

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in DOCKET NO. 110138-EI
rates by Gulf Power Company.

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TELEPHONIC DEPOSITION OF: J. RANDALL WOOLRIDGE

TAKEN AT THE INSTANCE OF: Florida Public Service Commission

DATE: Thursday, December 1, 2011

TIME: Commencing at 9:30 a.m.
 Concluding at 10:30 a.m.

PLACE: Room 382D, Gunter Building
 2540 Shumard Oak Boulevard
 Tallahassee, Florida

REPORTED BY: LAURA MOUNTAIN, RPR
 Court Reporter
 Notary Public in and for
 the State of Florida at
 Large

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12 REPRESENTING THE OFFICE OF PUBLIC COUNSEL:

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18 (Telephonically)

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1 APPEARANCES (Continued):

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Also Present for Florida Public Service Commission:

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Dale Buys
Mark Cicchetti

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Also Present Telephonically:

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Trisha Merchant

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WITNESS

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J. RANDALL WOOLRIDGE

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CERTIFICATE OF OATH

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CERTIFICATE OF REPORTER

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1 MS. KAUFMAN: Yeah, I'm here.

2 MR. YOUNG: All right. And Trish?

3 MS. MERCHANT: I'm here.

4 MR. YOUNG: And you all can hear us fairly well,
5 correct?

6 MR. MCGLOTHLIN: So far so good, Keino.

7 MR. YOUNG: All right. Before we have the witness
8 sworn in, I'd like everyone to, for the benefit of the
9 court reporter, have everyone state their appearance.
10 We'll start with the folks in the room and then move to
11 the phone with you, Joe, and Dr. Woolridge.

12 My name is -- again, my name is Keino Young,
13 commission staff. To my right I have --

14 MR. BUYS: Dale Buys with staff.

15 MR. CICCHETTI: Mark Cicchetti with staff.

16 MR. MELSON: Rick Melson, appearing on behalf of
17 Gulf Power.

18 MR. YOUNG: Joe?

19 MR. MCGLOTHLIN: My name is Joe McGlothlin. I'm
20 appearing for the Office of Public Counsel, and I'm with
21 the deponent, Dr. Woolridge.

22 MR. YOUNG: Vicki?

23 MS. KAUFMAN: Vicki Kaufman. I'm appearing on
24 behalf of the Florida Industrial Power Users Group.

25 MR. YOUNG: And Trish?

1 MS. MERCHANT: Trisha Merchant with the Office of
2 Public Counsel.

3 MR. YOUNG: All right. Joe, at this time if we can
4 have the notary swear Dr. Woolridge in.

5 MR. FLEBOTTE: Mr. Young, my name is Ronald
6 Flebotte. I'm a notary in State College, Pennsylvania,
7 Centre County, and I will now swear in Dr. Woolridge.

8 Dr. Woolridge, if you'd raise your right hand. Do
9 you swear or affirm that the testimony you are about to
10 give shall be the truth and nothing but the truth?

11 THE WITNESS: I do.

12 Thereupon,

13 J. RANDALL WOOLRIDGE
14 was called as a witness, having been first duly sworn, was
15 examined and testified as follows:

16 MR. YOUNG: Mr. Notary, can you state your name for
17 the record again, please?

18 MR. FLEBOTTE: Yes, Ronald E. Flebotte. And that's
19 spelled F, as in Frank, l-e-b-o-t-t-e.

20 (Off the record)

21 MR. YOUNG: Mr. Notary, you can FAX the certificate
22 of oath to me, and that's Keino Young -- that's
23 K-e-i-n-o, Y-o-u-n-g, and my FAX number is 850-413-6227.

