

**STATE OF VERMONT
PUBLIC UTILITY COMMISSION**

Case No. 26-0096-TF

Tariff filing of Green Mountain Power Corporation for a 7.5% rate increase effective with bills rendered on or after October 1, 2026	
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**PREFILED DIRECT TESTIMONY OF
CYNTHIA L. ZAMORA
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE**

~~April 20, 2026~~

Revised June 30, 2026

Summary: Ms. Zamora discusses in detail her analysis of the cost of capital models used to develop her recommendation regarding an appropriate Return on Equity (“ROE”) for Green Mountain Power Corporation (“GMP” or “Company”) on behalf of the Vermont Department of Public Service (“Department” or “DPS”). Ms. Zamora is recommending an ROE of 8.91% for GMP.

Ms. Zamora Sponsors the Following Exhibits:

Exhibit DPS-CLZ-1	Professional Resume of Cynthia L. Zamora
Exhibit DPS-CLZ-2	Discovery Response GMP.DPS.2-25
Exhibit DPS-CLZ-3	Constant Growth DCF Analysis
Exhibit DPS-CLZ-4	Growth Rates for Proxy Group
Exhibit DPS-CLZ-5	Multi-Stage DCF Analysis
Exhibit DPS-CLZ-6	Capital Asset Pricing Model Analysis
Exhibit DPS-CLZ-7	Price-to-Book Ratios for Proxy Group

PREFILED DIRECT TESTIMONY OF CYNTHIA L. ZAMORA

I. WITNESS IDENTIFICATION AND SCOPE OF TESTIMONY

Q1. Please state your full name, address, and occupation.

A1. My name is Cynthia L. Zamora. My business address is 6836 Bee Caves Road, Bldg 1, Suite 225, Austin, TX 78746. I am a Senior Consultant at GDS Associates, Inc. (“GDS”).

Q2. Please outline your formal education.

A2. In May 2010, I graduated from the University of Texas at El Paso with a Bachelor of Business Administration degree in Finance. In May 2014, I graduated from New Mexico State University (“NMSU”) with a Master of Business Administration with a Finance Specialization and a Graduate Certificate in Public Utility Regulation and Economics. The NMSU Public Utility Regulation and Economics program included studies of regulatory theory, policy, and application in the electric, natural gas, and water utility industries.

Q3. Please describe your professional experience.

A3, I have over 12 years of regulatory experience in the Texas electric, telecommunication, and water utility industries. I began working at GDS in January 2026. As a Senior Consultant, I provide specialized expertise in accounting, cost of capital, ROE, and related regulatory matters. Prior to GDS, I worked as the Regulatory Case Manager Lead at the Lower Colorado River Authority (“LCRA”) from 2019 - 2025. While at LCRA, I prepared and coordinated interim transmission cost of service applications, the

yearly Earnings Monitoring Report and other required financial reports with the Texas Public Utility Commission (“Texas PUC”). I also actively supported and participated in LCRA TSC’s 2023 base-rate case filed with the Texas PUC. Prior to LCRA, I worked as a Financial Examiner at the Texas Office of Public Utility Counsel (“OPUC”) from 2014 - 2019. As a Financial Examiner, I identified, analyzed, and evaluated accounting, cost of capital, and other financial issues for electric, water and wastewater utilities. I prepared written expert witness testimony including recommending an appropriate ROE for vertically integrated electric utilities in Texas, and other schedules and workpapers on complex, technical subjects in utility rate proceedings, rulemakings, and other utility-related matters. My professional resume provides further details of my experience, provided as Exhibit DPS-CLZ-1.

Q4. Have you testified in Vermont in the past?

A4. No. This is my first testimony filed before the Vermont Public Utility Commission (“Commission”).

Q5. Have you testified before any other regulatory commissions?

A5. Yes. I have submitted testimony before the Texas PUC. See **Exhibit DPS-CLZ-1** for a list of testimonies filed.

Q6. For whom are you appearing?

A6. I am testifying on behalf of the Department.

Q7. What is the purpose of your testimony.

1 A7. The purpose of my testimony is to provide the Department's recommendations
2 regarding a reasonable weighted average cost of capital to be used in the calculation of
3 GMP's rates including ROE, cost of embedded debt and capital structure.

