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August 14, 2020

Via Electronic Filing

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX: 1088
SALEM OR 97308-1088

RE: Docket No. UG 390 – In the Matter of CASCADE NATURAL GAS CORPORATION, Request for a General Rate Revision

Attached for filing are Joint Staff Testimony and exhibits in Support of Partial Settlement Stipulation:

Cover Letter, Certificate of Service and Service List
Exhibit 1200 – Muldoon-Enright-Dlouhy
Exhibit 1201 – Muldoon
Exhibit 1202 – Enright
Exhibit 1203 – Dlouhy
Exhibit 1204 – Confidential exhibit filed in electronic format
Exhibit 1205 – Confidential exhibit filed in electronic format
Exhibit 1206 – filed in electronic format
Exhibit 1207 – Page 1 filed in electronic format
Exhibit 1208 – filed in electronic format
Exhibit 1209 – filed in electronic format and
Exhibit 1210

/s/ Kay Barnes
Kay Barnes
PUC- Utility Program
(503) 378-5763
kay.barnes@state.or.us

CERTIFICATE OF SERVICE

UG 390

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 14th day of August, 2020 at Salem, Oregon

Kay Barnes

Kay Barnes
Public Utility Commission
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UG 390 SERVICE LIST

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CASE: UG 390
WITNESSES: MATT MULDOON-MOYA ENRIGHT-CURTIS DLOUHY

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 1200

Staff Testimony in Support of Partial Settlement Stipulation

August 14, 2020

Q. Please state your name, occupation, and business address.

A1. My name is Matt Muldoon. I am the Economic Analysis Program Manager within the Energy Rates, Finance, and Audit (ERFA) Division of the Public Utility Commission of Oregon (Commission or OPUC).

A2. My name is Moya Enright. I am a Senior Utility Analyst in the OPUC ERFA Economic Analysis Program.

A3. My name is Curtis Dlouhy. I am a Senior Economist in the OPUC ERFA Economic Analysis Program.

Q. What is your common business address?

A. 201 High Street SE, Suite 100, Salem, OR 97301.

Q. Please describe your educational background and work experience.

A. Our educational background and work experience are set forth in our respective Witness Qualification Statements, provided as Exhibits Staff/1301, Staff/1302, and Staff/1303.

Q. What is the purpose of this testimony?

A. We are responsible for the analysis of three Cost of Capital (CoC) issues in Docket No. UG 390 Cascade Natural Gas (Cascade, CNG or Company):

1. Capital Structure;
2. Cost of Long-Term (LT) Debt; and
3. Cost of Common Equity, also known as Return on Equity (ROE).

Using the above information, Staff calculates an overall Rate of Return (ROR).

Q. What is your summary recommendation?

A. Staff concurs with all Parties[1] in the partial settlement as shown herein in recommending a balanced capital structure of 50.0 percent equity and 50.0 percent LT Debt, a point ROE of 9.40 percent, and a 4.741 percent cost of LT Debt.

In aggregate, the above component values translate to a 7.071 percent ROR.

Q. Did you prepare tables showing Cascade's current, Cascade's-earlier proposed and the Staff calculated CoC?

A. Yes, the following three tables provide that information.

Table 1

CNG Current OPUC Authorized (UG 347 Order Nos. 19-088)			**CNG**
Component	**Percent of Total**	**Stipulated or Implied Cost**	**Weighted Average**
Long Term Debt	50.00%	5.140%	2.570%
Preferred Stock	0.00%	0.000%	0.000%
Common Stock	50.00%	9.40%	4.700%
	100.00%		**7.270%**

Table 2

CNG Requested – UG 390		**Direct Testimony**		
Component	**Percent of Total**	**Cost**	**Weighted Average**	**ROR vs. Current**
Long Term Debt	**50.00%**	**4.75%**	2.375%	**-0.195%**
Preferred Stock	0.00%	0.00%	0.000%	
Common Stock	**50.00%**	**9.40%**	4.700%	
	100.00%		**7.08%**	

[1] Parties to the Partial Stipulation are Cascade, Staff, the Oregon Citizens' Utility Board (CUB), and the Alliance of Western Energy Consumers (AWEC), collectively (Parties).

Table 3

Staff Proposed – UG 390		Stipulation		
Component	**Percent of Total**	**Cost**	**Weighted Average**	**ROR vs. Current**
Long Term Debt	**50.0%**	**4.741%**	2.371%	**-0.200%**
Preferred Stock	0.0000%	0.00%	0.000%	
Common Stock	**50.0%**	**9.40%**	4.700%	
	100.00%		**7.071%**	

Q. Have you issued data requests (DRs) in this rate case?

A. Yes. Our CoC analysis is informed by Company responses to 71 multipart data requests.

Q. How is your testimony organized?

A. Our testimony is organized as follows:

Q. Did you prepare exhibits in support of your opening testimony?

A. Yes. Staff prepared the following exhibits:

Staff/1204 .... **CONFIDENTIAL** Capital Structure
Staff/1205 .... **CONFIDENTIAL** Cost of LT Debt Table & Maturity Profile
Staff/1206 .... ROE Peer Screening
Staff/1207 .... Long-Run Growth Rates
Staff/1208 .... BEA Historic GDP Growth
Staff/1209 .... TIPS Implied Inflation Expectations
Staff/1210 .... Financial News

Q. Does Staff support the Stipulated Terms on CoC?

A. Yes. The Stipulated Terms mirror Staff's analysis, other than rounding. Therefore, Staff recommends that the Commission adopt the Stipulated Terms on CoC.

ISSUE 1. CAPITAL STRUCTURE

Q. What is the basis for your recommendation for a capital structure of 50.0 percent Common Equity and 50.0 percent LT Debt?

A. Cascade requested an authorized capital structure of 50 percent equity and 50 percent LT Debt.[2]

Staff has examined actual and projected information provided by Cascade in response to Staff DRs 38 and 147 and observed that a 50 percent equity layer represents the actual capital structure of the Company in recent years. This data is summarized in Exhibit Staff/1204.

Q. Please summarize Staff's recommendation.

A. Staff recommends that the Commission find a 50 percent common equity capital structure reasonable. This is both consistent with Commission precedent, and actual and projected values for capital structure.

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2 See CNGC/100, Kivisto regarding requested capital structure.

ISSUE 2. COST OF LONG-TERM (LT) DEBT

Q. Briefly summarize Staff's recommendation for Cascade's Cost of LT Debt.

A. Staff recommends a Cost of LT Debt of 4.741 percent. This represents the cost of all outstanding and recently issued debt and is representative of the 2021 test year. In Confidential Exhibit Staff/1205 page 1, Staff has presented a summary table, which displays the LT Debt instruments included in Staff's calculation of LT Debt, along with Staff's calculation thereof.

Q. How has Staff calculated Cascade's Cost of LT Debt?

A. Staff compiled a comprehensive table of Cascade's outstanding and forecasted LT Debt as of the 2021 test year, using independent data sources including Bloomberg, SNL, and the Company's SEC filings. Staff first identified outstanding debt using Bloomberg and tracked individual debt issuances using their unique CUSIP numbers.[3] Staff exported the details of each issuance, including issuance and maturity dates, yields, issued and outstanding debt amounts, and credit ratings from the Bloomberg database. This data was cross-referenced against the Company's latest SEC filing, and the records available through SNL.

Staff used its fully comprehensive table of Cascade's LT Debt to calculate the yield to maturity of each debt issuance, and finally, to calculate the Company's carrying cost of LT Debt.

3 A CUSIP number is a nine-character alphanumeric code, which identifies financial securities. The acronym "CUSIP" is derived from the Committee on Uniform Security Identification Procedures, a committee of the American Bankers Association.

Q. Cascade provided a table of LT Debt in its initial filing. Why not use that?

A. Staff's approach of independently compiling a table of LT Debt is beneficial because it ensures that a clear and impartial record is created. Publicly available information can provide valuable insight and aid with the verification process. For example, the Company's SEC filing includes standardized information, in contrast to a General Rate Case for which no such standardized model exists, and some information may be missed.

Staff's thorough research ensures that when the Cost of LT Debt is calculated, it fully encapsulates the Company's debt issuances, permitting Staff and the Commission to place their full confidence in the integrity of the data therein.

Q. Is this table updated to reflect the anticipated composition of Cascade's LT debt in the 2021 test year?

A. Yes. Staff has made specific adjustments to Cascade's current LT Debt holdings to reflect the Company's anticipated debt structure come 2021. These changes include:

- No planned debt issuances have been included.
- Recent debt issuances in May 2020 have been included.
- The current portion of LT Debt has been excluded.[4]

Q. Did you prepare a debt maturity profile for Casade?

[4] The current portion of LT Debt includes any debt maturing within one year of the test year.

A. Yes. In Exhibit Staff/1205, page 2, Staff has provided a debt maturity profile for the test year, reflecting Staff's proposed Cost of LT Debt table. This profile shows that the Company is not significantly exposed to debt market interruptions through debt maturity concentrations.

Q. Does the table reflect discounts or premiums, debt issuance costs, and hedging losses and gains?

A. Yes. The table fully encompasses discounts or premiums, debt issuance costs, and debt insurance costs. Staff has tied each individual cost back to the associated issuance and calculated the net proceeds of each debt issuance. The net proceeds of each debt issuance are used to calculate the Yield to Maturity of that issuance, which feeds into Staff's calculation of LT Debt carrying costs.

Q. What is Staff's summary recommendation for Cascade's Cost of LT Debt?

A. Staff recommends a Cost of LT Debt of 4.741 percent. This recommendation is supported by comprehensive analysis by Staff and is therefore a value in which the Commission can place high confidence.

ISSUE 3. COST OF COMMON EQUITY

Q. What point ROE does Staff recommend and what is the recommended range of reasonable ROEs?

A. Staff recommends a point ROE of 9.40 percent and a range of reasonable ROEs that spans from 8.80 percent to 9.40 percent (rounded). Staff notes that their point ROE recommendation is at the top of the range of reasonableness when rounding but considers the recommendation reasonable when other factors of ROR are accounted for. It is also worth noting that in their opening testimony, Cascade Natural Gas also advocates for a 9.40 authorized ROE.[5]

Q. What modelling techniques does Staff utilize to support its 9.40 percent ROE recommendation?

A. Staff uses two different three-stage discounted cash flow (DCF) models that form the foundation of its recommendation. These models and the peer companies analyzed in these models will be addressed later in this section.

Q. Did Staff utilize any other models as a quality check for its three-stage DCF models in this case?

A. No. In the past, Staff has utilized Single-Stage DCF models, Risk Premium models, and CAPM as robustness checks to its three-stage DCF models. In this case, Staff opted to keep this testimony concise and omit the other models named above. In place of these models, Staff will spend added time

[5] CNGC/100, Kivisto/8.

on the testimony discussing the merits of its three-stage DCF model, why it is most appropriate in this rate case, and how it supports Staff's recommended ROE.

PEER SCREEN

Q. What criteria did Staff utilize to select comparable companies (peers) when estimating Cascade's ROE?

A. Staff chose to include utilities that share characteristics to the regulated portions of Cascade Natural Gas. In this regard, Staff first sought out highly regulated local gas distribution companies (LDC) that are covered by Value Line. This criteria excludes companies that are involved in the risky operations of oil and natural gas exploration.

The methods used by Staff are similar to those used in both the GRCs for NW Natural Gas Company and Avista Corp. in 2020.[6] Staff's full criteria are outlined below:

1. Covered by Value Line (VL) as a gas utility;
2. Forecasted by VL to have positive dividend growth;
3. Corporate debt is listed as investment grade (i.e. equal to or better than BBB- from S&P, or Baa3 from Moody's);
4. No decline in annual dividend in last four years based on VL;
5. Has heavily regulated natural gas LDC revenue;
6. Has LT Debt under 56 percent in VL Capital Structure; and

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6 See Docket No. UG 388 and Docket No. UG 389.

7. Has no recent merger and acquisition activity.

Q. Does Cascade provide any evidence to support the reasonableness of a 9.40 percent authorized ROE?

A. While Cascade does not provide any formal analysis of the reasonableness of a 9.40 percent ROE, it notes that the Commission previously authorized a 9.40 percent ROE in Cascade's rate case in 2019.[7] Cascade also notes that forgoing a formal analysis by a consultant saves costs that will ultimately translate into lower rates for the parties and ratepayers.[8]

GROWTH RATES

Q. What long-term growth rates did Staff utilize for its three-stage DCF models?

A. Staff uses three different long-term growth rates. As demonstrated in Exhibit Staff/1207, Staff uses growth rates that have been updated as recently as recent as April 2020, which reflect some of the projected effects of COVID-19.

Our first method employs the U.S. Congressional Budget Office's (CBO) 3.7 percent nominal 10-year GDP growth rate estimate.

Staff's second Composite Growth Rate applies a 50 percent weight to the average annual growth rate resulting from estimates of long-term GDP by the U.S. Energy Information Administration (EIA), the U.S. Social Security Administration, PricewaterhouseCoopers estimate for long-run (10- to 30-years from now), and the CBO, with each receiving one-quarter

7 Docket No. UG 347.
8 CNGC/100, Kivisto/9.

of that 50 percent weight. The remaining 50 percent is the average annual historical real GDP growth rate established using regression analysis for the period 1980 through 2017, to which we apply the TIPS inflation forecast discussed in Exhibit Staff/1209.

Staff's third "Near Historical" Stage 3 annual growth rate, shown in Exhibit Staff/1208, is an equally weighted average of the earlier described U.S. Bureau of Economic Analysis (BEA) derived projection, which presumes the future will look much like the past.

Q. Does your analysis reflect a synthetic forward curve?

A. Yes, Staff utilized synthetic forward curve using UST Treasury Inflation Protected Securities (TIPS) break-even points. This reflects implied market-based inflationary expectations, which unsurprisingly have decreased during Quarter 2 2020 in-line with the effects of COVID-19 on the economy.[9]

These inflation forecasts are of the utmost importance for Staff's modelling, as it is generally assumed that energy sector growth is bound by the growth of the U.S. economy. LDC utility growth is no exception to this, so we employ this growth assumption in our three-stage DCF model.

Q. Are Staff's models consistent with the methods employed in other rate cases?

[9] See Exhibit Staff/1209.

A. Yes. Staff uses the same general methodology for its TIPS-implied inflation forecasts and blend of rates in each of its 2020 general rate cases thus far. Those cases include Docket Nos. UG 388, UG 389, and UE 374.

Q. Does this approach capture a reasonable set of investor expectations?

A. Yes. Staff modeling captures the expectations of investors who think that: A) the non-partisan CBO is reliable, B) blended federal agency expert analysis also informs the historical track record, and C) one should be optimistic about the economy's long-run growth, provided there are still enough non-retired adult Americans to make it happen 20 years from now.

THREE-STAGE DCF MODEL

Q. Describe the two three-stage DCF models on which you primarily rely.

A. Staff's first model is a conventional three-stage discounted dividend model, which Staff denotes as a "30-year Three-stage Discounted Dividend Model with Terminal Valuation based on Growing Perpetuity" (referred to as "Model X"). This model captures the thinking of a money manager at a pension fund or insurance company, or other institutional investor, who expects to keep the Company's stock indefinitely and use the dividend cash flow to meet future obligations.

Staff's second model is the "30-year Three-stage Discounted Dividend Model with Terminal Valuation Based on P/E Ratio" (referred to as "Model Y"). This model best fits an investor who has a goal they are working towards rather than a money manager. In addition to the income stream from dividends, in Model Y a stock's value also comes from the investor's intention to sell the stock once the goal is reached.

For each proxy company in the peer group, both models require a "current" market price per share of common stock, estimates of dividends per share to be received over the next five years calculated from information provided by Value Line, and a long-term growth rate applicable to dividends 10- to 30-years out.

Q. What is a commonly accepted long-term growth rate by industry professionals for modelling ROE?

A. One can observe many long-term growth rates, but Staff would like to note that many "long-term" growth rates are actually misnomers, as they only extrapolate short-term information and don't properly address a trend towards a long-term equilibrium.

A common technique used by utilities is to extrapolate short-term rates into long-term rates. This may not turn heads without context, so it should be pointed out that these short-term rates are not representative of long-term trends. This can overinflate the modeled ROE by using too high of a growth rate. The Commission has set a precedent of considering investments on a thirty-year horizon, as that is the same horizon for mortgages for plants, equipment, and homes, and is generally the length of time used by economists for one generation. Just as institutional holders of utility securities match the cash flows from utility dividends to future obligations, such as the payout of life insurance, preparing to meet future pension and post-retirement obligations, and interest service for borrowing; individuals also plan for the education of their children, ownership of their home, and provision for their retirement on this same multi-decade timeframe.

Staff recommends that the Commission be aware of ROE estimates that use a short-term rate in place of a 20- or 30-year growth rate. Some examples of commonly used five-year growth rates come from Value Line, Blue Chip, and a variety of other financial resources. While these sources have their merits, any five-year growth rate cannot adequately capture or absorb any short-term economic shock that may be caused by any recent event. However, over the long run, the effects of these shocks can be mitigated.

Q. Are Staff's models consistent with the methods employed in other rate cases?

A. Yes. Using the cohort of proxy companies that met our screens, Staff ran each of Staff's two three-stage DCF models three times, each time using a different long-term growth rate.

Q. Is your analysis consistent with a highest authorized ROE of 9.40 percent?

A. Yes.

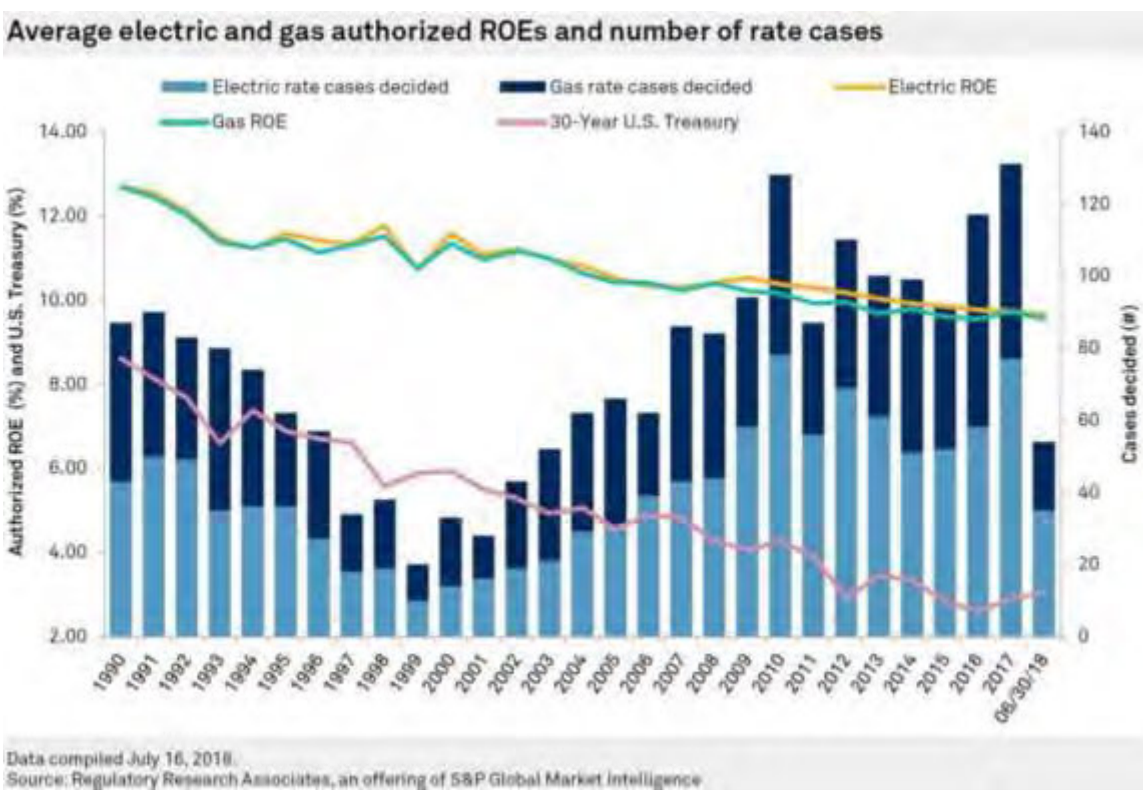
<u>**POTENTIAL IMPACTS OF COVID-19 ON ROE**</u>

Q. Do you believe your results are robust even given the uncertainty around the impact of COVID-19?

A. While the effects are the COVID-19 pandemic are hard to predict, Staff believes that it is making a sound recommendation using the best available information. Staff expects that the downward trend path for ROE, shown in Figure 1 below, will continue. However, Staff notes that the trend is not strictly linear, and may be disrupted by the uncertainties surrounding the COVID-19 pandemic and its well-documented impact on the economy. So, while there may be some macro indicators variously pointing upward or downward, all parties agree that the stipulated ROE is reasonable in the near term when rates will take effect.

Figure 1

Downward Parallel Glide Paths of Utility ROE and 30-Year US Treasuries[10]



10 See “Average U.S. Electric, Gas ROE Authorizations in H1'18 Down from 2017” published on August 2, 2018 by Regulatory Research Associates (RRA), an affiliate of S&P Global Market

Q. Please describe the trend illustrated in Figure 1 above.

A. Figure 1 demonstrates that the authorized ROEs for Gas and Electric Utilities have trended downward since 1990, and that this decline tends to follow the decline in the 30-year US Treasury (UST) rate.

The COVID-19 pandemic has pushed UST yields near to zero and the spread between UST and A- and B-rated utility bonds are falling. Due to this, Staff expects that there will be further downward pressure on authorized ROEs in the United States even through the pandemic.

Q. Does Staff's recommendation account for the most recently available data regarding economic growth?

A. Yes. Staff fully refreshed its analysis to reflect available updates to forecasted growth rates. As was previously pointed out, Staff has updated its growth rates where possible since the beginning of the pandemic, and Staff's results continue to support an authorized ROE of 9.4 percent.

Q. How does Staff's recommendation of a 9.40 percent ROE compare to ROEs approved in rate cases across the US for far in 2020?

A. Staff's recommendation is consistent with recommended ROEs across the country in 2020. As shown in Figure 2 below, ROEs for gas utilities in general rate cases averaged 9.40 percent in the first half of 2020. This period includes several decisions made since COVID-19 first appeared in the country.

Intelligence. https://www.spglobal.com/marketintelligence/en/newsinsights/research/average-u-s-electric-gas-roe-authorizations-in-h1-18-downfrom-2017.

Figure 2

Average Authorized Return on Equity (%) January – June 2020[11]

Gas average	2019	H1'20	
All cases	9.71	9.40	▼
General rate cases	9.72	9.40	▼
Settled cases	9.70	9.44	▼
Fully litigated cases	9.74	9.34	▼

This fact adds support to the joint position of Staff, interveners and the Company, that 9.40 percent is a reasonable value for approved ROE.

CONCLUSION

Q. In summary, what are your recommendations to the Commission on Cost of Capital in this General Rate Case?

A. Staff recommends a 50 percent Common Equity and 50 percent LT Debt Capital Structure; a 4.741 percent Cost of LT Debt; and a ROE of 9.40 percent. In aggregate, this equates to a 7.071 percent overall ROR. Because the Stipulation mirrors Staff's recommendations, Staff recommends that the Commission adopt the Stipulation.

