible in this case, and if you could just take a brief moment to look at this document to make sure that it seems complete.

Okay.

Now, as you know, the Staff has moved to correct your prefiled testimony, and the version of the testimony that we've been using as Exhibit 1 is the revised testimony, with these revisions incorporated in there.

And the Staff's motion basically says that there are various corrections that you needed to make due to erroneous inputs.

And what were the erroneous inputs that led you to make these changes?

A. There were some transcription errors as far as labeling schedules. There were some transcription errors with regard to input of some capital structure numbers.

Q. By "transcription," what do you mean?

A. It was typed in wrong.

Q. Okay. Now, if you turn to what is now Exhibit 4 to Schedule 29, at the bottom is several lines of a chart that's entitled ROE Estimates, and then it describes DCF, company specific and so on, and it has low, mid, high and various numbers and so forth, and then it takes an overall average of those numbers.

Why was this taken out?

A. It wasn't supposed to be in there.

Q. Why not?

A. It doesn't apply to this case.

Q. In what sense it doesn't apply to this case?

A. That it doesn't apply to this case.

Q. Well, these numbers are not your -- like, your CAPM calculations and so forth?

A. Not for this case.

Q. How did it get in here from a totally other case? I'm confused.

A. I don't know. It's a transcription error.

Q. Okay. In your testimony -- let's go back to your testimony, page 17 -- referring to lines 3 to 5, there is the following sentence which I'm just going to read for the record purposes: A weighted cost for each capital component is determined by multiplying each capital component ratio by the appropriate embedded cost

or the estimated cost of common equity, close quote.
Is it fair to say that from your perspective the computation of a fair rate of return rests on cost figures?
A. Again, you're using cost in a general sense. I'd have to say no.
Q. Well, are there noncost elements that come into the calculation?
A. For what?
Q. For purposes of computing a fair rate of return.
A. Well, for the cost of equity component, you have dividends and price and growth. Those are not cost components.
Q. Numerical components then. This all relies on basically numerical components, whether it's dividends --
A. The dividend is a numerical component. The price of the stock is a numerical component. The growth is a numerical component. They're not costs.
Q. So is it fair to say, then, that your understanding of the appropriate approach to calculating a fair rate of return relies on numerical components?
Is that fair to say?
A. Yes.
Q. Okay. If we turn to Schedule 11 of your

testimony, now, Schedule 11 shows dividends per share, earnings per share and book value per share for Ameren Corporation from 1990 to 2000. Is that correct?
A. Yes.
Q. Okay. And these are numbers for Ameren Corporation, not Union Electric. Correct?
A. That's correct.
Q. Now, at the bottom, in terms of coming up with a growth rate, you basically used the average of 1990 to 2000 for dividends per share to come up with your 1.92?
A. Yes.
Q. So you used that number, $2.10 and $2.54, as the basis for your computation of the 1.92 percent.
Is that correct?
A. That's correct.
Q. Okay.
And you did the same for your earnings per share and book value per share calculations?
A. That's correct.
Q. And that gave you your growth rates for 1990 to 2000. Correct?
A. I used those in my calculations to derive those, yes.
Q. Okay. And then you did the same thing for the period 1995 to 2000. Correct?

A. Yes.

Q. Okay. Now, in the material in Exhibit 2, you included the Value Line for Ameren dated April 6, 2001, which is one of the cites at the bottom of Schedule 11.

A. Okay.

Q. And that Value Line then, along with the Value Line from January 5, 2001, were the source for your numbers for this schedule. Correct?

A. Yes.

Q. Okay. Now, when did UE and CIPS merge?

A. I believe it was prior to when I came to the Commission. It actually occurred, like, in '97, is my guess.

Q. Now, in Value Line -- I'll read this for the record and then show it to you.

Value Line says, quote, Pre-merger data are for Union Electric only and are not comparable to Ameren data, close quote. That's this.

A. That's what it says.

Q. Okay. Now, you did not feel it was appropriate to make any distinction between the pre- and post-merger data?

A. No.

Q. In your view is that data comparable?

A. In my view it is, yes.
Q. Do you know how many natural gas-fired turbines UE has built in the last ten years?
A. No.
Q. Okay. Is it fair to say that natural gas turbines are a major investment?
A. I guess it would depend on how much they cost.
Q. But you don't know how big of an investment they are?
A. No.
Q. Okay. I'm going to give this right back you to. I just wanted to read this one thing for the record.
In the Value Line that you referred to, the Value Line says, quote, Faced with a 2 percent yearly growth in electricity usage and a low reserve margin, it is obvious that the company will need new peeking units shortly. Accordingly, it has begun building 35 natural gas-fired turbines in Illinois, close quote.
That's this paragraph right there.
And then it goes on to say -- and you'll see it's highlighted right below there -- the cost of the package is estimated at $1.1 billion, close quote.
A. Okay.
Q. Do you think that that kind of an investment will affect Ameren's growth in the future?

A. It's possible.

It also says they're doing it in Illinois, and we're setting rates for Missouri.

Q. So that wouldn't affect your conclusions at all?

A. If Ameren is going to build units for Illinois or for use somewhere else, I don't see why it should.

Q. Does the data that is recounted there that provides the basis for your dividends per share, earnings per share and book value per share calculation, does that distinguish between Illinois and Missouri?

A. No.

Q. So you didn't make any judgment in doing your calculations between Missouri and Illinois, did you?

A. Yes, I did.

Q. But these numbers come right from that chart. Correct?

A. That's right.

Q. And those numbers include both Missouri and Illinois. Correct?

A. Right.

Q. And so you didn't make any distinction here on Schedule 11 in calculating growth rates between Missouri and Illinois?

A. Yes, I did.

Q. How so?
A. In my mind, since 91 percent of the revenues come from Missouri, I think it's a fair representation to use those numbers.
Q. How do you know 91 percent of the revenues come from Missouri?
A. That comes from the company's annual report, and I think it's in an S&P report also.
Q. And does that also mean that 91 percent of the company's costs are borne in Missouri also?
A. No, not necessarily.
Q. Is growth purely a matter of revenue?
A. No.
Q. So earnings or revenues minus costs is a basic way of looking at growth. Isn't that fair?
A. No. Earnings minus cost equals growth, no, I don't think you can say that.
Q. I didn't say that.
But just because a company has a certain level of revenues doesn't determine what the company's growth would be. Correct?
A. When you say "growth," what growth are you referring to?
Q. The growth that you're referring to on Schedule 11.

A. Okay. So growth in dividends per share, book value per share and earnings per share?

Q. Right.

A. Now, ask me the question again.

Q. Revenues by themselves do not determine that growth?

A. That's correct.

Q. Okay. And that's because costs affect that growth too. Correct?

A. They can have an effect on it, yes.

Q. Is there any way in which they wouldn't have an effect on growth?

A. If they were nonexistent, they wouldn't have an effect on it.

Q. Okay. So if there are costs, they do have an effect on growth?

A. Yes, they can.

Q. Okay. Do you know how much of Ameren's revenues comes from CIPS?

A. No. I would imagine it would be some part of that 9 percent that's not coming from AmerenUE Missouri.

Q. I'm sorry. Which percent?

A. Well, 91 percent of revenues comes from AmerenUE. The other 9 percent would come from the other things.

Q. I see.

Have you considered how much of Ameren's stock price relates to its Missouri operations?

A. I haven't done any calculations. I don't need to.

Q. Why not?

A. It's not necessary to.

Q. Why?

I understand that's your judgment, and I just want you to explain that for me.

A. Well, it's not my judgment. Investors -- unless it's a secret -- and, you know, if the company is keeping any secrets, they run afoul of Rule FD, the Fair Disclosure law.

