

**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

**IN THE MATTER OF THE PETITION OF
PUBLIC SERVICE ELECTRIC AND GAS COMPANY
FOR APPROVAL OF THE SECOND ENERGY
STRONG PROGRAM (ENERGY STRONG II)**

BPU Docket Nos. EO18060629 and GO18060630

**REBUTTAL TESTIMONY
OF
ANN E. BULKLEY**

**Submitted on Behalf
of
PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

April 18, 2019

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1 **PUBLIC SERVICE ELECTRIC AND GAS COMPANY**
2 **REBUTTAL TESTIMONY**
3 **OF**
4 **ANN E. BULKLEY**
5 **SENIOR VICE PRESIDENT, CONCENTRIC ENERGY ADVISORS, INC.**

6 **I. INTRODUCTION**

7 **Q. Please state your name and business address.**

8 A. My name is Ann E. Bulkley. I am a Senior Vice President of Concentric Energy
9 Advisors, Inc. (“Concentric”). My business address is 293 Boston Post Road West, Suite
10 500, Marlborough, Massachusetts 01752.

11 **Q. On whose behalf are you submitting this testimony?**

12 A. I am testifying on behalf of Public Service Electric and Gas Company (“Public
13 Service” or the “Company”), a wholly-owned subsidiary of Public Service Enterprise Group,
14 Inc. (“PSEG”).

15 **Q. Did you previously provide Direct Testimony in this proceeding?**

16 A. No, I did not.

17 **Q. What is the purpose of your Rebuttal Testimony?**

18 A. The purpose of my Rebuttal Testimony is to respond to the Direct Testimony of
19 Kevin W. O’Donnell on behalf of the Division of Rate Counsel (“Rate Counsel”) as it relates
20 to the appropriate return on common equity in the Company’s Second Energy Strong
21 Program (“Energy Strong II”).

22 **Q. Are you sponsoring any exhibits as part of your Rebuttal Testimony?**

23 A. I am sponsoring Exhibits AEB-1 through AEB-8.

1 **II. EXECUTIVE SUMMARY**

2 **Q. Please summarize your key conclusions regarding the Direct Testimony of Mr.**
3 **O'Donnell.**

4 A. My key conclusions are as follows:

- 5 1) The authorized ROE must meet all three standards from *Hope* and *Bluefield* –
6 financial integrity, capital attraction, and comparable returns. Mr. O'Donnell's
7 "calculated" ROE of 9.00 percent fails to meet the comparability standard and
8 capital attraction standards. Comparing this return to recently authorized ROEs
9 demonstrates that Mr. O'Donnell's "calculated" return is not comparable to the
10 return that is available to investors in companies with commensurate risk and is
11 not sufficient to allow Public Service to compete for capital with other similar risk
12 firms.
- 13 2) The range that Mr. O'Donnell establishes within his DCF results is arbitrary,
14 inconsistent with recently authorized ROEs, and understates the cost of equity.
15 The actual range of Mr. O'Donnell DCF results is from 7.5 percent to 9.8 percent.
16 Within that range, Mr. O'Donnell arbitrarily determines that the range of results
17 for the DCF is "right in the middle" of the range at 8.0 to 9.0 percent.¹ Mr.
18 O'Donnell's range is clearly skewed to the bottom end of the range of his DCF
19 results. Mr. O'Donnell provides no rationale for why the range he sets is 80 basis

¹ Direct Testimony of Kevin W. O'Donnell, at 24.

1 points below the high end of the DCF results and only 40 basis points above the
2 low end.

3 3) Comparing Mr. O'Donnell's range and final recommendation to recently
4 authorized ROEs demonstrate that his return does not meet the standards
5 established in *Hope* and *Bluefield*. Recently authorized ROEs serve as important
6 benchmarks for investors as they gauge their return requirements for regulated
7 utilities such as Public Service. Mr. O'Donnell has provided no evidence or
8 support to justify ignoring these benchmarks; rather he relies on the assertion that
9 Public Service has lower business and financial risk than these other utilities to
10 substantiate his recommendation. As discussed in more detail in my rebuttal
11 testimony, a review of the recovery mechanism of the proxy companies
12 demonstrates that the business and financial risk of Public Service is similar on
13 average to the proxy companies as it pertains to capital recovery mechanisms.

14 4) Mr. O'Donnell's recommended ROE of 8.50 percent is well below the expected
15 return for regulated electric utilities. Mr. O'Donnell's ROE recommendation is
16 significantly lower than the New Jersey Board of Public Utilities ("BPU" or the
17 "Board") has authorized in the past, including in several recent decisions for
18 Atlantic City Electric and New Jersey Natural Gas. Furthermore, Mr.
19 O'Donnell's recommended ROE is at a level that is lower than has been
20 supported by any regulatory jurisdiction in the United States. In fact, the range
21 that Mr. O'Donnell arbitrarily established from his DCF results of 8.00 percent to
22 9.00 percent includes only one authorized ROE, at the highest end of his range of

1 results. In contrast, the settlement ROE of 9.60 percent, a return that the Division
2 of Rate Counsel agreed to in the Company's last rate proceeding in October 2018,
3 six months ago, is well within the range of recently authorized ROEs. Mr.
4 O'Donnell has not demonstrated that there has been any significant change in
5 market conditions or PSEG's overall risk as compared with the proxy group to
6 warrant a departure from the settlement ROE that was established less than six
7 months ago.

8 5) Reasonable adjustments to Mr. O'Donnell's analysis demonstrate that the low end
9 of the range of DCF results is 9.50 percent and based on the methodology that Mr.
10 O'Donnell has used in prior cases could be as high as 10.8 percent using historical
11 growth rates. Furthermore, reasonable adjustments to Mr. O'Donnell's CAPM
12 results demonstrate a range between 9.15 percent and 10.15 percent. The results
13 of these analyses demonstrate that the settlement ROE of 9.60 percent is
14 reasonable and appropriate.

15 6) Mr. O'Donnell's recommended downward adjustment to the ROE of 50 basis
16 points, resulting in a return of 8.50 percent, is unsubstantiated and should be
17 disregarded. Mr. O'Donnell purports to adhere to the comparability and capital
18 attraction standards established by the U.S. Supreme Court decision in the *Hope*
19 *Natural Gas* ("Hope") case.² However, Mr. O'Donnell abandons these principles
20 in his recommended 50 basis point reduction to the ROE. Mr. O'Donnell has

² *Ibid.*

1 provided no analysis of the capital trackers that have been implemented by the
2 proxy companies. In agreeing with the principles of *Hope*, Mr. O'Donnell should
3 recognize that the standard for review is the risk of the company *relative to* the
4 proxy group. Mr. O'Donnell has offered no analysis of his proxy group that
5 demonstrates that PSE&G has less overall risk than that group as a result of the
6 Energy Strong II program. Therefore, his recommended reduction to the ROE
7 should be disregarded.

8 7) In my rebuttal testimony, I provide a summary of capital tracking mechanisms
9 that have been implemented by Mr. O'Donnell's proxy companies. As shown in
10 that summary, approximately half of the proxy companies have implemented
11 capital trackers for generic infrastructure replacement. In addition, many of the
12 proxy companies have generation trackers and decoupling mechanisms.
13 Therefore, PSE&G's Energy Strong II is reasonably comparable from a risk
14 perspective to the proxy group. There is no support for a reduction in PSE&G's
15 ROE as a result of the risk mitigation from this program because the comparable
16 companies have implemented similar programs.

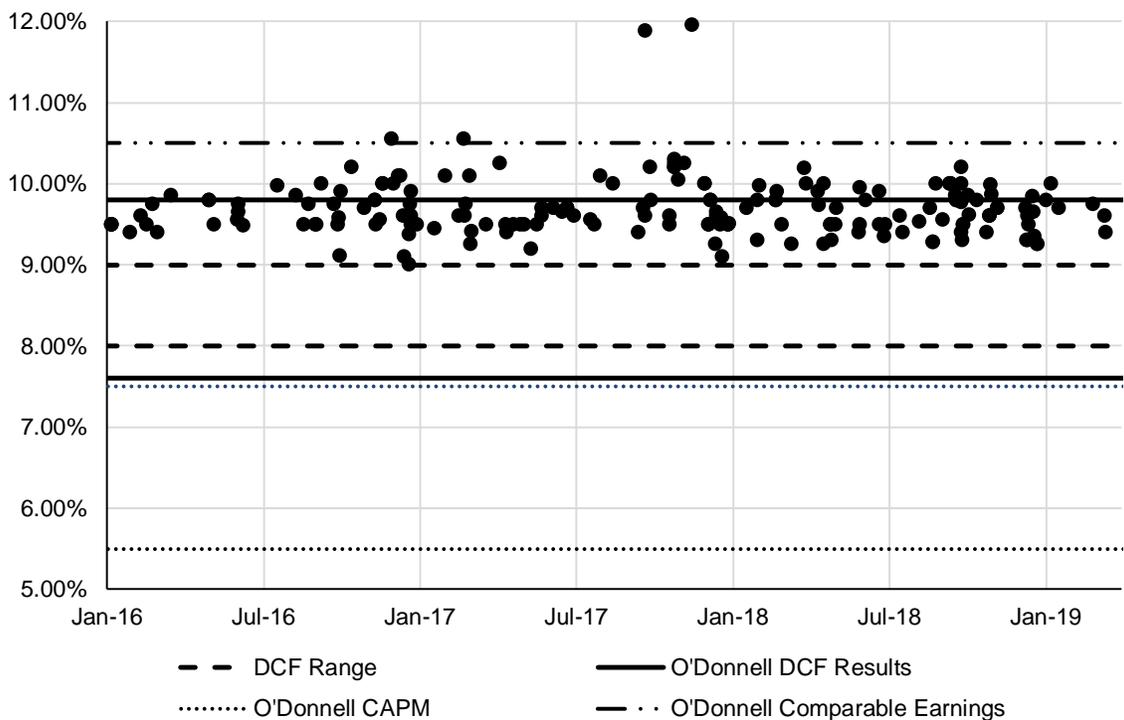
17 **III. FAIR RETURN STANDARD**

18 **Q. How does Mr. O'Donnell's ROE recommendation compare to the returns on**
19 **equity authorized in other jurisdictions?**

20 A. As shown in Figure 1, the majority of authorized ROEs for combination electric and
21 gas utilities from 2016 through the first quarter of 2019 have been around 9.60 percent.
22 Furthermore, the Division of Rate Counsel agreed to an ROE of 9.60 percent for PSE&G in

1 October 2018 and has agreed to settlements for five other New Jersey utilities in 2017-2018.
 2 With this data as context, Mr. O'Donnell's ROE recommendation of 8.50 percent including a
 3 50 basis point adjustment for the Energy Strong II proposal does not meet the comparable
 4 return standard.

5 **Figure 1: Recently Authorized Electric and Natural Gas ROEs 2016-2019³**



6

³ Source: SNL Financial. The chart also shows the ranges of results for Mr. O'Donnell's DCF, CAPM, and Comparable Earnings analyses. Note that the dashed line at 9.0% represents both the high end of Mr. O'Donnell's DCF results and the low end of his Comparable Earnings results. Additionally, 15 cases from New York and 6 cases from Illinois have been excluded. The New York decisions included low authorized ROEs as part of multi-year rate settlements, and the Illinois decisions were the result of formula rate plans rather than an analysis based on proxy groups. In Illinois, the authorized ROE for the utility is calculated by adding 580 basis points to the 12-month-average 30-year treasury bond yield.

1 **Q. Has Mr. O'Donnell demonstrated that his recommended return meets the *Hope***
2 **and *Bluefield* standards?**

3 A. No, he has not. The *Hope* and *Bluefield* decisions form the legal basis for
4 determining whether a return is just and reasonable.⁴ These decisions set forth three
5 standards,⁵ each of which must be met in order for the return to be considered just and
6 reasonable:

7 1) Comparable return standard

8 2) Financial integrity standard

9 3) Capital attraction standard

10 Mr. O'Donnell fails to demonstrate that his ROE recommendation of 8.50 percent
11 offers equity investors a return that is comparable to those returns available to investors in
12 alternative investments with commensurate risk. Furthermore, Mr. O'Donnell fails to
13 demonstrate that his ROE recommendation would allow Public Service to raise equity capital
14 on reasonable terms and conditions. It is important to recognize that equity investors face
15 different risks associated with ownership of common equity including: 1) the risk that
16 dividends on the common stock are not guaranteed, and 2) that they are the residual
17 claimants on the Company's net income in the event of bankruptcy. Public Service is
18 making significant capital investments in order to upgrade and modernize its gas distribution
19 system and related infrastructure through the Infrastructure Investment Program. This
20 program provides utilities the opportunity to invest in utility plant that is non-revenue

⁴ Bluefield Water Works Co. v. Publ. Serv. Comm'n., 262 U.S. 679 (1923); Federal Power Comm'n. v. Hope Natural Gas Co., 320 U.S. 591 (1944).

⁵ *Bluefield*, 262 U.S. at 692-93; *Hope*, 320 U.S., at 603.

1 producing but important infrastructure to enhances safety, reliability and resiliency and to
2 seek recovery on a periodic basis rather than through general rate proceedings. The
3 comparable return and capital attraction standards are particularly important for Energy
4 Strong II because if the allowed ROE under this program does not satisfy these standards, the
5 incentives that have been established by the IIP regulations will be undermined. If the
6 Company cannot even achieve its authorized ROE on investments that have been placed into
7 service under this program, then investment in the non-revenue generating assets in this
8 program will necessarily reduce the Company’s ability to earn its authorized ROE on the
9 base operations. Therefore, establishing a return for this program that is not at least equal to
10 the return that the Company is authorized on the remainder of the investment undermines the
11 goal of the IPP regulations, which is to advance investment in these critical infrastructure
12 projects.

13 **IV. CAPITAL MARKET CONDITIONS AND EFFECT ON MODELS**

14 **Q. Please summarize Mr. O’Donnell’s testimony regarding current capital market**
15 **conditions and the impact on the cost of equity for Public Service.**

16 A. Mr. O’Donnell’s testimony on market conditions is somewhat inconclusive, as he
17 suggests both strong economic growth and slow economic times all within a short discussion
18 on markets. As evidence of strong economic growth, Mr. O’Donnell characterizes stock
19 market performance as “churning higher”.⁶ Mr. O’Donnell further states that the utility

⁶ Direct Testimony of Kevin W. O’Donnell, at 5.

1 market has been very strong over the past two years, with the index increasing 15 percent as
2 compared to the S&P 500. Mr. O'Donnell suggests that when utility stock prices increase
3 the expected return decreases and therefore this explains the lower expected return on utility
4 investments that should be considered in rates. However, as evidence of slowing market
5 conditions, Mr. O'Donnell notes that Dow Jones Utility Average has been flat since the
6 Company's last base rate case was settled in October 2018.⁷ Finally, he suggests that
7 interest rates suggest a flattening of the yield curve, which he suggest is a "harbinger of slow
8 economic times ahead." Finally, he suggests that the economy in New Jersey is slowing.⁸ Mr.
9 O'Donnell's position on the direction of economic conditions, interest rates, and the effect of
10 these indicators on the cost of equity is unclear at best.

11 **Q. What is Mr. O'Donnell's position with respect to interest rates?**

12 A. While Mr. O'Donnell recognizes that the Federal Reserve has increased the Federal
13 Funds rate to 2.2-2.50 percent, and he recognizes that the Federal Reserve may increase
14 interest rates two more times in 2019, he suggests that these increases do not mean that long-
15 term rates will increase correspondingly.⁹ In his Direct Testimony Mr. O'Donnell
16 summarizes the historical yields on Treasury bonds on two charts. In Chart 1, Mr. O'Donnell
17 provides the yield on 30-year Treasury bonds for the period from October 2018 through
18 February 2019 and notes that the yields have been flat since December 2018, when the

⁷ *Id.*, at 6.

⁸ *Id.*, at 8.

⁹ *Ibid.*

1 Federal Reserve last raised interest rates.¹⁰ In Chart 5, Mr. O'Donnell provides a slightly
2 longer historical view back to February 2018. From this chart, he concludes that yields have
3 been flat over the last year, in spite of the fact that the Federal Reserve increased interest
4 rates three times in 2018.¹¹ Mr. O'Donnell also states that interest rates are likely to remain
5 relatively low for an extended period.

6 In addition to these charts, Mr. O'Donnell provides his view that the economic
7 forecasters as well as the Federal Reserve all believe that the current interest rate
8 environment is expected to remain relatively stable for many years to come. As support for
9 this statement, Mr. O'Donnell provides a quote attributed to Chairperson Yellen in 2016
10 suggesting that interest rates would remain low.¹²

11 **Q. Do you agree with Mr. O'Donnell's views on the effect of Federal monetary**
12 **policy on long-term government bonds?**

13 A. No, I do not. As shown in Figure 2, below, yields on long-term government bonds
14 have increased since the Federal Reserve started to raise the federal funds rate in 2016 and
15 investors expect continued increases in the near term projections.

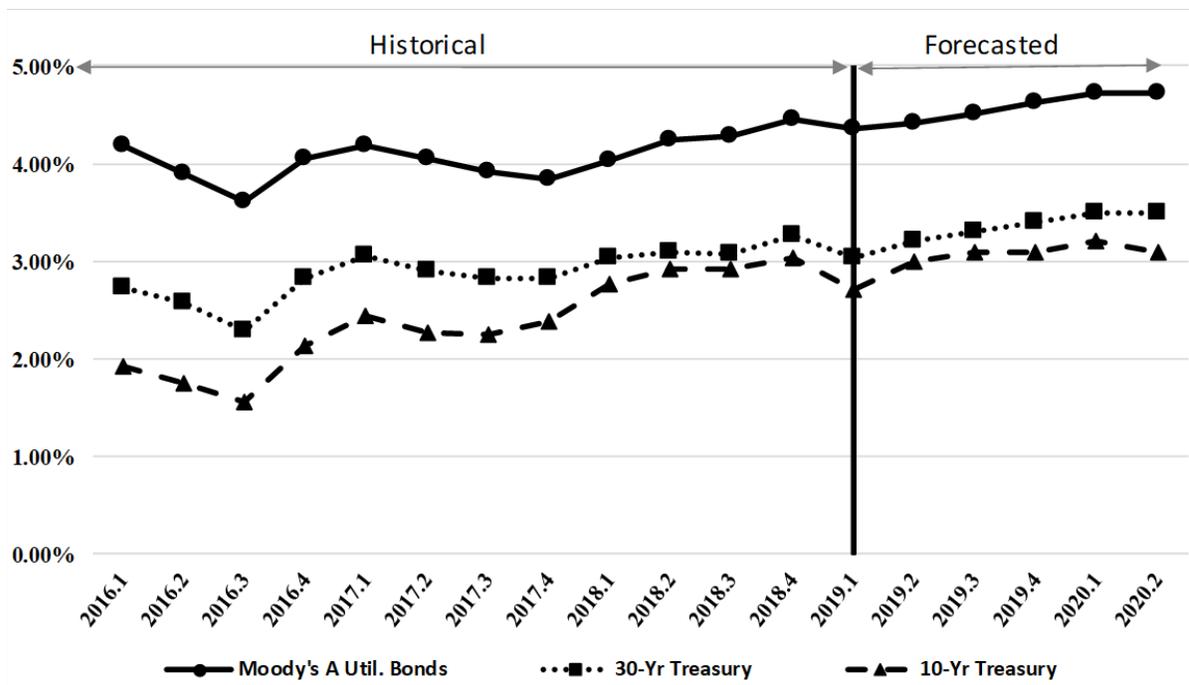
¹⁰ Direct Testimony of Kevin W. O'Donnell, Chart 1, at 8.

¹¹ *Id.*, at 29.

¹² *Id.*, at 30.

1

Figure 2: Interest Rate Conditions¹³



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However, the increase in long-term government bond yields has not been as pronounced as the rise in short-term interest rates. This is due to a shift in the supply and demand of long-term government bonds that has occurred since 2009. For example, since the Great Recession of 2008-2009 federal debt has increased significantly, which has resulted in an increase in the supply of Treasury bonds in the market. In general, an increase in supply should result in a decrease in the price of Treasury bonds and an increase in yield. However, long-term government bonds yields have not increased as fast as expected given the increase in supply. This is because the demand for Treasury bonds has also increased

¹³

Source: Historical data from Bloomberg Professional. Forecast data from Blue Chip Financial Forecasts, Volume. 38, No. 2, February 1, 2019, at 2.

1 since 2009. As noted in a recent article published by the St. Louis Federal Reserve, the
2 demand for government bonds increased for a number of reasons, some of which included
3 increased holdings of foreign governments as countries in Europe and Asia faced their own
4 economic uncertainty, and increased holdings of commercial banks due to new regulations
5 that required banks to hold a larger portion of high-quality liquid assets.¹⁴ This supply and
6 demand balance resulted in a more gradual increase in the yields on long-term government
7 bonds over the past few years.

8 While the demand for long-term government bonds had been increasing, throughout
9 the recessionary period, the forward-looking supply and demand balance has shifted,
10 resulting in an expectation for rising interest rates. As noted in the St. Louis Federal Reserve
11 article, the demand for Treasuries has decreased:

12 Some evidence suggests that the growth in demand for Treasuries has
13 already begun to soften. [F]oreign holdings have remained more or
14 less constant since 2014, largely because of declining holdings in
15 Japan and China. Likewise, regulation and policy changes such as the
16 Dodd-Frank Act and new rules for prime money market funds may
17 have only transitory effects on the demand for Treasuries. For
18 example, the pace of growth of the ratio of commercial bank Treasury
19 security holdings to private loans has slowed since 2014 . . . , as has the
20 growth of investment in government money market funds since 2017 .

21

. . .¹⁵

¹⁴ David Andolfatto and Andrew Spewak, Federal Reserve Bank of St. Louis, "On the Supply of, and Demand for, U.S. Treasury Debt," Economic Synopses, No. 5, 2018. <https://doi.org/10.20955/es.2018.5>.

¹⁵ *Ibid.*

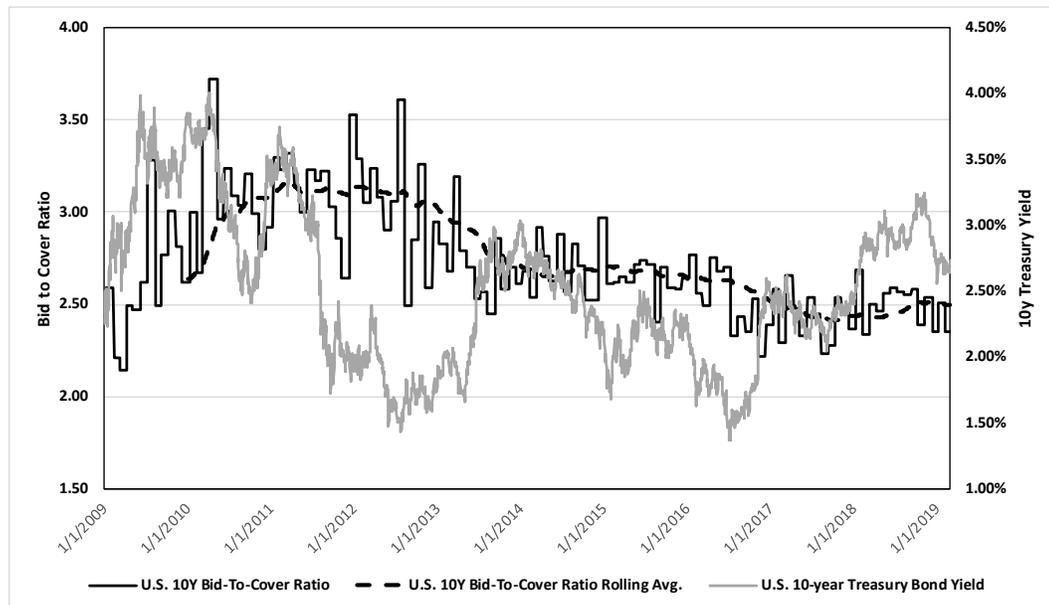
1 Declining demand for Treasuries, when the supply of Treasuries is increasing results in the
2 expectation of rising interest rates on government bonds. Therefore, I disagree with Mr.
3 O'Donnell's view that long-term interest rates will remain low for years to come.

4 **Q. Are there other indicators of the demand for Treasury bonds?**

5 A. Yes. Another indicator of the demand for Treasury bonds is the bid to cover ratio
6 which represents the dollar amount of bids received versus the dollar amount sold in a
7 Treasury security auction. Therefore, a higher bid-to-cover ratio is indicative of an increase
8 in the demand for government bonds. As shown in Figure 3, the bid-to-cover ratio for the
9 10-year U.S. Treasury bond is currently at its lowest point since 2009, which indicates that
10 the demand for long-term government bonds has declined. The decline in demand is
11 occurring at a time when the supply of Treasury bonds is expected to increase as the Federal
12 Reserve continues its balance sheet unwind and the federal government issues bonds to offset
13 the reduced tax revenue associated with the implementation of the Tax Cuts and Jobs Act
14 ("TCJA" or the "Tax Reform Act"). As a result of this declining demand and increasing
15 supply, prices of long-term government bonds are expected to decline and yields are
16 expected to continue to increase over the near-term, which is consistent with investors'
17 expectations shown in Figure 3.

1

Figure 3: U.S. 10-year Treasury Bond Bid-to-Cover-Ratio



2

3 **Q. What effect do rising interest rates have on the cost of equity?**

4 A. As interest rates continue to increase, the cost of equity for the proxy companies
5 using the DCF model is likely to be an overly conservative estimate of investors' required
6 returns, because the proxy group average dividend yield reflects the increase in stock prices
7 that resulted from substantially lower interest rates. As such, rising interest rates support the
8 selection of a return toward the upper end of a reasonable range of ROE estimates resulting
9 from the DCF analysis. Alternatively, my CAPM and Bond Yield Plus Risk Premium
10 analyses include estimated returns based on near-term projected interest rates, reflecting
11 investors' expectations of market conditions over the period that the rates that are determined
12 in this case will be set.

