

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Florida Gas Transmission Company, L.L.C.)
) Docket No. RP09- -000
)

PREPARED DIRECT TESTIMONY
OF
ROBERT B. HEVERT

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name, affiliation, and business address.**

3 A. My name is Robert B. Hevert. I am President of Concentric Energy Advisors, Inc.
4 (“Concentric”), located at 293 Boston Post Road West, Suite 500, Marlborough,
5 Massachusetts 01752.

6 **Q. On whose behalf are you testifying?**

7 A. I am testifying on behalf of Florida Gas Transmission Company, L.L.C. (“FGT” or
8 the “Company”), a wholly-owned subsidiary of Citrus Corp.

9 **Q. What is the ownership of FGT?**

10 A. FGT is a wholly-owned subsidiary of Citrus Corp. which, in turn, is owned 50.00
11 percent by El Paso Citrus Holdings, Inc. (EPCH), a wholly-owned subsidiary of El
12 Paso Corporation (El Paso), and 50.00 percent, by CrossCountry Citrus, LLC (CCC),
13 a wholly-owned subsidiary of Southern Union Company and certain of its subsidiary
14 companies.

1 **Q. Please describe your experience in the energy and utility industries.**

2 A. I received my Bachelors of Science degree in Finance from the University of
3 Delaware, and a Masters degree in Business Administration from the University of
4 Massachusetts. In addition, I hold the Chartered Financial Analyst designation. I
5 have served as an executive and manager with other consulting firms (REED
6 Consulting Group and Navigant Consulting, Inc.), and as a financial officer of Bay
7 State Gas Company. I have provided testimony regarding strategic and financial
8 matters, including the cost of capital, before several state utility regulatory agencies as
9 well as the Federal Energy Regulatory Commission, and have advised numerous
10 energy and utility clients on a wide range of financial and economic issues including
11 both asset and corporate-based transactions. Many of those assignments have
12 included the determination of the cost of capital for valuation purposes. A summary
13 of my professional and educational background is provided in Attachment A to my
14 testimony.

15 **Q. Please describe Concentric's activities in energy and utility engagements.**

16 A. Concentric provides financial and economic advisory services to a large number of
17 energy and utility clients across North America. Our regulatory economic and
18 market analysis services include utility ratemaking and regulatory advisory services;
19 energy market assessments; market entry and exit analysis; corporate and business
20 unit strategy development; and energy contract negotiations. Our financial advisory
21 activities include merger, acquisition and divestiture assignments; due diligence and
22 valuation assignments; project and corporate finance services; and transaction

1 support services. In addition, we provide litigation support services on a wide range
2 of financial economic issues for clients throughout North America.

3 **II. PURPOSE AND OVERVIEW OF TESTIMONY**

4 **Q. What is the purpose of your testimony?**

5 A. The purpose of my testimony is to present evidence and provide a recommendation
6 regarding: (1) the cost of equity (sometimes referred to as the Return on Equity, or
7 “ROE”) for FGT; and (2) to support the Company’s proposed capital structure. My
8 analyses and recommendations are supported by the data presented in Exhibit No.
9 FGT-13 through Exhibit No. FGT-17.

10 **Q. Please provide a brief description of the Florida Gas Transmission Pipeline.**

11 A. FGT is a 4,900-mile pipeline extending from south Texas through the Gulf Coast
12 region of the U.S. to south Florida. The system primarily receives gas from onshore
13 producing basins, Mobile Bay and offshore Gulf of Mexico. FGT is a transporter of
14 natural gas to the Florida energy market, delivering approximately 70.00 percent of
15 natural gas consumed in the state. The system also contains 60 interconnections with
16 other major interstate and intrastate pipelines.¹

17 **Q. What are your conclusions regarding the appropriate Return on Equity**
18 **(“ROE”) for FGT?**

19 A. Based on the Commission’s preferred form of the Discounted Cash Flow (“DCF”)
20 model, and without specific consideration or adjustments to reflect current economic
21 conditions, I conclude that the 13.88 percent ROE being proposed by the Company
22 is reasonable. I further conclude that the Company’s existing capital structure of

¹ Southern Union Company, SEC form 10-K, period ended December 31, 2008, at P 3.

1 60.74 percent equity and 39.26 percent debt is within the range of capital structures
2 in place at comparable companies, and therefore is reasonable.

3 **Q. Please provide a brief overview of the analyses that led to your conclusions on**
4 **the appropriate ROE for FGT.**

5 A. As discussed in more detail in Section VI, in light of recent market conditions, and
6 given the fact that equity analysts and investors tend to use multiple methodologies in
7 developing their return requirements, it is important to consider both analytical
8 results and broad market measures of investors' risk sentiments in determining the
9 Company's ROE. At the same time, I recognize the Commission's long-standing
10 reliance on the Discounted Cash Flow ("DCF") model. Consequently, while my
11 application of the DCF model is consistent with the Commission's approach in *Kern*
12 *River*.² I also present an alternative set of results which do not adjust the second stage
13 growth rate for the Master Limited Partnerships ("MLPs") in my proxy group.³

14 I also considered the effect of recent financial and capital market conditions
15 on the Company's ROE. The Company, however, has elected to limit its proposed
16 ROE to 13.88 percent, which is the median result of the DCF model using the
17 Commission's preferred approach. That proposal, therefore, does not include an
18 adjustment for any incremental risks, either general or company-specific.

19 **Q. How is the balance of your testimony organized?**

20 A. The remainder of my testimony is organized into six sections. Section III discusses
21 the regulatory guidelines and financial considerations pertinent to rate of return

² Opinion No. 486-B, Docket No. RP04-274-000, January 15, 2009 (*Kern River*).

³ As discussed later in my testimony, the Commission's current approach for MLPs is to reduce the second stage growth rate, which it estimates as the long-term growth in Gross Domestic Product, by a factor of one-half.

1 estimates. Section IV discusses the criteria and approach for the selection of my
2 proxy group of comparable companies. Section V explains the data and
3 methodologies underlying my ROE recommendation. Section VI discusses current
4 capital market conditions and the effect of those conditions on the cost of equity.
5 Section VII summarizes the analysis that supports the Company's proposed use of its
6 actual capital structure, and Section VIII summarizes my conclusions and
7 recommendations.

8 III. REGULATORY GUIDELINES AND FINANCIAL 9 CONSIDERATIONS

10 **Q. Please describe the guiding principles used in establishing the ROE for a**
11 **regulated utility.**

12 A. The United States Supreme Court's precedent-setting decisions in *Hope* and *Bluefield*
13 established the standards for determining the fairness or reasonableness of a utility's
14 allowed ROE. Among the standards established by the Court in those cases are: (1)
15 consistency with other businesses having similar or comparable risks; and (2)
16 adequacy of the return to support credit quality and access to capital, while
17 maintaining financial integrity. The *Hope* and *Bluefield* cases read, in pertinent part:

18 A public utility is entitled to such rates as will permit it to earn a
19 return on the value of the property which it employs for the
20 convenience of the public equal to that generally being made at the
21 same time and in the same general part of the country on
22 investments in other business undertakings which are attended by
23 corresponding risks and uncertainties; but it has no constitutional
24 right to profits such as are realized or anticipated in highly
25 profitable enterprises or speculative ventures. The return should be
26 reasonably sufficient to assure confidence in the financial soundness
27 of the utility and should be adequate, under efficient and economic
28 management, to maintain and support its credit and enable it to

1 raise the money necessary for the proper discharge of its public
2 duties. A rate of return may be reasonable at one time and become
3 too high or too low by changes affecting opportunities for
4 investment, the money market and business conditions generally.⁴

5 * * *

6 Rates which are not sufficient to yield a reasonable return on the
7 value of the property used at the time it is being used to render the
8 service are unjust, unreasonable and confiscatory.⁵

9 * * *

10 From the investor or company point of view, it is important that
11 there be enough revenue not only for operating expenses, but also
12 for the capital costs of the business. These include service on the
13 debt and dividends on the stock. By that standard the return to the
14 equity owner should be commensurate with returns on investments
15 in other enterprises having corresponding risks. That return,
16 moreover, should be sufficient to assure confidence in the financial
17 integrity of the enterprise, so as to maintain its credit and to attract
18 capital.⁶

19 **Q. Why is it important for a utility to be allowed the opportunity to earn a return**
20 **adequate to attract capital at reasonable terms?**

21 A. There is a long history regarding the allowed Return on Equity, the role of capital
22 structure, and the resulting cost of capital in the establishment of just and reasonable
23 rates for utility services. Among the themes common to many Federal, State and
24 Supreme Court cases is the principle that a utility's cost of capital (including its capital
25 structure and allowed return on common equity) must be reflective of other
26 enterprises having comparable risks acting independently in the financial markets. A
27 return that is adequate to attract capital at reasonable terms enables the utility to
28 provide service while maintaining its financial integrity. In keeping with the *Hope* and
29 *Bluefield* standards, that return should be commensurate with the returns expected

⁴ Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679, at PP 692-693 (1923) (*Bluefield*).

⁵ Id., at P 690.

⁶ Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, at P 603 (1944), (*Hope*).

1 elsewhere in the market for investments of equivalent risk. The consequence of the
2 Commission's order in this case, therefore, should be to provide the Company with
3 the opportunity to earn a Return on Equity that is: (1) adequate to attract capital at
4 reasonable terms; (2) sufficient to ensure the financial integrity of the Company's
5 transportation operations; and (3) commensurate with returns on investments in
6 enterprises having corresponding risks. To the extent the Company is provided the
7 opportunity to earn its market-based cost of capital, neither customers nor
8 shareholders should be disadvantaged.

9 While the capital attraction and financial integrity standards are important
10 principles in normal economic conditions, the practical implications of those
11 standards are even more pronounced in the current financial environment. As
12 discussed in Section VI, natural gas pipeline companies continue to face challenging
13 capital market conditions; both credit spreads and equity market volatility remain at
14 elevated levels relative to historical averages. In my view, an assessment of capital
15 market conditions is an important consideration in determining the cost of equity.
16 Credit spreads remain at elevated levels and volatility is high relative to historical
17 averages. These are important considerations in determining the appropriate cost of
18 equity.

19 **Q. Has the Commission recognized the importance of establishing a rate of**
20 **return that is commensurate with the risks incurred by equity investors?**

21 A. Yes, it has. In *SoCal*, the Commission concluded that "investors generally cannot be
22 expected to purchase stock, if debt, which has less risk than stock, yields the same

1 return.”⁷ Furthermore, in its recent *Policy Statement* (Docket No. PL07-2-000),⁸ the
2 Commission observed that the Supreme Court has long held that equity returns must
3 be commensurate with returns on investments of comparable risk, and that returns
4 must be sufficient to enable the subject company to attract capital at reasonable rates.
5 As discussed later in my testimony, the risk comparability standard is an important
6 consideration in the selection of proxy companies in this proceeding.

7 **Q. What are your conclusions regarding regulatory guidelines and capital market**
8 **expectations?**

9 A. Simply that it is important for the ROE authorized in this proceeding to reflect the
10 capital market conditions with which the Company must contend and investors’
11 expectations relative to both risks and returns.

12 **Q. What is the basis for your recommended ROE for the Company?**

13 A. As noted earlier, the Commission has stated its preference for the application of a
14 DCF model that incorporates both near-term earnings growth forecasts and longer-
15 term estimates of macroeconomic growth (referred to herein as the “two-stage DCF”
16 model). My testimony, and recommendation therefore, rely on the two-stage DCF
17 model, for which the underlying data is derived from a proxy group of publicly
18 traded corporations and Master Limited Partnerships with significant interstate
19 natural gas pipeline operations. By selecting a group of entities with risks and
20 business characteristics most comparable to FGT, I have ensured that my analysis in
21 this proceeding comports with the *Hope* and *Bluefield* standards, as well as the
22 Commission’s standard for natural gas pipeline proxy companies as established in

⁷ SoCal Edison, 92 FERC ¶ 61,070 at 61,266 (2000).

⁸ Policy Statement, 123 FERC ¶ 61,048 (2008) (*Policy Statement*).

