

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

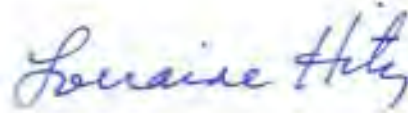
JOINT PETITION OF OHIO VALLEY GAS )  
CORPORATION AND OHIO VALLEY GAS, INC. )  
FOR (1) AUTHORITY TO INCREASE ITS RATES )  
AND CHARGES FOR GAS UTILITY SERVICE, (2) )  
APPROVAL OF NEW SCHEDULES OF RATES )  
AND CHARGES, (3) APPROVAL OF DECOUPLING )  
THROUGH A NEW SALES RECONCILIATION )  
COMPONENT RIDER, AND (4) APPROVAL OF )  
NECESSARY AND APPROPRIATE ACCOUNTING )  
RELIEF AND OTHER REQUESTS. )

CAUSE NO. 46011

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S  
PUBLIC'S EXHIBIT NO. 6 – TESTIMONY OF OUCC WITNESS  
LEJA D. COURTER

May 15, 2024

Respectfully submitted,



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**OHIO VALLEY GAS CORPORATION AND  
OHIO VALLEY GAS, INC.  
CAUSE NO. 46011  
TESTIMONY OF OUCC WITNESS LEJA D. COURTER**

**I. INTRODUCTION**

1 **Q: Please state your name and business address.**

2 A: My name is Leja D. Courter. My business address is 115 West Washington Street, Suite  
3 1500 South, Indianapolis, IN 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a  
6 Chief Technical Advisor. For a summary of my educational and professional  
7 experience, as well as my preparation for presenting testimony in this case, please see  
8 Appendix LDC-1 attached to my testimony. Appendix LDC-1 also includes the  
9 Discounted Cash Flow ("DCF") Model and Capital Asset Pricing Model ("CAPM")  
10 mechanics.

11 **Q: What is the purpose of your testimony?**

12 A: The purpose of my testimony is to support the OUCC's recommended 9.0% cost of  
13 equity ("COE") for Ohio Valley Gas Corporation and Ohio Valley Gas, Inc. ("OVG"  
14 or "Joint Petitioners"). I will also explain why OVG's recommended 11.0% COE is  
15 unreasonable.

16 **Q: What are your recommendations in this Cause?**

17 A: Based on the results of the DCF model, CAPM, and macroeconomic analyses, I  
18 conclude a 9.0% COE is a reasonable and appropriate COE for OVG. However, I also  
19 recommend OVG's COE be reduced further if the Indiana Utility Regulatory  
20 Commission ("Commission" or "IURC") requires OVG's customers to pay \$325,000

1 of Joint Petitioners' proposed rate case expense associated with internal labor costs. I  
2 also recommend OVG's COE be further reduced if the Commission approves OVG's  
3 proposed Sales Reconciliation Component ("SRC") Rider. To further support the  
4 reasonableness of my proposed COE, I address OVG's COE methodologies.

5 **Q: Please summarize your COE testimony.**

6 A: My testimony begins by briefly describing OVG's and the OUCC's proposed COEs. I  
7 then review relevant macroeconomic trends and more completely describe my DCF  
8 and CAPM analyses and results. Next, I review OVG's COE methods and explain why  
9 OVG's COE results should be rejected. Finally, I summarize my testimony and provide  
10 my COE recommendation.

11 I use both DCF and CAPM analyses to estimate OVG's COE. My DCF and  
12 CAPM analyses indicate a cost of equity range of 8.1% to 10.0%. I am  
13 recommending a COE of 9.0%. A 9.0% COE results in a weighted cost of capital  
14 of 7.78%. (Public's Exhibit No. 1, Attachment ZDL-1, Schedule 8, page 1.)

15 **Q: What is the OUCC's position on OVG's proposed rate case expense?**

16 A: For the reasons stated in Mr. Kohlmann's testimony, the OUCC opposes OVG  
17 recovering \$325,000 for internal labor costs included in the total rate case expense from  
18 its customers in this Cause.

19 **Q: Would the recovery of \$325,000 of the total rate case expense from OVG's**  
20 **customers have an impact on COE?**

21 A: If the Commission approves OVG's request to recover \$325,000 for internal labor of  
22 the total rate case expense from OVG's customers, the Commission should also  
23 recognize this results in a double recovery of OVG's internal labor costs, and therefore,  
24 correspondingly, reduce the COE.

1 **Q: What is the OUCC's position regarding OVG's proposed SRC Rider?**

2 A: OUCC witness, Dr. David Dismukes, testifies why the OUCC is opposing OVG's SRC  
3 Rider. However, if the Commission approves OVG's SRC Rider, the Commission  
4 should also recognize this reduces OVG's risk and, therefore, correspondingly, reduce  
5 the COE.

6 **Q: Are you sponsoring any attachments in this proceeding?**

7 A: Yes. I am sponsoring the following attachments.

- 8 • Attachment LDC-1: *Value Line* summary sheets.
- 9 • Attachment LDC-2: DCF Analysis – Proxy group.
- 10 • Attachment LDC-3: CAPM Analysis – Proxy group.
- 11 • Attachment LDC-4: Kroll Recommended Market Risk Premium.
- 12 • Attachment LDC-5: Federal Reserve Press Release, March 20, 2024.
- 13 • Attachment LDC-6: Equity Risk Premium.
- 14 • Attachment LDC-7: Yahoo Finance and Zacks Growth Estimates

15 **Q: To the extent you do not address a specific issue, item, or adjustment, should that**  
16 **be construed to mean you agree with OVG's proposal?**

17 A: No. Not addressing a specific issue, item, or adjustment OVG proposes does not  
18 indicate my agreement or approval. Rather, the scope of my testimony is limited to the  
19 specific items addressed herein.

## II. OVG'S PROPOSED COST OF EQUITY

20 **Q: What is OVG's current authorized cost of equity?**

21 A: OVG's current authorized rate of return is 10.0% and is the result of a settlement  
22 agreement the Commission approved in Cause No. 44891. *In re Ohio Valley Gas*  
23 *Corp. and Ohio Valley Gas, Inc.*, Cause No. 44891, Order p. 7 (Ind. Util. Regul.  
24 Comm'n Oct. 17, 2017.)

1 **Q: What is OVG's proposed COE?**

2 A: OVG proposes an 11.0% COE. (Joint Petitioners' Exhibit No. 7, page 7, lines 11-  
3 12.)

4 **Q: Why does your proposed COE differ from OVG's proposed COE?**

5 A: My proposed 9.0% COE is less than OVG's estimated cost of equity due to OVG's  
6 inappropriate use of an excessive market return because of using an inflated growth  
7 rate for the CAPM and Empirical CAPM ("ECAPM") results. Data on bond yields,  
8 dividend yields, and inflation do not support an 11.0% projected rate of return.  
9 Also, some of the earnings per share ("EPS") growth rates OVG used in its case-in-  
10 chief have been lowered, as noted later in my testimony. These factors produce  
11 unreasonably high results which, for the reasons I discuss, should be disregarded.

12 The growth of capital trackers, operating and maintenance trackers, and the  
13 ability to readily amend plans and further increase capital costs, have significantly  
14 reduced regulatory lag and expanded paths to recovery of capital investment - and  
15 all have reduced utility risk in Indiana. Indiana's Transmission, Distribution, and  
16 Storage System Improvement Charge ("TDSIC") statute, Ind. Code § 8-1-39-1, *et*  
17 *seq.*, encourages and incentivizes utilities to spend money for capital investments.

18 The use of a forecasted test year in this Cause, and the trackers approved  
19 for OVG reduce the uncertainty of the earnings that OVG's investors can expect.  
20 *In re Indiana-American Water Company*, Cause No. 45870, Order, p. 43 (Ind. Util.  
21 Reg. Comm'n, February 14, 2024). Also, OVG's proposed 11.0% rate of return  
22 would exceed any COE awarded to an Indiana investor-owned gas, electric, water,  
23 or wastewater utility in more than a decade.

1 **Q: What have you done to determine the OUCC's recommended 9.0% COE is**  
2 **reasonable?**

3 A: I reviewed OVG's proposed capital structure and overall cost of capital. (Joint  
4 Petitioners' Exhibit No. 8, Schedule 8, Exhibit REVREQ10.) I accepted OVG's  
5 proposed capital structure with 83.18% equity, 4.99% long-term debt, 1.22% customer  
6 deposits, 10.61% deferred income taxes, 0.00% preferred equity, and 0.00% post-1970  
7 ITC. (*Id.*)

8 To estimate OVG's COE, I applied the DCF model and the CAPM to the same  
9 proxy group OVG used. My CAPM and DCF analyses indicate an 8.1% to 10.0%  
10 COE range. I am recommending a COE of 9.00%. Combined with OVG's  
11 capitalization percentages, the overall weighted cost of capital for OVG is 7.78%  
12 as indicated on Public's Exhibit No. 1, Attachment ZDL-1, Schedule 8, page 1.

13 In my DCF analysis I used *Value Line's* forecasted growth rates in EPS for  
14 the proxy group. (Attachment LDC-1, pages 1-5.) I also used analysts' projected  
15 EPS from Yahoo Finance, Zacks and MarketWatch. (Attachment LDC-2, page 2.)

16 In my CAPM analysis I reviewed 5, 10, 20, and 30-year Treasury bond  
17 rates. (Attachment LDC-3, page 2.) I reviewed the *Value Line* betas for the  
18 companies in the proxy group. (Attachment LDC-1, pages 1-5.) Also, I reviewed  
19 betas from Bloomberg, S&P Capital IQ Pro ("S&P"), Yahoo Finance, Zacks, the  
20 New York Stock Exchange ("NYSE") and MarketWatch. I also reviewed Kroll's  
21 and KPMG market risk premiums. (Attachment LDC-4;  
22 <https://kpmg.com/nl/en/home/topics/equity-market-risk-premium.html>.)

### III. MACROECONOMIC TRENDS

1 **Q: Do macroeconomic factors influence the COE?**

2 A: Yes. The most noteworthy factors are interest rates, economic growth, and inflation.

3 **Q: How do inflation and interest rates influence COE estimates?**

4 A: Anticipated inflation influences interest rates. Interest rates influence the COE. Interest  
5 rates are elevated but have remained stable for several months.

6 **Q: Please explain the increase in interest rates over the past two years.**

7 A: The Federal Reserve increased interest rates over the past two years because of an  
8 improving economy and higher inflation. Real gross domestic product ("GDP")  
9 increased at a 3.4% annual rate in the fourth quarter of 2023. (Bureau of Economic  
10 Analysis, March 28, 2024.) ([https://www.bea.gov/news/2024/gross-domestic-product-  
11 fourth-quarter-and-year-2023-third-estimate-gdp-industry-and](https://www.bea.gov/news/2024/gross-domestic-product-fourth-quarter-and-year-2023-third-estimate-gdp-industry-and)) The increase in real  
12 GDP reflects increases in spending by consumers, federal, state, and local governments,  
13 as well as exports and residential and nonresidential fixed investments. (*Id.*)

14 **Q: What has the Federal Reserve said about the current economic situation?**

15 A: Recent indicators suggest economic activity has been expanding at a solid pace. Job  
16 gains have remained strong, and the unemployment rate has remained low. Inflation  
17 has eased over the past year but remains elevated. (Attachment LDC-5, page 1; Federal  
18 Reserve Press Release, March 20, 2024.)

19 **Q: Has the Federal Reserve attempted to control inflation?**

20 A: Yes. The Federal Reserve increased the discount rate multiple times in 2022 and 2023  
21 but has not increased the discount rate for several months. The Federal Reserve's

1 actions on the discount rate only impacts short-term rates. Long-term rates are more a  
2 function of expected economic growth and expected inflation.

3 **Q: Are U.S. Treasury bond yields an influencing factor on the COE?**

4 A: Yes. Bond yields are important factors influencing COE. Yields on U.S. Treasury  
5 Bonds are commonly used to establish the risk-free rate of return in the CAPM and  
6 other risk premium analyses. Changes in bond yields and interest rates affect investor  
7 expectations. The 13-week average on long-term 30-year Treasury bond yields is  
8 4.36%. (Attachment LDC-3, page 2.)

