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APPLICATION OF ENTERGY TEXAS, INC. FOR AUTHORITY TO CHANGE RATES AND RECONCILE FUEL COSTS	§ § §	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

TEXAS INDUSTRIAL ENERGY CONSUMERS OBJECTIONS AND RESPONSES TO ENTERGY TEXAS, INC.'S SECOND REQUEST FOR INFORMATION

Texas Industrial Energy Consumers (TIEC) files the following responses to the Second Requests for Information (RFI) to TIEC filed by Entergy Texas, Inc. (ETI). The request was filed at the Commission and received by TIEC on January 15, 2014. Accordingly, pursuant to the procedural schedule entered in this case, TIEC' s response is timely filed. TIEC' s responses to specific questions are set forth as follows, in the order of the questions asked. Pursuant to P.U.C. Proc. R. 22.144(c)(2)(F), these responses may be treated as if they were filed under oath.

Respectfully submitted,

ANDREWS KURTH LLP

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ATTORNEYS FOR TEXAS INDUSTRIAL ENERGY CONSUMERS

CERTIFICATE OF SERVICE

I, James A. Nortey II, Attorney for Texas Industrial Energy Consumers, hereby certify that a copy of TIEC' s Response to Entergy Texas, Inc.'s Second Set of Request for Information was served on all parties of record in this proceeding on this 22nd day of January, 2014 by hand-delivery, facsimile, electronic mail and/or First Class, U.S. Mail, Postage Prepaid.

James A. Nortey II

AUS:674920.1

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RFIs related to the testimony of TIEC witness Jeffry Pollock

2-1. Mr. Pollock's testimony indicates (e.g., p. 37, lines 19-20, p. 38, lines 1-13, p. 39, line 3) that the facts and circumstances presented by ETI in this case do not justify the Company's request for "special circumstances" treatment of the Frontier and Carville PPAs. With regard to this testimony, please explain what additional facts and circumstances Mr. Pollock believes would need to exist, beyond those presented by ETI in this case, in order for a request under P.U.C. Subst. R. 25.236(a)(6) for recovery of purchased capacity through fuel costs to be adequately supported by "special circumstances."

RESPONSE:

In light of the Commission's adoption of a specific rule last year providing for a Purchased Capacity Recovery Factor (PCRF), it is not clear that special circumstances would exit for recovering purchased capacity outside of base rates or the PCRF under any circumstances. Prior to the adoption of the PCRF, the Commission very rarely found special circumstances for recovering capacity costs through fuel. Special circumstances have been found where a utility had unique difficulties attributable to a delay in a transition to competition plan and had to plan to reliably serve its native load when it was at risk of losing much of that load to possible deregulation of capacity markets.

Prepared by: Jeffry Pollock
Sponsored by: Jeffry Pollock

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2-2. Is it TIEC's position that proof of the following facts is insufficient for granting a special circumstances request under Section 25.236(6):

> The fuel expense or transaction giving rise to the ineligible fuel expense resulted in, or is reasonably expected to result in, increased reliability of supply or lower fuel expenses than would otherwise be the case, and
>
> Such benefits received or expected to be received by ratepayers exceed the costs that ratepayers otherwise would have paid or otherwise would reasonably expect to pay.

If so, please explain the basis for this position and provide all documents that support it.

RESPONSE:

TIEC objects to the above question as calling for a legal conclusion. Subject to and without waiving that objection, the above two factors in and of themselves are clearly insufficient for a special circumstance exception. The rule itself notes that the above factors are to be considered in addition to other factors.

Prepared by: Counsel

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2-3. On p. 28 of his testimony, Mr. Pollock calculates $11.5 million in replacement costs for certain expiring contracts, based on additional Schedule MSS-1 purchases. Is it TIEC's position that it can be known with reasonable certainty that ETI will ultimately pay $11.5 million in replacement costs for the expiring contracts in the rate year? If not, please explain the basis for the Schedule MSS-1 replacement cost methodology that Mr. Pollock uses.

