Q. Please explain how Dr. Booth arrives at his estimates of K on Schedule 4 of Appendix C of his testimony.

A. This is explained in detail on page 8, lines 17-18.

> "For example, in 1978 the retention rate was 36.87% and the ROE 12.09% implying future earnings growth of 4.46%. This is the *g (B*ROE)* in column, which is known as the sustainable growth rate. For 1978 the dividend yield for the S&P Utilities was 8.24% (column 8), so that the sum of the expected dividend yield plus this growth rate was 13.06%, which is the estimate of the required rate of return in column 10. In 1978 the average long US Treasury yield was 8.41% (10+ years) implying that the utility risk premium was 4.65%."

This estimate is then varied by assuming different parameters for the ROE as the Treasury bill yield plus 5% or the retention rate by using the median rather than the actual value. The objective here is to remove a lot of the measurement error attached to actual ROE or retention ratios.