



ANN E. BULKLEY
RETURN ON EQUITY
EVIDENTIARY HEARING OPENING STATEMENT
Case No. PU-12-813

My name is Ann E. Bulkley. In my Rebuttal Testimony, I demonstrate that the range for the cost of equity for NSP's North Dakota operations is between 10.00 percent and 10.50 percent. Within that range, I conclude that a Return on Equity of 10.25 percent is reasonable, if not conservative.

The cost of equity is based on the return that investors require to make an investment, which depends on what investors can earn from comparable alternative investments. As this Commission has recognized in prior decisions, the determination of the ROE is not a simple mathematical exercise. Rather, other factors that investors would consider in establishing their return requirements should also be taken into consideration. Therefore, while I have applied well accepted ROE estimation methodologies, using widely available indicators of investors' expectations, my recommendation also takes into consideration several other factors. Those factors include: current market conditions, authorized ROEs available to investors for other vertically integrated electric companies in other jurisdictions, the Commission's history of moderation in adjusting ROEs, and the significance of the Company's extensive capital investment plan.

There is currently a great amount of uncertainty in the equity markets related to when the Federal Reserve will begin to reduce its purchases of long-term Treasury bonds. The result of that anticipated change in Federal policy has been an increase in the yields on Treasury bonds and a decline in the stock market indexes in general, and in the utility sector in particular. I believe it is important to consider this rising interest

rate environment when determining the appropriate ROE for NSP from within the range of results established using traditional ROE estimation models.

My recommended ROE of 10.25 percent is consistent with recently authorized ROE's for other vertically-integrated electric utilities. My testimony shows that ROEs available from other jurisdictions support my analysis and recommendation, and show that Mr. King's recommendation of 9.00 percent is below all but one authorized ROE for vertically-integrated electric utilities in the U.S since January 2012. That single 9.00 percent ROE that was recently authorized was reduced in a settlement context based on the particular facts of that case.

In contrast to Mr. King's 9.00 percent suggested ROE, my proposed 10.25 percent ROE is also consistent with the moderate approach demonstrated by the Commission over several recent decisions. While interest rates have declined and the Commission has reduced ROEs, those changes have been gradual and moderate. That measured approach to regulation has been noted by industry analysts as constructive regulation and is consistent with the fair return standard.

Finally, I explain the significance of the ROE to the Company's ability to continue to access capital markets on favorable terms, which will have long-run effects on the Company's cost of capital and the corresponding costs of service and rates. Awarding a very low authorized ROE sends a signal to investors that the regulatory environment in that jurisdiction is less constructive than other jurisdictions and as a result an investment in other jurisdictions with more constructive regulation would be more desirable.

I appreciate the opportunity to appear before the Commission, and I look forward to answering your questions regarding my analysis and testimony.

Thank you.