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FARUKI IRELAND & COX P.L.L.

ATTORNEYS AT LAW

500 Courthouse Plaza, S.W. 10 North Ludlow Street Dayton, Ohio 45402 937-227-3700 Fax 937-227-3717

R. Holtzman Hedrick
(937) 227-3727
rhedrick@ficlaw.com

February 5, 2009

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VIA FEDERAL EXPRESS

Public Utilities Commission of Ohio
Attention: Renee Jenkins
Docketing Division
180 E. Broad Street, 10th Floor
Columbus, OH 43215

RE: DP&L ESP Filing, Case No. 08-1094-EL-SSO et al

Dear Ms. Jenkins:

Enclosed are: (1) fourteen (14) copies of The Dayton Power and Light's Notice of Filing Depositions; and (2) deposition transcripts of:

a. Gonzalez, Wilson
b. Ibrahim, Amr A.
c. Duann, Daniel J.
d. Yankel, Anthony J.
e. McClelland, Barry E.
f. Pullins, Steven W.
g. Fein, David I.
h. Woolridge, J. Randall ✓
i. Bowser, Joseph G.
j. Sawmiller, Daniel J.
k. Murray, Kevin M.
l. Dickstein, Shelley J. (awaiting transcript)
m. Frye, Mark R. (awaiting transcript)
n. Higgins, Kevin C. (awaiting transcript)

Very truly yours,

R. Holtzman Hedrick

R. Holtzman Hedrick

RHH/tes
Enclosures

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Dayton Power and Light Company for Approval of Electric Security Plan	: Case No. 08-1094-EL-SSO
In the Matter of the Application of The Dayton Power and Light Company for Approval of Revised Tariffs	: Case No. 08-1095-EL-ATA
In the Matter of the Application of The Dayton Power and Light Company for Approval of Certain Accounting Authority Pursuant to Ohio Rev. Code Section 4905.13	: Case No. 08-1096-EL-AAM
In the Matter of the Application of The Dayton Power and Light Company for Approval of its Amended Corporate Separation Plan	: Case No. 08-1097-EL-UNC

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TELEPHONE DEPOSITION OF

J. RANDALL WOOLRIDGE, Ph.D.

FEBRUARY 3, 2009

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I-N-D-E-X

J. RANDALL WOOLRIDGE PAGE

Documents received and
EXHIBITS marked for identification

(NO EXHIBITS MARKED)

Telephone deposition of J. RANDALL WOOLRIDGE, Ph.D., Witness, on behalf of The Dayton Power and Light Company, pursuant to the Ohio Rules of Civil Procedure, taken in the offices of J. Randall Woolridge, Ph.D., Penn State University, Business Building, Suite 302, State College, Pennsylvania, February 3, 2009, commencing at or about one forty-five o'clock p.m., Eastern Standard Time, before Deborah Zitin, Registered Professional Reporter - Notary Public.

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APPEARANCES:

FARUKI IRELAND & COX, PLL
BY: CHARLES J. FARUKI, ESQ.
500 Courthouse Plaza, S.W.
10 North Ludlow Street
Dayton, Ohio 45402
(937) 227-3705
Attorneys for The Dayton Power
and Light Company
(Via Telephone)

APPEARANCES (Continued):

JACQUELINE L. ROBERTS
and RICHARD REESE, ESQ.
10 West Broad Street
Suite 1800
Columbus, Ohio 43215
(614) 466-8574
Attorneys for Office of
Ohio Consumers' Counsel

- - -

J. RANDALL WOOLRIDGE, Ph.D., having been duly sworn, was examined and testified as follows:

- - -

BY MR. FARUKI:
Q. Professor, my name is Charlie Faruki. I introduced myself a couple minutes ago. I represent DP&L in this matter.
Tell me what materials you have before you?
A. I have my testimony and I have the testimony of Dr. Makholm.