RESPONSE:

It is not TIEC's position that the total amount of MSS-1 costs that replace expiring contracts for the period February 2014 through January 2015 can be calculated as exactly $11.5 million with reasonable certainty. It is known with reasonable certainty that the four purchased power agreements referenced in Mr. Pollock's testimony have expired. The basis for using the known test year MSS-1 rate for calculating replacement costs is explained on pages 25-29 of Mr. Pollock's testimony.

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2-4. Assuming the expiring contracts are replaced with additional Schedule MSS-1 purchases in the rate year, is it TIEC's position that the amount that ETI ultimately pays will not fluctuate based upon operational and load conditions experienced by all the Operating Companies during the rate year? If so, please explain the basis for this position and provide all documents that support it.

RESPONSE:

No.

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Sponsored by: Jeffry Pollock

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2-5. Is it known with reasonable certainty that EAI will exit the Entergy System Agreement and that this exit will affect Schedule MSS-1 payments? If so, please explain why Mr. Pollock didn't calculate the impact of this known change using the MSS-1 payment methodology that Mr. Pollock employs on page 27 of his testimony.

RESPONSE:

Yes. As discussed in Mr. Cooper's direct testimony (at 21), the EAI-WBL (186 MW) contact expires on EAI's exit from the Energy System Agreement (December 19, 2013). Mr. Pollock reflected EAI's exit from the Entergy System Agreement in Exhibits JP-10 and JP-11, which are discussed on pages 31-32 of Mr. Pollock's testimony. These adjustments also reflect the other pro-forma adjustments discussed by Mr. Pollock.

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2-6. Does TIEC agree that the replacement cost of Schedule MSS-1 payments is based upon highly complex mathematical formulae that utilizes numerous variables and that those variables could change during the rate year, thereby altering the amount paid by ETI under Schedule MSS-1 during the test year? If not, please explain why TIEC disagrees with the statement.

RESPONSE:

Yes. The Schedule MSS-1 calculation is highly involved and uses numerous variables that will necessarily change over time. Consistent with the matching principle, Mr. Pollock used the test year variables to quantify the impact on Schedule MSS-1 costs resulting from the ETEC Transaction and the expired purchased power agreements.

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2-7. Does Mr. Pollock believe there is any set of circumstances that would allow a utility to recover purchased power capacity costs as a special circumstances exception to the Fuel Rule? If so, please identify such circumstances.

RESPONSE:

Please refer to TIEC's response to ETI's Second Set of RFIs, questions 1 and 2.

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2-8. Does Mr. Pollock believe that all costs booked to FERC accounts associated with the generation or production function, including but not limited to purchased power capacity or demand costs and generation operating and maintenance costs, should be classified as demand-related for purposes of cost allocation? If not, what FERC accounts associated with the foregoing generation or production function does Mr. Pollock believe should be classified as energy-related and what FERC accounts should be classified as customer-related?

RESPONSE:

Mr. Pollock has not conducted an in-depth review of all production costs by FERC account. Based on Mr. Pollock's understanding of ETI's cost-of-service study, production operation and maintenance expenses in certain FERC accounts may be classified to energy. Please see Appendix C of Mr. Pollock's direct testimony for a general discussion of cost-classification.

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2-9. Does Mr. Pollock believe that all costs booked to FERC accounts associated with the transmission function should be classified as demand-related for purposes of cost allocation? If not, what FERC accounts associated with the transmission function does Mr. Pollock believe should be classified as energy-related and what FERC accounts should be classified as customer-related?

RESPONSE:

Mr. Pollock has not conducted an in-depth review of all transmission costs by FERC account. Please see Appendix C of Mr. Pollock's direct testimony for a general discussion of cost-classification.

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2-10. What does Mr. Pollock believe are the defining characteristics that separate costs that are properly classified as demand-related from costs that are properly classified as energy-related or customer-related?