That proxy group arrangements must be risk-appropriate is the common theme in each argument. The principle is well-established. See *Hope Natural Gas Co.*, 320 U.S. at 603 (“[T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks.”); CAPP I, 254 F.3d at 293 (“[A] utility must offer a risk-adjusted expected rate of return sufficient to attract investors.”). The principle captures what proxy groups do, namely, provide market-determined stock and dividend figures from public companies comparable to a target company for which those figures are unavailable. CAPP I, 254 F.3d at 293–94. Market determined stock figures reflect a company’s risk level and, when combined with dividend values, permit calculation of the “risk-adjusted expected rate of return sufficient to attract investors.”⁹

What matters is that the overall proxy group arrangement makes sense in terms of relative risk and, even more importantly, in terms of the statutory command to set “just and reasonable” rates, 15 U.S.C. § 717c, that are “commensurate with returns on investments in other enterprises having corresponding risks” and “sufficient to assure confidence in the financial integrity of the enterprise . . . [and] maintain its credit and . . . attract capital,” *Hope Natural Gas Co.*, 320 U.S. at 603.¹⁰

10 Ibid., at P 700.

1 **Q. Please summarize the Commission's position with respect to proxy group**
2 **selection and its effect on the ROE for natural gas pipeline companies.**

3 A. The Commission affirmed the importance of the proxy group in the *Policy Statement*,
4 noting that the applicant should provide as much information as possible about each
5 of the proposed proxy companies to assist the Commission in determining the most
6 representative proxy group. The Commission further acknowledged that equity
7 returns established through the regulatory process should be commensurate with the
8 level of risk assumed by the Company. In the *Policy Statement*, for example, the
9 Commission recognized the Supreme Court's determination that the proxy group
10 must be "risk appropriate."¹¹ The Commission further noted the Court's position
11 that equity returns must be commensurate with returns on investments of
12 commensurate risk, and that returns must be sufficient to enable the subject
13 company to attract capital at reasonable rates.

14 **Q. Has the Commission established guidelines with respect to the development**
15 **of an appropriate proxy group?**

16 A. Yes. While the Commission did not address the specific companies that should be
17 included in a proxy group, as noted above, it has affirmed the importance of risk
18 comparability.¹² Moreover, in the *Policy Statement*, the Commission established its
19 position with respect to including MLPs in the proxy group used to establish the
20 Return on Equity for natural gas pipelines:

21 As the court explained in *Petal Gas Storage, L.L.C. v. FERC*, the
22 purpose of the proxy group is to "provide market determined stock
23 and dividend figures from public companies comparable to a target

¹¹ *Policy Statement*, at P 49.

¹² *Ibid.*, at P 47.

1 company for which those figures are unavailable. Market-
2 determined stock figures reflect a company's risk level and when
3 combined with dividend values, permit calculation of the 'risk-
4 adjusted expected rate of return sufficient to attract investors.'"

5 It is thus crucial that the firms in the proxy group be comparable to
6 the regulated firm whose rate is being determined. In other words,
7 as the court emphasized in *Petal*, the proxy group must be "risk-
8 appropriate."¹³

9 * * *

10 The Commission leaves that determination to each individual rate
11 case. In order to assist the Commission in determining the most
12 representative possible proxy group in those cases, the parties and
13 other participants should provide as much information as possible
14 regarding the business activities of each firm they propose to
15 include in the proxy group, including their recent annual SEC filings
16 and investor service analyses of the firms. This information should
17 help the Commission determine whether the interstate natural gas
18 or oil pipeline business is a primary focus of the firm and whether
19 investors view an investment in the firm as essentially an
20 investment in that business.¹⁴

21 While the need for all proxy companies to be risk appropriate relative to the
22 applicant was reemphasized in the *Kern River* decision, the Commission also noted
23 that there are "numerous factors that can vary the risk profile of an individual firm"
24 and that "it is difficult in an individual case to develop a proxy group of sufficient
25 numbers in which the members will have the same risk."¹⁵ Consequently, I have
26 established a set of screening criteria that: (1) reflect the Commission's traditional
27 standards: (2) result in a group that is of comparable risk to FGT: and (3) produce a
28 sufficiently large number of proxy companies.

¹³ Ibid., at P 48.

¹⁴ Ibid., at P 51.

¹⁵ *Kern River*, at P 50.

1 **Q. How did you select the companies included in your proxy group?**

2 A. I began with the group of companies that currently are classified by Value Line in the
3 Diversified Natural Gas, or Oil/Gas Distribution segments. To the extent that they
4 were not included in either of those groups, I also considered the companies that
5 were included in the proxy group by the Commission in *Kern River*. I then applied the
6 following screening criteria:

- 7 1. To incorporate companies that are primarily regulated natural gas
8 transmission companies, consistent with the guideline relied upon by the
9 Commission in *Kern River*, I initially eliminated companies with less than
10 50.00 percent of total net operating income derived from, or assets
11 associated with regulated natural gas pipeline operations;
- 12 2. I eliminated companies that are not publicly traded;
- 13 3. I eliminated companies that do not currently pay dividends, have recently
14 cut their dividends or are projected to cut their dividends (or distributions
15 as the case may be);
- 16 4. I eliminated companies for which there are no I/B/E/S estimates of five-
17 year earnings growth;
- 18 5. I eliminated companies that have not been in operation for at least 5 years;
- 19 6. I eliminated companies that have a Standard & Poor's rating below BBB-;
20 and
- 21 7. I considered the effect of merger activity on the performance of potential
22 proxy group companies.

1 **Q. Has the Commission used similar criteria in its evaluation of proxy groups in**
2 **prior decisions?**

3 A. Yes. As discussed in the *Policy Statement*, the Commission historically required that
4 each company included in the proxy group satisfy the following four standards:

- 5 1. The company's stock must be publicly traded;
- 6 2. The company must be recognized as a natural gas pipeline;
- 7 3. The company and its stock must be recognized and tracked by an
8 investment information service such as Value Line; and
- 9 4. Pipeline operations must constitute a high proportion of the company's
10 business. In *Kern River*, the Commission generally applied a standard of
11 50.00 percent of a company's assets or operating income.¹⁶

12 **Q. Why have you eliminated companies that do not pay a dividend or distribution**
13 **or have or are projected to cut their dividends or distributions?**

14 A. As discussed in more detail in Section V below, the DCF approach is based on the
15 theory that an equity share's price represents the present value of all future expected
16 cash flows. In its simplest form, the DCF model expresses the ROE as the sum of
17 the expected dividend (or distribution) yield and long-term growth rate. Since the
18 model estimates value based on future cash flow, it is inappropriate to include
19 companies that do not pay dividends or distributions. Consistent with the
20 fundamental assumptions of the DCF model, in eliminating companies that have or
21 are projected to cut their dividend or distribution, I have assumed a constant
22 dividend policy.

¹⁶ *Policy Statement*, at P 8.

1 **Q. What companies resulted from the screening criteria noted above?**

2 A. The criteria discussed above resulted in a proxy group of only four companies:

- 3 • Boardwalk Pipeline Partners, L.P.;
- 4 • Southern Union Company;
- 5 • TC PipeLines, L.P.;¹⁷ and
- 6 • The Williams Companies, Inc.

7 **Q. Is this the final composition of your proxy group?**

8 A. No, it is not. First, in order to avoid the circular logic that otherwise would occur, it
9 is my practice to exclude the subject company from the proxy group. Therefore, I
10 excluded Southern Union Company, FGT's parent company, from the proxy group.
11 This would have resulted in a proxy group of only three companies. In both *Kern*
12 *River* and the *Policy Statement*, the Commission expressed concerns with a proxy group
13 of fewer than four companies. In the *Policy Statement*, the Commission noted several
14 cases in which a four company proxy group satisfied the Commission's standards and
15 was relied upon.¹⁸ In *Kern River*, the Commission concluded that a proxy group
16 should consist of "at least four, and preferably at least five members, if representative
17 members can be found."¹⁹

18 In order to expand the number of proxy companies beyond the three noted
19 above, it was necessary to relax certain of the screening criteria. Several of those
20 criteria, however, do not lend themselves to variation by degree (for example, a

¹⁷ While TC PipeLines does not have a credit rating, the parent company, TransCanada is rated A- by Standard & Poor's.

¹⁸ *Policy Statement*, at P 16-17.

¹⁹ *Kern River*, at P 104.

1 company either is or is not subject to a merger, is or is not publicly traded, does or
2 does not have an investment grade credit rating, etc.). As such, I chose to reduce the
3 threshold of operating income or assets associated with natural gas transmission (that
4 is, the first criterion) from 50.00 percent to 35.00 percent. Relaxing this assumption
5 resulted in the following final proxy group of five companies:

- 6 • Boardwalk Pipeline Partners, L.P.;
- 7 • Enbridge Energy Partners, L.P.;
- 8 • Enterprise Products Partners, L.P.;
- 9 • Spectra Energy; and
- 10 • TC PipeLines, L.P.

11 **Q. Why have you excluded The Williams Companies, Inc. from your final proxy**
12 **group?**

13 A. Based on current market data, the DCF result for the Williams Companies, Inc.
14 (“Williams”) is 6.04 percent. Since the average cost of debt for BBB-rated utilities is
15 currently 6.64 percent,²⁰ the Williams DCF result actually is below the current cost of
16 debt. As such, I do not consider this a valid result and excluded Williams from the
17 proxy group on that basis.

²⁰ Source: Bloomberg, Moody’s Baa Utility Bond Index. Please note that my comparison of the Williams DCF result to the Moody’s Baa Utility Bond Index does not imply that I believe the risks and required returns for utility companies is similar to those of interstate pipeline companies. As noted later in my testimony, local distribution utilities are less risky than interstate pipelines. The fact that the Williams DCF result is below the utility bond index is further demonstration of the unreasonable nature of that result.

1 **Q. Did you explicitly consider the proxy group that was relied upon in the *Kern***
2 ***River* decision?**

3 A. Yes, I did. In *Kern River*, the Commission adopted a proxy group of five companies:
4 Kinder Morgan, Inc; Kinder Morgan Energy Partners; Northern Border Pipeline
5 Company; TC PipeLines; and National Fuel Gas Company.²¹ It is important to note,
6 however, that those companies were considered by the Commission as they existed
7 in 2004. Since then, certain of the companies have been restructured and
8 consolidated into others, while others have experienced a change in the composition
9 of their underlying business segments such that they do not satisfy the screening
10 criteria discussed above. Northern Border, for example, now is jointly owned by
11 ONEOK Partners L.P. and TC PipeLines. Because natural gas transmission
12 represents only 29.93 percent, and 20.85 percent of ONEOK Partners' total
13 operating income and assets respectively, I have excluded that company from my
14 proxy group. TC PipeLines, however, which owns a 50.00 percent interest in
15 Northern Border, meets my screening criteria and therefore has been included in the
16 proxy group. The three remaining *Kern River* proxy companies that were not included
17 in the proxy group for FGT (Kinder Morgan, Inc., Kinder Morgan Energy Partners,
18 and National Fuel Gas Company) are discussed below.

19 **Kinder Morgan, Inc. and Kinder Morgan Energy Partners**

20 While KMI was a publicly traded entity at the time of the *Kern River* decision,
21 it no longer is so.²² As to KMP, only 26.62 percent and 30.39 percent of its operating

²¹ *Kern River*, at P 131-132.

²² KMI, which is privately held, owns the general partner, and significantly limited partnership interest in KMP. KMI was taken private in 2007.

1 income and assets, respectively, were associated with natural gas pipeline operations,
2 on average from 2006 through 2008. Consequently, neither KMI nor KMP meet my
3 screening criteria and have been excluded from the proxy group.

4 **National Fuel Gas Company**

5 National Fuel Gas Company (“NFG”) refers to itself as a “diversified energy
6 company” with five distinct business segments: natural gas distribution; exploration
7 and production (“E&P”); pipeline and storage; energy marketing; and timber.²³
8 Exhibit No. FGT-13 provides historical operating income and assets for National
9 Fuel gas for the period from 2006 through 2008. As shown in that Exhibit, based on
10 the Commission’s practice of calculating a three-year average of operating income
11 and assets, the company’s natural gas pipeline operations represent only 26.08
12 percent of total operating income, and 21.41 percent of total assets. Conversely, the
13 company’s E&P segment represents 42.75 percent of operating income and 33.51
14 percent of total assets.

