



GOVERNOR GREG GIANFORTE  
DIRECTOR BRENDAN BEATTY

**TO:** Matthew Berido, Manager Property Tax  
ONEOK, Inc.

**FROM:** Doug Roehm, Unit Manager  
Centrally Assessed Property

**DATE:** April 28, 2023

**SUBJECT:** Response to Comments on the 2023 Capitalization Rate Study,  
Pipelines

Dear Mr. Berido:

The department would like to thank you for taking the time to review our study and for providing additional information for us to consider. We received your submission email on April 13, 2023.

The comments received are posted along with these responses on our website at:  
<https://mtrevenue.gov/dor-publications/cap-rate-studies/>

The comments received were:

1. The selected capital structure for Incorporated and Liquid both skewed toward the lower end of the range. This is a departure from recent years' studies as capital structure historically has been towards the higher end of the range. I recommend that a capital structure of 60% equity/40% debt be used for Incorporated and 54% equity/46% debt/preferred be used for Liquid.
2. For the Equity Cost of Capital, I recommend using equal weighting on the CAPM – Ex Post and 3 Stage Dividend Discount Model – Earnings.
3. Removing growth from the WACC when applied in the Yield Capitalization of Free Cash Flow to the Firm model is incorrect. The WACC without adjustment is the appropriate rate to apply to the FCF as it is reflective of a going concern.

Based on the comments, and analysis completed in issuing our final rates the Department:

- Did change the capital structure for incorporated pipelines from 55% equity and 45% debt to 60% equity and 40% Debt.

- Did change the capital structure for liquid pipelines from 50% equity and 50% debt to 55% equity and 45% Debt.
- Reconsidered the weight applied to the various equity estimates and moved 10% of the weight applied to the Capital Asset Pricing Models to the Dividend Discount Models.
- Determined the comment pertaining to the growth rate not being removed from the Weighted Average Cost of Capital when using the Yield Capitalization Approach is an appraisal consideration not a Capitalization Rate consideration. This would be addressed as part of the appraisal process.

The exhibits below summarize the initial and final capitalization rates for the pipeline industry:

Weighted Average Cost of Capital (WACC)									
	Gas			Incorporated			Liquid		
	Initial	Final	Change	Initial	Final	Change	Initial	Final	Change
Cost of Equity	14.32%	14.80%	0.48%	13.08%	13.08%	0.00%	15.22%	14.80%	-0.42%
Cost of Debt	6.84%	7.17%	0.33%	6.14%	6.17%	0.03%	5.87%	5.88%	0.01%
Equity Weight	50.00%	50.00%	0.00%	55.00%	60.00%	5.00%	50.00%	55.00%	5.00%
Debt Weight	50.00%	50.00%	0.00%	45.00%	40.00%	-5.00%	50.00%	45.00%	-5.00%
WACC	9.80%	10.15%	0.35%	9.30%	9.75%	0.45%	9.85%	10.15%	0.30%

NOI After-tax Direct Capitalization Rate									
	Gas			Incorporated			Liquid		
	Initial	Final	Change	Initial	Final	Change	Initial	Final	Change
Equity Cap Rate	11.12%	11.12%	0.00%	6.34%	6.34%	0.00%	10.10%	10.10%	0.00%
Debt Cap Rate	5.32%	5.32%	0.00%	5.06%	5.06%	0.00%	4.82%	4.82%	0.00%
Equity Weight	50.00%	50.00%	0.00%	55.00%	60.00%	5.00%	50.00%	55.00%	5.00%
Debt Weight	50.00%	50.00%	0.00%	45.00%	40.00%	-5.00%	50.00%	45.00%	-5.00%
Weighted Cap Rate	7.60%	7.60%	0.00%	5.25%	5.35%	0.10%	6.90%	7.25%	0.35%

GCF After-tax Direct Capitalization Rate									
	Gas			Incorporated			Liquid		
	Initial	Final	Change	Initial	Final	Change	Initial	Final	Change
Equity Cap Rate	14.83%	14.83%	0.00%	10.83%	10.83%	0.00%	17.30%	17.30%	0.00%
Debt Cap Rate	5.32%	5.32%	0.00%	5.06%	5.06%	0.00%	4.82%	4.82%	0.00%
Equity Weight	50.00%	50.00%	0.00%	55.00%	60.00%	5.00%	50.00%	55.00%	5.00%
Debt Weight	50.00%	50.00%	0.00%	45.00%	40.00%	-5.00%	50.00%	45.00%	-5.00%
Weighted Cap Rate	9.45%	9.45%	0.00%	7.70%	8.05%	0.35%	10.50%	11.20%	0.70%