2020

CAPITALIZATION RATE STUDY
FOR CENTRALLY ASSESSED PROPERTIES

FOR: JANUARY 1, 2020

UTAH STATE TAX COMMISSION

PROPERTY TAX DIVISION
UTILITIES & TRANSPORTATION SECTION
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REV. 4/1/2020

UTAH STATE TAX COMMISSION
PROPERTY TAX DIVISION
SUMMARY OF EQUITY RATES AND CAPITAL STRUCTURE

4/1/2020

2020

Industry	Page	Equity Yield Rate	Debt/Equity	Industry Credit Rating
PASSENGER AIR CARRIERS	6	**10.62%**	40% / 60%	Ba1
REGIONAL AIR CARRIERS	10	**11.61%**	50% / 50%	Ba1
FREIGHT AIR CARRIERS	14	**9.73%**	30% / 70%	A3
ELECTRIC UTILITIES	18	**6.49%**	35% / 65%	Baa1
NATURAL GAS UTILITIES	22	**7.08%**	35% / 65%	Baa1
NATURAL GAS PIPELINES	26	**13.46%**	45% / 55%	Baa
LIQUID PIPELINES	30	**12.39%**	40% / 60%	Ba1
RAILROAD	34	**10.56%**	20% / 80%	Baa1
WIRELESS TELECOMS	38	**9.05%**	45% / 55%	Ba1
WIRELINE TELECOMS	42	**9.80%**	60% / 40%	Ba3
COMBINED TELECOMS	46	**8.16%**	45% / 55%	Ba3

The Property Tax Division of the Utah State Tax Commission ("Division") estimates the market cost of equity for the industries it is required to assess for property tax purposes according to Utah Law. The Division estimates the market cost of equity using recognized equity models based on financial literature, research, and guidance from Utah Tax Commission Administrative Rule R884-24P-62 ("Rule 62"). The equity models used by the Division include various Capital Asset Pricing Models ("CAPM"), various Dividend Growth Models ("DGM"), and a Risk Premium Model. The following is a summary of each of these models.

CAPM

The Division uses three CAPM cost of equity models: CAPM: Rule 62, CAPM: Supply Side, and CAPM: Implied Equity Risk Premium. Each of these CAPMs are based on the formula:

K(e) = R(f) + (Beta x Equity Risk Premium)

Where:

K(e) = the estimated market cost of equity

R(f) = the current risk free rate

Beta = a measure of the volatility of an individual stock compared to the volatility of the market as a whole.

Equity Risk Premium = the premium investors require above the return on a risk free investment. In other words, the additional return investors require for investing in risky securities vs. risk free securities. The Equity Risk Premium is also commonly referred to as the Market Risk Premium.

The difference between the three CAPMs that the Division calculates is how the Equity Risk Premium is estimated.

CAPM: RULE 62

Utah Tax Commission Administrative Code R884-24P-62 ("Rule 62") states that the CAPM is the "preferred method for estimating the cost of equity" (Utah Tax Code R884-24P-62 (5)(b)(i)(B)(II)(Aa)). Rule 62 also states that "more than one method may be used to correlate a cost of equity, but only if the CAPM method is weighted at least 50% in the correlation" (Utah Tax Code R884-24P-64

Rule 62 requires the Division to use or estimate the inputs for this CAPM as follows:

- The risk free rate shall be the current market rate on 20-year Treasury bonds.
- The beta should reflect an average or value-weighted average of comparable companies and should be drawn from Value Line or an equivalent source.
- The Risk Premium shall be the arithmetic average of the spread between the return on stocks and the income return on long-term bonds for the entire historical period contained in the Ibbotson Yearbook published immediately following the lien date.[1]

[1] This information is now provided by Duff and Phelps

CAPM: Supply Side

The CAPM: Supply Side uses the same inputs as the CAPM: Rule 62 except that the Supply Side uses an Equity Risk Premium that is based on the historical returns of companies in the form of earnings, dividends, and capital gains. Ibbotson states that "investors should not expect a much higher or lower return than that produced by the companies in the real economy."[2] This earnings model separates the Equity Risk Premium into four sections: inflation, income growth, growth in real earnings, and growth of the Price Earnings Ratio ("P/E Ratio"). In other words, CAPM: Supply Side ignores the historical returns that have resulted in the change in the P/E ratio. The Division uses the Supply Side Equity Risk Premium published by Duff and Phelps.

CAPM: Implied Equity Risk Premium

Professor Damodaran from the Stern School of Business at New York University estimates the Equity Risk Premium by using current market data to extract the premium currently required by investors. Dr. Damodaran relies on the price of the S&P 500 index and the expected future cash flows of the index (including dividends and share repurchases) to estimate the current implied expected return on the market.[3] This expected return is then compared to the current return on the risk free rate to derive an implied equity risk premium. The Division adjusts Dr. Damodaran's model, which is compared to a 10-year Treasury bond, to compare it to the 20-year Treasury bond that the Division uses in its other CAPM models.

