

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company)
d/b/a Nicor Gas Company)
) Docket No. 17-0124
Proposed general increase in gas rates.)

Supplemental Rebuttal Testimony of

BENTE VILLADSEN, PH.D

Principal, The Brattle Group

On behalf of Northern Illinois Gas Company
d/b/a Nicor Gas Company

November 28, 2017

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1 **I. INTRODUCTION**

2 **Q. Will you please state your name and business address?**

3 A. My name is Bente Villadsen and I am a Principal of The Brattle Group, whose business
4 address is One Beacon St., Suite 2600, Boston, Massachusetts 02108.

5 **Q. Are you the same Bente Villadsen who provided direct, rebuttal, surrebuttal, and
6 supplemental testimony in this proceeding?**

7 A. Yes. I provided direct testimony filed March 10, 2017,¹ rebuttal testimony filed July 24,
8 2017,² surrebuttal testimony filed on August 30, 2017,³ and supplemental testimony on
9 November 15, 2017⁴ on behalf of Northern Illinois Gas Company d/b/a Nicor Gas
10 Company (“Nicor Gas” or the “Company”) in Docket No. 17-0124 before the Illinois
11 Commerce Commission (“ICC” or the “Commission”).

12 **Q. What is the purpose of this supplemental rebuttal testimony?**

13 A. The purpose of this testimony is to respond to the supplemental testimony of Michael P.
14 Gorman, filed November 22, 2017.⁵ Specifically, I summarize my prior testimony
15 regarding (1) the appropriateness of my recommendations regarding Nicor Gas’ cost of
16 capital (initially presented in my direct testimony and further supported in my rebuttal
17 and surrebuttal testimony) and (2) the reasonableness of the stipulation entered into by
18 Nicor Gas and Staff (as articulated in my November 15 supplemental testimony). I then

¹ Nicor Gas Ex. 11.0.

² Nicor Gas Ex. 25.0.

³ Nicor Gas Ex. 37.0.

⁴ Nicor Gas Ex. 39.0R.

⁵ IIEC/CUB Ex. 5.0. Note that Mr. Gorman refers to this as his “Supplemental Rebuttal Testimony.”

19 comment on Mr. Gorman's objections to the stipulation as laid out in IIEC/CUB Ex. 5.0.
20 The majority of Mr. Gorman's supplemental testimony consists of reiterations of flawed
21 or irrelevant arguments previously made by Mr. Gorman in his direct and rebuttal
22 testimonies, all of which I previously rebutted in my rebuttal and surrebuttal testimonies.
23 Since Mr. Gorman merely recycles these arguments without addressing my rebuttals or
24 offering any new evidence, I respond primarily with reference to my earlier testimony.

25 **II. THE STIPULATION AND MR. GORMAN'S CRITIQUE THEREOF**

26 **Q. Please summarize the stipulated ROR for Nicor Gas.**

27 **A.** In the Stipulation, Nicor Gas and Staff have agreed that:

28 Based upon the totality of the evidence in the record concerning Nicor Gas'
29 2018 Test Year ROR, Nicor Gas and Staff stipulate that an overall ROR of
30 7.256% is reasonable⁶

31 The ROR of 7.256% uses as a component an ROE of 9.8%, which falls within the
32 range established by the IIEC/CUB and Nicor Gas recommendations, as well as within
33 the range established by averaging the three ROE proposals and the proposals of Staff
34 and Nicor Gas.⁷ Further, the stipulated ROE is within the range of ROE estimates I
35 obtained and considered based on my direct testimony applications of standard cost of
36 capital models,⁸ and the stipulated ROR falls within a reasonable range observed for

⁶ Nicor Gas Ex. 39.1, p. 4.

⁷ Nicor Gas Ex. 39.1, p. 4.

⁸ Villadsen Dir., Nicor Gas Ex. 11.0 at 63 (Figure 19).

37 regulated natural gas utilities in the recent past,⁹ which is conservative given present
38 conditions of rising interest rates and cost of capital.