4 **Q8. How is your testimony organized?**

5 A8. My testimony is divided into seven sections. Section I provides my background
6 information and scope of testimony. In Sections II and III, I summarize my
7 recommendations regarding a reasonable rate of return for GMP, discuss the framework
8 used to determine a reasonable rate of return, the current market environment, and the
9 current credit ratings for GMP. In Sections IV and V, I discuss the criteria used to select
10 a proxy group of companies for comparison, present my constant-growth discounted
11 cash flow ("DCF") analysis, multi-stage DCF, capital asset pricing model ("CAPM"),
12 and provide my cost of equity recommendation. Section VI, I discuss my recommended
13 capital structure, cost of embedded debt and the weighted average cost of capital
14 ("WACC") for GMP. Finally, in Section VII, I present my cost of capital
15 recommendation for GMP.

16 **Q9. Are you sponsoring any exhibits in connection with your testimony?**

17 A9. Yes, Exhibit DPS-CLZ-1 through Exhibit DPS-CLZ-7.

18 **Q10. Were your testimony and exhibits prepared by you or under your direct**
19 **supervision and control?**

20 A10. Yes.

1
2
3 **Q11. Concerning issues for which you have made no recommendations in your**
4 **testimony, should the Commission presume your concurrence with the Company's**
5 **requests or methodology?**

6 A11. No. My review did not extend to all issues discussed in GMP's application. I make no
7 implied assurances with regard to issues that I do not specifically address in my
8 testimony.

9 **II. SUMMARY OF RECOMMENDATIONS**

10 **Q12. Please summarize your recommendations regarding a reasonable rate of return**
11 **for GMP.**

12 A12. I recommend a ROE of 8.91% for GMP based on the results from my constant growth
13 DCF, multi-stage growth DCF, and CAPM analyses. My recommended ROE of 8.91%
14 was derived from applying a similar weighting methodology as utilized by GMP witness
15 Julie Lieberman. This ROE reflects GMP's current market risk-adjusted cost of equity.
16 I recommend the Commission approve an ROE that provides fair compensation based
17 on GMP's investment risk while limiting customers' charges to no more than necessary
18 to provide fair compensation and maintain GMP's financial integrity and access to
19 capital. I have incorporated GMP's rate year cost of long-term debt of 4.74%.¹ The

¹ Case No. 26-0096-TF, Prefiled Direct and Supplemental Testimony of Doane & Bingle at 41 (Jan. 16, 2026).

1 capital structure currently authorized for the Company, composed of 50% common
2 equity and 50% debt, continues to be reasonable in light of GMP's business and
3 regulatory risks, and will be sufficient to attract capital from investors and support its
4 current credit rating. My results are summarized in **Table CLZ-1** below:

	% of Capitalization	Cost	Weighted Average Cost of Capital
Long-Term Debt	50%	4.74%	2.37%
Common Equity	50%	8.91%	4.46%
TOTAL	100%		6.83%

5 **Table CLZ-1: Recommended Rate of Return**

6 Further, I am recommending that the ROE approved in this proceeding remain fixed
7 throughout the new four-year Multi-Year Regulation Plan ("MYRP").²

8 **Q13. What factors did you consider in determining your recommended ROE?**

9 A13. My recommended ROE of 8.91% for GMP is based on the results derived from my
10 constant growth DCF, multi-stage growth DCF, and CAPM analyses. Because the
11 CAPM results are significantly above my other results and recently awarded ROEs for
12 vertically integrated electric utilities, I have balanced the CAPM results by affording
13 less weight (0.50) and more weight (1.25) to each of my DCF models. These analyses
14 estimate a fair ROE based on observable market information and will be sufficient for

² See generally Case No. 25-1955-PET, Petition of Green Mountain Power Corporation for approval of its new Multi-Year Regulation Plan pursuant to 30 V.S.A. Sections 108, 209, 218, and 218d.

1 GMP to continue to provide safe and reliable service, attract invested capital on
2 reasonable terms, and maintain its financial integrity.