[2] Ibbotson SBBI 2015 Classic Yearbook pg. 155

[3] http://pages.stern.nyu.edu/~adamodar/

DGM

The Division uses three multi-stage DGM cost of equity models: the Division's 3-Stage DGM, the 3-Stage IRR, and the Cornell 3-Stage DGM. All of these models start with a short-term growth rate that is then adjusted, over a period of years, to a more sustainable long-term growth rate. The basic formula for a DGM is:

$$K(e) = (D1/P0) + g$$

Where:

K(e) = the estimated cost of equity

D1 = next years expected dividend (including stock buybacks)

P0 = current stock price

g = the expected growth in dividends (including stock buybacks)

Division's 3-Stage DGM

The Division uses a 3-stage dividend growth model as a way to calculate the cost of equity. Value Line provides a 3-5 year earnings growth estimate that the Division uses as the growth rate for the first 5 years. This growth rate converges to the long-term growth rate over the next 5 years. The long-term growth rate is calculated by taking the average of the long-term risk free rate and Value Line's projected 3-5 year nominal GDP growth. The long-term growth rate is used for the next 20 years in the final stage. The growth rates in the early years are weighted more than the later years. This weighted average growth rate estimate is then added to a payout yield. The payout yield is next year's expected dividends and buybacks divided by the current stock price. The result is the estimated cost of equity.

H-Model

The H-Model is often considered a hybrid between a 2 and 3 stage DGM. Like a 3 stage DGM, the H-model provides a transition period between short and long term growth but does so over only two stages. The first stage is a transition period where the dividend growth rate linearly converges from the 3-5 year growth rate provided by Value Line to the long term growth rate. This convergence takes place over a specified period, 2H, or twice the half-life of the transition. A transition period of 15 years is used resulting in an H of 7.5. After the transition period, the H-Model grows the dividend at a long term growth rate which is the arithmetic mean of the 20-year risk-free rate and the 3-5 year nominal GDP growth rate provided by Value Line.

Cornell 3-Stage DGM

This 3-stage DGM follows the model put forth in "The Equity Risk Premium" by Bradford Cornell. This model uses the 5 year growth estimate provided by Value Line, then that growth rate converges linearly to the long-term growth rate over a 15 year period. In year 20, a terminal value is calculated iteratively using the V = (CFn+1) / (k-g) formula. An internal rate of return calculation is then applied to the estimate of cash flows available to equity holders (including the terminal value) to determine the implied cost of equity that will equal the current stock price.

UTAH STATE TAX COMMISSION
PROPERTY TAX DIVISION
KEY RATES AND FIGURES

4/1/2020

2020

CORPORATE BONDS

Aaa	3.01%
Aa	3.11%
A	3.36%
Baa	3.88%
Ba1	5.69%
Ba2	6.13%
Ba3	6.57%
B1	7.01%
B2	7.45%
B3	7.89%
Caa1	8.33%
Caa2	8.77%
Caa3	9.21%
Ca	9.65%
C	10.09%

PUBLIC UTILITY BONDS

Aaa	N/A
Aa	3.22%
A	3.40%
Baa	3.73%

PREFERRED STOCKS

Aaa	N/A
Aa	N/A
A	N/A
Baa	N/A

MISCELLANEOUS RATES

Airline 'TEFRA' Relief Factor	6.65%
4-R Act Relief for Railroads	13.01%
4-R Act Relief (BNSF only)	6.64%
Rural Telephone Equity Rate Adj.	4.00%
Marginal Income Tax Rate	25.00%
GDP Price Deflator Forecast	2.50%
Long Term Growth Rate	3.18%

INFLATION FACTORS

Year	4th Qrtr. GDP Implicit Price Deflator	Annual Percent Change	Conversion Factor
2009	95.27	0.39%	1.187
2010	96.78	1.59%	1.168
2011	98.68	1.96%	1.146
2012	100.73	2.08%	1.123
2013	102.55	1.81%	1.103
2014	104.08	1.49%	1.086
2015	105.00	0.88%	1.077
2016	106.54	1.47%	1.061
2017	108.72	2.04%	1.040
2018	111.21	2.30%	1.017
2019	113.08	1.68%	1.000

2020 - 2010 Average Change: 1.73%

Source:

U.S. Department of Commerce: Bureau of Economic Analysis
Gross Domestic Product: Implicit Price Deflator

MARKET RISK PREMIUMS

Full Term Historical Risk Premium	7.15%
Supply Side Risk Premium	6.17%
Damodaran Implied ERP	4.83%
Risk Free Rate	2.25%

MISCELLANEOUS INFORMATION

Stock prices are from the last trading day of 2019. Retrieved from http://finance.yahoo.com/

Bond yield information derived from the January 2020 Mergent bond record.

Company and industry data was taken from the last Value Line tear sheet of 2019.

Damodaran Implied Risk Premium Model Calculated Based on Model Found at: http://pages.stern.nyu.edu/~adamodar/

Full term historical and supply side RP are taken from: Duff and Phelps.