Q. Does this conclude your testimony?

A. Yes.

[11] See Exhibit Staff/1210. "Major Rate Case Decisions – January – June 2020", July 22, 2020, by RRA.

CASE: UG 390
WITNESS: MATT MULDOON

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 1201

Witness Qualification Statement

August 14, 2020

WITNESS QUALIFICATION STATEMENT

NAME:	Matthew (Matt) J. Muldoon
EMPLOYER:	PUBLIC UTIILTY COMMISSION OF OREGON
TITLE:	Manager, Economic Analysis Energy – Rates Finance and Audit Division
ADDRESS:	201 High Street SE, Suite 100 Salem, OR 97301
EDUCATION:	In 1981, I received a Bachelor of Arts Degree in Political Science from the University of Chicago. In 2007, I received a Masters of Business Administration from Portland State University with a certificate in Finance.
EXPERIENCE:	From April of 2008 to the present, I have been employed by the OPUC. My current responsibilities include financial analysis with an emphasis on Cost of Capital (CoC). I have worked on CoC in the following general rate case dockets: AVA UG 186; UG 201, UG 246, UG 284, UG 288, UG 325, UG 366 and current UG 389; NWN UG 221, UG 344, and UG 388; PAC UE 246, UE 263 and current UE 374; PGE UE 262, UE 283, UE 294, UE 319, and UE 335; and CNG UG 287, UG 305, UG 347 and current UG 390. From 2002 to 2008, I was Executive Director of the Acceleration Transportation Rate Bureau, Inc. where I developed new rate structures for surface transportation and created metrics to insure program success within regulated processes. I was the Vice President of Operations for Willamette Traffic Bureau, Inc. from 1993 to 2002. There I managed tariff rate compilation and analysis. I also developed new information systems and did sensitivity analysis for rate modeling.
OTHER:	I have prepared, and defended formal testimony in contested hearings before the OPUC, ICC, STB, WUTC and ODOT. I have also prepared OPUC Staff testimony in BPA rate cases.

Abbreviations: AVA – Avista Corp., CNG – Cascade Natural Gas Company, IPC – Idaho Power Company, NWN – Northwest Natural Gas Company, PAC – PacifiCorp, PGE – Portland General Electric Company

CASE: UG 390
WITNESS: MOYA ENRIGHT

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 1202

Witness Qualifications Statement

August 14, 2020

WITNESS QUALIFICATIONS STATEMENT

NAME:	Moya Enright
EMPLOYER:	Public Utility Commission of Oregon
TITLE:	Senior Economist Energy Rates Finance and Audit Division
ADDRESS:	201 High Street SE. Suite 100 Salem, OR. 97301
EDUCATION:	Energy Risk Professional Certification (part-qualified). Global Association of Risk Professionals. M.Sc. Political Science, 2015. University of Amsterdam. M.Sc. Investment, Treasury and Banking, 2011. Dublin City University. B.A. International Business and Languages, 2008. Dublin City University through a joint curriculum with École Supérieure de Commerce de Montpellier.
EXPERIENCE:	I have been employed as a Senior Utility and Energy Analyst at OPUC since January 2019. My current responsibilities include financial analysis, with an emphasis on Cost of Capital (CoC) and power cost forecasting. I have worked on CoC in the following general rate case dockets: AVA UG 366, NWN UG 388; and pending PAC UE 374, AVA UG 389, and CNG UG 390. Prior to joining OPUC I was employed as an Energy Trader for Meridian Energy, a hydro and wind energy generator in New Zealand from 2015 to 2019; as a Trading and Operations Analyst at Tynagh Energy, a gas focused independent power producer Ireland from 2011 to 2013; as a Senior Electricity Market Controller at EirGrid, the Irish Transmission System Operator from 2008 to 2011; and in various Accounts Assistant roles from 2004 to 2008, including Audit Intern at KPMG.

CASE: UG 390
WITNESS: CURTIS DLOUHY

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 1203

Witness Qualifications Statement

August 14, 2020

WITNESS QUALIFICATION STATEMENT

NAME:	Curtis Dlouhy
EMPLOYER:	Public Utility Commission of Oregon
TITLE:	Senior Economist Energy Rates, Finance, and Audit Division
ADDRESS:	201 High St. SE, Ste. 100 Salem, OR 97301-3612
EDUCATION:	PhD, Economics University of Oregon, Eugene, OR Master of Science, Economics University of Oregon, Eugene, OR Bachelor of Arts, Economics & Math Nebraska Wesleyan University, Lincoln, NE
EXPERIENCE:	I have been employed by the Oregon Public Utility Commission (OPUC) since June 2020 in the Energy Rates, Finance, and Audit Division. My responsibilities include providing research, analysis, and recommendations on a range of regulatory issues. Prior to working for the Commission I was employed by the University of Oregon as a graduate employee where I taught classes in Intermediate Microeconomics, Industrial Organization and Antitrust Economics. My PhD dissertation covered various topics in fossil fuel markets ranging from coal mine closure, electricity choices under carbon taxes and coal transport via railroad.

CASE: UG 390
WITNESSES: MATT MULDOON-MOYA ENRIGHT-CURTIS DLOUHY

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 1206
Peer Screening

Exhibits in Furtherance
of Testimony in Support of Partial Stipulation

August 14, 2020

Staff Exhibit 1206 Is

Filed in electronic format

CASE: UG 390
WITNESSES: MATT MULDOON-MOYA ENRIGHT-CURTIS DLOUHY

PUBLIC UTILITY COMMISSION OF OREGON

STAFF EXHIBIT 1207
Long-Run Growth Rates

Exhibits in Furtherance of Testimony in Support of Partial Stipulation

August 14, 2020

Staff Exhibit 1207 Page 1

is

Filed in electronic format

FISCAL YEAR 2021

A BUDGET FOR AMERICA'S FUTURE

BUDGET OF THE U.S. GOVERNMENT

OFFICE OF MANAGEMENT AND BUDGET | OMB.GOV

Table S–9. Economic Assumptions[1]

(Calendar years)

	Actual	Projections											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Domestic Product (GDP):													
Nominal level, billions of dollars	20,580	21,437	22,494	23,645	24,849	26,113	27,442	28,822	30,242	31,719	33,269	34,893	36,598
Percent change, nominal GDP, year/year	5.4	4.2	4.9	5.1	5.1	5.1	5.1	5.0	4.9	4.9	4.9	4.9	4.9
Real GDP, percent change, year/year	2.9	2.4	2.8	3.1	3.0	3.0	3.0	3.0	2.9	2.8	2.8	2.8	2.8
Real GDP, percent change, Q4/Q4	2.5	2.5	3.1	3.0	3.0	3.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8
GDP chained price index, percent change, year/year	2.4	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer Price Index,[2] percent change, year/year	2.4	1.8	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Interest rates, percent:[3]													
91-day Treasury bills[4]	1.9	2.1	1.4	1.5	1.5	1.6	1.7	2.0	2.2	2.4	2.5	2.5	2.5
10-year Treasury notes	2.9	2.2	2.0	2.2	2.5	2.7	3.0	3.1	3.1	3.1	3.2	3.2	3.2
Unemployment rate, civilian, percent[3]	3.9	3.7	3.5	3.6	3.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0

Note: A more detailed table of economic assumptions appears in Chapter 2, "Economic Assumptions and Interactions with the Budget," in the *Analytical Perspectives* volume of the Budget.

[1] Based on information available as of mid-November 2019.

[2] Seasonally adjusted CPI for all urban consumers.

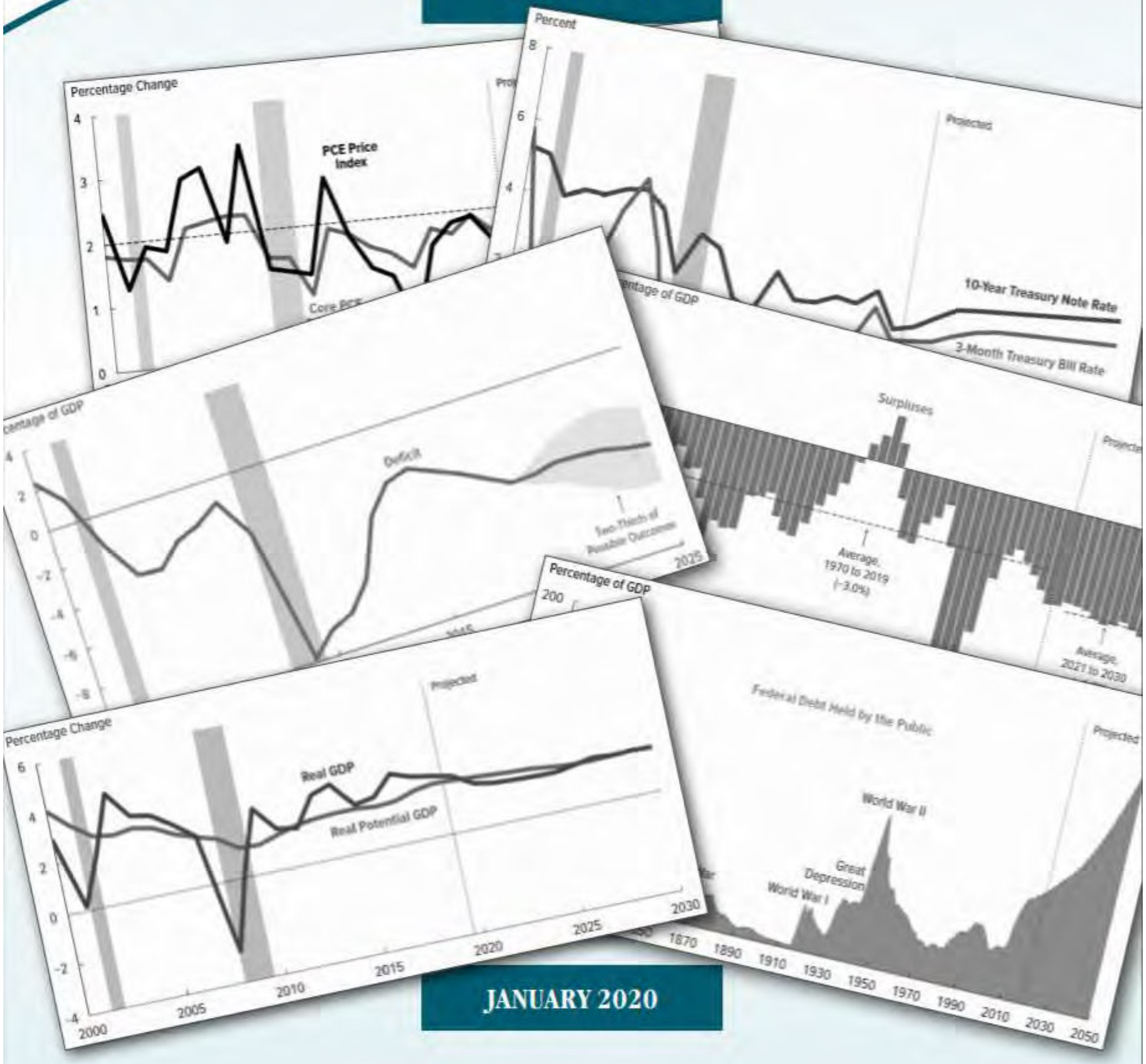
[3] Annual average.

[4] Average rate, secondary market (bank discount basis).

CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

CBO

The Budget and Economic Outlook: 2020 to 2030



JANUARY 2020

Table 2-1.

CBO's Economic Projections for Calendar Years 2020 to 2030

	Estimated, 2019[a]	2020	2021	2022	Annual Average 2023–2024	Annual Average 2025–2030
	Percentage Change From Fourth Quarter to Fourth Quarter					
Gross Domestic Product						
Real[b]	2.4	2.2	1.8	1.6	1.6	1.7
Nominal	4.2	4.2	3.9	3.8	3.7	3.7
Inflation						
PCE price index	1.5	2.0	2.1	2.1	2.0	1.9
Core PCE price index[c]	1.7	2.2	2.1	2.0	2.0	1.9
Consumer price index[d]	2.0[e]	2.5	2.6	2.6	2.4	2.2
Core consumer price index[c]	2.3[e]	2.8	2.6	2.5	2.4	2.2
GDP price index	1.8	1.9	2.1	2.1	2.1	2.0
Employment Cost Index[f]	3.1	3.6	3.6	3.6	3.4	3.1
	Fourth-Quarter Level (Percent)					
Unemployment Rate	3.5[e]	3.5	3.6	4.0	4.4[g]	4.4[h]
	Percentage Change From Year to Year					
Gross Domestic Product						
Real[b]	2.3	2.2	1.9	1.7	1.6	1.7
Nominal	4.2	4.2	4.1	3.8	3.7	3.7
Inflation						
PCE price index	1.4	1.9	2.1	2.1	2.0	1.9
Core PCE price index[c]	1.6	2.0	2.2	2.1	2.0	1.9
Consumer price index[d]	1.8[e]	2.4	2.5	2.6	2.4	2.3
Core consumer price index[c]	2.2[e]	2.7	2.6	2.5	2.4	2.2
GDP price index	1.8	1.9	2.1	2.1	2.1	2.0
Employment Cost Index[f]	3.0	3.5	3.6	3.6	3.5	3.1
	Annual Average					
Unemployment Rate (Percent)	3.7[e]	3.5	3.5	3.8	4.3	4.5
Payroll Employment (Monthly change, in thousands)[i]	181[e]	135	59	17	17	51
Interest Rates (Percent)						
Three-month Treasury bills	2.1[e]	1.6	1.7	1.8	2.1	2.3
Ten-year Treasury notes	2.1[e]	1.9	2.2	2.6	2.7	3.0
Tax Bases (Percentage of GDP)						
Wages and salaries	43.5	43.7	43.8	43.9	43.9	43.8
Domestic corporate profits[j]	7.2	7.6	7.7	7.7	7.8	7.8

Sources: Congressional Budget Office; Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve.

For economic projections for each year from 2020 to 2030, see Appendix B.

GDP = gross domestic product; PCE = personal consumption expenditures.

a. Values for 2019 do not reflect the values for GDP and related series that the Bureau of Economic Analysis has released since early January 2020.

b. Real values are nominal values that have been adjusted to remove the effects of changes in prices.

c. Excludes prices for food and energy.

d. The consumer price index for all urban consumers.

e. Actual value for 2019.

f. The employment cost index for wages and salaries of workers in private industry.

g. Value for the fourth quarter of 2024.

h. Value for the fourth quarter of 2030.

i. The average monthly change in the number of employees on nonfarm payrolls, calculated by dividing the change from the fourth quarter of one calendar year to the fourth quarter of the next by 12.

j. Adjusted to remove distortions in depreciation allowances caused by tax rules and to exclude the effects of changes in prices on the value of inventories.

THE 2020 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND FEDERAL DISABILITY INSURANCE TRUST FUNDS

COMMUNICATION

FROM

THE BOARD OF TRUSTEES, FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND FEDERAL DISABILITY INSURANCE TRUST FUNDS

TRANSMITTING

THE 2020 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND FEDERAL DISABILITY INSURANCE TRUST FUNDS

Assumptions and Methods

Table V.B2.—Additional Economic Factors (Cont.)

Calendar year	Average annual unemployment rate[a]	Annual percentage change[b] in— Labor force[c]	Total employment[d]	Real GDP[e]	Average annual interest rate Nominal[f]	Real[g]
Intermediate:						
2020	3.8	1.1	0.9	2.1	2.3	h
2021	4.2	.7	.3	2.3	2.9	-.1
2022	4.6	.8	.3	2.2	3.3	.5
2023	5.0	.8	.4	2.1	3.6	.9
2024	5.0	.6	.6	2.1	4.0	1.2
2025	5.0	.5	.5	2.1	4.2	1.6
2026	5.0	.5	.5	2.1	4.4	1.8
2027	5.0	.5	.5	2.1	4.6	2.0
2028	5.0	.5	.5	2.1	4.6	2.2
2029	5.0	.5	.5	2.1	4.7	2.2
2030	5.0	.4	.4	2.0	4.7	2.3
2035	5.0	.4	.4	2.0	4.7	2.3
2040	5.0	.3	.3	1.9	4.7	2.3
2045	5.0	.4	.4	2.0	4.7	2.3
2050	5.0	.5	.5	2.0	4.7	2.3
2055	5.0	.4	.4	2.0	4.7	2.3
2060	5.0	.4	.4	2.0	4.7	2.3
2065	5.0	.3	.3	1.9	4.7	2.3
2070	5.0	.3	.3	1.9	4.7	2.3
2075	5.0	.4	.4	2.0	4.7	2.3
2080	5.0	.4	.4	2.0	4.7	2.3
2085	5.0	.4	.4	2.0	4.7	2.3
2090	5.0	.4	.4	2.0	4.7	2.3
2095	5.0	.4	.4	1.9	4.7	2.3
Low-cost:						
2020	3.7	1.5	1.5	3.2	3.3	-.7
2021	3.9	1.2	.9	3.6	3.8	.4
2022	4.0	.8	.7	3.1	4.4	.9
2023	4.0	.8	.8	2.8	4.7	1.4
2024	4.0	.8	.7	2.8	5.0	1.7
2025	4.0	.7	.7	2.7	5.3	2.0
2026	4.0	.7	.7	2.7	5.5	2.3
2027	4.0	.6	.6	2.6	5.6	2.5
2028	4.0	.6	.6	2.6	5.8	2.6
2029	4.0	.6	.6	2.6	5.8	2.8
2030	4.0	.5	.5	2.5	5.8	2.8
2035	4.0	.5	.5	2.5	5.8	2.8
2040	4.0	.5	.5	2.5	5.8	2.8
2045	4.0	.7	.6	2.6	5.8	2.8
2050	4.0	.7	.7	2.7	5.8	2.8
2055	4.0	.7	.7	2.7	5.8	2.8
2060	4.0	.6	.6	2.6	5.8	2.8
2065	4.0	.6	.6	2.6	5.8	2.8
2070	4.0	.6	.6	2.6	5.8	2.8
2075	4.0	.7	.7	2.7	5.8	2.8
2080	4.0	.7	.7	2.7	5.8	2.8
2085	4.0	.7	.7	2.7	5.8	2.8
2090	4.0	.7	.7	2.7	5.8	2.8
2095	4.0	.6	.6	2.6	5.8	2.8

January 2020

Macroeconomic Activity Module

Table 1. Economic growth in gross domestic product (GDP), nonfarm employment, and productivity

Assumptions	2019–2020	2021–2030	2031–2040	2041–2050	2019–2050
Real GDP (billion chain–weighted $2009)					
High Economic Growth	2.4%	2.3%	2.3%	2.5%	2.4%
Reference	1.9%	1.9%	1.8%	1.8%	1.9%
Low Economic Growth	1.4%	1.4%	1.4%	1.3%	1.4%
Nonfarm Employment					
High Economic Growth	1.4%	0.6%	0.7%	0.9%	0.8%
Reference	1.1%	0.4%	0.6%	0.5%	0.5%
Low Economic Growth	0.8%	0.1%	0.4%	0.3%	0.3%
Productivity					
High Economic Growth	1.5%	2.1%	1.8%	1.9%	1.9%
Reference	1.0%	1.8%	1.4%	1.4%	1.5%
Low Economic Growth	0.7%	1.5%	1.0%	1.1%	1.2%

Source: U.S. Energy Information Administration, AEO2020 National Energy Modeling System runs: ref2020.d112119a, lowmacro.d112619a, and highmacro.d112619a.

Annual Energy Outlook 2020

with projections to 2050

U.S. Energy Information Administration

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—which also affect important drivers of energy demand growth

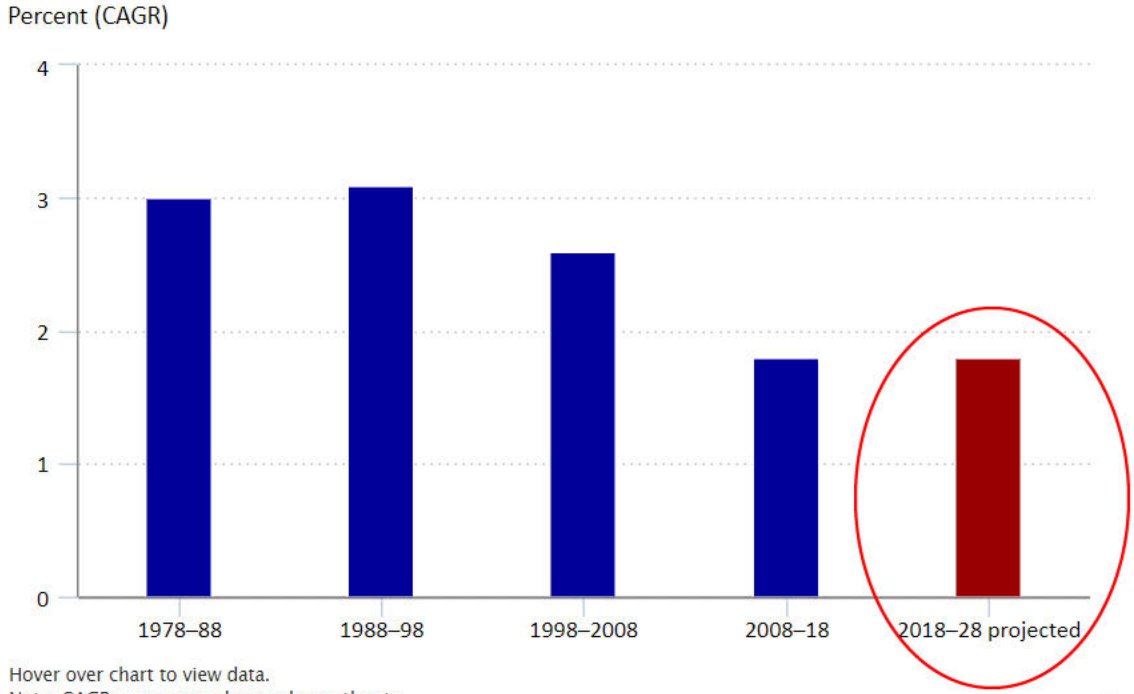
- The AEO2020 Reference, High Economic Growth, and Low Economic Growth cases illustrate three possible paths for U.S. economic growth. In the High Economic Growth case, average annual growth in real GDP during the projection period is 2.4%, compared with 1.9% in the Reference case. The Low Economic Growth case assumes a lower rate of annual growth in real GDP of 1.4%.

- Differences among the cases reflect different assumptions for growth in the labor force, capital stock, and productivity. These changes affect capital investment decisions, household formation, industrial activity, and amount of travel.

- All three economic growth cases assume smooth economic growth and do not anticipate business cycles or large economic shocks.

Monthly Labor Review mlr BLS

Figure 5. Gross domestic product, 10-year CAGR, 1978–2018 and projected 2018–28



Hover over chart to view data.
Note: CAGR = compound annual growth rate.
Source: U.S. Bureau of Labor Statistics.

