

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger

Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery
New York - Gas Rates

Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery
Long Island - Gas Rates

Case 06-G-1186

January 2007

Prepared Testimony of:

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Department of Public Service
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REDACTED VERSION

1 Q. Please state your name and business address.

2 A. Patrick J. Barry, Three Empire State Plaza,
3 Albany, New York 12223.

4 Q. Please outline your educational background and
5 professional background.

6 A. I graduated from the State University of New York
7 at Albany in 1986 with a Masters Degree in
8 Business Administration and a course
9 concentration in finance. Prior to that, I
10 received a Bachelor of Business Administration
11 from Siena College. In March 1987, I joined the
12 Department Staff. Currently, I am a Principal
13 Utility Financial Analyst in the Office of
14 Accounting & Finance.

15 Q. Please describe your duties for the Office of
16 Accounting & Finance.

17 A. My responsibilities include processing financing
18 petitions, testifying in rate proceedings, and
19 performing financial forecasting, economic
20 analysis, audits, and other investigations and
21 studies. Regarding financings, recommendations
22 are made to the Commission concerning petitions
23 to issue debt and equity securities. The focus
24 there is on the appropriateness of the mode of

1 financing selected and the cost of securities
2 issued. In rate proceedings, recommendations are
3 made relating to matters of the fair rate of
4 return, cash flow considerations and ratemaking
5 policy issues, and cost of service adjustments.
6 Additionally, financial forecasts and economic
7 analyses are made in light of proposed actions by
8 various utilities.

9 Q. Do you have experience testifying in rate cases?

10 A. Yes. I have testified numerous times before the
11 New York State Public Service Commission and I
12 have also presented testimony in several cases
13 before the Federal Energy Regulatory Commission.
14 I have filed testimony in proceedings involving
15 the following companies: New York State Electric
16 & Gas Corporation, Tennessee Gas Pipeline
17 Company, Transcontinental Gas Pipe Line
18 Corporation, CNG Transmission Corporation,
19 Corning Natural Gas Company, St. Lawrence Natural
20 Gas Company, Consolidated Edison Company of New
21 York, Inc., Long Island Lighting Company, Niagara
22 Mohawk Power Company, Central Hudson Gas &
23 Electric Corporation, National Fuel Gas
24 Corporation, Spring Valley Water Company, New

1 York Water Service Corporation, Shorewood Water
2 Company, Citizen's Water Company, and New
3 Rochelle Water Company. My testimony has
4 primarily addressed rate of return and other
5 financial issues.

6 PURPOSE OF TESTIMONY

7 Q. What is the purpose of your testimony?

8 A. I develop the overall rate of return for KeySpan
9 Energy Delivery Company of New York (KEDNY or the
10 Company) and KeySpan Energy Delivery Company of
11 Long Island (KEDLI or the Company). I also
12 address several related financial issues
13 including the appropriate ratemaking equity
14 ratio, the need for additional financial
15 information in future rate cases, and the
16 fairness to ratepayers of utilities deferring
17 certain expenses when earnings are in excess of
18 the allowed cost of equity. My testimony also
19 addresses the cost of capital testimony presented
20 by Company Witness Rosenberg.

21 Q. KEDNY and KEDLI sponsored a ten year rate
22 proposal in its electric rate filing. Will you
23 address this proposal?

24 A. No. The ten year rate plan was proposed and

1 conditioned upon the approval of the merger
2 between National Grid and KeySpan Corporation
3 (KeySpan). My testimony addresses a traditional
4 one-year case and is responsive to the
5 traditional rate requests filed by KEDNY and
6 KEDLI. The appropriate place to address multi-
7 year rate plans would be in testimony supporting
8 a joint proposal.

9 Q. In your testimony, will you refer to, or
10 otherwise rely upon, any information produced
11 during the discovery phase of this proceeding?

12 A. Yes. I will refer to, and have relied upon,
13 several responses to Staff Information Requests.
14 They are collectively attached as Exhibit
15 ___ (PJB-1).

16 Q. What Exhibits are you sponsoring?

17 A. In addition to Exhibit ___ (PJB-1), I am
18 sponsoring seven other exhibits: Exhibit ___ (PJB-
19 2), Exhibit ___ (PJB-3), Exhibit ___ (PJB-4),
20 Exhibit ___ (PJB-5), Exhibit ___ (PJB-6), Exhibit
21 ___ (PJB-7), and Exhibit ___ (PJB-8).

22 SUMMARY OF RECOMMENDATIONS

23 Q. Please summarize your recommendations for KEDNY
24 and KEDLI's gas distribution operations.

1 A. I recommend that the Commission set rates for
2 KEDNY's gas distribution operations based on a
3 targeted overall rate of return of 6.92%, which
4 is composed of an allowed return on equity of
5 8.9%, a cost of long term debt of 5.41% and an
6 equity ratio of 43.6%. I recommend that the
7 Commission set rates for KEDLI's gas distribution
8 operations based on a targeted overall rate of
9 return of 7.93%, which is composed of an allowed
10 return on equity of 8.9%, a cost of long term
11 debt of 7.37% and an equity ratio of 43.6%. The
12 rate of return matrices containing my
13 recommendations are shown on Page 1 of
14 Exhibit__ (PJB-2).

15 CAPITAL STRUCTURE

16 Q. What equity ratios have KEDNY and KEDLI requested
17 in this proceeding?

18 A. KEDNY and KEDLI have each requested an equity
19 ratio of 50%.

20 Q. Is this equity ratio based on a forecast of the
21 actual equity which each company is expected to
22 maintain during the rate year?

23 A. No. The companies provided no formal rate year
24 forecast for their equity ratios. In fact, it

1 appears that the requested 50% equity ratio for
2 each company varies significantly from their
3 actual stand-alone equity ratios. Based upon
4 KEDNY and KEDLI's 2005 Annual Report to the
5 Commission, a proposed 50% equity ratio
6 overstates KEDNY's actual equity ratio (46.3%)
7 and understates KEDLI's actual equity ratio
8 (56.0%). While KEDNY and KEDLI have apparently
9 decided not to use the individual financial data
10 of their subsidiaries to establish the rate of
11 return, they have not explained the basis for
12 their decision to request that the Commission
13 impute an equity ratio to them. These capital
14 structures are presented on Page 2 of
15 Exhibit__ (PJB-2).

