BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI

In the Matter of:

PETITION FOR INCREASE IN RATES
BY FLORIDA POWER & LIGHT COMPANY.
______________________________________/

TELEPHONIC
DEPOSITION OF: J. RANDALL WOOLRIDGE

TAKEN AT THE
INSTANCE OF: The Staff of the Florida Public Service Commission

PLACE: Room 382-D
Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida

TIME: Commenced at 10:00 a.m.
Concluded at 11:53 a.m.

DATE: Monday, July 30, 2012

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6734

APPEARANCES:

CHARLES A. GUYTON, ESQUIRE, Gunster Law Firm, 215 South Monroe Street, Suite 601, Tallahassee, Florida 32301-1804, appearing on behalf of Florida Power & Light Company.

JON C. MOYLE, JR., ESQUIRE, c/o Keefe Law Firm, 118 North Gadsden Street, Tallahassee, Florida 32301, appearing on behalf of Florida Power Users Group (via telephone).

JOHN W. HENDRICKS, 367 South Shore Drive, Sarasota, Florida 34234, appearing pro se (via telephone).

JOSEPH A. MCGLOTHLIN, ESQUIRE, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of Florida (via telephone).

CAROLINE KLANCKE, ESQUIRE, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission Staff.

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WITNESSES

EXHIBITS

NUMBER:	ID.	ADMTD.

(REPORTER'S NOTE: No Exhibits Marked.)

D E P O S I T I O N

MS. KLANCKE: Okay. I think we should just go ahead and begin. And when FIPUG and Mr. Hendricks join us, they can identify themselves and we will, they'll just have to catch up.

At this time, I would like the notary to swear in the witness, please.

MR. REHWINKEL: Okay. The notary, Mr. Flebotte, is here.

THE NOTARY: Yeah. Hi. I'm Ronald Flebotte. I'm a notary in the Commonwealth of Pennsylvania. I'm going to swear in Dr. Woolridge now.

J. RANDALL WOOLRIDGE

was called as a witness on behalf of the Citizens of the State of Florida and, having been duly sworn by the notary present with the witness, testified as follows:

MS. KLANCKE: Mr. Flebotte, would you please fax me a copy of that oath to the following number: Area code 850-413-6221?

THE NOTARY: Okay. And to whose attention should I make that?

MS. KLANCKE: To the attention of Caroline Klancke, and I'll spell my last name for you. It's K-L-A-N-C-K-E.

THE NOTARY: Okay. Thank you, Caroline.

EXAMINATION

BY MS. KLANCKE:

Q Good morning, Dr. Woolridge. My name, as I just specified, is Caroline Klancke. I'm an attorney in the General Counsel's Office with the Florida Public Service Commission. I have a few questions for you this morning. If at any point during this deposition you do not understand a question I have asked or any term that I have used, in particular abbreviations, would you please stop me and let me know? Okay?

A Yes. Yes.

Q If you need a break at any time, please feel free to ask for that as well.

Would you please state your name for the record?

A My name is the initial J. Randall Woolridge, W-O-O-L-R-I-D-G-E.

Q What is your occupation and business address?

A I'm an independent consultant. My business address is 310 South Allen Street, Number 704, State College, Pennsylvania 16801. I'm also a professor of finance at Penn State.

Q And what are your current responsibilities in your position as professor at Penn State?

A I teach finance classes. I also run a, something called the Nittany Lion Fund, which is an investor-owned student-managed fund.

Q On whose behalf are you appearing in this proceeding?

A For OPC.

Q What is the purpose of your testimony in this proceeding?

A I am recommending a return on equity for Florida Power & Light.

Q Have you prefiled testimony and exhibits in Docket Number 120015-EI?

A Yes.

Q At this time do you have any additions, deletions, or corrections to your prefiled testimony?

A I have some -- I have an errata sheet that I have provided. It includes edited items --

Q Would you --

A -- from my testimony and exhibits.

Q We have provided the court reporter with a copy of this errata. Will you go, for the purpose of the record, through this errata sheet and identify the changes or edits to your testimony?

A Yes. Beginning with the testimony, page 12, line 10, the testimony reads 4.45%. The number should be 3.76%.

Page 12, line 25, the testimony reads twenty-eight. It should, the edited, the errata item, it should read thirty-four.

Page 23, line 7, testimony reads 4.5%. It should read 4.0%.

Page 38, line 19, the testimony reads 1.0%. It should read 1.3%.

Q With respect to -- okay. I have a question with respect to the next edit. So would you please go through that with us, please?

A Page 39, line 2, the testimony reads 5.0%. It should read 5.3%.

Q Will this edit change the average that's reflected on line 3 in the amount of 4.3%?

A No.

Q Okay.

A Next edit, page 47, line 14, the testimony reads 5.06%. It should be 5.11%.

Q Does that entail all of the changes or edits that you have to your direct prefiled testimony?

A That's all that relates to my testimony. I have a couple related to my exhibits.

Q Will you go through the edits to your exhibits, please?

A Yes. Exhibit JRW-5, page 1, Panel B, the title should read Electric Proxy Group, not NextEra.

Exhibit JRW-10, page 4, for PNM resources projected EPS, DPS and book value per shared growth rate of -7.5%, -0.5%, and 1.5% should be 15.5%, 10.5%, and 3.0%.

Again on JRW-10, page 4, the bottom of the table, these results mean -- indicate the mean projected EPS and DPS growth rates of 4.4% and 4.0% should be 5.0% and 4.3%.

And finally, at the very, at the bottom of JRW-10, page 4, the median projected EPS growth rate of 5.0% should be 5.3%.

Q Does this complete the modifications you have with respect to your exhibits?

A Yes.

Q In the Notice of Telephonic Deposition issued in this case staff asked you to bring copies of all work papers and other materials used by you in the preparation of your case. Could you please describe what documents you have with you?

A Well, I have my testimony, I have my, my work papers in a sense, at least in electronic form, so I have the articles I've cited. I provided a CD with all electronic items, and I have access to those electronic items. There's, you know, hundreds and hundreds of pages of items.

Q Indeed. I do not believe that we will be mining those items; however, I just wanted to make sure that you had your work papers there with you in addition to your testimony.

With respect to your testimony, would you please turn to page 17 of your testimony?

A Yes.

Q On line 10 you state, quote, FPL has significantly more equity in its capital structure than other electric utilities. Is that correct?

A Yes.

