

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF the Application of) REGULATORY DIVISION
Montana Dakota Utilities Company for)
Authority to Establish Increased Rates for) DOCKET NO. D2015.6.51
Electric Service in the State of Montana)

**DATA RESPONSES OF THE MONTANA CONSUMER COUNSEL
TO THE MONTANA PUBLIC SERVICE COMMISSION**

PSC-075

Regarding: Value Line, DCF Exhibits, Earnings Growth DCF Model
Witness: Wilson

- a. Throughout the testimony Value Line is used for the various earnings projections. Are there other sources of similar projections available? If so, what are those sources and what is the reason for choosing Value Line?
- b. Does the MCC agree with MDU that the 45 Value Line Electric Utilities are a viable proxy for MDU's Montana Electric Utility Operations?
- c. Please explain why the Dividend Yields for the Selected Electric Distribution Companies shown on JWW-1-A Page 1 differ from the Average Dividend Yields shown on JSG-2, Schedule 2, Pages 1-4.
- d. Does the witness agree with MDU that the correct DCF model to be used is one based on the assumption that dividends are paid quarterly and that the next annual dividend increase is a half year away (Gaske Testimony, Page 16)?
- e. Please provide a calculation and explanation of the quarterly dividend factor of 0.625 used in the Dividend Yield calculation (Column 2) of JWW-1-A, Page 101.

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RESPONSE:

- a. As regards the DCF analysis in JWW-1, Dr. Wilson did not use Value Line projections for earnings growth. Rather, he used Zacks and Yahoo (IBES) growth forecasts, as did Mr. Gaske. Dr. Wilson did use Value Line forecasts in Exhibits JWW-2 to calculate Fundamental Growth (as did Dr. Gaske). He also used Value Line projections to calculate the Expected Market Earnings Rate in Exhibit JWW-4. Generally Zacks and IBES are used most frequently for earnings forecasts.
- b. MDU did not use 45 Value Line Electric Utilities as a viable proxy for MDU's Montana Electric Utility Operations. Rather, MDU started with the Value Line utilities and then selected only 12 of these companies for its analysis. Dr. Wilson does agree that the 45 Value Line Electric Utilities are one viable proxy for MDU's Montana Electric Utility Operations.
- c. Dr. Gaske's Dividend Yields were for the period November 2014 to April 2015, while those in JWW-1 were calculated for the period May 2015 to October 2015. Also, Dr. Gaske's dividend yields are shown on Schedule 4, not Schedule 2 as the question states.
- d. The assumption that dividends are paid quarterly and that the next annual dividend increase is a half year away very likely overstates actual investor dividend growth expectations, as investors are aware that not all utilities (or other companies) always increase dividends every twelve months.
- e. The quarterly dividend factor of 0.625 used in the Dividend Yield calculation is a reflection of the assumption described in part (d) of this response – 6 month plus half of the current quarter. It is also the same factor that Dr. Gaske used in his assumption of the timing of future dividends.

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PSC-076

Regarding: DCF Exhibits
Witness: Wilson

- a. Please explain why Zacks and Yahoo Finance were chosen to be the source of the estimated growth rates as shown on JWW-1-A. What other sources could be used?
- b. Please explain why the Zacks and Yahoo Finance Growth numbers by company shown on JWW-1-A differ from those shown on JSG-2 Schedule 4, Page 6.
- c. Gaske presents the median results in his Basic DCF for the selected companies. MCC witness Wilson presents the average rather than the median. In examining the DCF results, which measure is a more accurate representation of the found ROEs for purposes of selecting an appropriate ROE for MDU?
- d. No analysis was presented in this testimony regarding the Blended Growth DCF ROE estimates or the Risk Premium ROE estimates presented by MDU. Please explain the MCC's position on those models and the resulting ROE estimates.
- e. Is it true that the Retention Growth DCF methodology model used by MDU in the Gaske testimony is the same methodology as the MCC Fundamental DCF model? If not, please explain.

RESPONSE:

- a. I used Zacks and Yahoo because those are the most common sources for earnings growth forecast and because they are the sources that MDU used. It would also be possible to use earnings growth projections from Value Line, but those are generally the view of a single analyst and not a consensus.
- b. Dr. Gaske's Zacks and Yahoo Finance Growth numbers were collected on April 30, 2015, while those in JWW-1 were collected on November 11, 2015.