3 **Q14. Has GMP previously had an authorized ROE below your recommended ROE of**
4 **8.91%?**

5 A14. Yes. GMP's authorized ROE was 8.20% in FY 2021 and 8.57% in FY 2022 (which
6 GMP opted to hold flat in FY 2023).

7 **Q15. Did GMP experience any difficulties accessing capital on reasonable terms and**
8 **conditions during FY 2021 through FY 2023?**

9 A15. No. In discovery, GMP stated that it did not have any issues accessing capital. In fact,
10 during the FY 2021 to FY 2023 timeframe, GMP raised \$139 million in First Mortgage
11 Bonds and \$30 million in equity to maintain its authorized capital structure. The credit
12 spreads on each of the bonds issued was consistent with market conditions at the time
13 for similarly rated entities. Please see GMP's response to DPS.GMP.2-25 attached as
14 **Exhibit CLZ-DPS-2.**

15 **Q16. Did you also consider the current market environment when determining your**
16 **recommended ROE?**

17 A16. Yes. Utility stocks continue to be valued for their defensive characteristics because they
18 are seen as less risky and less volatile than non-utility stocks, especially by income
19 investors looking for yield in the form of dividend payments. Edison Electric Institute's
20 ("EEI") 2024 Annual Report states that 94 percent of EEI Index companies raised their
21 dividend, helping them to secure the capital needed to build a modern and resilient grid.

1 EEI member companies continue to invest to support the growing electricity demand
2 driven by artificial intelligence (“AI”) and data center expansion, industrialization and
3 the reshoring of manufacturing activity, and the electrification of the broader economy.³

4 **Q17. What ROE is GMP requesting in this proceeding?**

5 A17. GMP witness Julie Lieberman is recommending the Commission adopt an ROE in the
6 range of 9.91% to 10.91%, and states that a reasonable ROE for GMP is 10.50%.⁴ Ms.
7 Lieberman discusses that GMP’s current ROE is governed by an Automatic Adjustment
8 Mechanism (“AAM”), and its most recent computations of GMP’s AAM formula yields
9 an ROE of 9.94% percent for FY26, which commenced on October 1, 2025.⁵ GMP is
10 proposing to hold its current approved ROE flat at 9.94% in FY27.⁶

11 **Q18. Please briefly describe the mechanics of the AAM adjustment included in the**
12 **currently approved MYRP.**

13 A18. In Section IV.D of the MYRP, GMP indicates that the ROE established FY23 will
14 thereafter be updated annually based on an indexed formula provided in Attachment 3
15 of the MYRP. The indexed formula computes annual adjustments to the ROE
16 established in the FY23 Rate Case based on 50% of the change in the 10-year Treasury
17 bond yield.

18

³ *EEI 2024 Financial Review: Annual Report of the U.S. Investor-owned Electric Utility Industry* at 8, 68838a79fe9c33b5828e328f-financialreview_2024.pdf.

⁴ Case No. 26-0096-TF, Prefiled Direct and Supplemental Testimony of Julie Lieberman at 5-6 (Jan. 16, 2026).

⁵ *Id.* at 6.

⁶ *Id.* at 5; Prefiled Direct and Supplemental Testimony of Laura Doane & Robert Bingle at 15 (Jan. 16, 2026).

1 **Q19. Does GMP's AAM adjustment in the proposed MYRP utilize those same**
2 **mechanics?**

3 A19. Yes.

4 **Q20. What have GMP's AAM adjusted ROEs been from FY21 through the requested**
5 **FY27?**

6 A20. GMP's AAM adjusted ROEs from FY2021 through its requested FY2027 are presented
7 in the **Table CLZ-2** below.

FY	AAM Adjusted ROE
FY2021	8.20%
FY2022	8.57%
FY2023	8.57%*
FY2024	9.58%
FY2025	9.97%
FY2026	9.94%
FY2027	9.94%*

8 *GMP opted to hold flat

9 **Table CLZ 2: GMP's Allowed ROEs**

10 **Q21. Do you agree with Ms. Lieberman's statement that the AAM-adjusted ROE is**
11 **currently producing ROEs that are aligned with recent regulated electric ROE**
12 **decisions?**

13 A21. No. According to Regulatory Research Associates, the medianaverage ROE approved
14 for electric general rate cases (excluding limited-issue rider cases) was 9.70% in 2025

1 and 9.77% in 2024.⁷ Given ongoing market volatility, the AAM is likely to continue
2 producing ROE outcomes that exceed what is reasonable and necessary for GMP,
3 placing upward pressure on rates and affecting affordability for ratepayers.