Q. Anything else?
A. Nothing, no, I don't -- I mean, there's some Value Lines and that sort of thing sitting here. That's it.
Q. You are a professor at Pennsylvania State University in the College of Business Administration; is that right?
A. Yes.
Q. For how long have you had that position?
A. Over twenty-five years.
Q. And let me ask you a couple of questions about your qualifications, which are listed in Appendix A to your testimony, if I could.
I counted seventy-six cases in which you provided testimony on behalf of an office of consumers' counsel or public advocate in various jurisdictions.
Would you accept that number, subject to check?
A. Yes.
Q. Is it accurate that most of your testimony, and by your testimony I'm only talking about rate of return testimony, if you've got

other academic interests, I'm excluding that.
Most of your testimony in utility rate matters has been on behalf of such offices, that is consumers' counsel or public advocates?
A. Yes, and a few industrial groups, but predominantly, yes, the former.
Q. Have you had occasion to comment on testimony from Dr. Makholm previously?
A. No.
Q. Do you know him?
A. No.
Q. Do you agree with me that there are differences of professional opinion that occur with regard to the issue of appropriate capital structure?
A. Yes.
Q. Same question, sir, with regard to differences of professional opinion, with regard to how to calculate rate of return?
A. Yes.
Q. Can you describe for me the objective of the rate of return calculation?
A. Well, the objective is to calculate a return required by investors.

Q. And when you say return required by investors, you mean in the future?
A. An expected return, yes.
Q. Take a look at page two of your testimony, if you will.
In a sentence that ends on line twenty-one of page two, Professor, you refer to the current volatile capital market conditions?
A. Yes.
Q. Would you give us a brief summary of those?
A. Well, I think I do in my testimony. I give a brief summary of, you know, the events of the last six months or so, and I've documented some of the volatility issues in stocks and bonds and that sort of thing, the efforts of the government and the federal reserve board to resolve what started as a mortgage crisis, to sub prime, to credit crisis, to an economic downturn.
Q. What is the effect of the current volatile capital market conditions on the attempt to calculate rate of return for a utility, such as DP&L?
A. Well, I think I mentioned in my testimony. I think there's been periods of

disequilibrium, in terms of where -- you know, there's so much volatility that I feel, you know, investors are trying to sort out the data, and try to come up with some idea of what the expected returns are in different markets.
Q. I see at the bottom of page two, line twenty-three, you use the term disequilibrium, as you just did.
What do you mean by that?
A. Volatility, when there's lots of volatility it means that investors are having difficulty valuing things.
Q. Is the effect of the conditions that you are describing, one that tends to call for an equity cost at the upper end of the range?
A. Well, I've estimated a range and used a number at the upper end of my range, yes.
Q. And, is the reason that you use a number at the upper end of the range, these current market conditions?
A. Yes.
Q. If you turn the page, and I'm at the top of page three, Professor, are there risks that are presented to a company, a utility of DP&L's size, from the current market conditions?

A. I don't understand your question.
Q. You know the approximate size of DP&L; do you not?
A. Yes.
Q. I'm asking whether, from a financial risk standpoint, the current market conditions present any risks to DP&L?
A. Well, I mean, they present risks to all companies, obviously, in terms of their operating environment and to their -- to the capital market environment, where they go to the markets for capital.
Q. And, can you be more specific about the risks presented to a utility of DP&L's size?
A. Well, I mean, the risks are of the economic downturn and how it may affect the demand for electric service.
Q. On page three you are talking, in answer to question five, lines twelve and thirteen, about the capital structure, which you describe as extremely equity rich.
Would you explain that comment?
A. Well, I think I provide data in my testimony that electric utilities generally have much less common equity in their capital

structures than proposed by Dayton Power and Light.
Q. Are you saying that the capital structure proposed by DP&L is inappropriate?
A. Yes.
Q. For what reason?
A. Because the capital structures of other electric utilities have much less common equity in them.
Q. I understand that's true, but why is it inappropriate for DP&L to have the capital structure or the equity component that it proposes here?
A. Well, I mean, the management can propose a capital structure. As I indicate in my testimony, it's more equity than they've in their testimony -- in their capital structure in the past, but it's certainly -- if you look at companies in the marketplace that we estimate capital costs from, that they have much less common equity in their capital structures.
Q. On page four you are talking about the fact that you use both historic and projected growth rate measures, for example on line ten?
A. Yes.

Q. And what is your reason for using historic growth rate measure, as well as projected?
A. I believe that historic gives you a baseline to work from.
Q. Is the idea of using historic data to average out the ups and downs of the past periods?
A. Well, no, you know, obviously, investors have historic data. All investor information sources give you historic data and some of them also make projections.
So, obviously, it's something that investors see.
Q. I understand it's something they see, but why is the use of historic data of help or assistance in trying to determine anticipated growth rates?
A. Because I believe it's something that investors are aware of, and it has a -- it's an input into how they develop expectations.
Q. Does the use of historic data fail to capture the unique conditions of the present market?
A. I mean, it may or it may not.
Q. Do you think it does at this point?

