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Aug 24 2016

August 24, 2016

**VIA ELECTRONIC FILING**

Chief Clerk  
North Carolina Utilities Commission  
Dobbs Building  
430 North Salisbury Street  
Raleigh, North Carolina 27603

Re: Docket No. G-5, Sub 565

Dear Chief Clerk:

Enclosed on behalf of Public Service Company of North Carolina, Inc. is its Supplemental Testimony of Robert B. Hevert for filing in the above-referenced proceeding.

If you have any questions regarding this filing, please do not hesitate to call me. Thank you for your assistance with this matter.

Very truly yours,

/s/Mary Lynne Grigg

MLG:kjg

Enclosure

BEFORE THE  
NORTH CAROLINA UTILITIES COMMISSION  
PUBLIC SERVICE COMPANY OF NORTH CAROLINA

DOCKET NO. G-5, SUB 565

SUPPLEMENTAL TESTIMONY  
OF  
ROBERT B. HEVERT

AUGUST 24, 2016

**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME, AFFILIATION, AND BUSINESS ADDRESS.**

**A.** My name is Robert B. Hevert. At the time I filed my Direct Testimony in this proceeding, I was Managing Partner of Sussex Economic Advisors, LLC (“Sussex”). Since then, Sussex became part of ScottMadden, Inc., where I am a Partner.

**Q. ARE YOU THE SAME ROBERT B. HEVERT WHO SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?**

**A.** Yes, I filed direct testimony (“Direct Testimony”) on behalf of Public Service Company of North Carolina, Inc. (“PSNC” or the “Company”), a wholly-owned subsidiary of SCANA Corporation (“SCANA”). In my Direct Testimony I recommended an ROE of 10.60 percent, within a range of 10.00 percent to 10.75 percent,<sup>1</sup> and found that the Company’s proposed 53.50 percent Equity Ratio was reasonable relative to the capital structures in place among its peers.<sup>2</sup>

**Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

**A.** The purpose of my testimony is to explain my support for the Partial Stipulation dated August 18, 2016 (the “Stipulation”), among the Company, Public Staff, Carolina Utility Customers Association, Inc., and Blue Ridge

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<sup>1</sup> Direct Testimony of Robert B. Hevert, at 2.

<sup>2</sup> Direct Testimony of Robert B. Hevert, at 92.

1 Paper Products, Inc. (collectively, the “Stipulating Parties”). In particular,  
2 my testimony addresses the agreed-upon Return on Equity (“ROE” or “Cost  
3 of Equity”), capital structure (the “Stipulated Capital Structure”), and  
4 overall Rate of Return (the “Stipulated ROR”).<sup>3</sup>

5 **Q. HAVE YOU PREPARED ANY EXHIBITS IN CONJUNCTION WITH**  
6 **YOUR TESTIMONY?**

7 **A.** Yes. Supplemental Exhibit No. RBH-1 and Supplemental Exhibit No.  
8 RBH-2 have been prepared by me or under my direct supervision.

9 **II. STIPULATION AGREEMENT**

10 **Q. ARE YOU FAMILIAR WITH THE TERMS OF THE AGREEMENT**  
11 **AMONG THE STIPULATING PARTIES AS IT RELATES TO THE**  
12 **COMPANY’S RETURN ON EQUITY, CAPITAL STRUCTURE,**  
13 **AND OVERALL RATE OF RETURN?**

14 **A.** Yes. I understand that the Stipulating Parties have agreed to an ROE of  
15 9.70 percent; a capital structure consisting of 52.00 percent Common  
16 Equity, 3.38 percent Short-Term Debt, and 44.62 percent Long-Term Debt;  
17 and an overall Rate of Return of 7.53 percent.<sup>4</sup>

18 **Q. IN GENERAL, DO YOU SUPPORT THE COMPANY’S DECISION**  
19 **TO AGREE TO THE STIPULATED ROE?**

20 **A.** Yes, I do. Although the Stipulated ROE is somewhat below the lower  
21 bound of my recommended range (*i.e.*, 10.00 percent), I recognize that the

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<sup>3</sup> See, Partial Stipulation, Docket No. G-5, Sub 565, August 18, 2016, at 5.

<sup>4</sup> Partial Stipulation, Docket No. G-5, Sub 565, August 18, 2016, at 5.

1 Stipulation represents the give-and-take among the Stipulating Parties  
2 regarding multiple, otherwise-contested issues. If it is the Company's  
3 determination that the terms of the Stipulation, taken as a whole, are such  
4 that it will be able to raise the external capital required to continue the  
5 investments required to provide safe and reliable service, and that it will be  
6 able to do so when needed and at reasonable cost rates, I appreciate and  
7 respect that decision.