1 **Q. How do equity investors view the utilities sector based on these recent market**
2 **conditions?**

3 A. Investment advisors have suggested that utility stocks may underperform as a result
4 of market conditions. Barron's recently published its seventh annual review of income-
5 producing investments in which Barron's ranked eleven different sectors based on projected
6 performance in 2019. The utility sector ranked ninth out of the eleven sectors with Barron's
7 noting that utility stocks may be overvalued:

8 Utilities, however, aren't cheap; they are valued at an average of 17
9 times projected 2019 earnings, a premium to the S&P 500, at about 14.
10 That may make it hard for utilities to best the index in 2019, barring a
11 market collapse. Earnings growth is running at a mid-single-digits
12 yearly pace.¹⁶

13 Similarly, a recent report on the market outlook for 2019 from J.P. Morgan Asset
14 Management noted that because of rising interest rates the utilities sector is not their current
15 focus for investment:

16 As prospects for slower economic growth become clearer in the
17 middle of next year, the Fed may signal it will pause. Such a signal, or
18 a trade agreement with China, could lead multiples to expand, pushing
19 the stock market higher and potentially adding years to this already old
20 bull market. However, even if the bull market does end in the next few
21 years, it is important to remember that late-cycle returns have typically
22 been quite strong.

23 This leaves investors in a tough spot – should they focus on a
24 fundamental story that is softening, or invest with an expectation that
25 multiples will expand as the bull market runs its course? The best
26 answer is probably a little bit of each. We are comfortable holding
27 stocks as long as earnings growth is positive, but do not want to be
28 over-exposed given an expectation for higher volatility. As such,

¹⁶ Bary, Andrew. "Best Income Investments for 2019." Barron's, Barron's, 4 Jan. 2019, www.barrons.com/articles/the-best-income-ideas-for-2019-51546632171.

1 higher-income sectors like financials and energy look more attractive
2 than technology and consumer discretionary, and we would lump the
3 new communication services sector in with the latter names, rather
4 than the former. However, given our expectation of still some further
5 interest rate increases, it does not yet seem appropriate to fully rotate
6 into defensive sectors like utilities and consumer staples. Rather, a
7 focus on cyclical value should allow investors to optimize their
8 upside/downside capture as this bull market continues to age.¹⁷

9 The reports from equity analysts suggest that utility stocks are currently overvalued
10 and that there are expectations for the prices of these stocks to decline. These expectations
11 need to be considered when evaluating the results of the ROE estimation models. To the
12 extent that investors' views are that utility stocks are over-valued, then the dividend yield
13 used in the DCF model will be understated as will the resulting estimate of the cost of equity
14 using that model.

15 **Q. How has the period of abnormally low interest rates affected the valuations and**
16 **dividend yields of utility shares?**

17 A. The Federal Reserve's accommodative monetary policy has caused investors to seek
18 alternatives to the historically low interest rates available on Treasury bonds. Mr. O'Donnell
19 agrees, stating: "Individuals seeking an income stream see utility dividends as good
20 alternatives at present time with the lack of adequate fixed income (bond) opportunities. As
21 a result, utility stock prices have soared in the past five years."¹⁸ As Mr. O'Donnell correctly
22 notes, this search for higher yield has driven up the share prices for many common stocks,

¹⁷ J.P. Morgan Asset Management, "The investment outlook for 2019: Late-cycle risks and opportunities", November 30, 2018, at 5.

¹⁸ Direct Testimony of Kevin W. O'Donnell, at 36.

1 especially dividend-paying stocks such as utilities, while the dividend yields have decreased
2 to levels well below the historical average.

3 **Q. Have regulatory commissions recognized that anomalous conditions in the**
4 **capital markets have had an effect on the ROE estimation models?**

5 A. Yes, several regulatory commissions have addressed the effect of capital market
6 conditions on the DCF model. Notably, FERC has addressed this issue and has moved away
7 from its sole reliance on DCF model in favor of equal weightings of multiple ROE estimation
8 models. In addition, the Illinois Commerce Commission (“ICC”), and the Pennsylvania
9 Public Utility Commission (“PPUC”) have all considered this factor in recent decisions.

10 **Q. Please summarize the views of these commissions.**

11 A. The FERC, the PPUC and the ICC have all recognized that the DCF model has been
12 affected by recent market conditions. The FERC recognized that the DCF model was
13 understating the cost of equity several years ago in a New England Transmission Owner case
14 (“NETO”). In that case and a subsequent case, discussed in Opinions 531 and 531-B and
15 Opinion 551, the FERC relied on the results of the CAPM to set the ROE within the range
16 established by the DCF model.

17 In October 2018, the FERC issued an Order in response to the remand from the U.S.
18 Court of Appeals for the District of Columbia in the NETO case, indicating plans to establish
19 authorized ROEs based on an equal weighting of the results of four financial models: the
20 DCF, CAPM, Expected Earnings and Risk Premium. In that October 2018 decision, FERC
21 explained its reasons for moving away from sole reliance on the DCF model, noting that the
22 DCF alone does not capture how investors view utility returns, that investors use multiple

1 models, and that different models will produce results that move in opposite directions over
2 time:

3 Our decision to rely on multiple methodologies in these four complaint
4 proceedings is based on our conclusion that the DCF methodology
5 may no longer singularly reflect how investors make their decisions.
6 We believe that, since we adopted the DCF methodology as our sole
7 method for determining utility ROEs in the 1980s, investors have
8 increasingly used a diverse set of data sources and models to inform
9 their investment decisions. Investors appear to base their decisions on
10 numerous data points and models, including the DCF, CAPM, Risk
11 Premium, and Expected Earnings methodologies. As demonstrated in
12 Figure 2 below, which shows the ROE results from the four models
13 over the four test periods at issue in this proceeding, these models do
14 not correlate such that the DCF methodology captures the other
15 methodologies. In fact, in some instances, their cost of equity
16 estimates may move in opposite directions over time. Although we
17 recognize the greater administrative burden on parties and the
18 Commission to evaluate multiple models, we believe that the DCF
19 methodology alone no longer captures how investors view utility
20 returns because investors do not rely on the DCF alone and the other
21 methods used by investors do not necessarily produce the same results
22 as the DCF. Consequently, it is appropriate for our analysis to consider
23 a combination of the DCF, CAPM, Risk Premium, and Expected
24 Earnings approaches.¹⁹

25 In a 2012 decision for PPL Electric Utilities, while noting that the PPUC has
26 traditionally relied primarily on the DCF method to estimate the cost of equity for regulated
27 utilities, the PPUC recognized that market conditions were causing the DCF model to
28 produce results that were much lower than other models such as the CAPM and Bond Yield
29 Plus Risk Premium. The PPUC's Order explained:

¹⁹ Federal Energy Regulatory Commission, Docket No. EL 11-66-001, et al., Order Directing Briefs, issued October 16, 2018, at para. 40.

1 Sole reliance on one methodology without checking the validity of the
2 results of that methodology with other cost of equity analyses does not
3 always lend itself to responsible ratemaking. We conclude that
4 methodologies other than the DCF can be used as a check upon the
5 reasonableness of the DCF derived equity return calculation.²⁰

6 The PPUC ultimately concluded:

7 As such, where evidence based on the CAPM and RP methods suggest
8 that the DCF-only results may understate the utility's current cost of
9 equity capital, we will give consideration to those other methods, to
10 some degree, in determining the appropriate range of reasonableness
11 for our equity return determination.²¹

12 In a recent ICC case, Docket No. 16-0093, Staff relied on a DCF analysis that
13 resulted in average returns for their proxy groups of 7.24 percent to 7.51 percent. The
14 Company (Illinois-American Water Company) demonstrated that those results were
15 inappropriately low by comparing the results of Staff's models to recently authorized ROEs
16 for regulated utilities and the return on the S&P 500.²² The ICC agreed with the Company
17 that Staff's proposed ROE of 8.04 percent was anomalous and recognized that a return that is
18 not competitive will deter investment in Illinois.²³ In setting the return in that proceeding,
19 the ICC recognized that it was necessary to consider other factors beyond the outputs of the
20 financial models, particularly whether the return is sufficient to attract capital, maintain

²⁰ Pennsylvania Public Utility Commission, PPL Electric Utilities, R-2012-2290597, meeting held December 5, 2012, at 80.

²¹ *Id.*, at 81.

²² State of Illinois Commerce Commission, Docket No. 16-0093, Illinois-American Water Company Initial Brief, August 31, 2016, at 10.

²³ Illinois Staff's analysis and recommendation in that proceeding were based on its application of the multi-stage DCF model and the CAPM to a proxy group of water utilities.

1 financial integrity, and is commensurate with returns for companies of comparable risk,
2 while balancing the interests of customers and shareholders.²⁴

3 **Q. What are your conclusions concerning the impact of capital market conditions**
4 **on the cost of equity for Public Service’s Energy Strong II case?**

5 A. Recent historical market conditions may not be reflective of the market conditions
6 that will be present when the rates for the ESII investments will be in effect. Over the last
7 several years, regulators have recognized that sole reliance on one ROE estimation model is
8 not prudent and have begun to place emphasis on the results of multiple models in
9 determining the appropriate ROE.

10 **V. THE EFFECT OF TAX REFORM ON THE RETURN ON EQUITY**

11 **Q. Did Mr. O’Donnell consider the effects of tax reform on utilities?**

12 A. No, he did not.

13 **Q. Is it important to consider how the recent tax legislation has affected regulated**
14 **utilities?**

15 A. Yes, it is. In January 2018 the credit rating agencies issued reports that viewed the
16 effect of the Tax Reform Act on regulated utilities as credit negative. Since that time,
17 Moody’s has downgraded its outlook on the entire utilities segment and has downgraded the
18 credit ratings of many utilities as a result of tax reform.²⁵ In summary, the Tax Reform Act

²⁴ State of Illinois Commerce Commission Decision, Docket No. 16-0093, Illinois-American Water Company, 2016 WL 7325212 (2016), at 55.

²⁵ Moody’s Investor Service, Global Credit Research, Rating Action: Moody’s changes outlooks on 25 US regulated utilities primarily impacted by tax reform, January 19, 2018. See also, Moody’s Investors Service, “Regulated

1 is expected to reduce utility revenues due to the lower federal income taxes and the
2 requirement to return excess accumulated deferred income taxes. This change in revenue is
3 expected to reduce funds from operations (“FFO”) metrics across the sector, and absent
4 regulatory mitigation strategies, is expected to lead to weaker credit metrics and negative
5 ratings actions for some utilities.²⁶ The rating agencies have identified several financial
6 tools to address weakness in cash flow metrics including higher returns on equity and higher
7 equity ratios. Therefore, it is important to consider the effect of tax reform on utilities when
8 determining the appropriate ROE. At a time when the credit rating agencies are suggesting
9 greater equity components of the capital structure and higher ROEs as the remedy for
10 weakness in cash flow metrics, the determination of a lower ROE than what has recently
11 been agreed to for the Company seems to be counter to investor expectations and may be
12 viewed as credit negative.

13 **Q. Has the Board addressed changes in tax laws for utilities?**

14 A. Yes. In its recent decision in BPU Docket No. AX180100001, the Board required the
15 utilities that it regulates to establish new tariffs that reduce the collection of Federal income
16 tax from 35 percent to 21 percent effective April 1, 2018.

utilities – US: 2019 outlook shifts to negative due to weaker cash flows, continued high leverage”, June 18, 2018, at 3.
²⁶ FitchRatings, Special Report, What Investors Want to Know, “Tax Reform Impact on the U.S. Utilities, Power & Gas Sector”, January 24, 2018.

1 **Q. Please summarize the rating agencies' views of tax reform for utilities.**

2 A. Each of the rating agencies addressed tax reform in January 2018. Moody's issued a
3 report changing the rating outlook for twenty-four regulated utilities from Stable to
4 Negative.²⁷ At that time, Moody's noted that the rating change affected companies with
5 limited cushion in their ratings for deterioration in financial performance. In June 2018,
6 Moody's issued a report in which the rating agency downgraded the outlook for the entire
7 regulated utility industry from stable to negative for the first time ever. Moody's cited
8 ongoing concerns about the negative effect of the TCJA on cash flows of regulated utilities.
9 While noting that "[r]egulatory commissions and utility management teams are taking
10 important first steps"²⁸ and that "we have seen some credit positive developments in some
11 states in response to tax reform,"²⁹ Moody's concludes that "we believe that it will take
12 longer than 12-18 months for the majority of the sector to show any material financial
13 improvement from such efforts."³⁰

14 **Q. Has Moody's changed its outlook for utilities in 2019?**

15 A. No. Consistent with the prior reports issued by Moody's in January and June of
16 2018, Moody's is maintaining its negative outlook for regulated utilities in 2019 as a result of

²⁷ Moody's Investor Service, Global Credit Research, Rating Action: Moody's changes outlooks on 25 US regulated utilities primarily impacted by tax reform, January 19, 2018.

²⁸ Moody's Investors Service, "Regulated utilities – US: 2019 outlook shifts to negative due to weaker cash flows, continued high leverage", June 18, 2018, at 3.

²⁹ *Ibid.*

³⁰ *Ibid.*

1 continued concerns over the effect of the TCJA on cash flows as well as increasing debt.³¹
2 Moody's notes that "[t]he combination of financial pressures is expected to keep the sector's
3 ratio of funds from operations to debt down around 15% in the year ahead".³²

4 **Q. What does it mean for Moody's to downgrade a credit outlook?**

5 A. A Moody's rating outlook is an opinion regarding the likely rating direction over
6 what it refers to as "the medium term." A Stable outlook indicates a low likelihood of a
7 rating change in the medium term. A Negative outlook indicates a higher likelihood of a
8 rating change over the medium term. While Moody's indicates that the time period for
9 changing a rating subsequent to a change in the outlook from Stable will vary, on average
10 Moody's indicates that a rating change will follow within a year of a change in outlook.³³

11 **Q. Have any utilities experienced a downgrade related to cash flow metrics**
12 **resulting from the TCJA?**

13 A. Yes. Figure 4 summarizes credit rating downgrades for utilities that have resulted
14 from tax reform.

³¹ Moody's Investors Service, Research Announcement: Moody's: US regulated utilities sector outlook for 2019 remains negative, November 8, 2018.

³² *Ibid.*

³³ Moody's Investors Service, Rating Symbols and Definitions, July 2017, at 27.

1

Figure 4: Credit Rating Downgrades Resulting from TCJA

Utility	Rating Agency	Credit Rating before TCJA	Credit Rating after TCJA	Downgrade Date
American Water	Moody's	A3	Baa1	4/1/2019
Xcel Energy	Moody's	A3	Baa1	3/28/2019
ALLETE	Moody's	A3	Baa1	3/26/2019
Brooklyn Union Gas Company	Moody's	A2	A3	2/22/2019
Avista Corp.	Moody's	Baa1	Baa2	12/30/2018
Consolidated Edison Company of New York	Moody's	A2	A3	10/30/2018
Consolidated Edison, Inc.	Moody's	A3	Baa1	10/30/2018
Orange and Rockland Utilities	Moody's	A3	Baa1	10/30/2018
Southwestern Public Service Company	Moody's	Baa1	Baa2	10/19/2018
Dominion Energy Gas Holdings	Moody's	A2	A3	9/20/2018
Piedmont Natural Gas Company, Inc.	Moody's	A2	A3	8/1/2018
OGE Energy Corp.	Moody's	A3	Baa1	7/5/2018
Oklahoma Gas & Electric Company	Moody's	A1	A2	7/5/2018

2 **Q. Have other rating agencies commented on the effect of the TCJA on ratings?**

3 A. Yes. S&P and Fitch have also commented on the implications of the TCJA on
 4 utilities. S&P published a report on January 24, 2018 entitled “U.S. Tax Reform: For
 5 Utilities’ Credit Quality, Challenges Abound” in which S&P concludes:

6 The impact of tax reform on utilities is likely to be negative to varying
 7 degrees depending on a company's tax position going into 2018, how
 8 its regulators react, and how the company reacts in return. It is
 9 negative for credit quality because the combination of a lower tax rate
 10 and the loss of stimulus provisions related to bonus depreciation or full
 11 expensing of capital spending will create headwinds in operating cash-
 12 flow generation capabilities as customer rates are lowered in response
 13 to the new tax code. The impact could be sharpened or softened by
 14 regulators depending on how much they want to lower utility rates
 15 immediately instead of using some of the lower revenue requirement

1 from tax reform to allow the utility to retain the cash for infrastructure
2 investment or other expenses. Regulators must also recognize that tax
3 reform is a strain on utility credit quality, and we expect companies to
4 request stronger capital structures and other means to offset some of
5 the negative impact.

6 Finally, if the regulatory response does not adequately compensate for
7 the lower cash flows, we will look to the issuers, especially at the
8 holding company level, to take steps to protect credit metrics if
9 necessary. Some deterioration in the ability to deduct interest expense
10 could occur at the parent, making debt there relatively more expensive.
11 More equity may make sense and be necessary to protect ratings if
12 financial metrics are already under pressure and regulators are
13 aggressive in lowering customer rates. It will probably take the
14 remainder of this year to fully assess the financial impact on each
15 issuer from the change in tax liabilities, the regulatory response, and
16 the company's ultimate response. We have already witnessed differing
17 responses. We revised our outlook to negative on PNM Resources Inc.
18 and its subsidiaries on Jan. 16 after a Public Service Co. of New
19 Mexico rate case decision incorporated tax savings with no offsetting
20 measures taken to alleviate the weaker cash flows. It remains to be
21 seen whether PNM will eventually do so, especially as it is facing
22 other regulatory headwinds. On the other hand, FirstEnergy Corp.
23 issued \$1.62 billion of mandatory convertible stock and \$850 million
24 of common equity on Jan. 22 and explicitly referenced the need to
25 support its credit metrics in the face of the new tax code in announcing
26 the move. That is exactly the kind of proactive financial management
27 that we will be looking for to fortify credit quality and promote ratings
28 stability.³⁴

29 In S&P's 2019 trends report, the rating agency notes that the utility industry's
30 financial measures weakened in 2018 and attributed that to tax reform, capital spending and
31 negative load growth. In addition, S&P expects that weaker credit metrics will continue into
32 2019 for those utilities operating with minimal financial cushion. S&P further expects that

³⁴ Standard and Poor's Global Ratings, "U.S. Tax Reform: For Utilities' Credit Quality, Challenges Abound", January 24, 2018.

1 these utilities will look to offset the revenue reductions from tax reform with equity
2 issuances. The rating agency reported that in 2018 regulated utilities issued nearly \$35 billion
3 in equity, which is more than twice the equity issuances in 2016 and 2017.³⁵

4 Finally, FitchRatings recognized the implications of tax reform but indicated that any
5 ratings actions will be guided by the response of regulators and the management of the
6 utilities. Fitch notes that the solution will depend on the ability of utility management to
7 manage the cash flow implications of the TCJA. Fitch offers several solutions to provide rate
8 stability and to moderate changes to cash flow in the near term, including increasing the
9 authorized ROE and/or equity ratio as measures that can be implemented.³⁶

10 **Q. What is your conclusion on the importance of tax reform in determining the**
11 **appropriate ROE in the ESII case?**

12 A. It is important to recognize the concerns of the rating agencies and the expectations of
13 investors with respect to the effect of tax reform on utility credit metrics. The rating agencies
14 have identified tax reform as a negative factor for the entire utility industry and have offered
15 solutions to utility management and regulators that include increasing ROEs or equity ratios.
16 Furthermore, Moody's has been actively downgrading companies that fail to achieve the
17 metrics as a result of tax reform. Therefore, at a time when the market perceives weakness in
18 financial metrics for the industry as a whole and sees higher ROEs and equity ratios as

³⁵ Standard & Poor's Ratings, "Industry Top Trends 2019, North America Regulated Utilities", November 8, 2019.

³⁶ FitchRatings, Special Report, What Investors Want to Know, "Tax Reform Impact on the U.S. Utilities, Power & Gas Sector", January 24, 2018.

1 reasonable solutions to this problem, it does not seem appropriate to consider lower ROEs for
2 the Company's ESII investments.

3 **VI. ROE ESTIMATION METHODOLOGIES**

4 **A. Proxy Group Selection**

5 **Q. Please summarize the proxy groups that Mr. O'Donnell relied on in his analysis.**

6 A. Mr. O'Donnell has developed his proxy groups to estimate the appropriate ROE for
7 Public Service using companies that are followed by the Value Line Investment Survey that
8 own electric and natural gas distribution subsidiaries and meet two criteria: 1) S&P's Global
9 Market Intelligence Quality Ranking, which measures growth and stability of earnings and
10 dividends, 2) exclusion of the companies that could be involved in a merger. In addition, Mr.
11 O'Donnell excludes PG&E Corporation from the group due to the fires in California and its
12 resulting bankruptcy filing.³⁷

13 **Q. Do you agree with the screening criteria that Mr. O'Donnell relied on to develop**
14 **his electric utility proxy group for Public Service?**

15 A. No, I do not. While I recognize that the screening criteria that are applied by analysts
16 can differ, the objective is to establish a proxy group that is comparable to the subject
17 company. In addition, it is necessary that the data that is used in the models be representative
18 of investors' expectations. While Mr. O'Donnell suggests that he has established screening
19 criteria to include companies that are similar in risk to Public Service, his application of the

³⁷ Direct Testimony of Kevin W. O'Donnell, at 15.

1 screening criteria fail to meet that objective. In addition, the data that Mr. O'Donnell has
2 relied on is not representative of investors' expectations.

3 As shown in Exhibit AEB-2, two of the companies Mr. O'Donnell's proxy group
4 were involved in merger related activity over his analytical period, Avista and Dominion
5 Resources.³⁸ Mr. O'Donnell noted that he had excluded Dominion Resources and Scana
6 from his proxy group based their merger activity, however Exhibit KWO-1 includes
7 Dominion. While Avista terminated its merger plans in January 2019, the data set that Mr.
8 O'Donnell relied on includes prices over the period for which the merger effort was ongoing
9 and should therefore be eliminated.

10 Considering the market data available for the remainder of his proxy group, two of
11 Mr. O'Donnell's companies are only covered by Value Line, which is an individual analyst.
12 Therefore, for these companies, the data that Mr. O'Donnell has relied on are not consensus
13 estimates of the projected growth of the company. Finally, while Entergy does have a
14 consensus estimate of EPS growth, it is a negative growth rate, which violates the
15 assumptions of the Constant Growth DCF model and therefore should be eliminated.

16 **Q. Do you agree with Mr. O'Donnell's use of PSEG in his ROE analysis?**

17 A. No, I do not. In order to avoid the circular logic that otherwise would occur, it is my
18 general practice to exclude the subject company, or its parent holding company, from the
19 proxy group.

³⁸ While Mr. O'Donnell's testimony is not specific as to the end date of his analytical period, he has relied on Value Line reports through February 15, 2019. Therefore, I have considered merger activity that would have been ongoing for the thirteen weeks prior to this date.

1 **Q. Are there other factors that you would typically consider in developing the proxy**
2 **group?**

3 A. Yes. I typically require that the proxy companies be comparable to the subject
4 company in terms of the amount of net operating activity derived from electric and natural
5 gas operations. Several of Mr. O'Donnell's proxy companies do not generate as much net
6 income from natural gas operations as Public Service.

7 **B. Constant Growth DCF Analysis**

8 **Q. Please summarize Mr. O'Donnell's Constant Growth DCF analysis.**

9 A. Mr. O'Donnell performs a Constant Growth DCF analysis on his proxy group and
10 PSEG (the parent holding company for Public Service). While Mr. O'Donnell summarizes
11 many forms of growth rates, he does not specifically rely on any of those growth rates to
12 develop his DCF analysis. Instead of applying any of the company-specific growth rate
13 estimates, Mr. O'Donnell selects his own estimates of 4.0 percent to 6.0 percent.³⁹ Mr.
14 O'Donnell applies these growth rates to the 4-week and 13-week average dividend yields for
15 the proxy group which produces a range of ROE estimates of 7.60 percent to 9.80 percent for
16 proxy group and 7.5 percent to 9.60 percent for PSEG.⁴⁰

17 **Q. Please comment on the range that Mr. O'Donnell establishes for the DCF**
18 **results.**

19 A. The range that Mr. O'Donnell establishes is not based on the results of his DCF
20 model. Without justification, Mr. O'Donnell's range is skewed to the low end of the results

³⁹ Direct Testimony of Kevin W. O'Donnell, at 23.

⁴⁰ *Id.*, at 24.

1 of his DCF models. Mr. O'Donnell provides no rationale for how he establishes his
2 recommended range of results, which is from 8.0 percent to 9.0 percent, only that it is "right
3 in the middle" of the results of his analyses. In fact, Mr. O'Donnell's range is 40 basis points
4 above the low end of the range of results for his comparable group and 80 basis points below
5 the high end of the range of results for this group. The only explanation provided for the
6 range that is established is Mr. O'Donnell's judgement.⁴¹ Reviewing Mr. O'Donnell's prior
7 testimonies identified over the past few years, while there are DCF results are routinely
8 higher than 9.0 percent in his analyses, it appears that Mr. O'Donnell has concluded that this
9 is the appropriate range, in all but one case, for natural gas distribution companies and
10 electric utilities in 2018. In that one case, which was for Jersey Central Power and Light, Mr.
11 O'Donnell's range shifted upward by 25 basis points to 8.25 percent to 9.25 percent.