16 Q. Why do KEDNY and KEDLI request a 50% equity ratio
17 in this proceeding?

18 A. The companies' requested equity ratios are based
19 on the testimony of Company Witness Bondanza. He
20 supports the use of a 50% equity ratio because it
21 will help support credit metrics consistent with
22 an "A" bond rating. He testifies that a 50%
23 ratio will help minimize each company's overall
24 cost of capital and provide both companies ready

1 access to the financial markets at low cost.

2 Q. Do you agree with these statements?

3 A. Not entirely. While, it is true that a credit
4 rating of "A" allows the company access to the
5 capital markets, this is also true of any
6 investment grade rating. Furthermore, his
7 statements create the impression that lower
8 utility interest rates, as a result of stronger
9 bond ratings, always lead to lower rates for
10 customers, a proposition which is not always the
11 case.

12 Q. Please explain why this proposition is not always
13 accurate.

14 A. It is possible that the total bill for ratepayers
15 may be higher as the result of equity ratio
16 increases, even when they produce bond rating
17 improvements. There are two reasons for this
18 added cost. First, common equity usually costs
19 more than debt. This means that the return that
20 investors require on a dollar of investment
21 funded by equity is greater than on a dollar of
22 investment funded by debt. Compounding this
23 difference is the fact that interest is tax
24 deductible and the return on equity is not.

1 While ratepayers pay a dollar in rates for every
2 dollar of a utility's interest expense, they must
3 not only pay for the higher return on equity but
4 also the state and federal income taxes a utility
5 must pay before realizing this return. This
6 means that for every dollar of return on equity
7 received by stockholders, ratepayers must
8 (assuming a 40% tax rate) pay \$1.67 in rates. As
9 a result, there is a definite tradeoff between
10 rates and financial strength when utilities
11 increase their equity position. The cost of
12 borrowing may decrease but the cost to ratepayers
13 of paying for an equity return and taxes may
14 offset the reduction in the cost of borrowing.
15 Staff and other parties considered this topic in
16 detail in the Generic Finance Proceeding and
17 generally determined that the overall cost to
18 ratepayers, as measured by the pre-tax rate of
19 return, was minimized at either a "BBB" or "A"
20 bond rating. There was general agreement that
21 higher ratings than "A" and lower ratings lower
22 than "BBB" produced higher costs for ratepayers.
23 Q. Is the 50% equity ratio requested for KEDNY and
24 KEDLI consistent with an "A" bond rating?

1 A. No, based on Standard & Poor's utility bond
2 rating financial benchmarks, shown on Exhibit __
3 (PJB-3), KEDNY and KEDLI's requested 50% equity
4 ratio when combined with their "1" Standard &
5 Poor's business profiles equate to an "AA"
6 rating. Thus, the companies request is
7 inconsistent with Mr. Bondanza's statement and
8 the KEDNY and KEDLI rate cases are premised on an
9 equity ratio that is not only unnecessary for
10 maintaining access to the financial markets but
11 is also likely to put upward pressure on rates.

12 Q. Do you have any other comments on the companies'
13 presentation?

14 A. Yes, the companies' capital structure testimony
15 is incomplete. It focuses on what the Commission
16 should do to help KEDNY and KEDLI attain an "A"
17 rating. Conspicuously absent is any mention of
18 the capital structure of KeySpan, their parent
19 corporation. It has long been Commission policy
20 to use the consolidated capital structure for
21 KEDNY with the use of a subsidiary adjustment to
22 remove the effects of unregulated operations from
23 the company's capital structure. The Commission
24 declared in Case 28947, Proceeding on Motion of

1 the Commission as to Rates and Charges of the
2 Brooklyn Union Gas Company for Gas Services,
3 Opinion No. 85-15 (issued September 26, 1985),
4 mimeo p.47.,

5 *"When the utility itself is a subsidiary,*
6 *as is National Gas Distribution Corporation, it*
7 *is proper, at least in the first instance, to*
8 *assume that the parent corporation's cost of*
9 *capital is also the subsidiary's because it is*
10 *the parent that raises capital. That is not to*
11 *say, however, that that a parent's*
12 *capitalization would not be adjusted, were we*
13 *to find that the parent's investments in*
14 *unregulated subsidiaries required it to build a*
15 *capitalization that was less leveraged than the*
16 *utility subsidiary's stand-alone capitalization*
17 *needed to be."*

18 Recently, in Case 05-E-1222, New York State
19 Electric & Gas, Order, (issued August 23, 2005),
20 the Commission reiterated its policy of using the
21 parent's capital structure as the basis for
22 setting a utility subsidiary's rate,

23 *"The Commission requires financial*
24 *separation and insulation for New York*

1 *subsidiaries for them to obtain ratemaking*
2 *recognition for their stand-alone capital*
3 *structure. The record in this case does not show*
4 *that Energy East has implemented any corporate*
5 *restrictions or standards to separate NYSEG's*
6 *capital structure from its own. This lack of*
7 *separation precludes us from relying on anything*
8 *other than the consolidated capital structure*
9 *for ratemaking purposes."*

10 Q. What is your overall conclusion regarding KEDNY
11 and KEDLI's equity ratio position in this
12 proceeding?

13 A. The Commission should reject the companies'
14 request for a hypothetical 50% imputed equity
15 ratio for KEDNY and KEDLI, and instead develop an
16 equity ratio based upon the consolidated capital
17 structure of KeySpan.

18 Q. What capital structure do you recommend in this
19 proceeding?

20 A. My proposed regulated capital structure for KEDNY
21 and KEDLI is shown on Page 1 of Exh__ (PJB-2).
22 It consists of 43.60% common equity, 51.69% long-
23 term debt, 4.25% short term debt and .46%
24 customer deposits.

1 Q. What source did you rely upon to establish KEDNY
2 and KEDLI's capital structure?

3 A. I began with the consolidated capital structure
4 for KeySpan as presented in the September 30,
5 2007 10Q Report to the Securities and Exchange
6 Commission.

7 Q. Why are you using historic financial numbers
8 rather than a forecast for the rate year?

9 A. As I mentioned earlier, the company failed to
10 provide any forecast of its consolidated capital
11 structure in its testimony. A forecasted capital
12 structure is required as part of the companies'
13 rate filings. In the absence of a reliable
14 forecast, the historic capital structure is the
15 best estimate available.