8 Although the Stipulated ROE falls within the range of analytical  
9 results presented in my Direct Testimony, current capital market conditions  
10 are such that the models used to estimate the Cost of Equity continue to  
11 produce a wide range of sometimes conflicting estimates. Such conditions  
12 often indicate a degree of instability and uncertainty that suggest somewhat  
13 higher, rather than lower capital costs. In that regard, it remains my position  
14 that in a fully litigated proceeding, a range of 10.00 percent to 10.75 percent  
15 would represent a reasonable and appropriate measure of the Company's  
16 Cost of Equity. Nonetheless, I recognize the benefits associated with the  
17 decision to enter into the Stipulation and as such, it is my view that the 9.70  
18 percent Stipulated ROE is a reasonable resolution of an otherwise  
19 contentious issue.

1   **Q.   HAVE YOU ALSO CONSIDERED THE STIPULATED ROE IN THE**  
2           **CONTEXT OF AUTHORIZED RETURNS FOR OTHER NATURAL**  
3           **GAS UTILITIES?**

4   A.   Yes, I have. Since 2014, authorized returns of 9.70 percent and higher have  
5           been common for natural gas utilities. In fact, 24 of 54 returns authorized  
6           for natural gas utilities were 9.70 percent or above; the average authorized  
7           ROE over all 54 cases was 9.65 percent.

8   **Q.   ARE THERE OTHER DISTINCTIONS THAT ARE IMPORTANT**  
9           **TO CONSIDER WHEN REVIEWING AUTHORIZED RETURNS?**

10 A.   Yes, there are. As noted in my Direct Testimony, the Company's credit  
11          rating and outlook depend substantially on the extent to which rating  
12          agencies view the regulatory environment credit supportive, or not.<sup>5</sup> I  
13          noted, for example, that Moody's finds the regulatory environment to be so  
14          important that 50.00 percent of the factors that weigh in its ratings  
15          determination are determined by the nature of regulation. I further noted  
16          that Standard & Poor's also considers the regulatory environment to be an  
17          important factor in its rating process.<sup>6</sup>

18                 Given the Company's need to access external capital, and in light of  
19          the weight that both Moody's and S&P place on the nature of the regulatory  
20          environment, I believe that it also is important to consider the extent to

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<sup>5</sup> Direct Testimony of Robert B. Hevert, at 63.

<sup>6</sup> *Ibid.*, at 58.

1 which the jurisdictions that recently have authorized ROEs for natural gas  
2 utilities are viewed as having constructive regulatory environments.

3 **Q. IS NORTH CAROLINA GENERALLY CONSIDERED TO HAVE A**  
4 **CONSTRUCTIVE REGULATORY ENVIRONMENT?**

5 **A.** Yes, it is. By way of background, Regulatory Research Associates  
6 (“RRA”), which is a widely referenced source of rate case data, provides an  
7 assessment of the extent to which regulatory jurisdictions are constructive  
8 from investors’ perspectives, or not. As RRA explains, less constructive  
9 environments are associated with higher levels of risk:

10 RRA maintains three principal rating categories, Above  
11 Average, Average, and Below Average, with Above  
12 Average indicating a relatively more constructive, lower-  
13 risk regulatory environment from an investor viewpoint, and  
14 Below Average indicating a less constructive, higher-risk  
15 regulatory climate from an investor viewpoint, Within the  
16 three principal rating categories, the numbers 1, 2, and 3  
17 indicate relative position. The designation 1 indicates a  
18 stronger (more constructive) rating; 2, a mid range rating;  
19 and, 3, a weaker (less constructive) rating. We endeavor to  
20 maintain an approximately equal number of ratings above  
21 the average and below the average.<sup>7</sup>

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<sup>7</sup> Source: Regulatory Research Associates, accessed August 18, 2016.

1 Within RRA's ranking system, North Carolina is rated "Average/1", which  
2 falls in the top one-third of jurisdictions.<sup>8</sup>

3 **Q. HAVE YOU CONSIDERED THOSE DISTINCTIONS IN YOUR**  
4 **REVIEW OF AUTHORIZED RETURNS RELATIVE TO THE**  
5 **STIPULATED ROE?**

6 A. Yes, I have. Sorting authorized ROEs by Regulatory Research Associates  
7 rankings, there is approximately a 55 to 65 basis point difference between  
8 the average return authorized in states that (like North Carolina) are ranked  
9 in the top one-third of jurisdictions, and those that fall in the middle or  
10 bottom-one third (*see* Table 1, below). Interestingly, the average and  
11 median authorized ROE for jurisdictions that rank in the top one-third (*i.e.*,  
12 10.13 percent, and 10.20 percent) fall within my recommended range.