Investors are well aware of the specifics with regards to AmerenUE versus CIPS versus the nonregulated versus whatever else Ameren is involved in.

Q. So revenues and costs both affect growth rates?

A. They can, yes.

Q. And the percentage of Ameren's costs that are in Missouri is not necessarily going to be equal to the percentage of Ameren's revenues that arise from Missouri. Correct?

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

Q. Well, you said that you have figured that

91 percent of Ameren's revenues comes from Missouri. Correct?

A. That's what I've read, yes.

Q. But that's only one part of the factors we're talking about now that affect the growth that is the subject of Schedule 11. Right?

A. That's correct.

Q. Okay. Costs is another one.

And if there are costs, they do affect growth?

A. They can, yes.

Q. Well, again, the only way they would not, if there are no costs. That's your testimony?

A. That's correct.

Q. Okay. Now, do you know what percentage of Ameren's costs arise out of Missouri as opposed to Illinois?

A. No, I don't.

Q. You have no way of knowing, do you, how that -- those percentages could change over time. Correct?

A. That's correct.

Q. Okay. So right now Ameren could have the lion share of its costs being incurred in Missouri, and that could change over time?

A. It depends on what your definition of lion share is, but that's possible, yes.

Q. Now, you don't think -- if I understand your testimony -- that it is not really important from an investor's perspective to understand the percentage of revenue that Ameren gets from Missouri as opposed to Illinois.

Do I understand you correctly on that?

A. I don't recall saying that.

Q. I'm sorry. What did you say?

When I asked you the question about how much of Ameren's stock price relates to its Missouri operations, you said that was a judgment, a distinction you didn't have to make. Right?

A. Yeah. I don't feel compelled to do any calculations to try to determine for purposes of this analysis here on growth separate calculations for AmerenUE, separate calculations for CIPS, separate calculations for nonregulated or whatever and try to make those determinations.

Q. And you don't think that those entities are -- well, let's put it this way: Different companies can have different growth rates. Correct?

A. That's correct.

Q. Okay. And CIPS is different from UE. Correct?

A. That's my understanding, yes.

Q. And the consolidated company of UE and CIPS is

different for growth purposes from UE by itself. Correct?
A. That's possible, yes.
Q. But you haven't done that analysis?
A. The growth rates between the different entities?
Q. Yes.
A. As far as these calculations, no.
Q. In any way, have you done that calculation?
A. Not any calculations.
Q. Now, I'm sorry. I want to get back to the one observation that you made which I'm not sure that I understand.
The fact that Ameren's stock price -- Ameren's stock price is an important component in the DCF calculation, isn't it?
A. It's a component, yes.
Q. It is a basic measure of investor expectations, isn't it?
A. No.
Q. What is its role in the DCF?
A. It is the price that investors are willing to pay for the dividend and the expected growth.
Q. Okay. And in evaluating that in your analysis, you believe that you do not have to relate Ameren's Missouri operations to its stock price?

A. Missouri operations doesn't have a stock price.
Q. I know.
But those operations are different than their Illinois operations. Correct?
A. I would assume they would be, yes.
Q. Well, I mean, you pointed out that the turbines that we were talking about are investments being made in Illinois.
A. That's what the Value Line sheet says.
Q. Right.
And if I understood the thrust of what you were saying, it's your view that that is not a relevant consideration in evaluating future growth of a company?
A. It's not a relevant consideration for the growth in AmerenUE. I don't think anything that is going on in Illinois should be relevant to the growth situation at AmerenUE.
Q. I see.
But the stock price doesn't relate to AmerenUE by itself, does it?
A. No. It relates to Ameren overall.
Q. And -- sorry. One second there.
The distinction between -- you capture the distinction between UE and Ameren by applying your 91 percent figure in the context of these calculations on

Schedule 11.

Is that what I understand your testimony is?

A. I didn't apply the 91 -- I didn't do any calculations to apply the 91 percent figure to --

Q. These numbers here relate to Ameren. Correct?

A. Yes.

Q. Okay. And the investment in turbines in Illinois will affect the growth of Ameren. Correct?

A. I would assume it would, yes.

Q. And in calculating these numbers here, you did not consider that investment as affecting the ultimate growth of Ameren. Correct?

A. In doing these calculations right here, no. They haven't built them yet. I mean, these are historical numbers.

Q. Right.

But DCF is a forward-looking methodology. Correct?

A. Yes. It's a prospective methodology.

Q. Right.

Are you familiar with the sharing grids in the first and second EARPs?

A. You know, I don't recall. I looked at a sharing grid. I don't know if it was for a first EARP, a second EARP.

Q. Okay. Well, let me -- since we all probably have more copies of those documents than we care to keep, let me -- what I'm referring to here is the first EARP, which was in 1995.

And just for all practical purposes, I'm putting page 4 from the stipulation and agreement from that case, just so you can see the sharing grid, just to refresh your recollection.

MR. WILLIAMS: Would you mind putting in the case number?

MR. CYNKAR: The case number is ER-95-411. And the issue date of the report and order is July 21, 1995.

MR. WILLIAMS: Thank you.

BY MR. CYNKAR:

Q. Now, the sharing grid for the first EARP starts at 12.61 percent. Correct?

A. No.

Q. Well, where does sharing start?

A. Something in excess of 12.61. It says up to and including 12.61 there is no sharing.

Q. Okay. Sharing starts after 12.61?

A. Yes.

Q. I stand corrected.

And then between something above 12.61 percent to 14 percent, there is a 50/50 sharing.

Do I have that correct?

A. That's correct.

Q. Okay. And then above 14 percent there is a sharing formula which has zero percent for the company, 100 percent for its customers. Correct?

A. That portion, yes.

Q. Okay. Now, would you agree that the maximum effective return that UE could earn under that sharing grid is 13.3 percent?

A. I don't see that in here anywhere.

Q. No. But if you -- have you ever done any calculations to figure out what the maximum effective return would be in light of the sharing that is provided for there?

A. Maximum effective return?

I don't recall doing any calculations on maximum effective return.

Q. Well, under the EARP you're familiar with the fact that UE would pay credits based on its ROE. Correct?

A. I don't know all of the specifics of what it's based on.

If that's what it's based on, then that's what it's based on.

Q. Well, under the EARP, UE's earnings involves a plan to share those earnings with its customers. Is that fair to say?

A. That's my understanding.

Q. So when sharing is done, the effective amount of money that the company has earned is its earnings minus the credits that go back to customers. Correct?

A. That's correct.

Q. Okay. Now, let me show you -- I think that I'm going to make an exhibit.

MR. CYNKAR: This will be Exhibit 5.

(EXHIBIT NO. 5 WAS MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

BY MR. CYNKAR:

Q. This is -- and you certainly can check this with the transcript, which I did not burden us with here.

But I will read this just for purposes of the record. It's, quote, Commissioner Crumpton, colon, and then quote, On page 4 of the stipulation and agreement there is a chart, and then ellipsis.

According to this chart, assuming that the company is sharing its overearnings with its customers, it, in effect, can earn up to 13.3 percent return on equity, is that correct, close quote?

Quote, Mr. Dottheim, colon, quote, Yes, close quote.

Mr. Moore, quote, That's correct, close quote.

Now, Mr. Dottheim here is Mr. Steven Dottheim from the Staff. Correct?

A. Yes.

Q. And Mr. Moore was also a Staff member at that time, if I recall?

A. I wasn't here then. If he was, he was.

Q. I understand.

So you have no reason to doubt, then, that 13.3 percent effective return on equity under the sharing grid is correct, do you?

I mean, that's what the Staff represented to the Commission.