RESPONSE:

Please see Appendix C of Mr. Pollock's direct testimony.

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2-11. Has Mr. Pollock identified any customer-related costs that should be disallowed due to the loss of the 150 MW ETEC load? If so, please identify such costs.

RESPONSE:

No.

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2-12. Does Mr. Pollock believe that all return, depreciation and federal income tax costs should be classified as demand-related costs for purposes of cost allocation. If not, please identify which of such expenses, and what portion of them, should not be classified as demand- related.

RESPONSE:

No. The return, depreciation and federal income taxes associated with production and transmission plant-related costs are demand-related. Distribution costs can be classified as either demand or customer-related. Intangible and general plant-related costs are classified consistent with previously classified plant in service.

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2-13. Can ETI avoid incurring any of the costs of previously allocated to wholesale service that Mr. Pollock contends should be disallowed due to the termination of the 150 MW of ETEC load? If so, please identify what costs are avoidable.

RESPONSE:

Yes. Mr. Pollock states on page 17: "The expiration of ETEC's PRA means that ETI is now serving less load than if the ETEC PRA had continued. All other things being equal, serving less load means ETI will incur lower purchased power capacity costs and lower transmission equalization payments." Mr. Pollock quantified the lower costs in Exhibits JP-3, JP-5, and JP-8.

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2-14. Will ETI's unit (or average) costs of generation change as a result of the ETEC Transaction? If so, please identify the change in unit costs.

RESPONSE:

Mr. Pollock has not identified the change in per-unit generation costs solely as a result of the ETEC Transaction.

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2-15. Does Mr. Pollock believe that the unit cost of ETI generation would change due to the loss of 150 MW of ETEC load? If so, please identify the change in unit costs.

RESPONSE:

Yes. However, Mr. Pollock has not identified the change in per-unit generation costs solely due to the loss of 150 MW of ETEC load. Conceptually, reducing ETI's test-year Schedule MSS-1 costs to reflect the loss of 150 MW of ETEC load effectively removes lower per-unit cost purchases thereby increasing per-unit generation costs, as reflected in Mr. Pollock's Alternative 2 recommendation.

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2-16. Does Mr. Pollock believe that the unit cost of ETI generation would change due to the ETEC Transaction, including consideration of both the loss of load and loss of resources? If so, please identify the change in unit costs.

RESPONSE:

Please see TIEC's response to ETI's Second Set of RFIs, question 14.

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2-17. Will ETI's unit (or average) costs of transmission and distribution, or either of them, change as a result of the ETEC Transaction? If so, please identify the changes in unit costs.

RESPONSE:

Possibly. Whether unit costs change will depend on the amount of transmission and/or distribution costs previously allocated to ETEC that are reallocated entirely to Texas retail customers and retail distribution load growth. For example, if the reallocated ETEC transmission/distribution costs represent a 1% increase in retail transmission/distribution costs, but retail distribution load grew by 2%, unit cost would decrease (and vice versa, if the increase in cost exceeded retail load growth). This would be offset by the portion of transmission costs that ETI will avoid if ETEC's load is removed from the responsibility ratios calculated under Schedule MSS-2. As discussed in Mr. Pollock's testimony, removing ETEC load from test-year responsibility ratios will reduce test-year Schedule MSS-2 costs, as quantified in Exhibit JP-5. Mr. Pollock has not quantified the net change in unit costs.

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2-18. Can Mr. Pollock identify what test year purchased power contracts ETI was able to avoid (i.e., terminate) due to the termination of the 150 MW of ETEC load. If so, please identify them.

RESPONSE:

The termination of the 150 MW of ETEC load reduces ETI's need for purchased power. Four purchased power contracts expired. These expired contracts represent 352 MW. Mr. Pollock has not identified which of the expired contracts can be attributed to the ETEC Transaction.