13 **Table 1: Authorized Natural Gas Utility ROEs: 2014 - 2016<sup>9</sup>**

	Overall	RRA RANKING		
		Top One-Third	Middle One-Third	Bottom One-Third
Average	9.65%	10.13%	9.60%	9.38%
Median	9.60%	10.20%	9.55%	9.39%
Maximum	10.80%	10.40%	10.80%	9.75%
Minimum	9.00%	9.75%	9.00%	9.05%
Count	54	8	40	6

<sup>8</sup> *See*, also, Direct Testimony of Robert B. Hevert, at 59 – 60.

<sup>9</sup> Source: Regulatory Research Associates. It is interesting to note that 40 of the 54 decisions were issued by jurisdictions ranked in the middle one-third of RRA's rating system. The eight decisions in the Top One-Third ranked jurisdictions were issued in Virginia (1) and Wisconsin (7).

1    **Q.    WHAT CONCLUSIONS DO YOU DRAW FROM THAT DATA?**

2    A.    First, the Stipulation ROE is within five basis points of the average return  
3           (and ten basis points of the median) authorized for natural gas utilities from  
4           2014 through 2016. Looked at from that perspective, it is a reasonable  
5           outcome. At the same time, the Stipulation ROE falls 43 basis points below  
6           the average (and 50 basis points below the median) authorized ROE for  
7           jurisdictions that are comparable to North Carolina's constructive  
8           regulatory environment. Taken from that perspective, the Stipulation ROE  
9           is a somewhat conservative measure of the Company's Cost of Equity.

10   **Q.    HAVE YOU ALSO REVIEWED THE CAPITAL STRUCTURE**  
11       **INCLUDED IN THE PARTIAL SETTLEMENT?**

12   A.    Yes, I have. In Exhibit RBH-13 to my Direct Testimony, I found that the  
13       proxy group average equity ratio over the eight calendar quarters ended  
14       December 2015 (based on Common Equity and Long-Term Debt) was  
15       54.05 percent. I understand, however, that the Stipulation calls for a  
16       ratemaking capital structure that includes Short-Term Debt (3.38 percent)  
17       in addition to Common Equity (52.00 percent), and Long-Term Debt (44.62  
18       percent). As shown in Exhibit RBH-2, those capital structure proportions  
19       fall well within the range of those in place at the proxy companies (from the  
20       first calendar quarter of 2014 through the second calendar quarter of 2016).  
21       On that basis, I believe the Stipulated Capital Structure is reasonable.

1    **Q.    LASTLY, HAVE YOU CONSIDERED THE OVERALL RATE OF**  
 2    **RETURN CONTAINED IN THE STIPULATION AGREEMENT?**

3    A.    Yes. As with the authorized ROE, we can observe the overall Rate of  
 4    Return authorized across the United States; we also can review those returns  
 5    according to RRA's ranking of the jurisdictions authorizing those returns.  
 6    As Table 2 (below) indicates, the overall average ROR was 7.41 percent;  
 7    the median was 7.53 percent (that is, the same as the Stipulated ROR).  
 8    Among the jurisdictions with rankings in the top one-third of RRA's rating  
 9    structure, the average and median authorized ROR was approximately 45  
 10    basis points above the Stipulated ROR.

11    **Table 2: Authorized Natural Gas Utility RORs: 2014 - 2016<sup>10</sup>**

	Overall	RRA RANKING		
		Top One-Third	Middle One-Third	Bottom One-Third
Average	7.41%	7.98%	7.34%	7.26%
Median	7.53%	7.95%	7.46%	7.44%
Maximum	8.60%	8.60%	8.46%	7.96%
Minimum	5.33%	7.35%	5.33%	6.26%
Count	52	7	39	6

12                    As with the Stipulated ROE, the Stipulated ROR is very consistent  
 13                    with the average return authorized across the Country, but noticeably lower  
 14                    than those authorized in the top-ranked regulatory jurisdictions. From that  
 15                    perspective, the Stipulated ROR is a reasonable, although somewhat

<sup>10</sup> Source: Regulatory Research Associates. 39 of the 52 decisions were issued by jurisdictions ranked in the middle one-third of RRA's rating system. The eight decisions in the Top One-Third ranked jurisdictions were issued in Virginia (1) and Wisconsin (7).