A. Yes, I do.

Q. Oh, really. What is that?

A. Well, as I pointed out in my testimony -- and you pointed out to me -- on page -- what? Is it 16?

Q. This is of your testimony --

A. They earned 14.6 in the year 2000.

Q. Where did you get that number?

A. Well, let's see.

Schedule 8 of the -- it's from your annual report.

Q. Right.

Well, first of all, do you know whether the year 2000 was in the first EARP?

A. No.
Q. Well, the first EARP ended in 1998.
A. Okay. Well, in 1997 they earned 13.98.
Q. Okay. Now, do you know whether that number is net of the sharing credits for that year?
A. It's what they represented to shareholders.
Q. Are you --
A. So that's -- well, if it's in their annual report, that's what they told their shareholders they earned. So if they didn't net it out per credits, then I guess if I was a shareholder, I might be a little upset if they misrepresented that.
Q. That's fine.
DCF is your primary method of calculating return on equity here?
A. Yes.
Q. Okay. Now, do you think the stock market has been in equilibrium over the last ten years?
A. It depends on what you mean by "equilibrium."
Q. Well, what do you mean by equilibrium since, if I recall, that's the phrase you used in your testimony.
A. I assume that the models come from the modern portfolio theory, and one of the underlying assumptions is the efficient market hypothesis, that all known information is available and reflected in stock prices,

and that would be an indication that the market is in equilibrium.

Q. You're saying that the availability of information is what -- is what market equilibrium means?

A. What I'm saying is, is that the availability of that information, people who use that information make the determination of the prices they're willing to pay for stocks in the market.

Q. So in your view, market equilibrium has nothing to do with the actual prices in the stock market going up and down?

A. Yes, it does.

Q. And have prices in the stock market been in equilibrium over the last ten years?

A. Based on what I said, yes.

Q. From the perspective of the DCF calculation, is it important that stock prices in the past not be relatively volatile?

A. Say that again.

Q. From the perspective of the DCF calculation, is it important that stock prices in the past not be relatively volatile?

A. I don't know what you mean by "relatively volatile."

Q. Well, moving up and down a lot, to make it sound less highfalutin.

A. What is moving up and down a lot?

Q. Well, the constant, even.

A. Stock prices are never constant.

Q. Right.

And is it important from the perspective of the DCF calculation that stock prices not vary up or down by significant amounts over time?

A. The model has certain assumptions that it's based on, that it's generally accepted throughout the industry that those assumptions are rarely met.

So from that aspect, no. That there is volatility in the stock market, no.

Q. So from your perspective, based on your testimony, if I understand you, the market equilibrium assumption is meant because of the assumption that there is perfect information among investors?

Did I understand you correctly?

A. It's based on the assumption that publicly available information is known and reflected in the stock price.

Q. Have you done any research into the actual movement of stock prices over the last ten years?

A. No.

Q. Is it fair in trying to understand how the DCF model works, that DCF in a sense relies on a trend line going from the past and essentially hypothesizes a trend line going out to the future?

A. A trend line of what?

Q. Cash flow.

A. Of the DCF as we use it, it depends on the dividend, the stock price and growth.

Q. Right.

And those variables exist in the past and they exist in the future. Correct?

A. That's correct.

Q. And this is a method for predicting a dividend stock price in growth that you don't know in the future. Correct?

A. It doesn't predict those.

Q. It estimates them?

A. No, it doesn't estimate them.

Q. What does it do?

A. What it does is represents the price that investors are willing to pay for the dividend and anticipated dividend and the growth.

Q. Well, that represented price is not the actual price in the future. Correct?

A. In the model as it's applied, no.

Q. Because you can't know what the price will be as you sit here?

A. That's correct.

Q. So the purpose is trying to figure out what that might be?

A. No. The purpose is not to try to figure out what it might be.

Q. I'm sorry. I'm confused then.

What is the purpose?

I mean, if it's representing a number, if I understand you correctly, the --

A. The number it represents is investors expectations as far as return.

Q. And that is expectations that are in the future. Correct?

A. That's correct.

Q. And so as we sit here, even with this model, you can't absolutely be sure that you know what those expectations will be?

A. That's correct.

For example, an analyst may predict 5 percent growth and the company may only experience 2 percent growth. So that happens.

Q. Now, in doing the calculations to represent a number for dividend and growth and price that we were talking about, the DCF model relies on certain assumptions of constant economic activity, constant growth and uniform information and all of that sort of thing.

Do I understand that correctly?

A. Some of the assumptions underline that, yes.

Q. Do you know if UE or Ameren is likely to be taken over by a company from outside Missouri?

A. They're probably as likely as anybody else is to be taken over.

I know -- I don't know of any specific circumstances where they're pending that.

Q. Is it fair to say that in recent years there has been a fair number of utility company mergers?

A. It depends on what you mean by "a fair number".

Q. Well, more than the usual.

A. I -- I don't know what would be usual.

Q. So in your normal work there would be no reason why you would know how many utility company mergers there might be going on around the country?

A. No.

Q. Okay. Are you familiar with the acquisition of Louisville Gas and Electric by a British company?

A. No.

Q. And I just clipped this from the Post this Saturday.

Dynegy is buying out Enron. Were you familiar with that merger?

A. No, I'm not familiar with the merger. I mean, I've seen it in the news.

Q. So based on your work, you're really not in a position to make the judgment about the vulnerability of Ameren to acquisition by an outside company. Is that fair?

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

Q. Well, how likely Ameren is to be acquired by an outside company.

A. Like I said, they're no more or less likely than any other company.

Q. On what do you base that judgment?

A. Just in general. There are mergers and acquisitions going on --

Q. But --

A. -- and they could or could not be a candidate for one of those.

Q. But if I understand correctly from your testimony, though, it is not part of your work to really be informed about mergers and acquisitions in utilities occurring throughout the country. Correct?

A. I have worked on merger case.

Q. Right.

But, I mean, in terms of what is going on in the country in the electricity industry, with respect to the mergers of utilities, if I understood your testimony, it's really not part of your work to keep informed of mergers occurring around the country.

Is that fair?

A. It's not necessary for me to track mergers on a regular ongoing basis.

Q. Right.

And so you weren't familiar with the Louisville Gas Merger example?

A. That's correct.

Q. Or the Enron one, for example?

A. Other than what I saw in the news.

Q. I see.

So, then, isn't it fair to say that you're really not in a position to make a judgment about whether Ameren is more or less likely to be acquired by another company?

A. I can make a judgment that they're no more or less likely to be acquired than any other company.

Q. But that's not based on any study of what's been going on?

A. No. No. Not based on a study.

MR. CYNKAR: Why don't we take a break. Why don't we take about -- it's 12:07 or so. Actually, 11:07.

Sorry. I have East Coast time on. Until 11:15. Great.

(A RECESS WAS TAKEN.)

BY MR. CYNKAR:

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

A. No.

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

A. No.

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

A. No.

Q. Do those revenues, those future revenues, ultimately affect how the stock market perceives the company is in investment?

A. When you say "those future revenues," which one are --

Q. The revenues of the company.

A. They could.

Q. And the ratings of a company by ratings like Moody's and S&P's and so forth is also a function of expected future revenues in part. Isn't that fair?

A. Well, ratings are typically a function of qualitative and quantitative factors.

The quantitative factors are typically things like earnings before interest and taxes, funds flow from operations and those kind of things, and it's not just revenues.

Q. Okay. But earnings are obviously based on revenues. Correct?

A. That's one factor.

Q. Well, I mean, you have costs, but if you don't have revenues -- if you have zero revenues, you have zero earnings. Correct?