The Long View
How will the global economic order change by 2050?

February 2017

pwc

Table B2: Breakdown of components of average real growth in GDP at MERs (2016-2050)

Country	Average Pop Growth p.a %	Average Real Growth per capita p.a %	% of growth due to MER	Average GDP growth p.a. (in USD)
India	0.7%	4.1%	2.8%	7.7%
Vietnam	0.5%	4.5%	2.4%	7.4%
Bangladesh	0.6%	4.1%	2.2%	7.0%
Pakistan	1.4%	2.9%	2.6%	7.0%
Egypt	1.4%	2.6%	2.5%	6.6%
Philippines	1.1%	3.1%	2.1%	6.3%
Nigeria	2.3%	1.9%	2.1%	6.2%
Indonesia	0.6%	3.1%	2.5%	6.2%
South Africa	0.5%	3.2%	2.1%	5.8%
Malaysia	0.8%	2.7%	2.3%	5.8%
Iran	0.4%	2.5%	2.6%	5.5%
Colombia	0.4%	2.9%	2.0%	5.3%
Saudi Arabia	1.1%	1.9%	2.2%	5.1%
Mexico	0.7%	2.5%	1.7%	5.0%
Thailand	-0.3%	2.9%	2.3%	4.9%
Turkey	0.5%	2.4%	1.8%	4.8%
Poland	-0.4%	2.5%	2.5%	4.5%
China	-0.1%	3.1%	1.4%	4.4%
Russia	-0.3%	2.2%	2.3%	4.2%
Argentina	0.7%	2.2%	1.1%	4.1%
Brazil	0.4%	2.2%	1.3%	3.9%
South Korea	0.0%	1.8%	1.0%	2.8%
Spain	-0.1%	1.5%	0.9%	2.3%
Australia	0.9%	1.3%	-0.2%	2.1%
United Kingdom	0.4%	1.5%	0.2%	2.1%
Canada	0.6%	1.2%	0.3%	2.1%
Netherlands	0.1%	1.5%	0.4%	2.0%
France	0.3%	1.3%	0.3%	1.9%
United States	0.5%	1.3%	0.0%	1.8%
Germany	-0.2%	1.5%	0.4%	1.7%
Italy	-0.2%	1.2%	0.5%	1.5%
Japan	-0.5%	1.4%	0.1%	1.1%

Source: PwC analysis

LEADERSHIP SERIES

Secular Outlook for Global Growth: The Next 20 Years

Slower economic growth is expected to result in a lower-than-historical-average interest rate climate and to offer less of a tailwind to equities

Irina Tytell, PhD | Senior Research Analyst, Asset Allocation Research
Lisa Emsbo-Mattingly | Director of Asset Allocation Research
Dirk Hofschire, CFA | Senior Vice President, Asset Allocation Research

EXHIBIT 6: The world economy will grow more slowly, with the highest growth rates found in developing economies.

Real GDP 20-Year Growth Forecasts vs. History, 2019–2038

CASE: UG 390
WITNESSES: MATT MULDOON-MOYA ENRIGHT-CURTIS DLOUHY

PUBLIC UTILITY COMMISSION
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STAFF EXHIBIT 1208
BEA Historic GDP Growth

Exhibits in Furtherance
of Testimony in Support of Partial Stipulation

August 14, 2020

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PUBLIC UTILITY COMMISSION
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STAFF EXHIBIT 1209
TIPS Implied Inflation Expectations

Exhibits in Furtherance
of Testimony in Support of Partial Stipulation

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STAFF EXHIBIT 1210

Security Market News
that Investors Are Seeing

August 14, 2020

S&P Global
Market Intelligence

July 22, 2020
spglobal.com/marketintelligence

RRA Regulatory Focus
Major Rate Case Decisions - January - June 2020

For Detailed Data
Click here to see supporting data tables.

The equity returns authorized electric and gas utilities nationwide edged downward in the first half of 2020. Several rate case decisions have been delayed until later this year due to the health and economic crisis triggered by the coronavirus outbreak that brought the U.S. economy to a near halt. Based on data gathered by Regulatory Research Associates, a group within S&P Global Market Intelligence, the average return on equity authorized electric utilities was 9.55% in all rate cases decided in the first half of 2020, below the 9.65% average for cases in full year 2019. There were 27 electric ROE determinations in the first half of 2020, versus 47 in full year 2019.

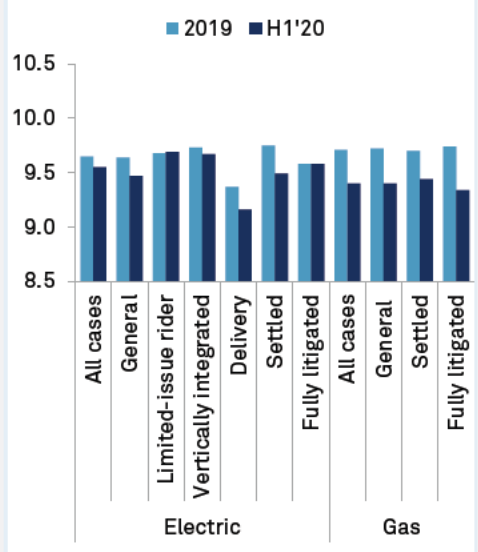
Included in those authorizations is a decision by the Maine Public Utilities Commission ordering a management inefficiency adjustment that reduced Central Maine Power Co.'s ROE by 100 basis points to 8.25% due to imprudence associated with a new billing system. The PUC ordered that this downward ROE adjustment be lifted when the utility meets all performance benchmarks for all service quality metrics for at least 18 consecutive months beginning March 1, 2020, and formally demonstrates to the commission that the problems have been resolved. Calculation of the average electric ROE without the penalty results in a 9.58% ROE for the first half of 2020.

This data includes several limited-issue rider cases. Excluding these cases, the average authorized ROE was was 9.47% in electric rate cases decided in the first half of 2020, versus 9.64% observed in full year 2019. The difference between the ROE averages including rider cases and those excluding the rider cases is driven by ROE premiums allowed in certain states for riders that address recovery of specific generation projects.

The average ROE authorized gas utilities was 9.40% in cases decided during the first half of 2020 versus 9.71% in full year 2019. There were 12 gas cases that included an ROE determination in the first six months of 2020 versus 32 in full year 2019.

The 2020 averages are hovering at the lowest levels ever witnessed in the industry, and with the recent rate cuts by the U.S. Federal Reserve and current pandemic induced recession, even lower authorized returns may be on the horizon.

Average authorized return on equity (%)
Dashboard



Electric average	2019	H1'20	
All cases	9.65	9.55	▼
General rate cases	9.64	9.47	▼
Limited-issue rider cases	9.68	9.69	▲
Vertically integrated cases	9.73	9.67	▼
Delivery cases	9.37	9.16	▼
Settled cases	9.75	9.49	▼
Fully litigated cases	9.58	9.58	
Gas average	**2019**	**H1'20**	
All cases	9.71	9.40	▼
General rate cases	9.72	9.40	▼
Settled cases	9.70	9.44	▼
Fully litigated cases	9.74	9.34	▼
U.S. Treasury	**2019**	**H1'20**	
30-year bond yield	2.58	1.62	▼

Data compiled July 20, 2020.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

Lisa Fontanella, CFA
Research Director

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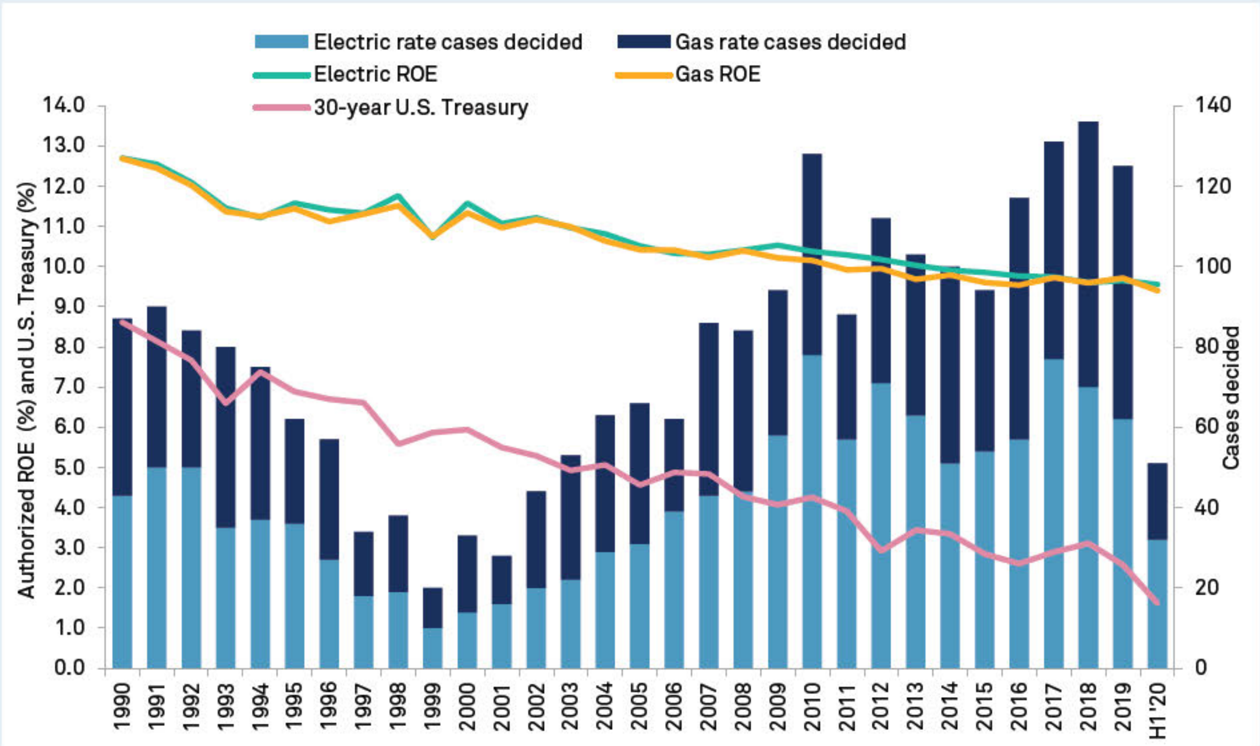
Average electric and gas authorized ROEs and number of rate cases decided



Data compiled July 20, 2020.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

In the first six months of 2020, the median ROE authorized in all electric utility rate cases was 9.45%, versus 9.60% in full year 2019; for gas utilities, the metric was 9.42% in the first half of 2020, versus 9.70% in full year 2019.

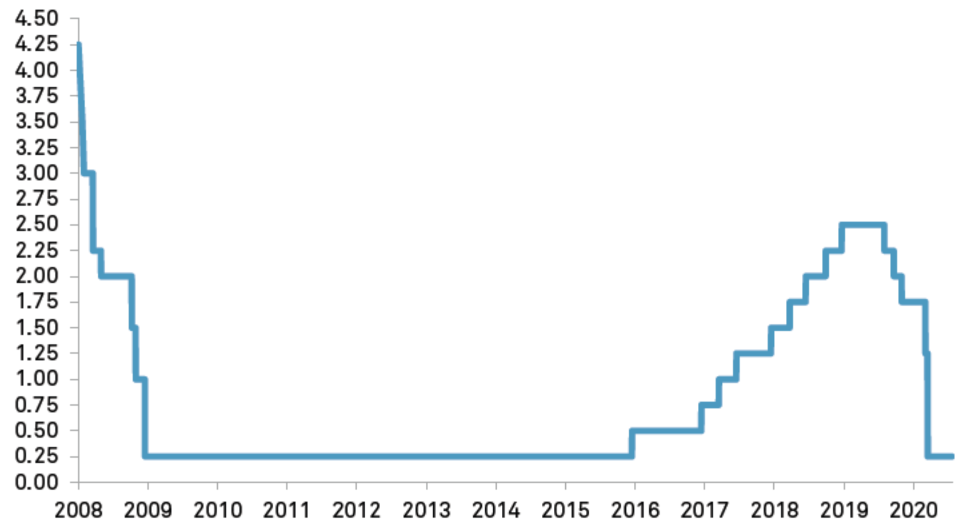
From a longer-term perspective, interest rates, as measured by the 30-year U.S. Treasury bond yield, fell almost steadily from the early 1980s until 2015 or so, placing downward pressure on authorized ROEs. Even though the decline has been less dramatic in the period since 1990, average authorized ROEs fell below 10% for gas utilities in 2011 and for electric utilities in 2014.

Since 2010, rate case activity has been robust, with 100 or more cases adjudicated in eight of the last ten calendar years. This count includes electric and gas cases where no ROEs have been specified; however, withdrawn cases are not included. After reaching an almost 30-year high in 2018, when almost 140 cases were decided, rate case activity moderated somewhat in 2019, with about 125 electric and gas cases resolved. Currently, there are about 90 rate cases pending; however, the current state of affairs due to COVID-19 has caused some companies to postpone rate case filings that were planned for this year. This backlog, coupled with the need to address COVID-19 pandemic-related costs and lost revenue may usher in an even more robust level of rate case activity in 2021 and beyond,

Absent the pandemic, increased costs associated with environmental compliance, generation and delivery infrastructure upgrades and expansion, renewable generation mandates, storm and disaster recovery, cybersecurity and employee benefits have contributed to an active rate case agenda over the last decade.

Rising interest rates over the past several years also likely contributed to the increased rate case activity. Beginning in 2015, the Federal Reserve began to gradually raise the federal funds rate, increasing them several times, up to 2.50% in December 2018. However, with concerns of slowing growth, fears of a global recession and the impact of U.S.-China trade tensions negatively weighing on the U.S. economy, the Fed, after more than a decade without a cut, lowered rates three times in 2019, the last reduction of which brought the federal funds rate to a range of 1.50% to 1.75%. Citing the economic fallout from the coronavirus outbreak, the Fed delivered two emergency rate cuts thus far this year, the first in early March, which cut rates by 50 basis points to 1.00% to 1.25%, and a second in mid-March, which slashed rates another 100 basis points to the current range of 0-0.25%.

Federal funds target rate, upper limit %



Data as of July 20, 2020.
Source: Federal Reserve

While changes in the federal funds rate do not move in lockstep with longer-term treasuries and authorized ROEs do not move in lockstep with interest rates, the expectation is that as interest rates change, authorized ROEs would also change in similar fashion. However, several factors impact the timing and magnitude of such a shift. Normal regulatory lag, i.e., the amount of time it takes for a utility to put together a rate case filing and tender it to the commission and then for the commission to process the case, would without any other influences delay a change in average authorized ROEs relative to interest rates.

It is also worth noting that while both interest rates and authorized ROEs have generally been declining since 1990, the gap between authorized ROEs and interest rates widened somewhat over this period, largely as a result of an often-unstated understanding by regulators that the drop in interest rates caused by Federal Reserve intervention was unusual.

Capital structure trends

To offset the negative cash flow impact of 2017 federal tax reform, many utilities sought higher common equity ratios, and the average authorized equity ratios adopted by utility commissions in 2019 were modestly higher than the levels observed in 2018 and 2017. However, in cases decided during the first half of 2020, the average authorized equity ratio for electric utilities fell to 48.61%. For full years 2019, 2018 and 2017, the average equity ratios authorized in electric utility cases were 49.94%, 49.02% and 48.90%, respectively. The average allowed equity ratio for gas utilities nationwide in cases decided in the first six months of 2020 was slightly higher than the levels observed in earlier full year periods. For the first six months of 2020, the average was 53.12%, versus 51.75% in 2019, 50.12% in 2018 and 49.88% in 2017.

Taking a longer-term view, equity ratios have generally increased over the last 15 years — the average equity ratio approved in electric rate cases decided during 2004 was 46.96%, while the average for gas utilities was 45.81%. Many commissions began approving more equity-rich capital structures in the wake of the 2008 financial crisis.

A more granular look at ROE trends

The discussion thus far has looked broadly at trends in authorized ROEs; the sections that follow provide a more granular view based upon the types of proceedings/decisions in which these ROEs were established.

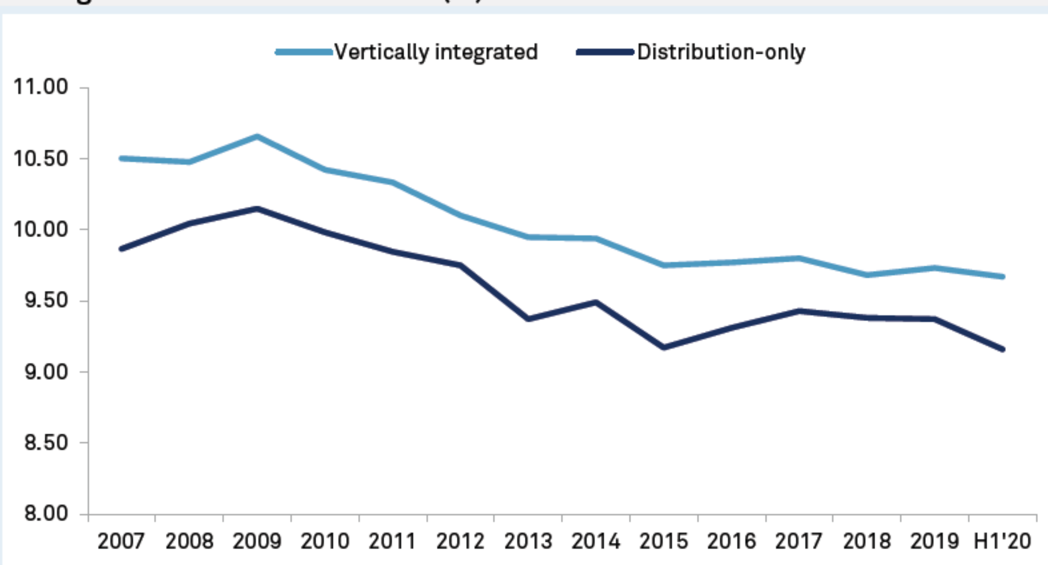
RRA has observed that there can be significant differences between the average ROEs from one subcategory of cases to another.

As a result of electric industry restructuring, certain states unbundled electric rates and implemented retail competition for generation. Commissions in those states now have jurisdiction only over the revenue requirement and return parameters for delivery operations.

Comparing electric vertically integrated cases versus delivery-only proceedings over the past several years, RRA finds that the annual average authorized ROEs in vertically integrated cases typically are about 30 to 65 basis points higher than in delivery-only cases, arguably reflecting the increased risk associated with ownership and operation of generation assets.

The industry average ROE for vertically integrated electric utilities was 9.67% in cases decided during the first six months of 2020, just below the 9.73% average level posted in full year 2019. For electric distribution-only utilities, the industry average ROE authorized in the first six months of 2020 was 9.16%, versus 9.37% in full year 2019. Included within the distribution returns for the first half of 2020 is the previously mentioned penalty ordered by the Maine PUC for Central Maine Power. Absent that 100 basis point penalty, a 9.31% average ROE is calculated for distribution only utilities in the first half of 2020.

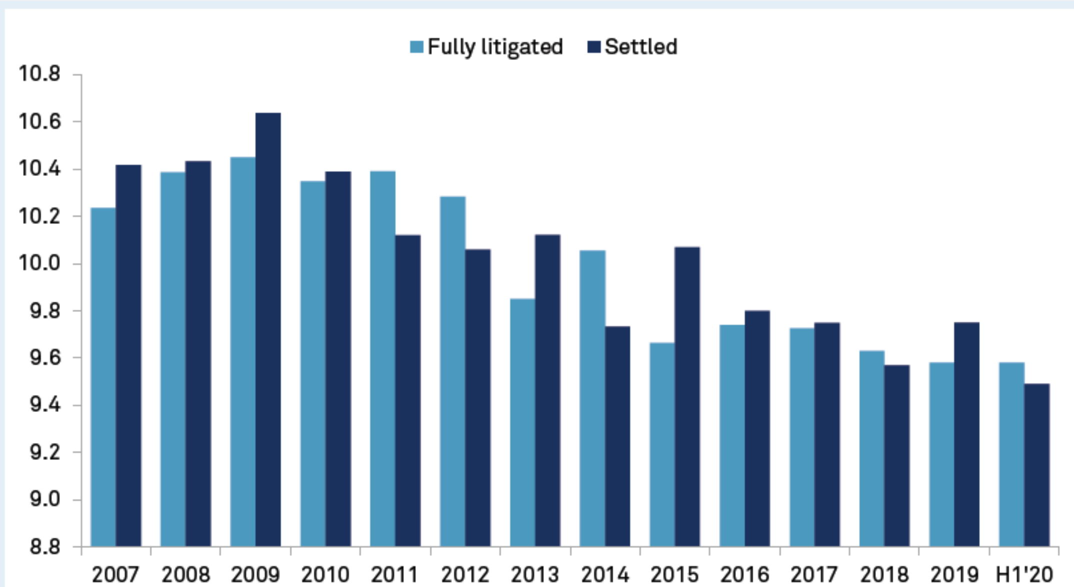
Average authorized electric ROEs (%)



Data compiled July 20, 2020.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

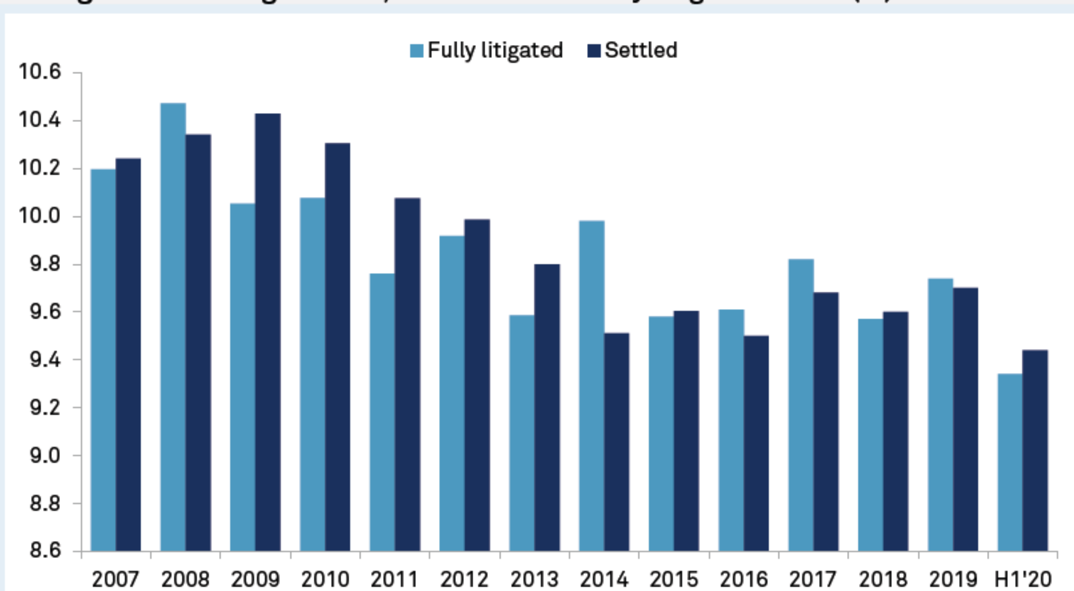
Settlements have frequently been used to resolve rate cases over the last several years, and in many cases, these settlements are "black box" in nature and do not specify the ROE and other typical rate case parameters underlying the stipulated rate change. However, some states preclude this type of treatment, and settlements must specify these values, if not the specific adjustments from which these values were derived.

