Electric Utilities

EXPERT INSIGHTS

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Commissioner Meeting Takeaways – 10 States

On Monday we hosted meetings with Commissioners from 10 States (AZ, CA, CO, GA, MI, MO, MT, TX, WA, WI) at the NARUC Summer Policy Summit in San Diego, CA. Here we provide some of our key takeaways; there is additional detail in the pages that follow. Feel free to reach out to the team with any questions or to set up a follow-up call.

Save The Date: *Conference Call with Ohio PUC Chairman Asim Haque* ***this Friday, July 21st at 11AM EST*** *Dial-In: (844) 417-8200, International: (706) 758-9648, Conference ID: 5792693, replay will be available for 24 hours after the call.*

Key Takeaways:

- **Arizona – sees little urgency for new ratebased generation** given access to inexpensive (subsidized) power from CA through the EIM and some concern on relying too heavily on natural gas generation.
- **California - would have liked a full review in the Cost of Capital case**. Commissioner Aceves indicated that while she thinks the resulting settled compromise was a good outcome; she would have liked the opportunity for a full review given the extended length of time since the last review (7 years). Also, the state legislature tends to lean heavily toward utility consumers.
- **Colorado – Intends to get back to the RRR later**. Commissioner Moser indicated that the PSC rejected BKH's recent Request for Reconsideration and Rehearing (RRR) for the Pueblo CT rate increase out of a belief that the case would go to the courts no matter what. To save time, the PSC essentially wants to hear from the courts first before they issue a ruling themselves. (Appeals were filed just a week ago.) The issues that BKH has faced appear to be unique to that company and its relationship with one commissioner in particular. See our 5/5 report Synergizing the Balance Sheet for more detail.
- **Georgia - It's 'Nuclear or nothing'.** We expect SO and its partners Oglethorpe, MEAG, and Dalton to release a new cost and schedule proposal for the Vogtle project as early as late July or early August. This will likely be followed by informal discussions with GPSC Staff to firm up a formal written proposal for the PSC to consider as part of a forthcoming Vogtle Construction Monitoring report (VCM) toward yearend. Final approvals won't come until the March 2018 timeframe. Ultimately we expect SO to rebase its 5% guidance to a lower start point to account for new equity issuances and a new construction schedule, among other factors.

- **Michigan - is "resource challenged".** With the Palisades nuclear facility likely to retire in 2018 (a case approving an early buyout of the PPA with Entergy is pending) as well as a decade of major coal retirements coming, the state is seen as under-supplied with both DTE and CMS preparing plans for replacements. We don't see CMS making any "big bets" though.
- **Missouri - Support for regulatory reforms even without legislation.** Commissioner Hall acknowledged that ROE regulatory lag is a real problem and that the PSC has flexibility even without a legislative solution. Nevertheless, see performance based ratemaking and test year reforms as having a better shot at passage next year.
- **Montana - Skeptical of a coming capacity "crunch".** Commissioner Kavulla noted that projections for a regional capacity shortage are largely based on coal retirements in neighboring states (e.g., Colstrip) that might be delayed if looming shortages produce higher power prices within contracts. In his view, commercial/industrial customers are in the best position to solve long term resource adequacy (for all customers, including residential) through their own contracting and utilities should not be in the business of building ratebased assets under long-term financing arrangements for their captive load. As Montana moves closer to deregulation once again without full retail choice and without a capacity market, we see an increased probability of shortages, price caps, and a potentially destabilized grid down the road.
- **Texas - On M&A in the state.** The commission sees potential buyers of Texas utilities as holders of a public trust. Anderson remains sensitive to the use of "financial engineering" to generate returns in the state that do not necessarily benefit Texas residents. Anderson also appeared to be especially warm to the idea of independent utilities in the state that issue equity directly to the public.
- **Washington - State is long generation.** As such, the PSC sees no pressing need seen to urgently ratebase new generation in the state. Generally, the PSC looks for the lowest cost resource, which can also be energy efficiency measures (often the cheapest). Currently the state is considering a joint RFP process with neighboring state Oregon for new generation.
- **Wisconsin Support for gradualism**. There is support in the state for a concept of allowed-ROE gradualism in rate cases. While the spread between ROEs and bond yields have been perceived to be exceptionally wide in recent years, there an acknowledgement now that this may no longer be the case going forward.

