Volume 2: Cost of Capital: Expert Opinion of Mr. James Coyne – Return on Equity

Q. Volume 2, Cost of Capital Report, page 31, Figure 20. The U. S. Electric Proxy Group includes two companies that were not included in Mr. Coyne's report for the 2022-2023 General Rate Application and excludes one that was included. These same changes apply to the North American Electric Proxy Group in Figure 21 on page 32. Please explain the basis for these changes in the U.S. Proxy Group.

A. Concentric's U.S. Electric proxy group is based on the application of the same six screening criteria. Concentric's *Cost of Capital* report mistakenly states that Concentric included companies that derived more than 80%[1] of regulated net operating income from electric operations; however, that percentage was 90%, as in Mr. Coyne's 2021 analysis.

In addition to the nine companies that passed the stated screening criteria for the U.S. Electric proxy group, Concentric also included one additional company, Eversource Energy, which meets five of the six criteria. Eversource is a Northeastern U.S. utility that does not own regulated generation assets, derives 100% of its operating income from regulated services, has an A- issuer rating from S&P, was not involved in a merger or acquisition, has positive earnings growth rates from two or more sources, and pays a quarterly dividend that has not been reduced or eliminated in the past two years. The only screen Eversource does not meet is the percentage of net operating income from regulated electric operations of 90%. For the three years from 2020-2022, Eversource derived 86% of its regulated net operating income from electric utility operations and 14% from gas distribution operations.

The composition of the resulting proxy group has changed slightly since 2021. Exhibit JMC-3 shows that each company in the U.S. Electric proxy group meets the screening criteria described on pages 30-31 of Concentric's *Cost of Capital* report.

The following company was included in 2021, but did not pass the screens in 2023:

1) Exelon Corp. – reduced quarterly dividend when Constellation Energy Corp., the generation business, was spun off to shareholders as a separate entity.

The following companies were included in 2023, but did not pass the screens in 2021:

1) Eversource Energy – did not pass merger screen because Eversource was acquiring Columbia Gas of Massachusetts assets from NiSource; also percentage of regulated net operating income from electric utility service was below 90%, at 84% from 2018-2020.
2) NextEra Energy Inc. – percentage of regulated operating income was slightly below 70%, at 69% from 2018-2020.

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[1] See the *2025/2026 General Rate Application, Volume 2: Supporting Materials, Tab B Expert Evidence, Cost of Capital,* page 31, lines 4-5.