Average authorized electric ROEs, settled versus fully litigated cases (%)



Data compiled July 20, 2020.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

Average authorized gas ROEs, settled versus fully litigated cases (%)



Data compiled July 20, 2020.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

For both electric and gas cases, RRA has found no discernible pattern in the average authorized ROEs in cases that were settled versus those that were fully litigated. In some years, the average authorized ROE was higher for fully litigated cases, in others, it was higher for settled cases, and in a handful of years, the authorized ROE was similar for both fully litigated and settled cases.

Over the last several years, the annual average authorized ROEs in electric cases that involve limited-issue riders were typically meaningfully higher than those approved in general rate cases, driven primarily by the ROE premiums authorized in generation-related limited issue rider proceedings in Virginia. Limited-issue rider cases in which a separate ROE is determined have had limited use in the gas industry, as most of the gas riders rely on ROEs approved in a previous base rate case.

The following discussion focuses on the corresponding tables available here.

Table 1 shows the average ROE authorized in major electric and gas rate decisions annually since 1990 and by quarter since 2016, followed by the number of observations in each period. **Table 2** indicates the composite electric and gas industry data for all major cases, summarized annually since 2004 and by quarter for the past six quarters.

Tables 3 and 4 provide comparisons since 2007 of average authorized ROEs for settled versus fully litigated cases, general rate cases versus limited-issue rider proceedings and vertically integrated cases versus delivery-only cases for electric and gas utilities, respectively.

The individual electric and gas cases decided in 2020 are listed in Table 5, with the decision date shown first, followed by the company name, the abbreviation for the state issuing the decision, the authorized rate of return, the ROE and the percentage of common equity in the adopted capital structure. Next, RRA indicates the month and year in which the adopted test year ended, whether the commission utilized an average or a year-end rate base and the amount of the permanent rate change authorized. The dollar amounts represent the permanent rate change ordered at the time decisions were rendered. Fuel adjustment clause rate changes are not reflected in this study.

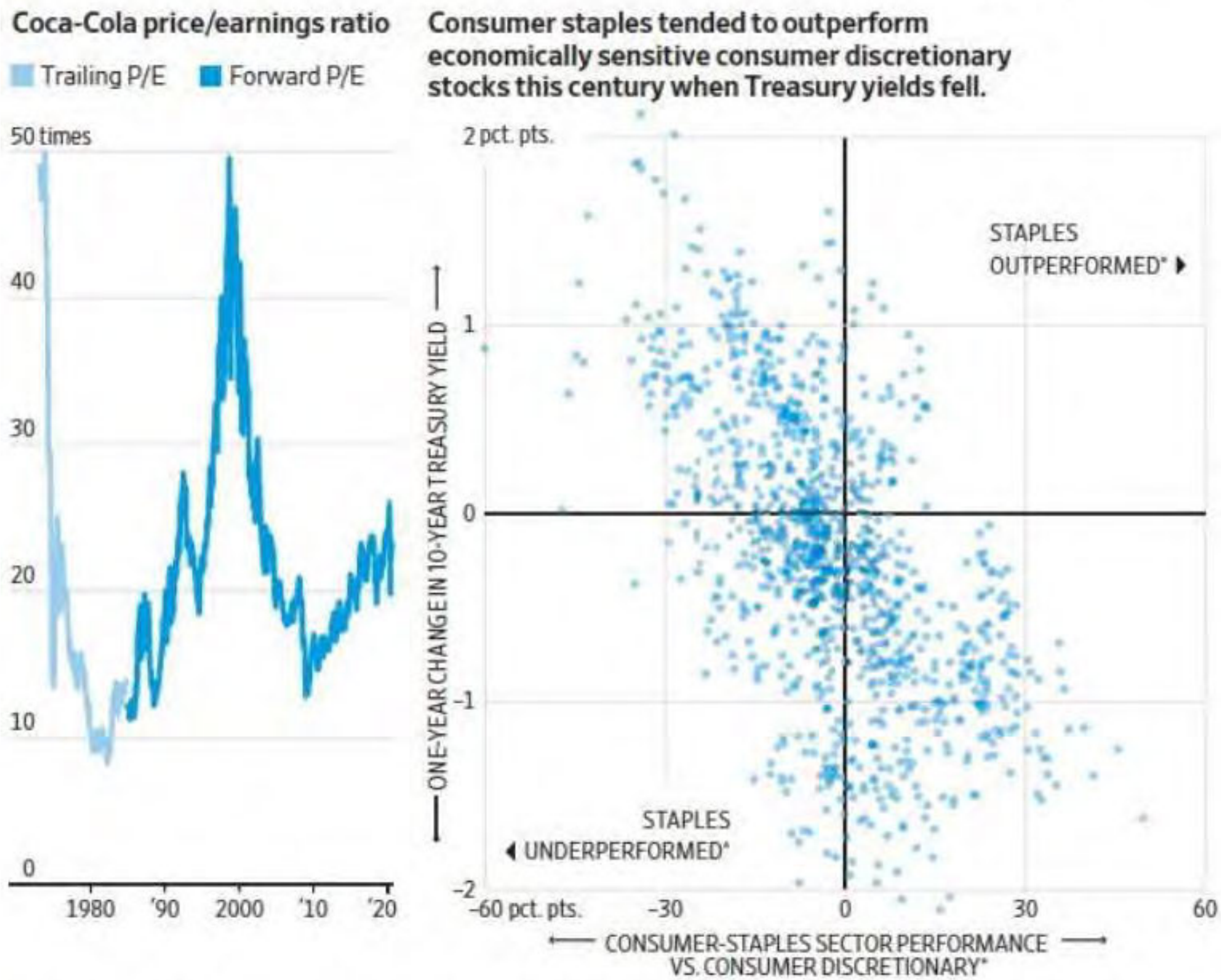
The simple mean is utilized for the return averages. In addition, the average equity returns indicated in this report reflect the ROEs approved in cases that were decided during the specified time periods and are not necessarily representative of either the average currently authorized ROEs for utilities industrywide or the returns actually earned by the utilities.

Please note: In an effort to align data presented in this report with data available in S&P Global Market Intelligence's online database, earlier historical data provided in previous reports may not match historical data in this report due to certain differences in presentation, including the treatment of cases that were withdrawn or dismissed.

Beware—Cheap Money Won't Last Forever

by James Mackintosh – WSJ Streetwise Column – Jul. 27, 2020

Lower rates make reliable growth stocks more attractive. Recently that has meant disruptive technology stocks, but in the past low rates helped consumer staples, such as Coca-Cola.



*One-year change in S&P 500 staples minus one-year change in discretionary

Source: Refinitiv

Behind the facade of ratios and metrics, **investing is about storytelling**. The main narrative right now is one that has turned out to be the tallest of tall tales in the past.

The story is that **cheap money justifies** the **market's high valuations**, **so** we **need not worry** that the **S&P 500 hasn't been so expensive since** the **dot-com bubble**, **or** that the **five biggest U.S. stocks** are **now comparable** in **size to** the **five biggest European stock markets**.

As with all the best stories, it has a **core of truth**.

Low rates do justify higher valuations, at least **for companies that can reliably grow no matter what** the **economy does**. And the solid tech companies appear to be able to ride out even this year's atrociously bad economy.

(**Europe's markets** are **more cyclical**, so cheap money hasn't helped so much.) The trouble is that **<u>such stories always ended badly before</u>**. **Three things have gone wrong in the past**: **<u>Management squanders the cash</u>**. When executives find themselves with cheap capital, they usually throw it at their pet projects, build a fancy new headquarters or, occasionally, splash out on a luxury commode. When reality catches up and competition or regulation erodes their elevated margins, shareholders may be surprised to find out how much was wasted.

The big tech companies have obliged with some of the most expensive HQs – and secondary HQs – in history. Actual moonshots, or Mars-shots, are run on the side as private projects of the founders, but the CEOs have found plenty of other ways to spend the money that has poured in from investors and from profitable early successes. The justifications they have given to shareholders – there is a great opportunity! – are little different to uncountable failures in the past: If a company can build an online advertising business or an e-commerce platform, of course it is best placed to invent self-driving cars or make a move on Hollywood.

Maybe this time is different. Jeff Bezos has repeatedly succeeded in extending Amazon from its origins as an internet bookshop, with one venture, cloud computing, now its most profitable business.

Left: Jeff Bezos grew Amazon beyond its 1990s origin as an online bookseller.

Investors are confident he can repeat his innovation success in areas such as video and Whole Foods, conveniently forgetting Amazon's investment in Pets.com and multiple failed attempts at grocery delivery.

Alphabet has created an incredibly popular operating system – not bad for a search engine-to-home-video conglomerate – although its failures in social media are swept under the carpet.

Maybe the tech culture's willingness to experiment and fail makes it more likely that these companies will find the Next Big Thing.

Alternatively, maybe their core businesses are so profitable, and so immune to competition, that they can afford to finance a few executive flights of fancy. Again, supposedly rock-solid earnings have always succumbed to regulators or new competitors in the past. Having been exactly those new competitors once, today's tech winners should be well aware of the threat.

A **bubble**. Excitement about the growth prospects of the internet inflated into a bubble after the **Federal Reserve slashed rates** in **1998** to **save Wall Street from** the **implosion of** hedge fund **Long-Term Capital Management**. **Many** of the **dotcoms**, including Pets.com, **vanished when** the **bubble burst**.

But the **forgotten story of** the **time** was the **extreme valuations** reached by some very boring businesses as bond yields fell in the months **before LTCM collapsed**. From the **start of 1997 to August 1998**, the **10-year Treasury yield dropped** from 6.4% to 5.4%. The **fall justified higher valuations for companies with reliable earnings**.

The **market**, **as usual, took it to excess**. **Coca-Cola** led the way with a **forward price/earnings** ratio that almost **doubled to 50** (!), while the consumer-staples sector as a whole went from under 19 to 25. When the Fed's rate cuts restored confidence and bond yields rose, those values fell all the way back, even before the dot-com bust took down the entire market.

A **similar pattern** is visible **today**. Dot-coms have been replaced by speculation on electric cars, but many of the same safe, reliable earners are again trading on premium valuations because of low rates.

With the 10**-year Treasury now** at **0.6%,** a **dividend yield** of **3%** on **Coca-Cola** or PepsiCo **looks like** a **bargain**. **Until** the **story changes**, **and it doesn't**.

Inflation. In the early **1970s**, the **Nifty Fifty stocks** offered investors a nice, safe way to avoid the problem of a bond yield sharply down thanks to the recession at the start of the decade. **Reliable growth** and **decent earnings pushed** companies such as **IBM**, **Kodak** and, again, **Coca-Cola** (then at 49 times trailing earnings) and PepsiCo **to unwarranted valuations**.

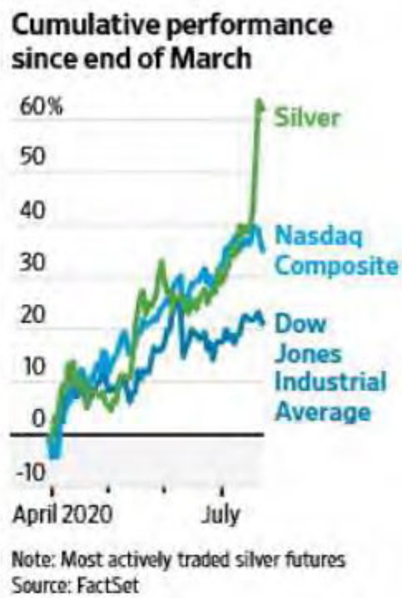
When inflation ran out of control and **bond yields began** to **rise**, the **cheap money** that had **underpinned** this **excess vanished** and **valuations fell back**. Hardly any lived up to their promise.

No one is paying 50 times for Coke right now, so there is scope for stocks to rise a lot further yet. **Wild speculation** is **still limited** to a **select group**, **led by Tesla**. But we're already **at** the **point where extended valuations for** the **supposedly safe growth stocks** are **vulnerable** to **any surprise good news on** the **economy that pushes up bond yields**.

Investors **need** to **remember** that **reliable** **earnings** **don't make for reliable stock returns** **if** they **pay too much** for them—and **any sign** that **interest** **rates** **aren't staying at close to zero pretty much forever** will **mean** they **paid too much**.

Broad Market Rally Brings Wary Investors off Sidelines

by Amrith Ramkumar – WSJ – Jul. 27, 2020



Stocks, bonds and commodities are heading for their strongest simultaneous four-month rise on record, highlighting the breadth of the market recovery during the 2020 economic slowdown.

Through Thursday, the **S&P 500** and S& P GSCI commodities index were each **up** more than **25% since** the **end** of **March**, while the **Bloomberg Barclays U.S. Aggregate Bond Index added** more than **3%** in that span. If the gains hold during the final week of July, this would be the first time that the **gauges all rose** that much in a four-month period, according to a Dow Jones Market Data analysis going back to 1976.

Investors and analysts attribute the broad rise in financial markets to faith in **government and central-bank stimulus programs**, hopes for vaccine development and wagers that the coronavirus crisis will spell opportunity for several large but nimble, well-placed companies at the expense of others whose struggles are deepening. The broad advance is prompting many investors who had been skeptical to pare back their cautious wagers and join the rally, giving it further fuel.

Many portfolio managers believe the gains are justifiable, given expectations that economic conditions will improve and the success of policy makers in unfreezing debt markets whose functioning is crucial to American corporations. At the same time, **some analysts see** signs of a "melt-up" in some market niches, particularly around technology, in which **investors** are **buying assets** in large part **simply because** they are **rising**. Traders are riding the **momentum** in everything from large technology **stocks** such as Apple Inc. **to** the precious metal **silver**.

Such powerful rises are a concern for analysts who worry that the investments will suddenly fall in tandem if markets or the global economy face a fresh shock. Many investors flush with cash raised during the early-year turmoil are amplifying bullish wagers while also paying more to hedge their bets.

"People are hopping on the train, and they're also looking to get anything else in their portfolio for when the day of reckoning comes," said Christopher Stanton, chief investment officer of Sunrise Capital Partners. Mr. Stanton is betting against the dollar, expecting **Federal Reserve stimulus programs** to **continue weakening** the **currency**, **boosting investments** from **stocks** to **commodities** that are **priced in dollars**.

He warned that uncertainty about government or central-bank policies could hit markets, pointing to November's presidential election as one possible spark for a reversal. Many investors fear presumptive Democratic nominee Joe Biden will raise corporate taxes if elected.

The S&P 500 hit its highest level in five months on Wednesday before declining late in the week. It is about 5% below its February record. Numerous other investments extended a weeks-long climb, including commodities such as oil and corporate bonds.

Expectations that the **Fed will keep rates near zero** have **kept** the **benchmark 10-year U.S. Treasury yield near** its **March record low**. **Yields fall as bond prices rise**, and steady demand for bonds pushed investment-grade corporate-bond yields to all-time lows last week.

Nela Richardson, an investment strategist at Edward Jones, said the firm recently reduced its cash holdings and increased positions in high-yield corporate bonds, citing the nonexistent returns from holding cash with rates near zero.

"We're all in a **low-yield environment**," she said.

Markets continue to climb even with many large companies painting a murky picture of the economy, highlighting investors' faith in further stimulus programs. Last week's swings came after European Union leaders agreed on a more than $2 trillion spending package. Many investors also hope that U.S. lawmakers will soon reach a deal on further corona-virus aid.

"You **don't** want to **fight** the **Fed**, the world's central banks or the world's governments," said Thomas Martin, senior portfolio manager at Globalt Investments. The firm's investment in stocks is in line with the benchmark it tracks and it has been holding gold in its asset- allocation strategies.

Investors buy gold during times of uncertainty, and **precious metals** are also benefiting from the flood of money being used to prop up the world economy. Some analysts expect the stimulus to stoke inflation, eroding the purchasing power of paper money and making the metals more expensive. But even within metals, traders see signs that investors are flocking to the sector because prices are going up.

Such moves often happen after the number of investors holding an asset declines, then money managers seek to catch up to a rising market. Investor positioning was recently depressed across asset classes following the early-year market selloff. Now, investors are gradually increasing those positions, a trend that could continue supporting stocks, Deutsche Bank analysts said in a recent note.

One factor worrying investors: A **large share** of the **stock market's gains** has been concentrated in tech behemoths such as **Apple**, Google parent **Alphabet** Inc. and **Facebook** Inc. that report earnings this week. Investors retreated from tech stocks late last week, dragging down major indexes.

Analysts say there still isn't **excessive optimism** in markets generally, though highflying stocks like electric-auto maker **Tesla** Inc. are a concern for many.

"For a lot of people, it's hard to look at a stock like [Tesla] that goes up and up and up and not feel like you're missing out," said Victoria Fernandez, chief market strategist at Crossmark Global Investments.

The firm has pared back its positions in some large tech companies that have risen sharply like Apple and Microsoft Corp., while increasing its holdings of cyclical stocks more tied to the economy such

Concentrating Solar Plant in Nevada, Backed by DOE Loan, Files for Bankruptcy

by Justin Horwath – S&P Global Market Intelligence – Jul. 31, 2020

The **U.S. D**epartment **o**f **E**nergy on July 31 reached a **settlement** to **recover $200 million from** a company that in 2011 accepted a federal loan guarantee to build a first-of-its-kind solar project in Nevada, the **110-MW Crescent Dunes Solar** (**Tonopah Solar**), a spokeswoman said.

Tonopah Solar Energy in 2011 accepted the **$737 million loan guarantee** under the Title XVII loan program, which was created in 2005 to provide financial backing to innovative energy projects that avoid or reduce greenhouse gas emissions. In total, the company owes the DOE $424.7 million.

The **Crescent Dunes project**, which came online in 2015 in Nye County, Nev., used more than **10,000 heliostats**, or **mirror assemblies**, to **collect** and **focus** the **sun's energy** to **heat molten salt flowing through** a **640-foot tower**, which **acted like** a **battery**. The power plant, which **reached commercial operation** in **November 2015**, **converted** the **heat energy into steam**, which **powered** a **turbine** to **generate electricity**.

But after **leaks in** the **hot salt tank** – and various **legal disputes** between Tonopah, Cobra Thermosolar Plants Inc, the engineering, procurement and construction firm on the project, creditors and the DOE – Tonopah on July 30 **filed** for **bankruptcy protection**. A **settlement** was reached July 31, according to the DOE. The agreement is **subject** to **court approval**.

"This project has consistently faced **technical failures** that have proven **difficult** to **overcome**," said DOE spokeswoman Shaylyn Hynes. "The department's decision was made after years of exhausting options within our authority to get the project back on track, given the significant taxpayer investment the prior Administration committed to this project."

Aiming to resolve the problem of intermittency of solar and wind generation, SolarReserve LLC in 2008 formed Tonopah Solar Energy to build the concentrating solar plant. **Berkshire Hathaway Energy's NV Energy** Inc. **committed** to **buying** the output of the plant **for more than $135/MWh**, according to bankruptcy filings. Prices for **utility**-scale solar photovoltaic have fallen dramatically since then, dimming the competitive prospects of concentrating solar facilities such as Crescent Dunes.

In October 2016, the power plant ceased operations because of a leak in the hot salt tank. Operations resumed in July 2017 and remained online until early April 2019, when a second leak in the tank was discovered.

In **November 2019**, **NV Energy terminated** its **power purchase agreement** for the project's output.

But **Crescent Dunes might still come back online**. Under the DOE agreement, **Cobra would control Tonopah**, **free of DOE debt**, **allowing it** to **repair** the **plant** and **negotiate** a **new PPA**.

Cobra, an **affiliate** of **ACS** SA, **would provide** the **DOE** with a **$100 million contingent note**. The agreement would "protect the American taxpayers by maximizing the recovery of funds while also allowing the project to continue in the private sector," Hynes said.

El Paso Electric and JPMorgan-Advised Fund Clear Final Hurdle to Close $4.3B Deal

by Nephele Kirong – S&P Global Market Intelligence – Jul. 27, 2020

El Paso Electric Co. and J.P. Morgan Investment Management Inc.-advised **IIF US Holdings** 2 LP said July 27 that they have received the final regulatory **approval from** the **F**ederal **E**nergy **R**egulatory **C**ommission to complete their proposed **$4.3 billion deal**.

In March, **FERC approved** IIF US Holdings 2's acquisition of El Paso Electric, subject to further approval of **mitigation** to **address discrete competitive effects** of the **deal**. The commission cleared the proposed mitigation July 22.

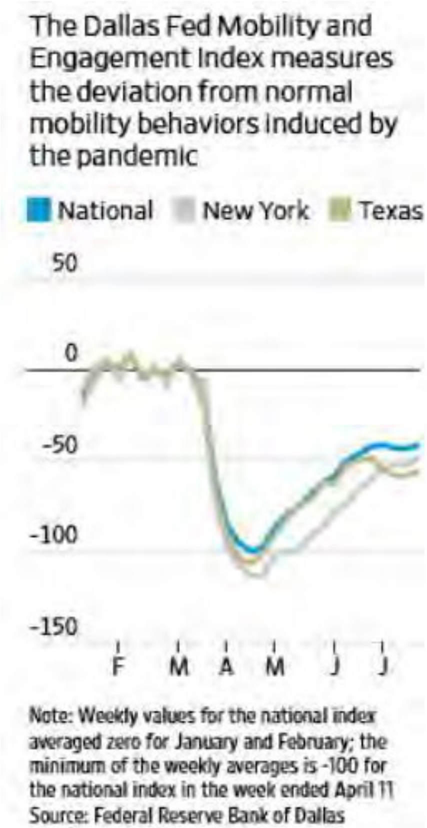
The **companies expect** to **close** the **transaction** on **July 29**, subject to the satisfaction of closing conditions. **Upon deal closing**, **El Paso Electric** share **will cease to be listed for trading** on the **New York Stock Exchange**.

El Paso Electric expects it board to declare a "**stub** period" **dividend** of 0.4505 cent per share multiplied by the number of days from and including June 17, the day after the record date for the most recent regular dividend, to and including the deal closing date.

Fed's Outlook Grows Gloomier

by Nick Timiraos – WSJ – Jul. 28, 2020

Officials stress need to curb the pandemic so economic recovery can be sustained



Federal Reserve officials **meet Tuesday** and **Wednesday** facing **growing doubts** about the **prospect** for a **sustained economic rebound** due to the nation's uneven public-health response to the **coronavirus**.

Officials have warned this month in speeches and interviews that the **economy faces** a **deeper downturn** and **more difficult recovery** if the country doesn't take more effective action to slow the spread of infection.

Since the Fed's mid-June policy meeting, **virus infection rates** have **accelerated** in many states that were **among** the first to encourage businesses to reopen. **Business leaders** and **economists** have **warned** that hard-hit industries such as **travel**, **entertainment** and **hospitality** will face a more difficult recovery if **consumers don't feel confident spending money indoors** and **gathering** in **large groups**.

