April 2, 2026

Mr. Brendan Beatty
Montana Department of Revenue
Regulatory Taxes and Valuation Bureau-Centrally Assessed Properties
125 North Roberts Street
Helena, MT 59601

Re: 2026 Electric Capitalization Rate Study—Comments

Dear Mr. Beatty,

Pursuant to § 15-1-210, MCA, NorthWestern Energy submits the following comments on the 2026 assessment year electric capitalization rate (cap rate) study. We appreciate the opportunity to provide input and hope these comments are helpful.

Please see the attached 2026 Cap Rate Review prepared by Ann Bulkley and Chris Wall (The Brattle Group).

A brief summary of the attached Cap Rate Review is provided below:

- The review concludes that the Montana Department of Revenue's 2026 study likely understates the cost of equity, including an atypical decrease despite interest rates and debt costs increasing from 2024 to 2026.
- It observes that the cost of equity should generally move positively with interest rates, suggesting the 2026 cost of equity result is low relative to contemporaneous debt and Treasury rate changes.
- It flags the three-stage dividend growth model market return/ERP as understated and internally inconsistent with the study's utility COE range, and recommends removing that ERP estimate.
- It identifies a risk-free rate mismatch in the Kroll ERP approach and notes that using the 20-year Treasury yield (consistent with Kroll guidance and the study's inputs) would increase the implied market return.
- It notes that several model results are below comparable authorized ROEs and recommends revisiting model assumptions and weighting, as well as correcting the pre-tax WACC treatment to reflect regulatory mechanics.

We respectfully request that the Montana Department of Revenue consider these points and reflect any appropriate adjustments in the final 2026 electric capitalization rate determination.

For additional context, Montana's WACC (7.47%) is the lowest among these nearby states, compared with Colorado (8.29%), Wyoming (9.10%), and South Dakota (9.26%). We believe these other rates support the Department considering a higher WACC for Montana property tax purposes.

We would welcome the opportunity to discuss these comments and answer any questions as you complete your review.

Please contact me with any questions.

Thank you for your consideration.

Regards,

Aaron J. Bjorkman
Director, Tax
NorthWestern Corporation
3010 W 69th Street
Sioux Falls, SD 57108

Enclosure

Brattle

Mr. Brendan Beatty
Director
Montana Department of Revenue
Regulatory Tazes and Valuation Bureau- Centrally Assessed Properties
Helena, MT 59601

April 1, 2026

Dear Mr. Beatty,

RE: Comments on the 2026 Capitalization Rate Study prepared by the Montana Department of Revenue for Electric Utilities

We have reviewed the 2026 capitalization rate study developed by the Montana Department of Revenue's Centrally Assessed Property Appraisers of the Regulatory Taxes and Valuation Bureau ("MDOR") for electric utilities and have identified the following methodological and temporal issues that we think merit additional consideration.

A. Changes in the Cost of Equity over time are inconsistent with changes in the cost of debt.

As shown in Figure 1 below, reviewing the cost of debt, treasury bond yields and cost of equity provided in the past three capitalization rate studies demonstrate that while the cost of debt and treasury bond yields have *increased* from 2024 to 2026 by between 30 and approximately 80 basis points, the cost of equity determined by the MDOR in the 2026 capitalization rate study for electric utilities *decreased* by 53 basis points. It is generally accepted that there is a positive relationship between the cost of equity and interest rates, meaning that as interest rates increase, the cost of equity also increases. Therefore, it appears that the 2026 capitalization rate study understates the cost of equity when compared over time.

One Beacon Street, Suite 2600
Boston, MA 02108
MAIN +1.617.864.7900
FAX +1.617.507.0063
EMAIL ann.bulkley@brattle.com
WEBSITE brattle.com

FIGURE 1: COMPARISON OF ASSUMPTIONS AND RESULTS OF CAPITALIZATION RATE STUDIES 2024-2026

	2024	2025	2026	Chg. 2026-2024
Cost of Debt	5.59%	5.80%	5.90%	0.31%
10-year Treasury Bond Yield	3.88%	4.58%	4.18%	0.30%
20-year Treasury Bond Yield	**4.20%**	**4.86%**	**4.79%**	**0.59%**
30-year Treasury Bond Yield	4.03%	4.78%	4.84%	0.81%
Cost of Equity	**9.99%**	**10.01%**	**9.46%**	**-0.53%**

B. MDOR three-stage dividend growth model under-estimates the Market Return

The MDOR estimates the equity risk premium ("ERP") using a three-stage dividend growth model for the S&P 500. The estimated market return using this model was 7.73 percent. Relying on a risk-free rate of 4.79 percent, which is the yield on the 20-year Treasury bond, the MDOR estimated ERP for the S&P 500 based on the three-stage dividend growth model is 2.94 percent.[1] However, reviewing the remainder of the study, the market return calculation developed using this model understates the overall market return and the ERP.