9 **Q: What conclusions have you reached regarding the macroeconomic factors that**  
10 **influence COE?**

11 A: Although interest rates continued to increase in 2023, those increases have stopped and  
12 are stabilized. On March 20, the Federal Open Market Committee stated: "The  
13 Committee seeks to achieve maximum employment and inflation at the rate of 2 percent  
14 over the longer run. The Committee judges that the risks to achieving its employment  
15 and inflation goals are moving into better balance... In support of its goals, the  
16 Committee decided to maintain the target range of the federal funds rate at 5-1/4 to 5-  
17 1/2 percent." (Attachment LDC-5, page 1.) The Committee is strongly committed to  
18 returning inflation to its 2 percent objective. (*Id.*)

#### IV. **PROXY GROUP USED FOR THE OUCC'S COST OF EQUITY ANALYSES**

19 **Q: Can you apply the DCF model and CAPM directly to OVG?**

20 A: No. OVG's stock is not publicly traded. As a result, much of the data available for  
21 publicly traded companies is not available for OVG. This fact makes it impractical to  
22 apply the DCF and CAPM directly to OVG. Therefore, I calculated OVG's COE based  
23 on a proxy group of publicly traded utility companies.



1 **Q: Please describe how you derived the proxy group for your DCF and CAPM**  
2 **analyses.**

3 A: My proxy group is comprised of the same five companies as OVG's proxy group. OVG  
4 outlined seven selection criteria used for the proxy group. (Joint Petitioners' Exhibit  
5 No. 7, page 26, line 13 to page 27, line 3.) These selection criteria produced five natural  
6 gas utility companies: Atmos Energy Corp., NiSource Inc., Northwest Natural Gas Co.,  
7 ONE Gas, Inc., and Spire, Inc. (*Id.*, page 27, line 11.)

8 **Q: Please describe your approach to estimate OVG's COE.**

9 A: I relied on the DCF model and CAPM analysis to estimate OVG's COE.

#### V. DISCOUNTED CASH FLOW ANALYSIS

10 **Q: Please describe DCF Analysis.**

11 A: DCF analysis helps investors determine the appropriate price to pay for particular  
12 assets, such as utility stocks. According to the DCF model, the current stock price is  
13 equal to the discounted value of all future dividends investors expect to receive from  
14 investment in the firm. Therefore, stockholders' returns result from current as well as  
15 future dividends. The model has been adapted for regulatory proceedings to determine  
16 the cost of utility equity capital. The DCF model is a model which maintains the value  
17 (price) of any security or commodity is the discounted present value of all future cash  
18 flows. This discount rate equals the cost of capital with utility stocks and dividends as  
19 the relevant cash flows. A detailed description of the DCF mechanics is included in my  
20 Appendix LDC-1.

21 **Q: Is the DCF model consistent with valuation techniques investment firms employ?**

22 A: Yes. Virtually all investment firms use some form of the DCF model as a valuation  
23 technique.

1 **Q: What factors should be considered when applying the DCF methodology?**

2 A: Current economic conditions and other information available to investors must be  
3 considered to accurately estimate investors' expectations. This information is used to  
4 estimate the dividend yield and expected growth rate.

5 **Q: What dividends have you reviewed?**

6 A: I reviewed the current dividends for the proxy group companies. (Attachment LDC-1,  
7 pages 1-5.)

8 **Q: Did you calculate dividend yields for the proxy group companies?**

9 A: Yes. I calculated the dividend yields for the proxy group companies using the most  
10 recent dividends listed on *Value Line* and derived an annual dividend. (*Id.*) I derived  
11 the annual dividend by taking the most recent quarterly dividend listed on *Value Line*  
12 times 4. (Attachment LDC-2, page 1, column 1.)

13 **Q: Did you calculate average stock prices for the proxy group companies?**

14 A: Yes. I calculated the 13-week average stock prices for the proxy group companies. A  
15 13-week average stock price reflects a period short enough to contain data that  
16 reasonably reflects current market expectations. However, the period is not so short as  
17 to be susceptible to market price fluctuations that may not reflect the stock's long-term  
18 value. The 13-week stock prices were obtained from S&P. (Attachment LDC-2, page  
19 1, column 2.) I then calculated a dividend yield.

20 **Q: How did you calculate the dividend yields?**

21 A: I divided the annual dividend in column 1 by the 13-week average stock prices in  
22 column 2 to determine the dividend yields. These dividend yields are provided on  
23 Attachment LDC-2, page 1, column 3. The average dividend yield for the proxy group  
24 is 4.29%. (*Id.*)

1 **Q: What is the growth rate component of the DCF model?**

2 A: This component is investors' expectation of the long-term growth rate. Presumably,  
3 prudent investors use projected growth rates for earnings per share to assess long-term  
4 growth potential.

5 **Q: Please assess analysts' projected growth rate estimates for the proxy group**  
6 **companies.**

7 A: I reviewed analysts' projected growth rate estimates from Yahoo Finance, Zack's,  
8 MarketWatch, and *Value Line*. These services solicit earnings growth rate projections  
9 from securities analysts and publish the means and medians of these forecasts. The  
10 analysts' projected growth rate estimates are summarized on Attachment LDC-2, page  
11 2. The average of the analysts' projected growth rate estimates is 5.47%. (*Id.*, line 6,  
12 column 6.)

13 **Q: Did you calculate an adjusted (forward) dividend yield based on the analysts'**  
14 **projected growth rate estimates?**

15 A: Yes. I took the analysts' projected growth rate estimates to calculate an adjusted  
16 (forward) dividend yield using the method discussed in Appendix LDC-1, page 3, lines  
17 2-7. The average adjusted dividend yield for the proxy group is 4.51%. (Attachment  
18 LDC-2, page 1, line 6, column 5.)

19 **Q: Did you calculate constant growth DCF for each of the proxy group companies?**

20 A: Yes. I added the adjusted (forward) dividend yield and the analysts' projected growth  
21 rate estimates to derive a constant growth DCF for each of the proxy group companies.  
22 (Attachment LDC-2, page 1, lines 1-5, column 6.)

23 **Q: Please summarize your analysis of the proxy group's constant growth DCF.**

24 A: Attachment LDC-2, page 1 summarizes the DCF growth rate indicators for the proxy  
25 group. The average of the projected EPS growth rates is 5.47%. Combined with a

1 dividend yield of 4.51%, the constant growth DCF for the proxy group is 10.0%  
2 (rounded). (Attachment LDC-2, page 1, line 6, column 6.)

## VI. CAPITAL ASSET PRICING MODEL

3 **Q: Please describe the CAPM.**

4 A: The CAPM is another analysis frequently relied upon by this Commission to help  
5 determine a reasonable COE capital. The CAPM is a risk premium approach to gauging  
6 a firm's COE capital (K). According to the CAPM risk premium approach, the COE  
7 capital is the sum of the interest rate on a risk-free bond (Rf) and a risk premium (RP).  
8 The CAPM's underlying assumption is the stock market compensates investors for risk  
9 that cannot be eliminated by means of a diversified stock portfolio. A detailed  
10 description of the CAPM mechanics is included in my Appendix LDC-1.

11 The yield on long-term U.S. Treasury securities is normally used as Rf. In the  
12 CAPM, two types of risk are associated with a stock: firm-specific risk or unsystematic  
13 risk and market or systematic risk, which is measured by a firm's beta ( $\beta$ ). In other  
14 words, beta measures an asset's price volatility compared to the stock market. Rm  
15 represents the expected return on the stock market. According to the CAPM, the  
16 expected return on a company's stock, which is also the equity cost rate (K), is equal  
17 to:

$$18 \quad K = Rf + \beta * (Rm - Rf)$$

19 **Q: Please discuss Attachment LDC-3.**

20 A: Attachment LDC-3 provides the summary of my CAPM analysis for the proxy group.  
21 Page 1 shows the results, and the following pages contain the supporting data. My

1 CAPM analysis uses variations of the CAPM components to provide different CAPM  
2 results to consider.

3 **Q: Please discuss the risk-free interest rate (Rf).**

4 A: The yield on long-term U.S. Treasury bonds is normally used as the risk-free rate of  
5 interest in the CAPM.

6 **Q: What risk-free interest rate are you using in your CAPM?**

7 A: I am using a 4.36% risk-free interest rate. The yield on 30-year U.S. Treasury bonds  
8 for the 13-week period indicated ranges from 4.20% to 4.54%. (Attachment LDC-3,  
9 page 2, column 4.) The average during that period was 4.36%. (*Id.*, line 14.)

10 **Q: Why did you use a 13-week average of the Treasury bond prices?**

11 A: I used a 13-week period because an average bond price is less susceptible to price  
12 variations than a price at a single point in time. A 13-week average bond price reflects  
13 a period short enough to contain data that reasonably reflects current market  
14 expectations. However, the period is not so short as to be susceptible to market price  
15 fluctuations that may not reflect the bond's long-term value. Typically, U.S. Treasury  
16 securities are used as a proxy for the risk-free rate because the full faith and credit of  
17 the U.S. government backs them.

18 **Q: What betas are you using in your CAPM?**

19 A: I used the betas from *Value Line*, Bloomberg, Yahoo Finance, Zacks, MarketWatch,  
20 S&P, and the New York Stock Exchange (NYSE) for the proxy group as indicated on  
21 Attachment LDC-3, page 3. The average of the betas for the proxy group is 0.65. (*Id.*,  
22 line 6, column 8.)

1 **Q: Why did you use betas from several sources?**

2 A: I used several betas from different professional financial services to provide a balanced  
3 view of the proxy group companies' risk.

4 **Q: How did you access the beta information?**

5 A: The *Value Line* betas are on the *Value Line* summary sheets. (Attachment LDC-1, pages  
6 1-5.) I added links to the websites for Yahoo Finance, Zacks, MarketWatch, S&P, and  
7 NYSE betas. (Attachment LDC-3, page 3.) The OUCC does not have a subscription to  
8 Bloomberg, so I used the Bloomberg beta information contained on Joint Petitioners'  
9 Exhibit No. 7, Attachment AEB-5, CAPM and ECAPM. I prepared two CAPM  
10 calculations using two different betas. (Attachment LDC-3, page 1.)

11 **Q: What betas did you use in your CAPM calculations?**

12 A: I used a 0.65 beta, which is the average beta for the seven financial services companies  
13 listed on Attachment LDC-3, page 3. I also used a 0.81 beta. (*Id.*) The 0.81 beta is the  
14 average of the *Value Line* and Bloomberg betas that OVG used in its CAPM and  
15 ECAPM analyses. (Joint Petitioners' Exhibit No. 7, Attachment AEB-5.)

16 **Q: What is a market risk premium?**

17 A: A market risk premium is the difference between the expected return on a market  
18 portfolio ( $R_m$ ) and the risk-free rate ( $R_f$ ). A market risk premium in the utility industry  
19 can also be characterized as the difference between the authorized return on equity  
20 ("ROE") and the risk-free rate. The risk-free rate is characterized by investing in safe  
21 fixed-income assets, such as long-term government bonds.

22 **Q: How did you calculate the market risk premium?**

23 A: I calculated the market risk premium by taking the 1989-2023 average of the *authorized*  
24 natural gas returns. (Attachment LDC-6, page 1, line 42, column 1.) The average of the

1 authorized natural gas returns is 10.62%. (*Id.*) The average of the 30-year Treasury  
2 bonds – representing the risk-free rate during this same period – is 4.88%. (*Id.*, column  
3 2.) The market risk premium is the average of the authorized natural gas returns of  
4 10.62% minus the average of the risk-free rate of 4.88%. The average market risk  
5 premium is 5.74%. (*Id.*, column 3.) I also calculated an average market risk premium  
6 for the 1986-2023 period, which is 5.66%. (*Id.*, line 39.)

7 **Q: What market risk premium are you using in your CAPM?**

8 A: I am using the higher 5.74% market risk premium.

9 **Q: Is this market risk premium reasonable?**

10 A: Yes. The market risk premium is calculated using authorized returns for natural gas  
11 companies in the United States as reported by S&P. This is information available to  
12 natural gas utility stock investors. The 30-year Treasury bond information for the same  
13 period is available for investors from the Federal Reserve website referenced on  
14 Attachment LDC-3, page 2. Therefore, investors can review and compare the  
15 authorized natural gas returns and the corresponding risk-free rates over the last 35+  
16 years to assess the market risk premium associated with natural gas stocks.