The **Fed isn't likely** to **roll out new stimulus measures this week** but is debating how to provide more support to the economy once the economic outlook becomes clearer. It could do this by adjusting its purchases of Treasury and mortgage securities and by providing more detail about what conditions would lead it to consider withdrawing stimulus.

Fed officials have focused their recent comments on the **imperative of suppressing** the **virus** by more aggressively adopting social-distancing measures, including wearing masks, and by boosting the capacity to test, trace and isolate known infection cases. "How well we follow the health-care protocols from here is going to be the primary economic tool we have," said Dallas Fed President Robert Kaplan in a July 16 interview.

After the pandemic triggered widespread shutdowns in March, Boston Fed President Eric Rosengren said he had expected infections to recede by the summer much as they have in Europe. "Unfortunately, that is not the case," he said in a July 8 interview.

The longer that infection rates flare up, the harder it will be for a range of industries that employ millions of Americans to recover. That, in turn, could lead to higher spells of extended joblessness, business failure and stress on the banking system.

The economy will face “severe economic consequences” if the public health response doesn’t improve, Mr. Rosengren said. The Fed’s policy response is “not going to be able to offset all the losses if we continue to make serious public health mistakes.”

He said he is particularly troubled about what could happen in the **fall**, as **college** students return to campus from around the country, younger students go back to **school**, and cold weather makes it harder for **restaurants** to operate outdoor dining.

Regional data from the online reservations site OpenTable shows the Northeast is the only part of the U.S. that saw an increase in restaurant dining through mid-July on a weekly basis, suggesting that consumers are more willing to dine at restaurants in areas where the virus is under control.

The **economy added 7.5 million jobs** in **May and June but still has 14.7 million** fewer **jobs than before** the **pandemic**. Coronavirus infections have accelerated in **several** large states since mid-June, when the Labor Department conducted its most recent survey of payroll growth.

Real-time data tracked by Fed economists suggested that **strong gains** in **hiring** in **May** and **June may not be sustained**, **said Fed governor Lael Brainard** in a speech July 14.

“**Business leaders** are **getting worried**. **Consumers** are **getting worried**,” **Atlanta Fed President Raphael Bostic** said July 7 in a discussion hosted by the Tennessee Business Roundtable. “There is a real sense that this might go on longer than we had hoped and we had expected and we had planned for.”

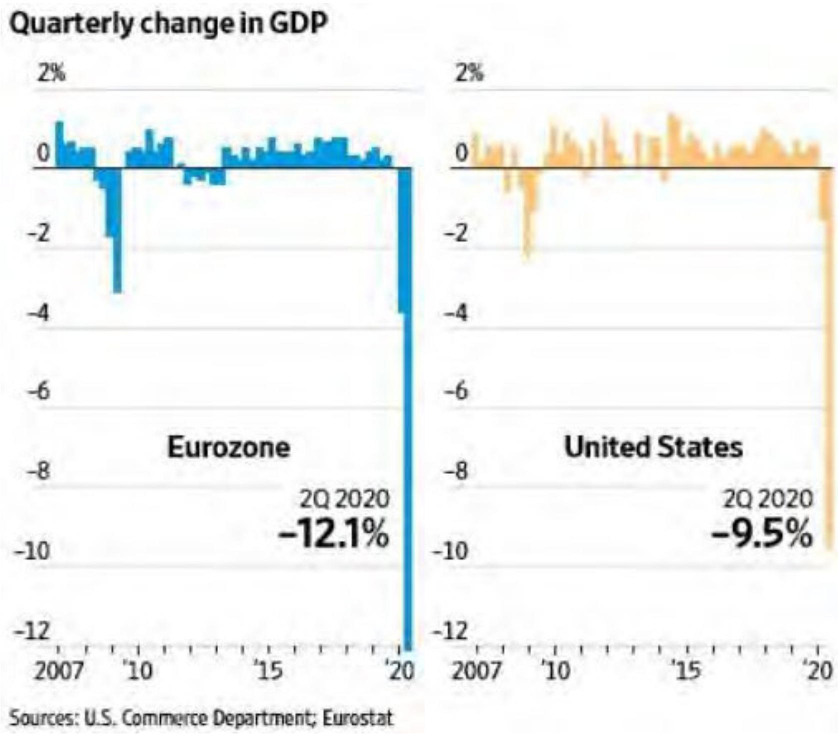
One risk for the **Fed** is that **markets** and the **public expect it** will **fix problems** its **tools aren’t suited for**, **said former Fed governor Randall Kroszner**.

“There is nothing the Fed can do to bring back the airline industry, to replace broken supply chains, to make people feel comfortable going out to shopping malls,” said Mr. **Kroszner**, who **now teaches** at the **University** of **Chicago**.

European GDP Cratered in Lockdowns

by Tom Fairless – WSJ – Aug. 1, 2020
Ruth Bender, Eric Sylvers and Alistair MacDonald contributed to this article.

Economic outlook brightens with efforts to rein in coronavirus, prop up employment.



Stringent **lockdowns** to **prevent** the **spread** of **Covid-19** weighed heavily on **Europe's** economy in the second quarter, causing a **record contraction more severe than experienced by** the **U.S., but** analysts said the continent's success **so far** in **avoiding** a **resurgence** of the disease coupled **with aggressive government stimulus** should help support a nascent recovery.

The **euro-zone's gross domestic product fell 40.3%** on an **annual basis**, far **exceeding** the **32.9% contraction in** the **U.S.** economy over the same period, according **to** data published Friday. That was equivalent to a 12.1% decline from the previous quarter, **pushing** the **bloc as** a **whole into recession**, by far the **sharpest drop since comparable records began** in **1995**, the European Union's statistics agency said in a statement.

Despite Europe's steeper decline, recent data suggest the region "is having a much bigger snapback and there are some indicators that it may be getting ahead" of the U.S., said Holger Schmieding, chief economist at Berenberg Bank.

While the **U.S. grapples** with **tens of thousands** of **new infections a day**, Europe has largely brought the virus under control even as it has eased restrictions and reopened internal borders, notwithstanding a recent jump in cases in countries such as France and Spain.

Confidence appears to be surging among European consumers and businesses, supported by the billions of euros that governments have lavished on job-protection programs, **aggressive stimulus** from the **European Central Bank** and a **€1.8 trillion ($2.1 trillion)**. **European Union spending package** aimed at supporting the bloc's weaker countries.

Governments across Europe have introduced or expanded **job-furlough programs**, effectively paying employers to keep workers on the books and helping to support confidence and spending.

The **eurozone's unemployment rate** edged up to **7.8% in June** from a low of 7.2% earlier this year. In the **U.S., 11.1%** of **workers** were **unemployed** in **June**, up sharply from 3.5% earlier this year.

And while **many European job-protection programs** will **continue into next year**, an **additional $600 weekly benefit** for **Americans** who lost their jobs because of the pandemic was set **to expire Friday**.

The euro has been on a tear against the dollar in recent weeks, rising close to a two-year high. That reflects investors' rising confidence in Europe and the U.S.'s uneven progress in halting infections.

"The business in Europe has been and currently is stronger than in the U.S.," Bjørn Gulden, chief executive of German sporting-goods maker Puma SE, told reporters Wednesday. In the U.S., he said, demand varied widely from state to state.

Annualized growth figures extrapolate what would happen over a full year if the economy grew or contracted at the same rate as in the quarter being measured. Usually, economic growth rates don't vary too much from one three-month period to another. But this year, economists expect big differences, with large falls in the first half to be followed by strong rebounds in the second.

Empty tables at a sidewalk cafe in Rome on Friday, when a heat wave baked streets. Italy's economy contracted 12.4% in the quarter.

Economists at Commerzbank still expect the U.S. to remain ahead, with the economy contracting 4.5% for 2020 as a whole compared with 7% for the euro-zone's. That reflects the lighter U.S. lockdown and aggressive government stimulus. The U.S.

economy will likely grow 4% in 2021, compared with 5% for the euro-zone, the analysts predict.

Lakshmi Mittal, CEO of ArcelorMittal, the world's largest steelmaker, said that his company's order books indicate that the U.S. is pulling ahead.

"The U.S. is recovering faster than Europe, we are seeing that from our customer bases," Mr. Mittal said. That is primarily down to U.S. auto makers, he said. The recovery "will depend on customers, how ready they are," he added.

Like the **U.S., Europe could take years before** its **economy returns** to its **2019 size**. Moreover, the **region** is **highly dependent on exports and tourism**, neither of which will recover fully until the virus is under control globally. In Southern Europe, governments need to service massive debts that have been inflated by the mammoth costs of containing the pandemic. Borrowing costs have so far been kept in check by aggressive government-bond purchases by the ECB, but central-bank officials say the support is temporary.

The **economic divide** is widening **between Europe's industry- rich north and** its **poorer south**, whose economies had to contend with a worse health crisis, a deeper economic collapse and high debts that deter aggressive stimulus. **Spain's economy contracted 18.5% in** the **second quarter** compared with the previous three months, and Italy's 12.4%. **Germany's** economy performed better, **shrinking 10.1%** compared with the first quarter, thanks to a relatively light lockdown and aggressive government spending.

Still, the EU's new spending package should help to support confidence and push up economic growth in the weaker South.

Fed Extends All Emergency Lending Programs

by Nick Timiraos – WSJ – Jul. 29, 2020

The **Fed**eral Reserve **extended by three months** the **operation** of **all** of its **emergency lending programs** that had been **set to run through September** to **support economic activity during** the **coronavirus pandemic**. The Fed said Tuesday that the extension of the programs, **through Dec. 31**, would “facilitate planning by potential facility participants and **provide certainty** that the facilities will continue to be available to help the economy recover.”

The **Fed** announced **nine lending programs** when the pandemic roiled the U.S. in March. **One** of those programs had already been extended to run through Dec. 31, while a second is set **to last until next March**.

On Tuesday, the **Fed** and **Treasury** Secretary Steven Mnuchin **agreed** to **extend all** of the **others**. All five Fed board members voted to extend the programs.

The extensions weren’t surprising given the amount of work and time that has gone into rolling out the programs and the persistence of the coronavirus pandemic. When policy makers announced the programs in March, analysts hoped the virus might be brought under control by the summer. But **accelerating virus infection rates** this summer suggest the economy will face a more uncertain and potentially prolonged downturn.

The programs serve two main functions. A few are playing a classic lender-of-last-resort function, allowing the Fed to flood short-term funding markets – the plumbing of modern finance – with loans. Those programs have seen sustained declines in demand over the past two months, reflecting how severe funding strains have been tamed for now.

The second category of programs are designed to support lending for an array of credit markets, including debts of large, investment-grade corporations and short-term borrowing for more than 250 state and municipal governments. The Fed is also purchasing loans that banks extend to small and midsize businesses.

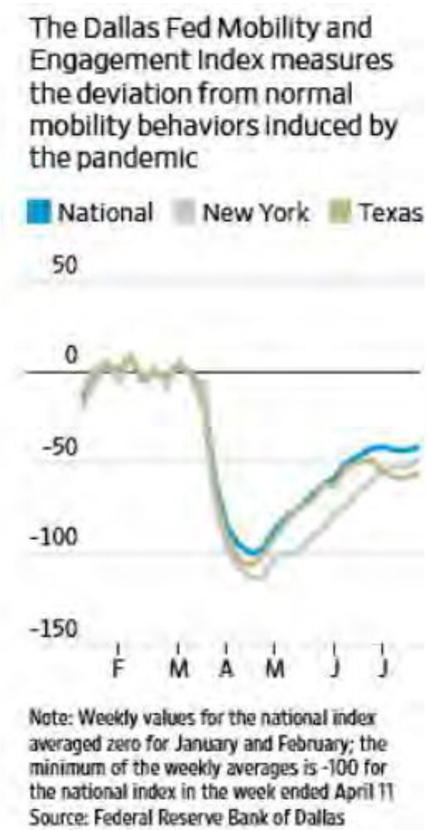
The Treasury has provided almost $200 billion to cover losses on the lending programs.

In some cases, such as the Main Street Lending Program for small and midsize businesses, **low uptake reflects complications** the Fed and Treasury encountered launching the program and enticing banks and borrowers to use it. **For others**, such as for corporate bonds, **lower Fed purchase** volumes **reflect** the **success** the mere announcement of the **backstops** have **had** in **spurring private investors** to **buy those assets**.

Fed’s Outlook Grows Gloomier

by Nick Timiraos – WSJ – Jul. 28, 2020

Officials stress need to curb the pandemic so economic recovery can be sustained



Federal Reserve officials **meet Tuesday** and **Wednesday** facing **growing doubts** about the **prospect** for a **sustained economic rebound** due to the nation’s uneven public-health response to the **coronavirus**.

Officials have warned this month in speeches and interviews that the **economy faces** a **deeper downturn** and **more difficult recovery** if the country doesn’t take more effective action to slow the spread of infection.

Since the Fed’s mid-June policy meeting, **virus infection rates** have **accelerated** in many states that were **among** the first to encourage businesses to reopen. **Business leaders** and **economists** have **warned** that hard-hit industries such as **travel**, **entertainment** and **hospitality** will face a more difficult recovery if **consumers don’t feel confident spending money indoors** and **gathering** in **large groups**.

The **Fed isn’t likely** to **roll out new stimulus measures this week** but is debating how to provide more support to the economy once the economic outlook becomes clearer. It could do this by adjusting its purchases of Treasury and mortgage securities and by providing more detail about what conditions would lead it to consider withdrawing stimulus.

Fed officials have focused their recent comments on the **imperative of suppressing** the **virus** by more aggressively adopting social-distancing measures, including wearing masks, and by boosting the capacity to test, trace and isolate known infection cases. “How well we follow the health-care protocols from here is going to be the primary economic tool we have,” said Dallas Fed President Robert Kaplan in a July 16 interview.

After the pandemic triggered widespread shutdowns in March, Boston Fed President Eric Rosengren said he had expected infections to recede by the summer much as they have in Europe. “Unfortunately, that is not the case,” he said in a July 8 interview.

The longer that infection rates flare up, the harder it will be for a range of industries that employ millions of Americans to recover. That, in turn, could lead to higher spells of extended joblessness, business failure and stress on the banking system.

The economy will face “severe economic consequences” if the public health response doesn’t improve, Mr. Rosengren said. The Fed’s policy response is “not going to be able to offset all the losses if we continue to make serious public health mistakes.”

He said he is particularly troubled about what could happen in the **fall**, as **college** students return to campus from around the country, younger students go back to **school**, and cold weather makes it harder for **restaurants** to operate outdoor dining.

Regional data from the online reservations site OpenTable shows the Northeast is the only part of the U.S. that saw an increase in restaurant dining through mid-July on a weekly basis, suggesting that consumers are more willing to dine at restaurants in areas where the virus is under control.

The **economy added 7.5 million jobs** in **May and June but still has 14.7 million** fewer **jobs than before** the **pandemic**. Coronavirus infections have accelerated in **several** large states since mid-June, when the Labor Department conducted its most recent survey of payroll growth.

Real-time data tracked by Fed economists suggested that **strong gains** in **hiring** in **May** and **June may not be sustained**, **said Fed governor Lael Brainard** in a speech July 14.

“**Business leaders** are **getting worried**. **Consumers** are **getting worried**,” **Atlanta Fed President Raphael Bostic** said July 7 in a discussion hosted by the Tennessee Business Roundtable. “There is a real sense that this might go on longer than we had hoped and we had expected and we had planned for.”

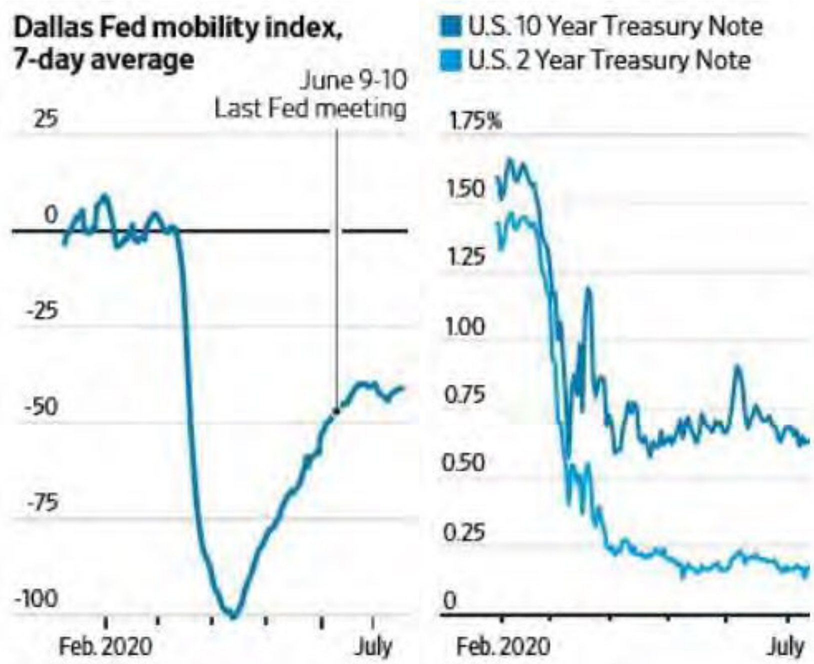
One risk for the **Fed** is that **markets** and the **public expect it** will **fix problems** its **tools aren’t suited for**, **said former Fed governor Randall Kroszner**.

“There is nothing the Fed can do to bring back the airline industry, to replace broken supply chains, to make people feel comfortable going out to shopping malls,” said Mr. **Kroszner**, who **now teaches** at the **University** of **Chicago**.

Fed Pledges Stimulus as the Outlook Dims

by Nick Timiraos – WSJ – Jul. 30 2020

Federal Reserve **Chair**man Jerome **Powell** said the U.S. economy faces a long road to recovery that will require greater public vigilance to prevent the spread of the corona-virus pandemic and more spending from Congress and the White House.



Note: The mobility index combines seven indicators of mobility to measure their difference from the January to February weekday average.

Sources: Federal Reserve Bank of Dallas (index); Tullett Prebon (Treasury notes)

Fed officials didn't announce new policy steps at the conclusion of their two-day meeting Wednesday and **reiterated** their **pledge** to **maintain aggressive measures** to **support** the **economy**.

"The path of the economy is going to depend to a very high extent on the course of the virus, on the measures that we take to keep it in check," Mr. Powell said Wednesday at a news conference. "We can't say it enough."

The economic backdrop has weakened somewhat since the Fed's rate-setting committee last met seven weeks ago. After surprising rebounds in employment in May and June, many states have seen **significant increases** in **virus infections**, leading to **renewed curbs** on **certain commercial activities** and a **dampening** of **consumer confidence**.

Mr. Powell said various data sources the Fed monitors suggested hiring and consumer spending had slowed recently.

He encouraged greater adoption of measures to contain the virus by disputing the idea of a trade off between virus suppression and a resumption of commercial activity.

"Social distancing measures and fast reopening of the economy actually go together," Mr. Powell said. "They're not in competition with each other."

Fed officials have been weighing how to provide more support to the economy after moving quickly this spring to cut interest rates to near zero, to ramp up purchases of government debt and to establish an array of emergency lending programs to stabilize funding and credit markets.

But Mr. Powell suggested spending and taxation decisions by Congress and the White House are more urgent now that the **Fed has pinned near-term rates near zero while long-term rates hovering at all-time lows**.

Leaders of both parties began deliberations this week on a new round of stimulus with key provisions of a $2.2 trillion relief bill in March set to expire this month, but some Republicans are wary about additional government spending.

"Fiscal policy can address things we can't address," said Mr. Powell, a Republican who was named to his current post by President Trump. The measures Congress has approved so far are "really helping now," he said.

Mr. Powell warned that even if the reopening of the economy later this year goes well and millions of people return to work, millions of others employed in industries that depend on large gatherings or close proximity indoors could be out of work for a long time.

All of this could create challenges for the Fed, which has far less room to stimulate the economy than after the 2008 financial crisis because investors already expect the central bank to keep interest rates very low for years.

"They are pushing up against the limits of the ways in which they can provide additional stimulus, and that's a reflection of how they quite appropriately threw the kitchen sink at the problem in March," said Lewis Alexander, chief U.S. economist at Nomura Securities.

"They never want to be in a place of saying, 'There's nothing more we can do.' That is a really bad place for them to be," said Mr. Alexander. "But if you're confronted with a set of circumstances where your response is, 'We're doing everything we can,' how does it not put you in that place?"

Fed officials face three related deliberations over how to provide more stimulus.

The first concerns describing how long they will keep rates near zero and buy Treasurys and mortgage bonds, sometimes called forward guidance. The second centers on whether to commit to an open-ended stimulus program with those purchases, as officials did after the 2008 financial crisis. The third entails concluding a yearlong review of the Fed's long-run policy-setting strategy.

Mr. Powell said Wednesday officials had resumed discussions on the last item at their meeting this week and that they would wrap up those deliberations soon. "That will inform everything we do going forward," he said.

Before the pandemic hit, officials were close to agreeing on an important change to their formal statement of long-run goals.

The change would effectively **abandon** the **Fed's longtime strategy** of **always raising rates pre-emptively** to **prevent inflation** from **rising above** its **2% target**. **Instead**, officials would **allow inflation** to **average 2% over time**.

This means periods of inflation below that level would be followed by periods in which they allow inflation to exceed it. The Fed currently doesn't take past performance of inflation into account.

"It is a powerful change," said Priya Misra, head of interest- rate strategy at TD Securities.

The Fed has been seeking more clarity about the economic outlook before rolling out more detailed guidance. Mr. Powell was noncommittal about the timing of those moves Wednesday and suggested they might follow the conclusion of the framework review.

"We're ready to do that when we think it's appropriate," he said. Officials want to wait until "we think it would help."

The Fed already has provided a measure of **forward guidance** with projections last month that showed most officials don't anticipate lifting rates for years – and bond investors appear to be on the same page for now.

"We're very far away from any kind of tantrum about Fed policy," said Jan Hatzius of Goldman Sachs. "That's the reason why they seem to have decided to take it a little more slowly than they anticipated a couple of months ago."