	UTAH STATE TAX COMMISSION PROPERTY TAX DIVISION PASSENGER AIR CARRIERS -- EQUITY RATE SUMMARY	4/1/2020 2020 Page 6

RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	100%	10.62%
CAPM: Supply Side	0%	9.47%
CAPM: Implied ERP	0%	7.90%
Division's 3-Stage	0%	12.05%
Cornell's DGM	0%	12.69%
H - Model	0%	12.49%
Reconciled Equity Rate		10.62%
Debt/Equity Structure		40% / 60%

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
Alaska Air Group, Inc.	7,736.27	3,327.03	70%	30%
Allegiant Travel Co.	2,837.42	1,254.32	69%	31%
American Airlines Group	12,280.85	34,073.41	26%	74%
Delta Air Lines, Inc.	37,589.29	17,634.68	68%	32%
Hawaiian Holdings, Inc.	1,350.91	1,057.92	56%	44%
JetBlue Airways Corp.	5,279.04	3,300.60	62%	38%
Southwest Airlines	28,019.09	4,161.49	87%	13%
Spirit Airlines	2,691.16	3,733.44	42%	58%
United Continental Holdings, Inc.	22,129.65	20,927.43	51%	49%
Selected Equity and Debt Structure			**60%**	**40%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
Alaska Air Group, Inc.	1.05	Ba1	N/A
Allegiant Travel Co.	0.85	Ba3	N/A
American Airlines Group	1.30	Ba3	N/A
Delta Air Lines, Inc.	1.10	Baa3	N/A
Hawaiian Holdings, Inc.	1.25	Ba3	N/A
JetBlue Airways Corp.	1.20	Ba1	N/A
Southwest Airlines	1.15	A3	N/A
Spirit Airlines	1.15	Ba3	N/A
United Continental Holdings, Inc.	1.20	Ba1	N/A
Selected for Industry	**1.17**	**Ba1**	**25.00%**

* Amounts in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	1.17
Industry Risk Premium	8.37%
Add: Risk Free Rate	2.25%
Indicated Rate	**10.62%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	1.17
Industry Risk Premium	5.65%
Add: Risk Free Rate	2.25%
Indicated Rate	**7.90%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	1.17
Industry Risk Premium	7.22%
Add: Risk Free Rate	2.25%
Indicated Rate	**9.47%**

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
Alaska Air Group, Inc.	6.36%	5.94%	5.67%
Allegiant Travel Co.	7.14%	5.89%	5.54%
American Airlines Group	12.99%	13.69%	13.64%
Delta Air Lines, Inc.	12.49%	13.27%	12.97%
Hawaiian Holdings, Inc.	6.60%	6.74%	6.90%
JetBlue Airways Corp.	N/A	0.00%	N/A
Southwest Airlines	12.92%	13.86%	13.66%
Spirit Airlines	N/A	0.00%	N/A
United Continental Holdings, Inc.	N/A	0.00%	N/A
Selected Rate	**12.69%**	**12.49%**	

UTAH STATE TAX COMMISSION PROPERTY TAX DIVISION PASSENGER AIR CARRIERS -- DGM INPUTS	4/1/2020 2020 Page 9

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
Alaska Air Group, Inc.	67.75	1.52	1.40	5.50%	3.18%
Allegiant Travel Co.	174.04	2.80	2.80	9.00%	3.18%
American Airlines Group	28.68	2.31	2.21	7.50%	3.18%
Delta Air Lines, Inc.	58.48	3.95	3.80	9.50%	3.18%
Hawaiian Holdings, Inc.	29.29	1.20	1.20	1.50%	3.18%
JetBlue Airways Corp.	18.72		N/A	8.50%	3.18%
Southwest Airlines	53.98	3.66	3.58	10.50%	3.18%
Spirit Airlines	40.31	N/A	N/A	12.50%	3.18%
United Continental Holdings, Inc.	88.09		N/A	8.50%	3.18%

	UTAH STATE TAX COMMISSION PROPERTY TAX DIVISION REGIONAL AIR CARRIERS -- EQUITY RATE SUMMARY	4/1/2020 2020 Page 10

RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	80%	12.26%
CAPM: Supply Side	0%	10.89%
CAPM: Implied ERP	20%	9.01%
Division's 3-Stage	0%	8.42%
Cornell's DGM	0%	5.51%
H - Model	0%	4.54%
Reconciled Equity Rate		11.61%
Debt/Equity Structure	50% / 50%	

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
SkyWest Inc.	3,252.36	3,424.33	49%	51%
Selected Equity and Debt Structure			**50%**	**50%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
SkyWest Inc.	1.40	NR	24.00%
Selected for Industry	**1.40**	**Ba1**	**25.00%**

* Amounts in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	1.40
Industry Risk Premium	10.01%
Add: Risk Free Rate	2.25%
Indicated Rate	**12.26%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	1.40
Industry Risk Premium	6.76%
Add: Risk Free Rate	2.25%
Indicated Rate	**9.01%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	1.40
Industry Risk Premium	8.64%
Add: Risk Free Rate	2.25%
Indicated Rate	**10.89%**

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
SkyWest Inc.	8.42%	5.51%	4.54%
Selected Rate	**8.42%**	**5.51%**	**4.54%**

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
SkyWest Inc.	64.63	0.56	0.48	14.00%	3.18%

RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	80%	10.19%
CAPM: Supply Side	0%	9.10%
CAPM: Implied ERP	10%	7.61%
Division's 3-Stage	10%	8.18%
Cornell's DGM	0%	7.67%
H - Model	0%	7.12%
Reconciled Equity Rate		9.73%
Debt/Equity Structure		30% / 70%

