From:	DOR Utility Forms
To:	Roehm, Doug; Rosling, Jonathan
Subject:	FW: Montana 2025 Cap Rate Comments
Date:	Friday, April 4, 2025 1:20:52 PM
Attachments:	2025 Kroll - AT&T Cost of Capital - Draft.pdf

FYI

From: INGRANDO, LARA <li3311@att.com>
Sent: Friday, April 4, 2025 11:41 AM
To: DOR Utility Forms <DORUtilityForms@mt.gov>
Subject: [EXTERNAL] Montana 2025 Cap Rate Comments

Montana Department of Revenue,

We reviewed the 2025 Assessment Year Telecommunications Cap Rate Study and appreciate the opportunity to comment on the study before it is finalized. Attached you will find a Large Cap Telecommunications Study by Kroll. Please consider this study, along with the below comments:

Capital Structure: Charter appears to be an outlier compared to the other guideline companies. The average equity and debt percentage of the other three would be approximately 62% equity and 38% debt. This aligns with the attached study which a capital structure of 35% debt and 65% equity. We ask that this weighting be considered.

Cost of Equity: There are some discrepancies in this this area in which we appreciate any consideration. When viewed individually, the cost of equity estimated by the CAPM Ex Ante method (8.93%) and the 3 Stage Dividend Discount Model – Dividends (8.30%) appear low, especially relative to the estimated cost of debt of 5.99%. These models imply a spread between the cost of equity and cost of debt of 294 bps and 231 bps, respectively, which on the surface appears to be low.

Of the two Dividend Discount Models, the more appropriate model to use would be the model based on earnings growth as dividend policy can be changed depending on company needs: thus, impacting estimated dividend growth rates. A better indicator of growth is growth in earnings as such growth estimates from analysts' factor in more information into the forecasting process. It's worth mentioning that the current WSATA manual appears to be supportive of the position to the use of earnings growth rates.

Given the above, focusing in on the cost of equity estimates provided by the CAPM Ex Post method (11.44%) and the 3 Stage Dividend Discount Model – Earnings (11.85%) appear to provide better suited estimates for the cost of equity. The attached study performed by Kroll, which utilizes additional inputs and models, estimates a cost of equity of 11.50%, which would be supported by the DOR's methods.

In conclusion, we ask for consideration on a review of the capital structure and cost of equity and submit the Kroll study along with the above comments as support for this review.

Thank you,

Lara Ingrando
Director - Tax

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