1 conservative estimate of the Company's overall investor-required Rate of  
2 Return.

3 **III. ECONOMIC CONDITIONS**

4 **Q. HAS YOUR TESTIMONY CONSIDERED ECONOMIC**  
5 **CONDITIONS IN NORTH CAROLINA?**

6 **A.** Yes, it has. In my Direct Testimony, I noted that:

- 7 • Although the State's unemployment rate was somewhat higher than the  
8 national average, it had fallen considerably since its peak in January,  
9 2010. I also noted that unemployment in North Carolina was highly  
10 correlated with the national average.
- 11 • Household income in North Carolina grew at a faster pace than the  
12 national average, and in 2015 North Carolina had the 21<sup>st</sup> lowest cost of  
13 living index of the 50 states and the District of Columbia.
- 14 • North Carolina's, and PSNC's Metropolitan Area's, Gross Domestic  
15 Product ("GDP") growth exceeded that of the national economy since  
16 the 2009 financial crisis.

17 Based on that data, I concluded that the regional economic  
18 challenges in North Carolina were substantially similar to those in the rest  
19 of the United States, such that there was no direct effect of those conditions  
20 on the Company's Cost of Equity.<sup>11</sup> My review of more recent data  
21 (discussed below) continues to support that conclusion, and notes that

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<sup>11</sup> Direct Testimony of Robert B. Hevert at 74.

1 conditions have continued to improve since the recession that ended in the  
2 second quarter of 2009.<sup>12</sup>

3 **Q. PLEASE SUMMARIZE YOUR UPDATED ANALYSES.**

4 **A.** Although updated data is not available for all of the analyses presented in  
5 my Direct Testimony, I have been able to update certain measures of  
6 economic conditions. Turning first to real GDP, while North Carolina's real  
7 GDP declined in 2009, by 2010 it had surpassed its 2007 peak and has  
8 continued to expand; by 2015, the State's real GDP exceeded its 2010 level  
9 by nearly 7.00 percent.<sup>13</sup> From 2013 through 2015, North Carolina's  
10 average rate of real GDP growth was somewhat higher than the national  
11 average (2.02 percent in North Carolina; 1.94 percent for the U.S.).<sup>14</sup> The  
12 correlation in real GDP growth between North Carolina and the national  
13 average remained high, at approximately 73.00 percent.

14 As to the rate of unemployment, Chart 1 (below) indicates that the  
15 unemployment rate in North Carolina is highly correlated with that of the  
16 country overall (approximately 99.00 percent), and has steadily declined  
17 following the recession. Although North Carolina's December 2015  
18 seasonally adjusted unemployment rate of 5.60 percent was somewhat  
19 higher than the United States average of 5.00 percent, by June 2016 both

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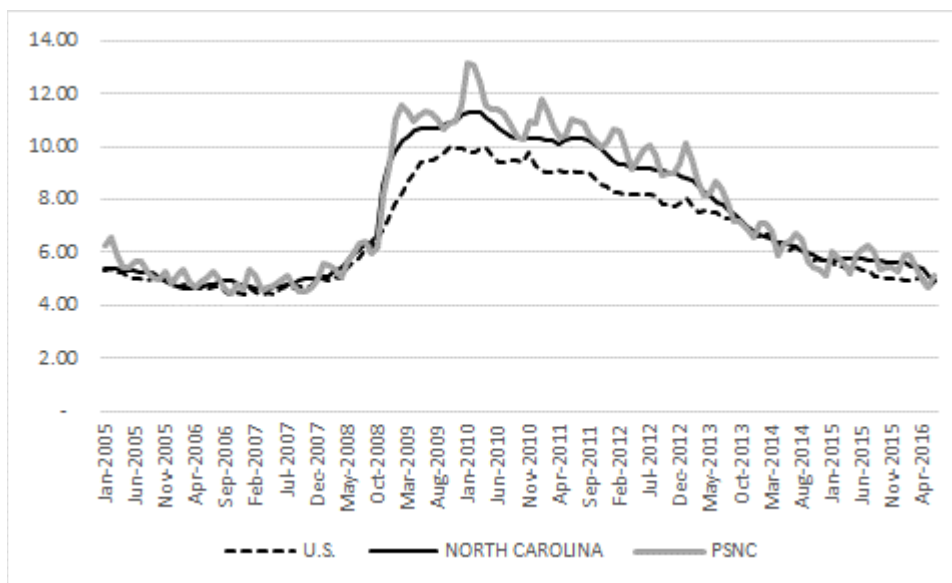
12 Source: National Bureau of Economic Research ("NBER"). NBER lists the trough of the  
recent business cycle as June 2009.