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
Atlas Air Worldwide Holdings	713.26	3,017.66	19%	81%
FedEx Corp	39,483.82	20,864.47	65%	35%
United Parcel Service, Inc.	100,320.42	29,944.05	77%	23%
Selected Equity and Debt Structure			**70%**	**30%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
Atlas Air Worldwide Holdings	1.70	NR	15.00%
FedEx Corp	1.30	Baa2	25.00%
United Parcel Service, Inc.	1.00	A2	23.00%
Selected for Industry	**1.11**	**A3**	**25.00%**

*Amount in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	1.11
Industry Risk Premium	7.94%
Add: Risk Free Rate	2.25%
Indicated Rate	**10.19%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	1.11
Industry Risk Premium	5.36%
Add: Risk Free Rate	2.25%
Indicated Rate	**7.61%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	1.11
Industry Risk Premium	6.85%
Add: Risk Free Rate	2.25%
Indicated Rate	**9.10%**

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
Atlas Air Worldwide Holding	N/A	N/A	N/A
FedEx Corp	6.67%	5.76%	5.51%
United Parcel Service, Inc.	8.87%	8.56%	7.87%
Selected Rate	**8.18%**	**7.67%**	**7.12%**

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
Atlas Air Worldwide Holdings	27.57	N/A	NA	1.50%	3.18%
FedEx Corp	151.21	2.64	2.60	7.50%	3.18%
United Parcel Service, Inc.	117.06	4.15	3.84	8.50%	3.18%

RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	80%	6.40%
CAPM: Supply Side	0%	5.83%
CAPM: Implied ERP	0%	5.05%
Division's 3-Stage	20%	6.86%
Cornell's DGM	0%	6.64%
H - Model	0%	6.45%
Reconciled Equity Rate		6.49%
Debt/Equity Structure		35% / 65%

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
Alliant Energy	13,407.65	6,919.90	66%	34%
Avista Corp.	3,158.95	2,173.09	59%	41%
IdaCorp	5,384.86	2,083.93	72%	28%
NorthWestern	3,615.91	2,436.73	60%	40%
OGE Energy Corp.	8,898.45	3,645.80	71%	29%
Pinnacle West	10,120.73	6,194.39	62%	38%
PNM Resources	4,039.24	3,142.70	56%	44%
Portland General	4,986.91	3,039.00	62%	38%
WEC Energy Group	29,092.53	13,081.80	69%	31%
XCEL Energy	33,302.98	20,227.00	62%	38%
Selected Equity and Debt Structure			**65%**	**35%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
Alliant Energy	0.6	Baa2	N/A
Avista Corp.	0.6	Baa2	N/A
IdaCorp	0.55	Baa1	N/A
NorthWestern	0.6	Baa2	N/A
OGE Energy Corp.	0.75	Baa1	N/A
Pinnacle West	0.5	A3	N/A
PNM Resources	0.6	Baa3	N/A
Portland General	0.55	A3	N/A
WEC Energy Group	0.5	Baa1	N/A
XCEL Energy	0.5	Baa1	N/A
Selected for Industry	**0.58**	**Baa1**	**25.00%**

*Amount in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	0.58
Industry Risk Premium	4.15%
Add: Risk Free Rate	2.25%
Indicated Rate	**6.40%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	0.58
Industry Risk Premium	2.80%
Add: Risk Free Rate	2.25%
Indicated Rate	**5.05%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	0.58
Industry Risk Premium	3.58%
Add: Risk Free Rate	2.25%
Indicated Rate	**5.83%**

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
Alliant Energy	7.30%	6.86%	6.50%
Avista Corp.	6.65%	6.62%	6.58%
IdaCorp	5.86%	5.81%	5.71%
NorthWestern	6.05%	6.19%	6.20%
OGE Energy Corp.	8.05%	7.80%	7.53%
Pinnacle West	7.09%	7.01%	6.87%
PNM Resources	7.17%	6.58%	6.24%
Portland General	6.61%	6.43%	`
WEC Energy Group	7.03%	6.63%	6.36%
XCEL Energy	6.82%	6.49%	6.25%
Selected Rate	**6.86%**	**6.64%**	**6.45%**

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
Alliant Energy	54.72	1.52	1.42	6.50%	3.18%
Avista Corp.	48.09	1.61	1.55	3.50%	3.18%
IdaCorp	106.80	2.73	2.56	3.50%	3.18%
NorthWestern	71.67	2.40	2.30	2.00%	3.18%
OGE Energy Corp.	44.47	1.57	1.51	6.50%	3.18%
Pinnacle West	89.93	3.22	3.04	4.00%	3.18%
PNM Resources	50.71	1.24	1.18	7.00%	3.18%
Portland General	55.79	1.62	1.52	4.50%	3.18%
WEC Energy Group	92.23	2.50	2.36	6.00%	3.18%
XCEL Energy	63.49	1.72	1.62	5.50%	3.18%

RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	80%	6.75%
CAPM: Supply Side	0%	6.14%
CAPM: Implied ERP	0%	5.29%
Division's 3-Stage	0%	8.95%
Cornell's DGM	20%	8.40%
H - Model	0%	7.17%
Reconciled Equity Rate		7.08%
Debt/Equity Structure		35% / 65%