17 **Q: Did you review other sources of market risk premium?**

18 A: Yes. I wanted to review the current market risk premium recommended by the financial  
19 services companies, Kroll, and KPMG. Kroll recommends a 5.5% market risk  
20 premium. (Attachment LDC-4, page 1.) KPMG recommends a 5.0% equity market risk  
21 premium at the following link: [https://kpmg.com/nl/en/home/topics/equity-market-](https://kpmg.com/nl/en/home/topics/equity-market-risk-premium.html)  
22 [risk-premium.html](https://kpmg.com/nl/en/home/topics/equity-market-risk-premium.html). The CAPM result, using either Kroll's 5.5% market risk premium  
23 or KPMG's 5.0% market risk premium, would be lower than the CAPM result using  
24 my 5.74% market risk premium.

1 **Q: What cost of equity rate does your CAPM analysis indicate?**

2 A: The results of my CAPM analysis for the proxy group range from 8.1% to 9.0%  
3 (rounded) as summarized on Attachment LDC-3, page 1. The 8.1% result uses the  
4 combined average beta of 0.65. The 9.0% result uses the average of OVG's Bloomberg  
5 and Value Line betas.

## VII. OUCC'S ESTIMATED COST OF EQUITY

6 **Q: Please summarize the results of your COE analyses.**

7 A: My analysis indicates a 10.0% DCF for the proxy group. My CAPM analysis indicates  
8 a COE range of 8.1% to 9.0% for the proxy group. Based on all the above, I recommend  
9 a 9.0% COE.

## VIII. OVG'S COST OF EQUITY ANALYSIS

10 **Q: Please summarize OVG's COE analysis.**

11 A: OVG's estimated COE is 11.0%. OVG's analysis uses a DCF model, a CAPM, an  
12 Empirical CAPM ("ECAPM"), and Bond Yield Plus Risk Premium ("BYRP"). (Joint  
13 Petitioners' Exhibit No. 7, page 2, lines 19-23.) OVG's COE range is 10.25% to  
14 11.25%. (*Id.*, page 6, lines 27-28.) OVG's proposed COE is 11.00%. (*Id.*, page 7, lines  
15 11-12.)

16 **Q: Do you agree with all the models Petitioner uses to determine OVG's COE?**

17 A: I agree with using the DCF and CAPM models, without OVG's proposed adjustments  
18 to those models. For decades, the Commission has consistently and primarily used the  
19 DCF and CAPM models when setting utilities' COE. OVG also uses ECAPM and  
20 Bond Yield Plus Risk Premium ("BYRP") models. The COE testimonies that utilities,  
21 intervenors, and the OUCC file include the DCF and CAPM models. As discussed



1 below, there are several issues with the inputs, applications, and results of OVG's COE  
2 models.

### IX. OVG'S DCF ANALYSIS

3 **Q: What are OVG's DCF estimates?**

4 A: OVG's DCF estimates, using 30-, 90-, and 180-day average stock prices ranged from  
5 10.48% to 10.84%. (Joint Petitioners' Exhibit No. 7, page 35, Figure 8; Attachment  
6 AEB-4.) First, I will discuss the changes to OVG's 30-day constant growth DCF, and  
7 then I will discuss the changes to OVG's 90- and 180-day constant growth DCF  
8 estimates.

9 **Q: Do you agree with OVG's DCF estimates?**

10 A: No. I disagree with some of OVG's projected EPS growth rates contained on Joint  
11 Petitioners' Exhibit No. 7, Attachment AEB-4, columns 5-7. OVG's average projected  
12 EPS growth rate for the proxy group is 6.45% using the *Value Line*, Yahoo Finance,  
13 and Zacks estimates. (*Id.*, column 8.)

14 **Q: Which of OVG's projected EPS growth rate estimates have changed?**

15 A: The *Value Line* EPS growth rate estimates for ONE Gas and Spire have changed since  
16 OVG's case-in-chief was filed. OVG lists the EPS growth rate for ONE Gas as 6.50%  
17 and 8.00% for Spire. (Joint Petitioners' Exhibit No. 7, Attachment AEB-4, column 5.)  
18 Those estimates are from the *Value Line* summary sheets dated November 24, 2023.  
19 (Workpaper AEB-1, pages 4 and 5.) The updated growth rates on the February 23, 2024  
20 *Value Line* summary sheets are 4.00% for ONE Gas and 4.50% for Spire. (Attachment  
21 LDC-1, pages 4 and 5.)

1 **Q: Have other EPS growth estimates changed?**

2 A: Yes. Two of the Yahoo Finance EPS growth estimates have changed. OVG listed the  
3 NiSource EPS growth rate as 8.30% and the Spire EPS growth rate as N/A. (Joint  
4 Petitioners' Exhibit No. 7, Attachment AEB-4, column 6.) The updated Yahoo Finance  
5 EPS growth rates are 7.30% for NiSource and 6.36% for Spire. (Attachment LDC-7,  
6 pages 1-2.)

7 **Q: Did any other EPS growth estimates change since OVG filed its case-in-chief?**

8 A: Yes. OVG lists the following EPS growth rates for Zacks: Atmos – 7.30%, NiSource  
9 – 7.20%, Northwest Natural – 3.70%, ONE Gas – 5.00%, and Spire – 5.60%. (Joint  
10 Petitioners' Exhibit No. 7, AEB-4, column 7.) The only Zacks EPS growth estimate  
11 that did not change is the 5.00% growth rate for ONE Gas. The updated EPS growth  
12 rates from Zacks are: Atmos – 7.00%, NiSource – 6.00%, Northwest Natural – N/A,  
13 and Spire – 5.00%. (Attachment LDC-7, pages 3-6.)

14 **Q: What did OVG calculate as the average EPS growth rate for *Value Line*, Yahoo  
15 Finance, and Zacks?**

16 A: OVG calculated the average as 6.45%. (Joint Petitioners' Exhibit No. 7, Attachment  
17 AEB-4, column 8, line 13.)

18 **Q: Did you calculate the average EPS growth rate using the updated *Value Line*,  
19 Yahoo Finance, and Zacks EPS growth rates?**

20 A: Yes. The average EPS growth rate using the updated *Value Line*, Yahoo Finance, and  
21 Zacks ESP growth rate is 5.95%. (Attachment LDC-2, page 2, line 7, column 3.)

22 **Q: How does using the updated average EPS growth rate of 5.95% affect OVG's  
23 constant growth DCF calculations?**

24 A: OVG calculated a 30-day average constant growth DCF of 10.84%. (Joint Petitioners'  
25 Exhibit No. 7, Attachment AEB-4, column 10, line 13.) This percentage is based on an  
26 average EPS growth rate of 6.45%. Therefore, OVG's 30-day average EPS growth rate

1 is overstated by 0.50% (6.45% - 5.95%). Instead of 10.84%, OVG's 30-day constant  
2 growth DCF should be 10.34% (10.84% - 0.50%).

3 **Q: Are similar adjustments necessary for OVG's 90-day and 180-day constant**  
4 **growth DCF estimates?**

5 A: Yes. OVG used the same *Value Line*, Yahoo Finance, and Zacks EPS growth estimates  
6 in OVG's 90-day and 180-day calculations. (Joint Petitioners' Exhibit No. 7,  
7 Attachment AEB-4.) The same 0.50% reduction in the average EPS growth rate is  
8 necessary. For the 90-day calculation, OVG's 90-day constant growth DCF changes  
9 from 10.67% to 10.17% (10.67% - 0.50%). (*Id.*, column 10, line 44.) For OVG's 180-  
10 day calculation, OVG's 180-day constant growth changes from 10.48% to 9.98%  
11 (10.48% - 0.50%). (*Id.*, column 10, line 75.)

12 **Q: How do these changes impact OVG's constant growth DCF calculations?**

13 A: OVG originally calculated an average constant growth DCF range of 10.84% to  
14 10.48%. (*Id.*, column 10, lines 13, 44, and 75.) Based on the updated EPS growth  
15 estimates, the range of OVG's average constant DCF calculation is 10.34% to 9.98%.

16 **Q: Are there any other differences between the OUCC's and OVG's constant growth**  
17 **DCF calculations?**

18 A: Yes. One difference is that I also used the MarketWatch EPS growth rates in my DCF  
19 analysis. MarketWatch is a readily available online source for investors to review when  
20 analyzing stock purchases. The other difference is the timeframe of the stock prices  
21 that were used. OVG used 30-, 90-, and 180-day stock prices. I used an average of the  
22 13-week stock prices.

23 **Q: Please summarize your comments on OVG's DCF analysis.**

24 A: OVG's EPS growth estimates have been updated, and OVG's constant growth DCF  
25 range is now 9.98% to 10.34%. I calculated a constant growth DCF of 10.00% based

1 on four professional financial investor services rather than the three OVG used. OVG's  
2 updated constant growth DCF results and the OUCC's constant growth DCF results are  
3 similar. The major difference between OVG and the OUCC is in the CAPM analysis.

#### X. OVG'S CAPM AND ECAPM ANALYSES

4 **Q: Please describe OVG's CAPM analysis.**

5 A: OVG developed its CAPM analysis using three sources for the estimate of the risk-free  
6 rate. (Joint Petitioners' Exhibit No. 7, page 38, lines 8-12.) OVG used the beta  
7 coefficients as reported by Bloomberg and *Value Line*. (*Id.*, lines 14-15; Attachment  
8 AEB-6.) OVG's market risk premium was estimated as the difference between the  
9 implied expected equity market return and the risk-free rate. (*Id.*, page 39, lines 7-8.)

10 **Q: What risk-free rates did OVG use for its CAPM analysis?**

11 A: OVG used three risk-free rates: 4.77%, 4.48%, and 4.10%. (*Id.*, page 38, lines 8-12.)

12 **Q: Do you agree with these risk-free rates?**

13 A: No. A more recent 28-day average yield on 30-year Treasury bonds is 4.39%.  
14 (Attachment LDC-3, page 2, lines 1-5, column 4.) OVG's 4.48% risk-free rate is  
15 slightly higher than the 4.36% risk-free rate that I used. A risk-free rate between 4.10%  
16 and 4.48% is reasonable in this Cause.

17 **Q: What beta coefficients did OVG use?**

18 A: OVG used the Bloomberg and *Value Line* beta coefficients. (Joint Petitioners' Exhibit  
19 No. 7, Attachment AEB-5.) The average of the Bloomberg and *Value Line* beta  
20 coefficients is 0.81. (Attachment LDC-3, page 3, line 7, column 1.)

1 **Q: Do you agree with OVG's use of only the Bloomberg and *Value Line* beta**  
2 **coefficients?**

3 A: No. Using only the Bloomberg and *Value Line* beta coefficients overstates the risk of  
4 the proxy group companies. I used the Bloomberg and *Value Line* beta coefficients, but  
5 I also used the beta coefficients from five additional financial services that utility stock  
6 investors have available. (Attachment LDC-3, page 3.) The combined average beta  
7 from the seven financial services is 0.65. (*Id.*, line 6, column 8.) The 0.65 beta does not  
8 overstate the risk of the proxy group companies compared to the stock market. OVG's  
9 average beta coefficient of 0.81 is too high, overstates the risk, and should not be  
10 accepted by the Commission.

11 **Q: How did OVG estimate the market risk premium?**

12 A: OVG estimated the market risk premium as the difference between the implied  
13 expected equity market return and the risk-free rate. (Joint Petitioners' Exhibit No. 7,  
14 page 39, lines 7-8.) OVG's expected market return was calculated using OVG's  
15 constant growth DCF model as applied to the companies in the S&P 500 index. (*Id.*,  
16 lines 8-10; Attachment AEB-7.) OVG estimates the S&P 500 growth rate as 10.78%  
17 and the market return as 12.56%. (Attachment AEB-7.)

