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**OPC's Responses to Staff's First Set of  
Interrogatories, Nos. 1-15**

### **INTERROGATORIES**

The following questions are regarding the direct testimony of OPC witness David J. Garrett.

1. Please refer to page 15, lines 3 through 19 of witness Garrett's direct testimony.
  - a. Is witness Garrett's recommended ROE of 9.25 percent above or below the 2021 average annual awarded ROEs for natural gas utilities operating in the United States?

OPC Response:

**An ROE of 9.25% is below the average awarded ROE in 2021.**

- b. Did witness Garrett perform any studies or analyses to demonstrate that the national average of awarded ROEs are above the market-based cost of equity for natural gas utilities in his proxy group?

OPC Response:

**Yes. Mr. Garrett's analysis presented in his testimony indicates that the average cost of equity for the utility proxy group is 7.8%, which is lower than the national average of awarded ROEs.**

2. Please refer to Exhibit DJG-13 attached to the direct testimony of witness Garrett. In the last row at the bottom of the page in column [2], witness Garrett lists the average authorized ROE for Gas Utilities as 9.52 percent. Please explain if 9.52 percent is the "national average" to which witness Garrett refers throughout his testimony?

OPC Response:

**Generally speaking, yes.**

3. Please refer to page 7, lines 14 through 17 of witness Garrett's direct testimony.
- a. Please explain from where witness Garrett obtained the equity ratio of 48.20 percent.

OPC Response:

**This should be an equity ratio of 48%. When referencing the 48% equity ratio in Mr. Garrett's testimony, this is referring to investor-supplied sources of long-term debt and common equity only, in order to provide an apples-to-apples comparison to the proxy group.**

- b. Please explain how witness Garrett determined an equity ratio of 48.20 percent is appropriate.

OPC Response:

**Please see the response to Part (a) above. Mr. Garrett believes an equity ratio of 48% is appropriate because it reflects the average equity ratio of the proxy group, and for other reasons discussed in Mr. Garrett's testimony.**

4. Please refer to page 13, lines 8 through 11 of witness Garrett's direct testimony.

- a. Please explain if witness Garrett's "lower and more reasonable rate of return" is synonymous with the investor required return.

OPC Response:

**Yes, that is correct. The word phrase "lower and more reasonable" is relative to the Company's proposed return.**

- b. Please explain how witness Garrett determined that his lower rate of return would allow the Company to maintain its financial integrity.

OPC Response:

**In Mr. Garrett's opinion, an awarded ROE that is reflective of a utility's market-based capital costs allows management acting in an efficient and ecumenical manner a fair and reasonable opportunity to maintain its financial integrity.**

- c. Did witness Garrett perform any quantitative analyses to determine if his lower rate of return would affect the cash flow and credit metrics of FPUC's parent company?

OPC Response:

**Mr. Garrett did not perform such an analysis because it is not directly pertinent to the issue. All else held constant, a lower return would have a decreasing effect on cash flow and credit**

**metrics, but that does not make the return recommended by Mr. Garrett any less fair and reasonable, as it is more reflective of actual market-based equity costs than the return proposed by the Company.**

5. Please refer to page 16, Figure 3 in witness Garrett's direct testimony and Exhibit DJG-13 attached to witness Garrett's direct testimony.

d. Please explain why witness Garrett chose to use the 10-year T-bond rate and a risk premium published by NYU Stern School of Business to estimate the market cost of equity as opposed to the actual S&P 500 returns if he is comparing historical market returns.

OPC Response:

**Regarding the source of the data, Mr. Garrett chose this source for the data referenced because it is publicly available (all parties can readily access it), it is from an objective source (not affiliated with utility companies or customers), and it is a well-respected source. Regarding the type of data selected, Mr. Garrett is using data required to estimate the cost of equity / required return on the market, which is a different concept than actual returns. Since awarded returns should be based on cost of equity, it is Mr. Garrett's opinion that a more appropriate apples-to-apples comparison is to cost of equity rather than actual returns.**

6. Please refer to Exhibit DJG-13 attached to the direct testimony of witness Garrett. Please explain if the 10-year T-bond rate in column [5] and risk premium in column [6] are actual earned returns or expected returns in the years listed.