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
Atmos Energy Corp.	13,676.27	4,927.76	74%	26%
Chesapeake Utilities	1,571.97	505.00	76%	24%
Nisource Inc.	10,638.66	8,764.40	55%	45%
Northwest Natural	2,246.70	957.27	70%	30%
Southwest Gas	4,178.91	2,835.55	60%	40%
Spire Inc.	4,257.14	2,765.90	61%	39%
Selected Equity and Debt Structure			**65%**	**35%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
Atmos Energy Corp.	0.6	A1	22.00%
Chesapeake Utilities	0.65	N/A	26.50%
Nisource Inc.	0.55	Baa3	21.00%
Northwest Natural	0.6	Baa1	21.00%
Southwest Gas	0.7	A3	21.00%
Spire Inc.	0.65	Baa2	24.00%
Selected for Industry	**0.63**	**Baa1**	**25.00%**

*Amount in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	0.63
Industry Risk Premium	4.50%
Add: Risk Free Rate	2.25%
Indicated Rate	**6.75%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	0.63
Industry Risk Premium	3.04%
Add: Risk Free Rate	2.25%
Indicated Rate	**5.29%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	0.63
Industry Risk Premium	3.89%
Add: Risk Free Rate	2.25%
Indicated Rate	**6.14%**

DIVISION'S RISK PREMIUM

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
Atmos Energy Corp.	6.98%	6.19%	5.72%
Chesapeake Utilities	7.28%	6.12%	5.55%
Nisource Inc.	10.03%	9.46%	8.15%
Northwest Natural	15.40%	15.11%	10.44%
Southwest Gas	6.94%	6.72%	6.53%
Spire Inc.	7.07%	6.78%	6.61%
Selected Rate	**8.95%**	**8.40%**	**7.17%**

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
Atmos Energy Corp.	111.86	2.30	210.0%	7.50%	3.18%
Chesapeake Utilities	95.83	1.68	155.0%	9.00%	3.18%
Nisource Inc.	27.84	0.86	80.0%	12.50%	3.18%
Northwest Natural	73.73	1.91	190.0%	27.00%	3.18%
Southwest Gas	75.97	2.30	218.0%	5.00%	3.18%
Spire Inc.	83.31	2.46	237.0%	5.50%	3.18%

RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	80%	12.47%
CAPM: Supply Side	0%	11.07%
CAPM: Implied ERP	0%	9.16%
Division's 3-Stage	0%	15.24%
Cornell's DGM	20%	17.43%
H - Model	0%	14.36%
Reconciled Equity Rate		13.46%
Debt/Equity Structure		45% / 55%

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
Enbridge Inc.	80,534.25	60,552.69	57%	43%
Enlink Midstream	2,990.16	4,444.20	40%	60%
Kinder Morgan, Inc.	47,948.70	38,016.00	56%	44%
Oneok, Inc.	31,269.80	13,800.00	69%	31%
TC Energy Corp.	50,004.78	40,089.19	56%	44%
Williams Companies, Inc.	28,748.64	25,319.00	53%	47%
	Selected Equity and Debt Structure		**55%**	**45%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
Enbridge Inc.	1	Baa2	7.00%
Enlink Midstream	1.75	Ba1	0.00%
Kinder Morgan, Inc.	1.35	Baa2	21.00%
Oneok, Inc.	1.5	Baa3	21.00%
TC Energy Corp.	1.05	Baa2	25.00%
Williams Companies, Inc.	1.9	Baa3	23.00%
Selected for Industry	**1.43**	**Baa**	**25.00%**

*Amounts in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	1.43
Industry Risk Premium	10.22%
Add: Risk Free Rate	2.25%
Indicated Rate	**12.47%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	1.43
Industry Risk Premium	6.91%
Add: Risk Free Rate	2.25%
Indicated Rate	**9.16%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	1.43
Industry Risk Premium	8.82%
Add: Risk Free Rate	2.25%
Indicated Rate	**11.07%**

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
Enbridge Inc.	10.32%	10.51%	10.51%
Enlink Midstream	N/A	N/A	0.00%
Kinder Morgan, Inc.	21.91%	27.65%	18.68%
Oneok, Inc.	13.92%	15.18%	12.83%
TC Energy Corp.	13.17%	13.90%	11.91%
Williams Companies, Inc.	16.89%	19.88%	17.87%
Selected Rate	**15.24%**	**17.43%**	**14.36%**

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
Enbridge Inc.	39.77	2.31	2.28	6.50%	3.18%
Enlink Midstream	6.13	1.13	1.12		3.18%
Kinder Morgan, Inc.	21.17	1.20	0.95	35.50%	3.18%
Oneok, Inc.	75.67	3.90	3.53	17.00%	3.18%
TC Energy Corp.	53.31	2.35	2.25	17.00%	3.18%
Williams Companies, Inc.	23.72	1.64	1.52	20.00%	3.18%

RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	80%	11.62%
CAPM: Supply Side	0%	10.33%
CAPM: Implied ERP	0%	8.58%
Division's 3-Stage	0%	14.09%
Cornell's DGM	20%	15.47%
H - Model	0%	15.19%
Reconciled Equity Rate		12.39%
Debt/Equity Structure		40% / 60%