18 **Q: Do you agree with OVG's growth rate of 10.78%?**

19 A: No. The S&P 500 contains hundreds of companies with business and financial risk  
20 characteristics that are not similar to the business and financial risks of the natural gas  
21 proxy group companies. Furthermore, some of the "long-term" growth estimates on the  
22 S&P 500 bear no similarity to the growth estimates of the natural gas proxy group.  
23 (Joint Petitioners' Exhibit No. 7, Attachment AEB-7, column 10.) For example, the  
24 *growth estimates* indicated on Attachment AEB-7, column 10. The Boeing Co. –

1 183.61%; Exxon Mobil – 45.59%; Pfizer – 50.40%; Caesars Entertainment – 110.92%;  
2 Amazon- 86.99%; NVIDIA – 50.82%; Take-Two Software – 58.00%; Warner Bros. –  
3 91.04%; Wynn Resorts – 153.24%; and Discover Financial Services – 56.16%. The  
4 market growth estimates of these companies bear no similarity to the growth rates of  
5 the natural gas proxy group and are so large that they skew the market risk premium  
6 for the S&P 500 index.

7 **Q: Did OVG calculate an estimated market return using the 10.78% growth rate?**

8 A: Yes. OVG uses a dividend yield of 1.69% and adds the estimated growth rate of 10.78%  
9 to derive an estimated market return of 12.56%. (Joint Petitioners' Exhibit No. 7,  
10 Attachment AEB-7.)

11 **Q: Do you agree with OVG's estimated market return of 12.56%?**

12 A: No. As discussed above, the estimated growth rate of 10.78% is unreasonable;  
13 therefore, the estimated market return of 12.56% is also unreasonable.

14 **Q: Does OVG use the estimated market return of 12.56% in the CAPM and**  
15 **ECAPM?**

16 A: Yes. OVG uses the estimated market return, various risk-free rates, and either a  
17 Bloomberg or Value Line beta to derive several CAPM and ECAPM results. (*Id.*,  
18 Attachment AEB-5.)

19 **Q: Do you agree with OVG's CAPM and ECAPM results?**

20 A: No. OVG's CAPM and ECAPM results are overstated because of the inflated growth  
21 rate and incorrect betas. OVG's inflated growth rate of 10.78% results in market risk  
22 premiums between 7.78% and 8.46%. (*Id.*) This inflated estimated growth rate of  
23 10.78% overstates by almost 450 basis points the updated *Value Line* projected growth  
24 rate of 6.30% for the proxy group indicated on Attachment LDC-2, page 2, line 6,  
25 column 5. OVG's inflated projected growth rate on Joint Petitioners' Exhibit No. 7,

1 Attachment AEB-5, also results in market risk premiums between 7.78% and 8.46%,  
2 which are between 228 and 296 basis points higher than the Kroll market risk premium  
3 of 5.5%. (Attachment LDC-4, page 1.)

4 **Q: What is your recommendation regarding OVG's CAPM and ECAPM results?**

5 A: For the reasons discussed above, I recommend the Commission reject OVG's CAPM  
6 and ECAPM results because the results are overstated and unreasonable.

7 **Q: Did OVG discuss small size risk?**

8 A: Yes. OVG discusses small size risk from page 49, line 18 to page 54, line 15 on Joint  
9 Petitioners' Exhibit No. 7. Ultimately, OVG states it is not proposing a specific  
10 adjustment for small size risk. (*Id.*, page 54, line 10.)

11 **Q: Has the Commission addressed the issue of size premium adjustments?**

12 A: Yes. The Commission has found an application of Ibbotson's small company  
13 adjustment can ignore the fact that the risk of regulated utilities is not as great as small  
14 companies:

15 We are familiar with the Ibbotson-derived 400 basis point small  
16 company risk premium used by Mr. Beatty. The rationale behind this  
17 approach is that, all other things being equal, the smaller the company,  
18 the greater the risk. However, to blindly apply this risk premium to  
19 Petitioner is to ignore the fact that Petitioner is a regulated utility. The  
20 risks from small size for a regulated water utility are not as great as those  
21 small companies facing competition in the open market.

22 *In re South Haven Sewer*, Cause No. 40398, Order, pp. 30-31 (Ind. Util. Regul.  
23 Comm'n May 28, 1997.)

24 In the Indiana American Water Company rate case Order in Cause No. 43680,  
25 the Commission similarly recognized that regulated utilities have different risks than  
26 other small companies:

1           The Commission rejects Petitioner's equity size premium adjustment  
2           because it cannot be directly applied to regulated water utilities.  
3           Regulated water utilities do not experience the same risks as other small  
4           companies.

5           *In re Indiana-American Water*, Cause No. 43680, Order, p. 47 (Ind. Util. Regul.  
6           Comm'n Apr. 30, 2010.)

7           The Commission should apply the same rationale by rejecting equity size  
8           adjustments for the natural gas companies it regulates.

#### **XI. OVG'S BOND YIELD PLUS RISK PREMIUM ANALYSIS**

9   **Q: Please describe OVG's Bond Yield Plus Risk Premium ("BYRP") method.**

10 A: OVG uses actual authorized returns for natural gas utilities as the historical measure of  
11 the cost of equity to determine the risk premium. (Joint Petitioners' Exhibit No. 7, page  
12 42, lines 9-10.) OVG calculates an average risk premium of 5.29% based on the  
13 difference between authorized returns and 30-year Treasury yields on a quarterly basis  
14 from 1980 through 2023. (Joint Petitioners' Exhibit No. 7, Attachment AEB-8, column  
15 3, line 178.) OVG next applies a regression formula to produce equity risk premiums  
16 of 5.86%, 5.98%, and 6.15%. (*Id.*, lines 49-52.) OVG then calculates ROE estimates of  
17 10.63%, 10.46%, and 10.25%. (*Id.*)

18 **Q: Do you agree with OVG's BYRP analysis?**

19 A: No. There is no inverse relationship between equity risk premiums and interest rates.  
20 Risk premiums are tied more specifically to the market's perception of the investment  
21 risk of debt and equity securities and not simply to changes in interest rates. OVG bases  
22 its adjustment to the equity risk premium on changes in nominal interest rates. This  
23 faulty approach does not produce reliable risk premium estimates.



**XII. SRC RIDER AND RATE CASE EXPENSES.**

1 **Q: You previously mentioned OVG's COE should be reduced. Please explain.**

2 A: OVG proposes a Rate Decoupling Mechanism ("RDM") through an SRC Rider. As  
3 OUCC witness Dr. Dismukes articulates in his testimony, OVG's SRC will provide  
4 real benefits to OVG and its shareholders by de-risking OVG's revenue recovery while  
5 providing no corresponding benefits for OVG's customers. (Public's Exhibit No. 2,  
6 page 2, lines 21-23.) Dr. Dismukes explains throughout his testimony how OVG's SRC  
7 Rider proposal is one-sided in favor of OVG and its shareholders. Therefore, if the  
8 Commission approves OVG's SRC Rider proposal, and thus, reduces OVG's risk of  
9 revenue recovery, I recommend the Commission reduce OVG's COE to account for  
10 the reduction in risk.

11 **Q: Was there another reason why OVG's COE should be reduced?**

12 A: Yes. OUCC witness Jason Kohlmann testifies that OVG has included \$325,000 of  
13 internal labor costs as part of its proposed rate case expenses. (Public's Exhibit No. 4,  
14 page 16, line 15 – 17.) OVG's internal labor costs are already recovered through the  
15 rates its customers paid. Therefore, it is inappropriate for OVG to request double  
16 recovery of these costs. (*Id.*, page 16, line 20 – page 17, line 6.) Consequently, if the  
17 Commission approves OVG's internal labor costs as part of OVG's rate case expenses  
18 in this Cause, then I recommend OVG's COE be reduced to account for this double  
19 recovery of internal labor costs.

### **XIII. SUMMARY AND RECOMMENDATIONS**

1 **Q: Please summarize your testimony on the DCF calculations for the proxy group.**

2 A: I calculated a 4.51% forward dividend yield for the proxy group. (Attachment LDC-2,  
3 page 1.) I also performed calculations and analyses from which I concluded a 5.47%  
4 DCF growth rate,  $g$ , is reasonable. (*Id.*, page 2.) These estimates were made using  
5 projected growth rates from *Value Line*, Zacks, Yahoo Finance, and MarketWatch, and  
6 economic growth data from the CBO. (*Id.*) My DCF calculation results in a DCF COE  
7 10.0% for the proxy group. (*Id.*, page 1.)

8 **Q: Please summarize your testimony on the CAPM calculations for the proxy group.**

9 A: Based on betas from seven financial services companies, and using the same proxy  
10 group as OVG, I calculated a 0.65 average beta for the proxy group. (Attachment LDC-  
11 3, page 3.) As the beta is less than 1.0, it also describes a relatively low-risk industry. I  
12 calculated a 4.36% risk-free rate based on a 13-week average of 30-Year Treasury  
13 Bonds. (*Id.*, page 2.) I used a 5.74% equity risk premium. (Attachment LDC-6, page  
14 1.) This results in an 8.1% CAPM. (*Id.*, page 1.) I also calculated a CAPM using a  
15 4.36% risk-free rate, an equity risk premium of 5.74%, and a 0.81 beta, which is the  
16 average between the Bloomberg and *Value Line* betas. This results in a 9.0% CAPM  
17 COE for the proxy group. (*Id.*) Therefore, my CAPM results range from 8.1% to 9.0%.

18 **Q: Please summarize your testimony on macroeconomic factors influencing cost of**  
19 **equity.**

20 A: As discussed above, the most important macroeconomic factors influencing cost of  
21 equity are inflation, economic growth, and interest rates. Short-term inflation declined  
22 in 2023, and inflation is forecasted to steadily decline through 2033. GDP increased at

1 a 3.4% annual rate in the fourth quarter of 2023. Interest rates have stabilized and are  
2 not expected to increase in 2024.

3 **Q: Please summarize your recommendation for OVG's COE.**

4 A: I recommend the Commission authorize a 9.00% COE for OVG. I also recommend  
5 OVG's COE be reduced if the Commission grants OVG's proposed SRC Rider and/or  
6 requires OVG's customers pay OVG's \$325,000 of internal labor included in the  
7 proposed rate case expense.

8 **Q: Does this conclude your testimony?**

9 A: Yes.

**APPENDIX LDC-1 TO TESTIMONY OF  
OUCC WITNESS LEJA D. COURTER**

1 **Q: Please describe your educational background and experience.**

2 A: I graduated from Ball State University in Muncie, Indiana, with Bachelor of Science  
3 degrees in Finance and Economics. I received my Juris Doctorate from the University  
4 of Dayton. In previous years, I have been engaged in the private practice of law, and I  
5 also served as an in-house counsel at Indiana Gas Company. I have been an attorney at  
6 the OUCC for over twenty years. I was the Director of the OUCC's Natural Gas  
7 Division for twelve years and became a Chief Technical Advisor in December 2021. I  
8 am a Certified Rate of Return Analyst ("CRRA").

9 **Q: Have you previously testified before the Indiana Utility Regulatory Commission**  
10 **("Commission")?**

11 A: Yes.

12 **Q: Please describe the review and analysis you conducted to prepare your testimony.**

13 A: I reviewed OVG's petition, testimony, exhibits, and supporting documentation  
14 submitted in this Cause. I prepared and reviewed discovery requests and reviewed  
15 OVG's responses. I also reviewed numerous financial reports, articles that discuss  
16 market returns, and the Order in OVG's last base rate case, Cause No. 44891.  
17 Additionally, I reviewed Commission Orders concerning cost of equity issues.

**I. DISCOUNTED CASH FLOW ("DCF") ANALYSIS**

18 A. **Introduction to DCF Model**

19 **Q: Please describe the DCF model.**

20 A: The DCF model is typically used by investors to determine the appropriate price to pay  
21 for a security. This model assumes the price of a security should be determined by its

1 expected cash flows discounted by the company's cost of equity. On a one-year  
2 horizon, the price of a stock ( $P_0$ ) is equal to the anticipated dividends paid during the  
3 year ( $D_1$ ), plus the anticipated price of the stock at the end of the year ( $P_1$ ) divided by  
4 one plus the company's cost of equity ( $k$ ). In turn, this year's year-end price ( $P_1$ ) is  
5 determined by next year's anticipated dividends ( $D_2$ ) and next year's anticipated year-  
6 end price ( $P_2$ ) divided by one plus the company's cost of equity ( $k$ ).