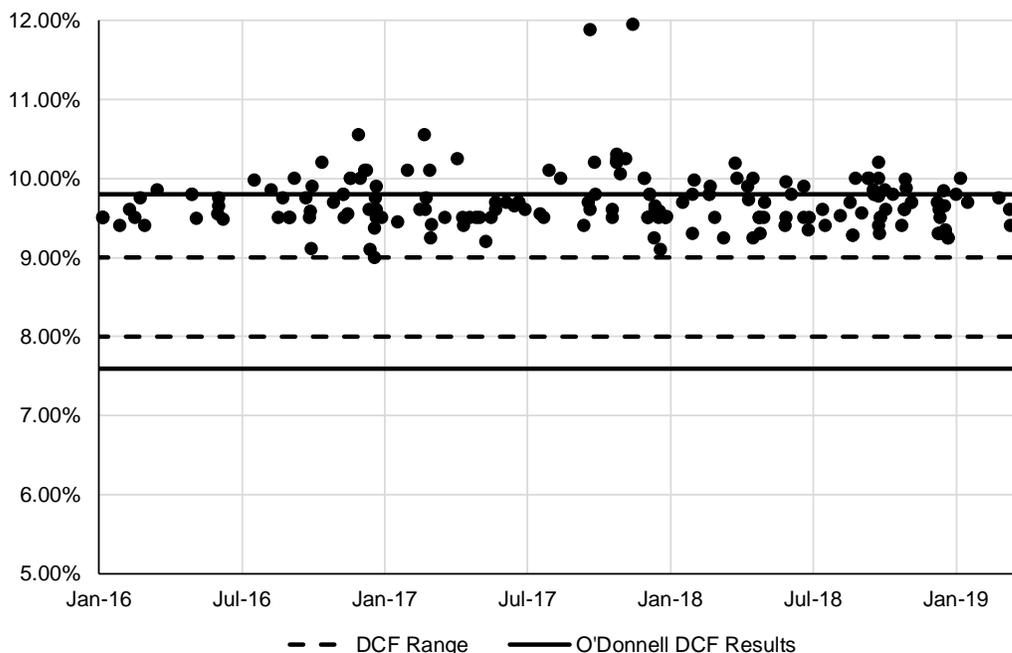
12 **Q. How does Mr. O'Donnell's recommended range compare with recently**
13 **authorized ROEs?**

14 A. As shown in Figure 5, which compares Mr. O'Donnell's DCF results and the range he
15 establishes with recently authorized ROEs, the low end of Mr. O'Donnell's Constant Growth
16 DCF results and the low end of his established range are well below the authorized returns
17 for combination electric and gas companies in other jurisdictions. The high end of Mr.
18 O'Donnell's range represents the low end of the recently authorized ROEs, whereas the high
19 end of Mr. O'Donnell's DCF results represent the average of recently authorized returns.

⁴¹ Response to PSE&G KWO-24.

1 Finally, the high end of the results of Mr. O’Donnell’s DCF analyses of 9.80 percent is well
2 within the range of recently authorized ROEs.

3 **Figure 5: Comparison of O’Donnell’s DCF Results and recommendations with**
4 **Authorized ROEs.⁴²**



5
6 Rather than questioning why the DCF model is producing results that are so far outside the
7 range of comparable returns for other regulated utilities, Mr. O’Donnell justifies his reliance
8 on the DCF model with the unsubstantiated statement that it is “used more often than any
9 other method”,⁴³ and that it is “intuitively a very simple model to understand.”⁴⁴ Mr.
10 O’Donnell has not conducted any analysis of cases beyond those where he has offered

⁴² Sources: SNL Energy, Direct Testimony of Kevin W. O’Donnell, at 24.
⁴³ Direct Testimony of Kevin W. O’Donnell, at 15.
⁴⁴ *Id.*, at 17.

1 testimony to substantiate the conclusion that the DCF is used more often than any other
2 methodology.⁴⁵ Mr. O'Donnell also offered in his testimony as support for this methodology
3 that much information can be found about this approach through an internet search.⁴⁶ While I
4 can agree that the DCF model is commonly presented in regulatory proceedings and that
5 there may be much information available in public sources about this and other ROE
6 estimation models, the frequency with which the model is presented or discussed publicly
7 does not relate to the accuracy of the model in estimating investor expectations. As
8 discussed previously, the FERC, which had relied on the DCF exclusively for many years,
9 has recently proposed to rely on an equal weighting of four methodologies to determine the
10 ROE because in its view, investors consider the results of multiple models. Since the ROE
11 that is set in this proceeding is intended to reflect investor expectations, it is important to
12 consider the results of multiple methods. Furthermore, each ROE estimation model has its
13 strengths and limitations, therefore review of multiple models will produce a more informed
14 result.

15 **Q. Does Mr. O'Donnell suggest that simplicity is a key factor in the development of**
16 **the DCF model?**

17 A. No, he does not. Mr. O'Donnell agrees that simplicity should not be confused with
18 accuracy. However, Mr. O'Donnell further suggests that the DCF model can accurately and
19 promptly include all known and relevant information into the model and suggests it may

⁴⁵ Response to PSE&G -KWO-5.
⁴⁶ Direct Testimony of Kevin W. O'Donnell, at 17.

1 therefore be more accurate than the CAPM.⁴⁷ While the availability of the dividend yield
2 may make the analysis more prompt, Mr. O'Donnell recognizes that "irrational behavior"
3 may and has affected share prices.⁴⁸ Since share prices affect the dividend yield in the DCF
4 model, the effect of irrational behavior on this term in the DCF model may also affect the
5 reliability of the results of the model.

6 **Q. Do you agree with Mr. O'Donnell's application of the DCF model?**

7 A. No, I do not. Mr. O'Donnell's analysis is not based on the market's view of the
8 growth of the proxy companies, nor is it based on the specific growth rates for the companies
9 that are included in his proxy group. Rather, his analysis relies on a 4-week and 13-week
10 average dividend yield for the proxy companies and his judgement as to the appropriate
11 average growth for the proxy group. Mr. O'Donnell's chosen growth rates do not reflect the
12 market view of the expected growth for his proxy companies.

13 **Q. Please summarize Mr. O'Donnell's testimony regarding the appropriate growth**
14 **rate in the DCF model.**

15 A. Mr. O'Donnell offers as support for the 4 percent growth rate that this estimate is
16 "close to the midpoint of the 10-year and 5-year historical growth in dividends".⁴⁹ He offers
17 similar vague support for the high-end growth rate, stating that this growth rate "is

⁴⁷ Response to PSE&G-KWO-17.

⁴⁸ Direct Testimony of Kevin W. O'Donnell, at 16.

⁴⁹ *Id.*, at 23.

1 approximately equal to the high end of the range for the forecasted growth in earnings for the
2 comparable group”.⁵⁰

3 **Q. Do you agree with Mr. O’Donnell’s approach to selecting the growth rates to be**
4 **relied on in the DCF model?**

5 A. No, I do not. Mr. O’Donnell’s selection of the growth rates used in the DCF model
6 are arbitrary selections that are not at all based on the growth rates that he summarizes in this
7 case. As shown in Exhibit KWO-1, the average growth rates summarized by Mr. O’Donnell
8 range from 1.0 percent to 7.2 percent. The projected growth rates are within a narrower
9 range, from 4.5 percent to 7.2 percent. In Public Service’s recent GSMP II case, the average
10 growth rates summarized by Mr. O’Donnell ranged from -0.5 percent to 7.5 percent and the
11 projected growth rates ranged from 3.8 to 5.6 percent. In each of these cases, Mr. O’Donnell
12 selected a growth rate range of 4.0 percent to 6.0 percent.

13 Furthermore, Mr. O’Donnell’s rationale for the selection of his growth rates in the
14 current case is inconsistent with the methodology that he used in the GSMP II case. In the
15 GSMP II case, Mr. O’Donnell again selected a range of 4.0 percent to 6.0 percent. In that
16 case, he offered a completely different rationale to support this range:

17 Over the past 10-years, the combination utility group has grown in the
18 range of approximately 3.0% to 4.0%. The forecasted growth rates for
19 the combination utility group are higher than the historical growth
20 rates for the combination utility comparable group and are in the range
21 of 4.0% to 6.0%. Based on these results, I believe the proper growth
22 rate range to use in the DCF model for the combination utility group is
23 4.0% to 6.0%. The low-end of this range is equal to the high end of the

⁵⁰ *Ibid.*

1 range for the historical results whereas the high end of the range is
 2 slightly above the highest forecasted growth rate range for the
 3 comparable group.⁵¹

4 As shown in Figure 6 below, while the range of growth rates that Mr. O'Donnell
 5 compiles is wide, the selected range that he has relied on in the last several years is very
 6 narrow. Furthermore, the approach used to select the range changes considerably from case
 7 to case.

8 **Figure 6: Summary of Growth Rates Developed in Mr. O'Donnell's Recent Testimonies**

Date	Company	Docket/State	Actual Range of Growth Rates	Selected Range	Rationale
2018	Duke Energy Progress	E-2Sub 1142/NC	Historical: 4.0%-7.0% Projected: 4.2%-5.6%	4.75%-5.75%	Low is set above the low of historical and projected growth rates. High is "almost identical to the high end of the forecasted growth rates"
2018	Baltimore Gas and Electric	9484/MD	Historical: -0.2%-4.7% Projected: 5.6%-12.2%	5.5%-6.5%	Weighs Valueline forecasted EPS growth rates and moves the forecast above the 5.0%-6.0% growth rate averages excluding "Outliers".

⁵¹ BPU Docket No. GR17070776, Direct Testimony of Kevin W. O'Donnell, at 23-24.

2018	Jersey Central Power & Light	EO18070728/ NJ	Historical: 2.2%-4.4% Projected: 4.3%-5.9%	4.0%- 6.0%	Low end is set close to the historical dividend growth rates and the high end is equal to the high end of the forecasted earnings growth rates.
2018	Elkton Gas	FC 9488	Historical 0.9%-4.9% Projected: 5.9%-11.7%	5.0%- 6.0%	Range is on target with forecast range of growth rates, higher than plowback and gives weight to strong historical results.

1 Therefore, while Mr. O’Donnell suggests that he is considering numerous growth
2 rates in the development of his DCF analysis, he simply relies on a narrow range of growth
3 rates from one case to the next, regardless of the market data at the time of his analysis.
4 Furthermore, because Mr. O’Donnell performs his analysis using the low and high growth
5 rates, rather than individual company results, the major driver of his DCF results is the
6 average dividend yield of the proxy group that he relies on.

7 **Q. What growth rates would result if you applied the criteria that Mr. O’Donnell**
8 **used in the GSMP II case to the growth rates that are summarized in Exhibit**
9 **KWO-1 in this proceeding?**

10 A. In the GSMP II case, Mr. O’Donnell established the high end of his range using the
11 high end of the range of historical and projected growth rates. As shown in Exhibit KWO-1,
12 establishing the range using the high end of the historical growth rates would result in an
13 average growth rate of 7.0 percent. Considering the high end of the forecasted growth rates,
14 the average growth rate would be 7.2 percent.

1 **Q. Have you conducted any analysis to determine the return on equity that would**
2 **have resulted from using these growth rates, consistent with Mr. O'Donnell's**
3 **approach in the GSMP II case?**

4 A. Yes, I have. As shown in Exhibit AEB-3R, the results of this analysis would be an
5 ROE of 10.8 percent to 11.1 percent, excluding the proxy companies referenced previously
6 that should be excluded.

7 **Q. What are the most relevant growth rates to rely on in the DCF analysis?**

8 A. Earnings per share growth rates are the appropriate growth rates to rely on in the
9 Constant Growth DCF model. To reduce the long-term growth rate to a single measure, one
10 must assume that the dividend payout ratio remains constant and that earnings per share,
11 dividends per share, and book value per share all grow at the same constant rate. Over the
12 long run, dividend growth can only be sustained by earnings growth. Earnings growth rates
13 tend to be least influenced by capital allocation decisions that companies may make in
14 response to near-term changes in the business environment. Since such decisions may
15 directly affect near-term dividend payout ratios, estimates of earnings growth are more
16 indicative of long-term investor expectations than are dividend or book value growth
17 estimates. Furthermore, earnings per share growth rates are the more prevalent growth rate
18 estimates. As can be seen in Mr. O'Donnell's Exhibits KWO-1 and KWO-2, projected DPS
19 and BPS growth rates are only provided by Value Line and the Plowback Ratio is calculated
20 using Value Line's projections. The only projected growth rates that are reported by multiple
21 analysts are EPS growth rates.

1 **Q. Do you agree with Mr. O’Donnell that the sustainable (“plowback”) growth rate**
2 **should be used in the DCF model?**

3 A. In general, I do not agree with the use of sustainable growth rates in the Constant
4 Growth DCF model. Academic research has shown that there is not a positive correlation
5 between retention growth rates and future earnings growth. In 2006, for example, two
6 articles appeared in *Financial Analysts Journal*, which addressed the theory that high
7 dividend payouts (i.e., low retention ratios) are associated with low future earnings growth.⁵²
8 Both of those articles cite a 2003 study by Arnott and Asness⁵³ who found that, over the
9 course of 130 years of data, future earnings growth is associated with high, rather than low
10 payout ratios.⁵⁴

11 In addition, I do not agree with how Mr. O’Donnell has calculated his sustainable
12 growth rates. However, since Mr. O’Donnell has not presented Constant Growth DCF results
13 based solely on sustainable growth rates, I have not corrected his calculation.

14 From a theoretical perspective, Mr. O’Donnell’s calculation of sustainable growth
15 rates considers only the product of earnings retention rates and earned returns on common
16 equity, or what are commonly known as internally-generated funds. In the sustainable
17 growth formula, this is commonly referred to as the product of “b*r”, where “b” is the
18 retention ratio or the portion of net income not paid in dividends, and “r” is the expected

⁵² Ping Zhou, William Ruland, *Dividend Payout and Future Earnings Growth*, *Financial Analysts Journal*, Vol. 62, No. 3, 2006. See also Owain ap Gwilym, James Seaton, Karina Suddason, Stephen Thomas, *International Evidence on the Payout Ratio, Earnings, Dividends and Returns*, *Financial Analysts Journal*, Vol. 62, No. 1, 2006.

⁵³ Robert Arnott, Clifford Asness, *Surprise: Higher Dividends = Higher Earnings Growth*, *Financial Analysts Journal*, Vol. 59, No. 1, January/February 2003.

⁵⁴ Since the payout ratio is the inverse of the retention ratio, the authors found that future earnings growth is negatively related to the retention ratio.

1 ROE on the portion of net income that is retained within the Company as a means for future
2 growth. Mr. O'Donnell fails to consider that earnings growth also occurs as a result of new
3 equity issuances, or what are commonly known as externally-generated funds. In the
4 sustainable growth formula, this is shown as the product of "s*v", where "s" represents the
5 growth in shares outstanding and "v" is that portion of the M/B ratio that exceeds unity. This
6 methodology is recognized as a common approach to calculating the sustainable growth
7 rate.⁵⁵

8 **Q. What support does Mr. O'Donnell provide for his suggestion that analysts give**
9 **"great weight" to dividend and book value growth rates?**

10 A. Mr. O'Donnell's conclusion with respect to the weight analysts give to dividend and
11 book value growth rates is unsubstantiated. In response to a data request, Mr. O'Donnell
12 states that he has not conducted any analysis on analysts' use of dividend and book value
13 growth rates, noting as his support only that these growth rates are published by Value
14 Line.⁵⁶

15 **Q. Have other regulatory commissions abandoned the use of sustainable growth**
16 **rates in its electric transmission ROE methodology?**

17 A. Yes. In Opinion No. 531, the FERC changed its approach on the DCF methodology
18 to be applied in public utility rate cases.⁵⁷ In summary, the FERC adopted the same two-step
19 DCF methodology it has employed in gas and oil pipeline rate proceedings since the mid-

⁵⁵ See Roger Morin, New Regulatory Finance, at 306.

⁵⁶ Response to PSE&G-KWO-16 (a).

⁵⁷ Opinion No. 531 147 FERC ¶ 61,234 (June 19, 2014).

1 1990s, in place of the one-step methodology previously used. The FERC's two-stage DCF
2 approach does not rely on a sustainable growth calculation.

3 **Q. Do you believe it is important to rely on historical growth rates in the DCF**
4 **model?**

5 A. No, I do not. The Constant Growth DCF model is a forward-looking model that
6 evaluates investors' required returns based on future cash flows. As such, the appropriate
7 measure of growth to incorporate for DCF analyses is investors' expectations. Furthermore,
8 historical results can be influenced by past events that may not be expected to continue into
9 the future. For example, if a company is expected to adjust its dividend payout ratio, then
10 using historical EPS and DPS growth rates may not be appropriate since the historical growth
11 rates would assume that the historical dividend payout ratio continues into the forecast
12 period. In this case, it is more appropriate to use securities analysts' forecasted earnings
13 growth rates which would incorporate historical performance to the extent the analysts
14 believe it is likely to continue. Moreover, since analysts consider historical conditions in
15 developing projections, relying on historical growth rates in addition to projections provides
16 no meaningful incremental information regarding the proxy companies' future growth
17 potential.

18 **Q. Would the results of Mr. O'Donnell's DCF analysis change if he had relied on a**
19 **risk-comparable proxy group and projected earnings per share growth rates?**

20 A. Yes. As shown in Exhibit AEB-4, using the 13-week dividend yields relied on by Mr.
21 O'Donnell and the earnings per share growth rates summarized in Schedule KWO-1, the
22 DCF results for a risk-comparable proxy group would be 9.5 percent. Considering the

1 adjustments to the proxy group that I discussed previously, the mean return increases to 9.60
2 percent.

3 **Q. Do you believe it is appropriate to rely solely on the Constant Growth DCF in**
4 **setting the ROE in this proceeding?**

5 A. No, I do not. As discussed previously in my Rebuttal Testimony recent market
6 conditions have affected the dividend yields in the DCF model such that the results of this
7 model understate the cost of equity at this time. Other jurisdictions, such as the FERC have
8 recognized that it is not appropriate to only rely on the results of the DCF model. Therefore,
9 while the results of the DCF model should be considered, these results must be considered
10 along with the results of other ROE models.

11 **C. Comparable Earnings**

12 **Q. Please summarize Mr. O'Donnell's Comparable Earnings analyses.**

13 A. Mr. O'Donnell presents two Comparable Earnings analyses.⁵⁸ The first is based on
14 the earned returns on common equity for the companies in his combination proxy group, as
15 well as PSEG, over the period of 2017-2024. This analysis, which is shown in Exhibit
16 KWO-3 produces a range from 10.3 percent to 11.5 percent. Mr. O'Donnell states that the
17 second analysis is based on authorized ROEs for electric and natural gas distribution
18 companies across the U.S. from 2003-2017.⁵⁹ Chart 4 in Mr. O'Donnell's Direct Testimony
19 shows the general decline in authorized returns since 2001, as well as the increase that

⁵⁸ Direct Testimony of Kevin W. O'Donnell, at 25-26.

⁵⁹ *Id.*, at 25.

1 occurred from 2016 to 2017. Mr. O'Donnell notes that the average authorized ROE for
2 electric utilities in 2018 was 9.57 percent and the average authorized ROE for natural gas
3 utilities was 9.59 percent. Mr. O'Donnell concludes that his Comparable Earnings analyses
4 produce a range of returns from 9.5 percent to 10.5 percent.⁶⁰

5 **Q. Do you have any comments on these analyses?**

6 A. Yes. While I will address each of the analyses that Mr. O'Donnell has prepared, the
7 conclusions he reaches from his comparable earnings analyses are 50 to 150 basis points
8 above his final unadjusted ROE recommendation.

9 Mr. O'Donnell's first Comparable Earnings analysis demonstrates that the earned
10 return on common equity for the proxy group of combination electric and gas utilities that he
11 determined is comparable to PSEG averaged 10.3 percent in 2017 and that the expected
12 return for this group is between 10.50 percent and 11.50 percent. These expectations are 150-
13 250 basis points above his unadjusted ROE recommendation of 9.00 percent. Furthermore,
14 these expectations suggest that the settlement ROE in the Company's last rate proceeding
15 was conservative in comparison to market expectations.

16 Regarding Mr. O'Donnell's second Comparable Earnings analysis, the universe of
17 authorized ROEs that he relies on in his analysis is inconsistent with the comparability
18 analysis that was used to establish his proxy group that was relied on for the remainder of the
19 analyses in his testimony. While Mr. O'Donnell selects a proxy group that he believes is

⁶⁰ *Id.*, at 26.

1 comparable to PSEG from the Value Line electric utilities, with emphasis on those
2 companies that have electric and natural gas operations, his comparable earnings analysis
3 includes the returns that were authorized for vertically integrated electric utilities,
4 combination gas and electric utilities and natural distribution operations.

5 Despite the differences in the companies that he relies on in the second comparable
6 earnings analysis, the results reported by Mr. O'Donnell demonstrate that the average
7 authorized ROE for each of the groups that he has considered are within 1-3 basis points of
8 the 9.60 return that was agreed to by the Division of Rate Counsel in the Company's rate
9 case, which was settled in October 2018. Therefore, without consideration of the individual
10 authorized returns that are included in the 2018 sample group, Mr. O'Donnell's own analysis
11 supports the conclusion that his recommendation in this proceeding is unreasonably low.

12 **D. CAPM Analysis**

13 **Q. Please summarize Mr. O'Donnell's CAPM analysis.**

14 A. Mr. O'Donnell expresses reservations about the CAPM, especially when it is applied
15 using a forecasted market risk premium or forecasted interest rates. However, he recognizes
16 that the FERC has recently expressed an interest in reviewing additional model and he is
17 aware that the Maryland Public Service Commission is also interested in other models. For
18 that reason, Mr. O'Donnell has performed a CAPM analysis to supplement his DCF and

1 Comparable Earnings analyses, but he indicates that he has not given the CAPM analysis
2 much weight.⁶¹

3 Mr. O'Donnell develops his CAPM analysis using the high, low and average yields
4 on 30-year Treasury bonds over the past year as the risk-free rate, beta coefficients reported
5 by Value Line, and a market risk premium of 4.0 percent to 6.0 percent. It is important to
6 note that Mr. O'Donnell's market risk premium is based on historical returns as published in
7 the 2014 edition of the Ibbotson SBBI Classic yearbook, several market return estimates that
8 were published in January 2016 and the results from the Duke University CFO study
9 published in March of 2018. Based on these inputs and assumptions, Mr. O'Donnell's
10 CAPM analysis produces a return estimate in the range of 5.3 percent to 7.0 percent for the
11 comparison group and 5.5 percent to 7.4 percent for PSEG Enterprises.⁶²

12 **Q. Please comment on the results of Mr. O'Donnell's CAPM analysis.**

13 A. Mr. O'Donnell's CAPM results of 5.30 percent to 7.40 percent are entirely
14 inconsistent with the returns required by equity investors for companies with commensurate
15 risk. To place these results in context, they are 220 to 430 basis points below the settlement
16 ROE of 9.60 percent that was agreed to in October 2018. Furthermore, Mr. O'Donnell's
17 entire range of CAPM results has ever been observed as an authorized ROE for any electric
18 or gas utility in at least the past 35 years.⁶³

⁶¹ *Id.*, at 27.

⁶² See Exhibit KWO-4.

⁶³ Source: Regulatory Research Associates.

1 **Q. What are your concerns with the inputs and assumptions that Mr. O'Donnell**
2 **has used to develop his CAPM estimate?**

3 A. I disagree with two aspects of Mr. O'Donnell's CAPM analysis: 1) the use of only
4 the current Treasury bond yield as the risk-free rate; and 2) the use of an under-stated market
5 risk premium that is, in part, based on historical returns and which does not reflect the
6 inverse relationship between interest rates and the equity risk premium.

7 **Q. How does Mr. O'Donnell justify his use of the current Treasury bond yield as**
8 **the risk-free rate in his CAPM analysis?**

9 A. Mr. O'Donnell testifies that he used the current Treasury bond yield as the risk-free
10 rate in the CAPM analysis because economic forecasters and the Federal Reserve believe the
11 current interest rate environment is expected to remain relatively stable for many years to
12 come.⁶⁴ He cites a June 2016 quote from outgoing Fed Chair Yellen as support for his view
13 that interest rates are expected to remain relatively stable for many years to come.

14 **Q. What is your response?**

15 A. As explained in Section III of my Rebuttal Testimony, capital markets have
16 experienced a prolonged period of low interest rates as central banks in the U.S. and around
17 the world have taken extraordinary steps to stimulate the economy after the financial crisis
18 and Great Recession. Utility regulators in other jurisdictions are struggling with how to
19 interpret the results of financial models that are being impacted by what the FERC has
20 characterized as "anomalous" capital market conditions. Some regulators, such as the
21 Massachusetts DPU support the use of projected Treasury bond yields in the CAPM analysis

⁶⁴ Direct Testimony of Kevin W. O'Donnell, at 31.

1 as one way to adjust the inputs to the models during this period of low interest rates.⁶⁵
2 Furthermore, as discussed in Section III there is evidence that suggests that the growth in
3 demand for Treasuries has begun to soften at a time when the supply will necessarily
4 increase, requiring higher returns to stimulate demand. As a result, yields on long-term
5 government bonds are expected to continue to increase over the near-term which is consistent
6 with investors' expectations shown in Figure 2 above.

