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APPLICATION OF ENTERGY TEXAS, INC. FOR AUTHORITY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS
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**TEXAS INDUSTRIAL ENERGY CONSUMERS' ERRATA TO THE
DIRECT TESTIMONY OF MICHAEL P. GORMAN**

Texas Industrial Energy Consumers ("TIEC") submits the following errata to the Direct Testimony of Michael P. Gorman:

Page 49, line 18: Change "5" to "7"; and

Page 61, Table 10: Change "8.42%" to "8.10%" under Gorman Adjusted estimate for Current 30-Yr Treasury; and

Page 61, Table 10: Change "9.17%" to "8.80%" under Gorman Adjusted estimate for Near-Term Projected 30-Yr Treasury; and

Page 61, Table 10: Change "10.16%" to "10.13%" under Bulkley Mean/Median estimate for Long-Term Projected 30-Yr Treasury; and

Page 68, Line 4: Change "12.94%" to "12.68%"; and

Page 78, Line 5: Change "6.05%" to "5.68%"; and

Page 78, Line 6: Change "9.20%" to "8.80%"; and

Exhibit MPG-16, Page 1: Change "May 13, June 10, and July 22, 2022" to "July 22, August 12, and September 9, 2022".

Redlined and clean versions of the errata are attached.

Respectfully submitted,

O'MELVENY & MYERS LLP

/s/ Benjamin B. Hallmark

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**ATTORNEYS FOR TEXAS INDUSTRIAL
ENERGY CONSUMERS**

CERTIFICATE OF SERVICE

I, Christian E. Rice, Attorney for TIEC, hereby certify that a copy of this document was served on all parties of record in this proceeding on this 1st day of December, 2022 by electronic mail, facsimile, and/or First Class, U.S. Mail, Postage Prepaid.

/s/ Christian E. Rice

Christian E. Rice

Direct Testimony of Michael P. Gorman

1 a long-term bond yield is a reasonable estimate of the nominal risk-free rate included
2 in common stock returns.

3 Treasury bond yields, however, do include risk premiums related to
4 unanticipated future inflation and interest rates. In this regard, a Treasury bond yield
5 is not a risk-free rate. Risk premiums related to unanticipated inflation and interest
6 rates reflect systematic market risks. Consequently, for companies with betas less than
7 1.0, using the Treasury bond yield as a proxy for the risk-free rate in the CAPM analysis
8 can produce an overstated estimate of the CAPM return.

9 **Q WHAT BETA DID YOU USE IN YOUR ANALYSIS?**

10 A I reviewed the average utility beta of 0.88 for my proxy group as shown on my Exhibit
11 MPG-16.

12 I also reviewed the long-term trend of *Value Line* betas reported for the proxy
13 group companies, and the *Value Line* regulated utility industries. The proxy group's
14 betas have generally ranged between 0.65 and 0.75 prior to the elevated betas
15 published after the COVID-19 pandemic commenced (Exhibit MPG-16, pages 2 and
16 3). The historical variability in the proxy group *Value Line* betas is similar to the
17 historical variability in the entire regulated utility industry betas followed by *Value Line*
18 (Exhibit MPG-16, pages 4 and 75). On this schedule, similar to the proxy group
19 companies, I show the *Value Line* electric industry historical beta estimates, which also
20 indicate that the current beta is abnormally high, and the long-term historical average
21 beta of the proxy group reasonably aligns with that of the entire industry.

22 The normalized historical beta estimates for the proxy group is 0.75. Thus, the
23 current beta estimate of 0.88 is well above the normalized historical beta for my proxy
24 group.

<u>Description</u>	<u>Bulkley Mean / Median¹</u> (1)	<u>Gorman Adjusted</u> (2)
<u>Constant Growth DCF</u>		
30-Day Average	9.38% / 9.53%	7.86% / 7.93%
90-Day Average	9.42% / 9.53%	7.89% / 8.05%
180-Day Average	9.46% / 9.65%	7.94% / 8.13%
<u>CAPM DCF-Derived Results (Value Line Beta)</u>		
Current 30-Yr Treasury (2.37 %)	11.47%	10.71%
Near-Term Projected 30-Yr Treasury (3.12%)	11.55%	10.79%
Long-Term Projected 30-Yr Treasury (3.40%)	11.59%	Reject
<u>CAPM DCF-Derived Results (Bloomberg Beta)</u>		
Current 30-Yr Treasury (2.37%)	10.67%	9.97%
Near-Term Projected 30-Yr Treasury (3.12%)	10.81%	10.12%
Long-Term Projected 30-Yr Treasury (3.40%)	10.87%	Reject
<u>CAPM DCF-Derived Results (Historical Beta)</u>		
Current 30-Yr Treasury (2.37%)	10.06%	9.42%
Near-Term Projected 30-Yr Treasury (3.12%)	10.25%	9.61%
Long-Term Projected 30-Yr Treasury (3.40%)	10.32%	Reject
<u>ECAPM</u>	10.72% to 11.86%	Reject
<u>Risk Premium</u>		
Current 30-Yr Treasury (2.37%)	9.68%	8.1042%
Near-Term Projected 30-Yr Treasury (3.12%)	10.00%	9.178.80%
Long-Term Projected 30-Yr Treasury (3.40%)	10.136%	Reject
Base ROE	10.50%	9.40%
Performance Adder ³⁷	0.30%	Reject
Recommended ROE	10.80%	9.40%
Sources: ¹ Bulkley Direct Testimony at 4 and 90 and Exhibit AEB-2 through Exhibit AEB-7.		