OPC Response:

**Expected returns.**

7. Please refer to page 27, line 11 through page 29, line 7 of witness Garrett's direct testimony.
- Other than Beta measurements, did witness Garrett perform any analyses or conduct any studies to support his testimony that FPUC is a low-risk firm? If not, please explain why he did not.

OPC Response:

**This statement is primarily based on average beta of the proxy group being less than 1.0.**

8. Please refer to page 27, line 11 through page 29, line 7 of witness Garrett's direct testimony.
- Did witness Garrett perform any analyses to compare the business risk and financial risk of FPUC to the companies in the proxy group? If not, please explain why he did not.

OPC Response:

**No. In Mr. Garrett's opinion, firm-specific business risks are not rewarded by the market, and thus do not have a significant impact on the cost of equity beyond that which is contemplated in the CAPM.**

9. Please refer to page 15, lines 6 through 9 of witness Garrett's direct testimony.
- a. Please define "utility stocks" as used in the sentence.

OPC Response:

**Equity securities in publicly-traded utility companies.**

- b. Did witness Garrett perform any analyses or conduct any studies to support his testimony that utility stocks, and in particular, natural gas utility stocks are far less risky than the average stock in the marketplace?

OPC Response:

**This statement is primarily based on average beta of the proxy group being less than 1.0.**

- c. Did witness Garrett perform any analyses or conduct any studies to quantify the degree of risk for gas utility stocks as compared to the average stock in the marketplace?

OPC Response:

**Not beyond the analysis of the betas of the proxy group.**

10. Please refer to page 52, lines 16 through 17 of witness Garrett's direct testimony.

- a. Is the CAPM the only measure of risk inherent in a business?

OPC Response:

**No.**

- b. Please explain if the CAPM measures business risk in the natural gas distribution business?

OPC Response:

**No. The CAPM is primarily concerned with market risk and the relative impact of market risk on individual assets.**

- c. Please explain if witness Garrett considered other forms of risk for natural gas distribution companies.

OPC Response:

**Mr. Garrett considered the types of risks discussed in the Company's testimony, but did not make any specific adjustment to the CAPM results for such risks.**

11. Please refer to page 55, lines 4 through 5 of witness Garrett's direct testimony. Please define the "average stock in the market" in the context used by witness Garrett.

OPC Response:

**This is essentially referring to a stock with a beta of 1.0.**

12. Please refer to page 60, lines 1 through 7 of witness Garrett's direct testimony. Please explain why witness Garrett chose a period of the past six years. Why not five years, ten years, or twenty years?

OPC Response:

**This should state "over the past eleven years" in line 6. To be clear, eleven years of data are necessary here in order to calculate 10 years of growth (the first year being year zero). A ten-year period over which to measure operating earnings growth as a basis for growing the gross cash yield of the market is reasonable in Mr. Garrett's opinion. It strikes a balance between having a sufficient sample size (i.e., at least five years) while not incorporating data that is arguably too outdated for this type of model (e.g., 20 years or more).**

13. Please refer to page 31, line 19 through page 32, line 2. Did witness Garrett perform any analyses or conduct any studies to determine what form of cost of capital models were relied upon more frequently or given more weight by regulators to determine the cost of equity in rate case proceedings?

OPC Response:

**Mr. Garrett did not conduct a specific analysis or survey in that regard. However, based on Mr. Garrett's experience, regulators seem to rely on the CAPM and DCF about equally (though some jurisdictions will prefer one over the other).**



14. Please refer to OPC witness Garrett's Direct Testimony, page 92, and Exhibit DJG-21 for this question. Witness Garrett derived his proposed Average Service Life (ASL) of 30 years for Account 381 – Meters for the instant case based upon an average of the ASLs used by five gas utilities including Florida Gas Company (FCG). On page 92 of his Direct Testimony, the witness testified that "I selected these [five utilities' ASLs] in part because I was involved in the depreciation analysis in each case." Staff notes that in one of the witness-involved cases, the FCG 2022 Depreciation Study, witness Garrett agreed with FCG's proposed ASL of 20 years for Account 381. Please explain why, for the instant FPUC case, an ASL of 20 years is not appropriate.