39 **Q. What is your overall view of the approach adopted in the Stipulation of considering**
40 **capital structure and rate of return evidence presented by all parties?**

41 A. In my opinion, 10.7% ROE (inclusive of approximately 10 bps for flotation cost
42 recovery) remains the best estimate of Nicor Gas' cost of equity, as it reflects the required
43 rate of return on investments of equivalent risk estimated using multiple established
44 models. My 10.7% recommended ROE places Nicor Gas at the high end of the
45 reasonable range of model results appropriate for a natural gas utility with a level of
46 financial risk inherent in Nicor Gas' regulatory capital structure.¹⁰ This placement
47 appropriately reflects Nicor Gas' demonstrated higher business risk—as measured by its
48 elevated degree of operating leverage due to its higher past and expected future capital
49 expenditures—relative to the sample of publicly traded natural gas utilities used to derive
50 the CAPM and DCF model results.¹¹

51 However, notwithstanding the extensive evidence demonstrating the
52 appropriateness of my analysis and recommendation, the Stipulation presented by Nicor
53 Gas and Staff does, in my opinion, constitute a reasonable approach to weighing the cost
54 of equity calculations and recommendations of all the witnesses that a regulator
55 reviewing the evidence might adopt. Additionally, while the stipulated ROE of 9.8% is

⁹ Villadsen Supp., Nicor Gas Ex. 39.0R. *See also* Villadsen Reb., Nicor Gas Ex. 25.0, 3:43-50 and Nicor Gas Ex. 25.1, especially page 1.

¹⁰ *See, e.g.*, Villadsen Dir., Nicor Gas Ex. 11.0, 63:1041-1043.

¹¹ *See, e.g.*, Villadsen Dir., Nicor Gas Ex. 11.0, 54:927 – 60:1000; 63:1043-1050. *See also* Villadsen Reb., Nicor Gas Ex. 25.0, 40:720 – 42:773 and Nicor Gas Ex. 25.4.

56 somewhat below the 10¹/₄ - 10³/₄ percent range I find reasonable for a natural gas utility
57 with Nicor Gas' regulatory capital structure, it nevertheless falls within the range (albeit
58 at the low end) of ROE estimates I obtained and considered based on my direct testimony
59 applications of standard cost of capital models.¹² Further, the stipulated ROR falls within
60 a reasonable range observed for regulated natural gas utilities in the recent past,¹³ which
61 is conservative given present conditions of rising interest rates and cost of capital.

62 As such, while I continue to believe that my recommendations are the most
63 reasonable and appropriate, I consider the Stipulation to represent a reasonable alternative
64 approach incorporating information from all parties' cost of equity analyses. I also view
65 it as consistent with Commission precedent.

66 **Q. What is your view on the ROE reflected in the Stipulation and Mr. Gorman's**
67 **criticisms thereof?**

68 A. As stated above, I consider the stipulated ROE of 9.8% to be towards the low end of what
69 is reasonable for Nicor Gas. However, the 9.8% (i) is part of an agreement that considers
70 other aspects of the rate case and produces a reasonable overall allowed ROR, (ii) is in
71 the range of what has been recommended, and (iii) recognizes that the Commission in
72 past decisions has relied on various methods to arrive at an allowed ROE by aggregating
73 the evidence presented.

74 In short, the 9.8% recommended in the Stipulation represents a reasonable
75 compromise. It is not an outlier as Mr. Gorman seems to suggest. Indeed, the only

¹² Villadsen Dir., Nicor Gas Ex. 11.0, p. 63 (Figure 19).

¹³ Villadsen Supp., Nicor Gas Ex. 39.0R. *See also* Villadsen Reb., Nicor Gas Ex. 25.0, 3:43-50 and Nicor Gas Ex. 25.1, especially page 1.

76 outlier here is Mr. Gorman's unsupported argument that **only** his 9.15% ROE
77 recommendation deserves consideration. To the contrary, Mr. Gorman's
78 recommendation is demonstrably low relative to industry standards and is based on an
79 approach that is inconsistent with Mr. Gorman's own past practice when estimating the
80 cost of capital.¹⁴

81 **Q. Please summarize Mr. Gorman's approach to attacking the ROE reflected in the**
82 **Stipulation.**