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
DCP Midstream, LP	5,102.00	6,218.00	45%	55%
Enable Midstream Partners, LP	4,365.07	4,207.00	51%	49%
Energy Transfer LP	34,507.32	55,755.00	38%	62%
Enterprise Products Partners LP	61,648.61	30,370.00	67%	33%
EQM Midstream Partners, LP	5,995.69	4,821.35	55%	45%
Holly Energy Partners, LP	2,335.50	1,487.55	61%	39%
Magellan Midstream Partners, LP	14,359.70	5,362.93	73%	27%
MPLX LP	26,936.68	21,422.00	56%	44%
Nustar Energy LP	2,805.44	3,497.45	45%	55%
Phillips 66 Partners LP	14,072.39	3,650.00	79%	21%
Plains All American Pipeline LP	13,388.45	9,874.00	58%	42%
Shell Midstream Partners, LP	4,714.78	2,829.00	62%	38%
Selected Equity and Debt Structure			**60%**	**40%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
DCP Midstream, LP	1.70	Ba2	0.50%
Enable Midstream Partners, LP	1.15	Baa3	3.00%
Energy Transfer LP	2.05	NA	NMF
Enterprise Products Partners LP	1.25	NA	1.00%
EQM Midstream Partners, LP	1.15	Ba2	NMF
Holly Energy Partners, LP	0.95	Ba2	0.10%
Magellan Midstream Partners, LP	1.05	Baa1	0.50%
MPLX LP	1.35	Baa2	0.50%
Nustar Energy LP	1.45	Ba2	2.50%
Phillips 66 Partners LP	0.95	Baa3	NMF
Plains All American Pipeline LP	1.45	Ba1	4.00%
Shell Midstream Partners, LP	1.20	NA	NMF
Selected for Industry	**1.31**	**Ba1**	**25.00%**

*Amount in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	1.31
Industry Risk Premium	9.37%
Add: Risk Free Rate	2.25%
Indicated Rate	**11.62%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	1.31
Industry Risk Premium	6.33%
Add: Risk Free Rate	2.25%
Indicated Rate	**8.58%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	1.31
Industry Risk Premium	8.08%
Add: Risk Free Rate	2.25%
Indicated Rate	**10.33%**

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
DCP Midstream, LP	18.52%	22.10%	23.30%
Enable Midstream Partners,	19.24%	23.23%	24.38%
Energy Transfer LP	14.28%	15.81%	15.79%
Enterprise Products Partner:	10.93%	11.18%	10.59%
EQM Midstream Partners, LI	14.33%	14.04%	14.06%
Holly Energy Partners, LP	12.15%	12.03%	12.11%
Magellan Midstream Partne	9.51%	9.57%	9.17%
MPLX LP	18.51%	22.44%	21.67%
Nustar Energy LP	12.70%	13.52%	13.66%
Phillips 66 Partners LP	11.93%	12.29%	10.80%
Plains All American Pipeline	13.06%	14.11%	12.71%
Shell Midstream Partners, LI	13.92%	15.30%	14.03%
Selected Rate	**14.09%**	**15.47%**	**15.19%**

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
DCP Midstream, LP	24.49	2.34	234.0%	0.18	3.18%
Enable Midstream Partners, LP	10.03	0.99	97.5%	0.19	3.18%
Energy Transfer LP	12.83	0.92	91.5%	0.13	3.18%
Enterprise Products Partners LP	28.16	1.35	132.0%	0.11	3.18%
EQM Midstream Partners, LP	29.91	3.48	345.0%	0.02	3.18%
Holly Energy Partners, LP	22.15	2.05	201.8%	0.03	3.18%
Magellan Midstream Partners, LP	62.87	3.26	303.0%	0.06	3.18%
MPLX LP	25.46	2.07	198.8%	0.21	3.18%
Nustar Energy LP	25.85	1.80	180.0%	0.10	3.18%
Phillips 66 Partners LP	61.64	2.70	255.0%	0.14	3.18%
Plains All American Pipeline LP	18.39	1.16	103.5%	0.12	3.18%
Shell Midstream Partners, LP	20.21	1.41	126.8%	0.13	3.18%

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RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	80%	10.54%
CAPM: Supply Side	0%	9.41%
CAPM: Implied ERP	0%	7.85%
Division's 3-Stage	10%	10.76%
Cornell's DGM	10%	10.48%
H - Model	0%	9.13%
Reconciled Equity Rate		10.56%
Debt/Equity Structure		20% / 80%

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
Canadian National Railway	64,427.54	12,482.55	84%	16%
Canadian Pacific Railway	34,928.15	8,049.62	81%	19%
CSX Corp	55,968.36	18,996.00	75%	25%
Norfolk Southern	50,067.09	15,392.00	76%	24%
Union Pacific	125,124.88	28,671.00	81%	19%
	Selected Equity and Debt Structure		**80%**	**20%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
Canadian National Railway	1.05	A2	25.00%
Canadian Pacific Railway	1.15	Baa1	26.00%
CSX Corp	1.25	Baa1	25.00%
Norfolk Southern	1.2	Baa1	24.00%
Union Pacific	1.15	Baa1	24.00%
Selected for Industry	**1.16**	**Baa1**	**25.00%**