24 MR. FLEBOTTE: That's K-i-n-o, Young --

25 MR. MCGLOTHLIN: K-e-i-n-o.

1 MR. FLEBOTTE: -- K-e-i-n-o, 850-413-6227.

2 MR. YOUNG: Yes.

3 MR. FLEBOTTE: No problem. I can FAX that to you.

4 MR. YOUNG: All right, thank you, sir.

5 MR. MCGLOTHLIN: We're going to excuse the notary
6 now.

7 (Brief pause)

8 DIRECT EXAMINATION

9 BY MR. YOUNG:

10 Q Dr. Woolridge?

11 A Yes.

12 Q First I want to say, again, thank you. I
13 appreciate you taking time this morning for us to conduct
14 this deposition. I want to do some preliminary matters.
15 I think I've deposed you before, correct, Dr. Woolridge?

16 A Yes, several years ago.

17 Q Yeah. So I think you might be familiar with the
18 preliminary matters I'm going to go through. At any point
19 during the course of this deposition if you need to take a
20 break, please let me know and I will be more than happy to
21 oblige that request, okay?

22 A Okay.

23 Q During the course of the deposition I might say
24 certain things that -- I might ask questions that you might
25 request to be clarified or you might not have heard the

1 question. If you did not hear the question and you ask me to
2 repeat the question, either myself or I'll ask the court
3 reporter to repeat the question, okay?

4 A Okay.

5 Q And during the course of this deposition, in terms
6 of you asking me to clarify certain things, I'll do my best
7 to clarify the question. And if not, we can -- if we're
8 still having problems, we can go off line and we can discuss
9 the question then, okay, and then come back on the record.

10 A Okay.

11 Q All right. Also, I want to let you know that at
12 the beginning and during the course of this deposition I may
13 use some abbreviations. For example, I may use Gulf or GPC
14 instead of Gulf Power Company, or ROG or POD instead of
15 interrogatories or request for production of documents, okay?

16 A Okay.

17 Q And I'll do my best to use the entire word, but if
18 I have -- but if you have any questions, again, regarding the
19 meaning of a term used, please let me know.

20 A Okay.

21 Q All right. Can you please state your full name
22 for the record, sir.

23 A My full name is the initial J. Randall Woolridge.
24 And that's spelled W-o-o-l-r-i-d-g-e.

25 Q What is your occupation?

1 A I'm a professor of finance at Penn State
2 University.

3 Q Okay. Can you please state your business address.

4 A 310 South Allen Street, Number 704, State College,
5 Pennsylvania.

6 Q And when you say you're a professor of finance,
7 are you -- are you an endowed professor?

8 A I have a position with includes an endowed name,
9 which is Frank P. Smeal and Goldman, Sachs.

10 Q Okay. Did you prefile testimony and exhibits in
11 Docket Number 110138-EI? And that is the petition for
12 increase in rates by Gulf Power Company.

13 A Yes.

14 Q And you prefiled that and you filed that testimony
15 on October the 14th, 2011, correct?

16 A Yes.

17 Q And correct me if I'm wrong, sir. That prefiled
18 direct testimony, just the testimony, itself, consists of 83
19 pages, correct?

20 A Yes, it does.

21 Q And you have attached 15 exhibits, correct?

22 A Yes.

23 Q Okay. At this time, Dr. Woolridge, do you have
24 any additions, deletions or corrections to your prefiled
25 testimony exhibits?

1 A There was an errata sheet that was sent today, I
2 believe, that had five different corrections to the testimony
3 and errata changes to three different pages in the exhibits.

4 Q Okay. Can you please describe those changes to me
5 and what caused the need for those changes to come about.

6 A Those were primarily -- those were primarily
7 errors in numeric numbers that were either transcribed
8 incorrectly or there was one in the case where it was simply
9 inputted incorrectly into a spreadsheet.

10 Q Okay. Dr. Woolridge, can you please turn to page
11 ten of your direct testimony.

12 A Yes.

13 Q On lines six and seven you state that the current
14 common equity ratio for your Electric Proxy Group is 45.4
15 percent, correct?

