

Missouri Public Service Commission

Respond Data Request

Data Request No.	0461
Company Name	Office of the Public Counsel-(All)
Case/Tracking No.	ER-2022-0130
Date Requested	6/13/2022
Issue	Rate of Return - Cost of Capital (Equity/Debt)
Requested From	David Murray
Requested By	Nicole Mers
Brief Description	Premium of Utility Stock
Description	On page 10, line 5, Mr. Murray stated that despite the recent increase in interest rates, investors are continuing to place a premium on utility stocks. (1) Please explain the step-by-step reasoning of the statement without any logical jumps. (2) Please provide objective evidence of the statement if there is any. (3) Please supporting workpaper of the statement in an executable Microsoft Excel file format. Requested by: Seoung Joun Won (Seoungjoun.won@psc.mo.gov)
Response	(1) Mr. Murray analyzed the utility industry's P/E ratios since interest rates started to increase in early 2022. As shown in Mr. Murray's charts on pages 9, 10 and 12 of his direct testimony, not only did utility P/E ratios not decline as interest rates increased, but they increased. This occurred at the same time the S&P 500's P/E ratios declined as interest rates increased. This caused the utility industry's P/E ratios to trade above (at a premium to) the S&P 500 P/E ratios. Please see the investment community articles discussed in Mr. Murray's testimony, which are being provided in response Staff Data Request No. 457. (2) Mr. Murray reported market data for purposes of his analysis of changes in the electric utility industry's equity valuation levels. This information is discussed and reported throughout Mr. Murray's testimony and supported by his schedules and workpapers. Mr. Murray's analysis and conclusions are corroborated by equity analysts' research reports and recent articles published in the Wall Street Journal, which were provided in response to Staff Data Request No. 457 (3) OPC provided all parties his workpapers, including the Excel version of his schedules, on June 13, 2022.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **ER-2022-0130** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Office of the Public Counsel-(All)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Office of the Public Counsel-(All)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security : Public

Rationale :

NA

Missouri Public Service Commission

Respond Data Request

Data Request No.	0463
Company Name	Office of the Public Counsel-(All)
Case/Tracking No.	ER-2022-0130
Date Requested	6/13/2022
Issue	Rate of Return - Cost of Capital (Equity/Debt)
Requested From	David Murray
Requested By	Nicole Mers
Brief Description	Procedure for Recommended ROE
Description	On page 30, lines 22-23, Mr. Murray stated that 8.5% to 9.5% would be justified with 9% being reasonable for MO West and Metro to attract capital. (1) Please provide exact estimation procedures to get numbers in the statement if there is any. (2) Please provide supporting workpaper showing the calculation procedure of (1) in an executable Microsoft Excel file format. Requested by: Seoung Joun Won (Seoungjoun.won@psc.mo.gov)
Response	(1) Mr. Murray explains in his testimony that electric utility P/E ratios are quite similar to their levels prior to the onset of Covid-19. Because the Commission determined a 9.25% awarded ROE was reasonable based on those market conditions, Mr. Murray considers such an ROE as more than reasonable to attract capital based on similar market conditions. Mr. Murray recognizes that in general, bond yields have increased, which supports an ROE higher than a 9.25% ROE, but because utility P/E ratios have consistently been higher than they were in 2015, this does not support an authorized ROE higher than 9.5%, which was the Commission's determination of a fair and reasonable authorized ROE for Evergy Metro at that time. Mr. Murray is not aware of any mechanical calculation procedures for purposes of first, estimating the COE, and second, how much of a premium, if any, should be allowed over the COE. Regulatory practice has shown that determining a fair and reasonable authorized ROE requires informed judgment, with consideration for cost of equity, authorized returns on equity, and legal principles (Hope and Bluefield). A margin over the COE may be logical in certain economic conditions (expansionary economic periods), but not in other economic conditions (recessionary periods). (2) Not applicable.
Objections	NA

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Security : Public
Rationale : NA

Missouri Public Service Commission

Respond Data Request

Data Request No. 0471
Company Name Office of the Public Counsel-(All)
Case/Tracking No. ER-2022-0130
Date Requested 6/17/2022
Issue Rate of Return - Cost of Capital (Equity/Debt)
Requested From David Murray
Requested By Nicole Mers
Brief Description Investors Expectation on Allowed ROEs
Description On page 30, lines 18-23, Mr. Murray stated when he recommends an ROE of 9%, he considers investor expectations on allowed ROEs. (1) Please provide a list of citations showing what Mr. Murray relied on to determine investor expectations on allowed ROEs. (2) Please provide the page and line numbers explaining how investor expectations on allowed ROEs are considered in Mr. Murray's direct testimony. (3) Please provide Mr. Murray's estimate of "investor expectations on allowed ROEs" and the allowed ROE expected by investors, including any and all citations for source data and calculations. Also, please provide how this was used in Mr. Murray's recommendation of 9%. (4) Please explain how the investor expectations on allowed ROEs impact Mr. Murray's recommended ROE of 9%. (5) Please provide supporting workpapers of the 9% calculation in an executable Microsoft Excel file format. Requested by: Seoung Joun Won (Seoungjoun.won@psc.mo.gov)

Response This Data Request requests specific citations for Mr. Murray's testimony as it relates to information he discusses generally from his regular review of investor communications. Mr. Murray does not keep a library of all such research. Mr. Murray is attaching examples of several research reports he reviewed recently that corroborate Mr. Murray's testimony. (1) Mr. Murray regularly reviews equity research reports providing investors' expectations of potential changes to the average level of authorized ROEs. Although Mr. Murray cannot cite to all of the research reports he has reviewed, a couple of examples of equity valuation methods that incorporate a terminal awarded average ROE assumptions are discussed in the reports Mr. Murray cited in footnote 15 (provided in response to Staff Data Request No. 457). These two reports' base case scenarios assume terminal authorized ROEs of 9% and 9.25%. However, as Mr. Murray notes on p. 15, lines 20-22 of his direct testimony, some analysts have recently commented that recent increases in interest rates may justify higher authorized ROEs based on an historical regression of interest rates and awarded ROEs (see the report, "Q1'22 Earnings Preview," UBS Equity, April 19, 2022). (2) The high end of Mr. Murray's recommended ROE range contemplates the recent increases in interest rates and some equity analysts believing this may influence a fair and reasonable ROE, whereas Mr. Murray's recommended ROE of 9% recognizes the fact that utility stock valuation levels have increased despite recent increases in interest rates (which contradicts the historical inverse relationship of utility valuation levels and interest rates), as well as a reduction to Evergy Missouri West's and Evergy Metro's business-specific risk due to investor-friendly law changes in Missouri (e.g. PISA and securitization). In addition, despite the typical long-term inverse relationship between the utility industry's valuation levels and interest rates, some investment analysts view authorized ROEs at risk due to inflationary cost pressures on other aspects of utilities' cost of service, such as the cost of energy. (3) Please see Mr. Murray's answers to (1) and (2). (4) Please see Mr. Murray's answers to (1) and (2). (5) Mr. Murray's recommended ROE of 9% is not the

result of a mechanical calculation. It is the result of Mr. Murray's determination that the electric utility industry's COE is still lower than authorized ROEs and lower than the period in which the Commission first determined a 9.5% ROE was fair and reasonable for Evergy Metro. Please see Mr. Murray's testimony, schedules and workpapers for his analysis and explanation as to why a 9% authorized ROE is fair and reasonable.

Objections

NA

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