Q Is it correct that you compare FPL's capital structure to the holding companies' capital structures in your proxy group?

A Yes.

Q Have you compared FPL's capital structure to the capital structures of the electric utility operating companies associated with the holding companies in your proxy group?

A No, I have not.

Q Wouldn't it be a more appropriate apples-to-apples comparison to compare FPL's capital structure to the capital structures of the electric utility operating companies associated with the holding companies in your proxy group?

A No. That would be inappropriate.

Q Why do you believe it would be inappropriate?

A The operating companies do not trade in the market. The holding companies trade in the market. We are using the holding companies to estimate the equity cost rate, not the operating companies. Therefore, the financial leverage of the holding companies is the relevant comparison when you're estimating using those companies to estimate an equity cost rate.

Q Would you turn to page 18 of your testimony?

A Yes.

Q Beginning on line 16 you specify, quote, to recognize the risk trade-off of the alternative proposed capital structures, I am recommending an equity cost rate of 8.5% if the Commission adopts FPL's requested 59.62% equity capital structure. If the Commission adopts OPC's imputed capital structure, I recommend an equity cost rate of 9.0 for FPL. Is that correct?

A Yes.

Q How did you arrive at the 50 basis point difference for the cost of equity for the different capital structures?

A Primarily that is based on judgment. I established a range of 8.5 to 9%. It does reflect the basis points roughly that you would see between, say, an A-rated bond and a triple B-rated bond. So it approximates that difference. So when you're talking about a capital structure difference of the magnitude we're talking about, in my opinion it would be worth about 50 basis points.

So it's primarily based on establishing a range and using that range and judgment in determining which one. But it, in a way it reflects different, different yield differentials in bond yields.

Q Have you done any analysis regarding changes in equity ratios and the associated effects on the cost of equity?

A No. No, I have not.

Q Would you describe the adjustment you made to the cost of equity for the different capital structures as a gut instinct approach to estimating changes to the cost of equity given the changes to the capital structure?

MR. McGLOTHLIN: Caroline, would you repeat your question? It faded a bit on me.

BY MS. KLANCKE:

Q Would you describe the adjustment you make to the cost of equity for the different capital structures as a gut instinct or largely judgment-based approach to estimating changes to the cost of equity given changes to the capital structure?

MR. McGLOTHLIN: I'm going to object to the form of the question. But, Dr. Woolridge, if you understand the question, go ahead and answer it.

THE WITNESS: Well, I wouldn't say it was gut instinct. I would call it informed judgment based on my experience of doing this for 25 years or so and reviewing differences in the yields on long-term public utility debt.

BY MS. KLANCKE:

Q To your knowledge, how many of the companies in your proxy group are building or contemplating building one or more nuclear power plants?

A I don't know. I do know that construction programs are an important element of the risk profile and they're considered in the bond rating process.

Q Do you know what the estimated cost is for building a nuclear power plant?

A Yes. In the billions.

Q Indeed. Historically what impact has the construction of a nuclear power plant or plants had on a utility's balance sheet?

A Well, obviously it takes a number of years to construct it. Often there's debt used in the construction, to finance the construction.

Q Would you agree that the construction of nuclear power plants puts pressure on a utility's balance sheets?

A Yes. And I think the bond rating agencies know that and take that into effect when they evaluate that and place a rating on the bonds.

Q Is that for the cost of debt or the cost of equity?

A That's for the investment risk of the company.

Q Debt or equity?

A It is obviously for debt, but, I mean, I believe that the, the elements that they consider are very much reflected in the equity cost rate as well.

Q Do you think it would be prudent for an electric utility to have a relatively thick equity ratio if it were contemplating the building of a nuclear power plant?

A Well, again, I believe that those are issues that are certainly evaluated in the bond rating process primarily because the bondholders are the ones that are looking for protection when you look at the overall bond rating of the, of the company.

Q Is the utility's equity ratio something rating agencies would be interested in if a utility was pursuing licenses from the Nuclear Regulatory Commission?

A Oh, certainly. And obviously the relevant equity ratio here is the equity ratio of NextEra, not FP&L.

Q Shouldn't the Commission be concerned about FPL's equity ratio as well?

A If you're talking about -- if you're talking -- you know, obviously the Commission is. But you have to look at FP&L's ratio, equity ratio relative to that of its parent and relative to that of other electric utilities. Clearly that's been done by S&P in placing a rating on the company's bond rating.

Q Would you turn to 30 -- page 31 of your testimony?

A Yes.

Q Beginning on line 18 you specify -- you recommend an adjustment to the dividend yield by one-half the expected growth, so as to reflect growth over the coming year. Is that correct?

A Yes.

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

A No. I mean the, the textbooks really deal with the theory of the DCF model, not the application. The reason, as I explain above, that I used one-half the growth rate is because companies tend to increase their dividends at different times during the year. So some of the companies may be increasing their dividend next quarter. The other companies may be increasing their dividend three quarters from now. So to capture what the dividend would be expected to be in the next year, I use one-half the growth rate.

I think an alternative would be to determine what exactly the dividend would be in the coming year based on the company's tendencies and when they tend to increase their dividend, and that would be an alternative approach to recognizing the timing difference in the, in the DCF calculation.

Q Wouldn't, wouldn't it be the current dividend times the expected growth rate?

A No.

Q At this time I'd like to ask for a late-filed exhibit to your deposition. Staff would like to request a deposition exhibit showing the derivation of your annual DCF model that illustrates how adjusting the dividend yield by one-half the expected growth rate is mathematically correct.

A Let me just respond. I mean, the reason for it I explain on page 31. There's not a calculation. It's recognizing in an application of a theoretical model -- in this case what's happening is companies simply increase their dividends at different times. So it's recognizing the, the fact that a company's dividend over the next year isn't simply the current dividend times one plus the growth rate, it's recognizing that these dividends are going to be increased at different times.

Q With that explanation, we withdraw the request for this late-filed exhibit.

Staying on the same page, on line 19 you specify that the recommended approach of the adjustment of one-half is, quote, employed by the Federal Energy Regulatory Commission, end quote. And in support of that statement you cite to FERC Opinion 414-A; is that correct?

A Yes.

Q To your knowledge, does the FERC have one approved methodology that they use in all cases before them?

A It's been my experience that FERC has a DCF methodology that they use that evolves occasionally. A lot of it involves modifications based on outliers; who gets what gets included, what doesn't get included. But with respect to the dividend yield calculation in terms of reviewing FERC cases, I believe they've used this approach for some time.