16 Q. What assets are supported by the KeySpan
17 consolidated capital structure?

18 A. KeySpan's consolidated capital structure shows
19 how all of its subsidiaries and other assets are
20 financed with investor provided capital. These
21 subsidiaries not only include KEDNY and KEDLI but
22 also other gas distribution companies such as
23 Boston Gas Company, Colonial Gas Company, Essex
24 Gas Company and EnergyNorth Natural Gas, Inc.

1 Additionally, the company owns unregulated
2 businesses such as electric generation plants,
3 gas exploration and production, gas storage,
4 retail electric marketing, and engineering and
5 consulting services. Furthermore, investor
6 provided capital was also used to finance about
7 \$1.7 billion of non-earning goodwill.

8 Q. KeySpan's consolidated capital structure includes
9 accumulated other comprehensive income. What
10 approach has the Commission taken concerning the
11 inclusion of other comprehensive income as part
12 of the ratemaking equity balance in other cases?

13 A. In the recent NYSEG electric rate case (Case 05-
14 E-1222), the Commission eliminated other
15 comprehensive income from the equity ratio
16 calculation. I believe this is proper because it
17 is not a permanent or easily predictable addition
18 to or subtraction from a utility's common equity
19 balance. Generally, if the other comprehensive
20 income/loss results from regulated operations, it
21 should be removed from the utility's equity
22 balance. It appears that a substantial part of
23 KeySpan's Accumulated Other Comprehensive Income
24 is from regulated operations. In developing my

- 1 capital structure ratios, I have added back \$69.8
2 million of accumulated other comprehensive loss
3 to the consolidated equity balance of KeySpan.
- 4 Q. KeySpan's consolidated capital structure includes
5 \$1.7 billion of goodwill on its balance sheet.
6 What approach should the Commission take
7 concerning the inclusion of goodwill as part of
8 the ratemaking equity balance?
- 9 A. The Commission should continue its practice of
10 not allowing goodwill impact the rates of
11 jurisdictional customers.
- 12 Q. How do you propose to remove goodwill from the
13 consolidated capital structure of KeySpan?
- 14 A. I propose to use the subsidiary adjustment to
15 remove goodwill from the consolidated
16 capitalization to derive a regulated capital
17 structure for KeySpan's regulated operations
18 including KEDNY and KEDLI.
- 19 Q. What are the implications of the risk of goodwill
20 for the subsidiary adjustment mechanism?
- 21 A. Goodwill is a risky paper asset. In this
22 instance it was booked, at best, in anticipation
23 of shareholders receiving savings and other
24 benefits from an acquisition. At, worst, the

1 goodwill was booked as an accounting convention
2 and shareholders will never receive value for it.
3 If such savings do not appear achievable, the
4 goodwill becomes impaired and it should be
5 written down to a more realistic level. Goodwill
6 is a very risky asset for businesses with price
7 regulated affiliates. For KeySpan to realize the
8 value of the goodwill on its books it must not
9 only produce savings and benefits consistent with
10 the goodwill balance, it must also convince
11 regulators that the savings could not and should
12 not have been generated but for the acquisition
13 and that it is reasonable to flow such benefits
14 to shareholders rather than ratepayers for an
15 extended time period. Such an approach may be
16 appropriate in the short run; however, the public
17 service responsibilities of state regulatory
18 bodies make such an approach far less certain in
19 the long run. Finally, to the extent that
20 expected cash flows do not support goodwill, the
21 balance must be written down or written off.
22 Given these uncertainties, it is sound financial
23 policy for utilities to finance these large
24 goodwill balances very conservatively.

1 Q. Are there any guidelines as to what
2 capitalization is appropriate for goodwill?

3 A. There are none that I know of. However, in the
4 past the Commission has removed unregulated
5 operations from the consolidated capitalization
6 by assuming that these entities were financed
7 with between 60% to 70% equity. This ratio
8 assumed that these ratios were representative of
9 the typical competitive company.

10 As noted earlier, I believe that goodwill
11 carries more risk than that of the typical
12 unregulated business operation. In general,
13 risky assets require a more conservative capital
14 structure than less risky asset. Given that the
15 Commission has used a rate of 60% to 70% equity
16 for a competitive business when making subsidiary
17 capital structure adjustments, I believe a higher
18 equity ratio is needed to remove the effects of
19 goodwill from KeySpan's consolidated capital
20 structure. As a result, I will remove goodwill
21 from KeySpan's consolidated capital structure by
22 using an equity ratio of 75% and a debt ratio of
23 25%. KeySpan currently carries \$1.666 billion of
24 goodwill on its books. The subsidiary adjustment

1 removes \$1.25 billion from the consolidated
2 equity of the company and \$417 million from the
3 consolidated long-term debt of the company.

4 Q. KeySpan's remaining consolidated capital
5 structure includes capital related to both
6 utility and competitive businesses. Should these
7 businesses be removed using the subsidiary
8 adjustment?

9 A. KeySpan maintains several business interests,
10 both regulated and unregulated. At this point, I
11 do not have total capital amounts that are
12 allocated to regulated and unregulated
13 operations. While such amounts were typically
14 reported by many utilities in SEC FORM U5S,
15 KeySpan did not file this information as part of
16 its U5S reports, and as of 2006, holding
17 companies are no longer required to file such
18 reports. Without specific capital structures for
19 each subsidiary it is impossible to ascertain the
20 overall risk of their unregulated operations.
21 While I believe the basis for an adjustment may
22 exist, I do not have the information to make such
23 an adjustment. As a result I recommend that
24 KEDNY and KEDLI file a consolidating balance

1 sheet showing how all KeySpan regulated and
2 unregulated operations fit into the consolidated
3 capitalization and balance sheet as part of all
4 future KEDNY and KEDLI rate filings.

5 Q. Did you make any other adjustments to the
6 consolidated capital structure reported in
7 KeySpan's September 30, 2007 10Q Report to the
8 Securities and Exchange Commission.

9 A. Yes, I also added \$500 million of long-term debt
10 (\$400 million to KEDNY and \$100 million to KEDLI)
11 to the KeySpan's long term debt capital to
12 reflect an issue that was completed in November
13 2006.

14 COST OF COMMERCIAL PAPER

15 Q. What cost of commercial paper is appropriate for
16 KeySpan's capital structure?

17 A. I believe it is appropriate to use three month
18 commercial paper with a P-2 rating from Moody's
19 since this is the commercial paper rate that
20 KeySpan carries. For the month of December 2006,
21 three month commercial paper had an average yield
22 of 5.35%.