83 A. Mr. Gorman's attempts to discredit the Stipulation center on his unsupported insinuation
84 that Nicor Gas, in anticipation that the Commission might rely on "some type of
85 averaging methodology [...] to determine an awarded ROE in this case," offered "an
86 inflated ROE recommendation in order to manipulate a resulting average ROE."¹⁵ That
87 claim is untrue and has no place in this proceeding. My recommendation is based on
88 sound finance principles and rigorous analysis, and my testimony in this proceeding
89 thoroughly explains how and why I reached the conclusions that I did. Directing such an
90 insinuation at Nicor Gas is no more justified than would be the obverse insinuation that
91 other witnesses suppressed their recommendation in the hope of pulling down an eventual
92 average. Mr. Gorman's unsupported statements also call into questions the prior
93 Commission decisions, which did not merely compute averages but rather considered the
94 perspectives of multiple witnesses (that the Commission deemed qualified) based on their
95 qualifications, work, and results.

¹⁴ Villadsen Reb., Nicor Gas Ex. 25.0, 3:41 – 4:52; 67:1202 – 69:1233; Villadsen Sur., Nicor Gas Ex. 37.0, Section III.

¹⁵ Gorman Supp. Reb., IIEC/CUB Ex. 5.0, 5:82-86.

96 Mr. Gorman utterly fails to justify his accusation, as his assertion that my
97 recommendation is “inflated” is based entirely on reiterated flawed criticisms of my
98 analysis that I have previously rebutted¹⁶ and for which he has offered no new support.
99 Indeed Mr. Gorman made no claims that I used methods other than what I commonly use
100 in state regulatory proceedings. Mr. Gorman nevertheless raises irrelevant comparisons
101 to previous Nicor Gas rate cases from 2008 and 2004—cases which are over a decade old
102 and are not even among those cited in support of the Stipulation. Finally, he makes an
103 unsupported claim that the support for the ROE laid out in the Stipulation is somehow
104 inconsistent with precedential cases exemplifying the Commission’s past practice of
105 explicitly considering model results presented by various parties.¹⁷

106 **Q. How is the remainder of your supplemental rebuttal testimony structured?**

107 A. First (in Section III), I address Mr. Gorman’s recycled criticisms of my ROE
108 recommendation. In doing so, I both direct the Commission to my comprehensive
109 rebuttals of Mr. Gorman’s flawed arguments in my prior testimony and explain why
110 Mr. Gorman’s position is especially problematic in context of his opposition to the
111 Stipulation. Second (in Section IV), I explain why Mr. Gorman’s view of Commission
112 precedent is misguided. Specifically, I explain that Mr. Gorman’s comparison of my cost
113 of capital estimation to that employed in Nicor Gas’ past rate cases is irrelevant, noting
114 especially that while my theoretically and technically sound analysis in this case is
115 consistent with *my own* past practice, the same cannot be said of Mr. Gorman’s approach
116 in this case. I also summarize why, contrary to Mr. Gorman’s narrow interpretation, the

¹⁶ Gorman Supp. Reb., IIEC/CUB Ex. 5.0, 5:65-78.

¹⁷ Gorman Supp. Reb., IIEC/CUB Ex. 5.0, 11:200 – 14:263.

117 stipulated ROE is indeed consistent with the Commission's past practice in determining a
118 reasonably allowed ROE.

119 **III. MR. GORMAN'S RECYCLED CRITICISMS OF MY ROE**
120 **RECOMMENDATION ARE WITHOUT MERIT**

121 **Q. What is Mr. Gorman's critique of your ROE recommendation?**

122 A. Mr. Gorman essentially re-iterates his prior criticisms of my testimony in this case,
123 focusing on (1) the inclusion of a risk premium model, (2) the consideration of financial
124 risk, (3) the consideration of results from the ECAPM, and (4) the fact that the final
125 recommendation (albeit not the results relied upon in the Stipulation) includes 10 basis
126 points for flotation costs. In context of his opposition to the Stipulation, Mr. Gorman's
127 primary claim is that the Commission has not explicitly endorsed certain specific models
128 and techniques.¹⁸

129 **Q. Does Mr. Gorman's critique have merit?**

130 A. No. First and foremost, I observe that the Commission, in past orders, has engaged in a
131 comprehensive consideration of the evidence and exercised its judgement as to what to
132 consider. The Commission has explicitly acknowledged that it may rely on estimates that
133 were derived from models or methods that deviate from what the Commission has done
134 in the past.¹⁹ For example, in Order 14-0319, the Commission included a size adjustment
135 in the data considered, but not a liquidity adjustment—decisions that were consistent with

¹⁸ Gorman Supp. Reb., IIEC/CUB Ex. 5.0, 5:65-78.