7 **Q. Can you provide an example of another time when the use of current interest**
8 **rates would not have been appropriate?**

9 A. Yes. Following Mr. O'Donnell's logic that current interest rates will remain
10 relatively stable, the Board would have based ROE determinations in the early 1980s on
11 government bond yields of 15-18 percent, even though those interest rates had started a long,
12 steady decline. As a result, ratepayers would have been paying unnecessarily high capital
13 costs. Today, the situation is reversed. Interest rates are near historic lows but have been
14 increasing as the Federal Reserve continues tightening monetary policy and unwinding the
15 asset purchases made after the Great Recession, and as the effects of tax reform and
16 increased government debt flow through to long-term Treasury yields. Setting the cost of
17 equity for in this case based on the assumption that current interest rates will continue in
18 perpetuity is very likely to under-compensate investors as capital costs increase.

⁶⁵ D.P.U. 17-05 Petition of NSTAR Electric Company and Western Massachusetts Electric Company, each doing business as Eversource Energy, Pursuant to G.L. c. 164, § 94 and 220 CMR 5.00 et seq., for Approval of General Increases in Base Distribution Rates for Electric Service and a Performance Based Ratemaking Mechanism, November 30, 2017, at 693.

1 **Q. Please explain why you disagree with Mr. O'Donnell's use of a market risk**
2 **premium in the CAPM analysis that is based on historical returns.**

3 A. First, it is important to recognize that not only is Mr. O'Donnell's market risk
4 premium largely based on historical returns, but the historical data points that he has relied
5 on are two to five years out of date. The Ibbotson data that Mr. O'Donnell relies on is based
6 on data through 2013. Furthermore, given the current low yields on Treasury bonds, and the
7 inverse relationship between interest rates and the market risk premium, my concern is that
8 Mr. O'Donnell's market risk premium estimate based on historical returns of 4.60 percent to
9 6.20 percent is understated. As shown in Table 6 of Mr. O'Donnell's testimony, using data
10 through 2013, the average historical return on long-term government bonds is 5.50 percent
11 (geometric mean) and 5.90 percent (arithmetic mean), while the average yield on long-term
12 government bonds at the time that he filed his testimony was approximately 3.12 percent.⁶⁶
13 The historical market risk premium as reported by Duff and Phelps is 6.91 percent through
14 2018.⁶⁷ Because interest rates on long-term government bonds are well below the historical
15 average of 5.50 percent or 5.90 percent, the inverse relationship between interest rates and
16 the marker risk premium implies that the forward-looking market risk premium should be
17 higher than the historical average of 6.91 percent.

⁶⁶ Exhibit KWO-4.

⁶⁷ Duff and Phelps 2017 Valuation Handbook- U.S. Guide to Cost of Capital, Chapter 5, p. 14.

1 **Q. Is there evidence that the use of a historical market risk premium may produce**
2 **counter-intuitive results?**

3 A. Yes. Relying on the historical market risk premium may produce results that are not
4 consistent with investor sentiment and current conditions in capital markets. For example,
5 Morningstar has observed:

6 It is important to note that the expected equity risk premium, as it is
7 used in discount rates and the cost of capital analysis, is a forward-
8 looking concept. That is, the equity risk premium that is used in the
9 discount rate should be reflective of what investors think the risk
10 premium will be going forward.⁶⁸

11 In addition, in 2017 Duff & Phelps addressed the risk of relying on the historical
12 market risk premium that includes the negative market returns that were the result of the
13 financial market collapse in 2008.⁶⁹

14 If one simply added an estimate of the ERP taken from commonly
15 used sources before the Financial Crisis to the spot yield on 20-year
16 U.S. government bonds at month-end December 2008, one would have
17 arrived at an estimate of the cost of equity capital that was too low.

18 For example, as illustrated in Exhibit 3.11, at December 2007 the yield
19 on the 20-year U.S. government bonds equaled 4.5%, and the realized
20 risk premium reported based on the average realized risk premiums for
21 1926-2007 was 7.1%. But at December 2008, the yield on 20-year
22 U.S. government bonds was 3.0%, and the realized risk premium
23 reported based on the average realized risk premiums for 1926-2008
24 was 6.5%.

25 So just at the time that the risk in the economy increased to arguably
26 the highest point, the base cost of equity capital using realized risk

⁶⁸ Morningstar Inc., 2010 Ibbotson Stocks, Bonds, Bills, and Inflation, Valuation Yearbook, at 55. Morningstar is the prior publisher of the Valuation Handbook that is now published by Duff and Phelps.

⁶⁹ Duff & Phelps acquired and maintains the Ibbotson historical return data referenced in the Ibbotson Stocks, Bonds Bills and Inflation Valuation Handbook.

1 premiums decreased from 11.6% (4.5% plus 7.1%) to 9.5% (3.0% plus
2 6.5%).⁷⁰

3 Figure 7 illustrates the problem with relying on a historical market risk premium.
4 From 2007-2009, for example, when market volatility had increased significantly and in
5 2008 in particular, when the market returned the largest negative return since the Great
6 Depression, the historical market risk premium *decreased*.

7 **Figure 7: Historical Market Risk Premium and Market Volatility**

	Historical Market Risk Premium⁷¹	Market Volatility
2009	6.70%	31.48
2008	6.50%	32.69
2007	7.10%	17.54

8 The assumption that investors would expect or require a *lower* risk premium during
9 periods of increased volatility is counter-intuitive and leads to unreliable analytical results.
10 The relevant issue in the application of the CAPM is to ensure that all three components of
11 the model (i.e., the risk-free rate, Beta, and the market risk premium) are consistent with
12 market conditions and investor perceptions. Assuming a lower market risk premium during
13 periods of increased risk aversion is at odds with that premise.

⁷⁰ Duff & Phelps, 2017 Valuation Handbook, U.S. Guide to Cost of Capital, at 3-37; 3-38.

⁷¹ Morningstar Inc., 2008 Ibbotson Stocks, Bonds, Bills, and Inflation, Valuation Yearbook, at 28. Morningstar Inc., 2009 Ibbotson Stocks, Bonds, Bills, and Inflation, Valuation Yearbook, at 23. Morningstar Inc., 2010 Ibbotson Stocks, Bonds, Bills, and Inflation, Valuation Yearbook, at 23. Historical Market Risk Premium equals total return on large company stocks less income only return on long-term government securities.

1 **Q. Is there support for the use of a forward-looking market risk premium in the**
2 **CAPM analysis?**

3 A. Yes. The Federal Regulatory Energy Commission (“FERC”) has stated:

4 A CAPM analysis is backward-looking if its market risk premium
5 component is determined based on historical, realized returns. A
6 CAPM analysis is forward-looking if its market risk premium
7 component is based on a DCF study of a large segment of the market.
8 In a forward-looking CAPM analysis, the market risk premium is
9 calculated by subtracting the risk-free rate from the result produced by
10 the DCF study.⁷²

11 The New York PSC also relies on a forward-looking market risk premium that is
12 based on projected returns for the broad market less the Treasury bond yield.

13 **Q. Please comment on the sources that Mr. O’Donnell uses to develop his market**
14 **risk premium estimate.**

15 A. The majority of the sources relied on by Mr. O’Donnell to estimate the market risk
16 premium are between three and five years out of date. In addition to the criticisms noted
17 previously about the use of historical data to develop the market risk premium, the
18 “Ibbotson” data that Mr. O’Donnell relied on as an estimate of the historical market risk
19 premium is based on a historical data set from 1929 to 2013. This data set does not consider
20 any data in the last six calendar years.

21 The Morningstar article cited by Mr. O’Donnell was published more than three years
22 ago and is based on the outlooks of the reporting analysts for the time period from April 2015
23 to January 2016. Therefore, these views are not representative of the “forward-looking”
24 market risk premium to be used in 2019. Furthermore, the relatively small sample; only six

⁷² 150 FERC ¶ 61,165, Docket Nos. EL11-66-002, Opinion No. 531-B, para., at 108.

1 analysts that were quoted in the article is not a reasonable representation of the market's view
2 of expected returns. Finally, it is not appropriate to calculate a forward-looking market risk
3 premium in 2019 by relying on the expected return on the market in 2015 less the average
4 yield on 30-year Treasury bonds in 2019.

5 **Q. Do you agree with the use of the Duke CFO survey estimated market risk**
6 **premium of 4.42 percent?**

7 A. No, I do not. While this study, which was published approximately one year ago, is
8 the most current source that Mr. O'Donnell relied on, the risk premium that he sites is the
9 expected 10-year return on the S&P 500 as compared with the 10-year Treasury yield, not the
10 30-year Treasury yield that Mr. O'Donnell relies on. Importantly, the study, which is survey
11 based also provides results on the disagreement between survey members on the risk
12 premium and also notes that hurdle rates are significantly higher than the cost of capital that
13 is implied by the market risk premium estimates.

14 **Q. Are there other important factors to consider in the Duke survey?**

15 A. Yes. While Mr. O'Donnell suggests that the DCF model is the most widely used
16 model, according to the authors of the Duke survey, three quarters of companies use the
17 CAPM to estimate the equity return.⁷³

⁷³ "The Equity Risk Premium in 2018", John R. Graham and Campbell R. Harvey, Duke University, March 27, 2018.

1 **Q. What is the appropriate methodology that should be used to calculate the**
2 **market risk premium?**

3 A. The forward-looking market premium is calculated by subtracting a measure of the
4 projected risk-free rate from a projected return on the overall market. This methodology has
5 also been endorsed by the FERC, which stated:

6 In this proceeding, the NETOs submitted a forward-looking CAPM
7 study, using 30-year Treasury bonds for the risk-free rate, betas
8 published by Value Line, and a market risk premium based on a DCF
9 study of all S&P 500 companies that were paying dividends. The
10 NETOs' CAPM approach is a generally accepted methodology
11 routinely relied upon by investors and, therefore, one appropriately
12 used to corroborate our own analysis.⁷⁴

13 **Q. Have you estimated the projected market risk premium?**

14 A. Yes. As shown in Exhibit AEB-5, I relied on an approach that is consistent with the
15 methodology that the FERC recently approved. I estimated the expected return on the market
16 by applying the Constant Growth DCF to the S&P 500 companies using the expected
17 earnings growth rates for those companies as reported by Bloomberg. I deducted the risk-
18 free rate to estimate the market risk premium. As show in Exhibit AEB-5, I relied the three
19 measures of the risk-free rate that Mr. O'Donnell relied on in Exhibit KWO-4 to estimate the
20 range of the market risk premium. Based on those estimates of the risk-free rate, the market
21 risk premium is 10.31 percent to 10.85 percent. I also considered the short- and longer-term
22 projected yield on the 30-year Treasury bond for the risk-free rate. The market risk premium

⁷⁴ 150 FERC ¶ 61,165, Docket Nos. EL11-66-002, Opinion No. 531-B, para., at 109.

1 using the projected yields on Treasury bonds resulted in a range for the market risk premium
2 of 9.87 percent to 10.49 percent.

3 **Q. Is there additional support for the reasonableness of the market return you have**
4 **used to calculate the forward-looking market risk premium?**

5 A. Yes, other alternative sources provide reputable forecasts of market returns that are
6 significantly higher than the historical and projected returns relied on by Mr. O'Donnell. In
7 Table 1, I provide the S&P 500 return as reported by Bank of America/Merrill Lynch and
8 additional estimations of the S&P 500 return calculated using earnings growth projections
9 from Bloomberg Professional, Yahoo!Finance, and Standards and Poor's. The calculated
10 returns for the S&P 500 range from 11.30 percent (Bloomberg Professional) to 14.42 percent
11 (Standard and Poor's). Therefore, the total return for the S&P 500 Index that I used to
12 determine the forward-looking market risk premium in my CAPM analysis is well supported
13 by the range of returns shown in Figure 8. By contrast, Mr. O'Donnell's estimated market
14 returns and resulting risk premiums are well outside this range and do not represent investor
15 expectations under current market conditions.

1

Figure 8: S&P 500 Return Estimates⁷⁵

Source	Estimate Date	Dividend Yield	Growth Estimate	S&P 500 Return
Bloomberg Professional	February 28, 2019	1.97%	10.55%	12.63%
Bank of America – Merrill Lynch ⁷⁶	January 11, 2019	N/A	N/A	11.30%
Yahoo!Finance	February 28, 2019	1.97%	11.00%	13.08%
Standard and Poor's	February 28, 2019	1.97%	12.33%	14.42%

2 **Q. How would the range that you calculated for the market risk premium change**
3 **the results of Mr. O'Donnell's CAPM analysis?**

4 A. As shown in Exhibit AEB-6 and Figure 9 below, updating Mr. O'Donnell's CAPM
5 analysis to rely on the range for the market risk premium discussed previously produces
6 mean returns for the combination utility proxy group of 9.43 percent to 9.54 percent. The
7 mean CAPM results for PSEG are between 10.06 percent and 10.15 percent.

⁷⁵ Bloomberg and Yahoo!Finance do not report a dividend yield for the S&P 500; therefore, the average dividend yield reported in the February 28, 2019, S&P 500 Earnings and Estimate Report was used to calculate the total return.

⁷⁶ Required Return - Bank of America Merrill Lynch, Quantitative Profiles, January 11, 2019, at 58.

1

Figure 9: Summary of Adjusted CAPM Results

	Risk-Free Rate	MRP	CAPM Results
Proxy Group Results			
O'Donnell Treasury - Maximum	3.46%	10.31%	9.55%
O'Donnell Treasury - Average	3.12%	10.65%	9.41%
O'Donnell Treasury - Minimum	2.92%	10.85%	9.33%
		Mean	9.43%
O'Donnell Treasury - Average	3.12%	10.65%	9.41%
Treasury - Projection (2019-2020)	3.28%	10.49%	9.47%
Treasury - Projection (2020-2024)	3.90%	9.87%	9.73%
		Mean	9.54%
PSEG Results			
O'Donnell Treasury - Maximum	3.46%	10.31%	10.16%
O'Donnell Treasury - Average	3.12%	10.65%	10.04%
O'Donnell Treasury - Minimum	2.92%	10.85%	9.97%
		Mean	10.06%
O'Donnell Treasury - Average	3.12%	10.65%	10.04%
Treasury - Projection (2019-2020)	3.28%	10.49%	10.10%
Treasury - Projection (2020-2024)	3.90%	9.87%	10.31%
		Mean	10.15%

2 **Q. What is your conclusion regarding Mr. O'Donnell's CAPM analysis?**

3 A. My conclusion is that Mr. O'Donnell's CAPM analysis is based on flawed
4 assumptions and inputs which are not forward-looking. As such, the results of his CAPM
5 analysis are well below any authorized return for a gas or electric utility over the past 35
6 years and cannot be relied upon to estimate the cost of equity for Public Service's Energy
7 Strong II. Furthermore, when corrected to reflect a forward-looking market risk premium ad

1 projected Treasury bond yields, the results of the CAPM support the 9.60 percent ROE that
2 was agreed to by the Company and the Division of Rate Counsel in the Company's rate
3 proceeding in October 2018.

4 **Q. Do you agree with Mr. O'Donnell's proposal to reduce the ROE by 50 basis**
5 **points for the risk reduction of Energy Strong II?**

6 A. No, I do not. First, implementing an ROE that is lower than the ROE that was
7 established in the base proceeding is contrary to the intention of the program. The goal of the
8 Energy Strong II program is to encourage investment in infrastructure. A reduction in the
9 ROE for the assets that are included in this program reverses any incentive that was intended
10 by the program. Therefore, reducing the ROE in this case below the return that was agreed
11 to in the base rate proceeding creates a disincentive to invest in assets between rate
12 proceedings.

13 Furthermore, the proposed reduction in the ROE is inconsistent with the fundamental
14 principles that Mr. O'Donnell relied on in estimating the appropriate ROE. By relying on a
15 proxy group of companies to estimate the ROE, Mr. O'Donnell is benchmarking the
16 Company to the proxy group for the purposes of setting the ROE. The proxy group that Mr.
17 O'Donnell has relied on has implemented various rate recovery mechanisms that affect the
18 overall risk profile of that group. Therefore, the relevant comparison is not whether Energy
19 Strong II mitigates risk for the Company, but whether or not Energy Strong II reduces the
20 Company's risk as compared to the proxy group. Mr. O'Donnell has provided no evidence
21 that demonstrates that this program provides risk mitigation to Public Service that does not

1 exist in operating companies of the proxy companies. Therefore, on a methodological basis,
2 his recommended reduction to the ROE for Energy Strong II is without foundation.

3 **Q. Have you conducted any analysis of the stabilization and capital tracking**
4 **mechanisms that have been implemented by the proxy companies?**

5 A. Yes, I have. As shown in Exhibit AEB-7, nearly half of the operating companies in
6 Mr. O'Donnell's proxy group have capital tracking mechanisms that are similar to the
7 Energy Strong II. Therefore, any risk reducing elements of cost recovery mechanisms such
8 as the Energy Strong II are already reflected in the ROE of the proxy group, and no
9 adjustment is needed to authorized ROE for Public Service.

10 **E. Capital Structure**

11 **Q. Please summarize Mr. O'Donnell's capital structure recommendation.**

12 A. Mr. O'Donnell provides a review of the equity ratios of the proxy group companies.
13 While he ultimately recommends the use of the Company's proposed capital structure
14 composed of 54.0 percent equity, 45.53 percent debt and 0.47 percent customer deposits, Mr.
15 O'Donnell suggests that he is concerned that "PSEG's equity ratio is 'equity thick' for
16 ratemaking purposes".⁷⁷

17 **Q. Please comment on the analysis that Mr. O'Donnell provides of the equity ratios**
18 **of the proxy companies.**

19 A. Mr. O'Donnell's capital structure analysis is summarized in Table 9 of his Direct
20 Testimony. As shown in this table, Mr. O'Donnell provides an estimate of the 2018 equity

⁷⁷ Direct Testimony of Kevin W. O'Donnell, at 45.

1 ratio the proxy companies and concludes that the average equity ratio is 44.00 percent.
2 While there is no source provided for the information, these figures appear to be at the
3 holding company level, rather than the operating utility level. In addition, Mr. O'Donnell
4 observes that the average authorized equity ratio for electric utilities in 2018 was 48.95
5 percent and for gas utilities was 50.09 percent.

6 **Q. Do you agree with Mr. O'Donnell's analysis of the capital structures of the proxy**
7 **companies?**

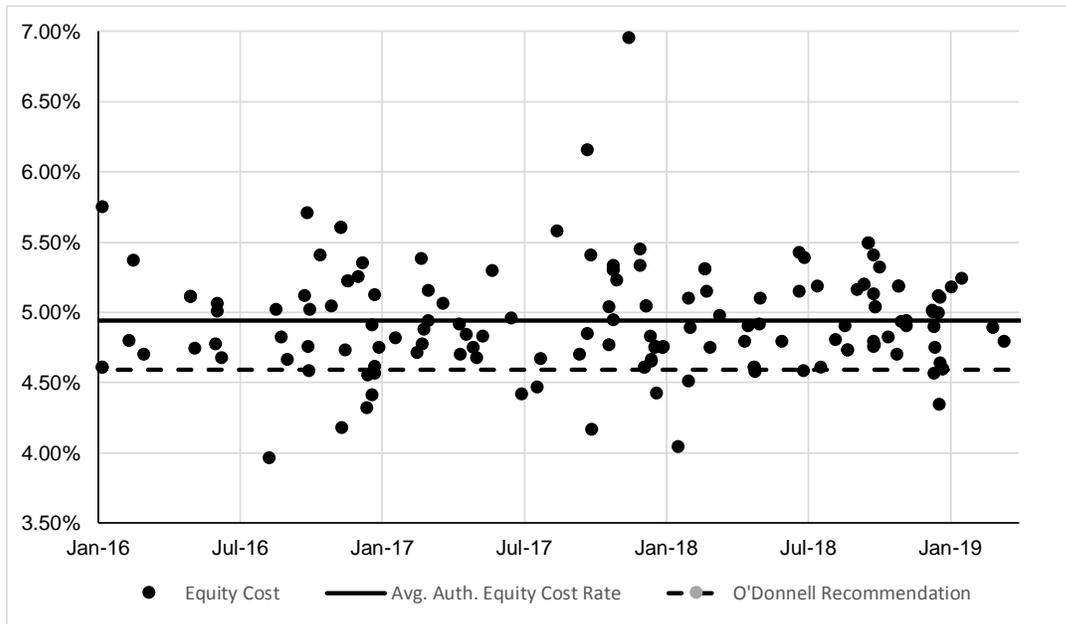
8 A. No, I do not. In Exhibit AEB-8, I have summarized the capital structures of the
9 utility operating companies of Mr. O'Donnell's proxy group of combination electric and gas
10 utilities. As shown in that analysis, the mean equity ratio is 52.60 percent and the highest
11 equity ratio is 58.18 percent. Based on that analysis, Public Service's requested common
12 equity ratio for purposes of the Energy Strong II of 54.00 percent is reasonable and
13 appropriate.

14 **VII. SUMMARY AND CONCLUSIONS**

15 **Q. How do Mr. O'Donnell's proposed return on equity and equity ratio compare**
16 **with the recently authorized ROEs and capital structures for the electric and**
17 **natural gas utilities in other jurisdictions?**

18 A. The equity cost rate, which is the product of the equity ratio and the return on equity,
19 is the return to shareholders. Chart 4 calculates the equity cost rates that result from recently
20 authorized ROEs and equity ratios in 2016-2019. Figure 10 demonstrates that Mr.
21 O'Donnell's proposed equity cost rate of 4.59 percent is significantly below the average
22 authorized equity cost rate over this time-period.

1 **Figure 10: Recently Authorized Electric and Natural Gas Equity Cost Rates 2017-2019**



3 **Q. Please summarize your conclusions and recommendations.**

4 A. For the reasons outlined in my Rebuttal Testimony, I find that Mr. O'Donnell's
5 recommended ROE of 8.50 percent is not reasonable and does not meet the requirements of
6 *Hope* and *Bluefield* for a just and reasonable return. I conclude that Public Service's
7 requested ROE of 9.60 percent for the Energy Strong II cost recovery mechanism, which is
8 consistent with the return that the Rate Counsel agreed to in the Company's rate proceeding
9 in October 2018, is reasonable based on a reasonable review of the analysis presented in Mr.
10 O'Donnell's Direct Testimony, the analyses presented in my rebuttal testimony and a review
11 of recently authorized state jurisdictional equity returns for electric utilities.

12 **Q. Does this conclude your Rebuttal Testimony?**

13 A. Yes, it does.

Ann E. Bulkley
Senior Vice President

Ms. Bulkley has more than two decades of management and economic consulting experience in the energy industry. Ms. Bulkley has extensive state and federal regulatory experience on both electric and natural gas issues including rate of return, cost of equity and capital structure issues. Ms. Bulkley has provided expert testimony on the cost of capital in more than 30 regulatory proceedings before regulatory commissions in Arizona, Arkansas, Colorado, Connecticut, Kansas, Massachusetts, Michigan, Minnesota, Missouri, New Jersey, New Mexico, New York, North Dakota, Oklahoma, Pennsylvania, Texas, South Dakota, West Virginia, and the Federal Energy Regulatory Commission. In addition, Ms. Bulkley has prepared and provided supporting analysis for at least forty Federal and State regulatory proceedings. In addition, Ms. Bulkley has worked on acquisition teams with investors seeking to acquire utility assets, providing valuation services including an understanding of regulation, market expected returns, and the assessment of utility risk factors. Ms. Bulkley has assisted clients with valuations of public utility and industrial properties for ratemaking, purchase and sale considerations, ad valorem tax assessments, and accounting and financial purposes. In addition, Ms. Bulkley has experience in the areas of contract and business unit valuation, strategic alliances, market restructuring and regulatory and litigation support. Prior to joining Concentric, Ms. Bulkley held senior expertise-based consulting positions at several firms, including Reed Consulting Group and Navigant Consulting, Inc. where she specialized in valuation. Ms. Bulkley holds an M.A. in economics from Boston University and a B.A. in economics and finance from Simmons College. Ms. Bulkley is a Certified General Appraiser licensed in the Commonwealth of Massachusetts and the State of New Hampshire.

REPRESENTATIVE PROJECT EXPERIENCE

Regulatory Analysis and Ratemaking

Ms. Bulkley has provided a range of advisory services relating to regulatory policy analysis and many aspects of utility ratemaking. Specific services have included: cost of capital and return on equity testimony, cost of service and rate design analysis and testimony, development of ratemaking strategies; development of merchant function exit strategies; analysis and program development to address residual energy supply and/or provider of last resort obligations; stranded costs assessment and recovery; performance-based ratemaking analysis and design; and many aspects of traditional utility ratemaking (e.g., rate design, rate base valuation).

Cost of Capital

Ms. Bulkley has provided expert testimony on the cost of capital in more than 30 regulatory proceedings before regulatory commissions in many states including Arizona, Arkansas,



Colorado, Connecticut, Kansas, Kentucky, Maine, Massachusetts, Michigan, Minnesota, Missouri, New Jersey, New Mexico, New York, North Dakota, Oklahoma, Pennsylvania, Texas, South Dakota, West Virginia, and the Federal Energy Regulatory Commission. In addition, Ms. Bulkley has prepared and provided supporting analysis for at least forty Federal and State regulatory proceedings in which she did not testify.

Valuation

Ms. Bulkley has provided valuation services to utility clients, unregulated generators and private equity clients for a variety of purposes including ratemaking, fair value, ad valorem tax, litigation and damages, and acquisition. Ms. Bulkley's appraisal practices are consistent with the national standards established by the Uniform Standards of Professional Appraisal Practice. In addition, Ms. Bulkley has relied on other simulation based valuation methodologies.