4 **Q22. Is affordability of electric rates becoming an issue for residential customers?**

5 A22. Yes. A recent Consumer Reports survey of 2,146 U.S. adults in November
6 2025 examined Americans' experiences with rising utility bills as well as their views on
7 the potential effect of data centers and artificial intelligence ("AI") on energy prices.⁸
8 The survey results released in March of 2026 found that 68% of American households
9 were strained by their home energy costs, including electricity and natural gas, with 23%
10 saying they were strained "a lot."⁹ The March Consumer Price Index shows that energy
11 price increases continue to outpace overall inflation. Over the past 12 months, the
12 electricity index increased by 4.8% and the natural gas index jumped by 10.9%, while
13 the index for all items rose 2.4%. Survey respondents cited a number of possibilities
14 when asked what they thought was affecting home energy bills, these possibilities were
15 led by utility company profits (49%), costs to repair and upgrade energy systems and

⁷ Fontanella, L., RRA Regulatory Focus: Overall US Utility ROEs Steady in 2025 as General Rate Case Returns Soften, S&P Capital IQ (Apr. 7, 2026) <https://www.capitaliq.spglobal.com/apisv3/spg-webplatform-core/news/article?id=100425069>.

~~Doerr, H., RRA Regulatory Focus: March Filings Mask Busy Utility Rate Case Dockets, S&P Capital IQ (Apr. 8, 2026) <https://www.capitaliq.spglobal.com/apisv3/spg-webplatform-core/news/article?id=100461893&KeyProductLinkType=2->~~

⁸ See American Experiences Survey: A Nationally Representative Multi-Mode Survey, November 2025 Omnibus Results, Consumer Reports, https://article.images.consumerreports.org/image/upload/v1765637158/prod/content/dam/surveys/Consumer_Reports_AES_November_2025.pdf

⁹ Id. at 12.

1 infrastructure (38%), and increased energy demand from data centers and AI systems
2 (37%). Other leading factors influencing energy costs, according to survey responses,
3 were frequent changes in the prices of fossil fuels like coal or natural gas (34%), and
4 extreme weather and wildfires (33%).¹⁰ In sum, residential customers are feeling the
5 pressure of rising costs on all fronts.

6 **Q23. What are you recommending regarding the AAM adjustment in the MYRP.**

7 A23. I am recommending that the Commission-approved ROE established in this FY27 rate
8 case remain fixed during the term of the next MYRP. By including an ROE adjustor
9 based on the 10-year Treasury bond yield, GMP's annual cost-of-service will be subject
10 to an additional point of volatility and may be based on factors that cannot be predicted
11 or measured to directly relate to GMP's utility operations. Investors view utilities as
12 long-term investments, and tying ROE to 10-year Treasury yields has not been shown
13 to appropriately reflect changes in GMP's overall risk or the returns required to attract
14 and retain capital. Additionally, several other jurisdictions such as Maryland,
15 Minnesota, Illinois, and Georgia utilize fixed ROEs that apply throughout multi-year
16 rate periods.¹¹

17

¹⁰ Errick, K., Energy Bills Strain U.S. Households, 78% Concerned About Data Centers, S&P Capital IQ (March 17, 2026).

¹¹ Case No. 25-1955-PET, Responses to GMP's First Set of Information Requests Served on the Vermont Department of Public Service, A.GMP.DPS.1-39 (March 6, 2026).

GMP's current MYRP includes frequent rate increases, and it is becoming clear through public comment received by the Department that ratepayers are increasingly fatigued with electricity rates rising almost every quarter, which leads to a lack of predictability and financial peace of mind for ratepayers.¹² Fixing the ROE in this rate proceeding and holding it steady throughout the new MYRP will add certainty and result in one less yearly cost-of-service adjustment for ratepayers.

III. RATE OF RETURN

a. Framework

Q24. Please explain the legal framework used to determine a reasonable rate of return for a regulated utility.

A24. The legal framework used to determine a reasonable rate of return is guided by two U.S. Supreme Court decisions that established a minimum constitutional standard for determining a fair rate of return for a regulated utility. In *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 693 (1923), the Supreme Court stated:

The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.

¹² Case No. 26-0096-TF, Prefiled Direct Testimony of Carol Flint at 2-7 (Apr. 20, 2026).

1 In *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944), the
2 Supreme Court stated:

3 The return to the equity owner should be commensurate with returns on
4 investment in other enterprises having corresponding risks. That return,
5 moreover, should be sufficient to assure confidence in the financial
6 integrity of the enterprise so as to maintain its credit and to attract
7 capital.