Arizona – Commissioner Little

- **Overreliance on natural gas becoming a concern.** With Arizona Public Service (APS) seeking to reduce its electric generation fuel mix from 21% coal in 2017 to 11% by 2032, there is some concern over the increasing reliance on natural gas in the state. While fuel prices may be low now, the history of this commodity is far more volatile than coal or nuclear and the possibility that a future presidential administration or congress might seek to ban fracking techniques could be a source of significant potential volatility. As such, a more diverse fuel mix with additional gas pipeline infrastructure is seen as desirable given the state's apparent rapid shift away from coal. Caution on early coal retirements and the timing of the transition away from coal is also seen as warranted. We note that the Arizona Corporation Commission (ACC) doesn't approve or reject integrated resource plans (IRP); rather they simply review for recommendations. However, the ACC does have the power to approve new assets as used and useful within a ratecase context.
- **ACC would appear to be generally supportive of M&A.** As a hypothetical, the ACC would not necessarily be opposed to a possible out-of-state acquisition of PNW, noting that the Fortis acquisition of UNS/TEP has been considered very successful. Potential buyers would likely have to maintain the community presence and support that APS provides the state (i.e., jobs, donations, etc.).
- **Easy walk to the current 15% renewable standard.** While the state is set to easily achieve its current 15% renewable portfolio standard (RPS), any changes are likely pending the resolution of the Renewable Energy Standard (RES) docket, which is currently on hold while awaiting a decision in the APS rate case (expected at the mid-August open meeting). Issues still requiring resolution include provisions for community solar programs to encourage more grid-scale (with storage) to complement current rooftop incentives and improvements to the system for recording and tracking Renewable Energy Credits (RECs). More specifically, there's a desire to seek ways to encourage the state's utilities to research and invest in long-duration electric storage that can genuinely replace conventionally fueled peaker capacity. This contrasts with shorter-term battery storage that is more suitable for ancillary services such as frequency and voltage control and perhaps short peaking spikes.
- **EIM has been very beneficial; see grid modernization as more important now.** On new generation needs, there isn't a sense of urgency in the state as APS has been able to import inexpensive (subsidized) renewable power from oversupplied neighboring states such as CA through the Western Energy Imbalance Market it recently joined. While this is no substitute for regional resource adequacy, the ACC is content to proceed for now with all-source RFPs rather than mandated ratebased generation to resolve supply issues, especially considering load growth that remains suppressed at ~1%. There's also a sense that with technology evolving rapidly, it makes more sense to contract for a shorter period rather than lock in for long-term asset ownership. With much of AZ's grid infrastructure now an average ~70 years old, the ACC is increasingly focused on grid modernization as a priority project for the state's utilities. On a separate but somewhat related note, there is no appetite in AZ to expand beyond the EIM and joining CAISO as California's proposals to the Western states have been seen as too slanted in favor of California in-state renewables, bordering on protectionism. We heard similar comments from Washington regulators as well.
- **Standard ROEs?** The ACC currently operates under historic test years but there's no need for legislation to fix that - just regulatory willpower. Commissioner Little noted a proposal to standardize ROEs across the water utilities (based on a proxy group range adjusted for size and standard risk factors) failed to gain traction with some utilities that thought they could do better under the usual litigated procedure. Still, Little noted its

appeal with investors and some management teams; the idea could be expanded beyond water to gas/electric should it develop more support.