15 **Q. On what basis did the Commission include NFG in its proxy group for *Kern***
16 ***River*?**

17 A. In the *Kern River* decision, the Commission acknowledged that the company’s natural
18 gas pipeline operations do not meet its established criteria of 50.00 percent operating
19 income or assets, but aggregated the contributions of the local distribution company
20 (“LDC”) operations and natural gas transmission operations to meet its 50.00 percent
21 threshold.²⁴

²³ National Fuel Gas Company, SEC Form 10-K For the Fiscal Year Ended September 30, 2008, at P 3.

²⁴ *Kern River*, at P 94.

1 **Q. Do you believe that the natural gas transmission and distribution business**
2 **segments are of similar risk?**

3 A. No, I do not. As the U.S. Supreme Court and the Commission both have noted in
4 prior decisions, in establishing the proxy group to be used in determining the
5 appropriate ROE for a natural gas pipeline, one of the most important issues is the
6 comparability of risk.²⁵ There is little question that regulatory commissions and
7 investors historically have perceived greater risk in interstate pipeline operations than
8 in LDC operations. This is evidenced by a review of authorized returns for LDCs
9 that is provided in Exhibit No. FGT-14. As shown in Exhibit No. FGT-14 since
10 January 1, 2008, the average authorized Return on Equity for LDCs was 10.31
11 percent,²⁶ which is well below any reasonable estimate of the cost of equity for a
12 natural gas pipeline company and considerably below the range of ROEs authorized
13 for natural gas pipeline companies.

14 **Q. Did the Commission provide any other basis for the inclusion of NFG in the**
15 **proxy group for *Kern River*?**

16 A. Yes. The Commission acknowledged the lower risk associated with the company's
17 distribution business but concluded that this risk is "reasonably offset" by its greater
18 risk associated with the E&P business segment.²⁷

19 **Q. Did the Commission offer any standard by which to assess the effect of**
20 **different business segments on the subject company's risk profile?**

21 A. Yes, the Commission made several observations in that regard:

²⁵ *Hope*, at P 603.

²⁶ SNL Energy accessed 9/8/2009 for the period 1/1/2008-9/8/2009.

²⁷ *Kern River*, at P 96.

1 ...if a diversified gas corporation with substantial gathering and
2 processing, exploration and production, and trading and marketing
3 functions is to be included in the proxy group, no one of these
4 components should exceed either of the less risky gas transmission
5 or distribution function functions to prevent overweighting the
6 riskier components.²⁸

7 * * *

8 ...if the firm has a total of more than 50 percent of gathering and
9 processing, exploration and production, and trading and marketing
10 components, the firm should be excluded from the proxy group.²⁹

11 Based on my review of the company's most recent financial data, NFG does
12 not meet those standards. As to the Commission's first observation, for the 12
13 months ended June 30, 2009, the company reported that the E&P segment
14 represented 48.30 percent of its combined net income while the pipeline and utility
15 segments contributed only 24.50 percent and 26.60 percent respectively.³⁰ Those
16 proportions are consistent with the company's historical operations. As of 2008, the
17 E&P segment represented 42.75 percent of the company's three-year average
18 operating income.

19 Moreover, the risks associated with the E&P segment are substantial in
20 comparison to the LDC segment. For example, the E&P segment lost \$38.4 million
21 for the nine months ended June 30, 2009.³¹ In the first fiscal quarter of 2009, NFG
22 recorded a \$108.2 million impairment charge (after-tax) in the E&P segment, which
23 produced an after tax loss for the quarter of \$83.6 million (for the E&P segment),
24 compared to a \$34.0 million gain for the E&P segment during the same quarter in

²⁸ Ibid., at P 91.

²⁹ Ibid., at P 92.

³⁰ National Fuel Gas Company, August 2009 Third Quarter, Fiscal Year 2009 update, at P 6.

³¹ Thompson Street Events, *NFG-Q32009 National Fuel Gas Company Earnings Call*, August 7, 2009 at P 2.

1 the prior year.³² By comparison, the Utility segment reported gains of \$20.2 million
2 and \$22.1 million in the first fiscal quarters of 2007 and 2008, respectively.³³

3 Those results notwithstanding, NFG has noted to investors that its strategic
4 focus now is on its E&P business segment. In its recent quarterly earnings
5 conference call,³⁴ the company noted that Appalachian area production is its focus
6 for future growth. Furthermore, in July of 2009, NFG announced that its
7 Exploration and Production segment purchased Ivanhoe Energy's oil and gas
8 operations for approximately \$40 million. The acquired assets include 645 gross (595
9 net) barrels of oil per day in California and Texas as well as exploration acreage in
10 California.³⁵ Based on its recent financial results, and given NFG's apparent strategic
11 focus on its E&P business segment, I have excluded that company from my proxy
12 group.

13 **Q. Please summarize the business operations of your respective proxy group**
14 **companies.**

15 A. Table 1, below, summarizes the percentage of each proxy company's assets and
16 operating income that are derived from pipeline operations. As shown in Table 1, all
17 of the proxy group companies have significant investments in, or derive a substantial
18 portion of their financial results from natural gas pipeline operations.

³² National Fuel Gas Company Q1 2009, February 6, 2009, Earnings Call Transcript, at P 1. *See also* National Fuel Gas Company SEC Form 10-Q, for the quarterly period ended December 31, 2008, at P 30.

³³ National Fuel Gas Company, SEC Form 10-Q for the quarterly period ended December 31, 2008, at P 26.

³⁴ National Fuel Gas Company Financial News, *National Fuel Reports Third Quarter Earnings*, August 6, 2009, at P 4.

³⁵ *National Fuel Gas Press Release: National Fuel Gas Company Announces the Acquisition of Oil and Gas Operations in California*, July 20, 2009.

1 **Table 1: Pipeline Operations of the Proxy Group Companies³⁶**

Company	Credit Rating	Operating Income Derived From Interstate Pipeline Operations				Assets Devoted to Interstate Pipeline Operations			
		2008	2007	2006	Mean	2008	2007	2006	Mean
Boardwalk Pipeline Partners, L.P. ³⁷	BBB	--	--	--	--	94.73%	91.44%	90.33%	92.17%
Enbridge Energy Partners, L.P.	BBB	41.71%	28.61%	34.61%	34.97%	43.13%	50.22%	53.55%	48.97%
Enterprise Products Partners, L.P.	BBB-	29.13%	34.00%	32.06%	31.73%	41.26%	44.49%	44.21%	43.32%
Spectra Energy	BBB+	89.16%	88.25%	90.02%	89.14%	--	--	--	--
TC PipeLines L.P. ³⁸	BBB+	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
MEAN		65.00%	62.72%	64.17%	63.96%	69.78%	71.54%	72.02%	71.12%
MEDIAN		65.44%	61.13%	62.32%	62.06%	68.93%	70.83%	71.94%	70.57%

2 In addition to the data provided in Table 1, the following portion of my testimony
3 provides a summary description of the respective proxy companies.

4 **Boardwalk Pipeline Partners, LP**

5 Boardwalk Pipeline Partners, L.P. (“Boardwalk”), through its operating
6 subsidiaries, owns and operates approximately 14,000 miles of natural gas pipelines,
7 directly serving customers in twelve states and indirectly serving customers
8 throughout the northeastern and southeastern United States through
9 interconnections with unaffiliated pipelines. In 2008, the system transported
10 approximately 1.7 trillion cubic feet of gas, with average daily throughput of 4.8
11 billion cubic feet. Boardwalk’s natural gas pipeline operations are described below.

12 ***Interstate Pipelines***

13 Gulf Crossing Pipeline is a new interstate natural gas pipeline that provides
14 transportation service from the Barnett Shale in Texas and the Caney/Woodford
15 Shale in Oklahoma. The pipeline begins near Sherman, Texas and extends for
16 approximately 350 miles to the Perryville, Louisiana area. End markets include the

³⁶ Source: Proxy Company SEC Form 10-K.

³⁷ Boardwalk Pipeline Partners, L.P. does not report operating income by business segment.

³⁸ While TC PipeLines does not have a credit rating, the parent company, TransCanada is rated Baa1 by Moody’s which is equivalent to an S&P rating of BBB+.

1 Midwest, Northeast, Southeast and Florida through interconnections with affiliated
2 and unaffiliated pipelines.

3 Texas Gas Transmission originates in Louisiana and in East Texas and runs
4 north and east through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky,
5 Indiana, and into Ohio, with smaller diameter lines extending into Illinois. The
6 system consists of approximately 5,950 miles of pipeline with a peak-day delivery
7 capacity of approximately 3.8 Bcf per day in addition to nine storage fields located in
8 Indiana and Kentucky. Directly-served markets include eight states in the South and
9 Midwest. Indirect access to markets in the Northeast is accomplished through
10 interconnections with unaffiliated pipelines.

11 The Gulf South Pipeline system is located along the Gulf Coast in the states
12 of Texas, Louisiana, Mississippi, Alabama, and Florida. The system contains
13 approximately 7,700 miles of pipeline with a peak-day delivery capacity of
14 approximately 5.0 Bcf per day as well as two natural gas storage fields located in
15 Louisiana and Mississippi. Markets directly served by Gulf South are generally
16 located in eastern Texas, Louisiana, southern Mississippi, southern Alabama, and the
17 Florida panhandle. Markets in the northeastern and southeastern U.S. also are
18 indirectly served by Gulf South through interconnections with other intrastate and
19 interstate pipelines, and storage facilities.

20 **Enbridge Energy Partners**

21 Enbridge Energy Partners' natural gas assets are primarily located in the U.S.
22 Gulf Coast region and consist of gathering, treating, processing, and transportation

1 systems. The transportation segment contains several interstate and intrastate
2 pipelines.

3 ***Interstate Pipeline***

4 The AlaTenn System extends for 281 miles from Selmer, Tennessee to
5 Huntsville, Alabama and serves an eight-county area in Alabama, Mississippi, and
6 Tennessee. The Midla System consists of 405 miles of interstate pipeline that runs
7 from the Monroe gas field in northern Louisiana, southward through Mississippi to
8 Baton Rouge, Louisiana. Customers served include large industrial markets and
9 municipal customers.

10 ***Intrastate Pipelines***

11 Enbridge Energy Partners' intrastate pipelines consist of midstream services
12 in Texas, Oklahoma, Louisiana, Mississippi, and Alabama.

13 The East Texas System contains approximately 3,900 miles of pipe, eight
14 treating plants and seven processing plants.³⁹ The system processes and transports
15 natural gas primarily from the Bossier Sands and delivers it to multiple downstream
16 pipelines.

17 The Louisiana segment contains three intrastate natural gas systems in
18 southern Louisiana totaling 215 miles of pipeline that serve customers in the
19 Mississippi River industrial corridors near New Orleans and Baton Rouge.

20

³⁹ Ibid., at P 11.

1 ***Gathering Systems***

2 The Anadarko System is located within the Anadarko Basin in the Texas
3 Panhandle and western Oklahoma and comprises approximately 1,800 miles of
4 gathering and transportation pipelines, and six active natural gas processing plants.⁴⁰

5 The Alabama System consists of 265 miles of gathering and transportation
6 pipelines that bring coal bed methane to market. Customers include nearby industrial
7 companies and LDCs or end markets of the Transco interstate pipeline.

8 The Mississippi segment consists of two natural gas gathering systems
9 totaling 165 miles of gathering pipe that deliver gas to the Destin and Tennessee
10 interstate pipelines.

11 The North Texas system consists of approximately 4,500 miles of pipeline
12 and 10 processing plants that service the Barnett Shale formation. The Seacrest
13 Pipeline connects shallow water offshore natural gas gathering systems to several
14 onshore pipelines. The pipes come onshore near Freeport, Texas and Morgan City,
15 Louisiana.⁴¹

16 **Enterprise Products Partners**

17 Enterprise Products Partners' onshore natural gas pipeline system includes
18 gathering and transmission of natural gas from on- and offshore developments.