23 COST OF LONG TERM DEBT

24 Q. Have you reviewed KEDNY and KEDLI's proposed cost

1 of debt?

2 A. Yes. I have reviewed the company's calculations
3 and found two errors in the KEDNY cost of debt
4 schedule found in Company Exhibit JFB-3. The
5 company exhibit incorrectly calculates the
6 interest cost for the SERIES 1997 A-1 Due
7 12/01/20 and the SERIES 1997 A-2 Due 12/01/20
8 issuances. These errors lead to an overstatement
9 of the cost of debt presented in Company Exhibit
10 (JFB-3).

11 I have also made several updates to the
12 cost of debt. First, since the company filed its
13 testimony, KEDNY and KEDLI have issued unsecured
14 notes of \$400 million and \$100 million,
15 respectively. Each was issued at a rate of 5.60%
16 with a 10 year maturity. I have updated the cost
17 of debt for each company reflecting this issue.
18 Second, the company has supplied the current
19 amount of issuance expenses associated with each
20 of these new issuances. It is my understanding
21 that these numbers are not final and it is
22 possible that this cost should grow. Therefore I
23 recommend that the amortization of these issuance
24 costs in the cost of debt schedule be updated as

1 the proceeding continues. Finally, I updated
2 KEDNY's cost of debt for the latest variable
3 rates on each of their variable rate securities.
4 These rates, too, should be updated as the
5 proceeding continues, at a minimum with the
6 companies' Initial Brief and Brief on Exceptions
7 and 45 days before the Commission session on
8 which this case is decided, which should be the
9 last date for filing updates.

10 Q. What cost of debt do you calculate for KEDNY and
11 KEDLI?

12 A. As shown on Page 3 and 4 of Exhibit (PJB-2), the
13 cost of debt for KEDNY is 5.41% and the cost of
14 debt for KEDLI is 7.37%, respectively.

15 Q. You are applying a consolidated capital structure
16 for KEDNY and KEDLI. Why are you using the stand
17 alone debt costs rates for KEDNY and KEDLI?

18 A. The consolidated cost of debt was not provided by
19 the company in its filing, nor is it able to be
20 calculated from the company's 10K report. Most
21 importantly, the tax-exempt debt of KEDNY and
22 KEDLI should remain for the benefit of New York
23 State customers. By using the stand alone cost
24 rates, the effect of this tax-exempt debt was

1 captured for the benefit of customers.

2 COST OF CUSTOMER DEPOSITS

3 Q. What is the customer deposit rate prescribed by
4 the Commission in 2007?

5 A. Effective January 1, 2007, the customer deposit
6 rate prescribed by the Commission is 3.65%.

7 COST OF EQUITY

8 Q. How did you develop the cost of common equity for
9 KEDNY and KEDLI?

10 A. I applied the Discounted Cash Flow methodology
11 (DCF) and the Capital Asset Pricing Model (CAPM)
12 to a proxy group of utilities to estimate. I then
13 used a 2/3 DCF and 1/3 CAPM weighting to develop
14 one cost of equity estimate. This weighting was
15 based on the approach developed in Case 91-M-
16 0509, Proceeding on Motion of the Commission to
17 Consider Financial Regulatory Policies for New
18 York State Utilities, Recommended Decision
19 (issued July 19, 1994) (Generic Finance
20 Proceeding). It was also relied upon by the
21 Commission in the last NYSEG electric rate case
22 (Case 05-E-1222)

23 PROXY GROUP

24 Q. What proxy group do you propose to use in your

1 cost of equity methodology?

2 A. I propose to use a proxy group consisting of the
3 following 23 companies: Alliant Energy
4 Corporation; Ameren Corporation; CH Energy Group,
5 Inc.; Consolidated Edison, Inc.; DTE Energy
6 Company; Empire District Electric Company; Energy
7 East Corporation; Entergy Corporation; Exelon
8 Corporation; MGE Corp.; NICOR, Inc.; Nisource,
9 Inc.; Northeast Utilities; Northwest Natural Gas
10 Co.; NSTAR; PG&E Corporation; Piedmont Natural
11 Gas Corporation; PNM Resources, Inc.; Southern
12 Union; Southwest Gas Corporation; Vectren
13 Corporation; Wisconsin Energy Corporation; and
14 Xcel Energy, Inc.

15 Q. Please explain how you developed your proxy
16 group.

17 A. I began with the dividend-paying electric and gas
18 distribution utilities covered by The Value Line
19 Investment Survey (Value Line). I then limited
20 this group to only those dividend-paying
21 companies which had gas distribution operations,
22 an investment grade bond rating, no ongoing
23 merger activity, and derived 70% or more of their
24 operating revenue from regulated operations.

1 Q. Why are the screening criteria you used to
2 develop the utility proxy group reasonable?

3 A. I chose companies with gas distribution
4 operations as a starting point for my analysis
5 since that is the principal business of KEDNY and
6 KEDLI. I limited my analysis to only dividend-
7 paying companies since performing a DCF analysis
8 on non-dividend-paying companies is quite
9 speculative. I eliminated companies whose debt
10 was not of investment grade quality because I
11 wanted to consider companies with similar credit
12 quality to KEDNY and KEDLI. I removed companies
13 that were involved in ongoing mergers because it
14 is likely that the price of the company being
15 acquired is determined not by market forces, but
16 the offering price. Finally, I removed companies
17 which derive significant sources of their
18 operating revenue from non-utility sources. This
19 step helps assure that the risks of the holding
20 company parents in the proxy group generally
21 approximate the risks of a gas distribution
22 utility. To perform this part of my analysis, I
23 screened gas and combination electric utilities
24 using operating revenue data provided by each

1 company's annual report to the Securities and
2 Exchange Commission, Form 10-K (10-K). Companies
3 with less than 70% of their operating revenues
4 from utility sources were removed from the proxy
5 group. After all the screenings, 23 companies
6 remained candidates for the group. Statistics
7 for these companies are shown on Page 5 of
8 Exhibit__(PJB-2).

9 Q. Are the remaining companies in your proxy group
10 pure gas distribution utilities?

11 A. No, the companies in my proxy group are not pure
12 gas distribution utilities. There are few, if
13 any, pure gas distribution companies that are
14 publicly traded. Thus, the goal should be to
15 select proxy companies that are closest to the
16 risk profile of a pure gas distribution
17 combination company.

