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To:	DOR Utility Forms
Cc:	INGRAM, STEVEN
Subject:	[EXTERNAL] MT 2023 Cap Rate Comments
Date:	Tuesday, April 4, 2023 10:08:31 AM
Attachments:	2023 ATT-Kroll Cost of Capital Study - Draft.pdf

MT Department of Revenue – Centrally Assessed Properties,

Thank you for the opportunity to provide comments in regards to the 2023 Assessment Year Telecommunications Cap Rate Study. We appreciate the opportunity and hope our comments are found to be helpful.

Please see attached for a Large Cap Telecommunications Study by Kroll.

Guideline Companies: You'll note in the study the guideline companies match up so we agree with those selections.

Cost of Debt: In review of the cost of debt, this also agrees with the attached study as you compare the current credit ratings of the guideline companies.

Cost of Equity: Here we have a few differences to discuss and appreciate any consideration in this area. In the CAPM, we do not feel the selected betas capture the company risk. As you look at the falling stock prices for the majority of the communications group, this signals a riskier investment and more volatility in the market. Given this concern that the CAPM isn't adequately reflecting the risk in the market, we ask for consideration that less weight be given to the CAPM. We also note in past studies, the weight was distributed equally at 25% for each of the equity models. In the dividend models, we note two of the companies do not pay a dividend which leads to less data points in those models. For this reason, we ask that you review the Kroll Study's use of the Build-up Method in three forms. These methods produce a range of 10.73% - 14.27% and supports Kroll's overall conclusion of 11.75% for cost of equity.

Spreads: As cost of debt increases, investors will also look for a higher return on equity. Given that, investors will look to maintain the spread between the two. In comparing last year's MT study, we observed the spreads contracted. We believe this contraction would also support a review of the Build-up Methods mentioned above and the shifting of the weights given to each equity model that would maintain if not increase the spread between the cost of debt and cost of equity.

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

Regards,
Steven

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