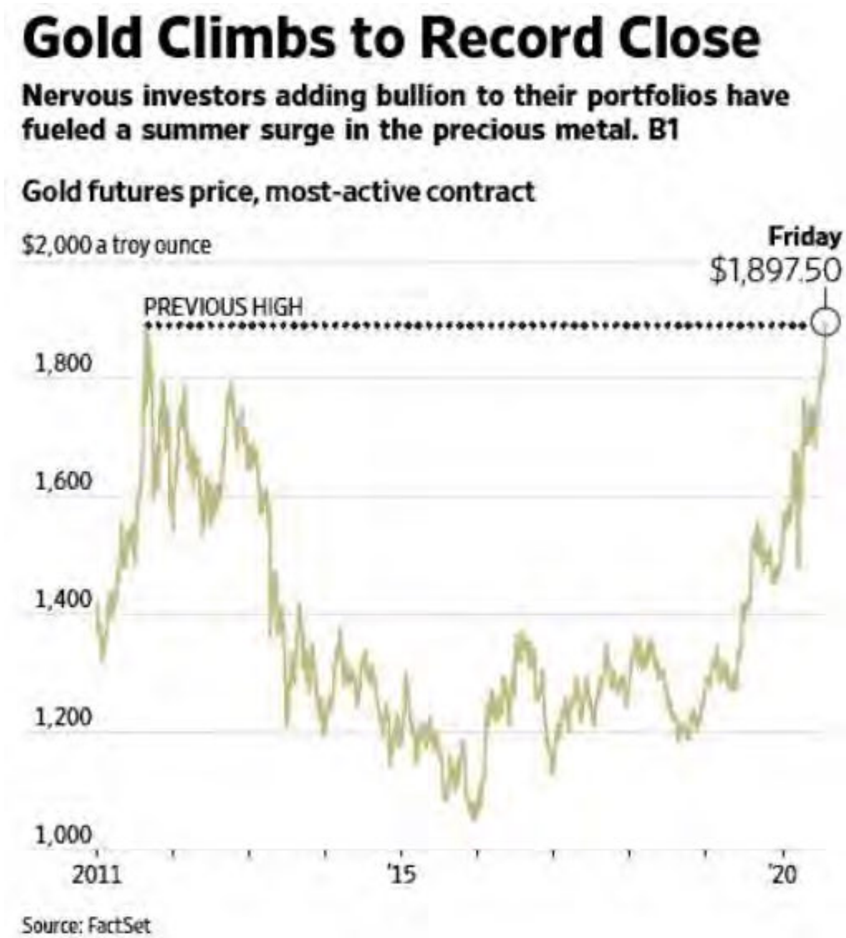
Steven Blitz of research firm TS Lombard compared the current policy environment as akin to driving a car with a brake pedal but no gas pedal.

"Being off the brake isn't going to help the car go. What you need is actual government spending," said Mr. Blitz. "All the Fed can do is get out of the way in terms of being a brake on growth."

Gold Surges to a Record

by Amrith Ramkumar and Joe Wallace – WSJ – Jul. 26, 2020

The metal climbed 0.4% to **$1,897.50** a **troy ounce.**



Gold prices rose to a new closing record for the first time since 2011, extending a summer surge fueled by nervous investors adding bullion to their portfolios as the coronavirus muddies the global economic outlook.

Most actively traded gold futures, for delivery next month, rallied 0.4% to $1,897.50 a troy ounce, climbing for the sixth consecutive session and eclipsing their August 2011 peak of $1,891.90. Gold came close to topping the high, which is based on futures trading data going back to 1975, on Thursday. It has risen steadily since the end of 2018, spurred by trade tensions and the pandemic pushing investors toward safer assets.

The **coronavirus** has ignited a global gold **rush**, with **physical traders** around the **world** trying to **get** their **hands** on **more metal** and individuals ordering bars and coins. Even as stocks rally, many **investors remain nervous** about the **pandemic** and a host of **geopolitical concerns** ranging from the **relationship** between the **U.S. and China** to November's **U.S. presidential election**.

"It's a special time for precious metals where every factor seems to be moving in their favor," said Tai Wong,

head of base and precious-metals derivatives trading at Bank of Montreal. "The market is uniformly bullish." He has been a metals trader for about 15 years and only remembers this much excitement in the sector following the financial crisis.

Thinly traded front-month gold futures for delivery in July added 0.4% to $1,897.30 a troy ounce, hitting all-time highs for the second consecutive day. Investors have also been bidding up shares of gold miners such as Newmont Corp. and Barrick Gold Corp.

Meanwhile, the price of **silver** – gold's precious metal peer – on Wednesday hit a nearly **seven-year high** above **$23** a **troy ounce**, though it fell Thursday and Friday.

Expectations for the **world's central banks** and **governments** to continue **flooding** the **global economy with cash** are also **lifting demand** for **bullion**. **Ultralow interest rates make gold more appealing because** the **metal offers no income simply from holding it**. **Many analysts** also **expect historic stimulus** measures to **eventually spur inflation**, **eroding** the **purchasing power** of **paper money** and **boosting** the **value** of **precious metals**.

European Union leaders recently reached an **agreement** on more than **$2 trillion** in **spending**, and **traders anticipate U.S. lawmakers** will **soon approve additional coronavirus aid**.

"You couldn't create a better playbook for gold to perform," said Steven Dunn, head of ETFs at Aberdeen Standard Investments, which manages the roughly $2.2 billion Aberdeen Standard Physical Gold Shares ETF. Gold-backed ETFs have taken in billions of dollars in recent months.

Many big-name investors including Ray Dalio, Jeffrey Gundlach and Paul Tudor Jones have touted the benefits of owning the metal in recent months, with the **pandemic stinging business activity** and a **global pile of debt**

The metal has risen steadily since the end of 2018. A jewelry store at the Mall of Baghdad isexpanding. Li Chun Hang Henry, managing director of Emperio Group, a retail store for precious metals in Hong Kong, said sales were up around 70% this year.

Some customers say they are buying bars and coins because of low interest rates on bank deposits, others because they are concerned about tensions between the U.S. and China. "They are panicking," Mr. Li added.

On Friday, Beijing ordered the closure of the **U.S. Consulate** in the southwestern Chinese city of **Chengdu**, **retaliating** against **Washington's decision** earlier in the week to **close China's Houston mission**.

Traders are also keeping a close eye on physical gold markets that have been upended by the coronavirus. Demand for bars and coins started to wane in June as they became more expensive, while jewelry sales are stagnant. That has prompted refiners to send the metal to bullion banks in London, the buyers of last resort, according to refiners, traders and logistics providers.

Doing so remains expensive because of the lack of passenger flights, the main vehicle for transporting bullion around the world. Still, traders say flying gold is significantly easier now than at the onset of the pandemic, when bullion was fighting for cargo space with medical equipment and the **closure of major Swiss refineries** sparked fears of a shortage.

"We may see some setbacks, but in general I remain positive towards gold," said Hans-Günter Ritter, head of trading at Heraeus Precious Metals. The rally so far has been driven by buyers of exchange- traded funds and futures, Mr. Ritter said, giving him confidence that prices will continue to rise if demand for jewelry, coins and bars picks up again.

Gold has been prized for thousands of years going back to ancient societies in Sumer and Egypt and pursuit of the metal has shaped world history. Europeans followed gold to the Americas, and the discovery of gold at Sutter's Mill in California in the 19th century fueled westward expansion.

Gold has also been a fixture in financial markets for decades because it was used to determine the value of the U.S. dollar until 1971, when President Nixon took the country off the gold standard. Today, it is used for everyday items from **jewelry** to **electronics** and as an **investment** for money managers seek safe assets in times of turmoil.

State-Run Investors Boost Their Risk

by Anna Hirtenstein – WSJ – Jul. 25, 2020

Infrastructure assets can offer an income stream.
Above, wind turbines in the North Sea off Helgoland, Germany.

State-controlled funds, among the world's wealthiest asset managers, **entered** the **coronavirus pandemic with** the **least money allocated** to **stocks in six years**. That isn't because they are looking for safety.

Sovereign-wealth funds are planning instead **to channel more money** into **infrastructure**, **real estate** and **private-equity deals**, all **illiquid investments that can't easily be exited**, according to a survey by Invesco Ltd., which didn't name the respondents. The firms held about **20%** of their **portfolios in such** investments during the first quarter, **up from 9%** in **2014**. **Stocks** accounted for **26%**, while **cash** slipped to **4%**, the survey showed.

"The trend has been to reduce equities in favor of illiquid assets," said Dale MacMaster, chief investment officer of Alberta Investment Management Corp., which manages the oil-rich province's sovereign-wealth fund. "You don't get the volatility of equity markets and you **get** the **characteristics of fixed income with cash flow**." **Although exiting such investments** is **trickier**, property investments generate rents and infrastructure assets offer an income stream, Mr. MacMaster said.

The world's **biggest sovereign- wealth funds** are already among the largest owners of publicly listed assets globally. They have built a **combined market value** of **about $8.1 trillion** over the past two decades, according to the Sovereign Wealth Fund Institute, giving them the firepower to also be players in private markets.

Some of the biggest state-owned funds globally belong to **Norway**, **China**, **Kuwait**, **Singapore** and **Saudi Arabia**.

The economic disruption caused by the pandemic has created more distressed assets in the sectors state funds have gravitated toward, such as infrastructure and real estate, according to the funds surveyed by Invesco. **Projects involving electricity generation and distribution**, and featuring a shift **away from** the **use** of **fossil fuels**, are **drawing attention**.

Norway's sovereign-wealth fund said in March it plans **to channel 100 billion** kroner **($10.9 billion**) into unlisted **renewable energy assets** such as **wind** and **solar farms over** the **next three years**.

Masdar, an **arm** of **Abu Dhabi** sovereign-wealth fund **Mubadala Investment** Co., bought a **40% stake** in a **plant** that **converts waste** to **energy near Perth**, **Australia**, this year. It also owns a **20% share** in **one** of the **world's largest offshore wind farms** in the **U.K.**

Alternative assets aren't without their **risks**.

"For assets like unlisted real estate or private equity, **infrequent valuation gives** the **appearance** of **lower volatility, but there might actually be a lot of volatility over the years," said Martin Skancke,** the former head of asset management for the Norwegian Ministry of Finance and founder of Skancke Consulting, an advisory for sovereign-wealth funds.

NV Energy Plans Hundreds of Miles of Transmission Lines to Move Renewables

by Jeff Stanfield – S&P Global Market Intelligence – Jul. 24, 2020

In response to a rapidly evolving energy landscape, **NV Energy** Inc. is **seeking regulatory approval** for large-scale **transmission** and **solar-plus-storage projects** in **Nevada** to access renewable energy and meet the state's aggressive green energy goals.

NV Energy recently announced that its **Nevada Power** Co. **and Sierra Pacific Power** Co. **subsidiaries** had asked the Public Utilities Commission of Nevada to approve amendments to their 2018 Integrated Resource Plan so they can implement transmission initiatives they are calling "**Greenlink Nevada**." The utilities said they need the transmission projects so they can pursue "long-term visions" to meet the state's renewable portfolio standard of 50% by 2030 and net-zero carbon emissions by 2050 policy.

"It is clear that the state is at a pivotal moment, shifting its gaze from a moderate renewable portfolio standard to a much more comprehensive focus on fueling a clean energy economy," the utilities said in their filing.

The transmission infrastructure also is needed to support continued economic development and meet customers' needs during the next decade of expected "unprecedented load growth in northern Nevada," the utilities said.

In addition to dealing with existing transmission system constraints through its Greenlink Nevada project, NV Energy also is addressing requests by new and existing large customers for help in meeting their own sustainability and green energy goals, the company said. The filing further noted that the IRP was being amended to include certain local transmission projects aimed at increasing reliability.

Greenlink Nevada consists of **several projects**

The **525-kV Greenlink North** line would run **east-to-west** along a **235-mile path** between the **Robinson Summit substation** in **northeast Nevada** and the Fort **Churchill substation** in **Reno.**

Greenlink West is a proposed **525-kV line** that would run between the **Harry** Allen **substation near Las Vegas** along a **350-mile southeast-to-northwest path to** the **Fort Churchill substation, parallel** to the **western border of Nevada**. It would **complete** a **525-kV triangular network**, **along with** the **existing ON Line**, **which runs north-to-south** in **eastern Nevada** and **connects Sierra Pacific Power with Nevada Power**, **and** the **proposed Greenlink North**.

In their filing, the **utilities sought** the **commission's approval** to **spend $674.6 million** for the permitting, land acquisition and construction of **Greenlink North**, which is expected to **begin operation** by the **end** of **2026**. They also asked the agency to sign off on $**116.4 million** of **costs associated** with **permitting** and **land acquisition** for **Greenlink West**. Commercial **operation** of Greenlink West is **expected** by the end of

2029, and the utilities have not yet requested approval for the construction costs associated with that "phase 2" project.

They further requested approval to spend $166.5 million to construct a new substation just west of the existing Fort Churchill substation; $71 million for permitting, land acquisition and construction of the 345-kV Mira Loma transmission line between the Fort Churchill and Mira Loma substations; and $56.5 million for permitting, land acquisition and construction of a 345-kV Comstock #1 transmission line from Fort Churchill to Comstock Meadows substations, all of which have an expected end of 2026 service date.

Altogether, construction of Greenlink Nevada will provide access to isolated renewable energy resources along the transmission lines, including solar and geothermal projects that could provide up to $4.4 billion in economic output, the companies said.

Without infrastructure enhancements such as Greenlink, northern Nevada risks stunted economic development due to insufficient energy supply, the utilities said. If additional supply is not produced to cover proposed energy demands between 2026 and 2040, Nevada stands to lose up to $12.8 billion, more than 146,300 jobs, and 7,245 businesses by 2040, they projected.

Solar-plus-storage to play big role

In addition to transmission projects, Nevada Power sought to amend the IRP to add new long-term power purchase agreements between the southern Nevada utility and the developers of two solar photovoltaic generating facilities, both of which will be equipped with battery storage systems. Nevada Power also wants to build its own photovoltaic solar-plus-storage facility.

Nevada Power requested approval of one agreement for the 200-MW Chuckwalla Solar project with battery storage of 180 MW capacity and 720 MWh of discharge capability. Under development by a subsidiary of EDF Renewables Inc., commercial operations for Chuckwalla Solar is expected by Dec. 1, 2023, with a 22-year term at a flat energy price of $23.35/MWh and a battery rate of $6,870/MW-month.

The utility also asked for approval of an agreement with Boulder Solar III Project, which is to be developed by 174 Power Global Corp., for 128 MW of solar photovoltaic generation and battery storage with 58 MW capacity and 232 MWh of discharge capability. The agreement is for a 12-year term at a flat energy price of $22.45 per MWh and a battery rate of $6,800/MW-month. Commercial operation of Boulder Solar III is expected by Dec. 31, 2023.

Finally, among other things, NV Power sought approval to own and operate the 150-MW Dry Lake Solar Energy Center facility accompanied by 100 MW of battery storage and 400 MWh battery discharge capability with a rate of $6,875/MW-month. Commercial operation is expected by the end of 2023, with a flat energy price of $24.02/MWh over 25 years.

NV Energy is a subsidiary of Berkshire Hathaway Energy.

Portland General Electric Declares Dividend

Co. Press Release – Jul. 29, 2020

On July 29, 2020, the board of directors of Portland General Electric Company (NYSE: POR) approved an **increase** in the **annual dividend** of **5.8%**, or **nine cents per share**, declaring a **quarterly common stock dividend** of **40.75 cents per share**.

Last quarter, the **dividend remained consistent** with previous quarters, **reflecting uncertainties** related to the onset of the **COVID-19 pandemic**. At that time, the board pledged to reevaluate the dividend quarterly.

The quarterly dividend is payable on or before October 15, 2020 to shareholders of record at the close of business on September 25, 2020

Portland General Says Tech Sector is Offsetting Drop in Commercial Energy Demand

by Zack hale – S&P Global Market Intelligence – Jul. 31, 2020

Portland **G**eneral **E**lectric Co. projected **flat energy sales growth** over the course of **2020**, an **upward revision** that reflects **stronger-than-expected deliveries** to **high-tech manufacturing companies** amid the COVID-19 pandemic.

Despite the upward revision in energy demand, Portland General is **maintaining** its **full-year guidance** of $2.20 to $2.50 per share, **CFO James Lobdell** said July 31 on a **second-quarter earnings call.**

In reaffirming last quarter's revised guidance, Lobdell noted that the company's **collections from residential customers** are **capped under** a **decoupling** mechanism that refunds usage on a weather-adjusted basis above an established baseline.

Portland General's **residential** load **increased 7%** on a **weather-adjusted basis compared** to the **same quarter** in **2019** and **industrial deliveries increased 3%**, the company reported in an earnings presentation. **Meanwhile**, **commercial load declined 16%** as **restaurants**, **retail stores**, **offices** and **government buildings** were **shuttered** due to the **pandemic**.

"When we look at the **residential customers**, they're actually **up more than** what we originally **anticipated**, but at the same time, we are **seeing more** of a **downside** on the **commercial side than expected**," Lobdell said. "On the **residential**, that's being **completely decoupled away** … and then the **industrial** is **helping** to **offset** some of what we are experiencing on the **commercial** side."

Portland General President and **CEO Maria Pope** said the **company's forecast** in April of a **gradual economic recovery remains largely unchanged**. The **unemployment** rate in the company's service area rose from a **historic** low of **3%** in **March** to **14%** in **April** and is **now 11%**, Pope said.

"Our **digital services** and **high-tech manufacturing customers** continue their long term trend of **steady growth despite** the **pandemic**," she added.

The July 31 earnings call followed a move by Portland General's board to **increase** the company's annual **dividend** by 5.8%, or 9 cents per share, and declare a quarterly common stock dividend of **40.75 cents** per **share**. **Portland General held** its **dividend flat** in the **first quarter** as it assessed the potential impact of the pandemic.

The company **beat analysts' estimates** by reporting 2020 second-quarter net income of $39 million, or 43 cents per share, up from $25 million, or 28 cents per share, in the prior-year period. The **S&P** Capital IQ consensus **normalized EPS estimate** for the **quarter** was **33 cents**.

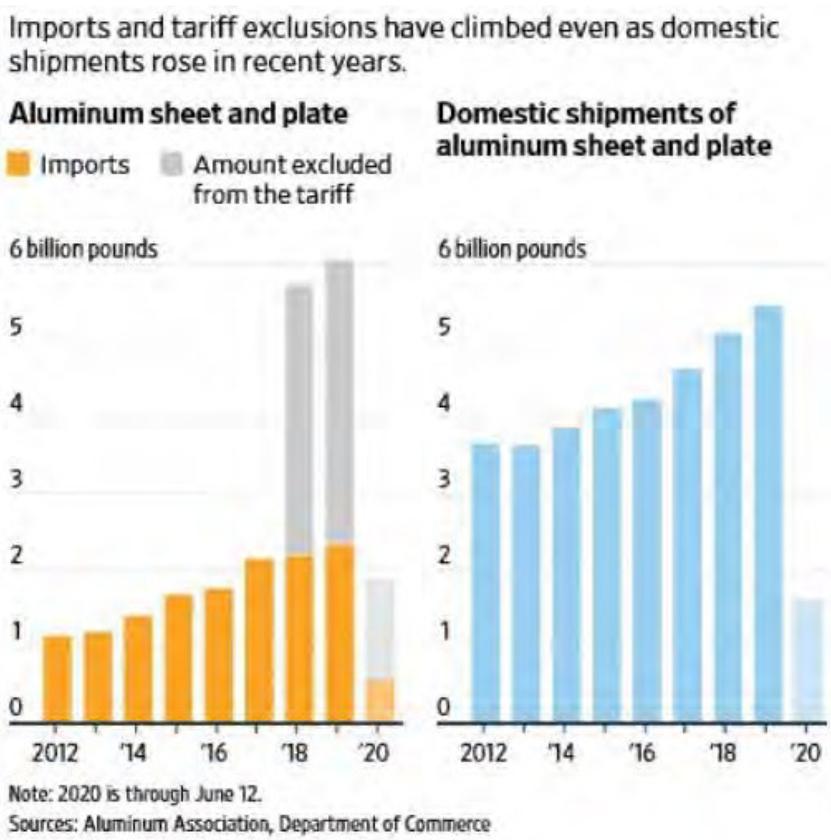
Tariffs on Aluminum Unsettle the Sector

by Bob Tita – WSJ – Jul. 24, 2020

Mills say **customers** getting **exclusions undermine market that duties were to revive**.

Left: A Constellium facility in Alabama. The company and others say **tariff waivers** are enabling their customers to shift purchases abroad if they aren't granted price cuts or more favorable contract terms.

Aluminum customers are receiving tariff exclusions on billions of pounds of imported metal that U.S. mills say are undermining the domestic market the duties were supposed to revive. The **10% duty** on foreign-made aluminum that the Trump administration imposed in March 2018 allowed importers to receive exclusions from the tariff for metal that wasn't available domestically. But aluminum producers in the U.S. say the exclusion process is incentivizing more imports, deepening a divide in the industry over the tariff's effectiveness.



"The exclusion process has gotten out of control," said Jean-Marc Germain, chief executive of Paris-based aluminum producer Constellium SE, which operates five mills in the U.S. that account for 40% of its sales. "It's being used as leverage in the domestic aluminum industry. We're getting squeezed."

The **Commerce Department** has **issued import exclusions** for **7.6 billion pounds** of **aluminum** this **year through early June**, after excluding **10.7 billion pounds** for **all of 2019**, according to the Arlington, Va.-based Aluminum Association, a trade group. The group opposes the tariff because it says duties are ineffective against cheap exports from China that have caused a global aluminum glut. The association has urged the Commerce Department to stop issuing tariff exclusions for imports from China.

"Exclusions are only granted in cases where no U.S. producer demonstrates the ability to provide the requested product," a Commerce Department spokesman said. The department has initiated a review of the exclusion process.

The Aluminum Association said rising tariff exclusions are helping to drive import volumes higher for products that were previously supplied almost entirely by domestic mills. Cansheet imports increased to 403 million pounds last year from 188 million in 2018, said the association, citing Commerce Department import totals. Imports of foil and other aluminum products also increased.

Constellium and other rollers of aluminum products say the tariff waivers are enabling their customers, particularly beverage-can makers, to shift purchases abroad if they aren't granted price cuts or more favorable contract terms.

Prices for **can sheet** have crept up this year to **38 cents a pound above** the **cost** of **raw aluminum from 35.5 cents** in **2019**, market forecaster CRU Group estimates. CRU said mills have restrained price increases, despite rising demand.

Ball Corp., the **largest U.S. maker of aluminum cans** by sales, says rolling mills haven't kept up with rising demand for cans.

"**No company** has **added any significant domestic capacity since** the **tariff went into effect**," Ball said in comments to the Commerce Department this month about suggested changes to the exclusion process. Chicago-based can maker Ardagh Metal Packaging USA Inc. said in comments to the Commerce Department that domestic rolling mills' assurances about adequate production capacity are disingenuous.

"Aluminum can sheet must be imported from foreign suppliers," Ardagh said.

Ball said its production was 4% higher in the first quarter than a year earlier because of **rising demand** for **canned beverages**. As the coronavirus pandemic limits activity at bars and restaurants, **consumption** of **canned beer** and **soda at home** has **increased**, the company said.

Colorado-based **Ball**, which **makes 100 billion cans annually**, is adding capacity to plants in Georgia and Texas. It intends to build new plants in Arizona, Georgia and in the Northeast to meet demand for unconventional can sizes. Popular energy drinks and spiked seltzer water require different coils of aluminum that aren't always available in the U.S.

Constellium said it can accommodate can makers' higher volumes after investing $1.8 billion in its U.S. plants over the last five years to prepare for growth.

Some U.S. aluminum rollers are switching back to producing more can sheet this year after demand dropped for the higher-margin aluminum they make for automotive bodies. **Car makers** and **other big manufacturers** have **cut production** because of operational hurdles and the wider economic malaise resulting from the corona-virus pandemic. Industrywide domestic shipments of can sheet in May and June increased by 6% and 6.5%, respectively, from last year.