A. Well, if you have investments, that that's not necessarily a revenue, but it would be spinning off --

Q. Well, if you take all forms of income, that obviously is the basis for earnings. Correct?

A. Yes.

Q. And for purposes of UE, its earnings are more primarily based on revenues. Correct?

A. I wouldn't say it's primarily based on that. Again, there is costs.

Q. Right.

But in terms of a plus side, you have to have money coming in?

A. Yes.

Q. And most of the money coming in to Ameren comes in from revenue. Correct?

A. That's correct.

Q. Okay. Therefore, revenues play a large role -- or a significant role in the earnings of the company. Correct?

A. It depends on the company. It can.

Q. When would earnings -- when would revenues not have a significant -- I'm sorry. Let me back up. I think I'm just repeating myself.

The earnings of a company, then, play a key role in the evaluation of the rating agencies of the company. Is that fair?

A. Say that again.

Q. The earnings of a company -- the expected future earnings -- if you want to put it that way -- of a company play an important role in the ratings set forth by various rating companies like Moody's and S&P and so forth?

A. I wouldn't -- you know, I couldn't say that it's a very important role, the most important role. It certainly would be a factor.

Q. What other factors affect those ratings?

A. Well, there is quantitative and qualitative factors.

The rating companies evaluate management, the prospects for the company, competitive, qualitative types of things that are not numerical.

Q. Which is not part of your analysis on rate of return?

A. Yes, it is.

Q. I thought you testified earlier that nonnumerical factors are not part of your rate of return calculation.

A. Well, I read what the rating agencies say.

I mean, I don't have to do that separately to be able to incorporate that into my thought process and my analysis.

Q. I see.

So is it fair to say, then, for those nonnumerical factors, you've relied on the rating agencies?

A. Among others, yes.

Q. Who else besides the rating agencies?

A. Value Line, what the company says in its own annual report.

Q. And do you come to your own independent judgment concerning those nonnumerical factors, or do you just embrace what those sources say?

A. I would say it would be a combination of all.

Q. Okay. But yet you said you didn't have an opinion of whether Ameren was well managed.

A. No, I don't.

Q. I don't understand how that fits with what you just said, because you just said the quality of management wasn't part of what the rating agencies did in nonnumerical factors.

A. Say that again.

Q. You just said that the quality of management was one of the nonnumerical factors that affected the ratings set by any rating agency.

A. Yes.

Q. You also said that you take that into account in calculating rate of return.

A. What the rating agencies say?

Q. Right.

A. But I don't do any numerical adjustments because of this.

Q. Well, how do you take it into account?

A. As far as what the rating agencies say?

Q. As far as calculating your rate of return.

A. Well, if a rating agency says that a company as a low-cost producer has good prospects, whatever positive things they might say, then I would perceive that as being a relatively low-risk company from that perspective.

Q. And how would that affect your rate of return calculation?

A. Um, I would use it to crosscheck whatever perceptions that would come from investors as far as the price that would be used to input to the model.

Q. So, ultimately, that would affect the number of the price that you're putting into the model?

A. No. An investor's perceptions and a crosscheck to the price.

Q. Well, what role does an investor's perception have except as a number somewhere in your calculation?

A. It's reflected in the stock price.

Q. Now, the pay-out ratio is dividends per share divided by earnings per share. Is that correct?

A. Generally, yes, that's correct.

Q. I mean, is it ever not correct?

A. Not to my knowledge.

Q. So it's always correct, but that's a description of what pay-out ratio means?

A. I don't know every situation, so my understanding would be --

Q. For purposes of your work in this case, pay-out ratio equals dividends per share divided by earnings per share. Correct?

A. Yes.

Q. Since 1997 Ameren's dividends have been constant, haven't they?

A. That's what I've read.

Q. Do you have any reason to believe that's not so?

A. No.

Q. Let's see.

Do you have Exhibit 2? Here it is.

Now, since 1997 Ameren's earnings per share has risen. Isn't that true?

A. Um --

Q. And I can refer you to what I believe you relied on, which was the Value Line sheet.

A. Earnings per share?

Q. Yes. Since 1997.

A. Since 1997.

Well, this copy isn't that good.

Q. Well, I'll tell you what, I can make it easier for you. If you want to refer to Schedule 8 from your --

A. Schedule 8?

Q. Well, actually Schedule 11 is probably the easiest one.

A. Right.

Q. And it's gone from $2.44 and then it went up to $2.82 --

A. And then it went down to 2.81.

Q. -- and then it went down to 2.81 and then it went to 3.33.

So it's changed each year. Correct?

A. Yes. It hasn't risen every year.

Q. I'm sorry. I stand corrected.

It went down by a penny in 1999.

So the pay-out ratio has not been constant since 1997. True?

A. That's true.

Q. In Schedule 11, while we're there, if you look to 1997 again, in 1997 the dividends per share were $2.54. Is that correct?

A. Yes.

Q. And the earnings per share were $2.44?

A. Yes.

Q. And so in 1997 UE paid over 100 percent of its earnings, correct, and dividends?

A. Based on that calculation, yes.

Q. The relative PE ratio right here in Value Line over a period of time reported there, that has not been constant, has it?

A. That's correct.

Q. Both on Value Line -- but I think it's also shown clearly in your Schedule 11 -- there has been no growth in cash dividends since 1997?

A. That's correct.

Q. Okay. And if I could borrow the Value Line one more time.

I think that there -- I'll read this and just let you take a look at it.

It says, quote, We expect no dividend hike for another two years due to the need to preserve cash for the heavy capital program, close quote.

That's right down there.

You don't have any reason to disagree with that?

A. No, I don't have any reason.

Q. Now, do you know what Value Line is referring to here when it refers to the heavy capital program?

A. Does it specify in there the heavy capital program?

Q. I'm sorry.

A. Since it's all in the same section, you could assume that it's referring to the gas-fired turbines they're building in Illinois.

Q. But you don't know?

A. No.

Q. Okay.

A. I don't know if that's what they mean specifically.

Q. Okay. Now, you testified earlier that interest rates have gone down since 1995?

A. Yes.
Q. So they haven't been stable over time?
A. No.
Q. Now, do required returns and interest rates move together?
A. What do you mean by "required returns"?
Q. Well, the required returns set by a regulatory body. I mean, are those related to each other, so that if interest rates are going up, required returns will sort of track that, and if interest rates are going down, required returns will go down?
A. I'm not familiar with, I mean, regulatory bodies establishing required returns.
Q. Well, in terms of the ROEs that we've been talking about -- I'm sorry. I might not be using the right word. I apologize.
But ROEs and interest rates tend to track, don't they, over time?
A. Which ROEs are you talking about?
Q. Well, do any ROEs. Let me put --
A. I haven't done any studies to determine whether they track or not.
Q. Okay. Now, are you familiar -- my colleagues are helping me out here.
Would a company's cost of equity track interest

rates?

A. Would a company's cost of equity track interest rates?

What do you mean, track --

Q. Well, if interest rates are going up, would a company's cost of equity be likely to go up?

A. It could.

Q. Is there any way in which it wouldn't?

A. It would depend on which interest rates are going up. It would depend on alternative sources of investment for investors. It would depend on the company itself.

Q. Are you familiar with -- will return on equity tend to be higher or lower when interest rates are higher or lower?

A. Generally I have not -- I mean, that's a general question. I have not done a study comparing interest rates, any particular interest rates, with any particular returns on equity --

Q. So --

A. -- authorized, actual.

Q. Is there any interest rate -- I mean, the relationship of interest rates to cost of equity has never been a subject that you've considered?

A. I've never done a study comparing this.

Q. Well, what do you mean by "study"?

A. I've never taken interest rates -- any particular interest rates year by year or month by month and graphed them against any ROEs.