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2-19. Other than purchases of power from ETEC, was ETI able to avoid (i.e., terminate) any purchase power contracts due to the loss of the 150 MW of ETEC load?

RESPONSE:

Please see TIEC's response to ETI's Second Set of RFIs, question 18.

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2-20. In PUCT Docket No. 39896 and this one Mr. Pollock appears to urge that the electric rate that a utility charges its customers has subsumed within it a generation charge, and that in the absence of any change in the unit rate (or unit cost) of generation, changes in load will result in the full recovery of generation costs without the need to recognize any post test year changes in generation costs. Is this still Mr. Pollock's view, and if not explain how his opinion has changed. If this is still Mr. Pollock's view, please explain why, absent any attendant change in the unit cost of generation, it is necessary to make a post test year change to reflect lower generation costs when a wholesale customer contract terminates.

RESPONSE:

Mr. Pollock still believes that changes in rates reflect changes in per-unit costs, including the per-unit cost of generation that may be affected by the termination of a wholesale contract. Unit cost is derived by dividing total purchased power capacity costs by the associated capacity. Thus, before determining whether there has been a change in unit cost, it is necessary to quantify the changes in test-year purchased power capacity costs and capacity that reflect all known and measurable changes. Doing so and removing ETEC load and resources from the test year (Alternative 2 as described in Mr. Pollock's testimony) increases ETI's per-unit generation cost and therefore ETI's revenue requirement from what it would be if no adjustment were made (Alternative 1). This is because the Schedule MSS-1 purchases that would be avoided with ETEC's load and resources removed have a lower unit cost than ETI's average per-unit purchased power capacity cost.

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2-21. Specific to ETEC, what percentage of generation-related and production-related costs associated with ETI's previous wholesale service (that is, costs functionalized as generation-related) should be classified as demand-related? Please respond specifically and separately as to each FERC account which Mr. Pollock believes is properly used to book generation-related and production-related costs.

RESPONSE:

Mr. Pollock has not reviewed ETI's proposed production plant and related costs on a FERC account basis. In Alternative 1 (as described on page 17 of Mr. Pollock's direct testimony), Mr. Pollock used the production demand-related costs from ETI's unit cost study at proposed rates (SCH. P-6.1.2). This study quantifies ETI's test-year revenue requirements by function (i.e., production, transmission, distribution) and by classification (i.e., customer, demand and energy).

Please see TIEC's response to ETI's Second Set of RFIs, question 8.

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2-22. Specific to ETEC, what percentage of transmission-related costs associated with ETI's previous wholesale service (that is, costs functionalized as transmission-related) should be classified as demand-related? Please respond specifically and separately as to each FERC account which Mr. Pollock believes is properly used to book transmission-related costs.

RESPONSE:

Under Alternative 2 (as described on pages 21-22 of Mr. Pollock's direct testimony), Mr. Pollock removed transmission equalization expenses associated with ETEC. In other words, these expenses would not have been incurred absent the fact that ETEC's load was served by ETI during the test year. According to Schedule P, expenses booked to FERC Account 565 are classified by ETI as demand-related.

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2-23. Specific to ETEC, what percentage of distribution-related costs associated with ETI's previous wholesale service (that is, costs functionalized as distribution-related) should be classified as demand-related? Please respond specifically and separately as to each FERC account which Mr. Pollock believes is properly used to book distribution-related costs.

RESPONSE:

Although distribution costs were allocated to wholesale service in ETI's last rate case, Mr. Pollock did not quantify any distribution-related costs associated with the ETEC Transaction in this case.

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2-24. Please provide the last ten pieces of written testimony in which Mr. Pollock addressed the issue of whether a utility's costs should be classified as demand-related.

RESPONSE:

See Appendix B to the testimony of Jeffry Pollock. The issue of cost-classification is addressed under Cost of Service. This testimony is publicly available.

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2-25. What percentage of Mr. Pollock's proposed disallowance of costs associated with the ETEC Transaction is generation or production related?

