Received: March 4, 2022 Date of Response: March 11, 2022

Request Number: RR 1-009 Witness: J. Randall Woolridge

Request:

From Professor Woolridge's testimony in Exhibit 20:

a. Was it reasonable to exclude short term debt from the WACC? Why?
b. Is utility inclusion of short-term debt in the WACC an industry best practice?
c. Does exclusion of short-term debt in the WACC result in an inflated ROE?

Response:

The settlement calls for a 9.20% ROE, a capital structure with a common equity ratio of 52.0%, and an overall rate of return of 7.42%.

a. Yes, in the context of the entire settlement, including specifying an ROE of 9.2% and providing for a revenue increase of $6.3M, it is reasonable to specify a rate making capital structure that excludes short term debt in this case, because it results in rates that, in the Department's opinion, are just and reasonable.

b. Dr. Woolridge has testified in over 30 states in the past 35 years. Based on this experience, he believes that the inclusion or exclusion of short-term debt in a ratemaking capital structure primarily depends on two things: (1) the financing history of the utility in question; and (2) the policy of the state regulatory commission. On the first point, if a utility consistently uses short-term debt to finance its operations and rate base, it is more likely that a commission will include it in a ratemaking capital structure. On the second point, different states tend to have different approaches to the inclusion of short-term debt. Some states automatically exclude it, regardless of a utility's use of short-term financing, including situations in which a utility uses short-term debt to finance rate base. Other states consider the inclusion of short-term debt, especially if a utility has consistently employed short-term debt.

c. No, the ROE presented in this case of 9.2% is not impacted by the exclusion of STD in the ratemaking capital structure specified in the settlement. The specified capital structure, WACC and ROE are all elements of the settlement which results in a revenue increase of $6.3M, which, taken as a whole, is a reasonable result.