16 A Yes.

17 Q Is the common equity ratio of 45.4 percent based
18 on the book value or market value?

19 A Book value.

20 Q Can you please -- do you have your exhibits with
21 you?

22 A Yes.

23 Q All right. Can you please refer to your Exhibit
24 JRW-4.

25 A Yes.

1 Q From what source did you obtain the common equity
2 ratio, return on equity, and market-to-book ratio for the
3 companies in your Electric Proxy Group?

4 A That data is listed on the bottom of Exhibit
5 JRW-4. It's the AUS Utility Reports.

6 Q Why did you use the -- first, what is AUS Utility
7 Reports?

8 A It's a monthly publication -- it used to be called
9 the CA Turner Utility Reports. It's been around -- I don't
10 know -- I would say at least 25 or 30 years. As long as I
11 remember, so it's been around quite a while.

12 Q Okay. Why did you use the AUS Utility Reports?

13 A I've used it for some time. I see it a lot in
14 public utility rate cases. It's a monthly publication that
15 updates data for utilities and I've seen it used a lot. It's
16 a good source, I believe.

17 Q Why did you not use Value Line Investment Survey
18 for this information?

19 A Some of this information is not published by Value
20 Line. Some of it, it's only updated like quarterly for Value
21 Line. So I did use Value Line in putting this together for
22 the pre-interest coverage in the service areas.

23 I mean, the coverage between Value Line and AUS is
24 very similar in terms of their -- you know, they have gas
25 distribution companies, electric utilities, water utilities.

1 The coverage is very similar. This comes out more
2 frequently.

3 Q Dr. Woolridge, let me ask you a question. Does
4 Value Line publish -- from Value Line can you obtain the
5 common equity ratio, the return on equity, and market-to-book
6 ratio for the companies in your Electric Proxy Group?

7 A They have a common equity ratio they do publish.
8 It's an annual figure. They compute a return on equity,
9 which is also an annual figure. They don't publish a
10 market-to-book ratio. You can compute it.

11 But, I mean, again, the AUS reports are updated
12 with quarterly data as it becomes available and that's one
13 reason -- I mean, that's one reason why I've used AUS.

14 Q Okay. How does the 45.4 percent common equity
15 ratio for your Electric Proxy Group compare to Gulf Power's
16 rate making common equity ratio?

17 A It's fairly similar. Gulf Power has a common
18 equity ratio of 46.87 percent from investor-provided capital.

19 Q Would you agree, Dr. Woolridge, that based on Gulf
20 Power's common equity ratio of 46 percent, as compared to the
21 common equity ratio of 45.4 for the Electric Proxy Group,
22 Gulf Power has less financial leverage and thus has a lower
23 financial risk than your Electric Proxy Group?

24 A I would -- I mean, a one percent change, I don't
25 think, is significant, or that particularly large. I mean,

1 it's clearly very much -- it's very similar to -- I would
2 say, you know, a one percent difference between the two is
3 not economically significant.

4 Q Okay. Can you please turn to page 23 of your
5 direct testimony, specifically looking at line one.

6 A Yes.

7 Q You state that you adjusted the dividend yield by
8 one-half of the expected growth so as to reflect growth over
9 the coming years. Is this correct?

10 A Yes.

11 Q Can you cite to any academic text that describes
12 adjusting the dividend yield by one-half the expected growth
13 rate as appropriate?

14 A I don't know. I mean, the explanation for that,
15 obviously, I've provided on page 22. I've referenced the
16 testimony of Gordon and Gould just in terms of the adjustment
17 procedure. I would note that if you look at the FERC
18 approach to estimating an equity cost rate using the
19 discounted cash flow model, FERC has used one-half the
20 expected growth rate for many years.

21 So I don't know if there's a specific -- and the
22 issue is you don't know when a company is going to increase
23 its dividend over the year. I mean, if you look at Southern
24 Power, Gulf's parent, Southern Power consistently increases
25 its dividend in the second quarter of the year, which is

1 common in some companies. But, you know, other utilities
2 increase it at different times.