19 ***Intrastate Pipelines***

20 The Acadian Gas System Storage Enterprise also operates four natural gas
21 storage facilities: Petal; Hattiesburg; Wilson; and Acadian, with a total storage
22 capacity of 27.2 Bcf.

⁴⁰ Enbridge Energy Partners, L.P., 2008 Annual Review, at P 12.

⁴¹ Ibid.

1 ***Gathering Systems***

2 The Texas Intrastate System also includes the remaining 4,421 miles of
3 onshore pipelines consists of smaller gathering and transportation systems. The
4 company also has ownership interests in several offshore natural gas pipelines
5 totaling 1,544 miles that interconnect with major interstate pipelines.

6 **Spectra Energy**

7 Spectra Energy Corporation is involved in the transmission, storage,
8 distribution, gathering and processing of natural gas in the United States and Canada.
9 It owns and operates 18,300 miles of transmission pipelines which were responsible
10 for 3,733 trillion Btus of throughput in 2008.

11 ***Interstate Pipelines***

12 Spectra's pipeline assets include Texas Eastern Transmission, L.P. ("Texas
13 Eastern"), Algonquin Gas Transmission, LLC ("Algonquin"), East Tennessee
14 Natural Gas, LLC ("East Tennessee"), Maritimes & Northeast Pipeline ("M&NP"), a
15 50.00 percent ownership in Gulfstream and a 50.00 percent ownership in Southeast
16 Supply Header, LLC ("SESH"), which began operations in September 2008.
17 Transmission operations in the United States comprised 55.00 percent of Spectra's
18 total operating income in 2007. Canadian natural gas transmission comprises another
19 20.00 percent of Spectra's business operations. Therefore, Spectra's business is
20 highly concentrated in the transmission of natural gas.

21 Texas Eastern delivers gas from Texas and Louisiana to Ohio, Pennsylvania,
22 New Jersey, and New York. The pipeline consists of 8,700 miles of onshore
23 pipeline, 500 miles of offshore pipe, 73 compressor stations and three storage fields.

1 Algonquin transports natural gas from New Jersey to New England with 1,100 miles
2 of pipeline and seven compressor units. East Tennessee connects with Texas
3 Eastern in Tennessee and transports natural gas to Georgia, North Carolina and
4 Virginia through 1,510 miles of pipeline with 21 compressor stations. M&NP brings
5 natural gas 900 miles from Nova Scotia to Maine, New Hampshire and
6 Massachusetts with the aid of seven compressor stations. Gulfstream delivers natural
7 gas from Mississippi and Alabama across the Gulf of Mexico to Florida over 745
8 miles. SESH spans from Louisiana to Alabama consisting of a 274-mile natural gas
9 pipeline and three compression stations.

10 Spectra's Canadian operations include its Union Gas subsidiary which
11 operates natural gas distribution, transmission and storage services in Ontario,
12 Canada. Union Gas provides distribution service to approximately 1.3 million
13 residential, commercial and industrial customers. Union Gas also operates
14 substantial storage and transmission facilities at the Dawn, Ontario natural gas hub.

15 The Western Canada Transmission and Processing segment of Spectra
16 operates the BC Pipeline Westcoast, a 1,800 mile gas transmission pipeline that
17 transports gas from northern British Columbia to markets in British Columbia and to
18 the western United States at an export delivery-point interconnection with
19 Northwestern Pipeline, as well as gas gathering and processing services with 2,100
20 miles of gathering pipeline and 16 natural gas processing plants, split between two
21 business units.

1 ***Storage***

2 Spectra owns or is a part owner of natural gas storage facilities in Maryland,
3 Pennsylvania, Texas, Louisiana and Ontario with a total capacity of 275 Bcf.

4 **TC PipeLines**

5 TC PipeLines is engaged in the transportation of natural gas from the
6 Western Canada Sedimentary Basin (“WCSB”) to a variety of downstream markets in
7 the U.S.

8 ***Interstate Pipelines***

9 TC PipeLines has an ownership interest in four operating subsidiaries, Great
10 Lakes Gas Transmission Limited Partnership (“Great Lakes”), Northern Border
11 Pipeline Company (“Northern Border”) and Tuscarora Gas Transmission Company
12 (“Tuscarora”), and North Baja Pipeline, LLC (“North Baja”).

13 Great Lakes was originally constructed as an operational loop of the
14 TransCanada Mainline Northern Ontario system. Its primary receipt point is with
15 the TransCanada mainline at the Canadian border near Emerson, Manitoba. From
16 there, Great Lakes extends for 2,115 miles through Minnesota, northern Wisconsin
17 and Michigan to its redelivery point on the TransCanada mainline at the Canadian
18 border in Michigan. Great Lakes also delivers gas to storage fields and interconnects
19 with other interstate gas pipelines. Great Lakes is jointly owned by TC PipeLines and
20 TransCanada.

21 Northern Border extends for 1,249 miles from the Canadian border in
22 Montana to its terminus in North Hayden, Indiana. The pipeline system provides
23 pipeline access to the Midwestern U.S. from natural gas reserves in the WCSB.

1 Northern Border also transports natural gas produced in the Williston Basin of
2 Montana and North Dakota, and the Powder River Basin of Wyoming and Montana,
3 as well as synthetic gas produced at the Dakota Gasification plant in North Dakota.
4 Northern Border is jointly owned by TC PipeLines and ONEOK Partners.

5 Tuscarora is a 240-mile transportation system originating in Malin, Oregon at
6 an interconnection with existing facilities of Gas Transmission Northwest
7 Corporation, a wholly-owned subsidiary of TransCanada. The pipeline extends
8 through northeastern California and northwestern Nevada to its terminus near
9 Wadsworth, Nevada. Sixteen delivery points allow for the transportation of natural
10 gas to Oregon, northern California and northwestern Nevada.

11 North Baja is an 80-mile interstate natural gas pipeline transmission system
12 that extends from southwest Arizona to a point on the California-Mexico border.

13 **V. DETERMINATION OF THE APPROPRIATE RETURN ON**
14 **EQUITY**

15 **The Discounted Cash Flow Approach**

16 **Q. Please describe the DCF approach.**

17 A. The DCF approach is based on the theory that an equity share's price represents the
18 present value of all future expected cash flows. In its simplest form, the DCF model
19 expresses the ROE as the sum of the expected dividend (or distribution) yield and
20 long-term growth rate. The DCF approach estimates a firm's ROE as the rate that
21 equates the discounted value of all future cash flows expected by investors with the
22 value of its common stock (or limited partnership units). In its most common form,
23 the DCF model is expressed as follows:

1
$$k = \frac{D(1+g)}{P} + g \text{ [1]}$$

2 where:

3 k = the required return

4 D = the current dividend (or distribution)

5 g = the expected growth rate

6 P = the subject company's stock (or unit) price⁴²

7 As noted later in my testimony, consistent with Commission precedent, the
8 two-stage form of the DCF model used in my analysis is essentially similar to
9 Equation [1], but for the fact that the growth rate, g , is calculated as the weighted
10 average of a near-term and a long-term growth rate.

11 **Q. What assumptions are required for the DCF model?**

12 A. The DCF model requires the following assumptions: (1) a constant average growth
13 rate for earnings and dividends; (2) a stable dividend payout ratio; (3) a constant
14 price-to-earnings multiple; and (4) a discount rate greater than the expected growth
15 rate. In light of those assumptions, it is not uncommon for analysts to apply
16 considered judgment or to make specific adjustments to model inputs or results in
17 arriving at an ROE recommendation.

⁴² Strictly speaking, MLPs make “distributions” to unit holders and corporations pay “dividends” to stockholders, but the DCF model makes no distinction between dividends and distributions. I have attempted to provide the alternate term, where appropriate, throughout the testimony.

1 **Dividend (or Distribution) Yield**

2 **Q. How did you determine the dividend yield?**

3 A. In keeping with Commission precedent, I have used the current annualized dividend
4 (or distribution) together with the average of the high and low stock prices for each
5 of the most recent six-months for each of the proxy group companies as of July 31,
6 2009.⁴³ My calculation of the average stock or unit prices for each proxy group
7 company is shown on Exhibit No. FGT-15.

8 **Q. Did you adjust the dividend (or distribution) yield to account for periodic
9 growth in dividends (or distributions)?**

10 A. Yes. Since companies tend to increase their quarterly dividends (or distributions) at
11 different times throughout the year, it is reasonable to assume that such increases will
12 be evenly distributed over calendar quarters. Given that assumption, it is reasonable
13 to apply one-half of the expected annual growth rate to the dividend (or distribution)
14 for the purposes of calculating the expected dividend (or distribution) yield
15 component of the DCF model. This adjustment ensures that the expected yield is
16 representative of the coming 12-month period. Accordingly, the DCF estimates
17 provided on page one of Exhibit No. FGT-16 reflect one-half of the expected near-
18 term growth in the dividend (or distribution) yield component of the model.

⁴³ See, Williston Basis Interstate Pipeline Company, 84 FERC ¶ 61,081, at 61,382 (1998).

1 **DCF Growth Estimates**

2 **Q. Has the Commission established any precedent with respect to the Growth**
3 **estimates to be used in the DCF analysis?**

4 A. Yes. As noted in the *Policy Statement*, the Commission's preferred DCF methodology,
5 the two-stage growth model, utilizes forecast earnings per share growth rates as near-
6 term growth rates and a measure of Gross Domestic Product ("GDP") as the long-
7 term growth rate. Under the Commission's preferred approach, the near-term
8 growth rates receive a two-thirds weighting and the long-term growth rate receives a
9 one-third weighting:

10 Over the years, the Commission has standardized the inputs to the
11 DCF formula as applied to interstate gas and oil pipelines. The
12 Commission averages short-term and long-term growth estimates in
13 determining the constant growth of dividends (referred to as the
14 two-step procedure). Security analysts' five-year forecasts for each
15 company in the proxy group (discussed below), as published by
16 IBES, are used for determining growth for the short term. The
17 long-term growth is based on forecasts of long-term growth of the
18 economy as a whole, as reflected in the Gross Domestic Product
19 (GDP [,) which are drawn from three different sources. The short-
20 term forecast receives a two-thirds weighting and the long-term
21 forecast receives a one-third weighting in calculating the growth rate
22 in the DCF model.⁴⁴

23 **Q. Please summarize how the Commission applies the long-term growth rate to**
24 **proxy companies.**

25 A. It is the Commission's long-standing policy to rely on GDP as the measure of long-
26 term growth for corporations, based on the assumption that over the long-term,
27 corporations will not grow at a faster rate than the overall economy. In the *Policy*

⁴⁴ *Policy Statement*, at P 6.

1 *Statement* docket, the Commission considered whether the use of GDP as the long-
2 term growth rate was appropriate for MLPs, and concluded that:

3 [C]orporations (1) have greater opportunities for diversification
4 because their investment opportunities are not limited to those that
5 meet the tax qualifying standards for an MLP and (2) are able to
6 assume greater risk at the margin because of less pressure to
7 maintain a high payout ratio. It is a corporation's higher retention
8 ratio that allows this greater flexibility. This is consistent with the
9 fact that Prudential Bache projected the long-term growth rates of
10 electric utilities to be less than that of the economy as whole
11 because of their greater dividend payouts and lower retention
12 ratios.⁴⁵

13 The Commission then reasoned that investors would assume that the lower
14 retention ratios and presumably more limited investment opportunities associated
15 with MLPs necessarily would result in lower growth rates relative to their corporate
16 counterparts. Noting that the key issue is whether or not MLPs are likely to have the
17 same relative growth potential as corporate entities, the Commission determined that
18 "...the collective long term growth rate for MLPs will be less than that of schedule C
19 corporations...."⁴⁶ Based in large part on that conclusion, the Commission
20 determined that the long-term growth rate for MLPs should be 50.00 percent of the
21 long-term projected GDP growth rate (as opposed to the full long-term projected
22 growth rate that continues to be used for corporations).⁴⁷ The Commission therefore
23 concluded that one-half of the estimate of GDP growth should be used as the long-
24 term growth rate for MLPs.⁴⁸

⁴⁵ *Policy Statement*, at P 93.