*Amounts in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	1.16
Industry Risk Premium	8.29%
Add: Risk Free Rate	2.25%
Indicated Rate	**10.54%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	1.16
Industry Risk Premium	5.60%
Add: Risk Free Rate	2.25%
Indicated Rate	**7.85%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	1.16
Industry Risk Premium	7.16%
Add: Risk Free Rate	2.25%
Indicated Rate	**9.41%**

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
Canadian National Railway	9.20%	8.75%	8.22%
Canadian Pacific Railway	9.33%	8.40%	7.18%
CSX Corp	10.92%	10.45%	8.93%
Norfolk Southern	11.49%	11.34%	9.73%
Union Pacific	11.56%	11.57%	9.98%
Selected Rate	**10.76%**	**10.48%**	**9.13%**

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
Canadian National Railway	90.45	2.96	2.96	10.0%	3.18%
Canadian Pacific Railway	254.95	6.58	6.02	12.0%	3.18%
CSX Corp	72.36	2.29	2.21	14.5%	3.18%
Norfolk Southern	194.13	6.87	6.63	15.0%	3.18%
Union Pacific	180.79	6.88	6.54	14.5%	3.18%

RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	90%	9.11%
CAPM: Supply Side	0%	8.17%
CAPM: Implied ERP	0%	6.89%
Division's 3-Stage	5%	8.44%
Cornell's DGM	5%	8.45%
H - Model	0%	8.43%
Reconciled Equity Rate		9.05%
Debt/Equity Structure		45% / 55%

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
AT&T Inc.	283,508.01	207,655.00	58%	42%
Sprint Corp.	16,734.52	47,384.00	26%	74%
T-Mobile US Inc.	66,671.14	41,886.00	61%	39%
U.S. Cellular	3,115.78	2,590.00	55%	45%
Verizon Communications	253,939.85	151,970.00	63%	37%
Selected Equity and Debt Structure			**55%**	**45%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
AT&T Inc.	0.75	Baa2	19.50%
Sprint Corp.	1.2	B2	N/A
T-Mobile US Inc.	0.95	Ba2	26.00%
U.S. Cellular	1.15	Ba1	24.00%
Verizon Communications	0.75	Baa1	25.00%
Selected for Industry	**0.96**	**Ba1**	**25.00%**

*Amount in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	0.96
Industry Risk Premium	6.86%
Add: Risk Free Rate	2.25%
Indicated Rate	**9.11%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	0.96
Industry Risk Premium	4.64%
Add: Risk Free Rate	2.25%
Indicated Rate	**6.89%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	0.96
Industry Risk Premium	5.92%
Add: Risk Free Rate	2.25%
Indicated Rate	**8.17%**

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
AT&T Inc.	9.44%	9.50%	9.47%
Sprint Corp.	N/A	N/A	N/A
T-Mobile US Inc.	N/A	N/A	N/A
U.S. Cellular	N/A	N/A	N/A
Verizon Communications	7.45%	7.39%	7.40%
Selected Rate	**8.44%**	**8.45%**	**8.43%**

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
AT&T Inc.	39.08	2.08	2.04	5.50%	3.18%
Sprint Corp.	5.21	N/A	N/A	N/A	3.18%
T-Mobile US Inc.	78.42	N/A	N/A	18.50%	3.18%
U.S. Cellular	36.23	N/A	N/A	15.00%	3.18%
Verizon Communications	61.40	2.42	2.37	4.00%	3.18%

RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	90%	9.90%
CAPM: Supply Side	0%	8.85%
CAPM: Implied ERP	0%	7.42%
Division's 3-Stage	5%	8.92%
Cornell's DGM	5%	8.85%
H - Model	0%	8.87%
Reconciled Equity Rate		9.80%
Debt/Equity Structure		60% / 40%

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
AT&T Inc.	283508.01	207655.00	58%	42%
Centurylink Inc.	14399.67	37717.00	28%	72%
Cincinnati Bell Inc.	527.90	2021.70	21%	79%
Consolidated Communications	279.21	2167.77	11%	89%
Verizon Communications	253939.85	151970.00	63%	37%
Zayo Group	8186.34	9933.60	45%	55%
Selected Equity and Debt Structure			**40%**	**60%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
AT&T Inc.	0.75	Baa2	19.50%
Centurylink Inc.	1.10	Ba3	25.00%
Cincinnati Bell Inc.	1.70	B2	N/A
Consolidated Communications	1.10	B2	25.00%
Verizon Communications	0.75	Baa1	25.00%
Zayo Group	1.00	B2	15.00%
Selected for Industry	**1.07**	**Ba3**	**25.00%**

*Amount in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	1.07
Industry Risk Premium	7.65%
Add: Risk Free Rate	2.25%
Indicated Rate	**9.90%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	1.07
Industry Risk Premium	5.17%
Add: Risk Free Rate	2.25%
Indicated Rate	**7.42%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	1.07
Industry Risk Premium	6.60%
Add: Risk Free Rate	2.25%
Indicated Rate	**8.85%**