Q To the exclusion of all other approaches or methodologies?

A Yes.

Q Is it true that adjusting the yield by one-half to reflect a growth rate over the coming year was used in FERC Opinion 414-A as you cited, but it is not exclusively the methodology that they use in every case?

MR. McGLOTHLIN: Can you identify a case to which you're referring, Caroline? Otherwise, I'll have to object to the question as vague.

MS. KLANCKE: I just wanted to clarify the witness's opinion that the DCF methodology utilized in 414-A is the only methodology used and approved by FERC.

THE WITNESS: Again, I haven't done a lot of FERC work. I was involved in a case in the past year, and it's just my experience when it comes to the dividend yield calculation that one-half the growth rate is what FERC has been using. And that's my experience. It's not -- they have a fairly rigid methodology. They do make adjustments to it, but it's mostly on -- not, not with a dividend yield calculation but what growth rates are included or excluded.

Q Fair enough.

Would you turn to page 37 of your testimony?

A Yes.

Q On this page in footnotes 8 and 9 you cite to two articles. In particular in footnote 8 the article's title is *Advances in Business and Management Forecasting*, and in footnote 9 it is an article from the *Journal of Accounting Research*. Do you see that?

A Yes.

Q Staff would like to request a late-filed exhibit containing those two articles in their entirety. Would that be possible?

A I believe I've already provided those.

Q Did you provide them in your work papers as part of your work paper?

A Yes, I did.

Q Okay.

MR. McGLOTHLIN: Caroline, if there's a need to assess whether you have them or another party has them in discovery responses, we, we will provide them if, if you don't already have them.

MS. KLANCKE: We will go back through some of the discovery responses with respect to this witness's work papers and see if we can locate those. If not, we will advise OPC and track those down.

MR. McGLOTHLIN: All right. In the meantime, why don't you assign this a number. We'll keep it as an open item pending your response.

MS. KLANCKE: Okay. Let's make this Late-Filed Exhibit 1, pending staff's response. And the short title we'll give to it are Articles Contained in Footnotes 8 and 9.

THE WITNESS: Just to give you an update, I provided a CD, I think it was labeled The Woolridge CD. In that, on that CD there is a -- and I provide an explanation of where things will be found in a data response. I don't know the number of that. But these particular articles would be found in something called the article folder on the CD, and they'll be listed by the author's name. So in footnote 8 it would be Lacina, Lee, and Xu, a .pdf of that, 2011. And the other in footnote 9 would be listed under Easton and Sommers, 2007.

BY MS. KLANCKE:

Q Okay. Would you turn to page 50 of your testimony.

A Yes.

Q Beginning on line 11 you show the results of your DCF and CAPM analysis as 8.7% under DCF and 7.7%

respectively; is that correct?

A Yes.

Q On line 18 you state, with respect to these conclusions, Therefore, I conclude that the appropriate equity cost rate for the electric proxy group is in the 8.5% to 9% range at this time. Is that correct?

A Yes.

Q How did you get to 9% when the range of your analysis is 7.7 to 8.7%?

A Well, as I indicate, I rely to a much greater extent on the DCF model and I identify therefore 8.7 as the appropriate number. In order to be conservative about these results, I specified that as being the middle of the range of 8.5 to 9%. So it's really just using a conservative judgment about what these results indicate about the appropriate equity cost rate.

Q How is it conservative? How is the estimate conservative if it increases the range to 9%?

A Well, I mean, just being conservative how I interpret the results.

Q With respect to your reliance on the DCF model how does this increase the range?

A Well, I just would indicate my result from the DCF model is about 8.5% -- I mean 8.75%. I don't think you can specify it, you know, within hundreds of basis points. But if it was a point estimate, it would be about 8.75%, so I specified the range 8.5 to 9%. It's being a conservative approach and using judgment on what the results are.

Q Would you turn back to page 23 of your testimony?

A Yes.

Q On lines 18 and 19, in reference to the market-to-book ratios of your proxy group you specify that it's 1.3 times in 2010 and 1.4 times in 2011. Do you see that?

A Yes.

Q How much of the market-to-book ratio being above one is attributable to the electric operating companies and how much is attributable to the nonregulated operations in your opinion?

A I have not done that study. I mean, the earned returns are about 10% for this group.

You look at the current earned returns, I mean they've been declining. Let me go to JRW-7.

I mean, the current authorized returns have been in the range of 10% for three to four years. Now obviously on average these, about two-thirds of the revenues from these companies come from their regulated segment. So I haven't done a study, but it's, obviously it's -- I would say primarily it's from the operating companies.

Q Why?

A Because they get over two-thirds of their revenues from the regulated dis -- regulated electric operations.

Q Have you performed any studies to determine how much, if any, of the market-to-book ratio being above one is attributable to regulated utility operations?

A No. I just said I didn't. I'm just surmising that based on the percentage of the revenues for these companies that come from there. I mean, if you look on -- well, the median -- I'm sorry. I misspoke.

For the -- as indicated in JRW-4, for this group 77% of their revenues come from electric, regulated electric revenue. Another 7% come from regulated gas revenue. These are primarily regulated electric utilities.

Q In your opinion is the market-to-book ratio a function of revenues?

A Well, no. As I indicate in my discussion, over time it's a function of the earned return on equity relative to the return that investors require.

Q Is it possible in your opinion that the market-to-book ratio being above one is entirely associated with nonregulated operations?

A No.

Q Explain.

A Well, I mean, these are primarily regulated electric utilities and, therefore, their primary, their return on equity and market-to-book ratios are a function of their regulated subsidiaries.

Q Is it --

A They're viewed by the market as regulated, they have holding company structures, they do have unregulated revenues and operations, but they are primarily predominantly regulated electric utilities. Otherwise, it would be classified as some other type of company.

Q Is it possible that the market-to-book ratio, and I stress the word possible, being above one would be entirely associated with nonregulated? Is it a possibility?

A No, not for this group.

Q Do you -- you did not include an adjustment for flotation costs in your recommended return on equity; is that correct?

A That's correct.

Q Is it true that the dollar amount that the utility receives from a new stock issuance is reduced by flotation costs?

A Yeah. I mean, when it comes to flotation costs, that should be a cost of service. And if a company issues stock in a particular year, the expenses associated with that, the fees that are paid, should be accounted for as an operating expense.