RESPONSE:

Under Alternative 1, $15.7 million is production-related. See pp. 15-17 of Jeffry Pollock's testimony. Under Alternative 2, the adjustment is $5.3 million. Of that amount 43% is production-related.

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2-26. Is it correct that Mr. Pollock proposes a disallowance of more than $25 million in generation and production costs if his ETEC and purchased power capacity disallowances are combined? If so, please quantify the combined generation and production cost disallowance that Mr. Pollock proposes?

RESPONSE:

The impact of Mr. Pollock's recommendations is summarized on page 32 of Mr. Pollock's direct testimony. Under Alternative 1, ETI's test-year revenue requirement request would be reduced by $32.5 million. Of this amount, $32.2 million is production-related. Under Alternative 2, ETI's test-year revenue requirement request would be reduced by $23.1 million. Of this amount, $19.9 million is production-related.

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2-27. Does Mr. Pollock believe that ETI's generation and production costs will actually decline in the rate year (compared to test year costs), by an amount at least equal to the combined disallowance referred to in the question immediately above? If so, please provide all analyses and data that support this belief. Rate year for purposes of this question is the initial 12 month period when new rates will be in effect.

RESPONSE:

Mr. Pollock does not offer an opinion that rate year costs will decline. Alternative 1 makes no known and measurable adjustments. Alternative 2 is based on known and measurable changes in test-year costs and loads as discussed in Mr. Pollock's testimony. These known and measurable changes are necessary so that the test-year costs are more representative of the costs that ETI will incur during the rate year.

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Sponsored by: Jeffry Pollock

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2-28. Please explain the portion of the rate year (for how many months) Mr. Pollock assumes the San Jacinto contract referred to on page 29 of his testimony, lines 16-21, will be priced at $1.05 per kW-month.

RESPONSE:

Mr. Pollock re-priced the San Jacinto contract assuming that the $1.05 per kW-month demand charge would have applied throughout the test year.

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2-29. Please explain whether Mr. Pollock believes that the resources and loads that were utilized to determine the Intra-System Bill for Schedule MSS-1 services during the test year will be the same in the rate year.

RESPONSE:

It is unlikely that test-year and rate-year resources and loads utilized to determine Schedule MSS-1 costs will be the same.

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2-30. Please explain whether Mr. Pollock believes that the Schedule MSS-1 rate in effect during the test year will be the same for the rate year.

RESPONSE:

As discussed on page 30 of Mr. Pollock's testimony, the Schedule MSS-1 rates charged by each Entergy Operating Company for reserve capacity change every June 1st. The currently effective Schedule MSS-1 rates will be in effect for a portion of the rate year. The Schedule MSS-1 rates that will be in effect on June 1, 2014 (which includes a portion of the rate year) are not now known and measurable. Based on past experience, it is unlikely that these rates will be the same as the rates that were in effect during the test year.

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2-31. Is the exit of EAI from the Entergy System Agreement a known change? If so, using the methodology described on page 28 of his testimony, what does Mr. Pollock believe would be the impact of the exit on ETI's Schedule MSS-1 purchases.

RESPONSE:

Yes. Please see TIEC's response to ETI's Second Set of RFIs, question 5. Mr. Pollock did not separately quantify the impact of EAI exiting the Entergy System Agreement. The impact of the exit of EAI from the Entergy System Agreement is part of the System Agreement changes discussed on page 30 of Mr. Pollock's direct testimony.

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2-32. Has Mr. Pollock included the impact of the post test year reductions in capacity from ETEC resources in his calculation of the MSS-1 adjustment referred to on page 28 of his testimony? If not, please explain why not.

RESPONSE:

Yes. As explained on pages 20-21 of Mr. Pollock's direct testimony, certain ETEC resources were removed from ETI's Company Capability in determining the change in Schedule MSS-1 payments under Alternative 2.