A. I mean, it provides an indication of what's happened in the past, and investors are aware of that.
And, presumably, that's given that in some cases that's the only data they have to form expectations.
Q. Is it accurate that a current stock price reflects all of the information that is available and relevant to the market?
A. I believe that's fairly accurate, yes.
Q. Is another way of saying that the current stock price represents the market's assessment of the common stock's current value?
A. Yes.
Q. In the discounted cash flow or DCF model, when one is estimating required return on common equity, is it true that you should measure the expected dividend yield and the corresponding growth rate concurrently?
MS. ROBERTS: Charlie, I'm sorry, I couldn't quite hear your question. Could you say that again?
This is Jackie.
MR. FARUKI: Sure, Jackie. I'll have the reporter read it

back. She'll probably do a better job than I.
- - -
(The Reporter read back a preceding portion of the testimony as directed:
"Q. In the discounted cash flow or DCF model, when one is estimating required return on common equity, is it true that you should measure the expected dividend yield and the corresponding growth rate concurrently?")
THE WITNESS: I have one question.
By concurrently, what do you mean?
- - -
BY MR. FARUKI:
Q. For the same time periods?
A. Again, I don't understand your -- you mean for the same -- at the same moment in time?
Q. No, not necessarily the same moment in time.
Should the measurements of these two numbers be for the same time period?

A. I don't think so. I mean, the dividend yield is, obviously, the dividend divided by the price. The growth rate is a measure of expectations of the future.
Q. DCF -- people using the DCF method have sometimes based historical calculations on earnings per share or dividends per share or book value per share; is that right?
A. Yes.
Q. All three being possible growth rate measures?
A. Yes.
Q. And is growth in dividends per share the preferable way to do this?
A. I mean, according to theory, it's dividend per share, but according to model, they're really all growing at the same rate.
Q. That may be according to the model, but in reality they don't necessarily all grow at the same rate; do they?
A. No.
Q. My statement was correct?
A. Yes. I'm sorry. Sorry.
Q. It was the way I asked my question, Professor; not you.

A. Sorry about that.
Q. That's okay.
Dividend growth rates are generally more stable than the other two measures of expected growth; is that right?
A. Generally, book value growth rates are fairly stable normally, as well. Certainly, they're both more stable than earnings growth rates.
Q. Are there any disadvantages of using dividends rather than earnings?
A. Well, there are not a lot of sources of forecasts of dividends.
Q. What sources are there?
A. Value Line is the only one that I'm aware of.
Q. That's the only one I'm aware of, too. I thought maybe there was another.
As used in the DCF model, growth commonly has two components, dividends and market appreciation.
Would you agree with that?
A. I guess, I'm not sure. I don't believe that's true. I mean, the growth rate is the expected growth rate in dividends, earnings, that

sort of thing.
Q. Do you agree that using historical stock price, along with current growth expectations, or combining an updated stock price with past growth expectations, tends to bias downward the market required rate of return on common?
A. No, not necessarily.
Q. Why do you say that?
A. I mean, if historic growth rates are good measures of expectations, it shouldn't do that.
Q. And do you know -- with respect to DP&L you said not necessarily before, which is why I'm asking this.
Do you know with respect to DP&L, if using historic stock price data in the calculation tends to bias the number downward?
A. I guess, I'm not sure what you mean by historic stock price information.
I don't think I used any historic stock price information. Other than I used six months of dividend yields to estimate a dividend yield.
But, I mean, that's the only

thing I would have used in terms of a historic stock price.
Q. All right, that was the fault of my question, Professor.
Let me amend that to say, use of historic dividend information, does that tend to bias the resulting number downward?
A. No.
Q. Why not?
A. Because it really is a matter of getting a measure of what the dividend yield is.
Part of it is -- I mean, one reason I use six months, as well as a current dividend is the earnings forecasts and the dividends forecasts, they come out over time. They don't come out at the day that you make that calculation. They tend to come out over a period of time.
So, you're really linking up the projections in the historic data with the dividend yield.
Q. Take a look at page five of your testimony. There's a section starting at line eighteen where you speak about the most significant areas of disagreement between Dr.