Q If the amount the utility receives from a new stock issuance is reduced by flotation costs, how will the utility earn the required return if a flotation cost allowance is not provided?

A Well, as I said, I think it should be recovered as an operating expense.

Q If the Commission expensed flotation costs, would you still recommend disallowance?

A No. I said out-of-pocket expenses should be reported in expense and recovered over time.

Q In your opinion what is the difference between costs associated with issuing stock and any other utility expense that is allowed for ratemaking purposes?

A Well, I just think it's a cost like other operating costs and should be recovered in that manner.

MS. KLANCKE: Fair enough. Let me take -- let me -- those are all of the primary areas we had questions on. Let me take a brief break with staff, maybe three minutes, four minutes, and come back on the record and -- just to discern, to make sure that we don't have any additional questions.

MR. McGLOTHLIN: Before you go off the record, I have some information about the articles you requested.

MS. KLANCKE: Oh, please.

MR. McGLOTHLIN: We have provided those, and the Bates numbers would be 1 through 9966 and 010755.

MS. KLANCKE: Excellent. Thank you for that information. We will, with that, we will take a brief three-to-four-minute break to confer with staff and we'll be right back.

MR. McGLOTHLIN: All right.

(Recess taken.)

BY MS. KLANCKE:

Q Dr. Woolridge, are you, are you with us?

A Yes, I am.

Q Excellent. We just had one more question. Is it true that if flotation costs are recovered through an adjustment to the cost of equity, that the adjustment must be applied continually?

A Well, I mean, effectively -- I mean, as a cost, I mean, effectively it adds to the rate of return for a continuous time period if you make the adjustment through the cost of equity.

MS. KLANCKE: Okay. That concludes staff's questions. However, I note, just for going forward, that I would like to, once I turn this over towards other entities, I would like to start with those individuals or entities that have cross-noticed this deposition, and in particular those are FPL, FIPUG, and Mr. Hendricks. To my knowledge neither FIPUG nor Mr. Hendricks is currently with us, but -- so obviously we're going to start with FPL asking questions. But if they join us, we will allow them to go before anyone else.

If at that time all of the entities that have cross-noticed this deposition, if there are any other individual parties or Intervenors or, yeah, parties or Intervenors, then they can, even if they have not cross-noticed, ask questions at that time. Okay?

With that, I will turn it over to FPL.

EXAMINATION

BY MR. GUYTON:

Q Dr. Woolridge, my name is Charlie Guyton. I represent Florida Power & Light Company in this deposition. How are you today, sir?

A I'm okay.

Q I have, I have some basic questions, but I'm going to start where Ms. Klancke started. And if for some reason I mumble or more likely you just simply don't understand something because I don't understand it, will you stop me?

A Yes, I will.

Q Okay. The Commission also has a practice here in Florida that it's followed for a number of years where it asks an expert to give a yes or no answer if the question calls for a yes or no answer, and then explain the answer if necessary. Would you, would you follow that practice with me as well?

A Okay.

Q I see that you've made some changes to your testimony or through your errata. Is there anything else in your testimony that is inaccurate?

A Not that I'm aware of.

Q Is there anything in your testimony that the Commission shouldn't rely on?

A No, I don't believe so.

Q Okay. Now the good news is I'm not going to ask you about everything I don't understand, but there are a couple of things that I do want to ask you about to get some clarity. And let's start at page 28 where you set forth the basic DCF model.

A Yes.

Q And at line 25 when you're describing that formula, you say that D1 represents the expected dividend over the coming year; correct?

A Yes.

Q So the dividend and the dividend yield portion of the DCF model is not the current dividend but the expected dividend.

A Yes.

Q And if one were to use the current dividend, then that D1 would be a D sub 0; correct?

A Yes.

Q Now at page 31, line 8, and I believe you were already asked about this, you talk about analysts who use the current dividend adjusting it for growth to make it an expected dividend; correct?

A Yes.

Q So the dividend yield of the DCF has an element of growth, at least in the D1 term, the numerator.

A Yes.

Q Well, here's the confusion I had. At the bottom of page 29 and the top of page 30 you state, the dividend yield can be measured precisely at any point in time, but tends to vary over time. Estimation of expected growth is considerably more difficult.

And my question is if the dividend yield has an element of growth in the expected dividend, how is that any less difficult to estimate than the growth rate?

A Well, the dividend yield itself, obviously the current dividend yield is observable in the marketplace. The expected growth rate is not. My discussion on page 31 gets to the estimation of what, what do we call D0 versus D1 and whether you simply grow sub D0 by one plus the growth rate or if you use an alternative procedure because of the fact the companies tend to increase their dividends at different points of the year.

Q So when you, when you state that the dividend yield can be measured precisely, you're not talking about D sub 1 divided by price, you're talking about D sub 0 divided by price.

A Yes.

Q Okay. Now you were asked by staff counsel about this adjustment for one-half of the growth rate in the computation of a dividend yield. And if I recall correctly, you talked about an alternative that could be used and you said one could use the expected dividend in the coming year. Was that the alternative? Did I understand that correctly?

A Yes.

Q Okay. And Value Line develops an expected dividend in the coming year, does it not?

A Yes.

Q So one could use the Value Line value for expected dividend instead of adjusting the, or the current dividend by the growth rate or half the growth rate.

A Yes. And I would agree to that. If you're using, say, the expected dividend over the next four quarters as opposed -- and I would agree with that, yes.

Q If you would turn, please, to page 19. And there at line 18 you use the phrase "theory of the firm." What do you mean by that?

A I'm sorry. What page, what line number?

Q Line 18. In a question it says --

A Yes.

Q You use -- the question uses the phrase "theory of the firm." What do you understand the theory of the firm to be?

A The theory of the firm goes back to, like, managerial economics when they talk about companies and how they differentiate themselves and earn a -- you know, when you go from, say, perfect competition where returns will be -- you're going to earn a return that investors require because perfect competition will preclude you from earning abnormal returns. And you go move away from that model where companies can achieve economies of scale or a price differentiation and thereby allow them to earn returns above the returns that investors require.

Q And why -- help me understand the context of why it's important to provide an overview of cost of capital in the context of the theory of the firm?

A From the standpoint of understanding the sources of, of -- when you move away from perfect competition, you can earn returns above the return that investors require, and that will thereby allow the market value to be worth more than the book value.

Q Now in that same discussion a few lines down at line 22 you use the term "equilibrium." What is equilibrium?

