



Mike Kadas
Director

Montana Department of Revenue



Steve Bullock
Governor

April 20, 2018

Steven Ingram
100 CenturyLink Dr.
Monroe, LA 71203
Mailstop: LA00010501-3TS150

Dear Mr. Ingram:

This letter is provided in response to the comments provided for the 2018 Capitalization Rate Study.

The information provided for our consideration consisted of: comments provided by email, a pdf attachment demonstrating S&P and Moody's debt ratings for each selected guideline company, as well as a pdf copy of Duff & Phelps' Weighted Average Cost of Capital Study for Wireline Carriers as of January 1, 2018.

Three distinct issues and/or comments were identified and are addressed individually below:

Selection of the Cost of Debt to be used in the Yield Capitalization Approach.

The department relies on corporate bond yields as a basis for its selection of the cost of debt. In our initial study, we selected a Moody's investment grade debt rating of Baa as our basis for the selection of the debt rate. However, based on additional information provided along with your comments demonstrating most of our selected guideline company's fall below this rating we have revised our study to incorporate a similar methodology. We determined a Moody's debt rating of Ba was more appropriate for this industry with a corresponding cost of debt of 6.36%.

The cost of debt was selected based on Standard and Poor's corporate bond yields for BB rated debt which is the equivalent of Moody's Ba rating. The cost of debt was selected from Exhibit 6a of the Duff & Phelps Weighted Average Cost of Capital Study provided for our consideration.

Change the cost of debt while keeping the same spread of equity to debt ratings, thus resulting in an increase to the cost of equity.

The department did not make this requested change. The department selects the cost of equity based on the Capital Asset Pricing Model and various Dividend Growth Models. The selection of the cost of equity is independent of the cost of debt selection.

Selection of the guideline companies.

Similar comments compared to last year were provided for consideration related to our selection of the guideline companies. The department has not changed its opinion of last year's conclusion and is summarized below:

The department has produced a study that represents the operations of a centrally assessed telecommunications company operating in Montana. The department is tasked with valuing companies that offer two-way transmission of voice, image, data, or other information. Due to the vast majority of companies in Montana offering a combination of voice, image, or data services; guideline companies have been selected that offer a combination of these services.

For additional narrative and analysis please see the department's published Response to CenturyLink Comments posted on our website und the 2017 Capitalization Rate Study which can be found at <https://mtrevenue.gov/publications/cap-rate-studies/>

I would like to thank you for your comments and the additional information you provided for our consideration.

Thanks,



Doug Roehm
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