⁴⁶ *Ibid.*, at P 94.

⁴⁷ *Ibid.*, at P 106.

⁴⁸ *Ibid.*

1 **Q. Do you agree with the use of projected growth rates as the basis for short-term**
2 **growth rate projections?**

3 A. Yes. The ROE is a forward-looking concept that focuses on investor expectations
4 regarding future returns. The estimation of such returns, therefore, should be based
5 on forward-looking or projected data. I further agree that earnings (as opposed to
6 dividends, distributions, or book value) provide the appropriate basis for the short-
7 term growth estimate. Among other reasons, my position in that regard is based on a
8 substantial record of academic research that clearly demonstrates the strong
9 relationship between analyst's earnings projections and investors' return expectations.

10 **Q. Do you agree with the Commission that investors necessarily expect MLPs to**
11 **have slower growth over the long-term than corporations?**

12 A. No, I do not. As a preliminary matter, while the Commission noted that
13 corporations would have a wider selection of opportunities for diversification of
14 operations, as noted above, my screening process has eliminated much of this
15 potential diversification in order to focus specifically on companies and partnerships
16 that specialize primarily in the transportation of natural gas. There is, in fact, very
17 little difference in the opportunities available to the corporations as compared to the
18 MLPs in the proxy group. While the Commission maintains that the presumed
19 difference in investment opportunities provides a reasonable basis to reduce the
20 second stage growth rate for MLPs, I do not agree that it is appropriate to do so.
21 Based on my review of the long-term average historical earnings growth rates of
22 MLPs, I conclude that on average MLPs have grown at a rate that exceeds the
23 growth in GDP (*i.e.*, the long-term growth rate applied by the Commission to

1 corporations). In my view, there is no clear basis to assume that MLPs necessarily
2 will grow at a lower rate than their corporate counterparts over the long-term.
3 Nonetheless, the Company's proposed ROE of 13.88 percent is based on the
4 Commission's preferred approach.

5 **Q. Please describe the analyses that you performed to assess the long-term**
6 **growth of MLPs.**

7 A. In the *Policy Statement*, the Commission stated that the key issue regarding the long-
8 term growth estimate for MLPs is whether as a group, MLPs have the same "relative
9 potential" as corporate entities under the broad assumption that "...a mature firm will
10 grow at the same rate as the economy as a whole."⁴⁹ Since the Commission's
11 position is that over the long run, MLPs will not grow at the overall rate of the
12 economy, my analysis focused on a comparison of historical earnings growth for
13 MLPs relative to the nominal growth in GDP. Given that this analysis is focused on
14 the validity of the Commission's position on the long-term growth prospects for
15 MLPs and is not a matter of the comparability of this group relative to FGT, I
16 included MLPs that may not have met all of the screening criteria used to develop the
17 proxy group in this analysis. Rather, my analysis included MLPs that met only the
18 35.00 percent pipeline operations screen.

19 In order to compare historical growth rates, my analysis relied the annual
20 historical diluted earnings per share from continuing operations from December 31,
21 1992 through December 31, 2008 for all of the MLPs that met the 35.00 percent
22 pipeline operations screening criterion, (1992 was the first year that this data was

⁴⁹ Ibid., at P 94.

1 available for any of the MLPs that met my criterion). This data is presented in
2 Exhibit No. FGT-17. I calculated the average annual growth in earnings per share
3 for each reporting MLP over that study period. As shown in Exhibit No. FGT-17,
4 the average annual change in diluted earnings per share for the MLPs was 16.08
5 percent, and the median was 9.16 percent. In comparison, the average annual growth
6 in nominal GDP over that period was 5.21 percent. While I realize that the DCF
7 model is forward-looking, in my view this comparison of historical data suggests that
8 in general, the MLPs are increasing earnings per share at a rate that is considerably
9 higher than the rate of change for GDP. Those results suggest that it is not
10 appropriate to adjust the long-term growth component for the MLPs to one-half of
11 the GDP growth rate.

12 **Q. Have you also performed a DCF analysis that reflects the approach outlined**
13 **by the Commission in the *Policy Statement* and applied by the Commission in**
14 ***Kern River*?**

15 A. Yes. While I disagree with the Commission as to the appropriate long-term growth
16 rate to use for MLPs, I have performed a DCF analysis that is consistent with the
17 Commission's approach, as described in the *Policy Statement* and applied in *Kern River*.
18 The results of that analysis fully support the 13.88 percent ROE proposed by the
19 Company in this proceeding.

20 **Q. Please summarize your application of the two-stage DCF model.**

21 A. I calculated the DCF result for each of the proxy group companies using the
22 following inputs:

- 1 1. Based on Commission precedent,⁵⁰ I have averaged the nearest six-month
- 2 low and high stock (or unit) prices for the period ended July 31, 2009.
- 3 2. The current annualized dividend (or distribution) per share as of July 31,
- 4 2009;
- 5 3. I used I/B/E/S estimates of earnings per share growth for each of the
- 6 proxy group companies as the short-term forecast of the proxy companies'
- 7 growth rates; and
- 8 4. I calculated the simple average of the long-term real GDP growth forecast
- 9 by the Energy Information Administration and Blue Chip Economic
- 10 Indicators, as the long-term growth rate for corporations. Consistent with
- 11 the Commission's position in the *Policy Statement*, I included one-half of this
- 12 value as the long-term growth rate for the MLPs that are included in my
- 13 proxy group.

14 As discussed earlier, I adjusted the six-month average dividend yield by one-

15 half of the expected short-term growth rate to arrive at the expected yield component

16 of the model. Finally, in accordance with the Commission's past practice, I applied

17 weights of two-thirds and one-third to the short-term and long-term forecast growth

18 rates, respectively. Please refer to Exhibit No. FGT-16 for a tabulation of the

19 dividend yields and growth rates used in my DCF analysis.

20 **Q. Please explain the approach by which you calculated your range of results.**

21 A. I calculated my range of results in accordance with the Commission's past practice,

22 which is to say that I calculated the two-stage DCF result for each company in the

⁵⁰ Order rejecting partial settlement, establishing transportation and storage rates, and directing filings in Cranberry Pipeline Corp., 112 FERC ¶ 61,268 (2005).

1 proxy group. I then established the range of reasonableness by reference to the low
2 and high results within the group.

3 **Q. Did you perform any additional DCF analyses?**

4 A. Yes, I did. In my second DCF analysis, I continued to rely on the Commission's
5 two-stage growth model, the two-thirds weighting of the near-term growth rates and
6 the one-third weighting of the long-term growth rates, however, I did not apply the
7 factor of one-half to the long-term growth rate for the MLPs in my proxy group.

8 **DCF Results**

9 **Q. Please summarize the results of your DCF analyses.**

10 A. As shown in Table 2, below and in Exhibit No. FGT-16, the median result using the
11 Commission's methodology (which applies a factor of one-half to the long-term
12 growth rate for MLPs) is 13.88 percent and the median result using the full GDP
13 growth rate for MLPs is 14.69 percent.

14 **Table 2: DCF Results**

	Mean	Median	Mid-point
Commission Methodology	13.62%	13.88%	13.63%
Full growth DCF	14.26%	14.69%	14.03%

15 **VI. CURRENT MARKET ENVIRONMENT**

16 **Q. How do economic conditions influence the cost of capital and Return on**
17 **Equity?**

18 A. The required cost of capital, including the ROE, is a function of prevailing and
19 expected market conditions. Consistent with the *Hope* and *Bluefield* decisions, the
20 authorized ROE for a public utility should allow the company to attract investor
21 capital at reasonable cost under a variety of economic and financial market

1 conditions. The ability to attract capital on favorable terms is especially important
2 during a period in which natural gas pipelines are being asked by customers and
3 regulators to enhance system reliability and expand system capacity, and address
4 significant environmental mandates.

5 **Q. Please summarize the condition of the current credit markets.**

6 A. While the credit markets have continued to contract over the past year, recent events
7 have greatly accelerated the momentum and the increased reach of the crisis. The
8 widely discussed financial dislocation and its effect on both lenders and equity
9 investors have resulted in high profile bankruptcies, bank mergers, and significant
10 government intervention in capital markets. The fourth quarter of 2008 through the
11 present has been characterized by constrained credit availability, a significant increase
12 in the cost of corporate debt financing, and highly volatile and deteriorating equity
13 valuations. Importantly, no sector, including gas transmission, has been immune to
14 those conditions.

15 **Q. How have the current capital market conditions affected the availability of**
16 **and cost of capital?**

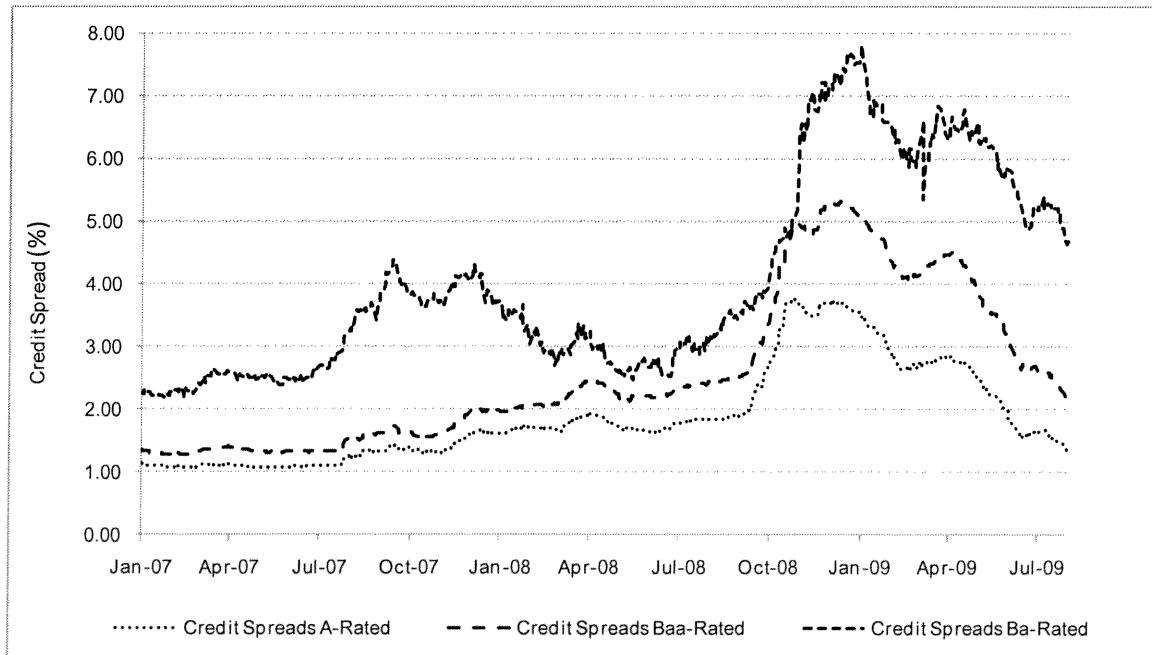
17 A. The current state of the financial markets has led to a general decrease in the
18 availability of, and an increase in the cost of, both debt and equity capital for all
19 market sectors, including utilities. In its *Pipeline/Midstream/MLP 2009 Outlook*, Fitch
20 noted that current capital market constraints and a lack of market liquidity will result
21 in higher financing costs for pipelines in the near-term. Fitch further noted that until
22 financial conditions normalize and companies are able to efficiently raise debt and

equity capital, investors' concerns with the risks resulting from market illiquidity will result in a negative view for the pipeline, midstream and MLP segments.⁵¹

Q. Are there any observable benchmarks to assess the change in the cost of capital?

A. Yes. A directly observable measure of the increased cost of capital for utilities is the change in credit spreads (*i.e.*, the difference between the yield on corporate debt and the yield on Treasury securities of comparable maturities over time). As shown in Chart 1 (below), while the levels of yields and credit spreads have moderated over the past three months, they are at greater levels than existed prior to August, 2007, which is generally considered to be the beginning of the credit contraction.

Chart 1: A, Baa, Ba Utility Credit Spreads⁵²



⁵¹ Fitch Ratings, *Pipeline/Midstream/MLP 2009 Outlook*, November 20, 2008.