3 So the issue is estimating growth over the coming
4 year when you don't know or it's not certain when a dividend
5 increase is going to occur, and that's why I use this
6 approach. And from everything I've seen, it's why FERC uses
7 this approach.

8 Q So would you agree with me that you don't have any
9 academic text that describes the adjusting dividend yield by
10 one-half the expected growth rate as appropriate?

11 A No, and again, because this is more of a practical
12 problem than a theoretical problem.

13 Q Okay. So, okay, given the fact that you adjusted
14 the dividend yield by one-half of the expected growth rate,
15 would you -- how hard is it for you to do a calculation or
16 provide a late-filed exhibit showing the derivations of the
17 annual DCF model that shows how adjusting the dividend yield
18 by one-half of the expected growth rate is mathematically
19 correct?

20 A I don't understand your question.

21 Q Can you show -- essentially I'm asking can you
22 show how, using the DCF -- the annual DCF model, can you do a
23 mathematical calculation showing how adjusting the dividend
24 yield by one-half the expected growth rate is a correct model
25 or correct method?

1 A Well, I explain it on page 22. It's not like a
2 proof. The issue is, as I explain in page 22, and it's
3 referenced in the footnote there, the problem is the correct
4 method is take the next quarter's dividend, multiply it by
5 four. But the problem is, not all companies increase their
6 dividend or don't increase their dividend in the next
7 quarter.

8 And as a result you kind of say, well, some
9 companies may increase their dividend the next quarter,
10 others say the following quarter or the following quarter
11 after that. So it's more of just a practical application of
12 the traditional DCF model, and recognizing that the dividend
13 may be changed in the next quarter, or the following quarter,
14 or the following quarter.

15 So there's no real mathematical derivation, it's
16 an issue of how to apply the model. So there is no math -- I
17 can show -- you know, the impact of it is of using one-half G
18 versus a whole book rate, but, no, there's no mathematical
19 derivation.

20 Q Okay. Looking at the CAPM, would you agree,
21 Dr. Woolridge, that the beta of a stock or portfolio of
22 stocks is a number describing the relation of its returns
23 with those of the financial market as a whole?

24 MR. MCGLOTHLIN: I need to hear that question
25 again, Keino, please. And do you have a reference to

1 the testimony?

2 BY MR. YOUNG:

3 Q When he talks about beta in his testimony, when he
4 talks about beta as the CAPM model. So I'll repeat the
5 question. I'll repeat the question again.

6 Dr. Woolridge, would you agree that the beta of a
7 stock or portfolio of stocks is a number describing the
8 relation of its returns with those of the financial market as
9 a whole?

10 A As a general nature, yes, I would agree with that.

11 Q And would you agree that the beta coefficient is a
12 key parameter in the capital asset pricing model?

13 A Yes, it's a nature of systematic risk, yes, it is.

14 Q And would you agree that the beta measures the
15 part of the stock's statistical variance that cannot be
16 removed by diversification provided by portfolios -- provided
17 by a portfolio of many stocks?

18 A Yes.

19 Q Looking at page 16 of your testimony, sir, lines
20 13 through 15, can you take a minute to read that?

21 A Yes.

22 Q To yourself, if you may.

23 A Yes, I'm ready.

24 Q Okay. You state that according to modern market
25 capital theory, beta is the only relevant measure of

1 investment risk. Is this correct?

2 A Yes.

3 Q So, are you stating that beta is the only way to
4 measure investment risk?

5 A No, I'm just saying in modern capital market
6 theory, it is. I mean, there's been hundreds and hundreds of
7 tests of capital market theory. Obviously in some cases
8 people, you know, feel the markets are -- you know, the
9 evidence is mixed.

10 Overall my take is generally the markets -- you
11 know, many of the principles of modern capital market theory
12 hold there are issues in terms of measurement of risk and
13 beta and how beta changes over time and in some cases how
14 good beta is.