18 Q. Are your criteria supportive of a viable proxy
19 group?

20 A. Yes. First, these criteria produce a 23 company
21 group, which is large enough to get a
22 representative estimate of what the return on
23 equity is for a gas distribution utility.
24 Second, while the threshold of 70% utility

1 operating revenues creates the opportunity for
2 noise or even an upward bias to enter into the
3 calculation of the cost of equity for a gas
4 distribution company, diversification of
5 businesses and the use of the median return of a
6 large group minimizes the amount and probability
7 of an error in the estimation of the cost of
8 equity caused by these unregulated operations.
9 Finally, the admission of companies with an
10 investment grade bond rating different from KEDNY
11 and KEDLI expands the proxy group to a size that
12 will lead to a more accurate cost of equity
13 estimate. Finally, to the extent that there is
14 any discrepancy between the credit quality of
15 KEDNY and KEDLI and the proxy group, that
16 difference is readily quantifiable in a yield
17 spread analysis between the credit rating of the
18 KeySpan Companies and that of the average credit
19 rating of the proxy group. Thus, these criteria
20 produce a group which can reasonably calculate
21 the cost of equity for natural gas distribution
22 companies like KEDNY and KEDLI.

23 DCF AND CAPM ANALYSES

24 Q. Please describe the DCF model which you used to

1 estimate the cost of equity for the proxy group
2 and its result.

3 A. The calculation of the DCF for the proxy group is
4 shown on Pages 6-8 of Exhibit___(PJB-2). For
5 each company in the proxy group, there is a six-
6 month average stock price (calculated by
7 averaging the high and low price for each month).
8 I have used the six-month period ending December
9 2006. The model also contains *Value Line* data
10 for the beta, earnings per share, dividends per
11 share, book value per share and the forecasted
12 amount of common stock shares for each company.

13 This data is used to estimate the dividends
14 that can be expected for each company in the
15 future (from 2007 on). The price investors are
16 paying for the stock (the average stock price
17 over a six-month period) is seen as the present
18 value of that dividend stream. By calculating
19 the discount rate required to turn the string of
20 expected dividend payments into the current stock
21 price, one can determine the rate of return
22 investors are expecting for each company. The
23 median result, which I calculate to be an 8.15%
24 return, is used as the DCF methodology result.

1 Q. How are dividends projected to change over time?

2 A. I used the two-stage DCF method recommended in
3 the GFC. In the near-term (the first four
4 years), the estimates of Value Line are used
5 (using 2005 estimates and growth rates implied in
6 Value Line's 2009 through 2011 dividend per share
7 estimate). For the second stage (2011 and on), a
8 "sustainable growth" rate is calculated for each
9 company in the proxy group based on its projected
10 retention of earnings and growth in common stock
11 balances.

12 Q. What is your proxy group DCF cost of equity?

13 A. The DCF cost of equity for the proxy group is
14 8.15% as shown on page 8 of Exhibit__ (PJB-2).

15 Q. Please describe the CAPM approach that you used
16 to develop a cost of equity for your proxy group?

17 A. I used the traditional and zero beta CAPM
18 approaches recommended in the Generic Finance
19 Proceeding.

20 Q. What were the inputs to the CAPM model?

21 A. Page 9 of Exhibit__ (PJB-2) shows that the CAPM
22 requires an estimate of: a) the risk free rate,
23 b) market return, and c) the average beta of the
24 proxy group. The risk free rate of 4.82% is the

1 monthly average of 10-year and 30-year Treasury
2 bond yields over the six-month period ended
3 December 31, 2006. The S&P 500 market return of
4 11.3% was obtained from Merrill Lynch's December
5 2006 edition of Quantitative Profiles. Staff has
6 used this data in the CAPM for many years. The
7 0.887 beta was obtained from Value Line.

8 Q. What was your CAPM cost of equity?

9 A. The traditional CAPM analysis indicated a 10.57%
10 ROE for the proxy group and the zero beta CAPM
11 produced a 10.75% ROE for the proxy group. The
12 average of these two CAPM approaches is 10.66%.

13 Q. How were the DCF and CAPM results combined?

14 A. I applied the 2/3 DCF and 1/3 CAPM weights
15 recommended in the Generic Finance Proceeding to
16 the DCF return of 8.15% and the CAPM return of
17 10.66%. This develops a cost of equity estimate
18 for the proxy group of 8.98%.

19 Q.

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22 A.

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8 Q. What other independent analyses are there that
9 support your cost of equity estimate?

10 A. Merrill Lynch also publishes return on equity
11 estimates. The December edition of Merrill
12 Lynch's Quantitative Profiles contains DCF and
13 CAPM estimated cost of equity returns for many of
14 the companies in my proxy group. Exhibit __
15 (PJB-4) demonstrates that the median DCF return
16 for these companies was 9.05% and the median CAPM
17 return was 9.25%. A copy of this publication is
18 attached as Exhibit __ (PJB-5).

19 Q. Is your recommendation consistent with interest
20 conditions?

21 A. Yes, current interest rates are near
22 historical lows for the last 40 years. Exhibit
23 __ (PJB-6) demonstrates this point graphically.
24 To the extent that the cost of equity generally

1 tracks interest rates, one would expect the cost
2 of equity for utilities to be lower than it has
3 been for some time.

4 Q. Is there any other information supporting the
5 reasonableness of your proxy group cost of equity
6 estimate?

7 A. Yes, Ibbotson also publishes a forward-looking
8 earnings model that calculates the long-term
9 equity market return to be 9.67%. Putting this
10 estimate into my CAPM calculation produces a gas
11 distribution utility return of 9.19%. This also
12 supports my cost of equity analysis.

13 Q. Rates are being set in this proceeding for KEDNY
14 and KEDLI based on a KeySpan consolidated capital
15 structure adjusted for the effects of goodwill.
16 Given this approach, are there any differences in
17 risk between KEDNY and KEDLI and the proxy group?