Representative projects/clients have included:

- Northern Indiana Fuel and Light: Provided expert testimony regarding the fair value of the company's natural gas distribution system assets. Valuation relied on cost approach.
- Kokomo Gas: Provided expert testimony regarding the fair value of the company's natural gas distribution system assets. Valuation relied on cost approach.
- Prepared fair value rate base analyses for Northern Indiana Public Service Company for several electric rate proceedings. Valuation approaches used in this project included income, cost and comparable sales approaches.
- Confidential Utility Client: Prepared valuation of fossil and nuclear generation assets for financing purposes for regulated utility client.
- Prepared a valuation of a portfolio of generation assets for a large energy utility to be used for strategic planning purposes. Valuation approach included an income approach, a real options analysis and a risk analysis.
- Assisted clients in the restructuring of NUG contracts through the valuation of the underlying assets. Performed analysis to determine the option value of a plant in a competitively priced electricity market following the settlement of the NUG contract.
- Prepared market valuations of several purchase power contracts for large electric utilities in the sale of purchase power contracts. Assignment included an assessment of the regional power market, analysis of the underlying purchase power contracts, a traditional discounted cash flow valuation approach, as well as a risk analysis. Analyzed bids from potential acquirers using income and risk analysis approached. Prepared an assessment of the credit issues and value at risk for the selling utility.
- Prepared appraisal of a portfolio of generating facilities for a large electric utility to be used for financing purposes.
- Prepared an appraisal of a fleet of fossil generating assets for a large electric utility to establish the value of assets transferred from utility property.
- Conducted due diligence on an electric transmission and distribution system as part of a buy-side due diligence team.
- Provided analytical support for and prepared appraisal reports of generation assets to be used in ad valorem tax disputes.



- Provided analytical support and prepared testimony regarding the valuation of electric distribution system assets in five communities in a condemnation proceeding.
- Valued purchase power agreements in the transfer of assets to a deregulated electric market.

Ratemaking

Ms. Bulkley has assisted several clients with analysis to support investor-owned and municipal utility clients in the preparation of rate cases. Sample engagements include:

- Assisted several investor-owned and municipal clients on cost allocation and rate design issues including the development of expert testimony supporting recommended rate alternatives.
- Worked with Canadian regulatory staff to establish filing requirements for a rate review of a newly regulated electric utility. Analyzed and evaluated rate application. Attended hearings and conducted investigation of rate application for regulatory staff. Prepared, supported and defended recommendations for revenue requirements and rates for the company. Developed rates for gas utility for transportation program and ancillary services.

Strategic and Financial Advisory Services

Ms. Bulkley has assisted several clients across North America with analytically based strategic planning, due diligence and financial advisory services.

Representative projects include:

- Preparation of feasibility studies for bond issuances for municipal and district steam clients.
- Assisted in the development of a generation strategy for an electric utility. Analyzed various NERC regions to identify potential market entry points. Evaluated potential competitors and alliance partners. Assisted in the development of gas and electric price forecasts. Developed a framework for the implementation of a risk management program.
- Assisted clients in identifying potential joint venture opportunities and alliance partners. Contacted interviewed, and evaluated potential alliance candidates based on company-established criteria for several LDCs and marketing companies. Worked with several LDCs and unregulated marketing companies to establish alliances to enter into the retail energy market. Prepared testimony in support of several merger cases and participated in the regulatory process to obtain approval for these mergers.
- Assisted clients in several buy-side due diligence efforts, providing regulatory insight and developing valuation recommendations for acquisitions of both electric and gas properties.

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2002 – Present)

Senior Vice President

Vice President

Assistant Vice President

Project Manager



Navigant Consulting, Inc. (1995 – 2002)

Project Manager

Cahners Publishing Company (1995)

Economist

EDUCATION

M.A., Economics, Boston University, 1995

B.A., Economics and Finance, Simmons College, 1991

Certified General Appraiser licensed in the Commonwealth of Massachusetts and the State of New Hampshire



SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Arizona Corporation Commission				
Tucson Electric Power Company	04/19	Tucson Electric Power Company	Docket No. E--01933A-19-0028	Return on Equity
Tucson Electric Power Company	11/15	Tucson Electric Power Company	Docket No. E-01933A-15-0322	Return on Equity
UNS Electric	12/12	UNS Electric	Docket No. E-04204A-12-0504	Return on Equity
UNS Electric	05/15	UNS Electric	Docket No. E-04204A-15-0142	Return on Equity
Arkansas Public Service Commission				
Arkansas Oklahoma Gas Corporation	10/13	Arkansas Oklahoma Gas Corporation	Docket No. 13-078-U	Return on Equity
Colorado Public Utilities Commission				
Atmos Energy Corporation	05/13	Atmos Energy Corporation	Docket No. 13AL-0496G	Return on Equity
Atmos Energy Corporation	04/14	Atmos Energy Corporation	Docket No. 14AL-0300G	Return on Equity
Atmos Energy Corporation	05/15	Atmos Energy Corporation	Docket No. 15AL-0299G	Return on Equity
Connecticut Public Utilities Regulatory Authority				
Connecticut Natural Gas Corporation	06/18	Connecticut Natural Gas Corporation	Docket No. 18-05-16	Return on Equity
The Southern Connecticut Gas Company	06/17	The Southern Connecticut Gas Company	Docket No. 17-05-42	Return on Equity
The United Illuminating Company	07/16	The United Illuminating Company	Docket No. 16-06-04	Return on Equity
Yankee Gas Services Co. d/b/a Eversource Energy	06/18	Yankee Gas Services Co. d/b/a Eversource Energy	Docket No. 18-05-10	Return on Equity



SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Federal Energy Regulatory Commission				
Tallgrass Interstate Gas Transmission	10/15	Tallgrass Interstate Gas Transmission	RP16-137	Return on Equity
Sea Robin Pipeline Company LLC	11/30/18	Sea Robin Pipeline Company LLC	Docket# RP19-__-000	Return on Equity
Indiana Utility Regulatory Commission				
Indiana and Michigan American Water Company	09/18	Indiana and Michigan American Water Company	IURC Cause No. 45142	Return on Equity
Indianapolis Power and Light Company	09/15	Indianapolis Power and Light Company	Cause No. 44576 Cause No. 44602	Fair Value
Indianapolis Power and Light Company	12/16	Indianapolis Power and Light Company	Cause No.44893	Fair Value
Kokomo Gas and Fuel Company	09/10	Kokomo Gas and Fuel Company	Cause No. 43942	Fair Value
Northern Indiana Fuel and Light Company, Inc.	09/10	Northern Indiana Fuel and Light Company, Inc.	Cause No. 43943	Fair Value
Northern Indiana Public Service Company	10/15	Northern Indiana Public Service Company	Cause No. 44688	Fair Value
Northern Indiana Public Service Company	09/17	Northern Indiana Public Service Company	Cause No. 44988	Fair Value
Kansas Corporation Commission				
Atmos Energy Corporation	08/15	Atmos Energy Corporation	Docket No. 16-ATMG-079-RTS	Return on Equity
Kansas Corporation Commission				
Kentucky American Water Company	11/18	Kentucky American Water Company	Docket No. 2018-00358	Return on Equity
Maine Public Utilities Commission				
Central Maine Power	10/18	Central Maine Power	Docket No. 2018-00194	Return on Equity



SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Maryland Public Service Commission				
Maryland American Water Company	06/18	Maryland American Water Company	Case No. 9487	Return on Equity
Commonwealth of Massachusetts Appellate Tax Board				
FirstLight Hydro Generating Company	06/17	FirstLight Hydro Generating Company	Docket No. F-325471 Docket No. F-325472 Docket No. F-325473 Docket No. F-325474	Valuation of Electric Generation Assets
Commonwealth of Massachusetts Department of Public Utilities				
Unitil Corporation	01/04	Fitchburg Gas and Electric	DTE 03-52	Integrated Resource Plan; Gas Demand Forecast
Berkshire Gas Company	05/18	Berkshire Gas Company	DPU 18-40	Rate Case
Michigan Public Service Commission				
Wisconsin Electric Power Company	12/11	Wisconsin Electric Power Company	Case No. U-16830	Return on Equity
Michigan Tax Tribunal				
Covert Township	07/14	New Covert Generating Co., LLC.	Docket No. 399578	Valuation of Electric Generation Assets
New Covert Generating Co., LLC.	03/18	The Township of New Covert Michigan	MTT Docket No. 000248TT and 16-001888-TT	Valuation of Electric Generation Assets
Minnesota Public Utilities Commission				
Minnesota Energy Resources Corporation	10/17	Minnesota Energy Resources Corporation	Docket No. G011/GR-17-563	Return on Equity
Missouri Public Service Commission				
Missouri American Water Company	06/17	Missouri American Water Company	Case No. WR-17-2085 Case No. SR-17-2086	Return on Equity



SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Montana Public Service Commission				
Montana-Dakota Utilities Co.	09/18	Montana-Dakota Utilities Co.	D0218.9.60	Return on Equity
New Hampshire-Merrimack County Superior Court				
Northern New England Telephone Operations, LLC d/b/a FairPoint Communications, NNE	04/18	Northern New England Telephone Operations, LLC d/b/a FairPoint Communications, NNE	220-2012-CV-1100	Valuation of Utility Property
New Hampshire-Rockingham Superior Court				
Eversource Energy	05/18	Public Service Commission of New Hampshire	218-2016-CV-00899 218-2017-CV-00917	Return on Equity
New Jersey Board of Public Utilities				
Public Service Electric and Gas Company	1/18	Public Service Electric and Gas Company	ER18010029 GR18010030	Return on Equity
Public Service Electric and Gas Company	2/18	Public Service Electric and Gas Company	GR17070776	Return on Equity
New Mexico Public Regulation Commission				
Southwestern Public Service Company	06/15	Southwestern Public Service Company	Case No. 15-001398-UT	Return on Equity
Southwestern Public Service Company	10/15	Southwestern Public Service Company	Case No. 15-00296-UT	Return on Equity
Southwestern Public Service Company	12/16	Southwestern Public Service Company	Case No. 16-00269-UT	Return on Equity
Southwestern Public Service Company	10/17	Southwestern Public Service Company	Case No. 17-00255-UT	Return on Equity
New York State Department of Public Service				
Central Hudson Gas and Electric Corporation	07/17	Central Hudson Gas and Electric Corporation	Gas 17-G-0460 Electric 17-E-0459	Return on Equity



SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Corning Natural Gas Corporation	06/16	Corning Natural Gas Corporation	Case No. 16-G-0369	Return on Equity
KeySpan Energy Delivery	01/16	KeySpan Energy Delivery	Case No. 15-G-0059	Return on Equity
National Fuel Gas Company	04/16	National Fuel Gas Company	Case No. 16-G-0257	Return on Equity
New York State Electric and Gas Company	05/15	New York State Electric and Gas Company	Case No. 15-G-0284	Return on Equity
Niagara Mohawk Power Corporation	04/17	National Grid USA	Case No. C-17-E-0238	Return on Equity
North Dakota Public Service Commission				
Northern States Power Company	12/10	Northern States Power Company	C-PU-10-657	Return on Equity
Northern States Power Company	12/12	Northern States Power Company	C-PU-12-813	Return on Equity
Oklahoma Corporation Commission				
Arkansas Oklahoma Gas Corporation	01/13	Arkansas Oklahoma Gas Corporation	Cause No. PUD 201200236	Return on Equity
Public Utility Commission of Pennsylvania				
American Water Works Company Inc.	04/17	Pennsylvania-American Water Company	Docket No. R-2017-2595853	Return on Equity
South Dakota Public Utilities Commission				
Northern States Power Company	06/14	Northern States Power Company	Docket No. EL14-058	Return on Equity
Public Utility Commission of Texas				
Southwestern Public Service Company	01/14	Southwestern Public Service Company	Docket No. 42004	Return on Equity



SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Virginia State Corporation Commission				
Virginia American Water Company, Inc.	11/18	Virginia American Water Company, Inc.	Docket No. PUR-2018-00175	Return on Equity
Washington Utilities Transportation Commission				
Cascade Natural Gas Corporation	4/19	Cascade Natural Gas Corporation	Docket NO. UG-19__	Return on Equity
Public Service Commission of West Virginia				
West Virginia American Water Company	04/18	West Virginia American Water Company	Case No. 18-0573-W-42T Case No. 18-0576-S-42T	Return on Equity

Company	Ticker	Covered by More Than One Analyst	Positive EPS Forecast from More Than 1 Source	Pays Dividends / No Cuts	Credit Rating	Regulated Income / Total Income	Regulated Electric Income / Total Regulated Income	Regulated Gas Income / Total Regulated Income	Regulated Gas Assets / Total Gas Assets	Merger & Acquisition Activity	Nuclear Risk	Other
Alliant Energy	LNT	Yes	Yes	Yes	A-	101%	95%	6%	9%	No	No	
Ameren	AEE	Yes	Yes	Yes	BBB+	101%	89%	11%	10%	No	No	
Avista	AVA	Yes	Yes	Yes	BBB	101%	80%	20%	21%	Yes	No	
Black Hills	BKH	Yes	Yes	Yes	BBB+	88%	56%	44%	45%	No	No	
CMS Energy	CMS	Yes	Yes	Yes	BBB+	95%	74%	26%	33%	No	No	
Consolidated Edison	ED	Yes	Yes	Yes	A-	96%	80%	17%	19%	No	No	
Dominion Resources	D	Yes	Yes	Yes	BBB+	97%	69%	31%	38%	Yes	Yes	
DTE Energy	DTE	Yes	Yes	Yes	BBB+	100%	80%	20%	19%	No	No	
Duke Energy	DUK	Yes	Yes	Yes	A-	106%	95%	5%	7%	No	No	
Entergy Corp	ETR	Yes	No	Yes	BBB+	102%	99%	1%	1%	No	No	
Exelon Corp.	EXC	Yes	Yes	Yes	BBB+	63%	91%	9%	8%	No	No	
Fortis	FTS	No	No	Yes	A-	102%	NA	0%	0%	No	No	Canadian
MGE Energy	MGEE	No	No	Yes	AA-	71%	77%	23%	23%	No	No	
Sempra Energy	SRE	Yes	Yes	Yes	BBB+	72%	53%	47%	50%	No	No	
Southern	SO	Yes	Yes	Yes	A-	95%	88%	12%	16%	No	Yes	
Xcel	XEL	Yes	Yes	Yes	A-	100%	85%	15%	12%	No	No	
Companies Excluded		2	3	0		1	0	5	6	2	2	1

Constant Growth DCF Using Highest Historical Growth Rate

		[1]	[2]	[3]	[4]	[5]
Company	Ticker	13 Wk. Avg. Dividend Yield	Adjusted Dividend Yield	Average Growth Rate	ROE	ROE, With Proxy Group Exclusions
Alliant Energy	LNT	3.1%	3.3%	7.0%	10.3%	10.3%
Ameren	AEE	2.9%	3.1%	7.0%	10.1%	10.1%
Avista	AVA	3.2%	3.4%	7.0%	10.4%	
Black Hills	BKH	3.2%	3.4%	7.0%	10.4%	10.4%
CMS Energy	CMS	3.0%	3.2%	7.0%	10.2%	10.2%
Consolidated Edison	ED	3.8%	4.1%	7.0%	11.1%	11.1%
Dominion Resources	D	5.0%	5.4%	7.0%	12.4%	
DTE	DTE	3.3%	3.5%	7.0%	10.5%	10.5%
Duke Energy	DUK	4.4%	4.7%	7.0%	11.7%	11.7%
Entergy	ETR	4.3%	4.6%	7.0%	11.6%	11.6%
Exelon	EXC	3.2%	3.4%	7.0%	10.4%	10.4%
Fortis	FTS	4.1%	4.4%	7.0%	11.4%	
MGE Energy	MGEE	2.1%	2.2%	7.0%	9.2%	
Sempra Energy	SRE	3.3%	3.5%	7.0%	10.5%	10.5%
Southern	SO	5.4%	5.8%	7.0%	12.8%	12.8%
Xcel	XEL	3.2%	3.4%	7.0%	10.4%	10.4%
Companies Excluded		3.6%	3.8%	7.0%	10.8%	10.8%

[1] Exhibit KWO-1

[2] Equals [1] multiplied by (1 plus [3])

[3] Schedule KWO-1, Page 1; 10-year historical BPS growth rate

[4] Equals [2] + [3]

[5] Equals [4] for all companies that should be included in the proxy group

Constant Growth DCF Using Highest Projected Growth Rate

		[1]	[2]	[3]	[4]	[5]
Company	Ticker	13 Wk. Avg. Dividend Yield	Adjusted Dividend Yield	Average Growth Rate	ROE	ROE, With Proxy Group Exclusions
Alliant Energy	LNT	3.1%	3.3%	7.2%	10.5%	10.5%
Ameren	AEE	2.9%	3.1%	7.2%	10.3%	10.3%
Avista	AVA	3.2%	3.4%	7.2%	10.6%	
Black Hills	BKH	3.2%	3.4%	7.2%	10.6%	10.6%
CMS Energy	CMS	3.0%	3.2%	7.2%	10.4%	10.4%
Consolidated Edison	ED	3.8%	4.1%	7.2%	11.3%	11.3%
Dominion Resources	D	5.0%	5.4%	7.2%	12.6%	
DTE	DTE	3.3%	3.5%	7.2%	10.7%	10.7%
Duke Energy	DUK	4.4%	4.7%	7.2%	11.9%	11.9%
Entergy	ETR	4.3%	4.6%	7.2%	11.8%	11.8%
Exelon	EXC	3.2%	3.4%	7.2%	10.6%	10.6%
Fortis	FTS	4.1%	4.4%	7.2%	11.6%	
MGE Energy	MGEE	2.1%	2.3%	7.2%	9.5%	
Sempra Energy	SRE	3.3%	3.5%	7.2%	10.7%	10.7%
Southern	SO	5.4%	5.8%	7.2%	13.0%	13.0%
Xcel	XEL	3.2%	3.4%	7.2%	10.6%	10.6%
Companies Excluded		3.6%	3.9%	7.2%	11.1%	11.1%

[1] Exhibit KWO-1

[2] Equals [1] multiplied by (1 plus [3])

[3] Schedule KWO-1, Page 1; Schwab Forecasted EPS growth rate

[4] Equals [2] + [3]

[5] Equals [4] for all companies that should be included in the proxy group

Combination Utility Group

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Company	Ticker	13 Wk. Avg. Dividend Yield	Adjusted Dividend Yield	Value Line EPS Forecast	CFRA Forecasted EPS	Schwab Forecasted EPS	Average Growth Rate	ROE	ROE, With Proxy Group Exclusions
Alliant Energy	LNT	3.1%	3.3%	6.5%	7.0%	7.3%	6.9%	10.2%	10.2%
Ameren	AEE	2.9%	3.1%	7.5%	7.0%	7.7%	7.4%	10.5%	10.5%
Avista	AVA	3.2%	3.4%	5.5%	NA	NA	5.5%	8.9%	
Black Hills	BKH	3.2%	3.5%	6.5%	15.0%	3.6%	8.4%	11.8%	11.8%
CMS Energy	CMS	3.0%	3.2%	7.0%	7.0%	6.9%	7.0%	10.2%	10.2%
Consolidated Edison	ED	3.8%	3.9%	3.0%	3.0%	2.9%	3.0%	6.9%	6.9%
Dominion Resources	D	5.0%	5.3%	6.5%	7.0%	5.7%	6.4%	11.7%	
DTE	DTE	3.3%	3.5%	7.5%	4.0%	4.2%	5.2%	8.7%	8.7%
Duke Energy	DUK	4.4%	4.6%	5.5%	5.0%	4.4%	5.0%	9.6%	9.6%
Entergy	ETR	4.3%	4.2%	1.0%	NM	-3.7%	-1.4%	2.9%	
Exelon	EXC	3.2%	3.3%	7.5%	2.0%	3.1%	4.2%	7.5%	7.5%
Fortis	FTS	4.1%	4.5%	9.0%	NA	NA	9.0%	13.5%	
MGE Energy	MGEE	2.1%	2.3%	7.5%	NA	NA	7.5%	9.8%	
Sempra Energy	SRE	3.3%	3.6%	9.5%	10.0%	7.6%	9.0%	12.6%	12.6%
Southern	SO	5.4%	5.5%	3.5%	1.0%	2.7%	2.4%	7.9%	7.9%
Xcel	XEL	3.2%	3.4%	5.5%	6.0%	6.6%	6.0%	9.4%	9.4%
Companies Excluded		3.6%	3.8%	6.2%	6.2%	4.5%	5.7%	9.5%	9.6%

[1] Exhibit KWO-1

[2] Equals [1] multiplied by (1 plus [6])

[3] Schedule KWO-1, Page 1;

[4] Schedule KWO-1, Page 1;

[5] Schedule KWO-1, Page 1;

[6] Average of [3], [4], and [5]

[7] Equals [2] plus [6]

[8] Equals [7] if [7] is greater than 7%

[1] Estimated Weighted Average Dividend Yield	2.03%		
[2] Estimated Weighted Average Long-Term Growth Rate	11.62%		
[3] S&P 500 Estimated Required Market Return	13.77%		
[4] Risk-Free Rate	3.46%	3.12%	2.92%
[5] Implied Market Risk Premium	10.31%	10.65%	10.85%

Name	Ticker	[6] Weight in Index	[7] Estimated Dividend Yield	[8] Cap. Weighted Div. Yield	[9] Long- Term Growth Estimate	[10] Cap. Weighted Long- Term Growth Estimate
LyondellBasell Industries NV	LYB	0.13%	4.68	0.01%	6.80	0.01%
American Express Co	AXP	0.38%	1.45	0.01%	14.99	0.06%
Verizon Communications Inc	VZ	0.97%	4.23	0.04%	2.30	0.02%
Broadcom Inc	AVGO	0.45%	3.85	0.02%	13.15	0.06%
Boeing Co/The	BA	1.03%	1.87	0.02%	15.15	0.16%
Caterpillar Inc	CAT	0.33%	2.50	0.01%	13.35	0.04%
JPMorgan Chase & Co	JPM	1.42%	3.07	0.04%	7.00	0.10%
Chevron Corp	CVX	0.94%	3.98	0.04%	6.36	0.06%
Coca-Cola Co/The	KO	0.80%	3.53	0.03%	6.72	0.05%
AbbVie Inc	ABBV	0.48%	5.40	0.03%	8.81	0.04%
Walt Disney Co/The	DIS	0.70%	1.56	0.01%	3.76	0.03%
FleetCor Technologies Inc	FLT	0.08%	n/a	n/a	16.50	0.01%
Extra Space Storage Inc	EXR	0.05%	3.59	0.00%	4.39	0.00%
Exxon Mobil Corp	XOM	1.39%	4.15	0.06%	15.74	0.22%
Phillips 66	PSX	0.18%	3.32	0.01%	5.70	0.01%
General Electric Co	GE	0.37%	0.39	0.00%	1.60	0.01%
HP Inc	HPQ	0.13%	3.25	0.00%	3.08	0.00%
Home Depot Inc/The	HD	0.87%	2.94	0.03%	10.72	0.09%
International Business Machines Corp	IBM	0.51%	4.55	0.02%	0.72	0.00%
Concho Resources Inc	CXO	0.09%	0.45	0.00%	31.00	0.03%
Johnson & Johnson	JNJ	1.51%	2.63	0.04%	6.83	0.10%
McDonald's Corp	MCD	0.58%	2.52	0.01%	8.74	0.05%
Merck & Co Inc	MRK	0.87%	2.71	0.02%	8.76	0.08%
3M Co	MMM	0.49%	2.78	0.01%	7.70	0.04%
American Water Works Co Inc	AWK	0.08%	1.79	0.00%	8.45	0.01%
Bank of America Corp	BAC	1.16%	2.06	0.02%	9.70	0.11%
BrightHouse Financial Inc	BHF	0.02%	n/a	n/a	11.14	0.00%
Baker Hughes a GE Co	BHGE	0.06%	2.73	0.00%	40.82	0.02%
Pfizer Inc	PFE	1.00%	3.32	0.03%	5.45	0.05%
Procter & Gamble Co/The	PG	1.02%	2.91	0.03%	6.51	0.07%
AT&T Inc	T	0.94%	6.56	0.06%	4.92	0.05%
Travelers Cos Inc/The	TRV	0.14%	2.32	0.00%	17.69	0.03%
United Technologies Corp	UTX	0.45%	2.34	0.01%	9.80	0.04%
Analog Devices Inc	ADI	0.16%	2.02	0.00%	11.98	0.02%
Walmart Inc	WMT	1.19%	2.14	0.03%	5.20	0.06%
Cisco Systems Inc	CSCO	0.94%	2.70	0.03%	6.84	0.06%
Intel Corp	INTC	0.99%	2.38	0.02%	8.54	0.08%
General Motors Co	GM	0.23%	3.85	0.01%	6.03	0.01%
Microsoft Corp	MSFT	3.56%	1.64	0.06%	11.68	0.42%
Dollar General Corp	DG	0.13%	0.98	0.00%	15.75	0.02%
Cigna Corp	CI	0.27%	0.02	0.00%	12.65	0.03%
Kinder Morgan Inc/DE	KMI	0.18%	4.18	0.01%	10.00	0.02%