15 You know, from an application standpoint, I think
16 in general, in a positive sense, yes, Beta is a major risk.
17 I don't think it's a perfect measure of risk in an
18 application, but according to theory, it is.

19 Q So would you agree that the practice -- would you
20 agree that in practice beta has many documented drawbacks and
21 limitations?

22 A I would agree there are limitations and drawbacks
23 to beta. How it's measured, what time frame, how betas tend
24 to change over time, it's not a -- there are questions about
25 whether it's a perfect measure. So, yeah, I mean, I think

1 there are issues. In theory it is, but in application, I
2 think people realize there are issues with beta.

3 Q All right. Looking at the discounted cash flow
4 model, the DCF model, on page 17 of your testimony, sir, line
5 ten, you refer to expected future -- excuse me, you refer to
6 expected future cash flows. Is this correct?

7 A Yes.

8 Q When you say expected future cash flows, are you
9 referring to expected future dividends?

10 A Yes.

11 Q On page 21 of your testimony, line 24 --

12 A Yes.

13 Q -- you state that you used average dividend yield
14 in your DCF model, correct?

15 A Yes.

16 Q Now, can you please turn to your Exhibit JRW-10.
17 And I'm looking at page two of six.

18 A Yes.

19 Q What does the table show?

20 A It shows the dividend yields for the companies in
21 the proxy group from May through October. It computes an
22 overall mean and then at the bottom it computes a mean and a
23 median.

24 Q So for your Electric Proxy Group you use
25 historical dividend yields. Is this correct?

1 A I use the dividend yields over the past six
2 months, yes, I do.

3 Q Okay. Did you calculate the dividend yields?

4 A I got -- the dividend yields come, as indicated in
5 the footnote, from AUS Utility Reports.

6 Q All right. Can you flip one page back to page one
7 of six of that exhibit, JRW-10?

8 A Yes.

9 Q This page shows how you calculated your dividend
10 -- your discounted cash flow analysis. Is this correct?

11 A Yes.

12 Q Just so I understand your DCF methodology, let's
13 take a minute to walk -- let's walk through your analysis,
14 okay?

15 A Okay.

16 Q And please jump in and correct me if I'm wrong
17 during the course of this analysis, okay?

18 So, first, Dr. Woolridge, you obtained an average
19 dividend yield of 4.5 percent using the average of six months
20 of dividend yields for your Electric Proxy Group as reported
21 by AUS Utility Reports, correct?

22 MR. MELSON: Object to the form of the question.

23 You want me to tell you why?

24 THE WITNESS: I use -- as indicated in my
25 testimony, I use the median figures for the six month

1 average in October, 2011. So I used the bottom two
2 figures on page two which report the mean -- the median
3 figures of 4.4 and 4.5 percent over that for October and
4 the six month period, and the average of 4.4 and 4.5 is
5 4.45 percent, and that's the dividend yield figure that
6 is on page one of JRW-10.

7 BY MR. YOUNG:

8 Q Then you multiplied this result by an adjusted
9 factor of 1.02375, which is one-half of your growth rate,
10 correct?

11 A Yes.

12 Q This results in your adjusted dividend yield of
13 4.6 percent, correct?

14 A Yes.

15 Q Then you added a growth rate of 4.75 percent to
16 your adjusted dividend yield of 4.6 to obtain an equity cost
17 rate of 9.3 percent, correct?

18 A Yes.

19 Q Okay. Would you agree, Dr. Woolridge, that in
20 your traditional DCF model the model is derived such that the
21 model discounts the expected future dividends back to the
22 present value using the cost of equity as the discount rate?

23 A Yes, that's the theory.

24 Q And would you agree that your DCF analysis does
25 not use the traditional DCF methodology to determine the cost

1 rate?