¹⁹ *Aqua Illinois, Inc. Proposed General Increase in Water Rates for the Kankakee Service Area*, ICC Docket No. 14-0419 (Order, March 25, 2015) at pp. 44-49.

136 the particular circumstances of that case.²⁰ Second, as noted in my rebuttal testimony and
137 above, Mr. Gorman commonly relies on a risk premium model²¹ as did estimates relied
138 upon by the Commission in Order 16-0093.²² Third, Mr. Gorman not only misconstrues
139 and mischaracterizes the *multiple* fundamentally sound and broadly applied techniques I
140 employ to account for financial risk,²³ but also ignores that the ROEs awarded by the
141 Commission in Order 16-0093 and Order 14-0419 were determined based on holistic
142 consideration of results including those obtained using just such financial leverage
143 adjustment techniques.²⁴ Fourth, Mr. Gorman's criticism of the flotation cost has no
144 bearing on the reasonableness of the stipulated ROE for the same reasons discussed in
145 point one above. I expand on each of these points below.

146 **Q. You note that Mr. Gorman objects to the inclusion of a risk premium**
147 **methodology.²⁵ How do you respond?**

148 A. I have two comments. First, for the purpose of evaluating the reasonableness of the
149 stipulation's ROE of 9.8%, the Commission has in past decisions relied on
150 recommendations derived in part from a variety of methods; including risk premium
151 models. Second, I am a bit puzzled about Mr. Gorman's objection to the use of a risk

²⁰ *Id.* at 44 and 46.

²¹ Villadsen Reb., Nicor Gas Ex. 25.0 at 66, fn. 134; 67:1202 – 69:1234.

²² *Illinois-American Water Company Proposed Rate Increases for Water and Sewer Service*, ICC Docket No. 16-0093 (Order, December 13, 2016) at pp. 49-50 and p. 66.

²³ See Villadsen Reb., Nicor Gas Ex. 25.0, 26:446-456.

²⁴ *Illinois-American Water Company Proposed Rate Increases for Water and Sewer Service*, ICC Docket No. 16-0093 (Order, December 13, 2016) at p. 49 and p. 66; *Aqua Illinois, Inc. Proposed General Increase in Water Rates for the Kankakee Service Area*, ICC Docket No. 14-0419 (Order, March 25, 2015) at p. 32, and pp. 45-46.

²⁵ Gorman Supp. Reb., IIEC/CUB Ex. 5.0, 5:72-74.

152 premium methodology like that which I employed, given that it is a method that
153 Mr. Gorman himself consistently relies upon. For example, Mr. Gorman filed risk
154 premium testimony in many instances during the period immediately before and after he
155 filed his Nicor Gas Testimony.²⁶ In the same month as Mr. Gorman filed his testimony in
156 the Nicor Gas matter, Mr. Gorman also filed testimony in at least Oregon and Texas
157 regarding the return on equity. These testimonies all included a risk premium
158 methodology and in each instance, Mr. Gorman found his risk premium analysis to
159 support a ROE higher than what his DCF and CAPM models supported.

160 **Q. Can you quantify the impact of Mr. Gorman ignoring his standard risk premium**
161 **approach in the Nicor Gas matter?**

162 A. Yes. As I noted in my rebuttal testimony, Mr. Gorman found his risk premium estimates
163 to be 0.40% to 0.70% higher than his CAPM or DCF results in an Oregon electric
164 matter.²⁷ This matter was filed two weeks prior to Mr. Gorman's Nicor Gas testimony.
165 Similarly, in the Texas matter, which was filed one week prior to the Nicor Gas matter,
166 Mr. Gorman found his risk premium model resulted in estimates that were 0.25% to
167 0.60% higher than the CAPM and DCF estimates.²⁸ After not implementing a risk
168 premium model in the Nicor Gas matter, Mr. Gorman returned to using the risk premium
169 model in, for example, a matter before the Regulatory Commission of Alaska, where he
170 again found a higher ROE based on his risk premium model than based on his CAPM or
171 DCF. In this case, the midpoint of his risk premium estimates were 0.33% and 0.66%

²⁶ IIEC/CUB Ex. 1.0 was filed on June 28, 2017.