18 A. Overall, KEDNY and KEDLI have slightly less risk
19 than the proxy group. As shown on Page 5 of
20 Exhibit__ (PJB-2), the average proxy group
21 company has greater business risk than KEDNY and
22 KEDLI, as indicated by an average Standard &
23 Poor's business profile of "4.3" versus KEDNY
24 and KEDLI's extremely low business risk profile

1 of "1". The proxy group has an average bond
2 rating of BBB+/A-. However, the bond rating
3 implied for KEDNY and KEDLI given their Standard
4 & Poor's business risk profile and the capital
5 structure I recommend in this proceeding implies
6 a bond rating of "A". See Exhibit __ (PJB-3)

7 Q. Will you adjust this return to account for risk
8 differences between the proxy group and KEDNY and
9 KEDLI?

10 A. Yes, conservatively the average bond rating of
11 the proxy group is "A-" while the bond rating
12 that is implied by my recommended debt ratio and
13 Standard & Poor's business profile rating is "A".
14 This indicates that investment risks of both
15 KEDNY and KEDLI are slightly less than that of
16 the average company in the proxy group.

17 Q. How did you quantify the difference in risks
18 between KEDNY and KEDLI and the proxy group?

19 A. I used a bond spread analysis between A+ and A-
20 bonds and knowing the return on the proxy group
21 used an algebraic equation to solve for the cost
22 of equity for KEDNY and KEDLI. The equation is
23 as follows:

24 $ROE_{KED} = \frac{\text{Cost of A+ Debt}}{\text{ROE Proxy Group}}$

1 Cost of A- Debt

2 Q. What values did you use in this equation?

3 A. I interpolated long-term public utility bond
4 yield data from the January 8, 2007 edition of
5 Moody's Credit Perspectives. For the month of
6 December, I derived an average long-term cost of
7 debt of 5.81% and 5.89% for A+ and A- rated
8 utilities, respectively. The return on equity of
9 the proxy group was 8.98%.

10 Q. What does the equation calculate for the return
11 on equity for KEDNY and KEDLI?

12 A. The calculation indicates that the return on
13 equity for KEDNY and KEDLI is 8.9%. This number
14 appropriately adjusts for the lower risk of the
15 KeySpan utilities vis-à-vis the proxy group.

16 ROSENBERG KEDNY and KEDLI DCF Presentation

17 i. Proxy Group

18 Q. Please comment on the proxy group proposed by
19 Company witness Rosenberg.

20 A. I am concerned that the proxy group employed by
21 Witness Rosenberg is too small to produce
22 accurate results. When his testimony was filed
23 it only included six companies. Since then
24 Cascade Natural Gas Corporation has entered into

1 a merger and by his criteria and mine, must be
2 removed from the proxy group. This reduces his
3 group to 5 companies at the time this testimony
4 was written.

5 Q. Do you have any other concerns about the proxy
6 group employed by Witness Rosenberg.

7 A. Yes. On page 7 lines 7 and 8 of his testimony,
8 Witness Rosenberg states, "Companies were also
9 excluded from the proxy group if they had
10 significant unregulated operations." Significant
11 is a rather broad term. However, two companies
12 in his proxy group do not meet the utility
13 revenue percentage of 70% that he employed in the
14 last NYSEG electric rate case (05-E-1222).
15 Following that standard, the witness' group
16 dwindles to three companies because Laclede Group
17 Inc. and WGL Holdings Inc. utility operating
18 revenues only compose 56% and 62% respectively of
19 each company's total operating revenues. I
20 believe these companies are too contaminated with
21 unregulated operations to properly call their DCF
22 result representative of a pure utility return.
23 If these companies are excluded, Witness
24 Rosenberg's proxy group would consist of only

1 three companies and my concerns voiced above
2 about a small proxy group would be amplified.
3 Whether composed of three, five or six companies,
4 the Company Witness' proposed group must be
5 considered small.

6 Q. Why is a small proxy group a concern in this
7 proceeding?

8 A. The purpose of a proxy group is to marginalize
9 forecast errors by using a sufficiently large
10 group of companies to offset the errors in
11 individual forecasts. With the removal of
12 Cascade Natural Gas due to its involvement in a
13 merger, Witness Rosenberg's proxy group contains
14 only 5 companies. The effects on any forecasting
15 error will likely be more telling in a 5 company
16 proxy group than in the 23 company proxy group I
17 employed.

18 ii. Company DCF Analysis

19 Q. Do you agree with Company Witness Rosenberg's DCF
20 analysis?

21 A. No. I disagree with the short-term growth rate
22 in his DCF analysis. Moreover, his DCF
23 methodology uses three measures of long-term
24 growth: a long-term growth in nominal Gross

1 Domestic Product (GDP); a sustainable growth rate
2 derived from Value Line data for the proxy group;
3 and long-term earnings growth for the electric
4 industry. I believe there are problems that
5 infirm each of these growth rates.

6 Q. Do you have concerns about the Company Witness'
7 short term DCF growth rate?

8 A. Yes. Witness Rosenberg's "Value Line Projected
9 5-Year Growth" is not a 5 year earnings growth
10 rates nor does Value Line describe these growth
11 rates as such. They are more properly
12 characterized as Value Line describes them:
13 estimates of the average growth rate from the
14 average three year earnings of the years 2003-
15 2005 to the average estimates in earnings for the
16 years 2009-2011. This is actually more properly
17 considered a 6 year growth rate. It also
18 contains historical growth within this rate
19 dating back to the year 2003. Historically, the
20 Commission has rejected the use of historical
21 growth estimates in earnings and it should
22 continue to do so here.

23 Q. What are your views regarding company Witness
24 Rosenberg's use of real growth in the GDP as a

1 DCF growth rate?

2 A. Such an approach is flawed for several reasons.
3 Long run utility dividend growth is a product of
4 a company's future expected returns on equity and
5 its dividend payout policy, two cornerstones of
6 long run sustainable growth. Company Witness
7 Rosenberg has not explained how GDP growth
8 captures these company specific factors. He also
9 does not explain why a macroeconomic measure of
10 economic output is applicable to the electric
11 industry given the incentives that businesses
12 have to minimize electric consumption per unit of
13 output.

14 Q. Company Witness Rosenberg advocates the use of
15 GDP growth because he perceives that investors do
16 not have a clear picture of long-term future
17 growth specific for electric utilities. Do you
18 agree with this statement?

19 A. No. While he presents no context for his
20 statements, I view this argument as a red
21 herring. Investors incorporate uncertainty into
22 their expectations whenever buying and selling
23 securities. There is no need to seek a
24 macroeconomic proxy for something investors deal

1 with every day.

2 Q. His second growth rate uses sustainable growth as
3 measured by Value Line. Why is his sustainable
4 growth rate analysis problematic?