2 A No, I don't think I would. I guess I don't
3 understand your question.

4 Q Does your DCF analysis use traditional DCF
5 methodologies to determine the cost rate?

6 A In my opinion it does.

7 Q Can you explain further in your opinion why it
8 does?

9 A I mean, I guess I don't understand the question.
10 I mean, you have an application of the theory, so you have
11 the theory, and it's how you apply the theory, and that's
12 what I've done.

13 I've applied the theory the way -- I mean,
14 obviously there's a difference between theory and
15 applications, and I believe I've applied the theory in a
16 practical way. And that includes estimating a dividend
17 yield, an adjustment factor, and the development of an
18 expected growth rate. So, I mean, the theory says this one
19 thing and this is my application of the theory.

20 Q Okay, let me ask you, in your DCF analysis, did
21 you use the expected future dividends back to the present
22 value using the cost equity as a discount rate?

23 A I mean, no, I mean, the theory says that and then
24 you develop the equity cost rate, so I've estimated the
25 equity cost rate using the discounted cash flow theory.

1 So when you solve for the equity cost rate it comes to the
2 dividend yield plus the growth rate, is the equity cost rate.

3 So, yes, the theory says you discount future
4 prices by the cost of equity capital to get the present price
5 of the stock. Well, in estimating the cost of -- the equity
6 cost rate, then you solve for the equity cost rate and you
7 see in a traditional form it's the dividend yield plus the
8 growth rate.

9 Q Okay. On page 25 of your direct testimony, sir,
10 lines 14 through 17, can you take a minute to read that to
11 yourself?

12 A Okay.

13 Q You state that it is your opinion that investors
14 are well aware of the bias in analysts' EPS growth rate
15 forecasts and therefore stock prices reflect the upward bias.
16 Is this correct?

17 A Yes.

18 Q Do you know of any empirical evidence that
19 supports your opinion?

20 A I'm aware of, obviously, and I've devoted a lot of
21 testimony to the evidence that shows the upward bias, and
22 I've cited some popular press articles and studies that have
23 highlighted it, so I'm under the presumption, since it's
24 pretty well known, at least in my opinion and what I've
25 cited, then I presume that it's in the stock price.

1 So I make the presumption that it's embedded in
2 the stock price since the bias is -- at least based on the
3 research that I've covered and that sort of thing, it's
4 pretty well known.

5 Q Okay. In your DCF analysis you use the average of
6 all the companies' dividend yields in your Electric Proxy
7 Group, correct?

8 A Yeah, I used the median figures for October in the
9 six month average.

10 Q Would you agree that dividend yields are
11 calculated by dividing the annual dividend by the stock
12 price?

13 A Yes.

14 Q So based on your testimony that stock prices
15 reflect analysts' upward bias of your EPS growth rate, would
16 you agree that one could conclude, reasonably conclude, that
17 the upward bias is already reflected in the dividend yield
18 included in your DCF analysis?

19 A Yes.

20 Q Keeping on page 25, lines 23 through 24, you state
21 that the DCF growth rate needs to be adjusted downward from
22 the projected EPS growth rate to reflect the upward bias. Is
23 this correct?

24 A Yes.

25 Q Have you made a downward adjustment to the growth

1 rate in your DCF analysis?

2 A Well, if you look at Exhibit JRW-10, I have
3 provided, you know, on pages three through five I've provided
4 various growth rate figures I've reviewed. on page six I
5 have a summary of those.

6 I show the projected earnings per share growth
7 rate for the group from the three different sources that
8 I use is 5.1 percent. I have actually used, in my DCF
9 analysis, 4.75 percent, and I explain in my testimony how
10 I developed the range, and that sort of thing.

11 So effectively I have not simply used the
12 projected earnings per share growth rate of Wall Street
13 analysts, and I explain in my testimony why I have not.

14 Q Can you please refer to page 31 of your testimony,
15 and looking at line ten.

16 A Yes.

17 Q You state that the means of the analysts'
18 projected EPS growth rate for your Electric Proxy Group is
19 5.1 percent, correct?

