

UNDERTAKING TO UPDATE BASE ROE

SUMMARY: Nexus Economics was asked to update to September 30, 2024 its recommended Base ROE since it was initially calculated in June-July 2024. The approach Nexus Economics used for its evidence is not amenable to inputting more current figures without substantially redoing the work on the model. Instead, as Nexus Economics advised it would do, it used an Annual Update formula.

The result is that Nexus Economics’ recommended Base ROE hardly changes once updated.

ANALYSIS: Table 1 shows the initially-filed Nexus Base ROE results as set out in our evidence. We summarize our results at the currently-authorized equity thickness of 40% and also at the proposed equity thickness of 45%. We also present our results using the Concentric comparables (at 40% equity thickness).

Table 1

	Low Conf Limit	Base Case	Upper Confidence Limit
Nexus As-Filed (40% Equity)	10.36%	11.08%	11.81%
Nexus (45% Equity)	9.78%	10.44%	11.09%
Nexus using Concentric Comps (40% Equity)	10.19%	10.81%	11.43%

This update analysis is generalizable and can be applied to any one of the Base Case results in Table 1.

Because we did not independently submit an Annual Adjustment formula to the Board, we analyze the possible Base ROE update using a variation of the information provided in Figure 69 of LEI’s Report. LEI’s Figure 69 equation is reproduced here as equation [1]:

$$\begin{aligned}
 \text{[1]} \quad \textit{Authorized ROE} &= 8.41643924 \\
 &+ 0.259045098(\textit{US 30 – Year Treasury}) \\
 &+ 0.128829882(\textit{Moody’s Baa Corp})
 \end{aligned}$$

The coefficients from the LEI analysis (0.25904 and 0.12883) are the weights for the updating equation that is shown in equation [2]:

$$\begin{aligned}
 \text{[2]} \quad \textit{Updated ROE} &= \textit{Base ROE} \\
 &+ 0.259045098(\textit{US 30 – Year Treasury} – \textit{Base US 30 – Year}) \\
 &+ 0.128829882(\textit{Moody’s Baa Corp} – \textit{Base US 30 – Year})
 \end{aligned}$$

In our Base ROE analysis (Issue 10) presented to the Board, we used 4.06% for the Base 30-Year US Treasury rate and 5.79% for the Moody’s Baa yield.¹ The re-populated equation therefore is:

¹ See M3-NAICS 2211 v04 (as filed).xlsx at tab [rp]. Cell N5 for 30-year US Treasury and cell J12 for Moody’s Baa.

$$\begin{aligned}
 [3] \quad & \text{Updated ROE} = \text{Base ROE} \\
 & + 0.259045098(4.13\% - 4.06\%) \\
 & + 0.128829882(5.44\% - 5.79\%)
 \end{aligned}$$

where 4.13% is the 30-year US Treasury bond rate as of September 30, 2024 and the 5.44% is the Moody's Baa corporate bond rate as of that same date.

Solving the equation produces:

$$[4] \quad \text{Updated ROE} = \text{Base ROE} + 0.259045098(0.07\%) - 0.128829882(0.35\%)$$

or

$$\begin{aligned}
 [5] \quad & \text{Updated ROE} = \text{Base ROE} + 0.018910\% - 0.045090\% \\
 & = \text{Base ROE} - 0.026180\%
 \end{aligned}$$

Our conclusion is that the ROE need not be updated or changed because the adjustment equation produces a 2.6 basis point downward adjustment, which we view as materially indistinguishable from, or the result of, random fluctuations in the market.

For example, re-running equations with October 7, 2024 data (4.30% 30-year US Treasury and 5.39% Moody's Baa yield) produces an *upward* adjustment of 0.011% or 1.1 basis points. Neither adjustment merits a revamping of the Base ROE, for any of the Base ROEs from Table 1.

This analysis value provides an indication that long-term capital market conditions have not changed substantially since June-July 2024, so a wholesale re-do of the Base ROE analysis is not warranted.