California – Commissioner Guzman Aceves

- **Would have liked a full review in the Cost of Capital case**. Commissioner Aceves indicated that in the recent CoC case, she thinks the resulting settled compromise was a good outcome. Nevertheless, she would have liked the opportunity for a full review rather than a settlement given the extended length of time since the last review (7 years). She also noted that a CoC case remains open for the water companies.
- **See lower risk for electric generation.** With the state oversupplied, Aceves believes that this side of the utility business presents a lower risk profile for regulated utilities and is probably deserving of a lower return.
- **State Senate is very consumer focused.** Perhaps even more so than the CPUC. In her confirmation hearings, Aceves relayed that she was asked why the Commission should accept any settlement offer rather than simply approving the recommendations of the Office of Ratepayer Advocates (ORA) and other consumer representatives. She noted a legacy of mistrust in the state legislature biased against utility managements and to a certain extent, the CPUC itself in the wake of ex parte scandals in recent years.
- **Raising the RPS.** There appears to be general agreement in CA that the goals of proposed bill SB 100 for an increase in the state's renewable portfolio standard from 50% to 60% by 2030 are achievable both technically and financially, with the details of timing and cost intertwined and the chief subject of debate.

Colorado – Commissioner Moser

- **Intend to get back to the RRR later**. Commissioner Moser indicated that the PSC rejected BKH's recent Request for Reconsideration and Rehearing (RRR) for the Pueblo CT rate increase out of a belief that the case would go to the courts no matter what. To save time, the PSC essentially wants to hear from the courts first before they issue a ruling themselves. (Appeals were filed just a week ago.)
- **Trying to reduce regulatory lag.** With its multi-year rateplans now allowed with recent legislation and tracking mechanisms for fuel, environmental, infrastructure integrity, and other recoveries, Moser considers the state fairly progressive on reducing regulatory lag. The issues that BKH has faced appear to be unique to that company and its relationship with one commissioner in particular. See our 5/5 report Synergizing the Balance Sheet for more detail.
- **Fuel diversity is no issue in Colorado**. Despite robust renewable goals with active ratebase participation from XEL and BKH, there is no concern in the state over fuel diversity since it still remains 60% supplied by coal-fired plants.
- **Boulder secession issues being decided.** The CPUC is set to decide next week on which jointly used assets may be sold to a proposed Boulder municipal utility. The fair price for these sales would be determined later by another panel.

Georgia – Chairman Wise

- **It's 'Nuclear or nothing'.** We expect SO and its partners Oglethorpe, MEAG, and Dalton to release a new cost and schedule proposal for the Vogtle project as early as late July or early August. This will likely be followed by informal discussions with GPSC Staff to firm up a formal written proposal for the PSC to consider as part of a forthcoming Vogtle Construction Monitoring report (VCM) toward yearend. The PSC should then be able to render an approval decision by the March 2018 timeframe. With $5B of sunk cost in the Vogtle project, we continue to see a strong bias to complete the project, especially now that $3.7B of prior contract financial guarantees have been reaffirmed. Without these guarantees, we think the project would most likely have been abandoned without much further consideration. Vogtle's value to the state remains largely tied to its expected long-term, 60-year contribution to fuel diversity, energy security, and local economic benefits despite significantly lower gas prices since inception. When looking at alternatives, we see little urgency to pursue near-term gas-fired generation at the site given nearly stagnant electric load growth; hence we think this is an all nuclear or nothing decision.
- **Penalties likely to remain in force. Guidance reset likely.** With the project set to transition formally to SO Nuclear and Georgia Power management (with assistance from Bechtel and Fluor subcontractors), we see SO held closely accountable by regulators for the next set of cost and schedule estimates. We also believe regulators will seek to keep the penalty provisions within the current 2015 agreement intact (namely a 300 bps equity penalty on NCCR rates collected during delays past 2019 for Unit 3 and 2020 for Unit 4 and a debt return on AFUDC after 2020 until placed into ratebase through a future rate case). As such, we don't necessarily see any near-term need for the company to conduct Vogtle-related writeoffs in the near-term, even if there are significant projected overruns (presumably, writeoffs would happen as capital is actually spent during construction, not before). However, in our opinion, any potential increase in financial and/or execution risk arising from the forthcoming schedule/cost update could add to pressure from debt rating agencies to issue equity to improve capital ratios. This would be incremental to equity that is likely to be required for a writedown of Kemper gasification and associated equipment. As we have written previously, we see the company's 5% target EPS growth rate off 2016 as in jeopardy from this dilution and at the very least, we expect the company to reset the rate off a new lower base in the coming months.
- **Oglethorpe might seek to lay off risk.** We see a significant chance that project partner Oglethorpe (30% ownership) might seek to renegotiate the terms of its confidential partnership agreement unless presented with sufficient confidence in the new schedule/cost estimate this summer. As a minority partner, Georgia Power could essentially be forced to take on a larger stake than its current 45.7% to continue the project, especially as they take on project management responsibility. Note that among the partners, MEAG (22.7%) has laid off far more risk than Oglethorpe to neighboring coops and municipal systems through offtake contracts. This adds to pressure on Oglethorpe to strike a new deal as the risk increases. While this could lead to a higher ratebase and earnings growth potential for SO, it is unclear whether the increased ownership would be considered a type of cost overrun from the regulator’s standpoint. As such, it is unclear whether the company would benefit from this until the plant is placed in ratebase in the 2020s. The increased financial risk may also require additional equity support to maintain credit ratings.
- **Nuclear PTCs are still important.** Achieving an extension of the federal nuclear production tax credit deadline remains important to the PSC. We continue to expect Congress to pass such an extension, although the current level of distraction in Washington would appear to leave such a measure in limbo for the time being.