5 A. The Company Witness mixes and matches the five-
6 year growth estimates of Value Line and First
7 Call with the long-term sustainable growth of
8 Value Line alone.

9 Q. Why is this significant?

10 A. Ignoring the infirmities in the Value Line short-
11 term growth rate, mismatching a hybrid Value Line
12 five year growth rate with a pure Value Line
13 long-term growth rate is a mismatch that would
14 overstate, understate, or, by coincidence,
15 properly calculate the estimated cost of equity
16 in the DCF equation.

17 Q. Do you agree with Company Witness Rosenberg's use
18 of long-term earnings growth in the gas utility
19 industry earnings as a proxy for the long run DCF
20 growth rate?

21 A. No. This rate suffers from a similar problem
22 that afflicts the witness' GDP growth rate.
23 Simply put, it fails to consider the unique
24 circumstances facing each company in the proxy

1 group. Moreover, I do not find it credible that
2 there is a need to seek a macroeconomic proxy for
3 investors' expectations.

4 iii. CAPM Approach

5 Q. How did Company Witness Rosenberg calculate the
6 risk-free rate portion of the CAPM equation?

7 A. He used four sources to develop the risk free
8 rate: a 10 Year Treasury rate of 4.8%, a 20 Year
9 Treasury rate of 5.0%, a Long-Term Treasury rate
10 of 4.9%, and a Treasury bond futures yield of 5.5
11 from an undisclosed source. While, I believe the
12 Commission should use the risk free rate that I
13 have employed through the use of 10-year and 30-
14 year treasury instruments, as a practical matter
15 the risk free rate proposed by Company Witness
16 Rosenberg are quite similar to the rate that I
17 have employed.

18 Q. Do you agree with Company Witness Rosenberg that
19 the expected market return should be calculated
20 based on spreads between stocks and treasury
21 securities for a period commencing in 1926?

22 A. No. His use of a 7.1% historical risk premium
23 differentials between bonds and stocks over
24 periods much different from today. Many in the

1 financial community believe that the equity risk
2 premium has been decreasing over time and is
3 currently very low (e.g. "The Shrinking Equity
4 Premium", Jeremy Siegel, The Journal of Portfolio
5 Management, Fall 1999). More recently, Ibbotson
6 himself has admitted that the risk premium is not
7 constant and has, in fact, been declining. As
8 Justin Fox wrote in the December 26, 2005 edition
9 of Fortune Magazine,

10 *"A harder-to-dismiss critique came from Mr.*
11 *Efficient Markets himself, Ibbotson's*
12 *dissertation advisor Eugene Fama. In a series of*
13 *papers written with Dartmouth's Kenneth French,*
14 *Fama has argued that the capital asset pricing*
15 *model, or at least its 1970s corollary that the*
16 *risk premium is constant, doesn't match the*
17 *facts. "My own view is that the risk premium has*
18 *gone down over time basically because we've*
19 *convinced people that it's there," Fama says.*
20 *Ibbotson's stock market forecasting model is*
21 *thus a victim of its own success.*

22 *Ibbotson agrees that Fama has a point,*
23 *and that he can no longer bank on the historical*
24 *equity premium to predict future returns. The*

1 *alternative he has come up with is an estimate*
2 *based on fundamentals. He takes the 10.31%*
3 *annual return on stocks from 1925 through the*
4 *present and strips out the tripling of the*
5 *market's price/earnings ratio that's occurred*
6 *since then. "We think of that as a windfall that*
7 *you shouldn't get again," he says. The drivers*
8 *of stock returns that remain are dividends,*
9 *earnings growth, and inflation. Make a forecast*
10 *of future inflation using current bond yields,*
11 *assume that dividend and earnings growth history*
12 *will repeat themselves, and you get a long-run*
13 *equity-return forecast of 9.27%. When Ibbotson*
14 *and his company's director of research, Peng*
15 *Chen, first ran the numbers in 2001, the gap*
16 *between the new forecast and the one using the*
17 *equity premium method was more than a percentage*
18 *point. Because P/Es have dropped since then, the*
19 *gap has shrunk."*

20 The complete copy of this article is
21 attached as Exhibit __ (PJB-7).

22 Q. Does Ibbotson offer any other projections of the
23 market return or market risk premium?

24 A. Yes. Ibbotson, "SBBI 2006 Yearbook", a

1 publication series cited by Witness Rosenberg in
2 his testimony, presents a forward-looking
3 earnings model which calculates the return on the
4 market to be 9.67%. An explanation of this model
5 is contained in Exhibit ___ (PJB-8).

6 Q. What do these forward-looking returns by Ibbotson
7 say about the cost of equity for the proxy group?

8 A. Placing Ibbotson forward-looking market returns
9 of 9.67% into the CAPM model produces a cost of
10 equity return of 9.19% for my proxy group. This
11 estimate is in line with the results of my cost
12 of equity analyses.

13 Q. What source has the Commission relied on recently
14 for the cost of the market?

15 Q. The Commission has recently relied on Merrill
16 Lynch's Quantitative Profiles for determining the
17 cost of the market. This publication, over time,
18 has provided a more accurate and up-to-date
19 assessment of what today's investors require than
20 Ibbotson's historical calculation because it is
21 based upon current expected market return, which
22 takes into account only the current business
23 climate.

24 Q. Has the Commission ever discussed the use of

1 Merrill Lynch data versus Ibbotson data for
2 calculating risk premiums?

3 A. Yes, in Case 95-G-1034, Central Hudson Gas &
4 Electric Corporation, Order and Opinion No. 96-28
5 (issued October 3, 1996), the Commission approved
6 use of the Merrill Lynch estimate. In that
7 Opinion, the Commission said,

8 *"...the Judge's market return calculation based*
9 *on Merrill Lynch data is a reasonable method of*
10 *deriving a risk premium; and it avoids the*
11 *problems of stale data in the Ibbotson estimate,*
12 *or the circularity of the implied risk premium*
13 *approach in relying on other commissions' return*
14 *allowances."* (Page 14)

15 More recently the Commission stated in Case
16 05-E-1222, New York State Electric & Gas, Order,
17 (issued August 23, 2005),

18 *"As for the CAPM, NYSEG's reliance on the*
19 *historic Ibbotson data and a DCF of the S&P 500*
20 *to estimate the market return is rejected. The*
21 *historic Ibbotson data is inconsistent with more*
22 *recent forward-looking Ibbotson estimates and*
23 *the S&P 500 DCF relies upon the single growth*
24 *DCF model which the Commission has not employed*

1 *for over a decade."*

2 Q. Company Witness Rosenberg uses a single stage
3 DCF model to calculate the expected market return
4 for the S&P 500 and then uses this as the cost of
5 the market. Is this approach reasonable?