- 1 As shown in Table 10 above, reasonable adjustments to Ms. Bulkley's return on equity
2 estimates support a return on equity for ETI of 9.40%.

³⁷ TIEC witness Mr. Griffey addresses the performance adder and explains why it should be rejected.

Direct Testimony of Michael P. Gorman

1 Q WHAT ISSUES DO YOU HAVE WITH REGARD TO MS. BULKLEY'S MARKET RISK
2 PREMIUM ESTIMATES?

3 A Ms. Bulkley's DCF-derived market risk premium is based on a market return of
4 12.6894%, which consists of a growth rate component of 10.99% and market-weighted
5 dividend yield of 1.61%.⁴³ As discussed above with respect to my own DCF model, the
6 DCF model requires a reasonable long-term sustainable growth rate. Ms. Bulkley's
7 sustainable market growth rate of 10.99% is far too high to be a rational outlook for
8 sustainable long-term market growth. This growth rate is almost three times the growth
9 rate of the U.S. GDP long-term growth outlook of 4.00%, as discussed above.

10 As a result of these unreasonable long-term market growth rate estimates, Ms.
11 Bulkley's market DCF returns used in her CAPM analyses are inflated and not reliable.
12 Consequently, Ms. Bulkley's market risk premiums should be given minimal weight in
13 estimating ETI's CAPM-based return on equity.

14 Q DO HISTORICAL ACTUAL RETURNS ON THE MARKET SUPPORT MS.
15 BULKLEY'S PROJECTED MARKET RETURNS?

16 A No. Historical data shows just how unreasonable Ms. Bulkley's projected DCF return
17 on the market is on a going-forward basis. Kroll estimates the actual capital
18 appreciation for the S&P 500 over the period 1926 through 2021 to have been 6.4% to
19 8.2%.⁴⁴ This compares to Ms. Bulkley's projected growth rate of the market of 10.99%.

20 Further, historically the geometric growth of the market of 6.4%⁴⁵ has reflected
21 geometric growth of GDP over this same time period of approximately 6.0%.⁴⁶

⁴³ Exhibit AEB-6.

⁴⁴ *Kroll, 2022 SBBI Yearbook* at 145.

⁴⁵ *Id.*

⁴⁶ U.S. Bureau of Economic Analysis, February 23, 2022.

Direct Testimony of Michael P. Gorman

1 Q CAN MS. BULKLEY'S BYP RISK PREMIUM ANALYSIS BE REVISED TO REFLECT
2 CURRENT PROJECTIONS OF TREASURY YIELDS?

3 A Yes. Ms. Bulkley's simplistic and incomplete notion that equity risk premiums change
4 only with changes to nominal interest rates should be rejected. Adding her average
5 equity risk premium over Treasury bonds of ~~6.055.68%~~ to her Treasury yields of 2.37%
6 and 3.12%, produces a BYP no higher than ~~8.809.20%~~.

7 **IV.F. Ms. Bulkley's Consideration of Additional Risks**

8 Q DID MS. BULKLEY INJECT CONSIDERATION OF ADDITIONAL BUSINESS RISKS
9 TO JUSTIFY HER RETURN ON EQUITY?

10 A It appears so even if she did not make specific adjustments for those risks. Ms. Bulkley
11 believes that ETI is exposed to additional risks that should be accounted for including:
12 (1) ETI's capital expenditures, (2) regulatory risk, (3) customer concentration, (4) storm
13 risk, and (5) management performance.⁵⁷ Ms. Bulkley believes that these additional
14 risks should be considered in determining ETI's return on equity. However, she failed
15 to recognize the fact that these additional risks are already incorporated in ETI's credit
16 rating.

17 Q PLEASE EXPLAIN.

18 A The major business risks identified by Ms. Bulkley are already considered in the
19 assigning of a credit rating by the various credit rating agencies.

20 As shown on my Exhibit MPG-3, the average S&P credit rating for my proxy
21 group of BBB+ is identical to ETI's credit rating from S&P. The relative risks discussed
22 on pages 54-86 of Ms. Bulkley's Direct Testimony are already incorporated in the credit

⁵⁷ Bulkley Direct Testimony at 54-86.

Entergy Texas, Inc.

Value Line Beta

<u>Line</u>	<u>Company</u>	<u>Beta</u>
1	ALLETE, Inc.	0.90
2	Alliant Energy Corporation	0.85
3	Ameren Corporation	0.85
4	Duke Energy Corporation	0.85
5	Evergy, Inc.	0.90
6	IDACORP, Inc.	0.80
7	NextEra Energy, Inc.	0.95
8	NorthWestern Corporation	0.95
9	OGE Energy Corp.	1.05
10	Otter Tail Corporation	0.85
11	Portland General Electric Company	0.85
12	The Southern Company	0.90
13	Xcel Energy Inc.	0.80
14	Average	0.88

Source:

The Value Line Investment Survey,

~~May 13, June 10, and July 22, 2022.~~

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4	Duke Energy Corporation	0.85
5	Evergy, Inc.	0.90
6	IDACORP, Inc.	0.80
7	NextEra Energy, Inc.	0.95
8	NorthWestern Corporation	0.95
9	OGE Energy Corp.	1.05
10	Otter Tail Corporation	0.85
11	Portland General Electric Company	0.85
12	The Southern Company	0.90
13	Xcel Energy Inc.	0.80
14	Average	0.88

Source:

The Value Line Investment Survey,
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