- **Challenge to CWIP unlikely to succeed**. Commissioner McDonald has raised a question of whether to cease collection in rates for the financing cost of construction work in progress (CWIP). However, it's clear to us at this time that if brought to a vote at the PSC, it would fail 4-1. While there is some potential support in the state legislature (Parsons), we also see any attempt to pull CWIP as very likely to fail, with most in support of a lower overall project cost. We also believe the Governor's office is supportive of CWIP (and the project) despite official silence on the issue.
- **Confident of reelection.** As long at Vogtle proceeds, we sense confidence in commissioner reelection given very limited opposition (would be more likely to show up in the primary rather than the general). With the public prepared for a 12% rate increase for Vogtle and about half the current 6-8% expected increase already in rates, there are unlikely to be any rate shock issues even under a delayed and higher cost scenario.
- **Still a good relationship with SO and Georgia Power.** The utility is likely to maintain a positive regulatory interaction with the commission. On the electric side, we see the maintenance of ~12% ROEs as likely through the mandatory 2019 ratecase, with only a modest reduction seemingly being considered (perhaps 50-70 bps based on current bond yields). The PSC appears to remain comfortable with SO's holdco leverage (25% of total debt currently), although would prefer not to increase it as SO continues to execute a post-AGL acquisition 5-year ratable debt reduction plan. The rollover of various gas utility rate riders into base rates in the 2019 ratecase would also increase the PSC's comfort with any potential increase in holdco debt in the future. (We don't expect any significant increase without additional balancing equity.)

Michigan – Commissioner Saari

- **ROE determinations are based on the record.** In rate cases, utilities' requests are typically at the high end of the range while intervenors are at the low end. The PSC uses several methods to determine what's reasonable within that range, but to a certain extent, the determination is also based on what's "trending" throughout the industry. Typically, the larger utilities with extensive capital programs file new rate cases soon after the conclusion of the last case, so their ROEs are reset relatively often. In contrast, some of the smaller utilities tend to stay out of rate cases for as long as 5-7 years, allowing them to maintain a high authorized ROE. When settlements are reached without specifying an ROE, the PSC is required by law to address only issues in the settlement and is thus prohibited by law from even discussing an implied or authorized ROE (although the commission may reject the settlement in whole if it isn't satisfied with implied ROE outcomes).
- **Michigan is "resource challenged".** With the Palisades nuclear facility likely to retire in 2018 (a case approving an early buyout of the PPA with Entergy is pending) as well as a decade of coal major coal retirements coming, the state is seen as under-supplied. See our 5/2 CMS note for details on both Palisades and the state's State Reliability Mechanism (SRM) that requires competitive suppliers to pay for capacity serving their load (in addition to energy). DTE is set to announce the results of a 1 GW RFP soon and CMS is likely to bid its Dearborn Industrial Generation (DIG) plant into ta forthcoming RFP to supply a long-term replacement for Palisades. For now, implementing the SRM is seen as one of the state's highest priorities for solving the state's resource adequacy problem.
- **Aggressive gas main replacement programs.** Michigan needs new gas transportation infrastructure and has authorized fairly "aggressive" main replacement programs at a cost of about $1M per mile. These include about $70M/year for CMS and about $95M/year for DTE.