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RFIs related to the testimony of TIEC witness Michael Gorman

2-33. Please reference the testimony of Mr. Gorman at pp. 30-32. Explain why Mr. Gorman believes it is appropriate to utilize projected treasury bond yields in conducting his risk premium analysis, but believes that it is inappropriate for Dr. Hadaway to use projected bond yields in conducting his risk premium analysis.

RESPONSE:

Mr. Gorman relied on independent consensus economist projections of future Treasury bond yields in his testimony for use in his capital asset pricing model and his risk premium study, whereas Dr. Hadaway did not. Mr. Gorman did not derive the projected bond yield himself, and he did not make assumptions around the consensus economist projections. Rather, Mr. Gorman relied on independent, unbiased market participant data to estimate ETI's cost of capital. In contrast, Dr. Hadaway's projected bond yield is not derived from independent and unbiased estimates of future interest rate costs. Dr. Hadaway's "BBB" utility bond projection was based on his estimated 161 basis point yield spread over a projected Treasury bond rate of 4.17%. This spread is based on Dr. Hadaway's individual assessment and projection of future bond yields. As such, Dr. Hadaway did not demonstrate that the 161 basis point projected spread used in this projection reflects any market participant's expectations or outlook.

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2-34. Please reference p. 32 of Mr. Gorman's testimony. List by title, author, chapter and page number all text books, learned treatises, scholarly articles and similar materials of which Mr. Gorman is aware that support, reject, critique, or discuss the existence of an inverse relationship between interest rates and risk premiums. To the extent within Mr. Gorman's possession, custody, or control, provide copies of these materials.

RESPONSE:

Specific articles that summarize the research regarding the existence of an inverse relationship between interest rates and risk premiums were provided in Mr. Gorman's Public Workpapers 4, 5, 6 and 7.

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2-35. Please provide copies of the S&P, Fitch, Moody's and EEI reports referenced on pp. 5-7 of Mr. Gorman's testimony.

RESPONSE:

The referenced S&P, Fitch and Moody's reports were provided in Mr. Gorman's workpapers. The referenced S&P report was provided as Mr. Gorman's Confidential Workpaper 1. The referenced Fitch report was provided as Mr. Gorman's Public Workpaper 2. The referenced Moody's report was provided as Mr. Gorman's Confidential Workpaper 8. The EEI report provided as Mr. Gorman's Public Workpaper 8 (EEI Q3 2012) was not the referenced document. The actual referenced EEI report (EEI Q3 2013) is provided as ETI RFI 2-35 Attachment.

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2-36. Regarding the Moody's Report quoted on page 6, lines 22-32 of Mr. Gorman's testimony, please explain the extent to which the PUCT had adopted the type of "better cost recovery options" and "reduced regulatory lag" in the manner referenced in the report.

RESPONSE:

Mr. Gorman is aware that the PUCT has adopted a distribution cost recovery factor, transmission cost recovery factor, and a power cost recovery factor.

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2-37. Regarding Mr. Gorman's testimony on p. 7, please provide any information Mr. Gorman has reviewed measuring or tracking the volatility of utility stocks, as compared to the volatility of the stock market in general, for the period referenced in Figure 1.

a. Other than the information in the graph, provide any other information or basis Mr. Gorman has for his conclusion that utility stocks are less volatile than the stock market in general.

b. Does Mr. Gorman believe that utility stocks have over time, in the past ten years, become relatively less volatile than the stock market in general, relatively more volatile, or stayed relatively the same? Please explain your answer.