20 A Yes.

21 Q On line 21 you state that you will use 4.75
22 percent as your DCF growth rate for the Electric Proxy Group,
23 correct?

24 A Yes.

25 Q Dr. Woolridge, would you agree that you

1 effectively made a downward adjustment of 35 basis points to
2 the analysts' projected EPS growth rate?

3 A Yeah, I have, and I explain there that I've
4 reviewed a number of other growth rates in arriving at that
5 4.75 percent figure. I mean, obviously the growth for
6 companies is not simply just analysts' projections. There's
7 a lot of other measures of growths that are available to
8 investors.

9 Q Did you use a quantitative method to calculate the
10 downward adjustment?

11 A No, and I don't think particularly you can from
12 just simply looking at figures, if you look at the broader
13 markets you see -- and look at historically what companies
14 have grown at relative to projections. But I haven't used a
15 specific model. I've simply reviewed a number of growth rate
16 figures in arriving at my 4.75 percent, including, of course,
17 analysts' projections.

18 Q Okay, turn to page 40, sir.

19 A Yes.

20 Q Line four.

21 A Yes.

22 Q You state that the current S&P 500 dividend yield
23 is 2.4 percent, correct?

24 A Yes.

25 Q From what time period was the value of 2.4 percent

1 derived?

2 A It was taken from the S&P site as of when I
3 prepared my testimony, and it's an annual indicated dividend
4 yield. By annual indicated it simply means it takes the
5 analyzed dividends for companies in the S&P 500, dividing it
6 by the stock price. So that would have been -- that data
7 would have been collected in September and so it's as of the
8 September time frame.

9 Q Are you talking about 2010 or 2011?

10 A No, 2011.

11 Q 2011?

12 A Yes.

13 Q All right. Was it an average or a spot yield?

14 A It was an annual indicated dividend, which means
15 it's the quarterly dividend multiplied by four divided by the
16 stock prices. And that would have been effectively a stock
17 -- it would have been the stock prices as of September, 2011.

18 Q Okay. Keeping on page 40, line 17, you state that
19 you will use 2.75 percent for the real -- for real earnings
20 growth. Is this correct?

21 A Yes.

22 Q In your DCF analysis, you used 4.75 for the growth
23 rate, correct?

24 A Yes.

25 Q Can you please explain why you used the growth

1 rate of 2.75 for your ex ante risk premium but used a 4.75
2 growth rate in your DCF analysis?

3 A Well, two reasons. Number one, this is the --
4 2.75 percent is a real growth rate so that's an inflation
5 adjusted growth rate. And number two, the 2.75 is for the
6 overall economy, GDP, and it's not for -- which is based off
7 of the growth of the economy, the GDP.

8 So there are two reasons. One is -- the 2.75 is
9 the price, adjusted, and number two, it's based off of the
10 overall GDP growth.

11 Q On page 39 of your direct testimony --

12 A Yes.

13 Q -- line 24, you state that you will use 2.8 as the
14 measure of inflation, correct?

15 A Yes.

16 Q So if one adds your measure of expected inflation
17 of 2.8, which is page 39, line 24, and your real growth rate
18 of 2.75, the result is 5.55, correct?

19 A Yes.

20 Q Would you agree that the sum of the real earnings
21 growth rate and the measure of expected inflation represents
22 the expected earnings growth rate?

23 A Yes, long term.

24 Q Okay. So let me ask you, why do you use the
25 expected growth rate of 5.55 percent in your Ex Anti Expected

1 Equity Return and 4.75 for your expected growth rate in your
2 DCF analysis?

3 A The 5.55 represents long term expected growth or
4 the overall -- for the overall market. The 4.75 represents
5 expected growth rate for the utilities in the proxy group.