Makholm and yourself?
A. Yes.
Q. With regard to the first one, the sole use of upwardly biased EPS growth rate projections, why do you call them upwardly biased EPS growth rate projections?
A. Well, I mean, I provide some studies in my testimony that, certainly, the growth rate projections of Wall Street analysts have been found to be upwardly biased, and I also provide evidence about Value Line, as well.
Q. Do you have specific facts as to The Dayton Power and Light Company to indicate that you think its growth rate projection is upwardly biased?
A. Not specifically.
I mean, I have studies that relate to the market in general, and electric utilities in general, but not specific to one company.
Q. With regard to the point number two, this is page five, line twenty-one, Professor, measurement and magnitude of the equity risk premium, can you summarize your disagreement with Dr. Makholm on that?

A. I mean, I discuss it in my testimony.
I mean, Dr. Makholm uses two measures, one are historic stock and bond returns and the second approach is, he applies a DCF model, the S&P 500. And if you look at my testimony, and it really goes from pages fifty-nine through sixty-six, I provide an assessment of the issues. The issues -- I mean, I'm sorry, I'm sorry, I have -- that is wrong. That's my fault. Sorry about that.
Between pages seventy-two and eighty-three I summarize the issues with the two approaches used by Dr. Makholm, and it's generally, the historic approach -- there are a number of issues about using historic stock and bond returns as a measure of expectations.
And, number two is, the DCF model he uses for the S&P uses analysts' EPS growth rates, projected growth rates, as a growth rate for the DCF model for the S&P, and it goes back to the problem of the upwardly biased analysts' growth rate projections.
Q. Are both of these disagreements you have with Dr. Makholm, the use of historic stock returns and the use of analysts' EPS growth rates

in the DCF models, ones that you would agree that are simply matters of professional difference?
A. I don't know if I would call it professional difference. I think the issue of historic -- in both cases there's a lot of empirical evidence that supports my position on this, and it's by well-known academics, and it's by investment banking firms, it's by, you know, chief financial officers.
So, I mean, it's my opinion there's a lot -- I have -- there's a lot of empirical research that supports my position, and I cite that in my testimony.
Q. I'm sorry, where would that be cited?
A. Well, I mean -- well, again, I'd go back to pages -- it's really contained in the pages between seventy-two and eighty-three, is where most of that is, and the studies -- and, as well as the studies I performed on analysts' growth rate forecasts, and those are really highlighted in my testimony between pages sixty and sixty-six.
Q. Thank you.
Let me ask you some questions about your comparable group. Have you examined

whether the companies in your comparable group have changed their earnings retention strategies?
A. No.
Q. Do you know whether dividends paid, relative to earnings per share, have decreased for the companies in that group?
A. Specifically, I'm not sure, no. I mean, I have not included that as part of my analysis.
I've --
Q. Go ahead. I thought you were finished.
Go ahead.
A. No, I'm sorry, no, that was my fault.
I mean, I've reviewed their retention rates. I've used their retention rates, but I haven't really analyzed their retention rates over time.
Q. If companies are retaining a larger portion of their earnings, does the use of dividend payout growth rates understate the effect on growth of the increase in retained earnings?
A. No, not necessarily.
I mean, retention rates tend to change over time. Certainly, right now, companies tend to be keeping their dividends the same.

Their earnings are going down. So, it's changing their retention rates.

I mean, I think, you know, retention rates tend to change, go up and down over time, and that's for all companies.

Q. Would you agree, however, that if retention rates are increasing for the companies in your comparable group, that means that the use of dividend growth is an inappropriate growth rate to consider in the DCF model?

A. No.

Q. Doesn't the use of dividend growth rate in the DCF model for company -- for a group of companies that is not -- that is increasing its retention rate, mean that that factor is not fully capturing reasonable going forward growth expectation?

A. No.

Q. Why do you say no?

A. Because, as I said, you know, retention rates go up, retention rates go down. They change over time.

Obviously, you can't change -- you know, companies are not going to change their retention rates forever, and in arriving at growth

expectation, you have to take into account that these go up and down over time.

I mean, they don't go one direction forever, because, obviously, then the retention would be zero, if they continued to increase it. So, it's going to go up and down over time depending on earnings, because companies tend to keep relatively stable dividends and earnings go up and earnings go down.