⁵² Source: Bloomberg.

1 **Q. What does market volatility tell us about the perceived level of investment risk**
2 **and the return requirements of investors?**

3 A. From an investor's perspective, increased volatility represents increased investment
4 risk. Since investors require higher returns as compensation for taking on higher
5 levels of risk, periods of marked increases in price and return volatility also are
6 periods of increased return requirements. In that regard, it is clear that market
7 volatility has increased dramatically during the economic and financial crisis, and
8 remains at an unusually high level. To that point, the Chicago Board Options
9 Exchange Volatility Index (the "VIX"), which is a widely recognized measure of
10 market volatility, provides important insight to investors' view of expected volatility
11 and, therefore, their return requirements.

12 The average level of the VIX since its inception in 1990 has been 20.21,
13 implying an average expected volatility of 20.21 percent. During the height of the
14 economic and credit crisis, however, the VIX index exceeded 80.00, and the VXV
15 (the three-month volatility index) approached 70.00, which demonstrates the extreme
16 risk aversion that gripped market participants during this period of unprecedented
17 uncertainty. The current 30-day average VXV indicates expected volatility of
18 approximately 29.42 percent, indicating that the capital markets expect volatility to
19 remain above its historical average, at least in the near-term. Consequently, investors'
20 return requirements would be expected to be higher in order to compensate them for
21 the risks and uncertainty associated with elevated market volatility.

1 bearing on the terms at which the Company will be able to attract capital in the
2 financial markets.

3 **Q. What is the Company's proposed capital structure?**

4 A. As discussed in the testimony of FGT Witness Michael T. Langston (Exhibit No.
5 FGT-1), the Company has proposed to rely on its existing capital structure, which
6 consists of 60.74 percent equity and 39.26 percent debt.

7 **Q. Is the Company's proposed capital structure reasonable?**

8 A. Yes, it is. The use of the Company's actual capital structure is consistent with the
9 Commission's precedent as established in Opinion 154-B (The Williams Pipeline
10 Company case) as follows: "the Commission shall use a pipeline's or its parent's
11 actual capital structure, but will allow participants on a case-specific basis to urge the
12 use of some other capital structure."⁵³ In addition, the Company's proposed capital
13 structure is in the range that is generally supported by Standard and Poor's for BBB
14 to A- rated companies.

15 **Q. How does the capital structure factor into Standard and Poor's ratings?**

16 A. Capital structure is one of the factors considered by Standard and Poor's in
17 establishing the company's business and financial risk profile. These factors form the
18 basis of the corporate credit rating for a company. In Standard and Poor's rating
19 criteria, a 60.00 percent equity ratio, taken into consideration with cash flow coverage
20 ratios, is in the range of indicative ratios that support a BBB to A- rating. Therefore,
21 based on the Standard and Poor's criteria, and given that the Company needs to

⁵³ Williams Pipeline Co., 31 FERC at 61,377, at 61,833 (1985).

maintain a creditworthy credit rating to meet its capital requirements, the Company's proposed equity ratio is reasonable.

VIII. SUMMARY AND CONCLUSIONS

Q. Please summarize your recommended ROE for FGT.

A. Taking into consideration the current market conditions, and the result of the full growth DCF model, as shown in Table 3, below, a return on equity of 13.88 percent, which is the median DCF result using the Commission's DCF calculation, is reasonable.

Table 3: DCF Results

	Mean	Median	Mid-point
Commission Methodology	13.62%	13.88%	13.63%
Full growth DCF	14.26%	14.69%	14.03%

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

Robert B. Hevert, CFA
President

Mr. Hevert is an economic and financial consultant with broad experience in the energy industry. He has an extensive background in the areas of corporate strategic planning, energy market assessment, corporate finance, mergers, and acquisitions, asset-based transactions, asset and business unit valuation, market entry strategies, strategic alliances, project development, feasibility and due diligence analyses. Mr. Hevert has significant management experience with both operating and professional services companies.

REPRESENTATIVE PROJECT EXPERIENCE

Financial and Economic Advisory Services

Retained by numerous leading energy companies and financial institutions throughout North America to provide services relating to the strategic evaluation, acquisition, sale or development of a variety of regulated and non-regulated enterprises. Specific services have included: developing strategic and financial analyses and managing multi-faceted due diligence reviews of proposed corporate M&A counter-parties; developing, screening and recommending potential M&A transactions and facilitating discussions between senior utility executives regarding transaction strategy and structure; performing valuation analyses and financial due diligence reviews of electric generation projects, retail marketing companies, and wholesale trading entities in support of significant M&A transactions.

Specific divestiture-related services have included advising both buy and sell-side clients in transactions for physical and contractual electric generation resources. Sell-side services have included: development and implementation of key aspects of asset divestiture programs such as marketing, offering memorandum development, development of transaction terms and conditions, bid process management, bid evaluation, negotiations, and regulatory approval process. Buy-side services have included comprehensive asset screening, selection, valuation and due diligence reviews. Both buy and sell-side services have included the use of sophisticated asset valuation techniques, and the development and delivery of fairness opinions.

Specific corporate finance experience while a Vice President with Bay State Gas included: negotiation, placement and closing of both private and public long-term debt, preferred and common equity; structured and project financing; corporate cash management; financial analysis, planning and forecasting; and various aspects of investor relations.

Representative non-confidential clients have included:

- Conectiv generation asset divestiture
- Eastern Utilities Associates (prior to acquisition by National Grid, PLC) generation asset divestiture
- Niagara Mohawk – sale of Niagara Mohawk Energy
- Potomac Electric Company generation asset divestiture

Representative confidential engagements have included:

- Buy-side valuation and assessment of merchant generation assets in Midwestern U.S.
- Buy-side due diligence and valuation of wholesale energy marketing companies in Eastern and Midwestern U.S.
- Buy-side due diligence of natural gas distribution assets in Northeastern U.S.
- Financial feasibility study of natural gas pipeline in upper Midwestern U.S.

- Financial valuation of natural gas pipeline in Southwestern U.S.

Regulatory Analysis and Ratemaking

On behalf of electric, natural gas and combination utilities throughout North America, provided services relating to energy industry restructuring including merchant function exit, residual energy supply obligations, and stranded cost assessment and recovery. Also performed rate of return and cost of service analyses for municipally owned gas and electric utilities. Specific services provided include: performing strategic review and development of merchant function exit strategies including analysis of provider of last resort obligations in both electric and gas markets; and developing value optimizing strategies for physical generation assets.

Representative engagements have included:

- Performing rate of return analyses for use in cost of service analyses on behalf of municipally owned gas and electric utilities in the Southeastern and Midwestern U.S.
- Developing merchant function exit strategies for Northeastern U.S. natural gas distribution companies
- Developing regulatory and ratemaking strategy for mergers including several Northeastern natural gas distribution companies

Litigation Support and Expert Testimony

Provided expert testimony and support of litigation in various regulatory proceedings on a variety of energy and economic issues including the proposed transfer of power purchase agreements, procurement of residual service electric supply, the legal separation of generation assets, and specific financing transactions. Services provided also included collaborating with counsel, business and technical staff to develop litigation strategies, preparing and reviewing discovery and briefing materials, preparing presentation materials and participating in technical sessions with regulators and intervenors.

Energy Market Assessment

Retained by numerous leading energy companies and financial institutions nationwide to manage or provide assessments of regional energy markets throughout the U.S. and Canada. Such assessments have included development of electric and natural gas price forecasts, analysis of generation project entry and exit scenarios, assessment of natural gas and electric transmission infrastructure, market structure and regulatory situation analysis, and assessment of competitive position. Market assessment engagements typically have been used as integral elements of business unit or asset-specific strategic plans or valuation analyses.

Representative engagements have included:

- Managing assessments of the NYPOOL, NEPOOL and PJM markets for major North American energy companies considering entering or expanding their presence in those markets
- Assessment of ECAR, MAPP, MAIN and SPP markets for a large U.S. integrated utility considering acquisition of additional electric generation assets
- Assessment of natural gas pipeline and storage capacity in the SERC and FRCC markets for a major international energy company

Resource Procurement, Contracting and Analysis

Assisted various clients in evaluating alternatives for acquiring fuel and power supplies, including the development and negotiation of energy contracts and tolling agreements. Assignments also have included developing generation resource optimization strategies. Provided advice and analyses of transition service power supply contracts in the context of both physical and contractual generation resource divestiture transactions.

Business Strategy and Operations

Retained by numerous leading North American energy companies and financial institutions nationwide to provide services relating to the development of strategic plans and planning processes for both regulated and non-regulated enterprises. Specific services provided include: developing and implementing electric generation strategies and business process redesign initiatives; developing market entry strategies for retail and wholesale businesses including assessment of asset-based marketing and trading strategies; and facilitating executive level strategic planning retreats. As Vice President, Energy Ventures, of Bay State was responsible for the company's strategic planning and business development processes, played an integral role in developing the company's non-regulated marketing affiliate, EnergyUSA, and managed the company's non-regulated investments, partnerships and strategic alliances.

Representative engagements have included:

- Developing and facilitating executive level strategic planning retreats for Northeastern natural gas distribution companies
- Developing organization and business process redesign plans for municipally owned gas/electric/water utility in the Southeastern U.S.
- Reviewing and revising corporate merchant generation business plans for Canadian and U.S. integrated utilities
- Advising client personnel in development of business unit level strategic plans for various natural gas distribution companies

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2002 – Present)

President

Navigant Consulting, Inc. (1997 – 2001)

Managing Director (2000 – 2001)

Director (1998 – 2000)

Vice President, REED Consulting Group (1997 – 1998)

REED Consulting Group (1997)

Vice President

Bay State Gas Company (1987 – 1997)

Vice President, Energy Ventures and Assistant Treasurer

Boston College (1986 – 1987)

Financial Analyst

General Telephone Company of the South (1984 – 1986)

Revenue Requirements Analyst

EDUCATION

M.B.A., University of Massachusetts at Amherst, 1984

B.S., University of Delaware, 1982

DESIGNATIONS AND PROFESSIONAL AFFILIATIONS

Chartered Financial Analyst, 1991
Association for Investment Management and Research
Boston Security Analyst Society

PUBLICATIONS/PRESENTATIONS

Has made numerous presentations throughout the United States and Canada on several topics, including:

- Generation Asset Valuation and the Use of Real Options
 - Retail and Wholesale Market Entry Strategies
 - The Use Strategic Alliances in Restructured Energy Markets
 - Gas Supply and Pipeline Infrastructure in the Northeast Energy Markets
 - Nuclear Asset Valuation and the Divestiture Process
-

AVAILABLE UPON REQUEST

Extensive client and project listings, and specific references.