8 These two decisions establish the guiding framework in which utility investors are given
9 the opportunity to earn returns that are sufficient to attract capital, assure confidence in
10 the utility's financial integrity, and are comparable to other investments of similar risk.

11 **Q25. Are you relying on any additional standard to recommend a reasonable rate of**
12 **return?**

13 A25. Yes. I am also relying on the Commission's Order in Dockets Nos. 7803/7843, which
14 states:

15 B.(2)a. ROE. Neither the law nor regulatory precepts prescribe a
16 specific methodology for setting the appropriate [ROE]. Instead, the
17 Board has substantial discretion to weigh factors so as to achieve the
18 overarching goal of authorizing a [ROE] that is fair and reasonable to
19 all stakeholders. The critical element is the reasonableness of the result,
20 not necessarily the methodology used to achieve it. The basic standard
21 is well-established:

22
23 A public utility is entitled to such rates as will permit it to earn a return
24 on the value of the property which it employs for the convenience of the
25 public equal to that generally being made at the same time and in the
26 same general part of the country on investments in other business
27 undertakings which are attended by corresponding risks and
28 uncertainties; but it has no constitutional right to profits such as are
29 realized or anticipated in highly profitable enterprises or speculative
30 ventures. The return should be reasonably sufficient to assure
31 confidence in the financial soundness of the utility and should be
32 adequate, under efficient and economical management, to maintain and

1 support its credit and enable it to raise the money necessary for the
2 proper discharge of its public duties.

3 These principles are reflected in the statutes governing the Commission's decisions and
4 have been endorsed repeatedly by the Vermont Supreme Court.¹³

5 **Q26. What is cost of capital?**

6 A26. Cost of capital is the rate of return that the market requires to attract funds to a particular
7 investment, given the expected level of risk. It is an economic cost to the firm of
8 attracting and retaining capital in a competitive environment, where investors carefully
9 analyze and compare all return-generating opportunities. Cost of capital is forward-
10 looking based on investors' expectations of what will happen in the future and is also
11 used as a hurdle rate to evaluate new projects.

12 **Q27. How do you calculate a utility company's rate of return?**

13 A27. A utility company's rate of return ("ROR") is also known as its WACC. WACC is a
14 compilation of a company's long-term debt, and equity (in the form of common stock,
15 and preferred stock, if any), with each of these components being assigned a "weight"
16 or percentage of the total capital structure. Combined, the percentages of the debt and
17 equity components will equal 100%. In the competitive marketplace, the cost of debt
18 and cost of equity are set by supply and demand and are influenced by the relationship
19 between risk and expected return.

¹³ Docket Nos. 7803/7843, Petition of Vermont Gas Systems, Inc., for approval of a Successor Alternative Regulation Plan and Investigation into tariff filing of Vermont Gas Systems, Inc. re: proposed Cost of Service (Aug. 21, 2012) at page 26.

1 **Q28. Is a company's cost of equity directly observable to investors?**

2 A28. No. Unlike the cost of debt, which is based on objective inputs such as the interest rate
3 or yield on debt securities, investors cannot directly observe a company's cost of equity.
4 Instead, a company's cost of equity is determined in the capital markets by the individual
5 investors' expectations and requirements. Investment decisions are also driven by the
6 U.S. and global economies and reflect the risk and return opportunities available in the
7 capital markets. Therefore, the cost of equity is a function of the state of the economy,
8 including factors like economic growth, interest rates, and inflation. For this reason,
9 estimates are used in developing a cost of equity for a company's capital structure.

10 **Q29. Do financial analysts have differing estimates regarding a company's cost of**
11 **equity?**

12 A29. Yes. Analysts often have differing estimates regarding a company's cost of equity due
13 to differences in how they weight the financial models, data inputs and sources, and in
14 interpreting the results. Additionally, analysts consider qualitative factors in making
15 estimates, including the company, industry and sector, along with the current state of
16 the economy and financial markets. As such, analysts rely on both quantitative and
17 qualitative analyses.

18 **Q30. What methodologies did you use to estimate the cost of equity?**

19 A30. I used two different financial methodologies to estimate GMP's ROE. The first
20 methodology is the DCF, which uses financial data for a group of regulated utilities with
21 comparable risk characteristics, i.e., a proxy group. The second methodology is the

1 CAPM, which calculates a risk premium that is then added to the yield of a risk-free
2 security to compensate an investor for the systematic risk, i.e., market risk, of holding
3 that security.