13 Source: Bureau of Economic Analysis; Real GDP by state, all industry total.

14 Source: Bureau of Economic Analysis, Regional Economic Accounts, GDP & Personal  
Income, Real GDP by state.

the national and North Carolina unemployment rates fell to 4.90 percent<sup>15</sup> (the rate in PSNC's service territory was only slightly higher, at 5.14 percent).

**Chart 1: Seasonally Adjusted Unemployment Rates<sup>16</sup>**

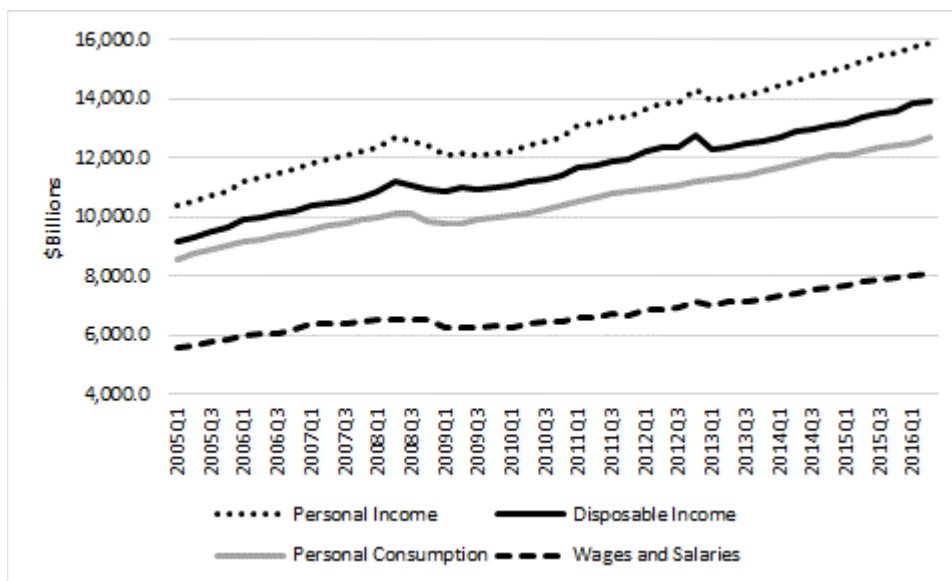


As Chart 2 demonstrates, personal income and consumption have continued to expand at the national level.

<sup>15</sup> Source: Bureau of Labor Statistics; monthly data, seasonally adjusted.

<sup>16</sup> Source: Bureau of Labor Statistics; seasonally adjusted.

Chart 2: United States Income and Consumption<sup>17</sup>



Lastly, in its August 2016 “Snapshot of North Carolina”, the Federal Reserve Bank of Richmond (the “Richmond Fed”) noted that “North Carolina’s economy strengthened, according to recent reports, as total employment grew notably, household conditions continued to improve, and housing market indicators were mostly positive.” The Richmond Fed also observed the following:

- Employers in North Carolina added 19,400 jobs (0.50 percent) in June as every industry except financial services and “other” services expanded payrolls in the month.
- North Carolina’s unemployment rate fell 0.2 percentage point to 4.90 percent in June and declined 0.9 percentage point since June 2015. In

<sup>17</sup>

Source: Bureau of Labor Statistics; monthly data, seasonally adjusted.

1 the first quarter of 2016, the share of mortgages with payments 90 or  
2 more days past due fell 0.2 percentage point to 1.50 percent.

3 • North Carolina issued 5,210 new residential permits in June, up 7.10  
4 percent from the prior month and up 11.9 percent from June 2015.<sup>18</sup>

5 **Q. WHAT CONCLUSIONS DO YOU DRAW FROM THAT**  
6 **INFORMATION?**

7 **A.** First, I note that economic conditions continue to improve from the very  
8 difficult 2008 – 2009 recessionary period: unemployment in North Carolina  
9 has fallen substantially, and is now equal to the national unemployment rate;  
10 the real GDP growth rate in North Carolina has somewhat exceeded the  
11 national average since 2012; personal income and consumption (at the  
12 national level) continue to improve; and the Richmond Fed has noted  
13 increases in employment, and housing permits over the past several months.

14 Second, it is important to keep in mind that the models used to  
15 estimate the Cost of Equity reflect capital markets and, therefore, general  
16 economic conditions. Given that changes in economic conditions in North  
17 Carolina are related to the domestic economy, it is reasonable to conclude  
18 that both are reflected in ROE estimates.