A Well, in theory it's when, you know, when the market forces are such that market values, book values are the same and you're in an equilibrium state. From a -- I mean, from looking at it over time, the idea is, you know, you may be at disequilibrium at some point in time, but over time market forces will drive prices and other elements back to equilibrium.

Q So is equilibrium the long-term norm?

A In my opinion, yes, over time. On one day or another there may not be equilibrium, but over time.

Q At line 24 you use the phrase "normative economic models of the firm." What are you, what are you referring to there?

A It's the theory of the firm. Normative being theoretical models as opposed to, say, understand -- you know, where, where you establish the firm in a perfect competition context.

Q So, so the normative economic models would be something other than perfect competition?

A No. They would be, they would be the theoretical model.

Q And one of those theoretical models would be perfect competition?

A Yes.

Q And what other theoretical models would you have besides perfect competition?

A Well, you could have oligopolies, you could have obviously monopolies.

Q Let's turn to page 20 of your testimony. There you speak of the economist's ideal mode of perfect competition. That's at line 2.

A Yes.

Q Can you achieve equilibrium in the economist's ideal model of perfect competition?

A Well, in theory you can.

Q Well, help me understand the next two sentences then. In the first sentence you say that in perfect competition price equals marginal cost. But in the next sentence you say in long-run equilibrium, which I understand can also be in perfect competition, price equals average cost. How can price equal both?

A Because in the long term marginal costs and average costs will be the same.

Q If you'd turn to page 21, lines 24 and 25. This is a conclusion that you draw after a long quote by James McTaggart. And you say that, you say that the relationship between a firm's ROE, cost of equity, and market-to-book ratio is relatively straightforward.

If that's the case, why isn't there a financial model that uses market-to-book ratio to estimate cost of equity?

A Well, I think I have seen some people use a market-to-book adjustment to estimate a cost of equity. But is there a specific model that's used? I'm not aware of one. I have seen adjustments made of --

Q So you're not aware of a standard financial model that uses market to book to develop a cost of equity estimate, something akin to --

A No. And, and the issue could be they're obviously just a straight market-to-book ratio. You have to bring in other elements to get to the return on equity.

Q Let's turn to page 24 of your testimony. There at lines 4 through 7 you talk about three types of risk: Investment, business, and financial risk. Correct?

A Yes.

Q Are you saying that a firm's investment risk is a combination of a firm's business risk and its financial risk?

A Yes. I'm sorry. That's on page 24, you said?

Q Yes, sir. At lines 4 through 7.

A Yes. Sorry.

Q Not a problem. I apologize for repeating this but I want to make sure that we didn't lose it in the transition. You're saying that a firm's investment risk is a combination of a firm's business risk and its financial risk.

A Yes.

Q Okay. And at pages 12 and 13 of your testimony you explain how you developed your proxy group; correct?

A Yes.

Q Why did you use a proxy group to estimate FPL's cost of equity?

A Primarily because obviously FPL doesn't have equity trades. You tend to use a proxy group in either valuation or cost of equity capital applications to get an indication from the market about, in this case, what the appropriate cost of equity is.

Q Was your judgment informed by the Bluefield case?

A Yes. In the sense that you look to the market to establish what the required return is.

Q In selecting your proxy group, did you try to identify firms with comparable investment risk to FPL?

A Yes. And that's primarily by the selection of predominantly electric utilities.

Q Which of those six criteria that you show on page 13 relate to investment risk?

A Certainly the first three do. Number 4, which is pretty common, is so you can use a DCF approach. Number 5 is to eliminate the impact of acquisitions. And number 6 is to ensure that you have analyst growth rate forecast.

Q Now number 5 would be a matter of business risk acquisition?

A No. I mean, it's mostly a function of, of pricing associated with acquisitions. Usually they're eliminated because there can be distortions in pricing associated with mergers and acquisitions for either targets and/or acquires (phonetic).

Q So if I understand correctly, you are saying that your use of an investment grade bond rating was an attempt to identify entities with comparable investment risk to FPL?

A Yes.

Q Mr. Woolridge, if proxies have a higher financial risk than FPL, why did you include them in your comparable risk proxy group?

MR. McGLOTHLIN: Could I hear that again, please, Charlie?

BY MR. GUYTON:

Q If proxies that you're using have a higher financial risk than FPL, why did you include them in your comparable risk proxy group?

MR. McGLOTHLIN: Object to the form.

THE WITNESS: Well, I mean, obviously a proxy group you try to, you're going to have -- some are going to be higher and some are going to be lower. And so whereas, you know, predominantly the fact -- your electric utility, predominant electric utility is going to be the primary element of investment risk. They may have alternative financial risk measures. But as long as they have investment grade bond ratings, it's an indication to me that, that they can be part of a proxy group.

BY MR. GUYTON:

Q Well, if FPL has overall comparable investment risk to the proxies, which I understand that was your intent, but you maintain it has lower financial risk than the proxies, if investment risk is a combination of financial and business risk, doesn't that mean that FPL has a higher business risk than the proxy group?

A Well, not necessarily. Because obviously these are the holding companies that we're using because the operating companies don't trade. And that's why we use, we need to use the holding companies because they have the stock that trades in the marketplace.

Q Would you turn to page 17 and 18, please.

A Yes.

Q You have, you have an answer beginning at line 23 of page 17 and continues on to page 18 through line 7. In that paragraph you're speaking of financial risk, are you not?

A Yes.

Q At page 18, line 5, when you speak of a, quote, resulting lower risk, end quote, that risk is financial risk; correct?

A Yes.

Q And similarly at line 6 where you talk about lower risk, that's lower financial risk; correct?

A Yes.

Q And similarly down on line 18 where you talk about to recognize the risk trade-off, you're talking about financial risk there too, aren't you?

A Yes.

Q Let's look at your, your answer at -- or your sentence at the top of 18, lines 1 and 2. A relatively lower proportion of debt translates into a lower required return on equity, all other things being equal.

Could you make that statement if you didn't qualify it with "all other things being equal"?

A From a general standpoint I think all else equal -- there's other variables involved, so I think you have to have all other things equal.

Q And that would include business risk, wouldn't it?

A Yes.

Q Bear with me, Doctor. I may be close to being finished.

(Pause.)

I think I am. I appreciate your time and your patience with me.