Missouri – Chairman Hall

- **'Toolbox Bill' may have a better chance next session.** We continue to see another 'Toolbox Bill' similar in scope to this year's SB 190 as having "a shot" at passage in the 2018 session. This is largely due to an improving lobbying effort by AEE and other supporters as they continue to work with State Senator Romine, some large industrials, and other previous rejectors to avoid surprises next year. We note the successful passage of steel/aluminum mill support in this year's special session, too. (See our June 4th weekly for details.) Chairman Hall noted the possibility of an improved relationship next year between the governor and a fractured Republican controlled legislature after much acrimony this year over the Governor's complaints about legislative dysfunction. He also played down the chances of a filibuster override next year through the "previous question; PQ procedure", something we've noted (as has Commissioner Rupp) as a possibility given less need for Republican unity now that the state budget, Right-to-Work, and other signature legislation has been passed. Aspects of the bill that Commissioner Hall thought would be most likely to receive support next year were: performance based ratemaking, future test years, grid modernization plans, and decoupling mechanisms.
- **Support for regulatory reforms even without legislation.** Commissioner Hall acknowledged that ROE regulatory lag is a real problem and that the PSC has flexibility even without a legislative solution. For example, a modified historic test year with mid-case updates can help reduce regulatory lag from 11 months to only 3-4. While there is statutory authority for interim rates, Hall would like to see the standard clarified through legislation as currently it's rarely used and only in emergency situations. For example, a recent experiment to shorten rate case consideration to 10 months elicited criticism from consumer advocates who felt the reduced hearing schedule was inadequate (reduced from three hearings to two).
- **Not sure when a new Republican Chair will be selected.** However, with Commissioner Stoll’s term expiring at the end of the year, the Governor will appoint a new Republican commissioner, which may provide the stimulus to select a new Chair at that time.
- **Stance on M&A continues to be constructive.** On SR's merger with MGE, Hall noted that he thinks the merger has worked well in general but the commission is awaiting clarity on cost synergies within the context of the current rate case. As a matter of principle, the use of holdco vs opco capital structures in rate cases is considered on a case-by-case basis, with rating agency treatment of opco debt (and its linkage to holdco) apparently an important factor. More broadly, Hall reiterated the PSC's constructive stance to M&A.
- **New GXP-WR merger application is expected soon.** The MPSC expects GXP to submit a new application and to withdraw the current application in the near future (a week or two). Hall expects the PSC to consider the request on an expeditious schedule, understanding the importance of rapid resolution to investors.
- **Constitutional change may be needed to fix transmission siting process.** New electric transmission is among MO's most urgent infrastructure needs. However, recent state court decisions upheld the rights of local counties to essentially veto the siting of transmission lines that cross their county roads. Under current interpretation of the law, the PSC is required to get the assent of all pass-through counties before it can grant approval for a line; even a conditional approval ahead of time is prohibited. With the state Supreme Court failing to take the appeal, it would appear that the best way forward would be to seek a constitutional amendment to enshrine the PSC as sole arbiter of the public interest in these matters. In the meantime, AEE filed a new 60-day notice for its proposed Mark Twain line that would use other existing rights-of-way to avoid county opposition. However, Clean Line Energy's proposed Grain Belt line would appear to be hobbled pending some constitutional/legislative action.

- ***From our 6/11 weekly:*** **The last buckle on the Grain Belt – Missouri PSC request.** Clean Line Energy reiterated their request for the Missouri Public Service Commission (PSC) to make a decision on its proposed $2.2B Grain Belt Express line, a 600kV, 780-mile transmission line that would primarily carry wind energy from Kansas into MISO and PJM. The Missouri Joint Municipal Electric Utility Commission (MJMEUC) stated in a filing this week that the PSC's delay could serve as a "de facto denial of the application…which could result in a constructive denial of hundreds of millions of dollars in savings to MUMEUC customers across Missouri." Clean Line refiled their application for the line about a year ago, after the Missouri PSC denied its application for a certificate of public convenience and necessity (CPCN) in mid-2015. Missouri remains the only state involved that has not given its approval for the line yet, Kansas, Indiana and Illinois have given their approvals already. A Missouri PSC representative stated that it is unclear when the commission will rule on the line.