OPC Response:

**A services lives ranging anywhere from 20-30 years would be within a general range of reasonableness for Account 381, based on the specific evidence presented in each case. In the instant case, the Company did not present any evidence to support a 20-year service life for Account 381, but that does not necessarily mean it would be inappropriate.**

15. Please refer to OPC witness Garrett's Direct Testimony, Exhibit DJG-21, and FPUC witness Lee's Direct Testimony and Exhibit PSL-2 for the questions below:
- a. As shown in Table 1 below, it appears that, for several accounts, witness Garrett's proposed Average Remaining Life (ARL) years are different from the ARL years proposed by FPUC witness Lee, even though the underlying depreciation parameters (ASL, curve and age) are the same as what FPUC proposed. Please provide the detailed ARL calculations for each of the accounts listed in Table 1

using an industry recognized Life Table publication such as the GTE-INC referenced in FPUC witness Lee's Direct Testimony, page 20.

Act No	Acct Description	OPC Proposed (1)				FPUC Proposed (2)				Difference			
		ASL (Years)	Curve Type	Age (Years)	ARL (Years)	ASL (Years)	Curve Type	Age (Years)	ARL (Years)	ASL (Years)	Curve Type	Age (Years)	ARL (Years)
3802	Service - Others	60	S2	26.3	34	60	S2	26.3	35				-1.0
3811	Meter - AMR Equipment	28	R3	12.1	16.0	28	R3	12	16.7				-0.7
384	House Regulator Installations	45	S3	23.0	22.0	45	S3	23.0	22.5				-0.5
385	Industrial M&R Station Equipment	38	R3	22.3	16.0	38	R3	22	17.8				-1.8
Data Sources:													
(1): OPC witness Garrett Direct Testimony, Exhibit DJG-21, page 1 of 2													
(2): FPUC witness Lee's Direct Testimony and Exhibit PSL-2, page 28 of 93													

OPC Response:

Mr. Garrett calculated remaining life in this case by subtracting the age for each account from the average life estimate (see Exhibit DJG-21 and corresponding Excel workpaper), and then rounding to the nearest whole number pursuant to his understanding of the preferred rounding convention.

b. As shown in Table 2 below, for Account 376G Mains - GRIP, it appears that, based upon the same set of underlying depreciation parameters (plant balance, reserve balance, proposed net salvage and ARL), the remaining life depreciation rate derived by OPC witness Garrett is different from the depreciation rate derived by FPUC witness Lee. To facilitate the Commission's evaluation, please provide the detailed calculation of OPC's proposed Remaining Life Rate for this account using the Remaining Life Rate formula prescribed in Rule 25-7.045(1)(e).

Act No.	Acct. Description	Plant	Reserve	OPC Proposed			FPUC Proposed		
		Balance	Balance	Net Salvage	ARL	Dep. Rate	Net Salvage	ARL	Dep. Rate
		(\$)	(\$)	(%)	(yrs)	(%)	(%)	(yrs)	(%)
376G	Main - GRIP	146,879,318	17,720,021	-25	67	1.7	-25	67	1.6
Data Sources:									
(1): OPC witness Garrett Direct Testimony, Exhibits DJG-20 and DJG-21.									
(2): FPUC witness Lee's Direct Testimony and Exhibit PSL-2, Schedules A and B, pages 28-29 of 93.									

OPC Response:

**Please see the response to part (a) above.**

**AFFIDAVIT**

STATE OF OKLAHOMA

COUNTY OF OKLAHOMA

BEFORE ME, the undersigned authority, personally appeared David Garrett, who deposed and stated that he/she provided the answers to Staff's First Set of Interrogatories (No. 1-15) to the Office of Public Counsel in Docket No. 20220067-GU, and that the responses are true and correct to the best of his/her information and belief.

DATED this 28th day of September, 2022.

Sworn to and subscribed before me this 28th day of September, 2022.

  
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NOTARY PUBLIC



State of Oklahoma at Large

My Commission Expires: 08-07-2023