Rolling mills and the Aluminum Association say can manufacturers are flooding the Commerce Department with **duplicate exclusion requests** to increase their odds of getting some of them approved and bogging down the mills with paperwork needed to object to the requests.

Can manufacturers say that because the Commerce Department's waivers expire after a year, they have to request exclusions repeatedly to insure they have enough aluminum for customers with multiyear contracts.

The U.S. agency also requires separate exclusions for slight variations in the variety or size of imports. The months-long review process, a lengthy rebuttal process and the coronavirus all make it necessary to file exclusion requests frequently, can makers said.

"The need to file year round is even more pronounced due to the Covid-19 pandemic and the uncertainty it has caused around supply and demand," Ball said.

The Four Seasons of Vegetation Risk

T&D World – Jul. 27, 2020

https://www.tdworld.com/vegetation-management/article/21137602/the-four-seasons-of-vegetation-risk?utm_source_TW+TDW+Vegetation+Management+Insights&utm_medium_email&utm_campaign_CPS200727074&o_eid_6878C4237956E1Z&rdx.ident%5Bpull%5D_omeda%7C6878C4237956E1Z&oly_enc_id_6878C4237956E1Z

Climates vary from state to state, country to country, in differing degrees, but all **four seasons** bring **unique risks** for **T&D** network operators trying to manage **vegetation risk**. The **lightning strikes** of **summer** storms coupled with the season's tinder dry conditions heightens risk of **wildfire**. **Winter** brings **snow** with the additional **weight on branches increasing breakage** and therefore **risk**. **Spring** signals thaw and resultant **floods** as well as **rapid** vegetation **growth**, which is hard to stay on top of. Finally, **fall** brings a shower of **fallen**--often **dry**--**leaves** and **fire risk** with it.

Nature doesn't work according to predictable or convenient timetables, and a utility has to ensure it has the tools and systems in place to cover **large distances** of ground in **fine detail** to effectively manage and stay ahead of the risks.

With 2020 on track to be one of the hottest years on record, the National Interagency Fire Center has warned of increased fire risk across America's West Coast. While Arizona tackles the fifth largest fire in the state's history, Washington and Oregon are preparing for the highest increase in wildfires versus the annual average of anywhere in the United States.

Every season carries risk that threatens power outages, but wildfire season brings additional risk to life and property, making it the most hazardous. As the U.S. utility industry gears up to tackle the challenges presented by the summer months, how can utilities respond to these risks and ensure they are providing for safe operations throughout wildfire season and beyond?

Looking Down the (Power) Line

Nature waits for no one and follows no clearance plan. For a utility to stay ahead of nature, it must be smart about pre-empting risk and cutting it down ahead of time. The electric utility business is always looking ahead from 10-year plans, five-year plans, annual plans and seasonal plans, preparing disaster response strategies at least six months ahead of time and **reducing threats** by **cutting back overgrown vegetation** that **risks coming into contact** with **power assets**.

This month saw the National Weather Service pepper the West Coast with red flag fire warnings due to **strong winds** and **low relative humidity** increasing the risk of rapid **wildfire** spread. In light of this outlook, it's likely some companies will look to reduce their risk exposure by implementing a **Public Safety Power Shutoff** (**PSPS**) in **effect cutting electricity supply completely**.

In October last year, **PG&E**, one of the country's largest gas and electric utilities did exactly that, electing to **cut** the **power** to **800,000 homes** in **California** amid warnings that power outages would likely remain a critical part of fire prevention programs for decades to come.

Although this approach reduces risk in the short term, it is not without its challenges. In addition to causing huge disruptions for customers, **turning** the **power back on** in a **region that has suffered very high winds carries significant risk**. There is a **strong likelihood** that a **tree** will have come into **contact with** a **line**, or that the **lines** are **broken** or **otherwise damaged**. Before power is reinstated, utilities need to be absolutely certain that all lines are clear from danger--but in a disaster-hit zone spanning tens of thousands of miles, how can this be done?

A Holistic Approach to Asset Inspection

Having access to a holistic view of the vegetation conditions surrounding T&D assets throughout the changing seasons is paramount for any utility company. **Historically**, **vegetation management** was largely done manually, a painstaking and time-consuming process and without the reliable calculation of potential risks.

One way to help gain sufficient oversight on vast territories with assets and vegetation competing for space has been to elect a "**clear sky**" **approach**, effectively a clearance strategy that leaves no tree behind and limits the potential damage before it is caused. Although this removes significant risk around system damage it is **not without environmental impact** and **customer concerns**. Some customers simply will not tolerate it.

Power companies don't want to trim any more trees than absolutely necessary which gives rise to a need for a software solution that not only delivers aerial inspection capabilities, but one that incorporates species identification as part of its offering. This enables a utility to tell – with accuracy – what type of vegetation is growing in a particular region, which plants are the fastest growing and, critically, which ones are more suspect in conditions that give rise to wildfires. A prohibitively lengthy and arduous process if attempted manually.

Utility Inspection Below the Canopy

The utility industry has been transformed in recent years by AI and machine learning. This technology-led approach now sits alongside manual work as a key aspect of a utility's monitoring and inspection schedule.

Foot patrol inspections remain a must, especially in the summer months where **fast-growing vegetation** means **canopy cover can obscure aerial images**. In such instances **flyovers alone cannot be relied upon** to capture T&D **lines** and walking **under** the **canopy** is **critical** to accurately inspect the conditions of the infrastructure above.

Recent strides in **aerial inspection software** have resulted in software that **can take large volumes of siloed data from aerial and** on-**foot inspections** and **assimilate it into** a **single, holistic view of** the **electrical circuit or system**. This data analysis technique **enables utilities** to **create** a **fully prioritized vegetation management plan** by delivering a clear view of what is happening both **above – and below** – the **canopy**.

The Future of Vegetation Management

Today's T&D solutions use **AI** and **machine learning** to provide deep data **analysis**, **prioritization** and **forecasting** tools for vegetation management issues. The ability of software systems to **analyze LiDAR data** and **hyperspectral imaging** means that at the click of a button, utilities can view a territory covering thousands of miles in granular detail, including **how many strike trees** there are in a **given location** or **how many trees** sit **within** a **12 ft distance** of an **electric line**.

Whether in the heights of summer or the depths of winter, a **digital solution** that adapts to each utility's needs and works with its existing digitalization efforts and processes is key to keeping on top of existing and future vegetation growth challenges, whatever the weather.

Treasury Demand Remains Strong

by Sebastian Pellejero – WSJ– Jul. 26, 2020

U.S. Treasury yields swung between small gains and losses Friday after mixed data on the economic rebound. Investors wonder whether U.S. bond yields have more room to fall.

After four consecutive days of declines, the yield on the benchmark **10-year note** edged higher Friday to **0.589%** at **market close**, according to Tradeweb, from 0.582% on Thursday. **Yields fall as bond prices rise**.

Demand for **haven** U**.S. government bonds remains high** as the **economic recovery shows signs** of **stalling**. Treasury yields retraced early gains after data company IHS Markit reported Friday that its monthly services index remained below 50 in July, while its manufacturing index rose to 51.3. Readings above 50 indicate expansion, while those below 50 signal contraction.

Investors and analysts are wondering whether U.S. Treasury yields have more room to fall as the economy struggles to overcome the impact of the coronavirus pandemic. Data from the Labor Department Thursday showed **filings** for **weekly unemployment benefits rose** for the first time in nearly four months as some states rolled back re-openings because of the pandemic, a sign the jobs recovery could be faltering.

There are signs that the U.S. housing market is staging a recovery. Sales of newly built single-family homes rose 13.8% last month to a seasonally adjusted annual rate of 776,000, according to a Commerce Department report released Friday. An earlier report this week showed sales of previously owned homes rose 20.7% in June from May.

It is **possible for yields to fall another 0.5%**, **but** the **amount** of **Treasury supply to be sold** is **large**, said Justin Lederer, senior interest-rates trader at Cantor Fitzgerald LP. Next week, the U.S. Treasury will offer $141 billion of two-, five- and seven-year notes. That should support rates in the near-term, he said, but there is a lot to play out.

"As you see the case numbers go higher and claims numbers rise, it seems like there's issues down the road," he said.

Among the keys to investors' outlook: the **prospects** for a **new round of fiscal stimulus** and **next week's meeting** of the **Federal Reserve**. Officials are expected to deliberate over how long they plan to keep interest rates at zero, the composition of their asset purchases, and a review of the Fed's long-run policy-setting strategy.

Fed officials may discuss whether the U.S. central bank shifts to buying more longer-term Treasury bonds to further ease financial conditions, as they did after the 2008 financial crisis. That could be what has driven this week's rally in longer-term Treasurys, said Russ Certo, head of rates products at Brean Capital, in a note.

The **yield** on the **30-year Treasury fell** for the fifth consecutive day to **1.238%** at **Friday's** close from 1.249% Thursday.

Elsewhere in government debt markets, the yield on the **10-year Treasury inflation-protected security** touched a record intraday low overnight at **minus 0.941%.** The record level came one day after a $14 billion new issuance of 10-year TIPS was sold at minus 0.930 – the lowest yield ever in an auction.

A **proxy** for so-called **real yields**, **TIPS yields** have **fallen sharply this year**, partly in response to the decline in yields on standard government bonds. In recent months, however, the decline in TIPS has outpaced the slide in nominal yields, as investors increase their inflation expectations.

Treasury Yields Decline Further

by Paul J. Davies – WSJ – Jul. 31, 2020

Government bond yields dropped in the U.S. and Europe after fresh data on Thursday showed the **worst quarterly economic contractions on record** for the **U.S.** and **Germany in** the **second quarter**.

Advance **g**ross **d**omestic **p**roduct estimates for the **U.S**. showed the economy **shrank** by **32.9% versus** the **previous quarter**, although that was better than the 34.7% contraction that had been forecast. On Wednesday, the **Fed**eral Reserve **highlighted** the **long-term problems** the **economy faces** when it **kept interest rates unchanged**. Investors noted that economic **momentum** has **slowed** recently as the **U.S. struggles** to **control** the **coronavirus pandemic**.

Data also showed the **German economy shrank 10.1%** in the **second quarter.** The quarterly contraction was the largest since official records began in 1970 and likely the **biggest since World War II**, according to Joerg Zeuner, chief economist at Union Investment.

The **yield** on the **10-year U.S. Treasury note** settled at **0.540%,** compared with 0.578% Wednesday. It was the lowest close except for one extremely volatile day in early March when the yield settled at 0.501%.

In Europe, **German 10-year yields dropped to minus 0.544%** from minus 0.500% on Wednesday, while **yields also slid on government bonds from** the **U.K. to Italy. Yields fall when bond prices rise**.

Analysts at Goldman Sachs expect European growth to outperform the U.S. this year because of the region's better control of the virus, stronger recent economic data and a more favorable set of monetary and fiscal policies.

The sharp U.S. second-quarter decline in GDP masked some better economic data during June, such as improving employment trends. However, there had already been evidence of a loss in that momentum in the economy from high-frequency data on transport use and short-term restaurant bookings, according to David Riley, chief investment strategist at BlueBay Asset Management. More social distancing, concerns about job security and higher savings rates would all hurt economic activity and depress U.S. yields, he said.

"There is evidence to suggest that the rebound in the U.S. has been hindered by an inability to contain the virus," Mr. Riley said. "Europe has been containing the virus better and U.S. growth exceptionalism is no longer looking so reliable."

But there is a tension between the weak outlook and the weight of issuance of fresh Treasury bills in the U.S. that is limiting the decline in yields at shorter maturities, according to Alison Nathan, senior macro strategist at Goldman Sachs.

Fed Chairman Jerome Powell called for greater government **spending** to **support** the **economy**, which will entail a need for more Treasury issuance. Goldman expects **net issuance** of **$4.8 trillion** in **2020** – meaning that total debt outstanding will grow by that amount—and $3 trillion of that will come in short-term bills.

"Based on our expectation for increased bill issuance, we no longer anticipate material downward pressure on front-end yields," Ms. Nathan wrote in a note.

Treasury Yields Drop On Data

by Julia-Ambra Verlaine – WSJ – Jul. 29, 2020

U.S. government-bond yields fell Tuesday after tepid economic data and new signs of policy makers' struggles with the economic damage from the pandemic.

The **yield** on the **benchmark 10-year Treasury note fell to 0.581%**, according to Tradeweb, from 0.609% on Monday. The **30-year bond yield declined to 1.223%** from 1.252% Monday. **Bond yields fall when prices rise**.

Yields extended overnight declines after data showing U.S. home-price growth decelerated and **consumer confidence fell more than economists expected**. That data continue a week of information that some analysts expect could help chart a new course for yields, which have largely remained stuck in a narrow range since their pandemic- fueled, early-year tumble. Traders are looking at U.S. jobless claims due Thursday to assess whether the recovery is stalling. Federal Reserve officials also meet this week to discuss how to provide sufficient stimulus to the U.S. economy, while Republicans and Democrats continue to hash out the latest efforts on a new economic-relief package.

"There is as much going on for the markets as there has been since the crisis began, and almost all of it has some potential meaning on the future of the U.S. economy," said Kevin Giddis, head of fixed income at Raymond James.

Senate Republicans rolled out a roughly $1 trillion coronavirus- relief bill proposal Monday. Public-policy analysts say the size of the policy differences between Republicans and Democrats will likely make it difficult for the parties to compromise in just a few days – before benefits for many unemployed workers expire.

This leaves investors unclear about how much the government plans to borrow. Morgan Stanley public-policy strategist Michael Zezas said fiscal stimulus could exceed expectations, with the size of the package increasing as high as $2.4 trillion.

Some analysts said a larger fiscal deal is one of the biggest risks facing the government- bond market because it would increase supply in longer-dated bonds.

"We think **a $1 trillion bill** is **already priced in**," said **Gennadiy Goldberg**, U.S. **rates strategist** at **TD Securities** in New York. "But we have this Phase 4 funding bill that everyone is looking at and wondering what the additional burden would be on the Treasury markets."

Mr. **Goldberg** **expects** the **yield** on the **10-year to drop** to **around 0.4% over** the **next few months**.

Economists expect few major policy changes from the Federal Reserve but will be parsing statements for new information around inflation and whether Fed officials favor changing the composition of their purchases of Treasurys and mortgage bonds toward longer-dated securities.

On Tuesday the **Fed** said it would **extend** the **operation** of **seven emergency-lending programs by three months to support economic activity as its outlook worsens**.

"Fed officials remain quite concerned about **backsliding in** the **economic recovery**," said J**PMorg**an Chase & Co. economist Michael Feroli.

Treasury Yields Fall Nearer to Record

by Matt Wirz – WSJ – Jul. 30, 2020
Aaron Kuriloff contributed to this article.

Treasury bond yields slipped after the Federal Reserve held interest rates steady Wednesday afternoon and said the U.S. economy still faced economic challenges from the pandemic.

Yields continued their **retreat toward records** after Fed Chairman Jerome Powell emphasized the central bank's commitment to aggressive economic stimulus. Fed officials have been considering how to support the economy after this spring's emergency interventions. With no change by the rate-setting committee, analysts examined Mr. Powell's comments for clues about monetary policy and the economy.

"The Fed appears to be in no hurry to change the status quo," said Charlie Ripley, a strategist for Allianz Investment Management. "The committee reiterated their dovish policy stance and the need to maintain accommodation until it's clear the economy has recovered."

The **yield** on the **benchmark 10-year Treasury note fell** to **0.578%** from 0.581% Tuesday and 0.682% at the start of July, according to data from Tradeweb.

The move put the 10-year yield at its third lowest close of the year but still well above the 0.498% nadir hit in March when the pandemic began in the U.S.

Increased buying pushed the 10-year yield even lower in after-hours trading to around 0.568%, as markets absorbed Mr. Powell's comments.

With stock and bond markets broadly recovered from early year losses, investors are homing in on when the Fed might pivot to focusing on economic growth rather than pumping liquidity into markets.

"The committee has been heard loud and clear that it is staying the course with its unprecedented monetary support," said Jason Pride, chief investment officer of private wealth at Glenmede.

Corporate-bond markets rose in tandem with the rally in Treasury bonds, and the spread of investment-grade bond yields over Treasuries ratcheted tighter. Bond prices rise as yields fall.

The price of a $2.5 billion bond AT& T Inc. issued this week climbed to around 102.64 today from 100.15 on Monday, according to data from MarketAxess.

In emerging markets, all eyes are on negotiations between Argentina and its bondholders over how to restructure the South American nation's bonds.

Three bondholder groups with members like Alliance-Bernstein, Ashmore Investment Advisors Inc. and Black-Rock Inc. claim to control more than half the country's bonds and sent Finance Minister Martín Guzmán a letter Monday promoting the restructuring proposal they disclosed this month.

U.S. Initial Unemployment Claims Rose to 1.4 Million Last Week

by Eric Morath – WSJ – Jul. 23, 2020
Kim Mackrael contributed to this article.

Data suggests labor market's recovery could be cooling because of an uptick in coronavirus cases. New applications for unemployment benefits rose for the first time in nearly four months.

Filings for weekly unemployment benefits rose for the first time in nearly four months as some states rolled back re-openings because of the coronavirus pandemic.

Initial unemployment claims rose by a seasonally adjusted **109,000 to 1.4 million** for the **week ended July 18**, the **Labor Department** reported Thursday. The increase in new applications is an indication of a **slowing of improvement** in the **U.S.'s labor market**.

While well **down from** a **peak** of **6.9 million** in **late March**, when the coronavirus pandemic and mandated business closures shut down swaths of the U.S. economy, last week's level was **well above** the **highest week on record before this year**, which was **695,000 in 1982**.

However, the **number** of **Americans receiving unemployment benefits** through regular state programs that cover the majority of workers, **decreased** by **1.1 million to 16.2 million** for the **week ended July 11**. The decline extends the recent trend, with the number receiving benefits the lowest reading since the week ended April 11. Those so-called continuing claims are reported with a week lag.

The modest easing on unemployment rolls suggests new layoffs are being offset by hiring and employers recalling workers. Employers added a combined 7.5 million jobs in May and June after shedding 21 million jobs in March and April, separate Labor Department data showed.

July's leveling of new unemployment applications came as **several states** imposed **new restrictions** on businesses such as **bars** and **restaurants** when coronavirus cases rose.

"The **reopening** across the country has been very **bumpy**," said Michelle Holder, an economist at John Jay College in New York, before Thursday's data. "I think unemployment applications are going to be sticky at this level because many states are seeing a reassertion of the virus."

The level of claims indicates many workers are being laid off, perhaps for a second time, and that parents who want to work are unable to access child care, she said.

Other data also shows an easing in demand for labor. Job openings in July are down from June across the U.S., and Google searches for "file for unemployment" are creeping up. Growth in worker hours is waning at small businesses after several weeks of gains.

California is among the states that imposed new restrictions to deal with a surge in cases of the new coronavirus. The latest restrictions caused Jessica Jenkins, a 30-year-old hair stylist, to lose her job last week for the second time this year.

Ms. Jenkins, an independent contractor who rents a booth at Bloom Salon in downtown Napa, had been back at work for five weeks, following a monthslong shutdown that began in mid-March. Being out of work again "is definitely uncomfortable," Ms. Jenkins said. "I don't know how long [this shutdown] is going to be or how much it's going to affect my business."

Ms. Jenkins said coronavirus precautions, which required that stylists space out customers and disinfect chairs and other equipment after every use, meant before the second shutdown she was working longer hours and making about half the money she was before the pandemic.

The self-employed, gig workers, parents who can't find child care and others who qualify under special pandemic programs are able to tap unemployment benefits under a law passed in March, even if they don't qualify under regular state programs.

The number receiving benefits through the new **Pandemic Unemployment Assistance program** is comparable to the number in the state programs, according to the state data reported to the Labor Department. However, economists caution that accounting for the new program is inconsistent across states.

The tens of millions of workers covered in both programs face the prospect of a **significant reduction in benefits** at the end of this month, **if Congress doesn't extend** or alter a **$600 weekly enhancement beyond July 31**. **State programs alone pay about $350 a week**, **on average**.

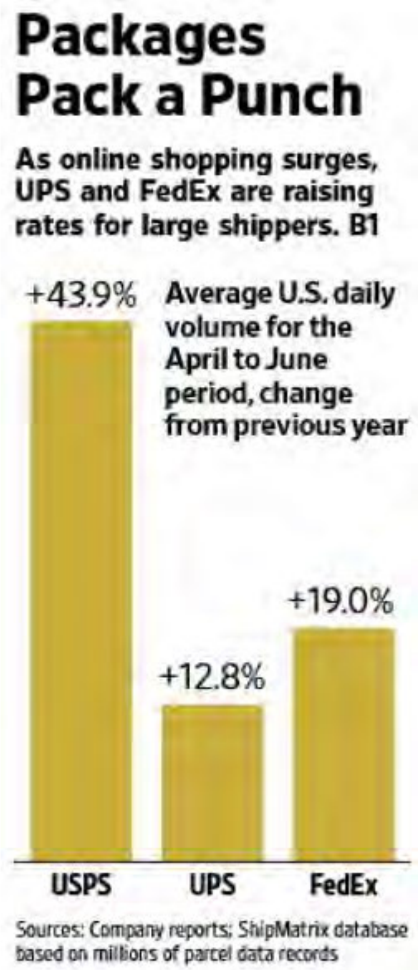
The federal government paid $18.3 billion in the enhanced compensation for the week ended July 18, the Labor Department said. That is the equivalent of 30.5 million $600 payments, though some of the total amount could reflect back payments.

University of Michigan labor economist Don Grimes said if the amount offered under unemployment insurance is reduced, the number of Americans receiving benefits is likely to decline, but not necessarily the number of new applications.

"The $600 additional weekly payment may have encouraged people to stay on unemployment," he said. "But if someone loses their job they will file for unemployment benefits whether the value of those benefits is $300 a week or $900 a week."

UPS and FedEx Seize Pricing Power

by Paul Ziobro – WSJ – Jul 30 2020



Amid surge of **online deliveries**, large shippers are hit with **higher carrier rates**. Online orders poured into Foot Locker Inc. in March, propping up business after the coronavirus pandemic forced the sneaker seller to close nearly all of its 3,000-plus stores. By the end of June, Foot Locker had received notice from its longtime carrier, United Parcel Service Inc., that it would face a hefty rate increase on some of its shipping contracts, people familiar with the matter said.

Executives balked and are exploring moving that business to FedEx Corp. or other carriers, a person familiar with the matter said. A Foot Locker spokeswoman declined to comment.

The pandemic has created a moment of reckoning for e-commerce, as carriers such as **FedEx and UPS** grapple with a surge in online shopping that has pushed their networks to capacity.

Increased demand has also given the delivery companies a window to charge higher rates as retailers need their services more than ever.

They are **starting** to **exercise** that **pricing power**, with UPS hitting some large shippers with **price increases** in the **double-digit percent range** in **recent weeks** and **FedEx following suit**, according to logistics executives including shippers, consultants and carriers. Some of the increases have come midcontract, these people said, while other increases have been made at renewals.