EXPERT TESTIMONY OF ROBERT B. HEVERT

Attachment A

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Arkansas Public Service Commission				
CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Arkansas Gas	01/07	CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Arkansas Gas	Docket No. 06-161-U	Return on Equity
Colorado Public Utilities Commission				
Atmos Energy Corporation	07/09	Atmos Energy Colorado-Kansas Division	Docket No. 09AL-507G	Return on Equity (gas)
Xcel Energy	12/06	Public Service Company of Colorado	Docket No. 06S-656G	Return on Equity (gas)
Xcel Energy	04/06	Public Service Company of Colorado	Docket No. 06S-234EG	Return on Equity (electric)
Xcel Energy	08/05	Public Service Company of Colorado	Advice Letter No. 94-Stream	Return on Equity (steam)
Xcel Energy	05/05	Public Service Company of Colorado	Docket No. 05-264G	Return on Equity (gas)
Connecticut Department of Public Utility Control				
Southern Connecticut Gas Company	09/08	Southern Connecticut Gas Company	Docket No. 08-08-17	Return on Equity
Southern Connecticut Gas Company	12/07	Southern Connecticut Gas Company	Docket No. 05-03-17PH02	Return on Equity
Connecticut Natural Gas Corporation	12/07	Connecticut Natural Gas Corporation	Docket No. 06-03-04PH02	Return on Equity
Federal Energy Regulatory Commission				
Maritimes and Northeast Pipeline LLC	07/09	Maritimes and Northeast Pipeline LLC	Docket No. RP09-809-000	Return on Equity
Spectra Energy	02/08	Saltville Gas Storage	Docket No. RP08-257-000	Return on Equity
Panhandle Energy Pipelines	08/07	Panhandle Energy Pipelines	Docket No. PL07-2-000	Response to draft policy statement regarding inclusion of MLPs in proxy groups for determination of gas pipeline ROEs
Southwest Gas Storage Company	08/07	Southwest Gas Storage Company	Docket No. RP07-541-000	Return on Equity
Southwest Gas Storage Company	06/07	Southwest Gas Storage Company	Docket No. RP07-34-000	Return on Equity
Sea Robin Pipeline LLC	06/07	Sea Robin Pipeline L.L.C.	Docket No. RP07-513-000	Return on Equity
Transwestern Pipeline Company	09/06	Transwestern Pipeline Company	Docket No. RP06-614-000	Return on Equity
GPU International and Aquila	11/00	GPU International	Docket No. EC01-24-000	Market Power Study
Maine Public Utilities Commission				
Northern Utilities, Inc.	07/95	Northern Utilities	Maine PUC	Gas Distribution System Expansion

EXPERT TESTIMONY OF ROBERT B. HEVERT

Attachment A

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Massachusetts Department of Public Utilities				
National Grid	08/09	Massachusetts Electric Company	D.P.U. 09-39	Revenue Decoupling and Return on Equity
National Grid	08/09	Massachusetts Electric Company	D.P.U. 09-38	Return on Equity – Solar Generation
Bay State Gas Company	04/09	Bay State Gas Company	D.T.E. 09-30	Return on Equity
NSTAR Electric	09/04	NSTAR Electric	D.T.E. 04-85	Divestiture of Power Purchase Agreement
NSTAR Electric	08/04	NSTAR Electric	D.T.E. 04-78	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	D.T.E. 04-68	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	D.T.E. 04-61	Divestiture of Power Purchase Agreement
NSTAR Electric	06/04	NSTAR Electric	D.T.E. 04-60	Divestiture of Power Purchase Agreement
Unitil Corporation	01/04	Fitchburg Gas and Electric	D.T.E. 03-52	Integrated Resource Plan; Gas Demand Forecast
Bay State Gas Company	01/93	Bay State Gas Company	DPU 93-14	Long Term Debt Financing
Bay State Gas Company	01/91	Bay State Gas Company	DPU 91-25	Long Term Debt Financing
Minnesota Public Utilities Commission				
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas	11/08	CenterPoint Energy Minnesota Gas	Docket No. G-008/GR-08-1075	Return on Equity
Otter Tail Power Corporation	10/07	Otter Tail Power Company	Docket No. E017/GR-07-1178	Return on Equity
Xcel Energy	11/05	NSP-Minnesota	Docket No. E002/GR-05-1428	Return on Equity (electric)
Xcel Energy	09/04	NSP Minnesota	Docket No. G002/GR-04-1511	Cost of Capital (gas)
Mississippi Public Service Commission				
CenterPoint Energy Resources, Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Mississippi Gas	07/09	CenterPoint Energy Mississippi Gas	Docket No. 09-UN-334	Return on Equity
New Hampshire Public Utilities Commission				

EXPERT TESTIMONY OF ROBERT B. HEVERT

Attachment A

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Unitil Energy Systems, Inc. ("Unitil"), EnergyNorth Natural Gas, Inc. d/b/a National Grid NH, Granite State Electric Company d/b/a National Grid, and Northern Utilities, Inc. -- New Hampshire Division	08/08	Unitil Energy Systems, Inc. ("Unitil"), EnergyNorth Natural Gas, Inc. d/b/a National Grid NH, Granite State Electric Company d/b/a National Grid, and Northern Utilities, Inc. -- New Hampshire Division	Docket No. DG 07-072	Carrying Charge Rate on Cash Working Capital
New Jersey Board of Public Utilities				
Pepco Holdings, Inc.	09/06	Atlantic City Electric Company	Docket No. EMO6090638	Divestiture and Valuation of Electric Generating Assets
Pepco Holdings, Inc.	12/05	Atlantic City Electric Company	BPU Docket No. EM05121058	Market Value of Electric Generation Assets; Auction
Connectiv	06/03	Atlantic City Electric Company	BPU Docket No. EO03020091	Market Value of Electric Generation Assets; Auction Process
New Mexico Public Regulation Commission				
Public Service Company Of New Mexico	09/08	Public Service Company Of New Mexico	Case No. 08-00273-UT	Return on Equity (electric)
Xcel Energy	07/07	Southwestern Public Service Company	Case No. 07-00319-UT	Return on Equity (electric)
New York State Public Service Commission				
Niagara Mohawk Power Corporation	07/01	Niagara Mohawk Power Corporation	Case No. 01-E-1046	Power Purchase and Sale Agreement; Standard Offer Service Agreement
North Dakota Public Service Commission				
Otter Tail Power Company	11/08	Otter Tail Power Company	Docket No. 08-862	Return on Equity (electric)
Oklahoma Corporation Commission				
CenterPoint Energy Resources Corp., D/B/A CenterPoint Energy Oklahoma Gas	03/09	CenterPoint Energy Oklahoma Gas	Docket No. PUD200900055	Return on Equity
Rhode Island Public Utilities Commission				
National Grid RI -- Gas	08/08	National Grid RI -- Gas	Docket No. 3943	Revenue Decoupling and Return on Equity
South Dakota Public Utilities Commission				
Northern States Power Company	06/09	South Dakota Division of Northern States Power	Docket No. EL09-009	Return on Equity (electric)

EXPERT TESTIMONY OF ROBERT B. HEVERT

Attachment A

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Otter Tail Power Company	10/08	Otter Tail Power Company	Docket No. EL08-030	Return on Equity (electric)
Texas Public Utility Commission				
Texas-New Mexico Power Company	08/08	Texas-New Mexico Power Company	Docket No. 36025	Return on Equity (electric)
Xcel Energy	05/06	Southwestern Public Service	SOAH Docket No. 473-06-2536 Docket No. 32766	Return on Equity (electric)
Texas Railroad Commission				
CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Texas Gas	03/08	CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Texas Gas	Docket No. 9791	Return on Equity
Utah Public Service Commission				
Questar Gas Company	12/07	Questar Gas Company	Docket No. 07-057-13	Return on Equity
Vermont Public Service Board				
Green Mountain Power	04/06	Green Mountain Power	Docket Nos. 7175 and 7176	Return on Equity (electric)
Vermont Gas Systems, Inc.	12/05	Vermont Gas Systems	Docket Nos. 7109 and 7160	Return on Equity (gas)
Virginia State Corporation Commission				
Columbia Gas Of Virginia, Inc.	06/06	Columbia Gas Of Virginia, Inc.	Case No. PUE-2005-00098	Merger Synergies
Dominion Resources	10/01	Virginia Electric and Power Company	Case No. PUE000584	Corporate Structure and Electric Generation Strategy

NATIONAL FUEL GAS - BUSINESS SEGMENT INFORMATION

		Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reported Segments	All Other	Corporate and Intersegment Eliminations	Total Consolidated
Income from Continuing Operations										
2008	\$	61,472	\$ 54,148	\$ 146,612	\$ 5,889	\$ 107	\$ 268,228	\$ 5,672	\$ (5,172)	\$ 268,728
2007	\$	50,886	\$ 56,386	\$ 74,889	\$ 7,663	\$ 3,728	\$ 193,552	\$ 2,564	\$ 5,559	\$ 201,675
2006	\$	49,815	\$ 55,633	\$ 67,494	\$ 5,798	\$ 5,704	\$ 184,444	\$ 359	\$ (189)	\$ 184,614
Percent Income from Continuing Operations										
2008		22.88%	20.15%	54.56%	2.19%	0.04%	99.81%	2.11%	-1.92%	100.00%
2007		25.23%	27.96%	37.13%	3.80%	1.85%	95.97%	1.27%	2.76%	100.00%
2006		26.98%	30.13%	36.56%	3.14%	3.09%	99.91%	0.19%	-0.10%	100.00%
MEAN		25.03%	26.08%	42.75%	3.04%	1.66%	98.56%	1.19%	0.24%	100.00%
Segment Assets										
2008	\$	1,643,665	\$ 948,984	\$ 1,416,120	\$ 89,527	\$ 149,896	\$ 4,248,192	\$ 67,978	\$ (185,983)	\$ 4,130,187
2007	\$	1,565,593	\$ 810,957	\$ 1,326,073	\$ 59,802	\$ 165,224	\$ 3,927,649	\$ 66,531	\$ (105,768)	\$ 3,888,412
2006	\$	1,498,442	\$ 767,889	\$ 1,209,969	\$ 81,374	\$ 159,421	\$ 3,717,095	\$ 64,287	\$ (17,634)	\$ 3,763,748
Percent Segment Assets										
2008		39.80%	22.98%	34.29%	2.17%	3.63%	102.86%	1.65%	-4.50%	100.00%
2007		40.26%	20.86%	34.10%	1.54%	4.25%	101.01%	1.71%	-2.72%	100.00%
2006		39.81%	20.40%	32.15%	2.16%	4.24%	98.76%	1.71%	-0.47%	100.00%
MEAN		39.96%	21.41%	33.51%	1.96%	4.04%	100.88%	1.69%	-2.56%	100.00%

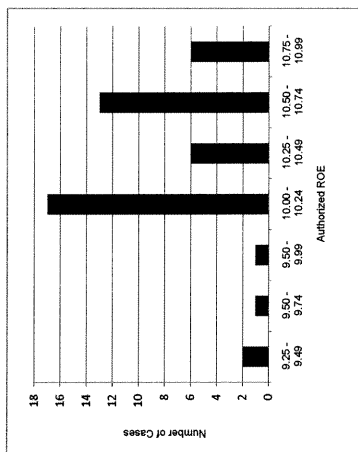
Source: National Fuel Gas Company, SEC Form 10-K for the year ended September 30, 2008 at 103.