RESPONSE:

Mr. Gorman has reviewed the index volatility for the EEI electric utilities and the S&P 500 as noted at page 7 of his testimony. The relative volatility of utility stocks compared to the overall market is also reflected in the measurement of *Value Line* betas. Mr. Gorman has noted the *Value Line* beta at this time, and has experience in reviewing electric utility industry betas over the last few decades. Based on this information, Mr. Gorman supported his conclusion that electric utility stocks' volatility is lower than that of the overall market.

a. The relative volatility of utility stocks compared to the overall market index is captured in the utility's beta estimate. Utilities' beta estimates have consistently been below 1, which is an indication of lower volatility in stock prices and supports Mr. Gorman's conclusion that utility stock volatility is less than that of the overall market.

b. In general, utility stocks are relatively less volatile than the stock market in general. Utility beta stocks are currently around 0.70 to 0.75 relative to the overall market index. During the period just preceding 2008, average utility industry betas moved up to .80 to .90. The level of utility betas over time is proof of lower volatility in utility stock prices compared to the market.

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2-38. Regarding Mr. Gorman's testimony on pp. 8-9, please provide the documents referenced in footnotes 5 and 6.

a. What does Mr. Gorman understand S&P to mean by its statement that ETI's business risk "reflects a generally challenging regulatory framework." How does this type of regulatory framework differ from one S&P describes as "supportive"?

RESPONSE:

Please refer to the electronic file titled Exhibits MPG-3-17, 21, Tab: SNL Data (WP), provided along with Mr. Gorman's workpapers. The referenced *Standard & Poor's RatingsDirect Summary*: "Entergy Texas Inc.," January 25, 2013 at 2 was provided by ETI as Schedule K-9, page 27.

a. Mr. Gorman is generally aware that S&P's initial determination that ETI's business risk "reflects a generally challenging regulatory framework" was made in 2008 after the Commission rejected a nonunanimous settlement that excluded several parties. For example, in 2008, S&P made the following comments concerning ETI's then fixed rates:

Standard & Poor's Ratings Services said today that the Texas Public Utility Commission's (PUCT) decision to reject a nonunanimous settlement proposal that electric utility Entergy Texas Inc. (BBB/Negative/--) had reached with several intervenors in its most recent rate case filing does not support the company's credit quality. The PUCT remanded the issue for further hearings on the merits of Entergy Texas' original proposal, which included a $107.5 million rate increase. Standard & Poor's views the decision as unfavorable for credit quality because it delays further resolution of the rate case while the company continues to be unable to earn its allowed return on equity under current rates. Entergy Texas has been operating under fixed rates since 1999. At the same time, the PUCT allowed Entergy Texas an interim fuel surcharge from December 2008 to November 2009 to recover $106.1 million in fuel costs deferred in 2008. (*Standard & Poor's RatingsDirect*: "Bulletin: Regulatory Decision Is Unfavorable For Entergy Texas Inc.'s Credit Quality," November 6, 2008 at 1).

Mr. Gorman has not found more descriptions from S&P since this 2008 publication. However, ETI's regulatory mechanisms have changed since this time. Specifically, it is Mr. Gorman's understanding that ETI has been awarded base rate revenue increases three times (Sept 2013, December 2010 and March 2009), and cost recovery factors have been implemented as identified in response to ETI RFI 2-36.

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2-39. Regarding Mr. Gorman's testimony at pp. 10-12, is it Mr. Gorman's personal opinion that the terms and conditions under which the debt in issue might be refinanced sufficiently certain to support a post test year adjustment to ETI's rates?

a. What facts and circumstances does Mr. Gorman rely on to conclude that it can be known at this point in time that the debt in question will be refinanced?
b. Why does Mr. Gorman contend it is appropriate to consider projections of bond yields in connection with this matter, but that it is inappropriate for Dr. Hadaway to consider projected bond yields in connection with his risk premium analysis?

RESPONSE:

As set forth on page 12, line 1-6 of Mr. Gorman's testimony, Mr. Gorman does not have an opinion on the legal and policy issue of whether the terms and conditions of ETI's refinance of the first mortgage bond issue are sufficiently certain to meet the Commission's post test year adjustment rule. It is Mr. Gorman's opinion that it would be imprudent for ETI not to refinance a debt issue that is significantly above current market cost of debt and can be economically refinanced at a lower interest rate.

a. See pages 10-12 of Mr. Gorman's testimony. Further, Mr. Gorman is aware of other utilities taking financial positions to lock in interest rates of anticipated debt refinancing. It is Mr. Gorman's belief that ETI could lock in the refinancing interest rates for this scheduled August 2014 maturity.

b. See response to ETI RFI 2-33. See also pages 10-12 of Mr. Gorman's testimony.