Figure 2 below summarizes the MDOR cost of equity estimates for electric utilities and the return calculated for the S&P 500 mentioned previously. As shown in Figure 2, using the three-stage dividend growth model, the MDOR study estimates a return on the market overall of 7.73 percent, whereas, using the three-stage dividend growth model and the CAPM, the MDOR estimates a cost of equity range for electric utilities of between 8.04 percent and 10.69 percent. Considering that the MDOR assumes a beta of .80 on average for electric utilities, it is unreasonable to estimate a return on the market that is less than the return estimated for the electric utilities. While the study indicates that there is an exhibit to review for this calculation, no exhibit was provided to confirm either the calculation of the sources relied on for this analysis. However, this general comparison outlines that the market return result of the three-stage dividend growth model for the market is understated. Therefore, it would be appropriate to remove this ERP estimate from the analysis altogether.

[1] MDOR 2026 Capitalization Rate Study – Electric Utilities, p. 7.

FIGURE 2: SUMMARY OF MDOR MARKET RETURN AND ELECTRIC UTILITY COE ESTIMATES

CAPM-Ex Post	10.69%
CAPM Ex-Ante	8.15%
3 Stage DDM- Dividends	8.04%
3 Stage DDM- Earnings	8.73%
MDOR Dividend Growth Market Return	7.73%
Electric Utility Beta	0.80%

C. Kroll "Conditional" ERP calculation relies on an incorrect risk-free rate and understates the cost of equity

In estimating a market return of 8.50 percent, the MDOR applied the Kroll ERP of 5.00 percent and a risk-free rate of 3.50 percent.[2] The risk-free rate used in this analysis is incorrect and understates the market return. The January 2026 Kroll cost of capital navigator report estimates an ERP of 5.00 percent, which is consistent with the ERP that the MDOR relied upon in its analysis, however Kroll recommends a risk-free rate that is the higher of 3.50 percent or the spot yield on the 20-year Treasury bond. The MDOR uses the Federal Reserve Statistical Release for the yield on the 20-year Treasury, constant maturity, of 4.79 percent. This rate should be used instead of 3.50 percent as the risk-free rate in the Kroll market return estimate. Correcting the risk-free rate to be consistent with Kroll's recommendations increases the market return to 9.79 percent.

D. MDOR cost of equity estimates do not meet comparable return standards

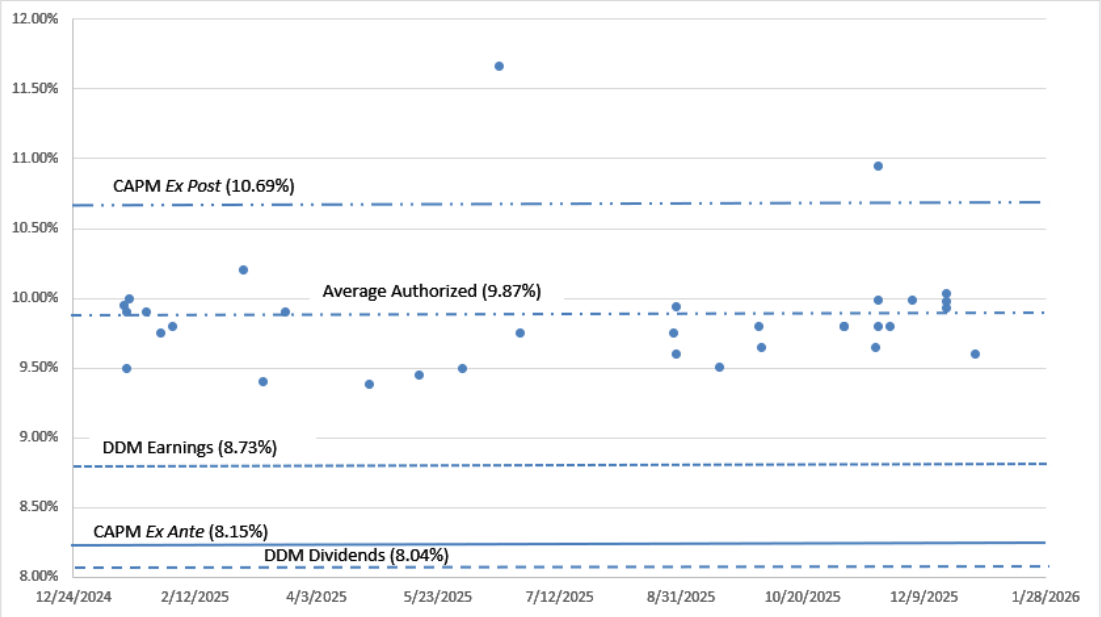
The authorized cost of equity for a regulated electric utility is set based on the comparable return standards established in the U.S. Supreme Court decisions *Hope* and *Bluefield*. These decisions require that the utility have the opportunity to earn a return that is commensurate with the return on other investments of similar risk.[3] Therefore, it is reasonable for investors to consider the returns that have been authorized for other vertically integrated electric utilities in setting their expectations for the return on equity. Figure 3 below provides a summary of the equity returns authorized by U.S. state regulatory commissions for vertically integrated electric utilities in 2025. As shown, the average authorized ROE for vertically integrated electric utilities across the U.S. in 2025 was 9.87 percent. In comparing the individual returns summarized and the average return with the results of the models developed by the MDOR demonstrates that three of the models relied upon produced equity return estimates that were significantly below any