NATURAL GAS LOCAL DISTRIBUTION COMPANY RATE CASE RESULTS

State	Company	Case Identification	Date	Return on Equity
Arizona	Southwest Gas Corp.	D-G-01551A-07-0504	8/31/2007	10.00
California	San Diego Gas & Electric Co.	AP-06-12-009 (gas)	12/8/2006	10.70
California	Southern California Gas Co.	AP-06-12-010	12/8/2006	10.82
California	Southwest Gas Corp.	A-07-12-022 (SocalDiv)	12/21/2007	10.50
California	Southwest Gas Corp.	A-07-12-022 (NoCalDiv)	12/21/2007	10.50
California	Southwest Gas Corp.	A-07-12-022 (LkTah)	12/21/2007	10.50
Colorado	SourceGas Distribution LLC	D-08S-108G	3/4/2008	10.25
Connecticut	CT Natural Gas Corp.	D-08-12-06	1/16/2009	9.31
Connecticut	Southern Connecticut Gas Co.	D-08-12-07	1/20/2009	9.26
Connecticut	Chesapeake Utilities Corp.	D-07-186	7/6/2007	10.25
Delaware	Peoples Gas System	D-080318-GU	8/11/2008	10.75
Florida	Almos Energy Corp.	D-27163-U	3/20/2008	10.70
Georgia	Arista Corp.	C-AVUG-08-01	4/3/2008	10.20
Idaho	North Shore Gas Co.	D-07-0241	1/23/2009	10.50
Illinois	Peoples Gas Light & Coke Co.	D-07-0242	3/9/2007	9.99
Illinois	Central Illinois Light Co.	D-07-0588	11/2/2007	10.19
Illinois	Central Illinois Public	D-07-0589	11/2/2007	10.68
Illinois	Illinois Power Co.	D-07-0590	11/2/2007	10.68
Illinois	Northern Illinois Gas Co.	D-08-0383	4/29/2008	10.17
Indiana	Black Hills Iowa Gas Utility	Ca-43298	5/19/2007	10.20
Iowa	Almos Energy Corp.	D-RPU-08-3	6/3/2008	10.10
Kansas	Louisville Gas & Electric Co.	D-08-ATMG-280-RTS	9/14/2007	NA
Kentucky	Entergy New Orleans Inc.	C-2008-00252 (gas)	7/29/2008	NA
Louisiana	New England Gas Company	D-UD-08-03 (gas)	7/31/2008	10.75
Massachusetts	Consumers Energy Co.	DPU 08-35	7/17/2008	10.05
Michigan	Michigan Gas Utilities Corp	C-U-15506	2/15/2008	NA
Minnesota	Minnesota Energy Resources	C-U-15549	5/16/2008	10.45
Montana	NorthWestern Energy Division	D-G-007,011/GR-08-835	7/31/2008	10.21
New Hampshire	EnergyNorth Natural Gas Inc	D-DG-08-009	2/25/2008	NA
New Jersey	New Jersey Natural Gas Co.	D-GR-07110889	11/20/2007	9.54
New York	Niagara Mohawk Power Corp.	C-08-G-0609	5/23/2008	10.30
New York	Central Hudson Gas & Electric	C-08-G-0888	7/31/2008	10.20
North Carolina	Piedmont Natural Gas Co.	D-G-9, Sub 550	3/31/2008	10.60
North Carolina	Public Service Co. of NC	D-G-5, Sub 495	3/31/2008	10.60
Ohio	East Ohio Gas Company	C-07-0689-GA-AIR	7/18/2007	10.50
Ohio	Columbia Gas of Ohio Inc	C-07-0829-GA-AIR	8/30/2007	NA
Ohio	Vectren Energy Delivery Ohio	C-08-0072-GA-AIR	3/3/2008	10.39
Ohio	Vectren Energy Delivery Ohio	C-07-1080-GA-AIR	11/20/2007	NA
Oregon	Columbia Gas of Pennsylvania	D-UG-181	10/12/2007	10.00
Pennsylvania	PECO Energy Co.	C-R-2008-2011621	1/28/2008	NA
Pennsylvania	Equitable Gas Company	C-R-2008-2028394	3/31/2008	NA
Pennsylvania	UGI Central Penn Gas	C-R-2008-2029325	6/30/2008	NA
Pennsylvania	UGI Penn Natural Gas	R-2008-2079675	1/29/2009	NA
Rhode Island	Narragansett Electric Co.	R-2008-2079660	1/29/2009	NA
Tennessee	Almos Energy Corp.	D-3943	4/1/2008	10.50
Texas	CenterPoint Energy Resources	D-08-00197	10/15/2008	10.30
Texas	Questar Gas Co.	GU-9762	10/26/2007	10.00
Texas	Questar Gas Co.	GU-9791	3/6/2008	10.06
Utah	Puget Sound Energy Inc.	D-07-057-13	12/19/2007	10.00
Washington	Northwest Natural Gas Co.	D-UG-07-2301	12/3/2007	10.15
Washington	Avista Corp.	D-UG-08-0546	3/28/2008	10.10
Wisconsin	Northern States Power Co - WI	D-4220-UR-115 (gas)	3/4/2008	10.20
Wisconsin	Wisconsin Electric Power Co.	D-5-UR-103 (WEP-GAS)	6/1/2007	10.75
Wisconsin	Wisconsin Gas LLC	D-5-UR-103 (WG)	5/7/2007	10.75
Wisconsin	Wisconsin Power and Light Co	6680-UR-116 (gas)	5/7/2007	10.75
Wisconsin	Wisconsin Public Service Corp	D-6890-UR-119 (gas)	2/22/2008	NA
Wisconsin			4/1/2008	NA
Mean				10.31

Source: SNL Energy

Bin	Frequency
9.25 - 9.49	2
9.50 - 9.74	1
9.75 - 9.99	1
10.00 - 10.24	17
10.25 - 10.49	6
10.50 - 10.74	13
10.75 - 10.99	6
More	0



**Monthly High and Low Stock Prices^[1]
For Proxy Companies**

Dates	Boardwalk Pipeline Partners L.P.			Enbridge Energy Partners L.P.			Enterprise Products Partners L.P.			Spectra Energy			TC PipeLines L.P.		
	High	Low	Avg	High	Low	Avg	High	Low	Avg	High	Low	Avg	High	Low	Avg
Jul-09	\$ 24.03	\$ 22.35	\$ 23.19	\$ 46.63	\$ 37.49	\$ 42.06	\$ 29.25	\$ 24.85	\$ 27.05	\$ 18.36	\$ 16.04	\$ 17.20	\$ 39.14	\$ 34.82	\$ 36.98
Jun-09	\$ 23.00	\$ 20.83	\$ 21.92	\$ 41.80	\$ 36.82	\$ 39.31	\$ 26.43	\$ 24.21	\$ 25.32	\$ 17.54	\$ 16.31	\$ 16.93	\$ 36.43	\$ 33.07	\$ 34.75
May-09	\$ 21.53	\$ 20.00	\$ 20.77	\$ 40.35	\$ 34.99	\$ 37.67	\$ 26.00	\$ 24.13	\$ 25.07	\$ 16.14	\$ 14.83	\$ 15.49	\$ 34.69	\$ 29.71	\$ 32.20
Apr-09	\$ 23.10	\$ 20.50	\$ 21.80	\$ 37.16	\$ 30.88	\$ 34.02	\$ 24.77	\$ 21.30	\$ 23.04	\$ 15.20	\$ 14.39	\$ 14.80	\$ 32.12	\$ 29.78	\$ 30.95
Mar-09	\$ 23.65	\$ 19.43	\$ 21.54	\$ 31.48	\$ 25.04	\$ 28.26	\$ 22.31	\$ 17.95	\$ 20.13	\$ 14.97	\$ 11.50	\$ 13.24	\$ 30.44	\$ 23.62	\$ 27.03
Feb-09	\$ 22.81	\$ 20.20	\$ 21.51	\$ 31.48	\$ 26.19	\$ 28.84	\$ 23.23	\$ 20.08	\$ 21.66	\$ 15.72	\$ 12.47	\$ 14.10	\$ 25.87	\$ 23.84	\$ 24.86
Average Price [2]			\$ 21.79			\$ 35.03			\$ 23.71			\$ 15.29			\$ 31.13

Notes:

[1] Source: Bloomberg. Stock prices through 7/31/2009.

[2] FERC averaging convention.

TWO STAGE DISCOUNTED CASH FLOW - FERC APPROACH

[illegible]

Notes:

- [1] Source: Bloomberg
 [2] Source: Bloomberg
 [3] Equals Col. [1] / Col. [2]
 [4] Equals (Col. [1] x (1+.5 x Col. [7])) / Col. [2]
 [5] Source: I/B/E/S Consensus Estimate Reports
 [6] Average of EIA AEO, Table 20, March 2009, and
 [7] Equals Col. [5] x (2/3) + Col. [6] x (1/3)
 [8] Equals Col. [4] + Col. [7]

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
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Company	Annualized Dividend	Average Stock Price	Expected		First Call	GDP	Weighted	
			Dividend Yield	Dividend Yield			EPS Growth	Growth Rate
Boardwalk Pipeline Partners LP	\$1.96	\$21.79	9.00%	9.25%	6.00%	4.62%	5.54%	14.78%
Enbridge Energy Partners LP	\$3.96	\$35.03	11.31%	11.49%	2.50%	4.62%	3.21%	14.69%
Enterprise Products Partners LP	\$2.18	\$23.71	9.19%	9.47%	6.67%	4.62%	5.99%	15.46%
Spectra Energy	\$1.00	\$15.29	6.54%	6.73%	6.50%	4.62%	5.87%	12.60%
TC PipeLines L.P.	\$2.92	\$31.13	9.38%	9.58%	4.00%	4.62%	4.21%	13.78%
			MEAN	9.30%	5.13%	4.62%	4.96%	14.26%
			MEDIAN	9.47%	6.00%	4.62%	5.54%	14.69%

[1] Source: Bloomberg
 [2] Source: Bloomberg
 [3] Equals Col. [1] / Col. [2]
 [4] Equals Col. [1] x (1 + (.5 x Col. [8])) / Col. [2]
 [5] Source: I/B/E/S Consensus Estimate Reports
 [6] Average of EIA AEO, Table 20, March 2009, and
 [7] Equals Col. [5] x (2/3) + Col. [6] x (1/3)
 [8] Equals Col. [4] + Col. [7]

Zone of Reasonableness High	15.46%
Zone of Reasonableness Low	12.60%
Zone of Reasonableness Mid-point	14.03%

	DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS														
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Boardwalk Pipeline Partners, LP	1.63	1.83	1.80	0.67	--	--	--	--	--	--	--	--	--	--	--
El Paso Pipeline Partners, L.P.	1.22	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Enbridge Energy Partners, L.P.	3.69	2.08	2.70	1.92	2.30	1.93	1.76	0.98	1.78	2.48	3.07	3.02	3.06	1.60	2.61
Enterprise Products Partners, L.P.	1.85	0.97	1.21	0.91	0.77	0.52	0.48	1.36	1.34	0.80	0.31	0.47	0.55	--	2.13
Spectra Energy Partners, LP	1.36	0.68	--	--	--	--	--	--	--	--	--	--	--	--	--
TC Pipelines, LP	2.75	2.33	2.39	2.70	2.99	2.63	2.50	2.40	--	--	--	--	--	--	--
Williams Pipeline Partners L.P.	1.43	--	--	--	--	--	--	--	--	--	--	--	--	--	--
NOMINAL GROSS DOMESTIC PRODUCT															
Gross Domestic Product (\$B)	14,265	13,808	13,178	12,422	11,686	10,961	10,470	10,128	9,817	9,288	8,747	8,304	7,817	7,398	6,857
ANNUAL PERCENT CHANGE - DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS															
Boardwalk Pipeline Partners, LP	-10.93%	1.67%	168.66%	--	--	--	--	--	--	--	--	--	--	--	--
El Paso Pipeline Partners, L.P.	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Enbridge Energy Partners, L.P.	77.40%	-22.96%	40.63%	-16.52%	19.17%	9.66%	79.59%	-44.94%	-28.23%	-19.22%	1.66%	-1.31%	91.25%	-38.70%	10.59%
Enterprise Products Partners, L.P.	90.72%	-19.83%	32.97%	18.18%	48.08%	8.33%	-64.58%	1.50%	67.92%	156.45%	-34.04%	-13.76%	--	--	10.80%
Spectra Energy Partners, LP	100.00%	--	--	--	--	--	--	--	--	--	--	--	--	--	--
TC Pipelines, LP	18.03%	-2.51%	-11.48%	-9.70%	13.69%	5.20%	4.17%	--	--	--	--	--	--	--	--
Williams Pipeline Partners L.P.	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
MEAN	55.04%	-10.91%	57.69%	-2.68%	26.98%	7.73%	6.39%	-21.72%	19.85%	68.62%	-16.19%	-7.53%	91.25%	-38.70%	10.59%
MEDIAN	77.40%	-11.17%	36.80%	-9.70%	19.17%	8.33%	4.17%	-21.72%	19.85%	68.62%	-16.19%	-7.53%	91.25%	-38.70%	10.80%
MEAN (1993 - 2008)	16.08%														
MEDIAN (1993 - 2008)	9.16%														
ANNUAL PERCENT CHANGE - NOMINAL GROSS DOMESTIC PRODUCT															
Gross Domestic Product	3.31%	4.77%	6.09%	6.30%	6.62%	4.69%	3.37%	3.17%	5.92%	5.96%	5.33%	6.24%	5.67%	4.60%	5.04%
MEAN (1993 - 2008)	5.21%														
MEDIAN (1993 - 2008)	5.50%														

Notes:
Source: Bloomberg

Commonwealth of Massachusetts }
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County of Middlesex } SS.

BEFORE ME, the undersigned authority, on this day personally appeared
Robert B. Hevert, who being by me first duly sworn, on oath deposes and says:

That he is the Robert B. Hevert, offering the foregoing prepared direct testimony
and that all statements of fact contained therein are true and correct to the best of his
knowledge, information and belief.

/s/ Robert B. Hevert
Robert B. Hevert

Subscribed and sworn to before me this 25th day of September, 2009.

/s/ Kimberly H. Dao
Notary Public

My Commission Expires:

April 16, 2015