6 MR. YOUNG: All right. Dr. Woolridge, I want to
7 thank you. That's all the questions I have. Thank you
8 for your time this morning, and thank you for your
9 answers.

10 MR. MELSON: Gulf has got no questions.

11 MR. YOUNG: Vicki?

12 MS. KAUFMAN: Sorry, I have no questions. I had
13 you on mute.

14 MR. YOUNG: Joe, any rebuttal?

15 MR. McGLOTHLIN: Let me look at my notes. Can we
16 go off the record for a couple of minutes?

17 MR. YOUNG: All right, no problem. Do you want to
18 take a five-minute break?

19 MR. McGLOTHLIN: Yes, that would be good.

20 MR. YOUNG: All right, we'll come back at 25 after.

21 (Brief recess)

22 MR. McGLOTHLIN: Ready to go back on the record?

23 MR. YOUNG: Yes.

24 CROSS EXAMINATION

25 BY MR. McGLOTHLIN:

1 Q Back on the record. I have just a handful of
2 questions. Dr. Woolridge, staff counsel asked you some
3 questions about your choice of AUS as opposed to Value Line.
4 Do you remember that conversation?

5 A Yes.

6 Q What is the source of the information reported by
7 AUS?

8 A I don't -- I mean, they report -- they have
9 multiple sources. I don't know -- for each item I don't know
10 the specific item.

11 Q Would there be any difference in the values for a
12 particular measurement that's reported by AUS as opposed to
13 Value Line?

14 A I mean, most of them come from, obviously,
15 quarterly and annual financial statements because most of
16 these are financial figures that come from 10-Ks, that sort
17 of thing. Each individual item, I don't know exactly where
18 they get them but most of them are going to be pretty uniform
19 financial measures.

20 Q Staff counsel asked you some questions about your
21 use of an adjustment factor corresponding to one-half the
22 expected growth rate. Do you recall that?

23 A Yes.

24 Q What are you trying to accomplish with that
25 adjustment?

1 A Well, I'm trying to reflect what the expected
2 growth is over the coming year. And as I stated, the reason
3 I use one-half the growth is because the fact that companies
4 increase dividends at different -- over different -- yeah,
5 they do it on a quarterly basis, but it may occur at
6 different quarters over the year.

7 And by using one-half the growth you recognize
8 that some companies are increasing their dividend next
9 quarter, others two quarters from now, others three quarters
10 from now, so the average over the year would be one-half the
11 growth rate.

12 Q You were asked some questions about the value for
13 the analysts' projections. Do you recall that exchange?

14 A Yes.

15 Q In addition to the analysts' projections, did you
16 look at other measures of growth rate?

17 A Yes, I looked at -- on pages three through six of
18 Exhibit JRW-10, I looked at historic growth rates, but I
19 really didn't give them any weight. But I think it's
20 important to look at historic growth rates to get some
21 baseline.

22 Obviously, I looked at projected growth rates and
23 earnings, dividends, book value from Value Line. I looked at
24 internal growth, which is return on equities and retention
25 rates. And I looked at analysts' growth rates. So I looked

1 at a number of growth rate figures.

2 Q And did the growth rate that you employed
3 appropriately reflect your assessment of all those different
4 measures?

5 A Yes, and it really reflected my assessment of the
6 projected growth rates from Value Line, the projected returns
7 on equity, retention rates to Value Line, as well as the
8 projected earnings per share growth rates from Wall Street
9 analysts.

10 MR. McGLOTHLIN: That's all I have.

11 MR. YOUNG: All right. Well, Joe do you want to
12 read? I suspect you'd like to read?

13 MR. McGLOTHLIN: Yes, we'll do that.

14 (Whereupon, the deposition was concluded at 10:30 a.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, LAURA MOUNTAIN, Court Reporter, do hereby certify that I was authorized to and did stenographically report the foregoing deposition; and that the transcript is a true record of the testimony given by the witness.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

Dated this 5th day of December, 2011.

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