

- Q. Please confirm that Dr. Kalymon has used raw (unadjusted) betas in his testimony. If not, please explain the computational details of the beta estimates and provide literature references in support of the use of raw betas in the CAPM.
- A. **The adjusted measures for the Betas were used. The basic CAPM theory does not require any “adjustments”. The measurement of Beta is discussed in many standard texts, for example, a discussion on measuring Beta can be found in Fundamentals of Corporate Finance, Brealey, Myers and Marcus, McGraw Hill, Third Edition 2001 at pages 290-294. No “adjustment” is recommended in the estimation process. However, given the extremely low levels to which utility sector Betas have fallen in the latest period, an upward adjustment towards historic levels of Betas was made. The adjustment is based on the formula used by Bloomberg: $\text{Adjusted Beta} = .67 \times \text{Unadjusted Beta} + .33 \times 1.0$.**