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Addendum StartPage: 0

SOAH DOCKET NO. 473-14-0366
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APPLICATION OF ENTERGY TEXAS,
INC. FOR AUTHORITY TO CHANGE
RATES AND RECONCILE FUEL
COSTS

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BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS

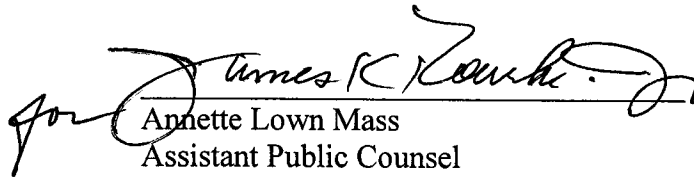
**OFFICE OF PUBLIC UTILITY COUNSEL'S RESPONSE TO
ENTERGY TEXAS, INC.'S THIRD REQUEST FOR INFORMATION**

The Office of Public Utility Counsel stipulates that the following response(s) to request(s) for information may be treated by all parties as if the answers were filed under oath.

Dated: January 27, 2014

Respectfully submitted,

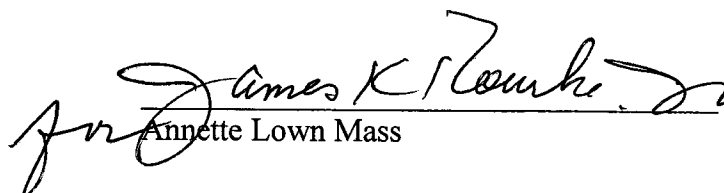
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CERTIFICATE OF SERVICE
SOAH DOCKET NO. 473-14-0366
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I hereby certify that today, January 27, 2014, I served a true copy of the Office of Public Utility Counsel's Response to Entergy Texas, Inc.'s Third Request for Information on all parties of record via hand delivery, facsimile, electronic mail or United States First-Class Mail.


James K. Lown
Annette Lown Mass

SOAH DOCKET NO. 473-14-0366
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OPUC's Response to ETI's Third Request for Information

QUESTION 3-1

Regarding p. 9, line 32 to page 10, line 1 of Dr. Szerszen's testimony, please explain what the witness understands to be the meaning and/or significance of S&P's statement that ETI's business risk profile reflects "a generally challenging regulatory framework...."

RESPONSE:

In the referenced S&P report, S&P provides no specific clarification regarding the "challenging regulatory" framework.

Prepared By: Carol Szerszen
Sponsored By: Carol Szerszen

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QUESTION 3-2

Regarding p. 11, line 1 to p. 12, line 5, does Dr. Szerszen agree that regardless of the merit of Moody's assessment of ETI's regulatory environment, investors will make that assessment part of their consideration in determining whether to invest in Entergy Corporation stock? Please explain your answer. To the extent Dr. Szerszen believes that investors discount or do not rely on the Moody's assessment in considering whether to invest, please identify and provide all documents related to that belief.

RESPONSE:

Yes, Dr. Szerszen agrees that investors might include Moody's assessment as part of their investment decision.

Prepared By: Carol Szerszen
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QUESTION 3-3

Does Dr. Szerszen agree that the factors discussed by Moody's and reference at pages 10-12 may make ETI (or Entergy Corporation) a relatively less attractive investment than other utilities where those factors are not applicable? Please explain your answer.

RESPONSE:

Dr. Szerszen assumes that this question refers to the Ba1 issuer rating, the additional storm damage risk, and the below average regulatory environment. Dr. Szerszen cannot state with certainty that these factors would make Entergy or ETI a less attractive investment than other utilities. Every utility company has unique risk factors, and other than doing a comparative item by item analysis of other utility risk factors, it is not possible to conclude that ETI or Entergy's risk factors make the companies a less attractive investment.

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QUESTION 3-4

Regarding Dr. Szerszen's testimony at p. 13, lines 13-18, does Dr. Szerszen believe that the timing of cost recovery, in addition to the fact to cost recovery, is an important consideration for investors? Please explain your answer.

RESPONSE:

Dr. Szerszen refers the Company to more recent *Value Line Selection and Opinion* editions for updated yield information.

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QUESTION 3-5

Regarding Dr. Szerszen's testimony at p. 15, line 22 to p. 16, line 10, please provide the changes in yields following the December 2013 FRB statement for the following securities:

- a. 20-year Treasuries
- b. 30-year Treasuries
- c. AAA-rated utility bonds
- d. BBB-rated utility bonds

RESPONSE:

Dr. Szerszen refers ETI to more current editions of the *Value Line* for the requested information on Treasury yields and utility bond yields. Dr. Szerszen assumes that ETI's Witness Dr. Hadaway has access to this information since he relies on *Value Line* in his testimony.