Montana – Commissioner Kavulla

- **Skeptical of a coming capacity "crunch".** Commissioner Kavulla noted that projections for a regional capacity shortage are largely based on coal retirements in neighboring states (e.g., Colstrip). These projections would appear to him to represent an economic paradox, with coal retirements based on being uneconomic while at the same time the projection for a capacity shortage would seem to imply that these plants are indeed necessary and therefore should be economic over longer-run cycles. His view is that the region is fundamentally oversupplied, providing inexpensive opportunities for consumers through at least 2025.
- **Let demand meet supply.** Kavulla entered into the regulatory arena with a key fundamental belief: that utility customers are uniquely positioned to be captured into long-term, out-of-market rate structures, perhaps analogous to an above market rate on a 30-year mortgage loan. As such, Commercial and Industrial (C&I) customers have been gravitating toward relatively short 3-year energy PPAs (renewables and gas-fired) because they are cheaper than utility rates based on long-term rate-based assets. In this view, the best way to avoid a future capacity shortage is to rely on the inherent cyclical volatility of the energy-only market to motivate C&I customers into signing longer-term energy contracts that lock in cheaper prices. Although Residential customers are not eligible for choice in the state, Kavulla believes that C&I contracts are enough to incentivize adequate new supply going forward (or at least to keep existing plants from retiring). Undoubtedly, saving regional coal plants from an early and to some, unjust extinction in the absence of a Clean Power Plan is one of the underlying goals here.
- **Entire Montana PSC is on the same page.** Kavulla estimated that his fellow commissioners were in agreement with him and that they were all just as focused on supporting non-rate-based supply options.
- **What do we think?** Our discussion was totally in-line with recent decisions from the Montana PSC to put utility generation decision making on equal footing with other unregulated supply options (see our 7/6 note Montana Drops a Goose Egg). We come away with concern for NWE's coming power cost recovery tracker treatment this summer and the prospect for an earlier-than-expected rate case filing later this fall. We are also concerned about prospects for NWE's long-term Montana Electric Supply Resource Plan (MESRP). We do not disagree that in any open market where supply and demand are free to meet each other, there will always be a price that makes the market. However, a reliance on energy markets alone is a recipe for extreme price volatility that would be politically unpalatable, especially without 100% retail choice for all customers (Residential included) when the current supply glut begins to clear in the mid-2020s. With a commodity considered as fundamentally necessary to daily life as electricity, price volatility is typically solved with price caps that effectively prevent new generation investors from receiving returns they would be owed under prior market structures. For this reason, volatile energy markets have never been friendly environments to raise low-cost financing for large capital-intensive generation projects. Hence more established energy markets such as PJM, New England and MISO moved on to parallel capacity market structures many years ago to encourage long-term plant financing and reduce energy price volatility (and are now moving further with reforms to ensure the adequacy of ancillary services and baseload supply). As Montana moves closer to deregulation once again without retail choice and without a capacity market, we see an increased probability of shortages, price caps, and a potentially destabilized grid down the road.

