

**STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION**

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matt Schuerger	Commissioner
Katie Sieben	Commissioner
John Tuma	Commissioner

**In the Matter of the Petition of Northern
States Power Company for Approval of a
2017 Gas Utility Infrastructure Cost Rider**

DOCKET NO. G-002/M-16-891

**REPLY COMMENTS OF THE
OFFICE OF THE ATTORNEY GENERAL**

The Office of the Attorney General – Residential Utilities and Antitrust Division (“OAG”) respectfully submits these Reply Comments regarding Northern States Power Company’s (“Xcel” or “the Company”) Gas Utility Infrastructure Cost (“GUIC”) Rider Petition, Compliance Filing, and Annual Report for 2017 filed on November 1, 2016. These Reply Comments will be limited to providing an update on the OAG’s prior concerns regarding a survey being distributed by the AGA as well as an update to the Return on Equity (“ROE”) analysis conducted in the OAG’s Initial Comments, using the most recently available data.

**I. A RECENT DRAFT OF THE AMERICAN GAS ASSOCIATION’S SOS HAS
INCORPORATED EDITS PROPOSED BY THE OAG IN JANUARY.**

In its Initial Comments, the OAG discussed an industry survey that was being conducted at the request of the Company. A draft of the American Gas Association’s “SOS” had been reviewed by OAG staff, who also provided comments for revisions. A redlined version of this draft was included in Appendix D of the OAG’s Initial Comments. At the time Initial Comments were filed, it was uncertain whether the revisions suggested by the OAG were incorporated by the Company.¹ Since filing its Initial Comments, the Company has shared a revised version of

¹ OAG Initial Comments at 39–40.

the draft AGA SOS with the OAG. This revised SOS incorporated the redlines proposed by OAG staff with some minor variations in wording. The revised language in the AGA survey will thus help to ensure the Commission receives more valuable information regarding metric developments from across the country, which will bolster the efficacy of the statewide stakeholder process envisioned by the OAG in its Initial Comments.

II. THE COMMISSION SHOULD ESTABLISH AN ROE OF 7.00 PERCENT FOR XCEL'S GUIC RIDER BASED ON THE MOST RECENTLY AVAILABLE DATA.

To ensure that the ROE for Xcel's GUIC Rider is based on the most recently available data, these Reply Comments update the results of the Constant Growth, Multi-Stage and CAPM models using data covering the 30-day period ending March 8, 2017. The updated results of the Multi-Stage Discounted Cash Flow ("DCF") analysis for the Gas Proxy Group support the establishment of an ROE for Xcel in this docket of 7.00 percent.

Growth Rates used in these Reply Comments are found in Table 1 below.

Table 1. Growth Rates as of March 9th, 2017.

Gas Proxy Group	Ticker	Yahoo	Zacks	Value Line
Atmos Energy Corporation	ATO	6.90%	7.00%	6.00%
Chesapeake Utilities Corporation	CPK	6.00%	6.00%	8.00%
New Jersey Resources Corporation	NJR	6.00%	6.00%	2.50%
Northwest Natural Gas Company	NWN	4.50%	4.33%	6.00%
South Jersey Industries, Inc.	SJI	6.00%	10.00%	3.00%
Southwest Gas Corporation	SWX	4.00%	4.45%	6.50%
Spire Inc	SR	4.04%	4.06%	8.00%
Mean		5.35%	5.98%	5.71%
σ		1.06%	1.93%	2.03%
-1 σ		4.28%	4.05%	3.68%
+1 σ		6.41%	7.90%	7.75%

Electric & Gas Proxy Group	Ticker	Yahoo	Zacks	Value Line
Ameren Corporation	AEE	5.85%	6.50%	6.00%
Avista Corporation	AVA	5.65%	NA	3.00%
CenterPoint Energy, Inc.	CNP	6.84%	5.00%	2.00%
CMS Energy Corporation	CMS	7.60%	6.00%	6.00%
NiSource Inc.	NI	9.20%	7.22%	2.00%
NorthWestern Corporation	NWE	3.94%	4.33%	6.50%
SCANA Corporation	SCG	5.87%	5.33%	4.50%
Vectren Corporation	VVC	5.57%	5.67%	9.00%
Wisconsin Energy Corporation	WEC	6.53%	6.00%	6.00%
Mean		6.34%	5.76%	5.00%
σ		1.39%	0.84%	2.20%
-1 σ		4.95%	4.92%	2.80%
+1 σ		7.73%	6.59%	7.20%

The Mean Constant Growth DCF result declined from 8.15 percent to 8.10 percent between Initial Comments and these Reply Comments. See Table 2, below.

Table 2. Results of the OAG’s constant-growth DCF analysis using growth estimates from Yahoo Finance.

	Low	Mean	High
Gas Proxy Group ROE	6.96%	8.10%	9.26%

The Mean Multi-Stage DCF result declined from 7.13 percent to 7.00 percent between Initial Comments and these Reply Comments. See Table 3, below.