²⁷ Villadsen Reb., Nicor Gas Ex. 25.0 at 66, fn. 134.

²⁸ Direct Testimony of Michael P. Gorman before the Public Utility Commission of Texas in SOAH Docket No. 473-17-2686, PUC Docket No. 46831, p. 54.

172 higher than his midpoint CAPM and DCF estimates, respectively.²⁹ The proceedings in
173 which Mr. Gorman testified immediately prior and subsequent to the Nicor Gas matter
174 focus on electric utility cost of capital, but in a 2017 testimony in a gas utility matter, Mr.
175 Gorman similarly relied on the risk premium model.

176 Clearly, Mr. Gorman's failure to implement the risk premium method in the Nicor
177 Gas matter downwardly biases his results. Meanwhile, in other recent Gorman
178 testimony, his use of the risk premium model resulted in estimates that were 0.25% -
179 0.40% above the CAPM estimates and 0.33% - 0.70% above the DCF method.

180 **Q. What about Mr. Gorman's criticism of your consideration of ECAPM estimates?**

181 A. The appropriateness of employing the ECAPM—which Mr. Gorman erroneously argues
182 is redundant with use of the Blume-adjusted betas reported by *Value Line*—was
183 addressed at length in my surrebuttal testimony, which cited specific academic literature
184 contradicting Mr. Gorman's arguments.³⁰ Yet, Mr. Gorman's supplemental testimony
185 does not acknowledge or address, much less raise any issues with, the cited materials.
186 Nor does he present any new arguments or evidence for his position. His criticism should
187 therefore be ignored.

188 **Q. Is the same true of Mr. Gorman's comments regarding financial risk adjustments?**

189 A. Yes. The objections articulated in Mr. Gorman's supplemental testimony are (i) a rehash
190 of his prior flawed arguments coupled with a reference to a mischaracterization of my

²⁹ Estimates from Appendix B to Direct Testimony of Michael P. Gorman for Federal Executive Agencies before the Regulatory Commission of Alaska in Docket No. U-16-094 and U-17-008, p. 33.

³⁰ Villadsen Sur., Nicor Gas Ex. 37.0, 38:699 – 40:744.

191 techniques in Staff’s Initial Brief,³¹ and (ii) an utterly false and totally unsupported
192 assertion that the well-established and standard methodologies I employ for this purpose
193 are somehow “new” and not “supported by credible interpretation of academic methods
194 of measuring a market based ROE estimate.”³²

195 The latter claim has no merit. To the contrary, as exhaustively documented in my
196 rebuttal and surrebuttal testimonies, my implementation of standard industry techniques
197 for unlevering and relevering betas and market-measured ROEs are (i) based on long-
198 established fundamental principles of academic finance, (ii) universally taught in seminal
199 corporate finance textbooks and ubiquitously employed by industry practitioners and off-
200 the-shelf data providers, and (iii) consistent with common sense about how financial
201 leverage influences the risk of an equity investment.³³

202 Despite the fact that I addressed and rebutted his flawed arguments point by point
203 in the surrebuttal round, Mr. Gorman’s supplemental testimony makes no attempt to
204 engage with my prior testimony on this issue. To take just one example, my surrebuttal
205 pointed out that the CFA curriculum Mr. Gorman cited in his rebuttal testimony in fact
206 espouses a definition of (and adjustment for) financial risk using a unlevering and
207 relevering approach consistent with my own.³⁴ While asserting that my techniques lack
208 academic credibility, Mr. Gorman does not even attempt to address the documentation

³¹ Gorman Supp. Reb., IIEC/CUB Ex 5.0, 7:118-127; 12:219-230.

³² Gorman Supp. Reb., IIEC/CUB Ex 5.0, 6:91-94; 13:253-255.

³³ Villadsen Reb., Nicor Gas Ex. 25.0, Section V and Villadsen Sur., Nicor Gas Ex. 37.0, Section V.

³⁴ Villadsen Sur., Nicor Gas Ex. 37.0, 21:377 – 22:396.