19 It therefore continues to be my view that on balance, economic data  
20 regarding North Carolina and the United States do not alter the Cost of  
21 Equity estimates, or my recommendation, one way or the other.

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<sup>18</sup> Federal Reserve Bank of Richmond, *Snapshot of North Carolina*, August 2016.

1    **Q.     DOES THIS CONCLUDE YOUR SETTLEMENT SUPPORT AND**  
2           **REBUTTAL TESTIMONY?**

3    **A.     Yes, it does.**

## 2014-2016 Rate Cases, Summary of Authorized Return on Equity, Rate of Return

State	Case Identification	Company	Decision Date	Authorized ROR	Authorized ROE	RRA Ranking
New York	C-14-G-0319	Central Hudson Gas & Electric	6/17/2015	6.62%	9.00%	5
New York	C-15-G-0284	NY State Electric & Gas Corp.	6/15/2016	6.68%	9.00%	5
New York	C-14-G-0494	Orange & Rockland Utls Inc.	10/15/2015	7.10%	9.00%	5
New York	C-15-G-0286	Rochester Gas & Electric Corp.	6/15/2016	7.55%	9.00%	5
Illinois	D-14-0224	North Shore Gas Co.	1/21/2015	6.26%	9.05%	3
Illinois	D-14-0225	Peoples Gas Light & Coke Co.	1/21/2015	6.56%	9.05%	3
Kansas	D-14-ATMG-320-RTS	Atmos Energy Corp.	9/4/2014	7.75%	9.10%	5
New York	C-13-G-0136	National Fuel Gas Dist Corp.	5/8/2014	7.56%	9.10%	5
Connecticut	D-13-06-08	CT Natural Gas Corp.	1/22/2014	7.88%	9.18%	2
Arkansas	D-13-078-U	Arkansas Oklahoma Gas Corp.	7/25/2014	6.18%	9.30%	5
Arkansas	D-13-079-U	SourceGas Arkansas Inc	7/7/2014	5.71%	9.30%	5
New York	C-13-G-0031	Consolidated Edison Co. of NY	2/20/2014	7.10%	9.30%	5
Minnesota	D-G-011/GR-13-617	Minnesota Energy Resources	9/24/2014	7.30%	9.35%	5
Arkansas	D-15-011-U	SourceGas Arkansas Inc	1/28/2016	5.33%	9.40%	5
Oregon	D-UG 288	Avista Corp.	2/29/2016	7.46%	9.40%	4
Minnesota	D-G-008/GR-15-424	CenterPoint Energy Resources	5/5/2016	7.07%	9.49%	5
Colorado	D-15AL-0135G	Public Service Co. of CO	2/16/2016	7.33%	9.50%	6
Idaho	C-AVU-G-15-01	Avista Corp.	12/18/2015	7.42%	9.50%	5
New Hampshire	D-DG-13-086	Northern Utilities Inc.	4/21/2014	8.28%	9.50%	4
Oklahoma	Ca-PUD201500213	Oklahoma Natural Gas Co	1/6/2016	7.31%	9.50%	5
Oregon	D-UG-284	Avista Corp.	4/9/2015	7.52%	9.50%	4
Washington	D-UG-150205	Avista Corp.	1/6/2016	7.29%	9.50%	4
Massachusetts	DPU 15-50	Bay State Gas Company	10/7/2015	7.75%	9.55%	4
Massachusetts	DPU 13-75	Bay State Gas Company	2/28/2014	7.83%	9.55%	4
Maine	D-2015-00005	Maine Natural Gas	6/1/2016	7.28%	9.55%	5
Minnesota	D-G-008/GR-13-316	CenterPoint Energy Resources	5/8/2014	7.42%	9.59%	5
Illinois	D-15-0142	Ameren Illinois	12/9/2015	7.65%	9.60%	3
Massachusetts	DPU 15-75	Liberty Utilities (NE Nat Gas)	2/10/2016	7.99%	9.60%	4
Maryland	C-9406 (gas)	Baltimore Gas and Electric Co.	6/3/2016	7.23%	9.65%	2
Oregon	D-UG-246	Avista Corp.	1/21/2014	7.47%	9.65%	4
Colorado	D-13AL-0496G	Atmos Energy Corp.	3/16/2014	8.07%	9.72%	6
New Jersey	D-GR-13111137	South Jersey Gas Co.	9/30/2014	7.10%	9.75%	4
Virginia	C-PUE-2014-00020	Columbia Gas of Virginia Inc	8/21/2015	7.35%	9.75%	8
West Virginia	C-15-0003-G-42T	Mountaineer Gas Company	10/13/2015	7.96%	9.75%	3
Kentucky	C-2013-00148	Atmos Energy Corp.	4/22/2014	7.71%	9.80%	6
Massachusetts	DPU 15-81	Fitchburg Gas & Electric Light	4/29/2016	8.46%	9.80%	4
Massachusetts	DPU 14-150	NSTAR Gas Co.	10/30/2015	7.72%	9.80%	4
Tennessee	D-14-00146	Atmos Energy Corp.	5/11/2015	7.73%	9.80%	6
Utah	D-13-057-05	Questar Gas Co.	2/21/2014	7.64%	9.85%	5
Michigan	C-U-17880	Michigan Gas Utilities Corp	12/11/2015	5.51%	9.90%	6
Wyoming	D-30005-182-GR-13	Cheyenne Light Fuel Power Co.	7/31/2014	7.98%	9.90%	5
Missouri	C-GR-2014-0152	Liberty Utilities (Midstates)	12/3/2014	7.22%	10.00%	5
Wisconsin	D-4220-UR-121 (Gas)	Northern States Power Co - WI	12/3/2015	7.81%	10.00%	8
Wisconsin	D-6690-UR-124 (Gas)	Wisconsin Public Service Corp.	11/19/2015	7.80%	10.00%	8
California	A-12-12-024 (SoCal)	Southwest Gas Corp.	6/12/2014	6.83%	10.10%	6
California	A-12-12-024 (NoCal)	Southwest Gas Corp.	6/12/2014	8.18%	10.10%	6
California	A-12-12-024 (LkTah)	Southwest Gas Corp.	6/12/2014	8.18%	10.10%	6
Wisconsin	D-3270-UR-120 (Gas)	Madison Gas and Electric Co.	11/26/2014	7.98%	10.20%	8
Wisconsin	D-05-UR-107 (WEP-	Wisconsin Electric Power Co.	11/14/2014	8.60%	10.20%	8
Wisconsin	D-6690-UR-123 (Gas)	Wisconsin Public Service Corp.	11/6/2014	7.95%	10.20%	8
Michigan	C-U-17643	Consumers Energy Co.	1/13/2015	NA	10.30%	6
Wisconsin	D-05-UR-107 (WG)	Wisconsin Gas LLC	11/14/2014	8.36%	10.30%	8
Wisconsin	D-6680-UR-119 (Gas)	Wisconsin Power and Light Co	6/6/2014	NA	10.40%	8
Missouri	C-GR-2014-0086	Summit Natural Gas of Missouri	10/29/2014	7.54%	10.80%	5