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2-40. Regarding p. 17 of Mr. Gorman's testimony, please provide the Gordon article referenced in footnote 9.

RESPONSE:

See Mr. Gorman's Public Workpaper 4.

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2-41. Regarding p. 18, line 21-22, to the extent Mr. Gorman believes that his DCF analysis based on consensus analyst growth rates "produces slightly overstated return estimates," why does he recommend a return on equity higher than these estimates?

RESPONSE:

Mr. Gorman performed three separate analyses to measure the current return on equity for ETI in this proceeding. He relied on DCF studies, risk premium studies and a CAPM study. Mr. Gorman's recommended return on equity reflects all three of these independent financial model estimates of the current market return on equity. As such, relying on all three models, Mr. Gorman recommended what he believed to be an appropriate and reasonable estimate of ETI's current market cost of equity.

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2-42. Please provide the last ten pieces of written testimony prepared by Mr. Gorman that addresses cost of equity.

RESPONSE:

See ETI RFI 2-42 Attachment 1 through Attachment 10.

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2-43. Regarding pp. 19-20 of Mr. Gorman's testimony, please list by title, author, chapter and page number all text books, learned treatises, scholarly articles and similar materials of which Mr. Gorman is aware that support, reject, critique, or discuss the use of a "sustainable growth DCF" estimate such as prepared by Mr. Gorman. To the extent within Mr. Gorman's possession, custody, or control, provide copies of these materials.

RESPONSE:

Mr. Gorman has no such exhaustive list. Two sources within his possession, custody, or control include:

1. *New Regulatory Finance*, Roger A. Morin, PhD, 2006 Public Utilities Reports, Inc., Vienna, Virginia at Chapter 9, pages 303-308.
2. *Principles of Corporate Finance*, Richard A. Brealey, Stewart C. Myers, Franklin Allen, McGraw-Hill/Irwin, International Edition 2008, pages 806-809.

Confidential excerpts from these copyrighted publications are attached pursuant to the terms of the protective order in this proceeding.

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2-44. Please provide the Blue Chip Financial Forecast referenced in footnote 13 of Mr. Gorman's testimony.

RESPONSE:

The referenced publication was provided as Mr. Gorman's Confidential Workpaper 6.

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2-45. Regarding Mr. Gorman's testimony at p. 25, lines 1-13:

a. What range of inflation and mid-point rate does the U.S. EAI project through 2040?
b. Please provide documents referenced in footnotes 19 and 20.
c. Please identify any other projections of long term (> ten years) GDP rates with which Mr. Gorman is familiar. To the extent within Mr. Gorman's possession, custody, or control, provide copies of these materials.

RESPONSE:

a. Please see "Assumptions to the Annual Energy Outlook 2013 (154) in the table described as Macroeconomic Indicators, Reference Case." The GDP Chain Type Price Index for the Consumer Price Index All Urban Users is projected to be 2.0% over the period 2011-2040.

b. Please see Mr. Gorman's Public Workpaper 11 and Confidential Workpaper 9 for the referenced documents.

c. Please see other sources referenced in Mr. Gorman's testimony at 25.

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2-46. Regarding Mr. Gorman's testimony at p. 28, line 16-17, provide all materials documents relied on to conclude that the time period used in the risk premium study "is a generally accepted period."

RESPONSE:

Mr. Gorman explains the rationale and reasonableness of the selected study period in his testimony. Please also see Ibbotson *SBBI 2013 Valuation Yearbook* at 59, "Choosing an Appropriate Historical Period."

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