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- c. As shown below the median and average values are reasonably close. While either (or both) could be used, I felt that the average was the most appropriate as it gave equal weighting to each observation. The values of the median and average for each of Dr. Wilson’s Exhibits are shown on the table below:

DCF Cost of Equity Indications
Earnings Growth Model

Exhibit No. JWW-1-A	<u>D/P + g</u>	
	<u>Zacks</u>	<u>Yahoo</u>
Average	9.6%	9.5%
Median	9.3%	9.5%

Exhibit No. JWW-1-B	<u>D/P + g</u>	
	<u>Zacks</u>	<u>Yahoo</u>
Average	9.0%	8.5%
Median	9.2%	9.1%

DCF Cost of Equity Indications
Fundamental Growth Model

Exhibit No. JWW-2-A	<u>D/P + g</u>
Average	7.9%
Median	7.7%

Exhibit No. JWW-2-B	<u>D/P + g</u>
Average	8.1%
Median	7.8%

Comparable Expected Market Earnings Rates

Exhibit No. JWW-4-A	<u>Expected Market Earnings Rate</u>
Average	6.90%
Median	7.02%

Exhibit No. JWW-4-B	<u>Expected Market Earnings Rate</u>
Average	6.93%
Median	6.90%

- d. It was my judgment that the Blended Growth DCF ROE was unnecessarily cumulative and that CAPM adequately covered risk premium matters.

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- e. Yes. They are the same methodology.

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PSC-077

Regarding: Comparative Earnings, Risk
Witness: Wilson

- a. Please explain why, if both MDU and MCC used 2018 - 2020 Value Line projections for EPS, DPS, and ROE for each of the 12 Selected Electric Distribution companies, some of the values are different. (Gaske JSG-2, Schedule 4, Pages 5 and 9 versus JWW-2-A).
- b. To what extent does Value Line utilize historical returns in projecting booked returns? (JWW-4A & B) What other factors are utilized by Value Line?
- c. What other factors does Value Line consider in projecting booked returns?
- d. If historical earnings are the driving factor in Value Lines projected booked earnings, does this not then create the circularity problem described on page 27 of the testimony? If not, why not?
- e. Are all of the Value Line electric utilities considered “regulated” utilities? If there are companies that are not regulated, please list those companies.

RESPONSE:

- a. Dr. Gaske’s Value Line projections were from the January 31, February 20, and March 20, 2015 issues, while those in JWW-2 were from August 10, September 18, and October 30, 2015 issues.
- b. Dr. Wilson does not know to what extent Value Line relies on historical returns or other factors.
- c. See response to part (b) of this question.
- d. Yes. That could create a circularity problem, but see the response to part (b) of this question.
- e. It is Dr. Wilson’s understanding that all of these companies are regulated to a substantial extent.

PSC-078

Regarding: Comparative Earnings, Risk
Witness: Wilson

- a. What is the Beta Coefficient (β) for MDU Resources Group, Inc.? Is this Beta Coefficient of any value in analyzing the risk associated with MDU's Montana electric operations?
- b. Are the other risk indicators shown on JWW 5-A (Safety, Price Stability, and Financial Strength) also available for MDU Resources Group? If so, what are they and do they also have any value in analyzing the risk associated with MDU's Montana electric utility operations?

RESPONSE:

- a. The Beta Coefficient (β) for MDU Resources Group, Inc. is 1.00 (Value Line – September 4, 2015). Since MDU Resources is a diversified company with (electric and gas) utility operations accounting for less than half of revenues and earnings, this measure likely overstates the risk associated with MDU's Montana electric utility operations.
- b. The following are risk indicators for MDU Resources Group, Inc. (Value Line – September 4, 2015)

(1)	(2)	(3)	(4)	(5)
Beta	Safety	Price Stability	Earnings Predictability	Financial Strength
1.00	2	85	75	A

These risk indicators are described in Dr. Wilson's testimony. Since MDU Resources is a diversified company with (electric and gas) utility operations accounting for less than half of revenues and earnings, these measures likely overstate the risk associated with MDU's Montana electric utility operations.