Q. You've used Value Line estimates for growth and book value; is that right?

A. Yes.

Q. Are those values calculated by multiplying Value Line's estimate of future total capitalization, by Value Line's estimate of the company's common equity ratio, and then dividing that product by the number of common shares outstanding?

A. Can you repeat that? You're talking -- the reference, I didn't --

Q. Are these Value Line estimates calculated by multiplying Value Line's estimate of future total capitalization, by Value Line's estimate of the company's common equity ratio, and then dividing that product by the number of common

shares outstanding?

A. I don't know.

Q. Do you agree that capitalization, as well as equity ratios, are affected by a company's earnings retention strategy?

A. Now, what do you mean by capitalization? Their market capitalization?

Q. Yes, sir.

A. Now, how do you define that?

Q. How do I define market cap?

A. Yes.

Q. How do you define it?

A. The price per share times the number of shares outstanding.

Q. Over time does a company's earnings retention strategy affect the total amount of market capitalization, as you've just defined it?

A. It may and it may not.

Q. If companies are adjusting their retention strategies to retain a larger portion of their earnings, wouldn't those strategies affect capitalization and equity ratios?

A. Again, it may or it may not. Again, as I said, these retention ratios go up; they go down.

It depends -- you know, the dividends tend to stay stable, the earnings go up and go down relative, but the companies tend to keep their dividends strategies fairly stable.

Q. Have you examined whether these capitalization and equity ratios have been changing in your comparable group for this case?

A. I haven't looked at that specifically, but, as I said, they go up and down over time.

Q. Let me turn to a different subject.

In your growth rate analysis you elected to use median rather than means; is that right?

A. What growth rate analysis?

Q. I didn't write the page number down. Let me see if I can find that.

There was a portion of your testimony where you explained that you elected to use the median and you distinguished that from the average.

Do you remember where that is?

A. No.

I mean, I used both the mean and the median when I looked at growth rates.

Let me see, though. That

reference -- let me check to see. I should know.
I do remember where it is.
Hold on.
Q. Sorry, I failed to write it down, Professor.
A. That's all right. I got it here someplace. Page thirty, line seventeen, eighteen, I just was trying to pick up the reference you were thinking about and then I figured it out.
Q. Yes, thank you.
And why did you use both mean and median in this analysis?
A. Just because I'm trying to get a measure of central tendency. With a number of these -- you know, if a distribution is symmetric without outliers, the mean and median should be about the same.
And in this case there are a lot of numbers that are not symmetric. The distributions are not symmetric. So, I try -- as a way of getting a measure of central tendency, I include both.
Q. When you use the term measure of the central tendency, what are you talking about?
A. Well, there's different measures of

central tendency. The mean is the average. The median is the middle observation. The mode is the most common observation.
So, there's different measures of central tendency, trying to get an indication of what's -- where the central tendency is in the distribution.
Q. Are there significant differences between the means and medians that you present in your growth rate analysis?
A. Well, there are differences. I don't know if -- I mean, in terms of significance, are you talking about statistical significance?
Q. Well, we can start -- I didn't mean to restrict it to that, but, yes, we can start with that question.
A. I mean, I haven't done any test of statistical significance.
Q. You acknowledge that the mean of a set of numbers gives equal weight to each company in the group, while the median does not; is that correct?
A. No, that's incorrect.
Q. Why is that incorrect?
A. Because the median gives equal weight

to everyone, as well.
Q. How does the mean give equal weight to everyone, when the magnitude of the numbers that are being used differ?
A. Well, I mean, they're both given the same weight. It's an ordinal measure as opposed to a cardinal measure. So, they're both given the same weight.
Q. Did you make a calculation that eliminated median EPS growth rates from your analysis?
A. Did I make -- no, not that I'm aware of.
Q. If you eliminated dividends per share, book value per share, and the median EPS growth rates from your calculation, do you know what the effect would be on the mean of your comparable groups earnings?
A. No.
Q. You don't know?
A. No.
I mean, I don't think that's the right thing to do, but I haven't made that calculation.
Q. And why would you say that's not the