Texas – Commissioner Anderson

- **Covering** potential problems. With a proudly isolated electric system that remains independent of Federal Energy Regulatory Commission (FERC) jurisdiction as a result, Commissioner Anderson noted that Texas remains the beneficiary of both low gas prices and an oversupplied market. On this point, he noted further that low gas prices have covered a lot of potential problems in the state's totally deregulated power market. More "normal" wind patterns of late (inland and coastal) have also helped keep ERCOT's Operating Reserve Demand Curve (ORDC) from costing customers too much in recent years. We don't sense much concern over the widely discussed omission of plant retirements from ERCOT's capacity, demand and resource (CDR) reports. The belief is that with 100% customer choice in the state, developers and marketers will continue to find new supply or will keep coal units operating with higher revenues in a tighter market. As a reminder, Texas has no actual target reserve margin, but instead simply monitors the CDR report. As a matter of fact, Anderson said he has been surprised not to see more plant retirements in the state.
- **On M&A in the state.** Anderson sees potential buyers of Texas utilities as holders of a public trust and Anderson remains sensitive to the use of "financial engineering" to generate returns in the state that do not necessarily benefit Texas residents. Anderson also appeared to be especially warm to the idea of independent utilities in the state that issue equity directly to the public. He seemed to imply that this might be the best option given the PUCT provides its utilities with enough cash flow to invest in adequate infrastructure without the need, necessarily, for an outside parent.
- **Retail is robust.** Consumer protection rules are regulated by the PUCT and overall, regulators are very satisfied with the state of the retail market. There's a diversity of suppliers and innovative products.
- **ROEs likely to remain stable.** While Anderson believes utilities have "made out like bandits" over the past few years with wide spreads between ROEs and bond yields, rising interest rates are expected to have an impact, with ROEs stable for a while.
- **Could see a new commissioner appointment soon.** Perhaps soon after the current special 30-day session is finished (early August) so that this would be a recess appointment not subject to change until the next session in January 2019.

Washington – Chairman Danner

- **Discretion in setting ROEs.** Earned ROEs in Washington have been trending in the 9.5-9.6% range. The process of setting an allowed ROE is based on multiple inputs and is discretionary to a large extent. Some of the inputs and methods employed include DCF, CAPM, and a proxy group of comparables, which are highly subjective.
- **State is long generation.** As such, there is no pressing need seen to urgently rate base new generation in the state. Generally, the PSC looks for the lowest cost resource, which can also be energy efficiency measures (often the cheapest). Currently the state is considering a joint RFP process with neighboring state Oregon for new generation.
- **Centralia deal did not set a precedent.** Notably, there was a deal a few years ago to grant an equity return on a purchased power agreement (PPA) to Puget Sound Energy off a coal plant going into early retirement (Transalta's Centralia). However, this equity return on a PPA continues to be seen as a one-time event given the unique circumstances and large size/length of the PPA. It should not be seen as any kind of precedent going forward.
- **Renewable companies are treated as utilities for consumer protection.** While their rates aren't regulated, the WUTC regulates renewable providers to ensure fair dealing with consumers. The legislature in Washington considered a revenue-neutral carbon tax this year (failed). However, the Governor supports a revenue-generating carbon tax that may help fund education initiatives and that may have a shot next year. In the meantime, we also note that some environmental groups support a cap & trade program rather than a tax. On electric vehicles (EVs), the state is supportive, with AVA having constructed 100s of charging station ports under a rate-based pilot program.

Wisconsin – Commissioner Huebsch

- **Support for gradualism**. There is support in the state for a concept of allowed-ROE gradualism in rate cases. While the spread between ROEs and bond yields have been perceived to be exceptionally wide in recent years, there an acknowledgement now that this may no longer be the case going forward.
- **Further renewables likely to be from organic growth.** With the state long generation resources, any further development of renewables is unlikely to be the result of an extension of Renewable Portfolio Standards (RPS), but rather would come from "organic" growth tied to load and economics. Geographically speaking, Wisconsin isn't a particularly strong state for wind or solar, so there hasn't been much incremental development lately despite some interest from some customers.

Companies Mentioned *(Price as of 18-Jul-2017)*
Ameren (AEE.N, $55.36)
Avista US (AVA.N, $42.74)
Black Hills Corp (BKH.N, $68.46)
CMS Energy Corp (CMS.N, $46.1)
DTE Energy (DTE.N, $105.75)
Fortis Inc. (FTS.TO, C$44.15)
Gt Plains Energy (GXP.N, $29.83)
MGE Energy (MGEE.OQ, $63.25)
NorthWestern Energy (NWE.N, $59.51)
Pinnacle West Capital Corp. (PNW.N, $85.76)
Southern Co. (SO.N, $47.12)
Spire Inc. (SR.N, $69.75)
TransAlta (TAC.N, $6.4)
Westar Energy (WR.N, $49.47)
Wisconsin Energy Corporation (WEC.N, $62.11)
Xcel Energy (XEL.N, $46.4)

Disclosure Appendix

Analyst Certification

I, Michael Weinstein, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
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