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
AT&T Inc.	9.44%	9.50%	9.47%
Centurylink Inc.	9.87%	9.65%	9.75%
Cincinnati Bell Inc.	N/A	N/A	N/A
Consolidated Communicatio	N/A	N/A	N/A
Verizon Communications	7.45%	7.39%	7.40%
Zayo Group	N/A	N/A	N/A
Selected Rate	**8.92%**	**8.85%**	**8.87%**

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
AT&T Inc.	39.08	2.08	2.04	5.50%	3.18%
Centurylink Inc.	13.21	1.00	1.00	1.00%	3.18%
Cincinnati Bell Inc.	10.47	N/A	N/A	N/A	3.18%
Consolidated Communications	3.88	N/A	0.77	N/A	3.18%
Verizon Communications	61.40	2.42	2.37	4.00%	3.18%
Zayo Group	34.65	N/A	N/A	26.50%	3.18%

RECONCILIATION

Equity Models	Weight	Equity Rate
CAPM: Rule 62	90%	8.11%
CAPM: Supply Side	0%	7.31%
CAPM: Implied ERP	0%	6.21%
Division's 3-Stage	5%	8.60%
Cornell's DGM	5%	8.60%
H - Model	0%	8.59%
Reconciled Equity Rate		8.16%
Debt/Equity Structure		45% / 55%

CALCULATION OF CAPITAL STRUCTURE

Company	Market Value Of Equity*	Market Value Of Debt*	Percent Equity	Percent Debt
AT&T Inc.	283,508.01	207,655.00	58%	42%
Centurylink Inc.	14,399.67	37,717.00	28%	72%
Cincinnati Bell	527.90	2,021.70	21%	79%
Consolidated Communications	279.21	2,167.77	11%	89%
Sprint Corp.	16,734.52	47,384.00	26%	74%
T-Mobile US Inc.	66,671.14	41,886.00	61%	39%
Telephone and Data Systems	2,924.45	3,521.00	45%	55%
Verizon Communications	253,939.85	151,970.00	63%	37%
Zayo Group	8,186.34	9,933.60	45%	55%
Selected Equity and Debt Structure			**55%**	**45%**

GUIDELINE COMPANY INFORMATION SUMMARY

Company	Beta	Credit Rating	Effective Tax Rate
AT&T Inc.	0.75	Baa2	19.50%
Centurylink Inc.	1.10	Ba3	25.00%
Cincinnati Bell	1.70	B2	N/A
Consolidated Communications	1.10	B2	25.00%
Sprint Corp.	1.20	B2	N/A
T-Mobile US Inc.	0.95	Ba2	26.00%
Telephone and Data Systems	1.20	Ba1	26.00%
Verizon Communications	0.75	Baa1	25.00%
Zayo Group	1.00	B2	15.00%
Selected for Industry	**0.82**	**Ba3**	**25.00%**

*Amount in Millions

CAPM: RULE 62 COMPLIANT	
Market Risk Premium	7.15%
X Industry Beta	0.82
Industry Risk Premium	5.86%
Add: Risk Free Rate	2.25%
Indicated Rate	**8.11%**

CAPM: IMPLIED ERP	
Market Risk Premium	4.83%
X Industry Beta	0.82
Industry Risk Premium	3.96%
Add: Risk Free Rate	2.25%
Indicated Rate	**6.21%**

CAPM: SUPPLY SIDE	
Market Risk Premium	6.17%
X Industry Beta	0.82
Industry Risk Premium	5.06%
Add: Risk Free Rate	2.25%
Indicated Rate	**7.31%**

MULTISTAGE DIVIDEND GROWTH MODEL

	Indicated Rates		
Company Name	Division's	Dr. Cornell's	H-Model
AT&T Inc.	9.44%	9.50%	9.47%
Centurylink Inc.	9.87%	9.65%	9.75%
Cincinnati Bell	N/A	N/A	N/A
Consolidated Communications	N/A	N/A	N/A
Sprint Corp.	N/A	N/A	N/A
T-Mobile US Inc.	N/A	N/A	N/A
Telephone and Data Systems	7.60%	7.03%	6.69%
Verizon Communications	7.45%	7.39%	7.40%
Zayo Group	N/A	N/A	N/A
Selected Rate	**8.60%**	**8.60%**	**8.59%**

DIVIDEND GROWTH MODEL INPUTS

Company Name	Stock Price	Next Year's Payout	Current Payout	Projected Growth	Long Term Growth Rate
AT&T Inc.	39.08	2.08	2.04	5.50%	3.18%
Centurylink Inc.	13.21	1.00	1.00	1.00%	3.18%
Cincinnati Bell	10.47	N/A	N/A	N/A	3.18%
Consolidated Communications	3.88	N/A	0.77	N/A	3.18%
Sprint Corp.	5.21	N/A	N/A	N/A	3.18%
T-Mobile US Inc.	78.42	N/A	N/A	18.50%	3.18%
Telephone and Data Systems	25.43	0.68	0.66	7.50%	3.18%
Verizon Communications	61.40	2.42	2.37	4.00%	3.18%
Zayo Group	34.65	N/A	N/A	26.50%	3.18%