6 A. No. His use of a single stage model and the
7 11.5% dividend growth estimate used in the model
8 is a grossly exaggerated estimate. On its face,
9 the 11.5% dividend growth estimate appears
10 unreasonable and should have raised concerns
11 right from the start. This rate far exceeds the
12 growth rate (2.1% above inflation) of S&P 500
13 dividends for the period 1946-1999 (Siegel, "The
14 Shrinking Equity Premium", Page 14). Moreover
15 and most importantly, it exceeds the Merrill
16 Lynch and Ibbotson Associates market return
17 forecasts. This information suggests that
18 Company Witness Rosenberg should, at the very
19 least, have made some effort to determine whether
20 11.5% dividend growth was truly sustainable for
21 the S&P 500. Indeed, Company Witness Rosenberg
22 indicated that because he believed there was much
23 uncertainty in the regulated utility industry, a
24 two-stage DCF model is needed to estimate the

1 cost of equity for his utility proxy group see
2 Company Witness Rosenberg Testimony, pages 8-11).
3 If that was the case, the prospect of 11.5%
4 dividend growth for the S&P 500 into perpetuity
5 should have raised similar concerns.

6 Q. Please summarize your criticism of the Company's
7 CAPM presentation.

8 A. The CAPM analyses of the Company are infirmed by
9 the use of a market risk premium and cost of the
10 market estimate that is far too high and in some
11 in the case of the Ibbotson data, not even
12 supported by its source. The company's
13 methodology should be rejected.

14 OTHER COMPANY ROE METHODOLOGIES

15 Q. Do you agree with Company Witness Rosenberg's
16 use of a risk premium approach in this case?

17 A. No. The Commission has specifically rejected the
18 use of a risk premium approach in the past. In
19 Opinion 96-28, the Commission stated:

20 *"...we have avoided reliance on the risk premium*
21 *approach because it reflects allowed returns*
22 *which are an inferior alternative to a direct*
23 *estimate of a company's own cost of equity."*

24 (Page 13)

1 In addition, the recommendation of the
2 Generic Finance Case was to reject use of a risk
3 premium in setting a return. Finally, because
4 the CAPM is essentially a risk premium model, it
5 would be redundant to rely on another risk
6 premium approach.

7 Q. Do you have any other comments regarding Company
8 Witness Rosenberg's risk premium approach?

9 A. Yes. Company Witness Rosenberg offers no studies
10 or analyses to determine the extent to which
11 KEDNY and KEDLI are more or less risky than the
12 average gas distribution utility in the group he
13 uses to develop the risk premium. He also
14 provides no analysis of whether the risks of
15 bonds have remained constant relative to utility
16 stocks over the study horizon. The methodology
17 in fact merely shadows his CAPM methodology that
18 uses historical Ibbotson data. This risk premium
19 method should be rejected.

20 Q. Do you have criticisms of the other risk premium
21 analyses presented in the Company's testimony?

22 A. Yes. Witness Rosenberg develops a regression
23 analysis using allowed returns on equity versus
24 utility bond yields. The methodology is a

1 backdoor way of trying to use utility returns
2 around the country to set allowed returns in New
3 York. It ignores any difference in rate
4 treatment between jurisdictions. It ignores
5 whether the returns themselves were multi-year
6 returns or the result of settlements. A more
7 interesting, and perhaps more accurate, analysis
8 would be to compare New York allowed returns to
9 the bond yield of its utilities. As it is the
10 returns in other jurisdictions simply are not
11 comparable to New York in such a simplistic
12 matter. This methodology should be rejected.

13 Q. Company Witness Rosenberg also proposed to use a
14 comparable earnings analysis as part of his ROE
15 calculation. Do you agree with such a
16 methodology in this case?

17 A. No. The Commission has specifically rejected the
18 use of a comparable earnings methodology in the
19 past. In Opinion 96-28, the Commission stated:
20 *"...we have consistently found the comparable*
21 *earnings approach unreliable because it does not*
22 *adequately reflect the cost of equity of the*
23 *companies in the proxy group."* (Page 13)

24 In addition, the recommendation in the

1 Generic Finance Case was to reject use of the
2 comparable earnings methodology in setting a
3 return.

4 Q. Do you have any other concerns regarding the use
5 of a comparable earnings approach?

6 A. Yes. The result of Company Witness Rosenberg's
7 comparable earnings methodology (13.5 to 14%) is
8 again grossly exaggerated. This return range is
9 higher than the expected return of the S&P 500,
10 per First Call estimates (Company Witness
11 Rosenberg Testimony, Page 27) and the Merrill
12 Lynch estimate provided in my testimony. Company
13 Witness Rosenberg failed to explain how a return
14 in excess of the market as a whole is
15 "comparable" to what a regulated utility with a
16 business profile of 1 and a parent holding
17 company Value Line safety rating of "1" should
18 earn.

19 Q. Finally, Company witness Rosenberg recommends an
20 ROE of 11%. Do you agree with Company Witness
21 Rosenberg's return and the "weighting" of his
22 various methodologies in determining his ROE
23 recommendation?

1 A. No. The "weighting" of his methodologies is
2 undefined and irrelevant. Since his inputs are
3 overstated, his "weighting", even though
4 unspecified, must produce an overstated result.
5 Company Witness Rosenberg does not state how he
6 weights the results of his various approaches.
7 He states only that the approaches, including,
8 presumably, an undefined adjustment for a
9 perceived future increase in interest rates,
10 (Company Witness Rosenberg Testimony, page 44)
11 total to an equity return of 11.0%. I believe
12 the 11.0% return on equity recommended by Company
13 Witness Rosenberg should be rejected.

14 Conclusion

15 Q. What is the weighted average cost of capital that
16 you propose for KEDNY and KEDLI?

17 A. I propose a weighted average cost of capital of
18 6.92% for KEDNY. I propose a weighted average
19 cost of capital of 7.93% for KEDLI. The
20 calculations for these rates of return are shown
21 on Page 1 of Exhibit (PJB-2).

22 Q. Does this conclude your testimony in this case?

23 A. Yes, at this time.