right thing to do?
A. Well, I'll just point to my testimony. I explain it there.
I think the best explanation is probably -- I mean, it's in my general discussion of growth, which is between pages twenty-eight and thirty.
Q. I think there's a difference between you and Dr. Makholm, also, with regard to using mid year book values for shares; is that right?
A. I'm not sure if there is. I'm sorry, I'm not -- if you could point me to something, I can acknowledge that as yes or no, but I don't have -- I don't know where that -- what the reference would be.
Q. I'm not sure that I can point to a page.
Is it accurate that Value Line's estimate of future returns provide end of year values?
A. What do you mean by future returns?
Q. Future returns on equity?
A. Yes, I believe they do.
Q. Do you know whether Dr. Makholm used book values from the two most recent years to

create a mid year value?
A. I'm not sure. He may have.
Q. Did you know of anything wrong with such a methodology?
A. Again, I'm not sure. I would have to -- I'd have to look at that. I haven't really looked at it that closely.
MR. FARUKI: Let's go off the record.
- - -
(Discussion off the record)
- - -
BY MR. FARUKI:
Q. Could you take a look at page eighty-five of your testimony, Professor?
A. Okay.
Yes.
Q. On page eighty-five, and I have a reference in particular to line three and line thirteen, you're indicating that DP&L is requesting a return on the fuel deferrals at an overall rate of return grossed up for deferred income taxes; is that right?
A. Yes.
Q. And your reference in your footnote

there on page eighty-five is to Mr. Campbell's testimony on page five?
A. Yes.
Q. Does Mr. Campbell's testimony refer to a gross up for deferred income taxes?
A. I believe it does. I don't have it right here in front of me, but as I remember, it was a deferred -- a gross up for income taxes, I guess, and that was my understanding as I remember looking at it but I don't have his testimony right here.
Q. And what was the source of that understanding?
A. Just my review of it.
Q. And when we talk about grossing up for income taxes, we're talking about grossing up for current federal income taxes that are due from the company when the regulatory asset is established or created; is that right?
A. Yes.
Q. Do you understand that DP&L proposes in this case simply to recover the current federal income taxes that it will pay to the government related to the fuel deferral?
A. I'm not sure. I'm not sure on that

issue.
Q. With regard to a different portion of this section on page eight-five, I think it's line thirteen and fourteen, Professor, you indicate that, in your view, DP&L should not earn an overall rate of return on the fuel deferral because it is not a capital investment; is that right?
A. Yes.
Q. Are you familiar with rate based calculations in Ohio?
A. Just very generally.
Q. Do you agree that the rate base includes more items than capital investments, such as coal inventories, working capital from lead lag studies and accumulated deferred income tax balances?
A. Yes.
Q. All of the rate base items have the opportunity to earn an overall rate of return grossed up for income taxes; is that correct?
A. Yeah, I mean, the deferrals somewhat have different characteristics, is what -- I mean, as I look at it, they have different characteristics than that.

Q. Before we get to -- I'll ask you about that in a minute, but the rate base items that I mentioned, all have the opportunity to earn an overall rate of return grossed up for current federal income taxes; correct?
A. Yes.
Q. Is it your view that fuel deferral is dissimilar, in some way, from these items?
A. Somewhat, yes.
Q. Can you explain to me why you believe that to be so?
A. Well, I think I explain it there.
It's more like an item that's going to be there and it's going to disappear, in terms of it -- as I remember the numbers are, it peaks in like 2010 or '11, and then, it basically amortizes and goes away, based on the customer charges.
Q. Well, the commodities, such as coal and the working capital, also get used over time; don't they?
A. But they're replaced by -- I mean, they're always there.
Q. And why does that fact make a difference with regard to your view on an overall

rate of return?
A. Because it's an amortizing asset. It goes away.
Q. Let me ask you about page eighty-eight.
I think it's really a response to the question at the bottom of page eighty-five.
You are indicating that the Commission has only allowed interest rate returns on deferrals for American Electric Power's windstorm deferral and Transmission Cost Recovery Rider deferral; is that correct?
A. Yes, I mean, those are just some examples I cited.
Q. Are you familiar with the recovery periods for those deferrals?
A. I don't remember exactly what they are.
Q. Aren't they both for one year?
A. I mean, they're short-term, but I don't know exactly for how long.
Q. But you remember they were relatively short-term?
A. Yes.
Q. Were the amounts of those deferrals relatively small when compared to the estimated fuel deferral balance at issue here?