## Summary of Authorized ROEs since 2014 [1]

	RRA Ranking			
	Above Average	Average	Below Average	Overall
Average	10.13%	9.60%	9.38%	9.65%
Median	10.20%	9.55%	9.39%	9.60%
Maximum	10.40%	10.80%	9.75%	10.80%
Minimum	9.75%	9.00%	9.05%	9.00%
Count	8	40	6	54

## Summary of Authorized RORs since 2014

	RRA Ranking			
	Above Average	Average	Below Average	Overall
Average	7.98%	7.34%	7.26%	7.41%
Median	7.95%	7.46%	7.44%	7.53%
Maximum	8.60%	8.46%	7.96%	8.60%
Minimum	7.35%	5.33%	6.26%	5.33%
Count	7	39	6	52

Notes:

Source: SNL Financial

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Aug 24 2016

## Proxy Group Capital Structure

Common Equity												
Company	Ticker	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	Average
Atmos Energy Corporation	ATO	52.58%	52.04%	50.41%	52.30%	54.47%	53.95%	50.48%	53.77%	55.93%	55.99%	53.19%
New Jersey Resources Corporation	NJR	48.90%	54.49%	51.67%	54.58%	55.97%	56.63%	52.65%	50.85%	55.55%	59.30%	54.06%
Northwest Natural Gas Company	NWN	51.69%	51.51%	47.44%	47.27%	49.14%	49.23%	46.08%	46.90%	49.20%	50.17%	48.86%
South Jersey Industries, Inc.	SJI	51.13%	43.59%	41.57%	40.93%	42.52%	43.11%	42.62%	42.71%	44.28%	45.04%	43.75%
Southwest Gas Corporation	SWX	52.67%	53.47%	50.09%	49.84%	50.16%	50.47%	47.34%	50.09%	51.36%	51.62%	50.71%
Spire Inc.	SR	48.04%	44.40%	41.80%	41.82%	44.24%	43.85%	40.55%	41.36%	61.10%	56.02%	46.32%
WGL Holdings, Inc.	WGL	47.61%	47.80%	46.24%	48.86%	52.38%	52.69%	48.01%	51.96%	59.74%	58.21%	51.35%
Mean		50.37%	49.61%	47.03%	47.94%	49.84%	49.99%	46.82%	48.24%	53.88%	53.76%	49.75%
Maximum		52.67%	54.49%	51.67%	54.58%	55.97%	56.63%	52.65%	53.77%	61.10%	59.30%	54.06%
Minimum		47.61%	43.59%	41.57%	40.93%	42.52%	43.11%	40.55%	41.36%	44.28%	45.04%	43.75%