		[6]	[7]	[8]	[9]	[10]
Name	Ticker	Weight in Index	Estimated Dividend Yield	Cap. Weighted Div. Yield	Long-Term Growth Estimate	Cap. Weighted Long-Term Growth Estimate
Citigroup Inc	C	0.62%	2.81	0.02%	11.07	0.07%
American International Group Inc	AIG	0.16%	2.96	0.00%	11.00	0.02%
Honeywell International Inc	HON	0.47%	2.13	0.01%	7.88	0.04%
Altria Group Inc	MO	0.41%	6.11	0.02%	8.50	0.03%
HCA Healthcare Inc	HCA	0.20%	1.15	0.00%	11.56	0.02%
Under Armour Inc	UA	0.02%	n/a	n/a	34.93	0.01%
International Paper Co	IP	0.08%	4.36	0.00%	6.08	0.00%
Hewlett Packard Enterprise Co	HPE	0.09%	2.75	0.00%	6.09	0.01%
Abbott Laboratories	ABT	0.56%	1.65	0.01%	11.69	0.07%
Aflac Inc	AFL	0.15%	2.20	0.00%	3.43	0.01%
Air Products & Chemicals Inc	APD	0.16%	2.56	0.00%	12.30	0.02%
Royal Caribbean Cruises Ltd	RCL	0.10%	2.36	0.00%	11.72	0.01%
American Electric Power Co Inc	AEP	0.17%	3.30	0.01%	6.08	0.01%
Hess Corp	HES	0.07%	1.73	0.00%	-9.49	-0.01%
Anadarko Petroleum Corp	APC	0.09%	2.76	0.00%	23.31	0.02%
Aon PLC	AON	0.17%	0.93	0.00%	10.90	0.02%
Apache Corp	APA	0.05%	3.01	0.00%	-5.19	0.00%
Archer-Daniels-Midland Co	ADM	0.10%	3.29	0.00%	1.40	0.00%
Automatic Data Processing Inc	ADP	0.28%	2.07	0.01%	14.00	0.04%
Verisk Analytics Inc	VRSK	0.09%	0.79	0.00%	9.57	0.01%
AutoZone Inc	AZO	0.10%	n/a	n/a	13.22	0.01%
Avery Dennison Corp	AVY	0.04%	1.93	0.00%	5.75	0.00%
MSCI Inc	MSCI	0.06%	1.26	0.00%	13.10	0.01%
Ball Corp	BLL	0.08%	0.73	0.00%	6.50	0.00%
Bank of New York Mellon Corp/The	BK	0.21%	2.13	0.00%	7.33	0.02%
Baxter International Inc	BAX	0.16%	1.02	0.00%	12.20	0.02%
Becton Dickinson and Co	BDX	0.28%	1.24	0.00%	12.41	0.03%
Berkshire Hathaway Inc	BRK/B	1.14%	n/a	n/a	-1.60	-0.02%
Best Buy Co Inc	BBY	0.08%	2.91	0.00%	10.65	0.01%
H&R Block Inc	HRB	0.02%	4.14	0.00%	10.00	0.00%
Boston Scientific Corp	BSX	0.23%	n/a	n/a	33.46	0.08%
Bristol-Myers Squibb Co	BMJ	0.35%	3.17	0.01%	11.02	0.04%
Fortune Brands Home & Security Inc	FBHS	0.03%	1.87	0.00%	9.97	0.00%
Brown-Forman Corp	BF/B	0.06%	1.34	0.00%	9.86	0.01%
Cabot Oil & Gas Corp	COG	0.04%	1.14	0.00%	26.58	0.01%
Campbell Soup Co	CPB	0.04%	3.89	0.00%	1.75	0.00%
Kansas City Southern	KSU	0.05%	1.33	0.00%	8.97	0.00%
Hilton Worldwide Holdings Inc	HLT	0.10%	0.72	0.00%	13.62	0.01%
Carnival Corp	CCL	0.13%	3.46	0.00%	10.93	0.01%
Qorvo Inc	QRVO	0.04%	n/a	n/a	11.83	0.00%
CenturyLink Inc	CTL	0.06%	16.38	0.01%	-2.80	0.00%
UDR Inc	UDR	0.05%	2.90	0.00%	5.54	0.00%
Clorox Co/The	CLX	0.08%	2.43	0.00%	4.91	0.00%
CMS Energy Corp	CMS	0.06%	2.81	0.00%	6.61	0.00%
Newell Brands Inc	NWL	0.03%	5.67	0.00%	-11.86	0.00%
Colgate-Palmolive Co	CL	0.24%	2.55	0.01%	6.24	0.01%
Comerica Inc	CMA	0.06%	3.08	0.00%	16.41	0.01%
IPG Photonics Corp	IPGP	0.03%	n/a	n/a	12.00	0.00%
Conagra Brands Inc	CAG	0.05%	3.64	0.00%	8.00	0.00%
Consolidated Edison Inc	ED	0.11%	3.59	0.00%	3.73	0.00%
SL Green Realty Corp	SLG	0.03%	3.75	0.00%	-0.59	0.00%
Corning Inc	GLW	0.11%	2.30	0.00%	10.39	0.01%
Cummins Inc	CMI	0.10%	2.96	0.00%	6.81	0.01%
Danaher Corp	DHR	0.38%	0.50	0.00%	9.01	0.03%
Target Corp	TGT	0.16%	3.52	0.01%	6.35	0.01%

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						Cap. Weighted
Name	Ticker	Weight in Index	Estimated Dividend Yield	Cap. Weighted Div. Yield	Long- Term Growth Estimate	Long- Term Growth Estimate
Deere & Co	DE	0.22%	1.85	0.00%	10.39	0.02%
Dominion Energy Inc	D	0.25%	4.95	0.01%	5.72	0.01%
Dover Corp	DOV	0.05%	2.12	0.00%	10.97	0.01%
Alliant Energy Corp	LNT	0.04%	3.10	0.00%	6.29	0.00%
Duke Energy Corp	DUK	0.27%	4.14	0.01%	4.97	0.01%
Regency Centers Corp	REG	0.05%	3.59	0.00%	4.78	0.00%
Eaton Corp PLC	ETN	0.14%	3.56	0.00%	9.23	0.01%
Ecolab Inc	ECL	0.20%	1.09	0.00%	13.43	0.03%
PerkinElmer Inc	PKI	0.04%	0.30	0.00%	15.49	0.01%
Emerson Electric Co	EMR	0.17%	2.88	0.00%	8.95	0.02%
EOG Resources Inc	EOG	0.23%	0.94	0.00%	11.57	0.03%
Entergy Corp	ETR	0.07%	3.90	0.00%	-0.96	0.00%
Equifax Inc	EFX	0.05%	1.42	0.00%	7.16	0.00%
IQVIA Holdings Inc	IQV	0.11%	n/a	n/a	16.28	0.02%
Gartner Inc	IT	0.05%	n/a	n/a	14.02	0.01%
FedEx Corp	FDX	0.20%	1.44	0.00%	14.25	0.03%
Macy's Inc	M	0.03%	6.09	0.00%	1.67	0.00%
FMC Corp	FMC	0.05%	1.79	0.00%	10.27	0.01%
Ford Motor Co	F	0.14%	6.84	0.01%	-0.70	0.00%
NextEra Energy Inc	NEE	0.37%	2.66	0.01%	4.90	0.02%
Franklin Resources Inc	BEN	0.07%	3.19	0.00%	10.00	0.01%
Freeport-McMoRan Inc	FCX	0.08%	1.55	0.00%	-12.55	-0.01%
Gap Inc/The	GPS	0.04%	3.82	0.00%	8.63	0.00%
General Dynamics Corp	GD	0.20%	2.19	0.00%	10.09	0.02%
General Mills Inc	GIS	0.12%	4.16	0.00%	6.43	0.01%
Genuine Parts Co	GPC	0.07%	2.80	0.00%	8.99	0.01%
Atmos Energy Corp	ATO	0.05%	2.12	0.00%	6.50	0.00%
WW Grainger Inc	GWV	0.07%	1.79	0.00%	12.47	0.01%
Halliburton Co	HAL	0.11%	2.35	0.00%	30.08	0.03%
Harley-Davidson Inc	HOG	0.02%	4.04	0.00%	10.30	0.00%
Harris Corp	HRS	0.08%	1.66	0.00%	7.00	0.01%
HCP Inc	HCP	0.06%	4.81	0.00%	3.23	0.00%
Helmerich & Payne Inc	HP	0.02%	5.24	0.00%	96.36	0.02%
Fortive Corp	FTV	0.11%	0.34	0.00%	13.89	0.02%
Hershey Co/The	HSY	0.07%	2.61	0.00%	8.00	0.01%
Synchrony Financial	SYF	0.10%	2.58	0.00%	1.55	0.00%
Hormel Foods Corp	HRL	0.10%	1.94	0.00%	5.80	0.01%
Arthur J Gallagher & Co	AJG	0.06%	2.14	0.00%	10.17	0.01%
Mondelez International Inc	MDLZ	0.28%	2.21	0.01%	7.33	0.02%
CenterPoint Energy Inc	CNP	0.06%	3.82	0.00%	6.92	0.00%
Humana Inc	HUM	0.16%	0.77	0.00%	14.11	0.02%
Willis Towers Watson PLC	WLTW	0.09%	1.51	0.00%	10.00	0.01%
Illinois Tool Works Inc	ITW	0.20%	2.78	0.01%	7.27	0.01%
Ingersoll-Rand PLC	IR	0.11%	2.01	0.00%	9.92	0.01%
Foot Locker Inc	FL	0.03%	2.55	0.00%	6.24	0.00%
Interpublic Group of Cos Inc/The	IPG	0.04%	4.08	0.00%	13.93	0.01%
International Flavors & Fragrances Inc	IFF	0.06%	2.29	0.00%	4.00	0.00%
Jacobs Engineering Group Inc	JEC	0.04%	0.92	0.00%	13.57	0.01%
Hanesbrands Inc	HBI	0.03%	3.23	0.00%	3.72	0.00%
Kellogg Co	K	0.08%	3.98	0.00%	3.68	0.00%
Broadridge Financial Solutions Inc	BR	0.05%	1.92	0.00%	10.00	0.00%
Perrigo Co PLC	PRGO	0.03%	1.56	0.00%	1.17	0.00%
Kimberly-Clark Corp	KMB	0.17%	3.53	0.01%	6.09	0.01%
Kimco Realty Corp	KIM	0.03%	6.37	0.00%	3.86	0.00%
Kohl's Corp	KSS	0.05%	3.61	0.00%	10.60	0.00%

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Name	Ticker	Weight in Index	Estimated Dividend Yield	Cap. Weighted Div. Yield	Long-Term Growth Estimate	Cap. Weighted Long-Term Growth Estimate
Oracle Corp	ORCL	0.77%	1.46	0.01%	7.54	0.06%
Kroger Co/The	KR	0.10%	1.91	0.00%	6.43	0.01%
Leggett & Platt Inc	LEG	0.02%	3.35	0.00%	10.00	0.00%
Lennar Corp	LEN	0.06%	0.33	0.00%	12.74	0.01%
Jefferies Financial Group Inc	JEF	0.03%	2.47	0.00%	n/a	n/a
Eli Lilly & Co	LLY	0.54%	2.04	0.01%	10.72	0.06%
L Brands Inc	LB	0.03%	4.59	0.00%	10.72	0.00%
Charter Communications Inc	CHTR	0.32%	n/a	n/a	41.16	0.13%
Lincoln National Corp	LNC	0.05%	2.37	0.00%	9.00	0.00%
Loews Corp	L	0.06%	0.53	0.00%	n/a	n/a
Lowe's Cos Inc	LOW	0.35%	1.83	0.01%	15.80	0.06%
Host Hotels & Resorts Inc	HST	0.06%	4.08	0.00%	4.57	0.00%
Marsh & McLennan Cos Inc	MMC	0.19%	1.78	0.00%	11.80	0.02%
Masco Corp	MAS	0.05%	1.28	0.00%	12.50	0.01%
Mattel Inc	MAT	0.02%	n/a	n/a	10.00	0.00%
S&P Global Inc	SPGI	0.21%	1.14	0.00%	11.05	0.02%
Medtronic PLC	MDT	0.50%	2.21	0.01%	7.70	0.04%
CVS Health Corp	CVS	0.31%	3.46	0.01%	8.68	0.03%
DowDuPont Inc	DWDP	0.50%	2.86	0.01%	6.17	0.03%
Micron Technology Inc	MU	0.19%	n/a	n/a	-3.30	-0.01%
Motorola Solutions Inc	MSI	0.10%	1.59	0.00%	4.10	0.00%
Cboe Global Markets Inc	CBOE	0.04%	1.29	0.00%	13.46	0.01%
Mylan NV	MYL	0.06%	n/a	n/a	5.98	0.00%
Laboratory Corp of America Holdings	LH	0.06%	n/a	n/a	7.61	0.00%
Newmont Mining Corp	NEM	0.08%	1.64	0.00%	14.10	0.01%
Twenty-First Century Fox Inc	FOXA	0.22%	0.71	0.00%	2.66	0.01%
NIKE Inc	NKE	0.45%	1.03	0.00%	18.34	0.08%
NiSource Inc	NI	0.04%	2.97	0.00%	5.75	0.00%
Noble Energy Inc	NBL	0.04%	1.99	0.00%	14.55	0.01%
Norfolk Southern Corp	NSC	0.20%	1.92	0.00%	13.97	0.03%
Principal Financial Group Inc	PFG	0.06%	4.10	0.00%	4.16	0.00%
Eversource Energy	ES	0.09%	3.07	0.00%	5.62	0.01%
Northrop Grumman Corp	NOC	0.20%	1.66	0.00%	8.89	0.02%
Wells Fargo & Co	WFC	0.94%	3.61	0.03%	11.26	0.11%
Nucor Corp	NUE	0.08%	2.64	0.00%	0.85	0.00%
PVH Corp	PVH	0.04%	0.13	0.00%	11.03	0.00%
Occidental Petroleum Corp	OXY	0.21%	4.72	0.01%	-0.50	0.00%
Omnicom Group Inc	OMC	0.07%	3.43	0.00%	5.22	0.00%
ONEOK Inc	OKE	0.11%	5.35	0.01%	16.89	0.02%
Raymond James Financial Inc	RJF	0.05%	1.65	0.00%	12.30	0.01%
Parker-Hannifin Corp	PH	0.09%	1.73	0.00%	9.52	0.01%
Rollins Inc	ROL	0.05%	1.06	0.00%	10.00	0.01%
PPL Corp	PPL	0.10%	5.13	0.00%	6.17	0.01%
Exelon Corp	EXC	0.19%	2.98	0.01%	4.12	0.01%
ConocoPhillips	COP	0.32%	1.80	0.01%	6.00	0.02%
PulteGroup Inc	PHM	0.03%	1.63	0.00%	7.17	0.00%
Pinnacle West Capital Corp	PNW	0.04%	3.15	0.00%	5.18	0.00%
PNC Financial Services Group Inc/The	PNC	0.24%	3.02	0.01%	7.37	0.02%
PPG Industries Inc	PPG	0.11%	1.71	0.00%	7.49	0.01%
Progressive Corp/The	PGR	0.18%	0.55	0.00%	8.00	0.01%
Public Service Enterprise Group Inc	PEG	0.12%	3.20	0.00%	6.73	0.01%
Raytheon Co	RTN	0.22%	1.86	0.00%	10.03	0.02%
Robert Half International Inc	RHI	0.03%	1.82	0.00%	9.25	0.00%
Edison International	EIX	0.08%	4.09	0.00%	5.34	0.00%
Schlumberger Ltd	SLB	0.25%	4.54	0.01%	33.69	0.09%

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Name	Ticker	Weight in Index	Estimated Dividend Yield	Cap. Weighted Div. Yield	Long-Term Growth Estimate	Cap. Weighted Long-Term Growth Estimate
Charles Schwab Corp/The	SCHW	0.25%	1.48	0.00%	19.78	0.05%
Sherwin-Williams Co/The	SHW	0.17%	1.04	0.00%	10.74	0.02%
JM Smucker Co/The	SJM	0.05%	3.21	0.00%	3.20	0.00%
Snap-on Inc	SNA	0.04%	2.38	0.00%	7.93	0.00%
AMETEK Inc	AME	0.07%	0.70	0.00%	8.98	0.01%
Southern Co/The	SO	0.21%	4.83	0.01%	3.38	0.01%
BB&T Corp	BBT	0.16%	3.18	0.01%	9.85	0.02%
Southwest Airlines Co	LUV	0.13%	1.14	0.00%	10.01	0.01%
Stanley Black & Decker Inc	SWK	0.08%	1.99	0.00%	10.50	0.01%
Public Storage	PSA	0.15%	3.78	0.01%	5.26	0.01%
Arista Networks Inc	ANET	0.09%	n/a	n/a	21.64	0.02%
SunTrust Banks Inc	STI	0.12%	3.08	0.00%	8.04	0.01%
Sysco Corp	SYI	0.14%	2.31	0.00%	12.50	0.02%
Texas Instruments Inc	TXN	0.41%	2.91	0.01%	10.48	0.04%
Textron Inc	TXT	0.05%	0.15	0.00%	12.56	0.01%
Thermo Fisher Scientific Inc	TMO	0.43%	0.29	0.00%	12.00	0.05%
Tiffany & Co	TIF	0.05%	2.31	0.00%	10.53	0.01%
TJX Cos Inc/The	TJX	0.26%	1.79	0.00%	11.57	0.03%
Torchmark Corp	TMK	0.04%	0.78	0.00%	7.53	0.00%
Total System Services Inc	TSS	0.07%	0.55	0.00%	12.14	0.01%
Johnson Controls International plc	JCI	0.13%	2.95	0.00%	7.63	0.01%
Ulta Beauty Inc	ULTA	0.08%	n/a	n/a	21.00	0.02%
Union Pacific Corp	UNP	0.50%	2.10	0.01%	13.86	0.07%
Keysight Technologies Inc	KEYS	0.07%	n/a	n/a	17.00	0.01%
UnitedHealth Group Inc	UNH	0.96%	1.49	0.01%	13.73	0.13%
Unum Group	UNM	0.03%	2.78	0.00%	9.00	0.00%
Marathon Oil Corp	MRO	0.06%	1.20	0.00%	0.45	0.00%
Varian Medical Systems Inc	VAR	0.05%	n/a	n/a	16.10	0.01%
Ventas Inc	VTR	0.09%	5.05	0.00%	2.08	0.00%
VF Corp	VFC	0.14%	2.34	0.00%	-16.64	-0.02%
Vornado Realty Trust	VNO	0.05%	3.92	0.00%	0.74	0.00%
Vulcan Materials Co	VMC	0.06%	1.11	0.00%	15.34	0.01%
Weyerhaeuser Co	WY	0.08%	5.46	0.00%	8.70	0.01%
Whirlpool Corp	WHR	0.04%	3.25	0.00%	5.75	0.00%
Williams Cos Inc/The	WMB	0.13%	5.70	0.01%	3.90	0.01%
WEC Energy Group Inc	WEC	0.10%	3.09	0.00%	4.89	0.00%
Xerox Corp	XRJ	0.03%	3.24	0.00%	-0.10	0.00%
Adobe Inc	ADBE	0.53%	n/a	n/a	17.16	0.09%
AES Corp/VA	AES	0.05%	3.17	0.00%	7.67	0.00%
Amgen Inc	AMGN	0.49%	3.05	0.01%	5.83	0.03%
Apple Inc	AAPL	3.38%	1.69	0.06%	9.40	0.32%
Autodesk Inc	ADSK	0.15%	n/a	n/a	54.78	0.08%
Cintas Corp	CTAS	0.09%	0.99	0.00%	12.02	0.01%
Comcast Corp	CMCSA	0.72%	2.17	0.02%	11.03	0.08%
Molson Coors Brewing Co	TAP	0.05%	2.66	0.00%	0.26	0.00%
KLA-Tencor Corp	KLAC	0.08%	2.60	0.00%	8.58	0.01%
Marriott International Inc/MD	MAR	0.18%	1.31	0.00%	12.10	0.02%
McCormick & Co Inc/MD	MKC	0.07%	1.68	0.00%	6.10	0.00%
Nordstrom Inc	JWN	0.03%	3.13	0.00%	10.55	0.00%
PACCAR Inc	PCAR	0.10%	1.89	0.00%	6.10	0.01%
Costco Wholesale Corp	COST	0.40%	1.04	0.00%	10.58	0.04%
First Republic Bank/CA	FRC	0.07%	0.69	0.00%	12.39	0.01%
Stryker Corp	SYK	0.29%	1.10	0.00%	8.72	0.03%
Tyson Foods Inc	TSN	0.08%	2.43	0.00%	-5.00	0.00%
Lamb Weston Holdings Inc	LW	0.04%	1.15	0.00%	11.02	0.00%

		[6]	[7]	[8]	[9]	[10]
Name	Ticker	Weight in Index	Estimated Dividend Yield	Cap. Weighted Div. Yield	Long-Term Growth Estimate	Cap. Weighted Long-Term Growth Estimate
Applied Materials Inc	AMAT	0.15%	2.09	0.00%	9.23	0.01%
American Airlines Group Inc	AAL	0.07%	1.12	0.00%	15.20	0.01%
Cardinal Health Inc	CAH	0.07%	3.51	0.00%	4.77	0.00%
Celgene Corp	CELG	0.24%	n/a	n/a	20.70	0.05%
Cerner Corp	CERN	0.08%	n/a	n/a	13.20	0.01%
Cincinnati Financial Corp	CINF	0.06%	2.58	0.00%	n/a	n/a
DR Horton Inc	DHI	0.06%	1.54	0.00%	11.80	0.01%
Flowserve Corp	FLS	0.02%	1.71	0.00%	13.05	0.00%
Electronic Arts Inc	EA	0.12%	n/a	n/a	11.87	0.01%
Expeditors International of Washington Inc	EXPD	0.05%	1.20	0.00%	7.70	0.00%
Fastenal Co	FAST	0.07%	2.73	0.00%	14.85	0.01%
M&T Bank Corp	MTB	0.10%	2.31	0.00%	7.98	0.01%
Xcel Energy Inc	XEL	0.12%	2.95	0.00%	5.89	0.01%
Fiserv Inc	FISV	0.14%	n/a	n/a	7.40	0.01%
Fifth Third Bancorp	FITB	0.08%	3.19	0.00%	3.95	0.00%
Gilead Sciences Inc	GILD	0.34%	3.88	0.01%	-1.48	-0.01%
Hasbro Inc	HAS	0.04%	3.20	0.00%	10.67	0.00%
Huntington Bancshares Inc/OH	HBAN	0.06%	3.89	0.00%	8.20	0.01%
Welltower Inc	WELL	0.12%	4.68	0.01%	6.74	0.01%
Biogen Inc	BIIB	0.27%	n/a	n/a	5.08	0.01%
Northern Trust Corp	NTRS	0.08%	2.58	0.00%	10.65	0.01%
Packaging Corp of America	PKG	0.04%	3.31	0.00%	8.25	0.00%
Paychex Inc	PAYX	0.11%	2.91	0.00%	9.25	0.01%
People's United Financial Inc	PBCT	0.03%	3.94	0.00%	2.00	0.00%
QUALCOMM Inc	QCOM	0.27%	4.65	0.01%	11.71	0.03%
Roper Technologies Inc	ROP	0.14%	0.57	0.00%	11.33	0.02%
Ross Stores Inc	ROST	0.15%	0.95	0.00%	10.50	0.02%
IDEXX Laboratories Inc	IDXX	0.08%	n/a	n/a	18.66	0.01%
Starbucks Corp	SBUX	0.36%	2.05	0.01%	13.22	0.05%
KeyCorp	KEY	0.07%	3.85	0.00%	13.17	0.01%
State Street Corp	STT	0.11%	2.62	0.00%	8.69	0.01%
Norwegian Cruise Line Holdings Ltd	NCLH	0.05%	n/a	n/a	12.53	0.01%
US Bancorp	USB	0.34%	2.86	0.01%	6.70	0.02%
AO Smith Corp	AOS	0.03%	1.69	0.00%	9.33	0.00%
Symantec Corp	SYMC	0.06%	1.33	0.00%	7.50	0.00%
T Rowe Price Group Inc	TROW	0.10%	3.03	0.00%	4.27	0.00%
Waste Management Inc	WM	0.18%	2.02	0.00%	8.03	0.01%
CBS Corp	CBS	0.07%	1.43	0.00%	14.79	0.01%
Allergan PLC	AGN	0.19%	2.15	0.00%	5.57	0.01%
Constellation Brands Inc	STZ	0.12%	1.75	0.00%	8.92	0.01%
Xilinx Inc	XLNX	0.13%	1.15	0.00%	9.33	0.01%
DENTSPLY SIRONA Inc	XRAY	0.04%	0.84	0.00%	6.90	0.00%
Zions Bancorp NA	ZION	0.04%	2.35	0.00%	6.78	0.00%
Alaska Air Group Inc	ALK	0.03%	2.27	0.00%	25.37	0.01%
Invesco Ltd	IVZ	0.03%	6.20	0.00%	4.30	0.00%
Linde PLC	LIN	0.39%	2.02	0.01%	19.10	0.07%
Intuit Inc	INTU	0.27%	0.76	0.00%	15.82	0.04%
Morgan Stanley	MS	0.30%	2.86	0.01%	13.50	0.04%
Microchip Technology Inc	MCHP	0.09%	1.68	0.00%	12.39	0.01%
Chubb Ltd	CB	0.25%	2.18	0.01%	10.00	0.03%
Hologic Inc	HOLX	0.06%	n/a	n/a	3.10	0.00%
Citizens Financial Group Inc	CFG	0.07%	3.47	0.00%	16.69	0.01%
O'Reilly Automotive Inc	ORLY	0.12%	n/a	n/a	15.58	0.02%
Allstate Corp/The	ALL	0.13%	2.12	0.00%	7.10	0.01%
FLIR Systems Inc	FLIR	0.03%	1.32	0.00%	n/a	n/a