7 Because investors may plan to hold securities for extended periods, the DCF  
8 equation can be restated for an infinite or unknown number of periods as follows:

9 
$$P_0 = D_1/(k-g)$$

10 [Where the price of a security ( $P_0$ ) equals the anticipated dividends paid over the current  
11 period ( $D_1$ ) divided by the company's cost of equity ( $k$ ) minus the expected growth rate  
12 of dividends ( $g$ ].

13 The company's cost of equity must be greater than its expected dividend growth  
14 rate for this model to be valid. By rearranging the model, the familiar DCF formula  
15 used in regulatory proceedings can be obtained.

16 
$$k = (D_1/P_0) + g$$

17 [Where the cost of equity ( $k$ ) equals the forward dividend yield ( $D_1/P_0$ ) plus the  
18 expected growth rate in dividends per share ( $g$ ). To estimate the cost of equity ( $k$ ), the  
19 forward yield ( $D_1/P_0$ ) and the expected growth rate in dividends ( $g$ ) must be estimated.]

20 **B. Dividend yield**

21 **Q: How did you calculate the forward yields ( $D_1/P_0$ ) in your analysis?**

22 A: To calculate a forward yield ( $D_1/P_0$ ), the current yield ( $D_0/P_0$ ) must be calculated first.

23 A company's current yield equals its current annual dividends ( $D_0$ ) divided by its

1 current stock price ( $P_0$ ).

2 **Q: How do you convert current yields ( $D_0/P_0$ ) into forward yields ( $D_1/P_0$ )?**

3 A: I use the following equation to convert a current yield to a forward yield:

4 
$$D_1/P_0 = (D_0/P_0) * (1 + .5g)$$

5 For example, if Company N had a current dividend yield of 4.0% and an expected  
6 growth rate of 2%, I would multiply the 4% current dividend yield by 1 plus 2% or 1.01  
7 (1% is one-half of the 2% expected growth rate). This results in a forward dividend  
8 yield of 4.04%, or an increase of 4 basis points over the current dividend yield.

9 **Q: What dividend yields do you use in your DCF analyses?**

10 A: Attachment LDC-2, page 1, line 6, column 3, contains the average dividend yield for  
11 my proxy group.

12 **C. Dividend growth rate**

13 **Q: How did you estimate the long run dividend growth component (g) of the DCF**  
14 **model?**

15 A: The DCF model assumes investors expect earnings per share (EPS) to grow at the  
16 constant long run growth rate (g). I use forecasted growth rates to calculate the EPS  
17 growth rates.

18 **Q: What is your estimated long run dividend growth component (g) of the DCF**  
19 **model?**

20 A: My estimated growth rate for the proxy group is 5.47%. (Attachment LDC-2, page 1,  
21 line 6, column 4.)

22 **D. DCF Model conclusions**

23 **Q: What do you conclude from your DCF study?**

24 A: The result of my DCF analysis for the proxy group is 10.0%. (Attachment LDC-2,  
25 page 1, line 6, column 6.) My DCF analysis uses forecasted growth rates in EPS.

1 It is based on a review of growth rates, and it is most consistent with prior  
2 Commission decisions on how to estimate a growth rate in a DCF analysis.

## II. CAPITAL ASSET PRICING MODEL (CAPM) ANALYSIS

3 **Q: Please describe your CAPM analysis.**

4 A: The Capital Asset Pricing Model, or CAPM, is a form of risk premium analysis used  
5 to estimate the cost of capital. The CAPM is based on the premise that investors require  
6 a higher return for assuming additional risk. Total risk is divisible into two categories:  
7 systematic risk and unsystematic risk. Systematic risk is risk that affects the entire  
8 market, including inflation, monetary policy, fiscal policy, or politics. Unsystematic  
9 risk is risk unique to the company and may include strikes, management errors, merger  
10 activity, or individual financing policy.

11 Investors can eliminate unsystematic risk through diversification. Because  
12 returns on individual securities of a portfolio do not usually move in the same direction  
13 at the same time, the total risk of a portfolio is less than the risk of the individual  
14 securities that make up the portfolio. The market does not compensate investors for  
15 assuming unsystematic risk because investors can eliminate unsystematic risk through  
16 diversification. Conversely, systematic risk, also referred to as market risk, cannot be  
17 eliminated through diversification. However, because investments will move with  
18 different relationships to the market, investors can form a portfolio to assume the  
19 amount of market risk they wish. An investor's required return depends on the  
20 market risk the investor assumes.

1 **Q: How is systematic (market) risk measured?**

2 A: Beta is the measurement of an investment's relationship to the market. More  
3 specifically, beta measures an asset's price volatility compared to the stock market.  
4 The market has a beta of one. The market refers to the returns on all assets. It is  
5 difficult to measure the return on all assets. Therefore, analysts typically rely on a  
6 market index, such as the Standard & Poor's 500 Index, as a proxy for the market.  
7 Assets more volatile than the market will have a beta greater than one and are, thus,  
8 considered riskier than the market. Assets that are less volatile will have a beta less  
9 than one and are considered less risky than the market.

10 The CAPM formula can be stated as follows:

11 
$$K = R_{fc} + \beta (R_m - R_f)$$

12 where,

13 K Cost of Equity

14  $R_{fc}$  Current Risk-Free Rate of Return

15  $\beta$  Beta

16  $R_m - R_f$  Expected Market Equity Risk Premium

17  $R_m$  Market Equity Return

18  $R_f$  Risk Free Rate of Return

19 The return on an asset (K) equals the risk-free rate of return ( $R_{fc}$ ) plus its beta ( $\beta$ )  
20 multiplied by the market equity risk premium ( $R_m - R_f$ ). The market equity risk  
21 premium equals the market equity return minus the risk-free rate of return.



1 **Q: Is the CAPM controversial?**

2 A: The CAPM is typically more controversial and less reliable than the DCF model.  
3 Different applications of CAPM may result in vastly different cost of equity  
4 estimates. For example, the source of beta can influence the results of a CAPM  
5 analysis. If a market risk premium of 5.0% is used, a difference in beta of only  
6 0.10 changes the results of a CAPM analysis by 50 basis points.

7 The method used to estimate the market risk premium can also be particularly  
8 controversial. A historical risk premium can be calculated, but a decision must be made  
9 between using a geometric mean or an arithmetic mean calculation. This decision is  
10 important because the use of the arithmetic mean can produce results that are over 140  
11 basis points higher than the geometric mean. The geometric mean calculation is  
12 preferable over the arithmetic mean calculation because the geometric mean calculation  
13 more accurately measures the change in wealth over multiple periods. Selecting the  
14 appropriate period to calculate a historical risk premium is not only controversial, it  
15 also dramatically affects the results. When relying on a historical risk premium, the  
16 longest historical period for which accurate historical data exists should be used to  
17 estimate a risk premium.

18 **Q: When calculating a market risk premium, do you use total returns or income**  
19 **returns?**

20 A: I use total returns. Investors who buy long-term bonds (both risk-free and utility  
21 bonds) do not earn just income returns, but total returns. Therefore, a determination  
22 of the risk premium should be based on total returns for both equity and debt  
23 investments when estimating a risk premium. In Indiana American Water  
24 Company's Cause No. 42520, the Commission agreed with the testimony of

1 Intervenor witness Michael Gorman that total returns and not income returns  
2 should be used to estimate an historical risk premium. The Order states:

3 Another area of disagreement in the CAPM analysis is whether the model  
4 should use total returns or income returns. We find Mr. Gorman's analysis  
5 in this area to be most persuasive. The income return on Treasury bonds  
6 is simply the average of Treasury bond yield quotes over the historical  
7 period, and this yield quote does not measure the actual return investors  
8 earn by making investments in Treasury bonds. Investors simply cannot  
9 invest only in Treasury bond income returns. Rather, investors must take  
10 the risk of variations in bond prices before they invest in treasury bonds.  
11 Therefore the actual return experienced by investors in Treasury  
12 securities is measured by total return, not simply the income return.

13 *In re Indiana-American Water Company, Inc.*, Cause No. 42520, Order p. 59 (Ind. Util.  
14 Regul. Comm'n Nov. 18, 2004.)

15 **B. Risk-free rate of return**

16 **Q: Is the risk-free rate of return also controversial?**

17 A: Yes. Aside from the market risk premium controversy, financial analysts do not agree  
18 on the determination of the risk-free rate. Theoretically, the risk-free rate is the rate of  
19 return on a completely risk-free asset. In practice, analysts typically use yields on  
20 United State Treasury securities as a proxy for the risk-free rate.

21 **Q: How did you estimate the risk-free rate?**

22 A: I reviewed 30-year Treasury bonds and used a 13-week period to derive an average 30-  
23 year Treasury rate.

24 **C. Beta.**

25 **Q: What source did you review to estimate beta?**

26 A: I relied on betas from seven financial services companies, which resulted in an average  
27 beta of 0.65 for the proxy group companies. (Attachment LDC-3, page 3.)

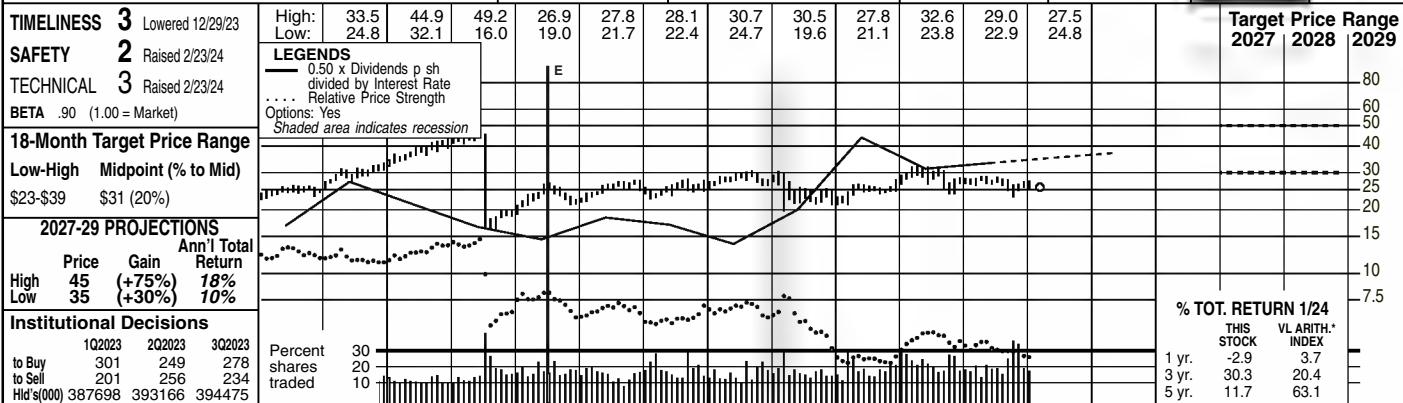
1 **D. Conclusions on CAPM analysis**

2 **Q: Please review the results of your CAPM analysis.**

3 A: The cost of equity based on my CAPM analysis for the proxy group ranges from 8.1%  
4 to 9.0%. I used a risk-free rate of 4.36%, a beta of 0.65, and an equity risk premium of  
5 5.74%. (Attachment LDC-3, page 1.)