Q. Well, if interest rates are going up, do you know what a commission will authorize as a rate of return from the purposes of a ratemaking?

Will that tend to go up if interest rates go up?

A. Oh, I've seen that. I've seen where interest rates have gone up and commissions have authorized relative higher ROEs, yes, I've seen that.

Q. Now, I realize that you haven't -- you've been at the Commission only since '97.

A. Uh-huh.

Q. But over the course of a period of time, certainly since '97, but even before that, the Staff has made various cost of equity recommendations in various cases before the Commission.

In 1997, for example, there was the Missouri Public Service case, which was ER-97-394, and the Staff's witness was Hill. And the mid point of the Staff's cost of equity recommendation in that case was 10.75 percent.

Now, did you do any work on that case?

A. No.

Q. Do you recall? Are you familiar with it?
Do you recall that?
A. Basically familiar, very general.
Q. And in -- actually, in the following year you did the Missouri Gas case, where your mid point of your cost of equity recommendation was 11.01 percent.
Does that ring a bell with you?
A. If that's what you say it was. I don't recall the exact number, whatever.
Q. Okay. And then in '99 you had earlier mentioned the St. Joseph Light case, and the mid point of your cost of equity recommendation there was 9.89 percent.
Does that sound right?
A. If that's what it is, that's what it is.
Q. And is it fair to say, then, that required rates of return really haven't been stable over time?
A. Based on that?
Q. Yes.
A. No. I'd say those are all different cases and all different companies. There is no relationship with stability -- I mean, I don't see how one could draw an inference from that. Those are different cases. They have different rates of return, different returns on equity.
Q. And what makes them different from this case?

Those are all cases in Missouri. Correct?

A. Well, the MGE is a gas company. St. Joe Light & Power is not Ameren, and neither is MoPub.

Q. So is the notion of stability in terms of required rate of return, in your view, it focuses only on the particular company?

A. No.

What I was saying is I don't see how you could make an inference that -- anything about stability just by looking at returns on equity for different companies.

Q. The stability of earned returns over -- required earned returns over time, the ROE over time?

A. Well, then you'd have to look at the ROE over time for the same company.

Q. And has that been stable?

A. I -- I haven't done that. I don't know.

Q. Okay.

A. But to look at different companies and draw an inference that ROE is unstable, I don't see how you can do that.

Q. Okay. Now, in doing the DCF calculation, you look at historic growth rates. Correct?

A. That's one of the things I look at, yes.

Q. Okay. And it certainly is possible that future growth rate would be very different from past growth rate.

Correct?

A. It's possible.

Q. How likely do you think it is?

A. It's equally as likely it could be different, it's equally likely it could be higher, and it's equally higher that it could be lower. I don't know.

Q. And from your perspective, then, what role does the historic growth rate play in determining what the future growth rate is going to be for purposes of your calculations in this case?

A. I think that's something investors can rely on to know what the company is capable of doing in spite of what the company says they're going to do.

Q. So does that mean that -- what relationship does historic growth have in your calculation of rate of return in this case to future growth?

A. I average the historical growth rates with the projected growth rates.

Q. But you don't have any way of knowing whether the future growth rates will track the historic growth rates. Correct?

A. And I don't have any way of knowing that they won't.

Q. Fine.

But the answer to my first part was, yes, you have no way of knowing whether or not they will track it one way or another?

A. That's correct.

Q. Okay.

Now, it's possible, isn't it, that past growth rates may fail to capture known future changes?

A. That's correct.

Q. Okay. For example, assets may grow at a different rate?

A. It's possible.

Q. And the growth of assets can be affected by a change in economic conditions. Correct?

A. It's possible.

Q. In considering in investing in a company, would you think it's fair to say that investors take into account future developments that did not occur in the past?

A. I think it's fair to say that they could, yes.

Q. Okay. Now, in 1978 the enactment of PURPA, P-U-R-P-A, introduced competition into the generation of electricity in this country. Is that fair?

A. If you say so.

Q. You're not familiar with it?

A. I don't know.

I'm not familiar with the date.

Q. But you're familiar with PURPA?
A. Generally, yes.
Q. Okay. And would it be fair to say that PURPA introduced competition into the generation of electricity?
A. Um, if you say so.
Q. Well, I'm not the witness here. If you don't have an opinion, that's fine, but --
A. Okay. Then I don't have an opinion.
Q. So you don't know?
A. I don't have an opinion.
Q. Do you know?
A. No.
Q. Okay. Do you know whether the Energy Policy Act of 1992 expanded competition in the generation of electricity?
A. No.
Q. Do you know what FERC Order 888 does?
A. No.
Q. Do you know what FERC Order 2000 does?
A. No.
Q. Okay. Do you know how many states have introduced some form of retail competition?
A. No.
Q. Do you know whether it's fair to say that for all practical purposes the United States now has a

wholesale market for the purchase and sale of electricity?

A. I guess it would depend on what you would define as a wholesale market. I don't know.

Q. This may be far afield from some of the things that you worked on, so I'm going to just ask you a couple of questions, and it very well may be stuff that you don't know much about.

The wholesale market that you mentioned a second ago, what you mean by wholesale market, what to your mind are the -- could that mean?

I mean, people talk about wholesale market in electricity in the United States.

My understanding is, is that as a practical matter that refers to the interstate sale through interstate transmission of electricity.

Is that in your view an incorrect understanding?

A. I wouldn't comment either. I mean, if that's your definition.

Q. Do you have a different definition that you're more comfortable with?

A. I don't have a definition.

Q. So would it be fair to say that in terms of your responsibilities at the Staff, issues surrounding wholesale competition are not something that you work on?

A. That's correct.
Q. Okay. Now, are you familiar with FERC, F-E-R-C, all caps?
A. Somewhat, yes.
Q. You participated in a case in front of FERC, didn't you?
A. Actually, two now.
Q. Oh.
And do you know what approach FERC takes with respect to the use of historical growth rates in DCF?
A. What approach FERC takes?
Q. Yes.
A. I know FERC uses the DCF model and FERC uses a two-stage growth for its model.
Q. Does it use historical growth rates at all?
A. No.
Q. Why not?
A. You'd have to ask FERC. I don't know.
Q. So when you participated in those two cases in front of FERC, did you use historical growth rates in calculating DCF?
A. No. I did it the way FERC dictates it. They make it very clear that you do it their way or -- the burden is very much on you to sway them or they won't even basically accept your testimony.

They have very rigid requirements.

Q. Now, when an analyst projects growth rates into the future, would you say it's true that they take into account historic growth rates in making their projections?

A. I don't know that they do or they don't.

Q. Do you know whether in the last two years Ameren has made significant profits in the wholesale sale of electricity?

A. I guess it depends on what you mean by "significant profits."

Q. Well, are you aware of the level of profits they have made in wholesale sales?

A. The number, no.

Q. Do you have a sense that they have made more profits in wholesale sales in the last two years than they did in the prior two years?

A. No.

Q. No, you don't know or, no, they didn't?

A. I don't have a sense for that, no.

Q. Okay. I'm directing your attention -- let me get this here.

I'm directing your attention -- again, this is to Exhibit 2, which is the financial research you did in the context of doing your calculations.

And I'm going to read the sentence -- these three sentences into the record, and then I'll let you take a look at them.

It says, quote, The UE/CIPS merger created a bigger, more efficient utility that is better able to meet the challenges of a deregulated industry. UE and CIPS are relatively low-cost electricity producers with competitive rates. Importantly, prices will be even lower than if this transaction had not occurred.

And that's in brackets there.

Do you have any reason to disagree with that characterization?