MS. KLANCKE: At this time I'd like to inquire if any of the other parties that cross-noticed this deposition, i.e. Florida Industrial Power Users Group or Mr. Hendricks, are present via telephone.

MR. HENDRICKS: This is John Hendricks. I'm present.

MS. KLANCKE: FPL is now finished with their examination of this witness. At this time do you have any questions for this witness?

MR. HENDRICKS: Yes. I'm a little disorganized. I had some communication problems this morning getting connected.

EXAMINATION

BY MR. HENDRICKS:

Q I'd like to first ask you a couple of sort of general questions about trying to understand your results.

You stated that we use the proxy groups to get market information about the appropriate rate of returns, and in talking about the different returns that you would recommend between having a, the equity ratio required by FPL, requested by FPL, and the equity ratio recommended by, by the other OPC witness. You, you show that there is an interesting difference between 8.5 and

9% recommendations when you go from about a 60% equity ratio to about a 50% ratio. Is that a correct understanding of, of those two items?

MR. GUYTON: Object to the form of the question.

MR. HENDRICKS: I'm sorry?

MR. GUYTON: I'm just objecting to the form of the question.

MR. HENDRICKS: Oh, okay. I was just trying to see if I sort of understood what he was saying here.

BY MR. HENDRICKS:

Q Do you -- I, I see that there are a lot of uncertainties going forward, and the trends in the average ROE and the average cost of equity across the utility industry have changed over the last few years. In general there's been some sort of a larger gap opening up between the cost of debt and the cost of equity.

Do you -- how -- what is your opinion about the timing issue in using the proxy group or any -- or even current returns to forecast what we're going to be having over the next, you know, two or three years when these rates would be in effect?

MR. GUYTON: Object to the form of the question. I think it puts matters as a matter of fact that are not established.

MS. KLANCKE: Mr. Hendricks, so that --

MR. McGLOTHLIN: This is, this is Joe McGlothlin, an attorney for OPC. Would you clarify what you mean by timing issues as you use it in your question?

MR. HENDRICKS: I'm sorry. I didn't understand who was speaking and who they were speaking to.

MR. McGLOTHLIN: My name is Joe McGlothlin. I'm an attorney with the Office of Public Counsel and I'm defending Dr. Woolridge today.

When you posed your question, you used the term "timing difference," and I just want to make sure that Dr. Woolridge understands how you're using that, that phrase.

BY MR. HENDRICKS:

Q Oh, okay. Yes. Well, the data about the proxy companies is obviously not future data or even really current data. It's data of some recent history from -- and, and we, you know, we know that things are pretty turbulent right now. And so the real question is should we try to take into account these sort of unstable changes in the situation that we're, we possibly have going forward in thinking about the risk and how we evaluate these ROE and capital structure issues?

MR. GUYTON: Object to the form of the question.

MS. KLANCKE: Mr. Hendricks, so that you -- this is Caroline Klancke from Commission legal staff. When there's an objection raised -- I know that you are a pro se litigant representing yourself. Just for clarity, any party can raise an objection and then state the grounds for that objection. For example, in the last two objections that were raised by Mr. Guyton, both of them were objections to form. He is doing that for the purpose of preserving this objection on the record. However, the witness, if he understands your question, can still answer. But they may request clarification, further elucidation, what not. Okay?

MR. HENDRICKS: I understand.

MS. KLANCKE: I just wanted to make sure we were clear.

BY MR. HENDRICKS:

Q The question is, you know, would you try to respond to those questions or do you not understand what I asked?

A I really am not sure if I understand what you asked. My sense is -- I mean, the reason you use market data is because it includes expectations about what is supposed to occur. And so to the extent that there's interest rates or yields or projected growth rates or things like that, you're taking into account what is expected for some time in the future.

Q And would that be true both for the yields that the market expects on equity and on debt?

A Yes.

Q Let me try to ask a question relative to trying to take the ratepayer perspective on, on the capital structure.

Is the -- you, you recognize that, I believe, that there are at least two reasonable alternatives that were put forward, one by OPC and one by FPL for capital structure?

MR. McGLOTHLIN: Object to the form.

BY MR. HENDRICKS:

Q Okay.

MS. KLANCKE: Mr. Hendricks, once again --

MR. McGLOTHLIN: And the basis for the objection is that I don't think that the witness has ever said FPL's proposal is reasonable.

BY MR. HENDRICKS:

Q Okay. Well, he recognized it as an alternative that is being considered. Maybe I will restate that.

The, the, one of the issues that may bear on the reasonableness of a rate structure would be the risk that it associates, the risk that it exposes the ratepayers to in the future. Is that consistent with your understanding?

MR. GUYTON: Object to the form.

THE WITNESS: Can you, can you restate that, please?

BY MR. HENDRICKS:

Q Well, presumably a fixed debt obligation such as a long-term bond has a fixed rate of return and a, and an equity financing has a variable rate of return depending on what the market demands from that company at a given time.

So in looking at the risk going forward for ratepayers of using a particular capital structure, the, the higher the ratio of equity, the more exposure they have to risk, and the higher the debt structure, the less exposure. The obvious analogy might be a fixed term mortgage versus a variable term one.

MR. GUYTON: Objection. Goes beyond the scope of the witness's testimony.

MR. McGLOTHLIN: And I would object to the form of it. But if you understand the question, Dr. Woolridge -- do you?

THE WITNESS: I really don't.

BY MR. HENDRICKS:

Q Okay. The -- how should we think about the advantages from the ratepayers' point of view of different capital structures?

A Well, I talked about that in my testimony about the equity ratio, for example, as there's more debt into the capital structure. As it turns out, you know, obviously it has an impact on the overall rate of return and rates.

Mr. -- this is an issue obviously explained a lot by Mr. Lawton, who estimates the impact of this stuff, and it's also discussed by Mr. O'Donnell.

My, I have a very general discussion of it in my testimony that obviously if -- the more debt into a capital structure, it can lead to a lower overall rate of return or cost of capital.

Q Does it provide a, a relative requirement going forward that depends on this that would be more stable and less risky?

MR. GUYTON: Object to the form of the question.

MR. McGLOTHLIN: When you say "does it," please explain what you mean by it.

MR. HENDRICKS: I'm sorry. Was that directed to me?

MR. McGLOTHLIN: Yes, sir. I'm asking you to clarify your question. You asked the witness "does it," and it isn't clear without more from you what you mean by when you say "it."