**NISOURCE INC.** NYSE-NI **RECENT PRICE 25.63** **P/E RATIO 15.4** (Trailing: 16.3; Median: 21.0) **RELATIVE P/E RATIO 0.89** **DIV'D YLD 4.0%** **VALUE LINE**



2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	© VALUE LINE PUB. LLC	27-29
32.36	24.02	22.99	21.33	16.31	18.04	20.47	14.58	13.90	14.46	13.74	13.63	11.95	12.09	14.23	14.45	14.60	15.05	Revenues per sh	16.10
3.32	2.96	3.19	2.98	3.13	3.41	3.60	2.27	2.71	2.07	2.86	3.17	3.15	3.26	3.47	3.60	3.80	4.80	"Cash Flow" per sh	4.25
1.34	.84	1.06	1.05	1.37	1.57	1.67	.63	1.00	.39	1.30	1.31	1.32	1.37	1.47	1.60	1.70	1.85	Earnings per sh <sup>A</sup>	2.10
.92	.92	.92	.92	.94	.98	1.02	.83	.64	.70	.78	.80	.84	.88	.94	1.00	1.06	1.12	Div'ds Decl'd per sh <sup>B</sup>	1.20
3.54	2.81	2.88	3.99	4.83	5.99	6.42	4.26	4.57	5.03	4.88	4.72	4.49	4.53	6.32	7.95	7.00	6.50	Cap'l Spending per sh	6.75
17.24	17.54	17.63	17.71	17.90	18.77	19.54	12.04	12.60	12.82	13.08	13.36	12.44	13.33	13.14	19.45	20.00	20.50	Book Value per sh <sup>C</sup>	18.75
274.26	276.79	279.30	282.18	310.28	313.68	316.04	319.11	323.16	337.02	372.36	382.14	391.76	404.30	411.10	415.00	425.00	435.00	Common Shs Outst'g <sup>D</sup>	450.00
12.1	14.3	15.3	19.4	17.9	18.9	22.7	37.3	23.2	NMF	19.3	21.3	18.7	18.0	19.6	16.8	16.8	16.8	Avg Ann'l P/E Ratio	19.0
.73	.95	.97	1.22	1.14	1.06	1.19	1.88	1.22	NMF	1.04	1.13	.96	.99	11.8	.97	.97	.97	Relative P/E Ratio	1.05
5.7%	7.6%	5.7%	4.5%	3.8%	3.3%	2.7%	3.5%	2.8%	2.8%	3.1%	2.9%	3.4%	3.6%	3.7%	3.7%	3.7%	3.7%	Avg Ann'l Div'd Yield	3.0%

CAPITAL STRUCTURE as of 9/30/23				2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	27-29	
Total Debt \$13258.0 mill. Due in 5 Yrs \$2355 mill.				6470.6	4651.8	4492.5	4874.6	5114.5	5208.9	4681.7	4899.6	5850.6	6000	6200	6550	6000	6200	6550	6000	6200	6550	6000	6200
LT Debt \$11011.3 mill. LT Interest \$368 mill.				530.7	198.6	328.1	128.6	478.3	549.8	562.6	626.3	648.2	665	725	805	665	725	805	665	725	805	665	725
(Interest cov. earned: 5.8x) (59% of Cap'l)				36.9%	41.6%	35.7%	71.0%	19.7%	17.0%	18.3%	15.7%	17.2%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Leases, Uncapitalized Annual rentals \$8.0 mill.				56.9%	60.7%	59.8%	63.5%	55.3%	56.8%	61.6%	56.9%	55.7%	57.5%	57.5%	57.5%	57.5%	57.5%	57.5%	57.5%	57.5%	57.5%	57.5%	57.5%
Pension Assets-12/22 \$1.4 bill. Oblig. \$1.4 bill.				43.1%	39.3%	40.2%	36.5%	37.9%	36.9%	32.5%	33.5%	31.6%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Pfd Stock \$1547 mill. Pfd Div'd \$55.1 mill.				14331	9792.0	10129	11832	12856	13843	14972	16131	17099	19000	20000	21000	19000	20000	21000	19000	20000	21000	19000	20000
Common Stock 413,415,441 shs.				16017	12112	13068	14360	15543	16912	16620	17882	19843	22500	24500	25750	22500	24500	25750	22500	24500	25750	22500	24500
as of 10/24/23				5.3%	4.0%	5.0%	2.6%	5.1%	5.3%	5.0%	4.9%	3.8%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
MARKET CAP: \$10.6 billion (Large Cap)				8.6%	5.2%	8.1%	3.0%	8.3%	9.2%	9.8%	9.0%	9.3%	8.0%	8.5%	9.0%	9.3%	8.0%	8.5%	9.0%	9.3%	8.0%	8.5%	9.0%
CURRENT POSITION				8.6%	5.2%	8.1%	3.0%	9.6%	9.7%	10.4%	10.6%	12.0%	10.0%	10.5%	11.0%	12.0%	10.0%	10.5%	11.0%	12.0%	10.0%	10.5%	11.0%
2021				3.4%	NMF	3.0%	NMF	4.0%	3.8%	3.8%	4.2%	4.0%	3.5%	4.0%	4.0%	3.5%	4.0%	4.0%	4.0%	3.5%	4.0%	4.0%	4.0%
2022				61%	NMF	63%	NMF	60%	64%	67%	64%	64%	64%	64%	64%	64%	64%	64%	64%	64%	64%	64%	64%
9/30/23				61%	NMF	63%	NMF	60%	64%	67%	64%	64%	64%	64%	64%	64%	64%	64%	64%	64%	64%	64%	64%

**BUSINESS:** NiSource Inc. is a holding company for Northern Indiana Public Service Company (NIPSCO), which supplies electricity and gas to the northern third of Indiana. Customers: 479,185 electric in Indiana, 3,200,000 gas in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland, through its Columbia subsidiaries. Revenue breakdown, 2022: electrical, 31%; gas, 69%; other, less than 1%. Generating sources, coal, 69.4%; purchased & other, 30.6%. 2022 reported depreciation rates: 3.1% electric, 2.3% gas. Has 7,304 employees. Chairman: Richard L. Thompson. President & Chief Executive Officer: Lloyd Yates. Incorporated: Indiana. Address: 801 East 86th Avenue, Merrillville, Indiana 46410. Telephone: 877-647-5990. Internet: www.nisource.com.

**NiSource's stock offers good value to risk-averse income investors.** The natural gas and electric utility company's shares moved sideways in the three months since our November review, as the broader U.S. equity markets pushed on to record highs. Utilities have underperformed as bond yields and growth sectors have drawn investors' attention. Further, inflationary costs and higher interest rates (both of which we think are likely to decrease), have pressured growth, hurting this stock's performance. Yet, these shares have reached a compelling risk-adjusted valuation in comparison to others in the sector. Considering the ongoing transition to renewable energy and building of sustainable energy infrastructure, we see a lot of potential upside to buy-and-hold strategies.

**Blackstone, Inc.'s recent acquisition of a non-controlling stake in NIPSCO, a NiSource subsidiary, points to the value here.** Blackstone's infrastructure unit purchased 19.9% of the electric and gas subsidiary for \$2.16 billion in January. The cash will aid the company's ambitious clean energy transition and decarbonization programs; NIPSCO is planning to phase out its coal-fired power plants by 2028, whereas this sourced 75% of power production as recently as 2018.

**The significant investment required to reach its sustainability goals will be a key driver of growth.** Capital investments amounting to \$16 billion are planned over the next five years, contributing to an expected rate-base increase of 8% to 10% per year, and a 6% to 8% annual increase in earnings per share. Execution on regulatory approvals has been a key strength.

**All told, we expect growth to continue at a moderate pace through the next three to five years.** The utility likely ended 2023 in good form, and earnings per share probably grew roughly 9%. Note: The company was scheduled to report its annual results as we went to press with this Issue. We think earnings are likely to increase by about 7% per year on average, while dividends may grow by 5% annually.

**This issue's Safety rank has risen a notch, to 2 (above average).** Likewise, the risk-adjusted upside is attractive.

*Earl B. Humes* February 23, 2024

(A) Dil. EPS. Excl. gains (losses) on disc. ops.: '08, (\$1.14); '15, (30c); '18, (\$1.48). Next yrs. report due early May. Qtr'y egs. may not sum to total due to rounding.	(B) Div's historically paid in mid-Feb., May, Aug., Nov. ■ Div'd reinv. avail.	(D) In mill.	(E) Spun off Columbia Pipeline Group (7/15)	Company's Financial Strength	B++
	(C) Incl. intang in '22: \$1485.9 million, \$3.61/sh.			Stock's Price Stability	95
				Price Growth Persistence	20
				Earnings Predictability	60









Constant Growth DCF

	1	2	3	4	5	6		
<b>Gas Group Companies:</b>	<b>Annual Dividend *</b>	<b>13-Week Average Stock Price **</b>	<b>Yield</b>	<b>Analysts' Growth Estimates ***</b>	<b>Adjusted Yield</b>	<b>Constant Growth DCF</b>	<b>Price- 52 Week High ***</b>	<b>Price - 52 Week Low ***</b>
1 Atmos Energy Corp. (ATO)	\$3.22	\$114.74	2.81%	7.26%	3.01%	10.27%	\$125.28	\$101.00
2 NiSource Inc. (NI)	\$1.06	\$26.34	4.02%	6.19%	4.27%	10.46%	\$28.95	\$22.86
3 Northwest Natural Gas Co. (NWN)	\$1.95	\$37.23	5.24%	4.09%	5.45%	9.54%	\$49.09	\$34.95
4 ONE Gas Inc. (OGS)	\$2.64	\$61.38	4.30%	4.65%	4.50%	9.15%	\$83.89	\$55.50
5 Spire, Inc.(SR)	\$3.02	\$59.66	5.06%	5.18%	5.32%	10.50%	\$72.07	\$53.77
6 <b>Average</b>	<b>\$2.38</b>	<b>\$59.87</b>	<b>4.29%</b>	<b>5.47%</b>	<b>4.51%</b>	<b>9.99%</b>		

Sources:

\* Value Line Investment Survey - February 23, 2024.

\*\* S&P Capital IQ Pro, April 8, 2024, Attachment LDC-2, page 3.

\*\*\* Attachment LDC-2, page 2.

**DCF Equity Growth Rates  
Analysts Projected EPS Growth Rate Estimates**

	1	2	3	4	5	6
<b>Company</b>	<b>Yahoo Fin.</b>	<b>Zacks</b>	<b>MarketWatch</b>	<b>Value Line</b>	<b>Average</b>	
1 Atmos Energy Corp. (ATO)	7.50%	7.00%	7.53%	7.00%	7.26%	
2 NiSource Inc. (NI)	7.30%	6.00%	1.97%	9.50%	6.19%	
3 Northwest Natural (NWN)	2.80%	N/A	2.96%	6.50%	4.09%	
4 ONE Gas Inc. (OGS)	5.00%	5.00%	4.60%	4.00%	4.65%	
5 Spire Inc. (SR)	6.36%	5.00%	4.87%	4.50%	5.18%	
6 <b>Average</b>	<b>5.79%</b>	<b>5.75%</b>	<b>4.39%</b>	<b>6.30%</b>	<b>5.47%</b>	

7 Average Value Line, Yahoo Finance and Zacks: **5.95%**

Sources: April 8, 2024. See links below.

Yahoo Finance - <https://www.finance.yahoo.com/quote/>

Zacks - <https://www.zacks.com/stock/quote/>

MarketWatch - <https://www.marketwatch.com/>

S&P Capital IQ Pro - <https://www.capitaliq.spglobal.com/web/client?auth=inherit#company/estimateHighlights?ID=40223>

Value Line Investment Survey - February 23, 2024. <https://research.valueline.com/secure/>