Long Term Debt												
Company	Ticker	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	Average
Atmos Energy Corporation	ATO	37.25%	38.21%	37.83%	40.20%	41.30%	42.19%	40.45%	42.80%	44.07%	44.01%	40.83%
New Jersey Resources Corporation	NJR	40.89%	38.63%	38.80%	42.15%	44.03%	36.18%	35.22%	33.30%	34.89%	37.09%	38.12%
Northwest Natural Gas Company	NWN	38.44%	37.96%	36.15%	38.71%	38.82%	40.98%	39.82%	41.25%	46.06%	47.74%	40.59%
South Jersey Industries, Inc.	SJI	43.05%	42.88%	41.14%	43.89%	41.44%	44.80%	46.14%	49.90%	45.22%	38.08%	43.65%
Southwest Gas Corporation	SWX	47.33%	46.53%	49.34%	50.16%	49.84%	49.53%	52.50%	49.91%	48.64%	48.38%	49.22%
Spire Inc.	SR	49.36%	48.90%	48.36%	49.20%	49.95%	49.42%	48.94%	50.76%	38.90%	42.16%	47.59%
WGL Holdings, Inc.	WGL	40.30%	40.92%	34.82%	38.09%	41.17%	40.23%	38.47%	29.14%	29.23%	27.87%	36.02%
Mean		42.37%	42.00%	40.92%	43.20%	43.79%	43.33%	43.08%	42.44%	41.00%	40.76%	42.29%
Maximum		49.36%	48.90%	49.34%	50.16%	49.95%	49.53%	52.50%	50.76%	48.64%	48.38%	49.22%
Minimum		37.25%	37.96%	34.82%	38.09%	38.82%	36.18%	35.22%	29.14%	29.23%	27.87%	36.02%

Short Term Debt												
Company	Ticker	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	Average
Atmos Energy Corporation	ATO	10.17%	9.75%	11.76%	7.50%	4.24%	3.87%	9.08%	3.43%	0.00%	0.00%	5.98%
New Jersey Resources Corporation	NJR	10.22%	6.88%	9.53%	3.27%	0.00%	7.18%	12.13%	15.84%	9.57%	3.61%	7.82%
Northwest Natural Gas Company	NWN	9.87%	10.53%	16.40%	14.02%	12.04%	9.80%	14.10%	11.85%	4.74%	2.10%	10.54%
South Jersey Industries, Inc.	SJI	5.82%	13.53%	17.29%	15.19%	16.04%	12.09%	11.23%	7.39%	10.50%	16.88%	12.60%
Southwest Gas Corporation	SWX	0.00%	0.00%	0.57%	0.00%	0.00%	0.00%	0.16%	0.00%	0.00%	0.00%	0.07%
Spire Inc.	SR	2.60%	6.70%	9.85%	8.98%	5.81%	6.74%	10.51%	7.87%	0.00%	1.82%	6.09%
WGL Holdings, Inc.	WGL	12.09%	11.28%	18.94%	13.05%	6.45%	7.07%	13.52%	18.90%	11.03%	13.93%	12.63%
Mean		7.25%	8.38%	12.05%	8.86%	6.37%	6.68%	10.10%	9.33%	5.12%	5.48%	7.96%
Maximum		12.09%	13.53%	18.94%	15.19%	16.04%	12.09%	14.10%	18.90%	11.03%	16.88%	12.63%
Minimum		0.00%	0.00%	0.57%	0.00%	0.00%	0.00%	0.16%	0.00%	0.00%	0.00%	0.07%

Source: SNL Financial

## CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Supplemental Testimony of Robert B. Hevert has been served on all parties of record or their attorneys, or both, by United States mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 24<sup>th</sup> day of August, 2016.

/s/Mary Lynne Grigg

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