

1 significantly less than 1.0. I present a summary of this research in the  
2 CAPM section of my testimony.

3 **Q. 8 Why is it appropriate to give less weight to the result of the CAPM**  
4 **when the companies in the proxy group have small market**  
5 **capitalization?**

6 A. 8 It is appropriate to give less weight to the result of the CAPM in this  
7 case because financial research also supports the conclusion that the  
8 CAPM underestimates the cost of equity for small market capitalization  
9 companies.

10 **Q. 9 What cost of equity do you find for your comparable companies in**  
11 **this proceeding?**

12 A. 9 I find that the cost of equity for my comparable companies is in the  
13 range 10.4 percent to 11.4 percent. Because the average beta of my  
14 proxy companies is significantly less than 1.0, my conclusion is based  
15 on the results of my DCF and risk premium studies.

16 **Q. 10 What is your recommendation regarding KAWC's cost of equity?**

17 A. 10 I recommend that KAWC be allowed a fair rate of return on common  
18 equity in the range 10.4 percent to 11.4 percent.

19 **Q. 11 Do you have an exhibit to accompany your testimony?**

20 A. 11 Yes. I have an Exhibit\_\_\_(JVW-1), consisting of eight schedules and  
21 five appendices that were prepared by me or under my direction and  
22 supervision.