Table 3. Mean, mean high, and mean low Multi-Stage DCF results for the gas proxy group.

Gas Proxy Group Mean ROE results			
ROEs	Low	Mean	High
OECD growth	6.97%	7.07%	7.19%
OECD growth with extrapolation beyond 2060	6.89%	7.00%	7.11%

To check the reasonableness of the Multi-Stage DCF results, the OAG also updated the data used in its CAPM analysis. The Treasury Yields used in the CAPM analysis are in Table 4, below.

Table 4. Mean 10-year, 20-year, and 30-year yields for Treasuries between February 8, 2017 and March 8, 2017.

	10-Yr	20-Yr	30-Yr
Treasury Yield	2.44%	2.78%	3.04%

The Betas used in this CAPM analysis are in Table 5, below.

Table 5. Betas

Gas Proxy Group				
Company	Ticker	Yahoo Finance	Zacks	Value Line
Atmos Energy Corporation	ATO	0.24	0.33	0.70
Chesapeake Utilities Corporation	CPK	(0.17)	0.26	0.70
New Jersey Resources Corporation	NJR	0.30	0.47	0.80
Northwest Natural Gas Company	NWN	0.31	0.35	0.65
South Jersey Industries, Inc.	SJI	0.67	0.73	0.80
Southwest Gas Corporation	SWX	0.39	0.54	0.75
Spire Inc	SR	0.25	0.35	0.70
Average Beta		0.284	0.433	0.729

Electric & Gas Proxy Group				
Company	Ticker	Yahoo Finance	Zacks	Value Line
Ameren Corporation	AEE	0.29	0.38	0.65
Avista Corporation	AVA	0.20	0.40	0.70
CenterPoint Energy, Inc.	CNP	0.57	0.55	0.85
CMS Energy Corporation	CMS	0.12	0.11	0.65
NiSource Inc.	NI	0.22	0.29	NMF
NorthWestern Corporation	NWE	0.27	0.37	0.70
SCANA Corporation	SCG	0.12	0.22	0.65
Vectren Corporation	VVC	0.74	0.70	0.75
Wisconsin Energy Corporation	WEC	(0.02)	0.07	0.60
Average Beta		0.279	0.343	0.694

The expected market rate of return (r_m) declined seven basis points from 9.87 percent to 9.80 percent due to the lower current dividend yield on the S&P 500, which declined from 2.00 percent to 1.93 percent. CAPM results are in Table 6, below.

Table 6. CAPM and ECAPM results for the gas and combined proxy groups.

Gas Proxy Group: CAPM and ECAPM Results

ROEs	CAPM			ECAPM			Average
Beta Source	Yahoo	Zacks	Value Line	Yahoo	Zacks	Value Line	
10-yr Treasury	4.53%	5.62%	7.80%	5.83%	6.64%	8.26%	6.45%
20-yr Treasury	4.78%	5.82%	7.89%	6.01%	6.79%	8.33%	6.60%
30-yr Treasury	4.96%	5.97%	7.96%	6.15%	6.90%	8.38%	6.72%
Average	4.76%	5.80%	7.88%	6.00%	6.78%	8.32%	6.59%

Electric & Gas Proxy Group: CAPM and ECAPM Results

ROEs	CAPM			ECAPM			Average
Beta Source	Yahoo	Zacks	Value Line	Yahoo	Zacks	Value Line	
10-yr Treasury	4.49%	4.96%	7.54%	5.80%	6.15%	8.07%	6.17%
20-yr Treasury	4.74%	5.19%	7.65%	5.99%	6.32%	8.15%	6.34%
30-yr Treasury	4.93%	5.36%	7.73%	6.13%	6.45%	8.21%	6.47%
Average	4.72%	5.17%	7.64%	5.97%	6.31%	8.14%	6.32%

These analyses demonstrate that it is not in the public interest to permit an ROE of 9.5 percent on Xcel's 2017 GUIC Rider.² Based on the results of the Multi-Stage DCF analysis using a Gas Proxy Group, the Commission should establish an ROE of 7.00 percent.

Dated: March 13, 2017

Respectfully submitted,

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s/ **Joseph A. Dammel**

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² Minn. Stat. § 216B.1635, subd. 6 (2016).



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March 13, 2017

Mr. Daniel Wolf, Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
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RE: *In the Matter of the Petition of Xcel Energy for Approval of a Gas Utility Infrastructure Cost Rider Compliance Filing, and Annual Report for 2017*
Docket No. G002/M-16-891

Dear Mr. Wolf:

Enclosed and e-filed in the above-referenced matter please find *Reply Comments of the Office of the Attorney General*.

By copy of this letter, all parties have been served. An Affidavit of Service is also enclosed.

Sincerely,

s/ **Joseph A. Dammel**

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