Q. Reference pages 26-33: Risk Premiums: Is Mr. MacDonald aware of the paper by Gombola and Kahl, "Time series properties of utility Betas," <u>Financial Management</u>, 1990 that indicates that utility betas revert to their grand mean and not the grand mean of the market, ie., 1.0. If he is so aware why would he use a general adjustment like Blume's instead of a specific adjustment relevant for utilities? If he was not so aware, it is referenced in footnote 6 to Dr. Booth's Appendix C to his evidence that Mr. MacDonald references as material he has relied on.

A. Mr. MacDonald confirms that he is aware of the Gombola & Kahl paper. The paper concludes that in relation to utilities betas an underlying mean of 1.0 is too high for most utilities but that a typical adjustment rate of 0.35 is too low. The paper also states that an underlying mean of 0.70 would be more appropriate for one particular utility Consolidated Edison. As the paper does not conclude as to an appropriate adjustment it would be difficult to use this process to make a beta adjustment. Mr. MacDonald does view the paper as supporting the need to adjust raw betas. Mr. MacDonald has reviewed Dr. Booth's expert report (May 2012) but has not relied on it.