		[6]	[7]	[8]	[9]	[10]
Name	Ticker	Weight in Index	Estimated Dividend Yield	Cap. Weighted Div. Yield	Long-Term Growth Estimate	Cap. Weighted Long-Term Growth Estimate
Equity Residential	EQR	0.11%	2.93	0.00%	6.28	0.01%
BorgWarner Inc	BWA	0.03%	1.67	0.00%	5.78	0.00%
Incyte Corp	INCY	0.08%	n/a	n/a	47.53	0.04%
Simon Property Group Inc	SPG	0.23%	4.53	0.01%	5.23	0.01%
Eastman Chemical Co	EMN	0.05%	3.00	0.00%	6.73	0.00%
Twitter Inc	TWTR	0.10%	n/a	n/a	37.35	0.04%
AvalonBay Communities Inc	AVB	0.11%	3.12	0.00%	6.01	0.01%
Prudential Financial Inc	PRU	0.16%	4.17	0.01%	9.00	0.01%
United Parcel Service Inc	UPS	0.32%	3.48	0.01%	8.96	0.03%
Apartment Investment & Management Co	AIV	0.03%	3.29	0.00%	5.75	0.00%
Walgreens Boots Alliance Inc	WBA	0.28%	2.47	0.01%	9.77	0.03%
McKesson Corp	MCK	0.10%	1.23	0.00%	8.08	0.01%
Lockheed Martin Corp	LMT	0.36%	2.84	0.01%	7.61	0.03%
AmerisourceBergen Corp	ABC	0.07%	1.92	0.00%	8.70	0.01%
Capital One Financial Corp	COF	0.16%	1.91	0.00%	4.77	0.01%
Waters Corp	WAT	0.07%	n/a	n/a	11.48	0.01%
Dollar Tree Inc	DLTR	0.09%	n/a	n/a	9.96	0.01%
Darden Restaurants Inc	DRI	0.06%	2.68	0.00%	10.31	0.01%
NetApp Inc	NTAP	0.07%	2.45	0.00%	13.23	0.01%
Citrix Systems Inc	CTXS	0.06%	1.33	0.00%	11.85	0.01%
DXC Technology Co	DXC	0.07%	1.15	0.00%	6.70	0.00%
DaVita Inc	DVA	0.04%	n/a	n/a	19.15	0.01%
Hartford Financial Services Group Inc/The	HIG	0.07%	2.43	0.00%	9.50	0.01%
Iron Mountain Inc	IRM	0.04%	6.90	0.00%	7.16	0.00%
Estee Lauder Cos Inc/The	EL	0.14%	1.10	0.00%	12.38	0.02%
Cadence Design Systems Inc	CDNS	0.07%	n/a	n/a	10.35	0.01%
Universal Health Services Inc	UHS	0.05%	0.29	0.00%	9.54	0.00%
E*TRADE Financial Corp	ETFC	0.05%	1.14	0.00%	12.08	0.01%
Skyworks Solutions Inc	SWKS	0.06%	1.86	0.00%	8.87	0.01%
National Oilwell Varco Inc	NOV	0.04%	0.71	0.00%	77.76	0.03%
Quest Diagnostics Inc	DGX	0.05%	2.45	0.00%	6.92	0.00%
Activision Blizzard Inc	ATVI	0.13%	0.88	0.00%	6.65	0.01%
Rockwell Automation Inc	ROK	0.09%	2.17	0.00%	8.94	0.01%
Kraft Heinz Co/The	KHC	0.17%	4.82	0.01%	2.60	0.00%
American Tower Corp	AMT	0.32%	1.91	0.01%	15.31	0.05%
HollyFrontier Corp	HFC	0.04%	2.58	0.00%	7.07	0.00%
Regeneron Pharmaceuticals Inc	REGN	0.19%	n/a	n/a	13.88	0.03%
Amazon.com Inc	AMZN	3.34%	n/a	n/a	37.60	1.25%
Jack Henry & Associates Inc	JKHY	0.04%	1.21	0.00%	11.00	0.00%
Ralph Lauren Corp	RL	0.03%	2.00	0.00%	6.84	0.00%
Boston Properties Inc	BXP	0.08%	2.86	0.00%	6.24	0.01%
Amphenol Corp	APH	0.12%	0.98	0.00%	10.64	0.01%
Arconic Inc	ARNC	0.04%	0.43	0.00%	14.35	0.01%
Pioneer Natural Resources Co	PXD	0.10%	0.45	0.00%	26.85	0.03%
Valero Energy Corp	VLO	0.14%	4.41	0.01%	19.17	0.03%
Synopsys Inc	SNPS	0.06%	n/a	n/a	14.50	0.01%
L3 Technologies Inc	LLL	0.07%	1.61	0.00%	5.00	0.00%
Western Union Co/The	WU	0.03%	4.48	0.00%	5.00	0.00%
CH Robinson Worldwide Inc	CHRW	0.05%	2.21	0.00%	9.07	0.00%
Accenture PLC	ACN	0.43%	1.81	0.01%	10.27	0.04%
TransDigm Group Inc	TDG	0.10%	n/a	n/a	11.07	0.01%
Yum! Brands Inc	YUM	0.12%	1.78	0.00%	13.12	0.02%
Prologis Inc	PLD	0.18%	3.03	0.01%	6.87	0.01%
FirstEnergy Corp	FE	0.09%	3.73	0.00%	-0.02	0.00%
VeriSign Inc	VERI	0.09%	n/a	n/a	8.80	0.01%

		[6]	[7]	[8]	[9]	[10]
Name	Ticker	Weight in Index	Estimated Dividend Yield	Cap. Weighted Div. Yield	Long-Term Growth Estimate	Cap. Weighted Long-Term Growth Estimate
Quanta Services Inc	PWR	0.02%	0.45	0.00%	25.00	0.01%
Henry Schein Inc	HSIC	0.04%	n/a	n/a	7.11	0.00%
Ameren Corp	AEE	0.07%	2.67	0.00%	6.70	0.00%
ANSYS Inc	ANSS	0.06%	n/a	n/a	10.37	0.01%
NVIDIA Corp	NVDA	0.39%	0.41	0.00%	7.86	0.03%
Sealed Air Corp	SEE	0.03%	1.47	0.00%	6.04	0.00%
Cognizant Technology Solutions Corp	CTSH	0.17%	1.13	0.00%	11.40	0.02%
SVB Financial Group	SIVB	0.05%	n/a	n/a	11.00	0.01%
Intuitive Surgical Inc	ISRG	0.26%	n/a	n/a	12.62	0.03%
Affiliated Managers Group Inc	AMG	0.02%	1.17	0.00%	4.37	0.00%
Take-Two Interactive Software Inc	TTWO	0.04%	n/a	n/a	10.30	0.00%
Republic Services Inc	RSG	0.10%	1.91	0.00%	13.01	0.01%
eBay Inc	EBAY	0.14%	1.51	0.00%	10.67	0.02%
Goldman Sachs Group Inc/The	GS	0.30%	1.63	0.00%	7.27	0.02%
SBA Communications Corp	SBAC	0.08%	n/a	n/a	27.95	0.02%
Sempra Energy	SRE	0.14%	3.21	0.00%	10.10	0.01%
Moody's Corp	MCO	0.14%	1.16	0.00%	12.80	0.02%
Booking Holdings Inc	BKNG	0.32%	n/a	n/a	12.50	0.04%
F5 Networks Inc	FFIV	0.04%	n/a	n/a	9.39	0.00%
Akamai Technologies Inc	AKAM	0.05%	n/a	n/a	14.50	0.01%
Devon Energy Corp	DVN	0.05%	1.22	0.00%	1.15	0.00%
Alphabet Inc	GOOGL	1.40%	n/a	n/a	15.22	0.21%
Red Hat Inc	RHT	0.13%	n/a	n/a	18.40	0.02%
Teleflex Inc	TFX	0.06%	0.47	0.00%	12.45	0.01%
Allegion PLC	ALLE	0.04%	1.20	0.00%	11.24	0.00%
Netflix Inc	NFLX	0.65%	n/a	n/a	32.07	0.21%
Agilent Technologies Inc	A	0.10%	0.83	0.00%	9.50	0.01%
Anthem Inc	ANTM	0.32%	1.06	0.00%	11.14	0.04%
CME Group Inc	CME	0.27%	1.65	0.00%	13.40	0.04%
Juniper Networks Inc	JNPR	0.04%	2.81	0.00%	8.63	0.00%
BlackRock Inc	BLK	0.29%	2.98	0.01%	9.69	0.03%
DTE Energy Co	DTE	0.09%	3.06	0.00%	5.53	0.01%
Celanese Corp	CE	0.05%	2.11	0.00%	7.05	0.00%
Nasdaq Inc	NDAQ	0.06%	1.92	0.00%	9.11	0.01%
Philip Morris International Inc	PM	0.56%	5.25	0.03%	9.06	0.05%
salesforce.com Inc	CRM	0.52%	n/a	n/a	23.98	0.12%
Huntington Ingalls Industries Inc	HII	0.04%	1.64	0.00%	40.00	0.01%
MetLife Inc	MET	0.18%	3.72	0.01%	8.46	0.02%
Under Armour Inc	UA	0.02%	n/a	n/a	37.34	0.01%
Tapestry Inc	TPR	0.04%	3.86	0.00%	11.75	0.00%
Fluor Corp	FLR	0.02%	2.23	0.00%	17.99	0.00%
CSX Corp	CSX	0.25%	1.32	0.00%	10.47	0.03%
Edwards Lifesciences Corp	EW	0.15%	n/a	n/a	14.00	0.02%
Ameriprise Financial Inc	AMP	0.07%	2.73	0.00%	11.80	0.01%
TechnipFMC PLC	FTI	0.04%	2.33	0.00%	15.43	0.01%
Zimmer Biomet Holdings Inc	ZBH	0.11%	0.77	0.00%	4.74	0.00%
CBRE Group Inc	CBRE	0.07%	n/a	n/a	8.55	0.01%
Mastercard Inc	MA	0.94%	0.59	0.01%	19.66	0.19%
CarMax Inc	KMX	0.04%	n/a	n/a	12.92	0.01%
Intercontinental Exchange Inc	ICE	0.18%	1.43	0.00%	8.02	0.01%
Fidelity National Information Services Inc	FIS	0.14%	1.29	0.00%	12.00	0.02%
Chipotle Mexican Grill Inc	CMG	0.07%	n/a	n/a	20.31	0.01%
Wynn Resorts Ltd	WYNN	0.06%	2.37	0.00%	31.10	0.02%
Assurant Inc	AIZ	0.03%	2.33	0.00%	n/a	n/a
NRG Energy Inc	NRG	0.05%	0.29	0.00%	46.03	0.02%

		[6]	[7]	[8]	[9]	[10]
						Cap. Weighted
Name	Ticker	Weight in Index	Estimated Dividend Yield	Cap. Weighted Div. Yield	Long- Term Growth Estimate	Long- Term Growth Estimate
Monster Beverage Corp	MNST	0.14%	n/a	n/a	15.00	0.02%
Regions Financial Corp	RF	0.07%	3.41	0.00%	10.88	0.01%
Mosaic Co/The	MOS	0.05%	0.32	0.00%	8.40	0.00%
Expedia Group Inc	EXPE	0.07%	1.04	0.00%	17.20	0.01%
Evergy Inc	EVER	0.06%	3.40	0.00%	7.43	0.00%
Discovery Inc	DISCA	0.02%	n/a	n/a	12.30	0.00%
CF Industries Holdings Inc	CF	0.04%	2.84	0.00%	19.75	0.01%
Viacom Inc	VIAB	0.04%	2.74	0.00%	4.93	0.00%
Alphabet Inc	GOOG	1.62%	n/a	n/a	15.22	0.25%
TE Connectivity Ltd	TEL	0.12%	2.14	0.00%	11.18	0.01%
Cooper Cos Inc/The	COO	0.06%	0.02	0.00%	4.70	0.00%
Discover Financial Services	DFS	0.10%	2.23	0.00%	8.80	0.01%
TripAdvisor Inc	TRIP	0.03%	n/a	n/a	11.39	0.00%
Visa Inc	V	1.07%	0.68	0.01%	15.59	0.17%
Mid-America Apartment Communities Inc	MAA	0.05%	3.71	0.00%	7.00	0.00%
Xylem Inc/NY	XYL	0.06%	1.27	0.00%	14.00	0.01%
Marathon Petroleum Corp	MPC	0.17%	3.42	0.01%	16.14	0.03%
Advanced Micro Devices Inc	AMD	0.10%	n/a	n/a	15.67	0.02%
Tractor Supply Co	TSCO	0.05%	1.30	0.00%	12.09	0.01%
ResMed Inc	RMD	0.06%	1.44	0.00%	12.50	0.01%
Mettler-Toledo International Inc	MTD	0.07%	n/a	n/a	12.66	0.01%
Copart Inc	CPRT	0.06%	n/a	n/a	20.00	0.01%
Fortinet Inc	FTNT	0.06%	n/a	n/a	22.10	0.01%
Albemarle Corp	ALB	0.04%	1.61	0.00%	11.41	0.00%
Essex Property Trust Inc	ESS	0.08%	2.79	0.00%	6.06	0.00%
Realty Income Corp	O	0.09%	3.91	0.00%	4.39	0.00%
Seagate Technology PLC	STX	0.05%	5.41	0.00%	3.37	0.00%
Westrock Co	WRK	0.04%	4.87	0.00%	4.73	0.00%
IHS Markit Ltd	INFO	0.09%	n/a	n/a	11.21	0.01%
Wabtec Corp	WAB	0.03%	0.66	0.00%	14.00	0.00%
Western Digital Corp	WDC	0.06%	3.98	0.00%	2.72	0.00%
PepsiCo Inc	PEP	0.67%	3.21	0.02%	5.48	0.04%
Diamondback Energy Inc	FANG	0.07%	0.49	0.00%	17.55	0.01%
Nektar Therapeutics	NKTR	0.03%	n/a	n/a	n/a	n/a
Maxim Integrated Products Inc	MXIM	0.06%	3.38	0.00%	8.93	0.01%
Church & Dwight Co Inc	CHD	0.07%	1.38	0.00%	8.21	0.01%
Duke Realty Corp	DRE	0.04%	2.91	0.00%	4.50	0.00%
Federal Realty Investment Trust	FRT	0.04%	3.05	0.00%	6.15	0.00%
MGM Resorts International	MGM	0.06%	1.94	0.00%	3.32	0.00%
Twenty-First Century Fox Inc	FOX	0.17%	0.72	0.00%	2.66	0.00%
JB Hunt Transport Services Inc	JBHT	0.05%	0.97	0.00%	18.78	0.01%
Lam Research Corp	LRCX	0.11%	2.50	0.00%	-0.42	0.00%
Mohawk Industries Inc	MHK	0.04%	n/a	n/a	7.59	0.00%
Pentair PLC	PNR	0.03%	1.69	0.00%	10.29	0.00%
Vertex Pharmaceuticals Inc	VRTX	0.20%	n/a	n/a	49.41	0.10%
Facebook Inc	FB	1.59%	n/a	n/a	21.88	0.35%
United Rentals Inc	URI	0.04%	n/a	n/a	17.76	0.01%
Alexandria Real Estate Equities Inc	ARE	0.06%	2.86	0.00%	4.80	0.00%
ABIOMED Inc	ABMD	0.06%	n/a	n/a	29.00	0.02%
Delta Air Lines Inc	DAL	0.14%	2.82	0.00%	13.07	0.02%
United Continental Holdings Inc	UAL	0.10%	n/a	n/a	14.17	0.01%
News Corp	NWS	0.01%	1.50	0.00%	-9.13	0.00%
Centene Corp	CNC	0.10%	n/a	n/a	13.68	0.01%
Macerich Co/The	MAC	0.03%	6.88	0.00%	-0.12	0.00%
Martin Marietta Materials Inc	MLM	0.05%	1.02	0.00%	13.29	0.01%

		[6]	[7]	[8]	[9]	[10]
Name	Ticker	Weight in Index	Estimated Dividend Yield	Cap. Weighted Div. Yield	Long-Term Growth Estimate	Cap. Weighted Long-Term Growth Estimate
PayPal Holdings Inc	PYPL	0.48%	n/a	n/a	22.12	0.11%
Coty Inc	COTY	0.03%	4.55	0.00%	8.76	0.00%
DISH Network Corp	DISH	0.03%	n/a	n/a	-20.68	-0.01%
Alexion Pharmaceuticals Inc	ALXN	0.13%	n/a	n/a	15.94	0.02%
Everest Re Group Ltd	RE	0.04%	2.48	0.00%	10.00	0.00%
WellCare Health Plans Inc	WCG	0.05%	n/a	n/a	17.08	0.01%
News Corp	NWSA	0.02%	1.54	0.00%	-9.13	0.00%
Global Payments Inc	GPN	0.09%	0.03	0.00%	14.67	0.01%
Crown Castle International Corp	CCI	0.20%	3.79	0.01%	15.50	0.03%
Aptiv PLC	APTV	0.09%	1.06	0.00%	10.66	0.01%
Advance Auto Parts Inc	AAP	0.05%	0.15	0.00%	16.17	0.01%
Capri Holdings Ltd	CPRI	0.03%	n/a	n/a	6.73	0.00%
Align Technology Inc	ALGN	0.09%	n/a	n/a	23.19	0.02%
Illumina Inc	ILMN	0.19%	n/a	n/a	25.16	0.05%
Alliance Data Systems Corp	ADS	0.04%	1.46	0.00%	2.54	0.00%
LKQ Corp	LKQ	0.04%	n/a	n/a	13.85	0.01%
Nielsen Holdings PLC	NLSN	0.04%	5.34	0.00%	n/a	n/a
Garmin Ltd	GRMN	0.07%	2.72	0.00%	7.28	0.00%
Cimarex Energy Co	XEC	0.03%	1.11	0.00%	66.37	0.02%
Zoetis Inc	ZTS	0.19%	0.70	0.00%	15.36	0.03%
Digital Realty Trust Inc	DLR	0.10%	3.82	0.00%	18.00	0.02%
Equinix Inc	EQIX	0.15%	2.32	0.00%	20.00	0.03%
Discovery Inc	DISCK	0.04%	n/a	n/a	12.30	0.00%

Notes:

[1] Equals sum of Col. [7]

[2] Equals sum of Col. [10]

[3] Equals $([1] \times (1 + (0.5 \times [2]))) + [2]$

[4] Source: Exhibit KWO-4

[5] Equals [3] - [4]

[6] Equals weight in S&P 500 based on market capitalization

[7] Source: Bloomberg Professional, as of February 28, 2019

[8] Equals [6] x [7]

[9] Source: Bloomberg Professional, as of February 28, 2019

[10] Equals [6] x [9]

PSEG
Energy Strong II
CAPM Results

Combination Utility Group

	[1]	[2]	[3]	[4]	[5]
Risk Free Rate	Beta	Est. Market Required Return	Equity Risk Premium	Equity Cost Rate	
Treasury - Maximum	3.46%	0.591	13.77%	10.31%	9.55%
Treasury - Average	3.12%	0.591	13.77%	10.65%	9.41%
Treasury - Minimum	2.92%	0.591	13.77%	10.85%	9.33%

Mean 9.43%

Public Service Enterprise Group

	Beta	Est. Market Required Return	Equity Risk Premium	Equity Cost Rate	
Treasury - Maximum	0.65	13.77%	10.31%	10.16%	
Treasury - Average	0.65	13.77%	10.65%	10.04%	
Treasury - Minimum	0.65	13.77%	10.85%	9.97%	
			Mean	10.06%	

- [1] Exhibit KWO-4
- [2] Exhibit KWO-4
- [3] Exhibit AEB-5
- [4] Column [3] minus Column [1]
- [5] Column [1] plus column [2] multiplied by column [4]

Value Line Beta

Alliant Energy	LNT	0.6
Ameren	AEE	0.55
Avista	AVA	0.65
Black Hills	BKH	0.75
CMS Energy	CMS	0.55
Consolidated Edison	ED	0.45
Dominion Resources	D	0.55
DTE Energy	DTE	0.55
Duke Energy	DUK	0.5
Entergy Corp	ETR	0.6
Exelon Corp.	EXC	0.7
Fortis	FTS	0.65
MGE Energy	MGEE	0.6
Sempra Energy	SRE	0.75
Southern	SO	0.5
Xcel	XEL	0.5
Average		<u>0.591</u>
PSEG	PEG	0.65

PSEG
Energy Strong II
CAPM Results

Combination Utility Group

	[1]	[2]	[3]	[4]	[5]
Risk Free Rate	Beta	Est. Market Required Return	Equity Risk Premium	Equity Cost Rate	
Treasury - KWO-4	3.46%	0.591	13.77%	10.31%	9.55%
Treasury - KWO-4	3.12%	0.591	13.77%	10.65%	9.41%
Treasury - KWO-4	2.92%	0.591	13.77%	10.85%	9.33%
			Mean		9.43%

Public Service Enterprise Group

Risk Free Rate	Beta	Est. Market Required Return	Equity Risk Premium	Equity Cost Rate	
Treasury - KWO-4	3.46%	0.59	13.77%	10.31%	9.55%
Treasury - KWO-4	3.12%	0.59	13.77%	10.65%	9.41%
Treasury - KWO-4	2.92%	0.59	13.77%	10.85%	9.33%
			Mean		9.43%

Combination Utility Group

	[1]	[2]	[3]	[4]	[5]
Risk Free Rate	Beta	Est. Market Required Return	Equity Risk Premium	Equity Cost Rate	
Treasury - Average	3.12%	0.591	13.77%	10.65%	9.41%
Treasury - Projection (2019-2020)	3.28%	0.591	13.77%	10.49%	9.47%
Treasury - Projection (2020-2024)	3.90%	0.591	13.77%	9.87%	9.73%
			Mean		9.54%

Public Service Enterprise Group

Risk Free Rate	Beta	Est. Market Required Return	Equity Risk Premium	Equity Cost Rate	
Treasury - Maximum	3.12%	0.65	13.77%	10.65%	10.04%
Treasury - Projection (2019-2020)	3.28%	0.65	13.77%	10.49%	10.10%
Treasury - Projection (2020-2024)	3.90%	0.65	13.77%	9.87%	10.31%
			Mean		10.15%

- [1] Exhibit KWO-4 and Blue Chip Financial Forecast
- [2] Schedule KWO-4
- [3] Exhibit AEB-5
- [4] Column [3] minus Column [1]
- [5] Column [1] plus column [2] multiplied by column [4]

**COMPARISON OF PSEG AND PROXY GROUP COMPANIES
REGULATORY FRAMEWORK - ADJUSTMENT CLAUSES**

Proxy Group Company	Operation State	Operation	Test Year	Rate Base	Decoupling		New Capital			
					Full	Partial	Generation Capacity	Generic Infrastructure		
Entergy	Ohio	Gas	1	Partially Forecast	Year End				x	
	South Carolina	Electric	1	Historical	N/A					
	South Carolina	Gas	1	Historical	N/A					
	Tennessee	Gas	1	Fully Forecast	Average		x		x	
	Arkansas	Electric	1	Fully Forecast	Year End		x		x	
	Louisiana NOCC	Electric	1	Partially Forecast	Average		x			
	Louisiana NOCC	Gas	1	Partially Forecast	Average					
	Louisiana PSC	Electric	1	Historical	Average		x		x	
	Louisiana PSC	Gas	1	Historical	Average		x		x	
	Mississippi	Electric	1	Partially Forecast	Average		x			
Texas PUC	Electric	1	Historical	Year End					x	
Exelon	Delaware	Electric	1	Historical	Average					
	Delaware	Gas	1	Historical	Average					
	District of Columbia	Electric	1	Partially Forecast	Average		x		x	
	Illinois	Electric	1	Historical	Year End				x	
	Maryland	Electric	1	Historical	Average		x		x	
	Maryland	Gas	1	Historical	Average		x		x	
	New Jersey	Electric	1	Partially Forecast	Year End				x	
	Pennsylvania	Electric	1	Fully Forecast	Year End				x	
	Pennsylvania	Gas	1	Fully Forecast	Year End				x	
Fortis	Arizona	Electric	1	Historical	Year End		x			
	Arizona	Gas	1	Historical	Year End					
	New York	Electric	1	Fully Forecast	Average	x				
	New York	Gas	1	Fully Forecast	Average	x			x	
MGE Energy	Wisconsin	Electric	1	Fully Forecast	Average					
	Wisconsin	Gas	1	Fully Forecast	Average					
Sempra Energy	California	Electric	1	Fully Forecast	Average	x				
	California	Gas	1	Fully Forecast	Average	x				
	Texas PUC	Electric	1	Historical	Year End				x	
Southern	Alabama	Electric	1	Historical	Average			x		
	Florida	Electric	1	Fully Forecast	Average			x		
	Florida	Gas	1	Fully Forecast	Average				x	
	Georgia	Electric	1	Partially Forecast	Average				x	
	Georgia	Gas	1	Partially Forecast	Average			x		
	Illinois	Gas	1	Historical	Year End				x	
	Mississippi	Electric	1	Partially Forecast	Average					
	Tennessee	Gas	1	Fully Forecast	Average	x		x		
	Virginia	Gas	1	Fully Forecast	Year End					x
Xcel Energy Inc.	Colorado	Electric	1	Historical	Average			x	x	
	Colorado	Gas	1	Historical	Average				x	
	Minnesota	Electric	1	Partially Forecast	Average		x			
	Minnesota	Gas	1	Partially Forecast	Average				x	
	New Mexico	Electric	1	Historical	Year End					
	North Dakota	Electric	1	Fully Forecast	Average				x	
	North Dakota	Gas	1	Fully Forecast	Average					
	South Dakota	Electric	1	Historical	Average			x	x	
	Texas (PUC)	Electric	1	Historical	Year End				x	
	Wisconsin	Electric	1	Fully Forecast	Average					
Wisconsin	Gas	1	Fully Forecast	Average						
Proxy Companies				Historical: 44 Forecast: 47	Average: 57 Year End: 32	14	30	12	45	
Total Jurisdictions	91									
Percent of Jurisdictions				Forecast: 52%	Year End: 35%	15.4%	33.0%	13.2%	49.5%	
Public Service Enterprise Group	New Jersey			Partially Forecast	Year End		x		x	

Notes:

- [1] S&P Global Market Intelligence, Regulatory Focus: Adjustment Clauses, dated September 28, 2018. Operating subsidiaries not covered in this report were excluded from this exhibit.
- [2] This exhibit includes the adjustment mechanisms for the electric and gas distribution companies.