"With the surge of demand for parcel shipments, it's shifted to a **carrier marke**t," said Hannah Testani, chief operating officer of Intelligent Audit, a freight audit and analytics company. "With such few carriers that can truly move national shipments, the carriers have almost unlimited pricing power."

The increases are creating a quandary for retailers who have relied on online shopping to salvage business as stores temporarily closed and many shoppers became reluctant to venture out.

Merchants that don't want to absorb the added cost can raise shipping prices, eliminate free shipping or increase prices of goods sold online.

A UPS spokesman declined to comment ahead of the company's quarterly earnings report Thursday.

In April, Kate Gutmann, UPS chief sales officer, said the company generally aims to keep price increases between 2% and 3% but that it is addressing pricing changes "on a customer-by-customer basis."

A FedEx spokeswoman said the company has "**extremely high demand** for **capacity**" as it nears the peak shipping season ahead of the holidays. "We are taking several steps to manage our network, and this includes working with our customers to find solutions during this challenging time," she added.

Online sellers have already had to contend with limits and fees imposed during the pandemic. FedEx limited the amount that some retailers such as Kohl's Corp. and Bed Bath and Beyond, Inc. could ship from stores.

Both carriers have also imposed **extra fees** when shippers mail large packages or use one of their lower-price services where the U.S. Postal Service delivers the packages to homes.

The shift has disrupted some longstanding practices in rate negotiations.

With capacity at a premium, shippers have little room to play the carriers off each **other to win discounts** and other **concessions**, the logistics executives said.

Some consultants say UPS has been willing to let customers ship with other carriers rather than fighting for every last piece of business as has been the norm.

The **economics** of **delivering packages** have **fundamentally changed**. **FedEx** and **UPS** had **long relied** on the **more profitable deliveries** of **multiple large packages to businesses to subsidize deliveries to homes, where packages** are **generally lighter** and **routes require more stops** and **further travel**. **Residential deliveries on average** are **three times more costly to deliver than** those **to businesses,** according to Trevor Outman, co-chief executive of shipping consulting firm Shipware LLC.

In **recent years**, **both companies delivered** a little more than **half** of their **packages to residences**. **During** the **pandemic**, **home deliveries** have **soared to more than 70% of deliveries**, the companies said. Shippers whose delivery needs have deviated during the pandemic, either from higher volume or a shift in where it goes, are getting closer scrutiny from the delivery companies, logistics executives said. At its peak, **Foot Locker** said it **processed 200,000 orders daily, eight times more than** it would have **on** its **busiest day** in **recent years**.

In cases where shippers have locked in good rates, **carriers** are putting stricter **limits** on capacity, a logistics executive said. "The **better rates** you have, the **less capacity** you're going to get these days," the executive said.

It is a **starkly different competitive environment** than the one FedEx and UPS were operating in at the **beginning** of the **year**, **when both were fighting for business** to fill their networks. **Pre-pandemic, FedEx** was **focused** on **boosting volume** to **replace business** it **lost from cutting ties** with **Amazon.com** Inc., **while UPS** was **taking on more** of **Amazon's business**.

"They were **squeezed for pricing** and now they are getting a **chance** to **balance** the **scale**," said Satish Jindel of SJ Consulting Group Inc., a parcel- industry research firm.

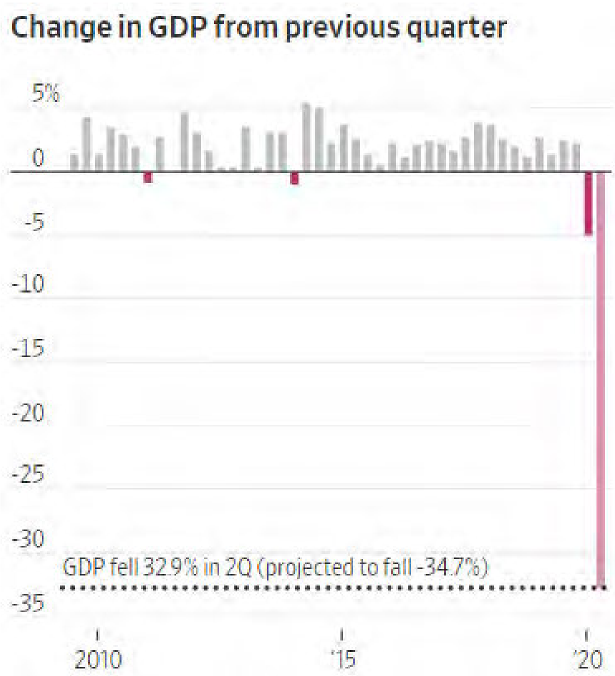
Last month, FedEx's chief marketing officer, Brie Carere, said she expected a shift in pricing because of the dynamics shaping the market. "We believe that e-commerce will remain elevated as a percentage of retail and that obviously capacity is a finite commodity in the market," Ms. Carere said on the company's earnings call.

Some consultants said they were advising clients to explore moving their business to regional carriers to extract more favorable rates from FedEx and UPS. But some shippers say they have been told by smaller carriers that they won't have enough capacity until next year.

Both carriers have also imposed extra fees when shippers mail large packages.

U.S. Economy Contracted at Record Rate Last Quarter; Jobless Claims Rise to 1.43 Million

by Harriet Torry – WSJ – Jul. 30, 2020
Sarah Chaney contributed to this artic



The **Commerce Department's** initial estimate of **U.S. gross domestic product** in the **second quarter** is the **steepest drop** in records **dating to 1947.**

The **U.S. economy contracted** at a **record rate last quarter** and weekly **jobless claims rose for the second straight week**, amid signs of a **slowing recovery** as the country continues to struggle with the coronavirus pandemic.

The Commerce Department said U.**S. gross domestic product** the value of all goods and services produced across the economy **fell** at a **32.9% annual rate** in the **second quarter**, or a **9.5% drop compared** with the **same quarter** a **year ago**. Both figures were the steepest in records dating to 1947.

The contraction came as states imposed lockdowns across the country to contain the coronavirus pandemic and then lifted restrictions. Many economists think the economy resumed growth in the third quarter, which began on July 1.

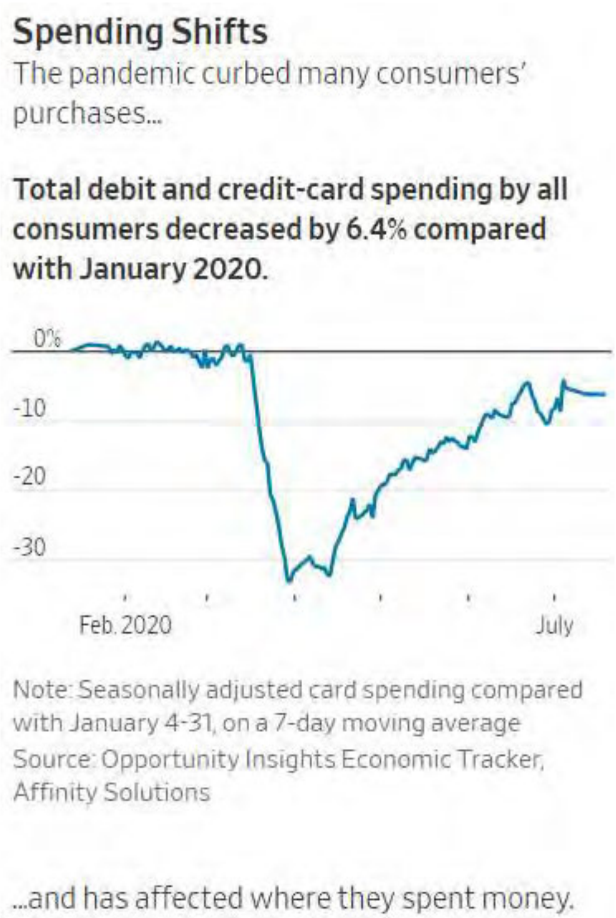
"The key caveat is that it will be a lot less better than we were expecting a few months ago," Ian Shepherdson, chief economist at Pantheon Macroeconomics, said about the third quarter, citing the pickup in coronavirus cases.

Separately, the **Labor Department** said **applications** for **weekly unemployment benefits rose** by **12,000 to 1.43 million** in the **week ended July 25**, and the **number of people receiving unemployment benefits increased by 867,000 to 17 million** in the week ended July 18, signs the **jobs recovery** is **losing momentum**.

The **increased number** of **people receiving benefits**, known as **continuing claims**, had been declining in recent weeks. Jim O'Sullivan, a strategist at TD Securities, said the **reversal** "could feed into **fears** that the **economy**" is **weakening again**.

A **surge in virus infections** since mid-June appears to be slowing the recovery in some states, according to some private-sector real-time data.

JPMorgan Chase & Co.'s tracker of credit and debit-card transactions, for instance, showed that spending rose in May and early June before stalling and remaining broadly flat through last week. Data by Facteus, which tracks transactions by 15 million debit and credit card holders, also suggest restaurant spending was increasing in June and has largely flattened since.



The **U.S. Census Bureau** said in its latest weekly Household Pulse Survey that **51.1% of households experienced** a **loss of employment income in** the **week ended July 21**, **up from 48.3% four weeks ago**.

The **decline in GDP** in the second quarter reflected the deep hit to consumer and business spending from lockdowns, social distancing and other initiatives aimed at containing the virus. **Consumer spending fell** at a **34.6% annual rate**, amid **sharp decreases** in services spending like **health care** and lower spending on **goods**. **Business spending** on **software**, **research** and **development**, **equipment** and **structures fell** at a **27% annual rate**. **Both exports and imports plummeted**.

States in May started reopening their economies—leading to partial rebounds in jobs and spending – though a number of them have put fresh restrictions in place because of the infection increase.

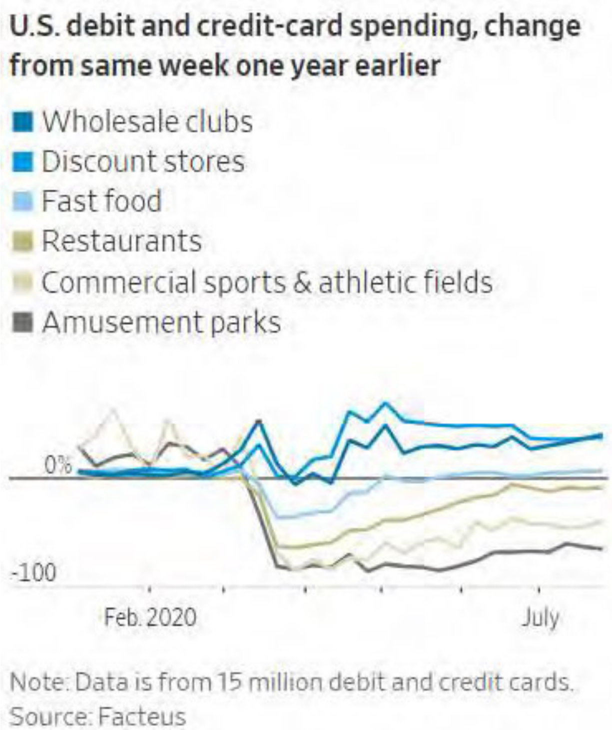
Matt Godden, chief executive of Seattle-based Centerline Logistics, a marine-petroleum transportation operator, said he saw encouraging signs in the shipping industry.

"Looking at July's volumes, there's some decent signs of hope," such as increased shipping traffic and some stabilization in energy markets, he said. "Container customers may have over-cut," he added, saying some are now trying to increase shipping capacity.

Consumer spending, particularly on big-ticket items such as homes, autos and other long-lasting purchases, increased in June. Employers also added nearly 4.8 million jobs in the month, though the labor-market recovery might be slowing as well.

On Wednesday, **Boeing** Co. **said** it would **cut production** of **commercial jets** and **shrink** its **workforce** further. Companies including **Harley-Davidson** Inc. and **Microsoft** Corp. -owned **LinkedIn also announced job cuts** in **July**.

The number of daily U.S. **coronavirus infections** has shown recent signs of leveling off amid recent restrictions, but the pandemic continues to cast a cloud over the economy.



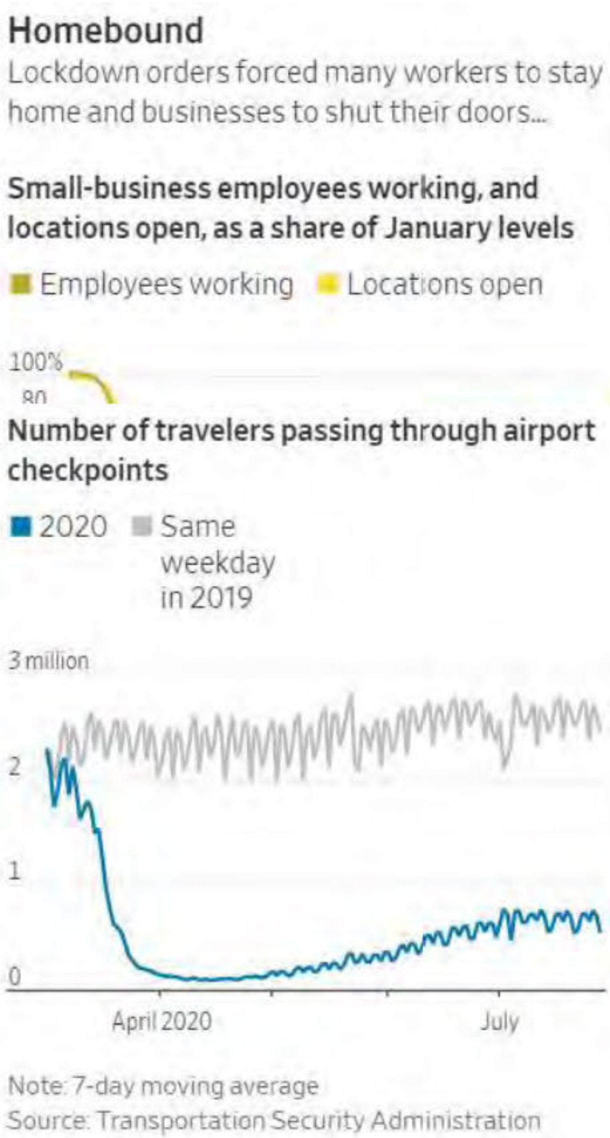
The Conference Board, a private research group, said Tuesday that its **index** of **consumer confidence sank** to 92.6 in July from 98.3 in June, as **consumers** became **less optimistic** about the short**-term outlook** for the **economy** and **labor market**.

Nadia Montoya lost her job in late March as a pastry chef at a Novato, Calif., restaurant because of the pandemic. She now has a part-time job at an organic supermarket, and is making cakes and desserts at home for friends and neighbors to help cover expenses.

"Things that were relatively normal for us – going on vacation, camping, going out to eat with the kids – all that changed since we can't do that anymore, because they're closed and we don't have the money," she said. "It's really hard at the moment."

Businesses also cited continued uncertainty from the pandemic.

"Overall, there's a lot of chaos. People do **not** know for **sure whether their states** are **going** to **shut down tomorrow**," said John Flynn, CEO of Fleet Advantage, a Fort Lauderdale, Fla.-based truck-leasing company. "It's going to be a **tough year** for everybody."

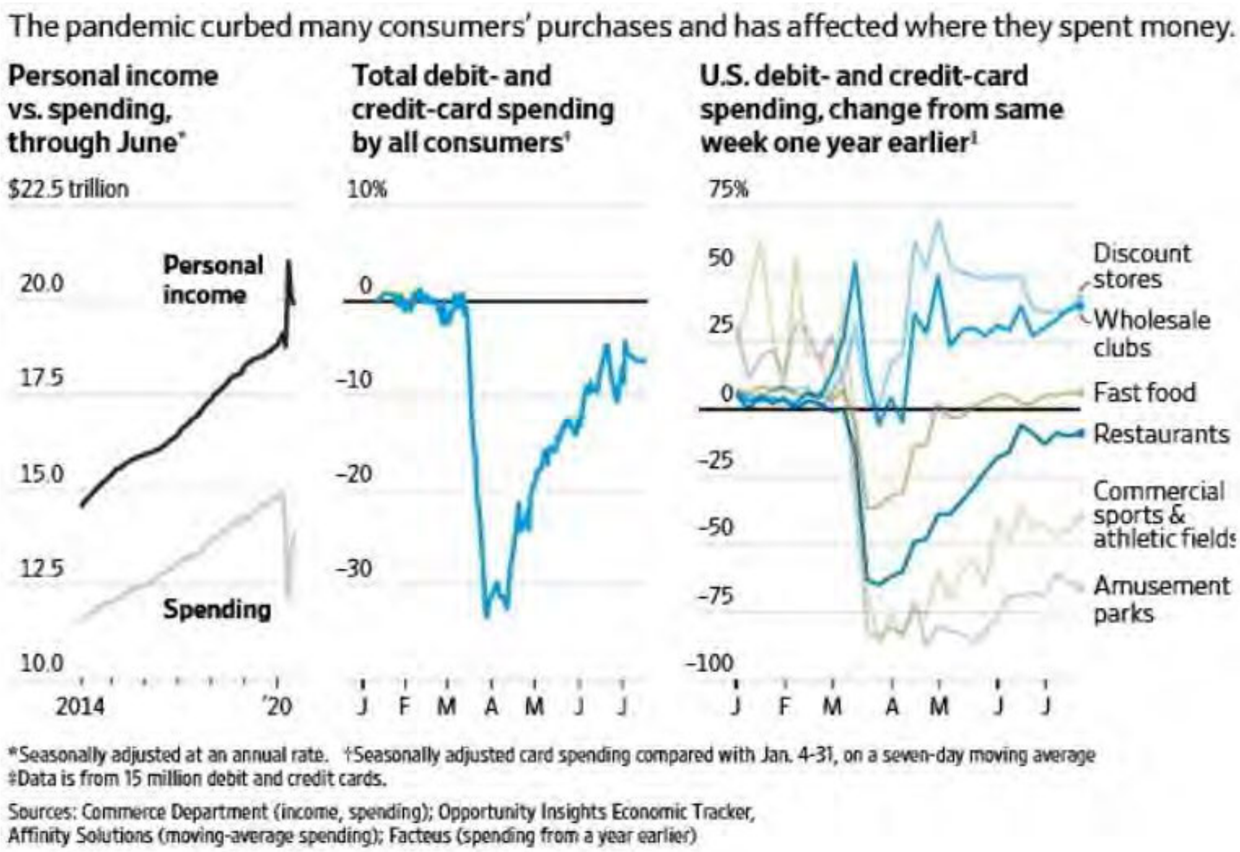


"**Everyone** is **very, very cautious**," said Mike Cavanagh, owner of Key Code Media, an audiovisual company in Burbank, Calif., adding he has business in the pipeline but senses his clients remain nervous about the economy. "I guess the best way to put it is I'm muddling through."

Congress has approved **trillions** of dollars **in stimulus** to help U.S. households and businesses get through the pandemic, and **another package** is now being negotiated on Capitol Hill. One key component – an **extra $600** in **weekly jobless benefits** – is **due** to **expire** at the **end** of **July**, but lawmakers are still discussing whether and how to extend the aid.

Virus Worries Cloud Spending Rebound

by Josh Mitchell and Te-Ping Chen – WSJ – Aug. 1, 2020



Consumers stepped up spending for the second straight month in June but fresher evidence shows households recently pulled back as coronavirus infections rose, suggesting the **U.S. economy** is **destined for** a **choppy ride**.

Evidence is building that the **recovery** will be **halting** and **slow** rather than the V-shaped rebound that some economists had earlier projected. A day after reporting the **sharpest quarterly economic contraction on record**, the government said Friday **households boosted spending** a healthy **5.6%** in **June**.

The increase—reflecting higher purchases of products and services such as medical care, restaurant meals, travel and clothing—**followed** an **8.5% increase** in **May after household spending crashed earlier** in the **spring**.

The ability and willingness of Americans to return to the marketplace will be the key ingredient of any recovery, and economists still expect a third-quarter economic bounce back. Whether it will be sustained is unclear. Credit-card spending data, for instance, shows households have moderated spending in recent weeks as the country faces a surge in infections.

A University of Michigan report Friday showed consumer confidence fell in July.

The expiration this week of a $600 weekly unemployment benefit could further slow the recovery. Federal and state unemployment benefits have propped up household income during the crisis, with payouts totaling $1.4 trillion in June, up from pre-pandemic levels of about $28 billion, a Commerce Department report said.

“The **more Covid cases** there are, the **more fear** there is **from consumers** and that **impacts** their **spending** in a **negative way**,” said Lara Koslow, managing director and senior partner at **Boston Consulting Group**. The company conducted surveys in July showing new peaks in the number of consumers who say they are concerned about going outside their homes.

One example is Steve de Man. The 38-year-old is healthy, employed and has money to spend. But he lives in Texas, one of several big states where infections have risen. The financial-services professional has spent months holed up in his Austin apartment out of fear of catching the virus. He recently went out for his first restaurant meal, eating outside.

When he compared his credit-card statement from last year, he saw he spent significantly less. He has put savings in investment accounts and fueled his obsession with artifacts. This week he received his latest purchase from eBay: an autograph from Sandra Day O’Connor, the retired Supreme Court justice.

“I’ve been venturing out – still to be cautious, safe – but doing things that in March and April and May were kind of unthinkable,” Mr. de Man said. “I’m **starting to think about vacation again**.” Many **Americans** are, like Mr. de Man, **saving** a chunk of the money they have received from wages, stimulus checks, unemployment money or investment returns. The **rate** stood at **19% in June**, more than **double** what it was in **February**.

Saving is good for households and the economy in the long-run – but it saps the economy of activity that could stimulate a quicker rebound. **Consumer spending represents** more than **two-thirds** of **economic demand** in **the U.**S.

A **sharp drop** in **spending earlier** this **spring** is the **biggest reason** that gross **domestic product fell 9.5%** in the **second quarter from** the **prior quarter** – or **32.9%** when calculated **at** a **yearly rate**. Earlier in the **pandemic**, **millions** of **businesses across** the **U.S. shut down** and **unemployment shot up to historic levels**.

One encouraging sign: **Household income** has **risen** during the pandemic despite double-digit unemployment, **mainly due to government aid programs**. Friday’s Commerce Department report showed that while aggregate income in the U.S. fell 1% in June from the prior month, it remained up 4% from February, the month before the crisis shut down swaths of the economy.

Economists are predicting a rebound in the third quarter. Pantheon Macroeconomics projects output could rise at an annual rate of 25%. Morgan Stanley projects nearly 22% growth. But the **outlook** is **cloudy** after that.

Data suggest economic activity picked up at the end of the second quarter as states eased business restrictions.

There **are broad signs consumers** again **pulled back in July**. **Credit**- and debit-card transactions were flat in July after rising in May and June, according to a JPMorgan Chase & Co. tracker. **Spending** at **restaurants** also **stalled**, according to data by Facteus.

Households could become further strained if unemployment rises again. **Weekly initial jobless claims** – a proxy for layoffs – had steadily fallen from April through early July, but have **risen** the **past two** weeks, the Labor Department said Thursday.

The **Census Bureau** said in its latest weekly Household Pulse Survey that slightly **more than half** of **households lost employment income** in the **week ended July 21**, up from a month earlier.