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QUESTION 3-6

Regarding Dr. Szerszen's testimony at p. 20, lines 6-13, please identify, by title, author, chapter and page number, all text books, learned treatises, articles and similar document known to the witness that support, reject, critique or address the referenced statement. To the extent within the witness' possession, custody, or control, please provide a copy of the identified documents.

RESPONSE:

Dr. Szerszen relies on principles laid out in Dr. Myron Gordon's The Cost of Capital to a Public Utility (Michigan State University, 1976). This document is voluminous and will be available for inspection at OPUC's offices.

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QUESTION 3-7

Regarding Dr. Szerszen's testimony at p. 27, lines 5-7, please provide the documents and information reviewed by the witness and referenced in the cited testimony.

RESPONSE:

Dr. Szerszen reviewed all the 1995-2005 cost of capital rate cases she testified in (see Appendix A to her prefiled direct testimony for a listing). This includes Dockets 13369, 14965, 16705, 17751, 28840 and 32766. These documents are voluminous and/or may be available on the PUC interchange. Documents not on the interchange will be made available at OPUC's offices.

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QUESTION 3-8

Regarding Dr. Szerszen's testimony at p. 29, lines 15-18, please explain what the witness considers to be the "additional factors [that] are influencing stock prices...."

RESPONSE:

Additional factors may include utility earnings potential and expected dividend growth, investor expectations for the electric utility sector in general, or general expectations of future stock market performance.

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QUESTION 3-9

Regarding Dr. Szerszen's testimony (page 31, line 3) that "risk premium adjustments are not necessary..." in implementing Dr. Hadaway's risk premium study, please identify, by title, author, chapter and page number, text books, learned treatises, articles and similar document known to the witness that support, reject, critique or address the referenced statement. To the extent within the witness' possession, custody, or control, please provide a copy of the identified documents.

RESPONSE:

"The Market Risk Premium: Experimental Estimates Using Analysts' Forecasts," Robert S. Harris and Felicia C. Marston, *Journal of Applied Finance*, Volume 11, No. 1, 2001 and "The Risk Premium Approach to Measuring a Utility's Cost of Equity," Eugene F. Brigham, Dilip K. Shome, and Steve R. Vinson, *Financial Management*, Spring 1985.

Dr. Szerszen does not have these documents in her possession.

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QUESTION 3-10

Regarding Dr. Szerszen's testimony at p. 31, lines 6-9, please identify the time periods that Dr. Szerszen would consider to constitute the "high, low and medium interest rate periods...."

RESPONSE:

Dr. Szerszen's identification of time periods for high, low and medium interest rates is specifically discussed on p. 31 of her testimony, line 22 through p. 32, lines 1-3.

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PUC DOCKET NO. 41791
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QUESTION 3-11

Regarding Dr. Szerszen's discussion of Dr. Hadaway's risk premium study (testimony p. 31, lines 9-11), please explain the basis for Dr. Szerszen's belief that Dr. Hadaway's study relies on parameters captured "in the DCF model...."

RESPONSE:

Dr. Szerszen does not state that Dr. Hadaway's study relies on "parameters" captured in the DCF model. Dr. Szerszen states that Dr. Hadaway's risk premium model assumes that for the long-term investment horizon captured in the DCF model, interest rates will always be similar to his current or projected interest rates.

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QUESTION 3-12

Regarding Dr. Szerszen's testimony at p. 31, lines 15-17, please explain what the witness believes is sufficient to demonstrate a "strong inverse relationship between past utility bond yields and risk premiums.

RESPONSE:

Dr. Szerszen does not have any general views regarding sufficient demonstration of a strong inverse relationship. Her statement is focused on Dr. Hadaway's data, which do not support a strong inverse relationship, as discussed on pages 32-33 of Dr. Szerszen's testimony.

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QUESTION 3-13

Regarding Dr. Szerszen's testimony at p. 32, lines 5-6, please explain why the witness believes there is a "lack of a consistent linear relationship" in the data presented. Include in your explanation what is meant by a "consistent linear relationship" and all statistical analysis and principles that support the opinion. In addition, please provide all the documents supporting or relating to this explanation.

RESPONSE:

If two similar interest rate periods have widely different risk premium results, Dr. Szerszen believes this is sufficient evidence that a strong inverse relationship does not exist. As stated in Dr. Szerszen's testimony, she agrees there is a general inverse relationship between interest rates and risk premiums. Dr. Szerszen's testimony discussion on pp. 32-33 proves this relationship is not linear and Dr. Hadaway's regression results should not be used to adjust historical risk premium results.

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