A. No.

Q. Given that that was in the materials that were the basis of your research for your work on this case, did that characterization affect your work in any way?

A. When I read things like this, I do think about them. I don't do any specific calculations --

Q. Okay.

A. -- with regard to them.

Q. But you have no basis to disagree with that characterization?

A. No.

Q. After the UE/CIPS merger, in comparing Ameren to UE, the number of outstanding shares of Ameren were different than what had been the number of outstanding shares of UE before the merger. Right?

A. Again, I wasn't here, so --

Q. But that would be the case in any merger, wouldn't it?

A. Not necessarily. I mean --

Q. So you don't know whether that was the case?

A. No.

Q. So, again, given that you weren't here, the differences between UE before the merger and UE inside Ameren -- or Ameren, there would be no reason why you'd be familiar with that?

A. Say that again.

Q. Given that, as you just said, you came here after the merger -- that I was asking you about one difference between UE before the merger and Ameren after the merger.

Since you weren't here during the merger, is it fair to say that you really aren't familiar with the range of differences, like revenues, book value, earnings, dividends and so forth that changed with the merger?

A. That's true.

Q. Okay.

MR. WILLIAMS: Before you go on, I notice that you've been pointing to specific pages in Exhibit 2. There is a notation that appears on the right.

MR. CYNKAR: Has a Bates number. That's a good idea. I'm sorry.

The page number we're referring to in Exhibit 2 a second ago, the quote that I read, is DOC-005-00095.

And we'll provide you a copy of this.

MR. WILLIAMS: And I believe you've been referring before to a specific page also.

MR. CYNKAR: The page with the Value Line that we've been referring to is DOC-005-00080.

BY MR. CYNKAR:

Q. Do you have any judgment about whether we are in a recession?

A. No.

Q. Do you have any view of whether we are heading into a recession?

A. No.

Q. Are you familiar with the negative outlook that Moody's assigned to UE and Ameren on July 12, 2001?

A. I don't recall the date. I know that there has been a negative outlook.

Q. And what does that mean?

A. I don't recall the specific definition that S&P gives to negative outlook.

Q. That was --

A. Or Moody's.

A. No. I saw the S&P.
Q. Had you seen the Moody's?
A. No.
Q. So when Moody's assigns a negative outlook, you don't know what they mean?
A. I don't know what their definition is, no.
Q. Okay. Are you familiar with First Calls (phonetic sp.) daily ranking of the five highest and five lowest rated utility stocks?
A. No.
(OFF THE RECORD.)
(THE LUNCH RECESS WAS TAKEN.)
BY MR. CYNKAR:
Q. We're back on the record after lunch.
Let's start out by referring to your Schedule 12.
If I am reading this correctly, you've taken the average growth rates from '95 to 2000 and averaged them within the average growth rates between 1990 and 2000. Is that correct?
A. The compound growth rates for '95 to 2000 and the compound growth rates for '90 to 2000 were averaged.
Q. Okay. Right.
Now, could you explain why you did that?
A. To come up with an average of historical growth

rates.

Q. Well, why wouldn't the 1990 to 2000 do the trick?

1995 -- the segment 1995 to 2000 seems to be a smaller part of the whole. So I don't --

A. It's a more recent time period. It's more reflective of what the company has been experiencing more recently.

Q. Isn't that included in the 1990 to 2000?

A. Partially.

Q. Wouldn't that be double counting that?

A. No.

Q. Why not?

I mean, it's included in the first one and then you're averaging it in again. Just as a matter of the math, it seems like it would be double counting it.

A. It's two different time periods though.

Q. 1990 to --

A. One of them is a ten-year period and one of them is a five-year time period.

Q. And the fact that the five-year period is included within the ten-year period?

A. But the rate of growth is not the same during the two different time periods.

Q. Does that mean, then, that you've made a judgment that the rate of growth in the 1995 to 2000 period should be given greater weight?

A. No.

Q. Then I'm confused. I thought you earlier said that was important to have it in because it was a more recent time period.

A. Yes.

Q. So because of its recency then, do you think that it should be given more weight in this calculation?

A. Not necessarily.

Q. Do you know -- if you didn't put in the 1995 to 2000 calculation, do you know how that would affect your calculation of the cost of equity parameter?

A. No.

Q. In the Parcell treatise -- it's probably right here. I have it.

And this may actually confirm what you were just telling me. Let me just read these two sentences and then I'll show it to you.

This is Parcell, The Cost of Capital - Practioners Guide, and I'm reading from page 8-24.

He says, first, quote, The selection of a time period over which to measure the historic growth rate is a third issue to be considered, close quote.

And then he talks about the importance of Value

Line and giving information and so forth.

And then he goes on to say, quote, Certain criteria should be employed in selecting a time period. First, the time period should be recent and end with the most recent period available, period, close quote.

I take it from our last interchange that you would agree with that proposition?

A. That's a reasonable proposition.

Q. Good. Okay.

If we could turn now to Schedule 13 and 14.

Now, if I understand the calculation you made here with respect to the stock price -- not the expected dividend part of these schedules -- you calculated an average high/low price, and as you said in your testimony, that was to minimize the effects of the daily volatility of the stock market.

Am I understanding this correct?

A. Yes.

Q. Okay. Now, is that -- why did you do it that way?

Were there other ways of doing that minimization of the volatility in the stock market that you were talking about?

A. It's possible.

Q. But you think this -- are you familiar with any other methods?

A. Am I familiar with any other methods to --

Q. For minimizing the effects on the volatility of the stock market as you were talking here.

I mean, that is, my understanding, is your justification for doing this average of a high/low price each month was because you felt it was appropriate to deal with the volatility of the stock market.

And all I was asking is, are you familiar with any other methods for achieving that same result?

A. Yes.

Q. And what would they be?

A. I've seen people use average daily prices over a time period.

Q. And is it fair to say that you think that this method is superior to that approach?

A. Yes.

Q. Now, I take it you are aware that for many years the 30-year treasury bond rate was used as a risk-free benchmark by financial analysts?

A. It's one of the risk-free rates that analysts have used.

Q. Okay. And in terms of the Staff's risk premium analysis for cost of equity calculations, that the Staff has in the past used the Moody's Aa utility bond rate.

Correct?

A. For what?

Q. For doing risk premium cost of equity analysis.

A. I can't say that that's what they've used in other cases.

Q. Are you familiar with the testimony that Ms. McKiddy filed in the case which was GR-2005-16?

Are you familiar with that testimony that she filed?

A. Yes.

Q. And she used the Moody's Aa bond rate there.

A. Okay.

Q. Now, do you recall that in the calculations for calculating UE's excess earnings under the EARP, which we talked about before, that February report -- and there is also responses in the discovery -- that one of the methods of calculation for determining the required equity returns was the risk premium method, was used by you, I think.

A. Yes, I recall that.

Q. Okay. And that in doing that risk premium analysis for the February report, as we were talking about, you used the Moody's Aa utility bond rate, if I recall correctly?

A. Okay. If you say so. I mean, I don't recall specifically.

Q. You have no reason to disagree?
A. No.
Q. Oh. I see.
Also, what was just handed to me was your testimony in the case you actually referred to earlier this morning, the St. Joe Light & Power case. In your risk premium analysis there you used the Moody's Aa.
I'll just show it to you so you don't have to take my word for it. You can look through this whole thing.
A. It doesn't say Aa.
Q. Well, okay. The Moody's A bond rather than the --
A. A is not Aa.
Q. Fine.
But in terms of -- you used the Moody's rating instead of the 30-year treasury?
A. Okay.
Q. Right. Great.
Now, is it fair to say that using a certain interest rate in risk premium analysis can be fine at one time but conditions can change, so you'd want to use a different one later on?
A. It's possible.
Q. Now, in your view has something changed to make

the Moody's either Aa or A utility bond rates inappropriate for risk premium analysis?