13 Week Average Stock Prices

Date	Atmos	NiSource	Northwest	ONE Gas	Spire
4/5/2024	\$116.23	\$27.19	\$36.41	\$63.72	\$59.34
4/4/2024	\$116.13	\$27.17	\$36.75	\$64.07	\$59.90
4/3/2024	\$116.97	\$27.34	\$36.98	\$63.43	\$60.42
4/2/2024	\$117.77	\$27.50	\$36.81	\$63.90	\$61.04
4/1/2024	\$117.85	\$27.48	\$37.12	\$63.62	\$60.95
3/28/2024	\$118.87	\$27.66	\$37.22	\$64.53	\$61.37
3/27/2024	\$118.26	\$27.46	\$36.67	\$63.46	\$60.57
3/26/2024	\$115.25	\$26.97	\$35.60	\$61.83	\$59.53
3/25/2024	\$116.10	\$27.15	\$36.35	\$62.50	\$59.86
3/22/2024	\$116.57	\$27.10	\$35.89	\$62.41	\$59.77
3/21/2024	\$116.83	\$27.10	\$36.49	\$62.97	\$59.66
3/20/2024	\$116.50	\$26.86	\$36.46	\$62.91	\$59.96
3/19/2024	\$115.78	\$26.84	\$36.07	\$62.23	\$59.26
3/18/2024	\$115.41	\$26.65	\$35.89	\$61.99	\$58.88
3/15/2024	\$114.55	\$26.50	\$36.35	\$61.42	\$59.59
3/14/2024	\$114.90	\$26.36	\$36.16	\$61.39	\$59.81
3/13/2024	\$116.23	\$26.65	\$36.96	\$62.24	\$60.41
3/12/2024	\$116.52	\$26.82	\$37.73	\$63.08	\$60.97
3/11/2024	\$117.00	\$27.08	\$38.30	\$63.14	\$61.16
3/8/2024	\$115.82	\$27.01	\$37.70	\$63.13	\$60.70
3/7/2024	\$115.59	\$26.97	\$37.55	\$62.68	\$61.15
3/6/2024	\$115.20	\$26.87	\$37.38	\$61.91	\$60.74
3/5/2024	\$114.46	\$26.59	\$37.20	\$61.47	\$60.74
3/4/2024	\$114.68	\$26.61	\$37.68	\$60.63	\$60.91
3/1/2024	\$112.73	\$26.13	\$36.93	\$59.48	\$59.61
2/29/2024	\$112.91	\$26.06	\$36.74	\$59.60	\$59.32
2/28/2024	\$112.46	\$25.85	\$37.15	\$59.45	\$59.37
2/27/2024	\$112.53	\$26.02	\$36.57	\$59.00	\$59.07
2/26/2024	\$111.62	\$25.71	\$36.60	\$58.33	\$58.53
2/23/2024	\$112.76	\$26.12	\$35.85	\$59.34	\$59.14
2/22/2024	\$114.19	\$26.04	\$39.76	\$60.66	\$59.60
2/21/2024	\$114.69	\$26.25	\$38.87	\$60.39	\$59.73
2/20/2024	\$113.69	\$26.02	\$39.16	\$60.55	\$59.81
2/16/2024	\$113.95	\$25.90	\$36.49	\$60.74	\$59.42
2/15/2024	\$114.27	\$25.97	\$36.06	\$61.38	\$60.03
2/14/2024	\$112.98	\$25.38	\$35.53	\$59.82	\$58.50
2/13/2024	\$111.75	\$25.28	\$35.14	\$59.16	\$57.74
2/12/2024	\$114.00	\$25.63	\$36.62	\$62.45	\$59.34
2/9/2024	\$113.11	\$25.25	\$35.13	\$60.85	\$58.35
2/8/2024	\$112.93	\$25.06	\$35.36	\$60.26	\$58.46
2/7/2024	\$111.93	\$25.09	\$35.62	\$58.76	\$57.86
2/6/2024	\$111.81	\$25.08	\$35.75	\$58.67	\$57.95
2/5/2024	\$111.78	\$25.25	\$35.84	\$58.86	\$58.03
2/2/2024	\$113.77	\$25.60	\$36.94	\$61.27	\$59.00
2/1/2024	\$115.79	\$26.35	\$37.03	\$61.90	\$59.27
1/31/2024	\$113.94	\$25.97	\$36.86	\$61.37	\$56.77
1/30/2024	\$114.51	\$26.12	\$37.70	\$61.47	\$58.03
1/29/2024	\$114.26	\$26.09	\$38.98	\$62.39	\$58.53
1/26/2024	\$113.70	\$25.82	\$38.73	\$61.34	\$58.15
1/25/2024	\$113.92	\$25.56	\$38.99	\$61.23	\$58.83
1/24/2024	\$110.89	\$25.18	\$38.45	\$60.59	\$59.50
1/23/2024	\$112.70	\$25.68	\$39.00	\$61.15	\$60.81
1/22/2024	\$113.14	\$25.59	\$38.77	\$60.30	\$60.17
1/19/2024	\$113.08	\$25.60	\$38.00	\$59.18	\$58.79
1/18/2024	\$112.43	\$25.65	\$37.77	\$58.57	\$58.20
1/17/2024	\$112.74	\$25.94	\$37.71	\$58.86	\$58.41
1/16/2024	\$114.08	\$26.28	\$37.83	\$59.27	\$59.00
1/12/2024	\$115.79	\$26.74	\$38.43	\$60.80	\$60.09
1/11/2024	\$115.39	\$26.50	\$38.31	\$61.03	\$59.84
1/10/2024	\$118.04	\$27.34	\$39.19	\$62.50	\$61.41
1/9/2024	\$118.36	\$27.14	\$39.19	\$63.02	\$61.74
1/8/2024	\$118.85	\$27.29	\$39.63	\$64.53	\$63.06
1/5/2024	\$117.98	\$27.04	\$39.38	\$63.93	\$62.70
<b>Average</b>	<b>\$114.74</b>	<b>\$26.34</b>	<b>\$37.23</b>	<b>\$61.38</b>	<b>\$59.66</b>

Source:  
S&P Capital IQ Pro: April 8, 2024

**CAPM Cost of Equity Summary -- Gas Group**

CAPM Formula:  $K = R_f + b(R_m - R_f)$

<b>Risk Free Rate (<math>R_f</math>)</b>	<b>4.36%</b>
<b>Beta (<math>\beta</math>) - Combined Average</b>	<b>0.65</b>
<b>Equity Risk Premium (<math>R_m - R_f</math>) *</b>	<b>5.74%</b>
<b>Equity Cost Rate</b>	<b>8.09%</b>

Page 2

Page 3

\* Source: Attachment LDC-6, page 1.

**CAPM Cost of Equity Summary -- Gas Group**

CAPM Formula:  $K = R_f + b(R_m - R_f)$

<b>Risk Free Rate (<math>R_f</math>)</b>	<b>4.36%</b>
<b>Beta (<math>\beta</math>) - Combined Average (Value Line and Bloomberg)</b>	<b>0.81</b>
<b>Equity Risk Premium (<math>R_m - R_f</math>) *</b>	<b>5.74%</b>
<b>Equity Cost Rate</b>	<b>9.01%</b>

**Yields on U.S. Treasury Bonds**

	1	2	3	4	
	5 Year Treasury Bonds	10 Year Treasury Bonds	20 Year Treasury Bonds	30 Year Treasury Bonds	
1	4/5/2024	4.38%	4.39%	4.65%	4.54%
2	3/28/2024	4.21%	4.20%	4.45%	4.34%
3	3/22/2024	4.20%	4.22%	4.47%	4.39%
4	3/15/2024	4.33%	4.31%	4.55%	4.43%
5	3/8/2024	4.06%	4.09%	4.36%	4.26%
6	3/01/2024	4.17%	4.19%	4.46%	4.33%
7	2/23/2024	4.28%	4.26%	4.51%	4.37%
8	2/16/2024	4.29%	4.30%	4.58%	4.45%
9	2/9/2024	4.14%	4.17%	4.48%	4.37%
10	2/2/2024	3.99%	4.03%	4.33%	4.22%
11	1/26/2024	4.04%	4.15%	4.49%	4.38%
12	1/19/2024	4.08%	4.15%	4.47%	4.36%
13	1/12/2024	3.84%	3.96%	4.32%	4.20%
14	<b>Average</b>	<b>4.15%</b>	<b>4.19%</b>	<b>4.47%</b>	<b>4.36%</b>

28 Day Average (3/8/24 to 4/5/24)  
4.39%

Source: April 8, 2024: [https://ycharts.com/indicators/5\\_year\\_treasury\\_rate](https://ycharts.com/indicators/5_year_treasury_rate); [https://ycharts.com/indicators/10\\_year\\_treasury\\_rate](https://ycharts.com/indicators/10_year_treasury_rate); [https://ycharts.com/indicators/20\\_year\\_treasury\\_rate](https://ycharts.com/indicators/20_year_treasury_rate); [https://ycharts.com/indicators/30\\_year\\_treasury\\_rate](https://ycharts.com/indicators/30_year_treasury_rate)

**Betas for Proxy Group**

	1	2	3	4	5	6	7	8	
	Value Line*	Bloomberg**	Yahoo Finance	Zacks	MarketWatch	S&P	NYSE	Combined	
1	Atmos Energy Corp. (ATO)	0.85	0.75	0.66	0.66	0.65	0.51	0.66	0.68
2	NiSource Inc. (NI)	0.90	0.81	0.49	0.49	0.75	0.52	0.49	0.64
3	Northwest Natural Gas Co. (NWN)	0.85	0.71	0.56	0.57	0.80	0.45	0.57	0.64
4	ONE Gas Inc. (OGS)	0.85	0.78	0.64	0.65	0.79	0.47	0.65	0.69
5	Spire, Inc. (SR)	0.85	0.77	0.52	0.51	0.73	0.49	0.51	0.63
6	<b>Average</b>	<b>0.86</b>	<b>0.76</b>	<b>0.57</b>	<b>0.58</b>	<b>0.74</b>	<b>0.49</b>	<b>0.58</b>	<b>0.65</b>

7 **Average of Value Line and Bloomberg betas: 0.81**

\* See Attachment LDC-1, pp. 1-5.

\*\* Petitioner's Exhibit No. 7, Attachment AEB-5, CAPM and ECAPM

Date: April 8, 2024

Yahoo Finance - <https://www.finance.yahoo.com/quote/>

Zacks - <https://www.zacks.com/stock/quote/>

MarketWatch - <https://www.marketwatch.com/>

S&P Capital IQ Pro - <https://www.capitaliq.spglobal.com/web/client?auth=inherit#company/estimateHighlights?ID=4022309>

NYSE: <https://www.nyse.com/index>



# Kroll Cost of Capital Recommendations and Potential Upcoming Changes – February 8, 2024 Update

## Executive Summary

Kroll regularly reviews fluctuations in global economic and financial market conditions that may warrant changes to our equity risk premium (ERP) and accompanying risk-free rate recommendations. The risk-free rate and ERP are key inputs used to calculate the cost of equity capital in the context of the Capital Asset Pricing Model (CAPM) and other models used to develop discount rates. We also update country risk data on a quarterly basis for 175+ countries using various models.

The Kroll Recommended U.S. ERP is being reaffirmed at 5.5% when developing USD-denominated discount rates, but it could be lowered in the near future. The Kroll Recommended Eurozone ERP is being reaffirmed in the range of 5.5% to 6.0%, but we believe that a 5.5% ERP (i.e., towards the lower end of the range) is more appropriate when developing EUR-denominated discount rates as of February 5, 2024, and thereafter, until further guidance is issued.

## Cost of Capital Recommendations

### United States

The **Kroll Recommended U.S. ERP remains at 5.5%**. This is matched with the higher of a U.S. normalized risk-free rate of 3.5% or the spot 20-year U.S. Treasury yield as of the valuation date.

Recently, as interest rate uncertainty began to subside and a scenario of soft landing became more plausible, investor confidence has risen. Interest rates have likely peaked, and investors are pricing significant policy rate cuts in 2024. The Federal Reserve (Fed) may ultimately be more conservative about the timing and speed of cuts than investors are anticipating. Nevertheless, in its December 2023 meeting the Fed projected a median reduction in its policy rate of 80 basis points, which boosted investor optimism.

Recently, the S&P 500 and the Dow Jones Industrial Average indices have both reached new record highs, which had not occurred in two years. While markets may still experience high volatility until interest rates settle, continued strength in consumer spending and the job market, coupled with an expected improvement in earnings growth, may lead equity markets in the U.S. to test new highs. This “risk-on” attitude means the equity risk premium is likely to come down, barring a major geopolitical event (e.g. escalation of Middle East conflict) or other unforeseen materially negative events.

### Eurozone (From a German Investor Perspective)

The Kroll Recommended Eurozone ERP remains in the range of 5.5% to 6.0%, to be used in conjunction with the higher of a German normalized risk-free rate of 3.0% or the spot 15-year German government bond yield as of the valuation date.

However, recent inflation readings in the Eurozone have declined at a much faster pace than initially anticipated by economists and the European Central Bank (ECB). In light of these developments, rate cuts are also being contemplated by the ECB in 2024. Long-term inflation expectations have also declined significantly, in both Germany and the overall Eurozone. As a result, it is possible that the Kroll normalized risk-free rate for Germany will be lowered in the near future. In addition, although the Eurozone economy has not been as resilient as in the U.S., real GDP growth in 2023 likely ended in a much better place than originally projected at the beginning of the year. The job market continues to be relatively strong, and economic recovery is expected to continue, albeit at a slow pace in some of the countries within the region (e.g. Germany, Italy, etc.). Benchmark stock indices in some of the countries in the Eurozone have touched new records, like the CAC-40 in France and the DAX in Germany. The STOXX Europe 600 index has been approaching, but not yet reaching, the record high last observed in early 2022.