209 contained in the record that his *own* source—from an organization in which he claims
210 membership³⁵—directly supports my methodology and directly contradicts his position.

211 **Q. Does Mr. Gorman make any substantive criticism of the Hamada adjustment for**
212 **unlevering and relevering beta?**

213 A. No. As was the case in his rebuttal testimony, Mr. Gorman’s discussion of the Hamada
214 adjustment belies confusion about what the technique even is, and appears to confuse it
215 with the Blume adjustment applied by *Value Line* to its reported betas.³⁶ My surrebuttal
216 testimony specifically addressed Mr. Gorman’s confusion and explained why it rendered
217 his misleading criticisms invalid.³⁷ However, Mr. Gorman does not attempt to correct or
218 clarify his arguments in his supplemental testimony. He merely implies that my CAPM
219 analysis somehow does not rely on “published *Value Line* betas.”³⁸ This is demonstrably
220 false: all of my CAPM analysis relies on published *Value Line* betas; the application of
221 unlevering / relevering techniques to adjust for differences in financial leverage is an
222 entirely separate issue. Despite his repeated attempts to mischaracterize and muddle the
223 issue surrounding the Hamada adjustment methodology, Mr. Gorman has, to date, offered
224 no substantive or financially-grounded criticism of that technique.³⁹

³⁵ Gorman Dir., IIEC/CUB Ex. 1.0, Appendix A at 4.

³⁶ Gorman Supp. Reb., IIEC/CUB Ex. 5.0, 13:253-256, citing Gorman Reb., IIEC/CUB Ex. 3.0, at 21-26.

³⁷ Villadsen Sur., Nicor Gas Ex. 37.0, 33:623 – 35:649.

³⁸ Gorman Supp. Reb., IIEC/CUB Ex. 5.0, 12:233 – 13:247.

³⁹ Villadsen Sur., Nicor Gas Ex. 37.0, 35:647-649; at 36, fn. 67.

225 **Q. What about Mr. Gorman’s critique of the flotation costs?**

226 A. Mr. Gorman’s primary critique of flotation costs appears to be verification. This issue
227 was addressed in the rebuttal testimony of Ms. Reese.⁴⁰ The recovery mechanism was
228 addressed in my rebuttal testimony.⁴¹ Mr. Gorman raises no new issues regarding
229 flotation costs. Lastly, my ranges for each of my methods did not include flotation costs
230 and, as noted above, ranged from 9.4% to 11.0% before I narrowed the range.

231 **IV. MR. GORMAN’S REFERENCES TO PAST ICC CASES DO NOT SUPPORT HIS**
232 **OBJECTIONS TO THE STIPULATION**

233 **Q. What is your reaction to Mr. Gorman’s references to cost of capital evidence**
234 **presented in Nicor Gas’ 2008 and 2004 rate cases?**

235 A. Mr. Gorman’s discussion of these cases is irrelevant. As Mr. Gorman himself stated
236 when addressing these prior approved Nicor Gas common equity ratios in his rebuttal
237 testimony, “[t]hese dated Commission orders are not useful in establishing a capital
238 structure in today’s environment.”⁴² In addition to the fact that the evidence in those
239 cases is at least a decade old, the premise of Mr. Gorman’s argument seems to be that
240 because my approach to estimating the cost of equity is not precisely identical to that of
241 Nicor Gas’ witness in those old cases, it must somehow lack credibility and support and
242 thus be unworthy of consideration as part of the stipulation. This argument is wrong on
243 its face, as experts may reasonably be expected to rely on different approaches and
244 models to inform their analysis and judgement. More importantly, however,

⁴⁰ Reese Reb., Nicor Gas Ex. 15.0, 20:408 – 21:446.

⁴¹ Villadsen Reb., Nicor Gas Ex. 25.0, 44:808 – 45:824.

⁴² Gorman Dir., IIEC/CUB Ex. 1.0, 38:635-636.

245 Mr. Gorman’s misguided focus on precise consistency of methodology across experts,
246 rate cases, and decades distracts from the larger question of reasonableness of the result
247 and *internal* consistency in the approach of a given expert when performing similar
248 analysis in similar circumstances. In fact, my approach to analyzing the cost of capital
249 for Nicor Gas, including the methods and models I employed, is entirely consistent with
250 my recent cost of capital testimony in other utility rate cases. As I explained above and
251 repeatedly in my prior testimony, Mr. Gorman cannot make the same claim, and his
252 failure to implement his standard risk premium model creates a significant downward
253 bias in his recommendation.