A. I don't recall exactly when we made the determination, but something happened to either the historical database or the going-forward database. I'd have to check.

But we decided we needed to move over to the 30-year. And now the 30-year has gone away. So we'll have to make a decision on the risk-free rate again.

Q. So is it your testimony that you -- I guess, meaning the Staff as a whole -- recently made a judgment not to use the Moody's rate?

Is that how I understand?

A. I don't recall. I know we had discussions about it.

Q. Okay. But you don't recall the basis for making that change?

A. Not exactly, no.

Q. What do you recall?

A. That something had happened where historical data wasn't available or wasn't readily available. So we wanted to use something that was readily available.

Q. Now, in moving to the 30-year treasury bond rate, are you aware that the Federal government has been retiring debt for the last four years?

A. The government retires debt on an ongoing basis and issues new debt on an ongoing basis.

Q. Well, you're aware that for the last four years the Federal government has been running a budget surplus?

A. For the last four years. I don't know how many years.

Q. But are you aware that at least in the recent past, the Federal government has been running a budget surplus?

A. Yes.

Q. And then are you aware that because of that budget surplus, or certainly in the context of that budget surplus, that they have been retiring debt at a faster rate than before there was a budget surplus?

A. I don't know what rate they were retiring it at before a budget surplus, and I don't know what rate they're retiring it at now.

Q. Okay. That's fine.

And within that debt that the Federal government is retiring, that 30-year bonds are included in that?

A. Yes. The government issues 30-year treasury bonds.

Q. Okay. Now, when there is an increase in demand for security, the price of security goes up. Is that fair?

A. I haven't done a study to determine if in every case, in every situation, if the demand for security goes up, that the price goes up, or if the demand of security goes down, the price goes down.

Q. Well, we don't have to take any case. But as a general proposition, isn't it sort of basic economics, that when you increase demand, that prices go up?

A. That's the theory.

Q. Is it in your experience that the real life diverges from theory significantly on that point?

A. I know real life diverges from theory.

Q. But would you say it's a reasonable proposition that by and large that if demand goes up for a scarce good, price of that good is going to go up?

A. Well, now you're saying for a scarce good.

Q. Take the word "scarce" out.

If demand goes up for a good, that the price is going to go up?

A. It can and it cannot.

Q. In the context of bonds, when the prices of bonds go up, does the interest rate go down?

A. On existing bonds it can.

Q. Are you aware that the interest rate for the 30-year bonds have been driven down by the Federal government's retirement of them?

A. I don't know that there is any definitive study or research that shows that the government's retirement of bonds has driven the price down.

Q. You realize that 30-year treasury bonds are becoming scarcer as they have been retired. Correct?

A. I don't know that I've seen any definitive study that shows that they're becoming scarcer.

Q. Well, as you alluded to earlier, isn't it true that the Treasury Department has announced it's discontinuing 30-year treasury bonds?

A. Yes.

Q. And isn't it true that the Wall Street Journal has stopped using 30-year treasury bonds as a benchmark in risk premium analysis?

A. The Wall Street Journal?

Q. Yes.

A. I wasn't aware the Wall Street Journal did risk premium analysis.

Q. Okay.

Well, are you aware -- let me back up then -- that the Wall Street Journal has stopped using 30-year treasury's-- the simplest point -- as a benchmark for risk-free interest rate?

A. I'm not -- I guess I don't understand what you're talking about as a benchmark. I don't know that they use anything for a benchmark. I know they publish different rates.

You're talking about on the first page of their money section they replace the 30-year with 10-year, publishing that rate, but they do publish 30-year rates further back in the money section.

And if you -- you know, I've never seen them refer to this is our benchmark.

Q. Let me go back. I may have made myself -- I may have confused things.

You're familiar with the notion of using 30-year treasury bonds as a benchmark for a risk-free rate of interest. Correct?

A. I am familiar with the notion of using 30-year bonds as representative of the risk-free rate.

Q. And would you say that that is -- that that was a pretty common practice among analysts at least until recently?

A. I -- I can't speak for other analysts. I don't know.

Q. You don't know whether other analysts would commonly use that?

A. I don't know if they would use that or the ten-year or the one-year.

Q. And so you don't know if analysts -- if the analytical community has decided not to use 30-year treasury bonds anymore for the very reason I was pointing out, the interest rates are dropping?

A. I don't know if they've decided to use it or not use it for any reason.

Q. Okay. We were talking a second ago about the calculations you did for required equity returns during the period that UE was under the EARP, and I'm going to refer you now to the request for admissions that you-all responded to, and particularly the request for Admission No. 33. And it's on page 19 of the document.

A. No. 33 or page 33?

Q. Page 19, No. 33.

A. Okay.

Q. Now, there is a chart where the request for admissions states that your calculation of excess revenues are based on your determined required equity returns which were set out below. This is just quoted from you-all. And you admitted that statement.

And if I understand from your earlier testimony this morning, that you calculated those equity returns that are set out there?

A. Yes.

Q. And as a result of that equity return that is calculated for the '95/'96 sharing period of 7-1-95 to 6-30-96, you-all calculated that UE had $172 million in excess revenues. Correct?

A. Well, Staff did. I didn't do the calculations.

Q. You calculated the equity return and then someone else did the actual excess revenues that flowed from that?

A. Yes.

Q. Okay. And does that mean that in '95 and '96, that sharing period, the first sharing period, that means that UE's rates were too high. Is that basically it?

A. I -- I made no determination on whether the rates were too high or too low. I was asked to do an estimate on return on equity and that's what I did.

Q. And from that your colleagues calculated that UE was realizing excess revenues. Correct?

A. That's what it would appear here, yes.

Q. Well, I don't think this is a point in dispute, since you-all admitted this statement.

A. Okay.

Q. And that means that at least your colleagues concluded that UE's rates were too high in that sharing period. Is that right?

A. You'd have to ask them what they concluded from that. I mean, excess revenue is $172 million. I make no interpretation of that, like I said. I provided the return on equity.

Q. Well, correct my understanding then.

Do you know in the world of utility ratemaking in Missouri, if the Staff says a utility has excess revenues, doesn't that mean that the Staff believes the utility has rates that are too high?

I don't think this is a complicated proposition.

A. I -- I don't know that it would be high rates that would cause the excess revenue. I -- I don't know all circumstances that would cause Staff or other parts of the Staff to make a determination that a company may have excess revenues that could potentially be for reasons other than rates being too high.

Q. In response to excess revenues, would it normally not be the appropriate response for the Staff to propose a rate case to reduce rates?

A. Say that again.

Q. In the face of excess revenues, when the Staff makes a judgment that a utility is achieving excess revenues, isn't the normal most appropriate response for the Staff to seek a rate reduction?

A. I -- I don't know what Staff's -- you know, I've been here since 1997. I can't speak for what actions they would take in every case and what would be normal.

Q. Well, besides the rate reduction, what other things would remove the problem of excess revenues?

A. I don't know.

Q. Okay. Would you say that in our current market we have low interest rates and high market-to-book ratios for utilities?

A. I haven't done any studies to determine whether the interest rates are low for utilities and if utilities have high market-to-book ratios or not.

Q. Okay. I'm referring now to pages 201 to 202 of Dr. Morin's Regulatory Finance Utilities, Cost of Capital book. And if you see there, that page -- I'm not going to ask you questions precisely about that -- but he talks about why you should use comparable companies in doing DCF, and he gives four reasons which are set out in the headings of each of those paragraphs.