A. I don't recall.
Q. Do you know how long the possible fuel and recovery -- I'm sorry, possible deferral and recovery period is for deferred fuel costs?
A. I think it can be up to ten years.
Q. Would you accept up to twelve years, two years of deferral and ten years of recovery?
A. Yes, I mean, I guess I was talking about the recovery, as opposed to the deferral.
Q. Maybe I asked you this.
Do you recall the order of magnitude of either the 2009 or 2010 deferrals?
A. Yeah, I do.
Q. Tell me what those are, please?
A. I think they are in the area of a hundred million.
Q. Would you accept a hundred and sixty-three million in 2009, and fifty-two million approximately, in 200 -- I'm sorry, I'll withdraw that.
Would you accept fifty-two million in 2009 and a hundred and eleven million in 2010?
A. Yes.
Q. Is it accurate that the storm damage

and TCR deferrals that you reference in your testimony, are not comparable to the fuel deferral here either in magnitude or period of recovery?
A. Well, they're shorter and smaller, I believe.
Q. On the bottom half of page eighty-six, and I believe the top of page eighty-seven, you are expressing your opinion that the proper carrying charge for the balance of the fuel deferral should be the cost of long term debt; is that right?
A. Yes.
Q. Do you know -- well, let me back up.
You do know that the possible deferral and recovery period for the deferred fuel costs is ten years as you said; right?
A. Yes.
Q. And do you know the source of the funding for the cash outlays by DP&L to fund the expenditures of those size?
A. No.
Q. Due to the size of these expenditures, is it reasonable to believe that they're going to be funded in the ratio of the overall cost of DP&L's capital weighting?

A. I do not know.
Q. Is it reasonable for DP&L to carry these costs for a long period of time, with only a debt return, when it's going to cost the company more than that to carry them?
A. Well, again, it's going to amortize itself over, you know -- and I forget the exact figures, but, you know, it amortizes itself over ten years. So, it's there and it disappears over ten years.
Q. I understand it's there and it disappears.
But the company is going to pay more than the amount represented by your proposed carrying charge in order to carry these funds; isn't it?
A. Well, I mean, it's going to -- I mean, it's like -- I just view it like a -- it's like a mortgage. It's there. It goes away. It amortizes itself.
And it just appears that the appropriate charge for something like that should be their debt cost rate.
Q. Why do you say it just appears that that should be the appropriate cost?

A. Because it's a special item in a way.
Again, it's not a capital investment. It's not like something that's in -- you know, like coal or something that's in your inventory and it's going to go there forever.
This is something that's there and it disappears.
Q. That being the case, why do you select the debt cost?
A. Because it's short-term, relatively short-term, and it amortizes. It's like an amortizing mortgage.
Q. Let me change subjects again. I want to go back to the mean and median issues, and this would be directing you to approximately page eighteen, Professor.
A. Okay.
Yes.
Q. Actually, not on that page.
Is it accurate that medians are commonly used in statistics when outliers in the sample would otherwise bias results?
A. I mean, yes, that's what I said in my testimony.
Q. But here, when you have composed your

comparable group, all the utilities are comparable to the subject company, DP&L; right?
A. I really don't know what you're talking -- I mean, I'm looking at page eighteen.
Q. I think I gave you the wrong page number reference, so let me retract that.
A. I'm kind of lost here, yes.
Q. I was actually back, flipping through your schedules, Professor, on your comparable group. So, I don't have a page of testimony to give you.
Is it accurate that when you are doing your comparable group studies for the DCF analysis, what you've done is select utilities that are comparable to DP&L?
A. Well, I mean, what I try to do is select publicly traded utilities, which have -- I mean, first of all, they're primarily electric utilities and they're also electric utilities that have a relative -- or, are small, given the universe of utilities.
So, I mean, that's why I put in the constraint that they have less than ten billion in terms of revenue.
I mean, I think on page -- on

exhibit JRW-4, I show the makeup of the group, and as it turns out, the group, itself, has, you know, average operating revenue of two point nine billion, net plant of five point two billion.
So, the intention is to capture, in terms of the universe of electric utilities, smaller primary electric utilities.
Q. And the idea of a proxy group, it is to be constructed to be representative of the company that's being investigated or examined?
A. Yes.
Q. If that is the case, then why would you use a median as opposed to a mean average when conducting a proxy group analysis?
A. I don't understand your question.
MR. FARUKI: Off the record.
- - -
(Discussion off the record)
- - -
BY MR. FARUKI:
Q. If you would look at your exhibit JRW-10, that lists your thirteen company proxy group; right?
A. Yes.
Q. And you've got mean and median figures