254 **Q. Is Mr. Gorman correct when he claims that the Stipulation is “unlike most of the**
255 **recent Commission cases”⁴³ discussed in your supplemental testimony?**

256 A. No. This assertion is based on a narrow and misguided interpretation of both the relevant
257 cases and the nature of the Stipulation itself. Mr. Gorman attempts to distinguish among
258 the five Commission decisions I noted as examples of the Commission utilizing results
259 from different witnesses in setting the allowed ROE, focusing on variations in the
260 detailed reasoning articulated in those decisions and asserting that they differ
261 fundamentally from the approach taken in the Stipulation.⁴⁴ In doing so, Mr. Gorman
262 misses the forest for the trees.

263 The common through-line in all of these cases is that the Commission explicitly
264 incorporated alternative model results or recommendations from Company, Staff, and
265 intervenor witnesses in its calculation of appropriate allowed ROE. While the

⁴³ Gorman Supp. Reb., IIEC/CUB Ex. 5.0, 15:289-291.

⁴⁴ Gorman Supp. Reb., IIEC/CUB Ex 5.0, 14:271 – 15:291.

266 Commission’s specific method of aggregating (and at times averaging) expert evidence
267 has varied, it is true that in these and other cases, the Commission has explicitly relied on
268 competing results and recommendations from experts that have employed different
269 methods and techniques—including some that Mr. Gorman criticizes me for employing.
270 For example, as discussed above, the Commission has relied on estimates based on Risk
271 Premium models, as well as DCF and CAPM results produced using leverage
272 adjustments.⁴⁵ In making these determinations, the Commission was clear that its
273 consideration of alternative results and recommendations did not constitute an explicit
274 endorsement or rejection of any particular methodology employed by the specific
275 parties,⁴⁶ but rather articulated a view that incorporating results from multiple parties has
276 a “balancing” effect in establishing a fair return.⁴⁷

⁴⁵ See discussion of the Commission’s Orders in docket numbers 16-0093 and 14-0419 above in Section III.

⁴⁶ See, for example, *Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities Proposed General Increase in Natural Gas Rates*, ICC Docket No. 14-0371 (Order, Feb. 11, 2015) at 66.66 (“For purposes of this proceeding, the Commission concludes that it is appropriate to average the results of Staff’s CAPM analyses (9.56%) with results of Mr. Hevert’s Current Treasury CAPM average (10.34%). Again, for purposes of clarity, the Commission does not endorse every input to the CAPM analyses, or rationale therefore, presented by the Company or Staff.” See also *Aqua Illinois, Inc. Proposed General Increase in Water Rates for the Kankakee Service Area*, ICC Docket No. 14-0419 (Order, March 25, 2015) at 45 (“[T]he Commission does not typically adopt leverage adjustments and is not explicitly doing so here... the Commission is aware a leverage adjustment is included in Aqua Illinois’ calculations, but finds a balance of each expert’s ROE estimates provides a just and reasonable ROE in the instant docket.”)

⁴⁷ See, for example, *Illinois-American Water Company Proposed Rate Increases for Water and Sewer Service*, ICC Docket No. 16-0093 (Order, December 13, 2016) at 66 (“[T]he Commission believes an average of [the parties’] results will minimize many of the shortcomings identified by the parties.”) See also, *Ameren Illinois Company d/b/a Ameren Illinois Proposed general increase in gas rates*, ICC Docket No. 13-0192 (December 18, 2013) at 166 (“Averaging the DCF and CAPM results is supported by the record in this docket, and will reduce the effects of perceived shortcomings and biases described in the competing positions of the Parties.”)

277 When appropriately viewed in this broader context, it is Mr. Gorman’s position
278 that only results and methodologies precisely matching those *he* deems appropriate
279 should be considered by the Commission—that is inconsistent with ICC precedent. In
280 contrast, the Stipulation is very much in line with the Commission’s past practice.

281 **Q. Does this conclude your supplemental rebuttal testimony?**

282 A. Yes.