And number one is consistency with the notions of fair and reasonable return promulgated in the Hope and Bluefield cases which you cited in your testimony.

The second is added reliability, the third is abnormal conditions and then the fourth, which goes over into the next page, is the circularity problem.

A. Well, I don't -- I don't know that he says in here that costs of capital should be based on comparable groups.

What I'm reading here is there are several reasons why the determination of cost of capital should not rest on a sample of one firm.

Q. Right.

A. That to me means your comparable group should not be one firm.

Q. Okay.

A. So --

Q. That's fair.

That's fine.

A. Okay. And your question related to why comparable companies should be used?

Q. Right.

Isn't that what he's saying there?

A. No, that's not the way I read it.

Q. Okay. But you do believe that you should check your DCF results through analysis of comparable companies, don't you?

A. That's correct.

Q. I mean, that flows from the Hope case pretty directly, doesn't it?

A. Well -- but I'm referring to your question of what you claim Morin is saying. And what he's saying is don't use just one firm in your comparable group.

This whole thing refers to comparable group.

Q. Right.

A. So he's saying, don't use one firm. Use more than one firm.

Q. I see. Okay. We don't need -- that's fine.

A. Okay.

Q. Now, as we sit -- I can take that book away from you. We're not going to ask you a question about it.

You did look at comparables, you explained in your testimony, and I wonder if you could just explain how all of the other calculations in addition to your DCF calculation confirmed in your view the DCF calculation for UE.

A. The results weren't so different to cause me to question any of the inputs that I used to the DCF model.

Q. What do you mean by "so different"?

A. They weren't so far removed from the results of the DCF model.

Q. How far is too far removed?

A. Far enough that would cause me to question the results of the DCF model.

Q. Tell me what difference in basis points would make the results too different in your view.

A. If it was twice as much, it would cause me to go back and take a look at the inputs to my DCF model and

reevaluate whether I correctly did the calculations.
Q. Now, when you say twice as much, if I understand you correctly, you calculated a low end and a high end, correct, for your DCF --
A. For what?
Q. For your DCF calculations.
A. Yes.
Q. And you did that for CAPM too. Correct?
A. Yes.
Q. Okay. Now, for risk premium you have one number?
A. Right.
Q. And then you obviously have a mid point for those two ranges. Correct?
A. Yes.
Q. Okay. Now, talking about DCF, when you say that to your way of thinking, that calculations for a comparable company would be far removed, and you've just said that if they were far removed by two times, does that mean that the whole range is too times above the range you calculate for the company you're focusing on?
A. What do you mean by "the whole range"?
Q. Well, for simplicity sake, let's say that for a sample company you have a range between three and five. Let's just keep it real simple.

And if I understand your testimony, your judgment for a comparable calculation being too far removed would be if your comparable calculation was twice that of the subject company -- so we just posited three to five, I think. So if that was six to ten, that might be too far removed in your judgment?

A. Yes.

Q. Now, your range for DCF for UE was 9.04 to 10.04 percent. Right?

A. Range for what?

Q. DCF for UE.

A. For?

Q. I'm sorry. I don't understand.

A. Return on equity?

Q. Yes.

A. Yes.

Q. The subject of your testimony here.

A. Well, DCF input has dividends, price, growth.

Q. You're absolutely right.

A. So you're referring to return on equity?

Q. I'm referring to the bottom line here.

A. Okay.

Q. Now, at the same time your CAPM range was 10.83 to 10.72 percent. Correct?

A. Subject to check, yes, that's fair.

Q. And then risk premium was 11.74 percent?

A. Subject to check.

Q. Sure. Absolutely.

Now, in terms of the judgment that you're drawing from these numbers, in terms of the range here, is there any reason why -- given that you have the CAPM, it's high end is 10.72 percent, the risk premium is above both of those, why you wouldn't make the judgment that maybe the upper end of the range should be closer to that 11.74 percent?

A. That's not the range. I used the DCF model.

Q. Right. But you didn't -- the DCF model is informed by your comparable analysis and your analysis of CAPM and risk premium for --

A. Are you saying those are the comparables or those are the --

Q. No. Those are the ones -- that's the CAPM for UE and risk premium for UE.

A. Okay.

Q. For Ameren.

A. Yeah, Ameren.

Q. Yes.

A. Yes. Because I relied on the DCF model.

Q. At the end of the day the point of this exercise is, though, to find what the required rate of return should be. Right? Or cost of equity, however you want to put it.

A. It's the end of the day. The point of it is to determine the rate of return or cost of equity that would be input to rates that the company is charging the customer.

Q. That's true.

And the -- it's true also, isn't it, that the CAPM methodology can give you some insight into what that rate of return or cost of equity should be. True?

A. It's possible. It can give you some insight, and it's possible that it cannot give you some insight.

Q. Did it give you any insight in this case?

A. As a check?

It gave me some insight that supported the reasonableness of my DCF range.

Q. And the risk premium number was 174 basis points above the top number in your DCF range.

And could you explain how that confirmed your DCF calculations?

A. It wasn't twice as much.

Q. Now, that standard that you're using of twice as much to be far removed, where does that come from?

A. Probably the same place that is referring to 174 basis points is the standard.

In my judgment, if a range for another model was twice as much as the range for the model that I use and rely on, that would cause me to go back and question how I did the calculation with regards to double-checking the input and making sure my calculations were correct.

Q. Is there any published authorities that sort of give you that standard?

A. I'm not aware of any published authorities that dictate any standard with regards to that or 174 basis points or happen to use the CAPM or the risk premium as the upper end or having to use any particular model as the model to use to determine rate of return or cost of capital.

Q. In that judgment that we're talking about in terms of when you believe that the comparable calculations are too far removed, your judgment of twice the DCF results, is that your perspective or is that a practice that is followed by other members of the Staff?

A. That's my perspective.

Q. Do you know how other Staff members approach that same question?

A. Not offhand I don't, no.

Q. Have you ever talked to them about it?

A. Yes.

Q. And do you have any kind of recollection of how other Staff members approach that?

A. As far as a specific number? No.

Q. Now, in the context of this case, you did not -- and in using these comparable calculations that -- these calculations you made -- excuse me -- for CAPM and for risk premium for Ameren, as we just said, you kept those distinct from each other.

By the look on your face, I know what your next observation is going to be. So --

A. What do you mean by "distinct"?

Q. I gathered that was going to come.

You didn't average those?

A. Those? The CAPM and the risk premium?

Q. Yeah. You didn't average the DCF results, the CAPM results and the risk premium results?

A. To come up with what?

Q. To come up with a different estimate of what the rate of return and cost of equity should be.

A. No.

Q. So you didn't weight them in any way?

A. Not in this specific case.

Q. Is that ever appropriate to do?

A. I have done it in the past in rough estimates.

Q. And why would you do that?

A. Because it's a rough estimate. To give the company the benefit of the doubt of the higher numbers.

Q. And in doing a weighting then, would you give the method that produced the higher numbers more weight --

A. No.

Q. -- to give the company the benefit of the doubt?

A. No.

Q. Then why would you do weighting average at all? I'm not sure I understand what your logic is there.

MR. WILLIAMS: I'm going to object. I don't think he characterized it as a weighting average.

MR. CYNKAR: Well, I'll go back then, because I just want to be clear.

BY MR. CYNKAR:

Q. If I understand your testimony, you have in the past done a weighted average when you're doing rough estimates of --

A. Well, define weighted average then.

Q. Well --

A. I don't want to assume that I understand what you mean by weighted average.

Q. Okay.

MR. WILLIAMS: I think he said he averaged all three.

BY MR. CYNKAR: