FEA DATA REQUEST
FEA-SDG&E-DR-03
SDG&E 2012 COST OF CAPITAL – A.12-04-016
SDG&E RESPONSE
DATE RECEIVED: SEPTEMBER 6, 2012
DATE RESPONDED: SEPTEMBER 19, 2012

FEA-SDG&E 03-01 To the extent not already provided, please provide complete copies of each article, treatise or bond rating agency report cited in the witness's Rebuttal testimony. If the witness cites a textbook, please provide a complete copy of the chapter in the textbook containing the cite.

SDG&E Response:

Please refer to the response to FEA-SDG&E-04-01.

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FEA- SDG&E 03-02 [Re: Morin Rebuttal, p. 84]

a) Are equity cost estimates provided by Discounted Cash Flow models market-based returns? If not, please explain why not and provide cites to the financial literature supporting that premise.

b) Are equity cost estimates provided by the Capital Asset Pricing Model market-based returns? If not, please explain why not and provide cites to the financial literature supporting that premise.

c) Are equity cost estimates provided by Empirical Capital Asset Pricing Model analyses market-based returns? If not, please explain why not and provide cites to the financial literature supporting that premise.

d)Are equity cost estimates provided by bond yield-plus-risk premium analyses market-based returns? If not, please explain why not and provide cites to the financial literature supporting that premise.

SDG&E Response:

a) Yes

b) Yes

c) Yes

d) Yes

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FEA- SDG&E 03-03 [Re: Morin Rebuttal, p. 93, ll. 1,2]

a) Please provide evidence to support Dr. Morin's statement that utility market prices were trading "near book value," during the 1980 through 1984 period (the time prior to the publication of Dr. Morin's book).

b) Please also provide evidence to show that the difference between utility stock prices and market prices "was not an important issue when Professor Gordon developed the model in the mid-1960's."

SDG&E Response:

a) Dr. Morin was unable to locate readily accessible market-to-book ratio (M/B) historical data going back more than 30 years. From having testified numerous times in the 1980 – 1985 time frame, Dr. Morin does recall that utility stock prices were trading near book value. M/B historical data are commercially available from the Kenneth R. French web site by paid subscription. An article published by Booth (attached) does present M/B data during the 1980-1985 showing that utilities were trading near book value during that period.

b) In the mid 1960s, more than 50 years ago, the DCF model was in its infancy and obviously not relied upon in rate cases. Thus, the question of market-to-book ratios being above, at, or below 1.0 was not an issue. In the mid 1960s, regulators relied on the Comparable Earnings methodology to determine a fair and reasonable return.

Booth_on_MB_Ratios
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FEA- SDG&E 03-04 [Re: Morin Rebuttal, 97, ll. 18-20] At the cited portion of Dr. Morin's testimony he states: "If a utility's ROE is reduced, the amount of capital offered by investors would decline, as shareholders seek alternative investment options."

a) Please provide the support for that statement.

b) Allowed utility returns have been declining for years, please provide any evidence that shows the decline in allowed ROE has caused a commensurate decline in the amount of equity capital invested in utilities.

SDG&E Response:

a) It is a rudimentary tenet of finance and logic that if a utility's ROE is reduced below returns offered by alternative investments of comparable risk, investors will invest in alternative investment options with the higher returns for the same risk.
b) Dr. Morin is unaware of any such published empirical study. The key issue is whether allowed ROE are commensurate with returns offered by alternate investments of comparable risk.