While the Kroll Recommended Eurozone ERP remains in the range of 5.5% to 6.0%, based on current economic and financial market conditions, we believe that a **5.5% ERP (i.e., towards the lower end of the range) is more appropriate when developing EUR-denominated discount rates as of February 5, 2024, and thereafter, until further guidance is issued.**

Incremental country risk adjustments for other Eurozone countries with a sovereign debt rating below AAA may be appropriate. Please note that this information does not supersede Germany's IDW (Institut der Wirtschaftsprüfer) guidance for projects that will be reviewed by German auditors or regulators.

We will continue to closely monitor the situation and publish new guidance when appropriate.

Please contact our support team with any questions: [costofcapital.support@kroll.com](mailto:costofcapital.support@kroll.com)



# FEDERAL RESERVE press release



For release at 2:00 p.m. EDT

March 20, 2024

Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are moving into better balance. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take

(more)

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into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Michael S. Barr; Raphael W. Bostic; Michelle W. Bowman; Lisa D. Cook; Mary C. Daly; Philip N. Jefferson; Adriana D. Kugler; Loretta J. Mester; and Christopher J. Waller.

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Attachment

For media inquiries, please email [media@frb.gov](mailto:media@frb.gov) or call 202-452-2955.

For release at 2:00 p.m. EDT

March 20, 2024

### **Decisions Regarding Monetary Policy Implementation**

The Federal Reserve has made the following decisions to implement the monetary policy stance announced by the Federal Open Market Committee in its [statement](#) on March 20, 2024:

- The Board of Governors of the Federal Reserve System voted unanimously to maintain the interest rate paid on reserve balances at 5.4 percent, effective March 21, 2024.
- As part of its policy decision, the Federal Open Market Committee voted to direct the Open Market Desk at the Federal Reserve Bank of New York, until instructed otherwise, to execute transactions in the System Open Market Account in accordance with the following domestic policy directive:

"Effective March 21, 2024, the Federal Open Market Committee directs the Desk to:

- Undertake open market operations as necessary to maintain the federal funds rate in a target range of 5-1/4 to 5-1/2 percent.
  - Conduct standing overnight repurchase agreement operations with a minimum bid rate of 5.5 percent and with an aggregate operation limit of \$500 billion.
  - Conduct standing overnight reverse repurchase agreement operations at an offering rate of 5.3 percent and with a per-counterparty limit of \$160 billion per day.
  - Roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing in each calendar month that exceeds a cap of \$60 billion per month. Redeem Treasury coupon securities up to this monthly cap and Treasury bills to the extent that coupon principal payments are less than the monthly cap.
  - Reinvest into agency mortgage-backed securities (MBS) the amount of principal payments from the Federal Reserve's holdings of agency debt and agency MBS received in each calendar month that exceeds a cap of \$35 billion per month.
  - Allow modest deviations from stated amounts for reinvestments, if needed for operational reasons.
  - Engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions."
- In a related action, the Board of Governors of the Federal Reserve System voted unanimously to approve the establishment of the primary credit rate at the existing level of 5.5 percent.

(more)

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This information will be updated as appropriate to reflect decisions of the Federal Open Market Committee or the Board of Governors regarding details of the Federal Reserve's operational tools and approach used to implement monetary policy.

More information regarding open market operations and reinvestments may be found on the Federal Reserve Bank of New York's [website](#).

**Equity Risk Premium - 30-Year Treasury Bonds**

<u>Line</u>	<u>Year</u>		<b>Authorized Nat. Gas Returns<sup>1</sup></b>	<b>30 yr. Treasury Bond Yield<sup>2</sup></b>	<b>Indicated Risk Premium</b>
			(1)	(2)	(3)
1	1986		13.93%	7.80%	6.13%
2	1987		12.99%	8.58%	4.41%
3	1988		12.79%	8.96%	3.83%
4	1989		12.97%	8.45%	4.52%
5	1990		12.70%	8.61%	4.09%
6	1991		12.55%	8.14%	4.41%
7	1992		12.09%	7.67%	4.42%
8	1993		11.41%	6.60%	4.81%
9	1994		11.24%	7.37%	3.87%
10	1995		11.44%	6.88%	4.56%
11	1996		11.12%	6.71%	4.41%
12	1997		11.30%	6.61%	4.69%
13	1998		11.51%	5.58%	5.93%
14	1999		10.74%	5.87%	4.87%
15	2000		11.34%	5.94%	5.40%
16	2001		10.96%	5.49%	5.47%
17	2002		11.17%	5.43%	5.74%
18	2003		10.99%	4.96%	6.03%
19	2004		10.63%	5.04%	5.59%
20	2005		10.41%	4.64%	5.77%
21	2006		10.40%	4.88%	5.52%
22	2007		10.22%	4.84%	5.38%
23	2008		10.39%	4.28%	6.11%
24	2009		10.22%	4.08%	6.14%
25	2010		10.15%	4.25%	5.90%
26	2011		9.91%	3.91%	6.00%
27	2012		9.93%	2.92%	7.01%
28	2013		9.68%	3.45%	6.23%
29	2014		9.78%	3.34%	6.44%
30	2015		9.60%	2.84%	6.76%
31	2016		9.53%	2.59%	6.94%
32	2017		9.73%	2.89%	6.84%
33	2018		9.59%	3.11%	6.48%
34	2019		9.73%	2.58%	7.15%
35	2020		9.47%	1.56%	7.91%
36	2021		9.56%	2.06%	7.50%
37	2022		9.53%	3.11%	6.42%
38	2023		9.60%	4.09%	5.51%
39	<b>Average</b>	1986-2023	<b>10.82%</b>	<b>5.16%</b>	<b>5.66%</b>
40	<b>Minimum</b>				<b>3.83%</b>
41	<b>Maximum</b>				<b>7.91%</b>
42	<b>Average</b>	1989-2023	<b>10.62%</b>	<b>4.88%</b>	<b>5.74%</b>
43	<b>Minimum</b>				<b>3.87%</b>
44	<b>Maximum</b>				<b>7.91%</b>

Sources:

<sup>1</sup> S&P Capital IQ Pro, Rate Case History, Authorized Returns, 1986-2023, April 3-5, 2024  
2011 - 2023 Authorized Returns exclude limited issue rider cases.

<sup>2</sup> St. Louis Federal Reserve: Economic Research, <http://research.stlouisfed.org/>.

The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.  
The U.S. Treasury suspended issuance of the 30-year bond between 2/15/2002 and 2/9/2006.



Document: [li](#) [OUCC Portal - OUCC Direct Te](#) [NiSource Inc. \(NI\) Analyst Rating](#)



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### Growth Estimates

CURRENCY IN USD	NI	Industry	Sector	S&P 500
Current Qtr.	7.80%	--	--	6.80%
Next Qtr.	36.40%	--	--	11.90%
Current Year	6.90%	--	--	5.30%
Next Year	8.20%	--	--	13.10%
Next 5 Years (per annum)	7.30%	--	--	11.06%
Past 5 Years (per annum)	-0.70%	--	--	--

### Research Analysis

Analyst Price Targets

30.05 Average

Analyst Recommendations

17

Strong Buy

Consensus EPS

Earnings

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### Growth Estimates

	SR	Industry	Sector	S&P 500
CURRENCY IN USD				
Current Qtr.	0.50%			6.80%
Next Qtr.	42.90%			11.90%
Current Year	7.40%			5.30%
Next Year	5.30%			13.10%
Next 5 Years (per annum)	6.36%			11.06%
Past 5 Years (per annum)	6.06%			

### Research Analysis

Analyst Price Targets      Analyst Recommendations      Earnings

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## Atmos Energy (ATO)

(Delayed Data from NYSE)

**\$118.64 USD**  
+1.71 (1.46%)

Updated Apr 29, 2024 04:00 PM ET

**Add To Portfolio**

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**Zacks Rank:** 2-Buy

**Style Scores:** Value | Growth | Momentum | **D** VGM

**Industry Rank:** Top 29% (72 out of 251)  
Industry: Utility - Gas Distribution

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### Quote Overview

Stock Activity	Key Earnings Data
Open	Earnings ESP -2.12%
Day Low	Most Accurate Est 2.54
Day High	Current Qtr Est 2.60
52 Wk Low	Current Yr Est 6.59
52 Wk High	Earnings Date *AMC5/8/24
20 Day Avg Vol	Prior Year EPS 6.10
Market Cap	Exp EPS Growth (3-5yr) 7.00%
Dividend	Forward PE 17.99

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**NiSource (NI)**  
(Delayed Data from NYSE)

**\$27.90 USD**  
-0.04 (-0.14%)

Updated Apr 29, 2024 04:00 PM ET

**Add To Portfolio**

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**Zacks Rank:**  3-Hold

**Style Scores:**  Value |  Growth |  Momentum |  VGM

**Industry Rank:** Top 29% (72 out of 251)

Industry: Utility - Electric Power

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**Quote Overview**

Enter Symbol

**Key Earnings Data**

Open	27.86	Earnings ESP	1.24%
Day Low	27.74	Most Accurate Est	0.82
Day High	28.03	Current Qtr Est	0.81
52 Wk Low	22.86	Current Yr Est	1.71
52 Wk High	28.95	Earnings Date	*BMO5/8/24
20 Day Avg Vol	3,743,695	Prior Year EPS	1.60
Market Cap	12.50 B	Exp EPS Growth (3-5yr)	6.00%
Dividend	1.06 (3.80%)	Forward PE	16.32
Beta	0.49	P/E Ratio	9.79

**Stock Activity**

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**Northwest Natural (NWN)**

(Delayed Data from NYSE)

**\$38.23 USD**

-0.09 (-0.24%)

Updated Apr 29, 2024 04:00 PM ET

**Add To Portfolio**

**Zacks Rank:** 4 4-Sell

**Style Scores:**  Value |  Growth |  Momentum |  VGM

**Industry Rank:** Top 20% (72 out of 251)

Industry: Utility - Gas Distribution

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**Quote Overview**

Enter Symbol

**Stock Activity**

Open	38.19	Earnings ESP	-4.13%
Day Low	38.02	Most Accurate Est	1.74
Day High	38.49	Current Qtr Est	1.82
52 Wk Low	34.95	Current Yr Est	2.27
52 Wk High	48.37	Earnings Date	*BMO5/6/24
20 Day Avg Vol	245,016	Prior Year EPS	2.59
Market Cap	1.45 B	Exp EPS Growth (3-5yr)	NA
Dividend	1.95 (5.10%)	Forward PE	16.84
Beta	0.57		

**Key Earnings Data**

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### Spire (SR)

(Delayed Data from NYSE)

**\$61.61 USD**  
+0.21 (0.34%)

Updated Apr 29, 2024 04:00 PM ET

**Add To Portfolio**

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**Zacks Rank:** **2** **2-Buy**

**Style Scores:** **C** Value | **F** Growth | **C** Momentum | **D** VGM

**Industry Rank:** **1** Top 29% (72 out of 251)

Industry: Utility - Gas Distribution

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### Quote Overview

Enter Symbol

Stock Activity		Key Earnings Data	
Open	61.63	Earnings ESP	-0.52%
Day Low	61.50	Most Accurate Est	3.84
Day High	62.01	Current Qtr Est	3.86
52 Wk Low	53.77	Current Yr Est	4.34
52 Wk High	69.99	Earnings Date	*BMO5/1/24
20 Day Avg Vol	339,863	Prior Year EPS	4.05
Market Cap	3.39 B	Exp EPS Growth (3-5yr)	5.00%
Dividend	3.02 (4.90%)	Forward PE	14.19
Payout Ratio	0.51	PER Ratio	0.04

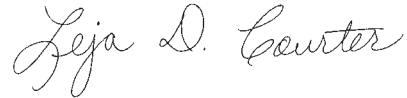
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**Ascension Imaging Jobs**

61°F Mostly cloudy

**AFFIRMATION**

I affirm, under the penalties for perjury, that the foregoing representations are true.



---

Leja D. Courter  
Chief Technical Advisor  
Indiana Office of Utility Consumer  
Counselor  
Cause No. 46011  
Ohio Valley Gas Corp., Inc.

05-15-2024

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Date

**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing has been served upon the following parties of record in the captioned proceeding by electronic service on May 15, 2024.

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