BY MR. HENDRICKS:

Q Well, the revenue requirement is driven by, among other things, by the return on capital, which is obviously composed of these two major components, debt and equity. And does the balance of those change the ratepayer risk going forward?

MR. GUYTON: Object to the form of the question.

MR. HENDRICKS: Okay.

MR. McGLOTHLIN: When you say ratepayer risk, do you mean the total revenue requirement? Or if that's not --

MR. HENDRICKS: Yes.

MR. McGLOTHLIN: Okay.

MR. HENDRICKS: Yes. I mean the risk basically of having to pay higher rates in the near future or in the future as opposed to having a, a fixed rate.

MR. GUYTON: Object to the form of the question, if that's the question.

THE WITNESS: Yeah. I really don't understand.

BY MR. HENDRICKS:

Q Okay.

A I don't understand the concept. I mean --

Q Well, it's much like the concept of the duration of a portfolio. I mean, they basically -- from the ratepayer's point of view, if you're going to finance something with, with all debt, for example, you know what the, and you take it out at X percent, then that's the rate that goes -- that's the amount that was in over the period of the amortization of that debt. It goes into the, the rate requirement.

If you take -- if you finance with 100% equity, what goes into the rate requirement is the ROE that is adjusted on a periodic basis to match market conditions; right?

A I mean, the only way it could match the market is if you have another rate case or there's an adjustment mechanism to make that adjustment.

Q That's correct. But don't those happen periodically, especially when the conditions in the market are changing?

A They do. But, you know, sometimes there are restrictions about coming back in and doing that sort of thing. So it's not like they continually adjust to the market.

Q Right. That's why I suggested the analogy with a variable rate mortgage which may be adjusted every so many years based on some sort of external data.

Let me ask you a question about the proxy group and sort of understanding the selection of that group.

One of the issues -- I believe you spoke about it in your testimony, but I can't locate it right at the moment -- is about the effects of cost recovery clauses in terms of lowering the risk perceived by investors for a utility.

MR. GUYTON: Could we have a reference to the testimony?

MR. HENDRICKS: I, I just said I couldn't, I couldn't identify it right at this minute.

THE WITNESS: I don't believe that's a specific issue I dealt with.

BY MR. HENDRICKS:

Q Oh, okay. My apologies. Maybe it was in someone else's testimony. I was a little disorganized this morning and didn't get my things in order.

Okay. The -- let me just stop for just one moment and try to switch gears a little bit and ask you about the role of income taxes in determining rates.

How, how would you describe the role of income taxes both at the, at the individual investor level and at the utility level in terms of how they impact the revenue requirement and ratepayers?

MR. GUYTON: Object. Goes beyond the scope of this witness's testimony.

MR. McGLOTHLIN: Sir, are you asking about income taxes in the context of Dr. Woolridge's recommendation on return on equity?

MR. HENDRICKS: Yes, I am.

THE WITNESS: I really didn't address that issue at all.

BY MR. HENDRICKS:

Q Okay. If the much rumored financial cliff appears, and certainly FPL has noted that option -- I see there was an Op-Ed piece in the *Wall Street Journal* a couple of days ago by Lewis Hay, the CEO or the Chairman, I should say, of NextEra talking about the turmoil that would be caused by going over the financial cliff. But do you -- does that figure at all into your considerations?

MR. GUYTON: Objection. Goes beyond the scope of the witness's testimony. Assumes facts not in evidence.

THE WITNESS: I mean, I haven't, I haven't dealt with that issue specifically and I did not see that, I did not see the Op-Ed piece in the *Wall Street Journal*. I usually read it every day, but I was out for a couple of days last week.

Q You just missed it then.

A But, I mean, to the extent that these developments are reflected in market prices, then they're reflected in expectations for the near-term future.

Q Right. And they would differentially, at least if the, if no changes are made, they would hugely increase the taxation of dividends and somewhat increase the tax of, of, of equity, of increases in value, capital gains, but they would not affect the cost to the -- the non-taxation of debt, if I understand it.

MR. GUYTON: Object to, object to the form of the question.

THE WITNESS: Yeah. And --

MR. McGLOTHLIN: I object to that form also.

THE WITNESS: And, again, these are developments that are reflected in the prices of securities. And as, you know, as we get closer to this cliff and however it develops, we get more clarity, the expectations could change at that point.

BY MR. HENDRICKS:

Q Yes. How, how would you -- you've selected a group of proxy companies to compare with NextEra and ultimately with FPL. Did, did you, did you consider factors that might impact the, the -- you were trying to find a group that had comparable risk, I understand. And in -- but you judged that mainly by the ones that have had criteria that would lead to a certain range of bond ratings. Is that roughly correct?

A Well, I only included companies that had investment grade bond ratings. There's not a lot of utilities out there that don't have -- a couple of them have split bond ratings, but not a lot of utilities have junk bond ratings. I mean, the average bond rating for an electric utility these days is in the triple B, triple B plus area.

Q In your experience, is it, is it unusual or never done to have a different ROE or capital structure or a step increase for a major new facility from, one, the regulatory structure that's used for the general rates?

MR. GUYTON: Objection. Goes beyond the scope of the testimony.

THE WITNESS: I have seen -- I don't know if I can really answer that. I mean, I've seen cases where certain commissions allow an incremental return for a particular investment, but I don't remember if they included adjustments to the capital structure.

BY MR. HENDRICKS:

Q I guess the question of nuclear, potential nuclear construction came up. In general, do -- is it your judgment, based on your experience, that, that, that the investors in the electric utilities are particularly sensitive to nuclear power investments, or are they sensitive to other type capital investments that have substantial risk like some of the renewable energy as well?

A Well, I think, you know, most of the utilities you see, they -- and you read their credit report, one of the elements is there are other capital investments. I mean, that's pretty common. And that's where those types of things are evaluated by people who understand it pretty well about what the risks are and, therefore, their bond ratings reflect these risks.

Q Would you have any, any judgment about how the other investments that NextEra has in their portfolio would impact the, the required equity, the required equity returns from their investors?

MR. GUYTON: Objection. Goes beyond the scope of this witness's testimony.

MR. HENDRICKS: I would -- but we're doing a comparison. We're admitting a comparison that is based on NextEra's cost of capital. Isn't that, isn't it relevant to, to inquire into the effect of other NextEra investments other than FPL on that cost of capital?

MR. GUYTON: Well --

THE WITNESS: I think Mr. O'Donnell is really the witness that, that has evaluated that. I have not specifically evaluated that issue.