[2] 2026 Capitalization Rate Study- Electric utilities, p. 7

[3] *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*"); *Bluefield Waterworks & Improvement Co., v. Public Service Commission of West Virgini*a, 262 U.S. 679 (1923) ("*Bluefield*").

authorized ROEs over the 12-month period since the last capitalization rate study. Further, these three models; MDOR's DDM using both earnings and dividends, as well as the *Ex Ante* CAPM resulted in ROEs that are lower than any authorized ROE for a vertically integrated electric in Montana back to at least 1980[4]. Therefore, it is reasonable to conclude that the results of these models understate the cost of equity for electric utilities. In total, these three models are given 52 percent of the weight in determining the cost of equity that is selected for the capitalization rate study for electric utilities. It would be reasonable to review the assumptions used in these models and at a minimum consider the total weight on these model results given that they significantly understate the returns that are authorized by regulatory commissions across the country.

FIGURE 3: AUTHORIZED ROES FOR VERTICALLY INTEGRATED UTILITIES – STATE JURISDICTIONAL AS COMPARED WITH MDOR ROE ESTIMATES



E. The Pre-Tax WACC calculated by the MDOR is not consistent with the Pre-Tax WACC calculated in a regulatory environment for Electric Utilities

For regulatory purposes, the return on equity that is estimated for electric utilities using the types of models relied upon by the MDOR is applied as an after-tax return on equity. Therefore, in the development of the revenue requirement used to set rates, the return is adjusted to recover the

[4] S&P Capital IQ compiles data on authorized ROEs for regulated utilities and has data available back to this time-period.

tax and the return. The pre-tax return on equity is calculated by dividing the after-tax return by (1-tax rate). Therefore, in a regulatory model, the investor-required return on equity on a pre-tax basis would be higher than the after-tax return that is estimated by the CAPM and DDM models. As shown in Figure 4 below, correcting the weighted average cost of capital calculation in the 2026 capitalization rate study to reflect the pre-tax return on equity demonstrates that the cost of equity is significantly higher than estimated in the 2026 capitalization rate study. Since investors recognize this ratemaking construct, it is reasonable to expect that the investor-required return would expect that the pre-tax return on equity would be adjusted to reflect the taxes to be paid and therefore be higher than the after-tax return on equity.

FIGURE 4: WACC CALCULATION ADJUSTED FOR REGULATORY MODEL

Weighted Average Cost of Capital (WACC)

	Cap Structure	COC	Marg. Tax Rate	After-tax Weight	Pre-Tax	Corrected Pre-tax Weighted	MDOR Pre-tax Weighted	MDOR After-Tax Weighted
Equity	60%	9.46%		9.46%	12.45%	7.47%	5.68%	5.68%
Debt	40%	5.90%	24%	4.48%	5.90%	2.36%	2.36%	1.79%
WACC						9.83%	8.04%	7.47%

In conclusion, it appears that several of the MDOR cost of equity estimation models are understated based on several benchmarks, including the historical relationship between these models and other market indicators over time that warrants additional consideration. Further, the calculation of the pre-tax WACC should be corrected to consider the regulatory environment that electric utilities in Montana operate in and the regulatory WACC that would more accurately form the bases of the investor-required return on a vertically integrated electric utility.

Sincerely,

Ann Bulkley and Chris Wall

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