in your bottom two rows?
A. Yes.
Q. And given the purpose of a proxy group, why are you using a median here?
A. I explained that in my testimony.
I mean, there was some number -- you know, these are not just symmetric distributions, and there tend to be outliers in a lot of these.
So, it's just another measure of central tendency I'm pulling into it.
Q. Are you saying there were outliers in this particular proxy group, or are you saying that that's, in general, why you use the median?
A. It's a general reason to use the median.
Q. Take a look at -- I'll withdraw that.
With regard to your Exhibit JRW-11, Professor --
A. Yes.
Q. -- the pricing model analysis --
A. Yes.
Q. -- is the result of your CAPM analysis lower than recent bond issuances for utilities?
A. You mean the yield?

Q. Yes, sir.
A. In some cases, yes.
Q. You used historical equity risk premium in this calculation; is that right?
A. As I explained in my testimony, I used a little bit of everything.
I used historic -- I mean, there's three ways to get an equity risk premium. Using historic returns, using surveys and looking at what are called ex ante models, where you look at studies over time that measure expected return and compare those to risk free rates to get a risk premium.
So, I used all three approaches. So, one approach was using historical returns.
Q. To the extent you're using historical returns, that's backward looking?
A. Yes. I mean, that's one way of looking at and arriving at an equity risk premium. There's some issues with that, but that is one way to get there.
Q. Why do you say there's some issues with that?
A. Well, I mean, I explained that in my

testimony.
I mean, there's -- in my testimony, between pages seventy-one and -- pages seventy-one and eighty I explained, you know, some of the empirical issues that have been evaluated, discussed, reviewed in studies of using historic returns as measures of -- as ways to measure ex ante or expected market risk premium.
Q. Did the premium -- the set of risk premium figures that you used that are historical, are those shown on your JRW-11 page five?
A. Yes, they are.
Q. And would you explain this chart to me?
A. These are -- well, at the top are different studies of the historical risk premium. I mean, obviously, the Ibbatsan study is probably the best known, but it's only one of the studies of historical returns.
You know, in different studies of historical returns they use different time periods, they use different market indices, they use different measures of return.
So, I mean, you see there, there's a number of different studies that come up with different historical risk premiums.

Q. Were you gathering all the studies you could on this subject?
A. Every one I could find.
Q. Is it accurate that many of these reported returns are lower than the risk free rate at the applicable time?
A. I don't understand your question.
Q. Well, the time period you have here is historical and that -- or, I should say time periods, plural, that you have here are historical, and this data is backward looking, not forward looking; right?
A. Certainly.
And Dr. Makholm used the same data, but he relied only on one of the historical studies, the Ibbatsan study.
MR. FARUKI: Why don't we take ten minutes, Professor.
- - -
(At this point, a short recess was taken, after which time the deposition resumed.)
- - -
BY MR. FARUKI:
Q. Professor, again, on page eighty-three

of your testimony you have a section headed, the Financial Performance of Dayton?
A. Yes.
Q. Would you tell me how that fits into the rest of your analysis?
In other words, I've read the section, and I'm sure it's just me, Professor, but I'm not sure what point you're making here?
A. Well, the Consumer Counsel's Office just asked me to do a standard financial analysis of Dayton and make some conclusions about it.
Like, you know, this would be a standard -- a very standard thing like a Wall Street analyst would do, and I just downloaded the data and analyzed data.
They asked me to do it and I did it. That was the purpose.
Q. All right. So, it's not something that you did because some other piece of your analysis depends on it?
A. No.
I was asked to do a summary financial analysis and that's what I did.
MR. FARUKI: I don't believe I have any other questions, Professor. Thank

you for your time.

- - -

(DEPOSITION CONCLUDED - 3:00 p.m.)

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CERTIFICATE

COMMONWEALTH OF PENNSYLVANIA :
: SS
COUNTY OF MONTGOMERY :

I, DEBORAH ZITIN, Registered Professional Reporter - Notary Public, within and for the Commonwealth of Pennsylvania, do hereby certify that the proceedings, evidence, and objections noted are contained fully and accurately in the notes taken by me of the preceding deposition, and that this copy is a correct transcript of the same.

____
DEBORAH ZITIN
Registered Professional
Reporter - Notary Public

Sworn and subscribed before me
this______day of____________, 2009.