MR. HENDRICKS: Okay. Thank you. That's all I have.

MS. KLANCKE: Does other, any other party that's with us on the line now have any, any questions for this witness?

Seeing none, I believe that leads us to OPC. Do you have any redirect or anything for this witness?

MR. McGLOTHLIN: I do. I would like to take a few minutes to go over my notes. And since it's been about an hour and a half, let's take about ten minutes for a comfort break, and I'll be ready when we come back.

MS. KLANCKE: Fair enough. I have 11:35, so at 11:45 we'll reconvene.

MR. McGLOTHLIN: Okay.

(Recess taken.)

MS. KLANCKE: Let's go back on the record and allow the Office of Public Counsel to conduct redirect.

EXAMINATION

BY MR. McGLOTHLIN:

Q Dr. Woolridge, I have only a handful of questions on redirect.

In response to questions from staff, you said that it is appropriate to, when reviewing comparisons of equity ratios to compare those to the holding companies of the proxy group and not the operating company. Why is it appropriate to make that comparison as opposed to the operating companies?

A It's because, I mean, all witnesses in this case are using the holding companies to estimate an equity cost rate. And the financial risk, which is part of the investment risk of these companies, is reflected in the common equity ratios of the holding company, not the operating companies.

Q What do investors evaluate when they make their investment decisions relative to investment in FP&L?

MR. GUYTON: Objection to the form. I don't know if you're talking about bond investors or equity investors. Of course, if it's an equity investor, there's only one.

BY MR. McGLOTHLIN:

Q Okay. With respect to an equity investment, what do investors evaluate, what data is important to their investment decision?

A Well, I mean, ultimately it's the expected return, the return they hope, they expect to get from their investment.

Q And that expected return, does it relate to FPL only or to the holding company and all of its operations?

A It's going to, it's going to be reflective of the holding company because that's where you can buy stock.

Q In response to questions from staff relating to the 50 basis points differential between your recommended ROEs based upon whether the Commission approved FPL's equity ratio or whether it instead approved the 50% equity ratio recommended by OPC's witness, you said it was partly judgment, but you also referred to a comparison of the bond return. Would you elaborate on that second aspect of, of your analysis?

A Just it's also reflective of the differential and the yields required on, on bonds of, say, A-rated utilities and triple B-rated utilities, which in general is going to be 50 to 60 basis points.

Q In another question staff asked whether in your view it would be appropriate for FPL to have a relatively thick equity ratio in view of its nuclear construction. Do you remember that?

A Yes.

Q And you are aware that another OPC witness has recommended an equity ratio of 50%?

A Yes.

Q How do you characterize 50% as to whether it is relatively thick or some other description of proportion to the equity --

MR. GUYTON: Objection. Leading.

THE COURT REPORTER: I didn't get the question, Mr. McGlothlin. Could you repeat that, please?

MR. McGLOTHLIN: I'll rephrase the question.

BY MR. McGLOTHLIN:

Q In your view, would the OPC recommended equity ratio of 50% be adequate to meet the investors' requirements in light of FPL's construction program?

MR. GUYTON: Objection. Goes beyond the scope of his testimony.

THE WITNESS: I mean, I believe that, and I discuss this in my testimony, that the 59% that the company has proposed appears to be extremely high compared to, say, NextEra, which is at 38 or 39%. The average for my proxy group is 45%. And as a result -- especially the fact that NextEra and FPL have higher bond ratings than the average of my group. So I think, you know, 50% would be representative and would be fair given where NextEra is in its bond ratings and where the proxy group is and where its bond rating is.

BY MR. McGLOTHLIN:

Q Staff asked you some questions on the subject of flotation costs, and staff asked whether in your view it would be necessary, if flotation costs are, are to be recovered, whether it would be appropriate to recover them continually. Do you remember that question?

A Yes.

Q If flotation costs were to be allowed and recovered continually, would FPL over-recover or under-recover its flotation costs?

A Well, I mean, I, I believe it -- I believe it would be over-recovery. But I, again, I've said that these are operating costs. They should be covered like other operating costs.

Q In response to questions from Mr. Guyton you said that some investment risk is a combination of business and financial risks. Do you remember that question and answer?

A Yes.

Q And then he pointed to a statement in your testimony where you said all other things being equal, lower financial risk would translate to lower investment risk. Do you recall that?

A Yes.

Q And he asked whether, when you said all other things being equal, that would include business risk. Do you remember that question and answer?

A Yes.

Q When you answered that question, did you have in mind that the business risk would be the same with respect to the individual firm being evaluated, or were you referring to a comparison of two firms having the same business risk?

A I mean, I mean, the reference, I think, would be to, you know, two different firms and what their business risk is relative to their overall investment risk and financial risk.

MR. McGLOTHLIN: Those are all my questions.

MS. KLANCKE: I believe that almost brings us to a conclusion of this deposition.

I just want to clarify for clarity of the record that late-filed exhibits, we do not have any.

The witness was able to clarify with respect to the first one we requested. And then with regard to the two articles, they've already been provided in the form of work papers. I believe that that is, that concludes this deposition. I want to thank you, Dr. Woolridge, for your time today. And thank you to all the people that have participated.

MR. McGLOTHLIN: Thank you. And we will read and sign.

(Deposition concluded at 11:53 a.m.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, LINDA BOLES, CRR, RPR, Official FPSC Commission Reporter, do hereby certify that I was authorized to and did stenographically report the foregoing deposition at the time and place herein stated.

I FURTHER CERTIFY that this transcript constitutes 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 3rd day of August, 2012.

Linda Boles

LINDA BOLES, CRR, RPR
Official FPSC Hearings Reporter

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IN RE: DOCKET NO. 120015-EI
NAME: J. RANDALL WOOLRIDGE
DATE: Monday, July 30, 2012

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Under penalties of perjury, I declare that I have read my deposition and that it is true and correct subject to any changes in form or substance entered here.

DATE J. RANDALL WOOLRIDGE

CERTIFICATE OF OATH

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF CENTRE

I, the undersigned authority, certify that J. Randall Woolridge personally appeared before me and was duly sworn by me to tell the truth.

WITNESS my hand and official seal in the City of State College, County of Centre, Commonwealth of Pennsylvania, this 30th day of July, 2012.

7-30-12

Notary Public
Commonwealth of Pennsylvania

(SEAL)

Personally known ✓ OR produced identification ________.

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