CAPITAL STRUCTURE ANALYSIS

Electric Proxy Group Company	Ticker	COMMON EQUITY RATIO [1]								
		2018Q3	2018Q2	2018Q1	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4	Average
Alliant Energy Corporation	LNT	49.88%	49.85%	48.68%	48.74%	50.81%	49.94%	49.51%	49.41%	49.60%
Ameren Corporation	AEE	52.72%	51.43%	52.38%	52.02%	52.80%	52.35%	52.01%	51.93%	52.20%
Avista Corporation	AVA	50.21%	50.37%	51.71%	51.28%	50.47%	52.00%	51.96%	51.40%	51.17%
Black Hills Corporation	BKH	53.22%	53.92%	53.86%	54.49%	55.34%	53.96%	53.19%	52.72%	53.84%
CMS Energy Corporation	CMS	52.86%	52.71%	52.97%	52.10%	53.09%	52.81%	51.93%	51.07%	52.44%
Consolidated Edison, Inc.	ED	48.85%	47.42%	49.27%	48.83%	50.02%	49.16%	50.18%	49.83%	49.20%
DTE Energy Company	DTE	49.97%	49.23%	51.12%	51.02%	50.50%	50.63%	50.50%	50.50%	50.43%
Duke Energy Corporation	DUK	52.85%	53.04%	52.88%	53.01%	53.02%	53.20%	52.92%	53.10%	53.00%
Entergy Corporation	ETR	48.44%	48.14%	46.14%	47.56%	48.05%	47.10%	48.21%	47.84%	47.68%
Exelon Corporation	EXC	53.02%	53.78%	53.56%	53.38%	53.04%	53.56%	53.48%	52.99%	53.35%
Fortis Inc.	FTS	54.34%	53.71%	53.25%	52.80%	52.81%	52.62%	51.91%	51.51%	52.87%
MGE Energy, Inc.	MGEE	57.36%	60.66%	60.20%	59.73%	60.49%	60.07%	60.02%	60.66%	59.90%
Sempra Energy	SRE	58.18%	60.06%	59.11%	57.84%	57.46%	57.73%	58.12%	57.63%	58.27%
Southern Company	SO	52.81%	51.20%	51.11%	48.17%	48.70%	49.24%	48.91%	49.35%	49.94%
Xcel Energy Inc.	XEL	54.29%	53.51%	54.40%	54.23%	53.76%	54.01%	54.75%	54.22%	54.15%
MEAN		52.60%	52.60%	52.71%	52.35%	52.69%	52.56%	52.51%	52.28%	52.54%
LOW		48.44%	47.42%	46.14%	47.56%	48.05%	47.10%	48.21%	47.84%	47.68%
HIGH		58.18%	60.66%	60.20%	59.73%	60.49%	60.07%	60.02%	60.66%	59.90%

COMMON EQUITY RATIO - UTILITY OPERATING COMPANIES [2]

Company Name	Ticker	2018Q3	2018Q2	2018Q1	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4	Average
Interstate Power and Light Company	LNT	47.96%	48.62%	48.01%	48.37%	49.68%	48.78%	48.08%	48.09%	48.45%
Wisconsin Power and Light Company	LNT	52.62%	51.52%	49.57%	49.23%	52.39%	51.56%	51.45%	51.22%	51.19%
Ameren Illinois Company	AEE	52.69%	52.25%	53.71%	52.84%	54.40%	53.96%	53.50%	52.85%	53.28%
Union Electric Company	AEE	52.73%	50.77%	51.30%	51.38%	51.61%	51.14%	50.92%	51.27%	51.39%
Avista Corporation	AVA	49.55%	49.74%	51.16%	50.75%	49.89%	51.50%	51.48%	50.93%	50.62%
Alaska Electric Light and Power Company	AVA	61.94%	61.78%	61.53%	60.77%	60.67%	60.58%	60.23%	59.65%	60.89%
Black Hills Colorado Electric, Inc.	BKH	53.04%	54.85%	54.68%	55.69%	54.96%	55.01%	53.08%	52.20%	54.19%
Black Hills Power, Inc.	BKH	53.51%	53.30%	53.22%	53.49%	56.14%	53.26%	53.24%	52.88%	53.63%
Cheyenne Light, Fuel and Power Company	BKH	53.04%	53.32%	53.46%	54.01%	53.16%	53.27%	53.29%	53.35%	53.36%
Consumers Energy Company	BKH	52.86%	52.71%	52.97%	52.10%	53.09%	52.81%	51.93%	51.07%	52.44%
Consolidated Edison Company of New York, Inc.	CNP	48.33%	46.72%	48.66%	48.22%	49.47%	48.58%	49.65%	49.31%	48.62%
Orange and Rockland Utilities, Inc.	CMS	48.44%	50.74%	50.83%	50.25%	50.27%	49.81%	50.00%	49.46%	49.98%
Rockland Electric Company	ED	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
DTE Electric Company	ED	49.97%	49.23%	51.12%	51.02%	50.50%	50.63%	50.50%	50.50%	50.43%
Duke Energy Carolinas, LLC	DTE	52.64%	52.10%	51.70%	52.98%	53.98%	53.49%	53.32%	52.81%	52.88%
Duke Energy Indiana, LLC	DUK	52.79%	52.64%	52.54%	51.94%	51.71%	51.89%	52.15%	51.59%	52.16%
Duke Energy Kentucky, Inc.	DUK	56.58%	55.79%	53.72%	53.11%	50.69%	55.74%	55.43%	54.74%	54.48%
Duke Energy Ohio, Inc.	DUK	67.73%	67.10%	66.06%	66.24%	65.79%	65.38%	65.36%	66.39%	66.25%
Duke Energy Progress, LLC	DUK	50.76%	53.22%	52.82%	52.27%	51.06%	53.51%	52.99%	51.58%	52.28%
Entergy Arkansas, LLC	DUK	49.13%	48.03%	45.60%	45.67%	45.42%	44.45%	46.05%	45.90%	46.28%
Entergy Louisiana, LLC	DUK	46.77%	46.97%	44.58%	47.43%	47.83%	46.77%	48.38%	47.87%	47.07%
Entergy Mississippi, LLC	ETR	49.70%	48.71%	47.93%	47.45%	50.45%	49.68%	49.05%	48.67%	48.95%
Entergy New Orleans, LLC	ETR	50.93%	54.02%	53.43%	53.16%	52.82%	52.46%	52.30%	52.39%	52.69%
Entergy Texas, Inc.	ETR	52.61%	51.38%	50.79%	50.45%	51.18%	50.30%	49.82%	49.56%	50.76%
Atlantic City Electric Company	ETR	50.38%	49.46%	49.14%	49.19%	49.37%	49.11%	49.06%	48.37%	49.26%
Baltimore Gas and Electric Company	ETR	52.85%	55.34%	55.36%	54.77%	53.70%	53.33%	53.37%	52.54%	53.91%
Commonwealth Edison Company	EXC	54.72%	55.36%	54.96%	54.85%	54.60%	55.22%	54.90%	54.52%	54.89%
Delmarva Power & Light Company	EXC	50.11%	49.86%	50.35%	50.38%	50.18%	50.13%	50.22%	49.43%	50.08%
PECO Energy Company	EXC	52.82%	54.28%	53.77%	53.54%	53.30%	55.64%	55.53%	55.13%	54.25%
Potomac Electric Power Company	EXC	50.24%	50.08%	49.94%	49.89%	49.71%	49.60%	49.86%	49.57%	49.86%
Central Hudson Gas & Electric Corporation	EXC	51.91%	51.26%	51.82%	51.15%	50.42%	51.22%	51.14%	50.58%	51.18%
CH Energy Group, Inc.	EXC	51.91%	51.26%	51.82%	51.15%	50.42%	51.22%	51.14%	50.58%	51.18%
ITC Interconnection LLC	FTS	59.62%	59.34%	60.37%	60.60%	61.79%	62.45%	59.82%	58.06%	60.26%
Tucson Electric Power Company	FTS	55.16%	54.39%	53.56%	53.20%	53.56%	52.86%	51.91%	51.58%	53.28%
UNS Electric, Inc.	FTS	55.47%	55.89%	55.20%	54.59%	53.99%	54.77%	54.09%	53.62%	54.70%
UNS Energy Corporation	FTS	55.20%	54.56%	53.74%	53.36%	53.61%	53.08%	52.16%	51.81%	53.44%
Madison Gas and Electric Company	FTS	57.36%	60.66%	60.20%	59.73%	60.49%	60.07%	60.02%	60.66%	59.90%
Energy Future Holdings Corp	MGEE	59.29%	62.31%	60.34%	58.86%	58.56%	58.49%	58.41%	58.04%	59.29%
Oncor Electric Delivery Company LLC	PCG	59.29%	62.31%	60.34%	58.86%	58.56%	58.49%	58.41%	58.04%	59.29%
San Diego Gas & Electric Company	PPL	55.17%	54.47%	55.92%	55.09%	54.51%	55.75%	57.35%	56.52%	55.60%
Alabama Power Company	PPL	47.24%	46.62%	47.91%	46.12%	46.20%	46.32%	46.07%	46.00%	46.56%
Georgia Power Company	PPL	57.27%	54.97%	53.81%	50.06%	49.78%	50.94%	49.77%	51.01%	52.20%
Gulf Power Company	SO	55.34%	54.90%	54.27%	54.19%	54.97%	54.41%	55.63%	52.94%	54.58%
Mississippi Power Company	SO	44.81%	43.41%	42.54%	38.96%	46.93%	46.37%	49.22%	49.34%	45.20%
Northern States Power Company - MN	SO	52.64%	52.61%	52.59%	52.38%	52.22%	52.78%	52.62%	52.31%	52.52%
Northern States Power Company - WI	SO	48.45%	53.85%	53.79%	53.36%	55.57%	55.22%	55.66%	54.93%	53.85%
Public Service Company of Colorado	VVC	56.08%	54.17%	56.67%	56.50%	55.64%	54.88%	57.00%	56.32%	55.91%
Southwestern Public Service Company	XEL	56.29%	53.88%	53.54%	53.55%	52.29%	54.61%	54.48%	53.93%	54.07%

Notes:

[1] Ratios are weighted by actual common capital and long-term debt of Operating Subsidiaries

[2] Natural Gas and Electric Operating Subsidiaries with data listed as N/A from SNL Financial have been excluded from the analysis.

CAPITAL STRUCTURE ANALYSIS

Electric Proxy Group Company	Ticker	LONG-TERM DEBT RATIO [1]								
		2018Q3	2018Q2	2018Q1	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4	Average
Alliant Energy Corporation	LNT	48.13%	48.04%	49.13%	49.06%	46.81%	47.64%	48.02%	48.12%	48.12%
Ameren Corporation	AEE	46.33%	47.61%	46.61%	46.95%	46.16%	46.60%	46.93%	47.01%	46.77%
Avista Corporation	AVA	49.79%	49.63%	48.29%	48.72%	49.53%	48.00%	48.04%	48.60%	48.83%
Black Hills Corporation	BKH	46.78%	46.08%	46.14%	45.51%	44.66%	46.04%	46.81%	47.28%	46.16%
CMS Energy Corporation	CMS	46.85%	47.01%	46.73%	47.60%	46.60%	46.88%	47.75%	48.61%	47.25%
Consolidated Edison, Inc.	ED	51.15%	52.58%	50.73%	51.17%	49.98%	50.84%	49.82%	50.17%	50.80%
DTE Energy Company	DTE	50.03%	50.77%	48.88%	48.98%	49.50%	49.37%	49.50%	49.50%	49.57%
Duke Energy Corporation	DUK	47.15%	46.96%	47.12%	46.99%	46.98%	46.80%	47.08%	46.90%	47.00%
Entergy Corporation	ETR	51.35%	51.64%	53.63%	52.21%	51.62%	52.57%	51.45%	51.81%	52.04%
Exelon Corporation	EXC	46.98%	46.22%	46.44%	46.62%	46.96%	46.44%	46.52%	47.01%	46.65%
Fortis Inc.	FTS	45.66%	46.29%	46.75%	47.20%	47.19%	47.38%	48.09%	48.49%	47.13%
MGE Energy, Inc.	MGEE	42.64%	39.34%	39.80%	40.27%	39.51%	39.93%	39.98%	39.34%	40.10%
Sempra Energy	SRE	41.82%	39.94%	40.89%	42.16%	42.54%	42.27%	41.88%	42.37%	41.73%
Southern Company	SO	46.48%	48.06%	48.17%	51.10%	49.47%	49.43%	49.50%	48.99%	48.90%
Xcel Energy Inc.	XEL	45.71%	46.49%	45.60%	45.77%	46.24%	45.99%	45.25%	45.78%	45.85%
MEAN		47.12%	47.11%	46.99%	47.35%	46.92%	47.08%	47.11%	47.33%	47.13%
LOW		41.82%	39.34%	39.80%	40.27%	39.51%	39.93%	39.98%	39.34%	40.10%
HIGH		51.35%	52.58%	53.63%	52.21%	51.62%	52.57%	51.45%	51.81%	52.04%

LONG-TERM DEBT RATIO - UTILITY OPERATING COMPANIES [2]

Company Name	Ticker	2018Q3	2018Q2	2018Q1	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4	Average
Interstate Power and Light Company	LNT	48.66%	47.72%	48.17%	47.78%	46.24%	47.07%	47.64%	47.64%	47.62%
Wisconsin Power and Light Company	LNT	47.38%	48.48%	50.43%	50.77%	47.61%	48.44%	48.55%	48.78%	48.81%
Ameren Illinois Company	AEE	46.39%	46.83%	45.31%	46.15%	44.54%	44.97%	45.41%	46.05%	45.71%
Union Electric Company	AEE	46.27%	48.24%	47.66%	47.58%	47.36%	47.81%	48.04%	47.70%	47.58%
Avista Corporation	AVA	50.45%	50.26%	48.84%	49.25%	50.11%	48.50%	48.52%	49.07%	49.38%
Alaska Electric Light and Power Company	AVA	38.06%	38.22%	38.47%	39.23%	39.33%	39.42%	39.77%	40.35%	39.11%
Black Hills Colorado Electric, Inc.	BKH	46.96%	45.15%	45.32%	44.31%	45.04%	44.99%	46.92%	47.80%	45.81%
Black Hills Power, Inc.	BKH	46.49%	46.70%	46.78%	46.51%	43.86%	46.74%	46.76%	47.12%	46.37%
Cheyenne Light, Fuel and Power Company	BKH	46.96%	46.68%	46.54%	45.99%	46.84%	46.73%	46.71%	46.65%	46.64%
Consumers Energy Company	BKH	46.85%	47.01%	46.73%	47.60%	46.60%	46.88%	47.75%	48.61%	47.25%
Consolidated Edison Company of New York, Inc.	CNP	51.67%	53.28%	51.34%	51.78%	50.53%	51.42%	50.35%	50.69%	51.38%
Orange and Rockland Utilities, Inc.	CMS	51.56%	49.26%	49.17%	49.75%	49.73%	50.19%	50.00%	50.54%	50.02%
Rockland Electric Company	ED	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
DTE Electric Company	ED	50.03%	50.77%	48.88%	48.98%	49.50%	49.37%	49.50%	49.50%	49.57%
Duke Energy Carolinas, LLC	DTE	47.36%	47.90%	48.30%	47.02%	46.02%	46.51%	46.68%	47.19%	47.12%
Duke Energy Indiana, LLC	DUK	47.21%	47.36%	47.46%	48.06%	48.29%	48.11%	47.85%	48.41%	47.84%
Duke Energy Kentucky, Inc.	DUK	43.42%	44.21%	46.28%	46.89%	49.31%	44.26%	44.57%	45.26%	45.52%
Duke Energy Ohio, Inc.	DUK	32.27%	32.90%	33.94%	33.76%	34.21%	34.62%	34.64%	33.61%	33.75%
Duke Energy Progress, LLC	DUK	49.24%	46.78%	47.18%	47.73%	48.94%	46.49%	47.01%	48.42%	47.72%
Entergy Arkansas, LLC	DUK	50.35%	51.44%	53.80%	53.73%	53.99%	54.95%	53.31%	53.46%	53.13%
Entergy Louisiana, LLC	DUK	53.23%	53.03%	55.42%	52.57%	52.17%	53.23%	51.62%	52.13%	52.93%
Entergy Mississippi, LLC	ETR	49.51%	50.49%	51.26%	51.72%	48.68%	49.44%	50.05%	50.42%	50.20%
Entergy New Orleans, LLC	ETR	49.07%	45.98%	46.57%	46.84%	44.77%	45.12%	45.27%	45.19%	46.10%
Entergy Texas, Inc.	ETR	47.39%	48.62%	49.21%	49.55%	48.82%	49.70%	50.18%	50.44%	49.24%
Atlantic City Electric Company	ETR	49.62%	50.54%	50.86%	50.81%	50.63%	50.89%	50.94%	51.63%	50.74%
Baltimore Gas and Electric Company	ETR	47.15%	44.66%	44.64%	45.23%	46.30%	46.67%	46.63%	47.46%	46.09%
Commonwealth Edison Company	EXC	45.28%	44.64%	45.04%	45.15%	45.40%	44.78%	45.10%	45.48%	45.11%
Delmarva Power & Light Company	EXC	49.89%	50.14%	49.65%	49.62%	49.82%	49.87%	49.78%	50.57%	49.92%
PECO Energy Company	EXC	47.18%	45.72%	46.23%	46.46%	46.70%	44.36%	44.47%	44.87%	45.75%
Potomac Electric Power Company	EXC	49.76%	49.92%	50.06%	50.11%	50.29%	50.40%	50.14%	50.43%	50.14%
Central Hudson Gas & Electric Corporation	EXC	48.09%	48.74%	48.18%	48.85%	49.58%	48.78%	48.86%	49.42%	48.82%
CH Energy Group, Inc.	EXC	48.09%	48.74%	48.18%	48.85%	49.58%	48.78%	48.86%	49.42%	48.82%
ITC Interconnection LLC	FTS	40.38%	40.66%	39.63%	39.40%	38.21%	37.55%	40.18%	41.94%	39.74%
Tucson Electric Power Company	FTS	44.84%	45.61%	46.44%	46.80%	46.44%	47.14%	48.09%	48.42%	46.72%
UNS Electric, Inc.	FTS	44.53%	44.11%	44.80%	45.41%	46.01%	45.23%	45.91%	46.38%	45.30%
UNS Energy Corporation	FTS	44.80%	45.44%	46.26%	46.64%	46.39%	46.92%	47.84%	48.19%	46.56%
Madison Gas and Electric Company	FTS	42.64%	39.34%	39.80%	40.27%	39.51%	39.93%	39.98%	39.34%	40.10%
Energy Future Holdings Corp	MGEE	40.71%	37.69%	39.66%	41.14%	41.44%	41.51%	41.59%	41.96%	40.71%
Oncor Electric Delivery Company LLC	PCG	40.71%	37.69%	39.66%	41.14%	41.44%	41.51%	41.59%	41.96%	40.71%
San Diego Gas & Electric Company	PPL	44.83%	45.53%	44.08%	44.91%	45.49%	44.25%	42.65%	43.48%	44.40%
Alabama Power Company	PPL	50.91%	51.50%	50.15%	51.86%	50.19%	51.71%	51.95%	51.93%	51.27%
Georgia Power Company	PPL	42.73%	45.03%	46.19%	49.94%	49.10%	47.88%	49.07%	47.78%	47.22%
Gulf Power Company	SO	44.66%	45.10%	45.73%	45.81%	45.03%	45.59%	38.99%	41.32%	44.03%
Mississippi Power Company	SO	54.16%	55.55%	56.40%	60.08%	52.25%	52.80%	50.22%	50.10%	53.94%
Northern States Power Company - MN	SO	47.36%	47.39%	47.41%	47.62%	47.78%	47.22%	47.38%	47.69%	47.48%
Northern States Power Company - WI	SO	51.55%	46.15%	46.21%	46.64%	44.43%	44.78%	44.34%	45.07%	46.15%
Public Service Company of Colorado	VVC	43.92%	45.83%	43.33%	43.50%	44.36%	45.12%	43.00%	43.68%	44.09%
Southwestern Public Service Company	XEL	43.71%	46.12%	46.46%	46.45%	47.71%	45.39%	45.52%	46.07%	45.93%

Notes:

[1] Ratios are weighted by actual common capital and long-term debt of Operating Subsidiaries

[2] Natural Gas and Electric Operating Subsidiaries with data listed as N/A from SNL Financial have been excluded from the analysis.

Electric Proxy Group Company	Ticker	PREFERRED RATIO [1]								
		2018Q3	2018Q2	2018Q1	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4	Average
Alliant Energy Corporation	LNT	1.99%	2.11%	2.19%	2.21%	2.38%	2.42%	2.47%	2.47%	2.28%
Ameren Corporation	AEE	0.96%	0.96%	1.01%	1.02%	1.04%	1.05%	1.06%	1.06%	1.02%
Avista Corporation	AVA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Black Hills Corporation	BKH	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
CMS Energy Corporation	CMS	0.29%	0.29%	0.30%	0.30%	0.31%	0.31%	0.31%	0.32%	0.30%
Consolidated Edison, Inc.	ED	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
DTE Energy Company	DTE	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Duke Energy Corporation	DUK	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Entergy Corporation	ETR	0.21%	0.22%	0.22%	0.23%	0.33%	0.33%	0.34%	0.34%	0.28%
Exelon Corporation	EXC	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Fortis Inc.	FTS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
MGE Energy, Inc.	MGEE	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Sempra Energy	SRE	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Southern Company	SO	0.71%	0.73%	0.72%	0.74%	1.83%	1.33%	1.59%	1.66%	1.16%
Xcel Energy Inc.	XEL	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
MEAN		0.28%	0.29%	0.30%	0.30%	0.39%	0.36%	0.38%	0.39%	0.34%
LOW		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
HIGH		1.99%	2.11%	2.19%	2.21%	2.38%	2.42%	2.47%	2.47%	2.28%

Company Name	Ticker	PREFERRED RATIO [1]								
		2018Q3	2018Q2	2018Q1	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4	Average
Interstate Power and Light Company	LNT	3.37%	3.66%	3.81%	3.85%	4.08%	4.15%	4.28%	4.28%	3.93%
Wisconsin Power and Light Company	LNT	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Ameren Illinois Company	AEE	0.92%	0.92%	0.98%	1.00%	1.06%	1.07%	1.08%	1.10%	1.02%
Union Electric Company	AEE	1.00%	0.99%	1.04%	1.04%	1.03%	1.04%	1.04%	1.03%	1.03%
Avista Corporation	AVA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Alaska Electric Light and Power Company	AVA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Black Hills Colorado Electric, Inc.	BKH	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Black Hills Power, Inc.	BKH	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cheyenne Light, Fuel and Power Company	BKH	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Consumers Energy Company	BKH	0.29%	0.29%	0.30%	0.30%	0.31%	0.31%	0.31%	0.32%	0.30%
Consolidated Edison Company of New York, Inc.	CNP	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Orange and Rockland Utilities, Inc.	CMS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Rockland Electric Company	ED	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
DTE Electric Company	ED	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Duke Energy Carolinas, LLC	DTE	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Duke Energy Indiana, LLC	DUK	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Duke Energy Kentucky, Inc.	DUK	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Duke Energy Ohio, Inc.	DUK	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Duke Energy Progress, LLC	DUK	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Entergy Arkansas, LLC	DUK	0.52%	0.53%	0.59%	0.60%	0.59%	0.60%	0.64%	0.64%	0.59%
Entergy Louisiana, LLC	DUK	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Entergy Mississippi, LLC	ETR	0.79%	0.80%	0.81%	0.82%	0.87%	0.89%	0.90%	0.91%	0.85%
Entergy New Orleans, LLC	ETR	0.00%	0.00%	0.00%	0.00%	2.40%	2.42%	2.43%	2.43%	1.21%
Entergy Texas, Inc.	ETR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Atlantic City Electric Company	ETR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Baltimore Gas and Electric Company	ETR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Commonwealth Edison Company	EXC	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Delmarva Power & Light Company	EXC	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
PECO Energy Company	EXC	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Potomac Electric Power Company	EXC	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Central Hudson Gas & Electric Corporation	EXC	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
CH Energy Group, Inc.	EXC	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ITC Interconnection LLC	FTS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tucson Electric Power Company	FTS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
UNS Electric, Inc.	FTS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
UNS Energy Corporation	FTS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Madison Gas and Electric Company	FTS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Energy Future Holdings Corp	MGEE	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Oncor Electric Delivery Company LLC	PCG	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
San Diego Gas & Electric Company	PPL	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Alabama Power Company	PPL	1.85%	1.88%	1.94%	2.01%	3.61%	1.97%	1.98%	2.08%	2.17%
Georgia Power Company	PPL	0.00%	0.00%	0.00%	0.00%	1.12%	1.17%	1.15%	1.21%	0.58%
Gulf Power Company	SO	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.38%	5.73%	1.39%
Mississippi Power Company	SO	1.04%	1.04%	1.05%	0.96%	0.82%	0.83%	0.56%	0.56%	0.86%
Northern States Power Company - MN	SO	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Northern States Power Company - WI	SO	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Public Service Company of Colorado	VVC	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Southwestern Public Service Company	XEL	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

[1] Ratios are weighted by actual common capital and long-term debt of Operating Subsidiaries

[2] Natural Gas and Electric Operating Subsidiaries with data listed as N/A from SNL Financial have been excluded from the analysis.