4 **Q31. Is the Department recommending the use of the Bond Yield Plus Risk Premium**
5 **methodology in this current proceeding?**

6 A31. No. The Department is not recommending the use of the bond yield plus risk premium
7 methodology to estimate the cost of capital for GMP. The bond yield plus risk premium
8 relies on historical averages of authorized ROEs for regulated utilities and historical
9 yields on public utility bonds, which is not derived from market prices of equity
10 securities and is backwards looking. Further, it results in circularity because it relies on
11 past authorized ROEs which essentially “bakes” past regulatory decisions (whether
12 flawed or not) into the outcome, and the results are not relied upon by investors.

13 **Q32. Does FERC use the Bond Yield Plus Risk Premium methodology when**
14 **determining an appropriate ROE?**

15 A32. FERC has previously rejected the bond yield plus risk premium in Opinion 569-B and
16 again recently confirmed its decision to exclude this methodology in Opinion 594.¹⁴

¹⁴ FERC Opinion No. 594 Order of Remand, Briefs, and Initial Decisions issued on March 19, 2026.

b. Current Market Environment

Q33. How has the utility industry performed in the market over the last several years?

A33. Utilities outperformed the broader U.S. equity market in 2025, fueled by enthusiasm around increased demand for power that was driven by the electrification of the U.S. power grid, increased onshoring of manufacturing by U.S. firms, the boom in AI and the build-out of data centers.¹⁵ As market conditions continue to be challenging, the utility industry's history of strong dividends is especially attractive to investors seeking a combination of growth and income. The utility industry led all U.S. business sectors with a dividend payout ratio of 62.2 percent in 2024 and a dividend yield of 3.6 percent at year-end 2024.¹⁶ Electric utilities continue to have access to capital under reasonable terms and conditions, and this access to capital is confirmed by the continued surge of capital expenditures in the utility industry, with capital expenditures to be in excess of \$1.1 trillion for the five-year period of 2025-2029.¹⁷ With an expected rise in electric power demand, driven by the rapid development of AI technology, increases in capital

¹⁵ Kirpalani, P., Utilities sector, *An expected rise in electric power demand, driven in part by the rapid development of AI technology, has the potential to super-charge growth for utilities stocks in 2026 and beyond.* (last updated Jan. 7, 2026).

<https://institutional.fidelity.com/advisors/insights/spotlights/equity-sector-performance-outlook/utilities-sector#:~:text=Utilities%20outperformed%20the%20broader%20U.S.,IMI%20Utilities%2025/50%20Index.>

¹⁶ See supra n.3 at 9.

¹⁷ Id. at 8.

1 expenditures have the potential to supercharge growth for utility stocks over the next 5
2 to 10 years.¹⁸

3 **Q34. Is the market currently experiencing increased volatility?**

4 A34. Yes. Volatility in the global financial markets has risen on worldwide concerns after
5 President Trump ordered military strikes against Iran on February 28, 2026. The conflict
6 has meant that shipping in the Strait of Hormuz, a waterway where roughly 20% of the
7 world's oil supply passes through, has largely come to a halt as of the drafting of this
8 testimony, and the price of crude oil surged, sparking renewed concerns about near-term
9 inflation. The reduced supply of oil by more than 10 million barrels per day has caused
10 a spike in crude prices and has driven up yields on U.S. Treasuries. As to future Federal
11 Reserve actions, analysts believe that a near-term reduction to the benchmark short-term
12 interest rate is off the table and potentially could lead to rate hikes later in the year if the
13 conflict continues.¹⁹

14
15 Wall Street reaction was muted to the news that the Supreme Court ruled against
16 President Trump's use of the International Emergency Economic Powers (IEEPA) to
17 unilaterally impose tariffs on imports and confirmed that Congress has the power to tax
18 and implement tariffs. Even though the ruling was expected, Wall Street analysts remain

¹⁸ See supra n.15.

¹⁹ Selection & Opinion: Economic and Stock Market Commentary, The Value Line Investment Survey (Apr. 10, 2026).

1 concerned over potential new, more targeted trade restrictions from the Trump
2 administration and the refunding of \$175 billion in U.S. tariff collections.²⁰

3

4 There are also employment concerns with the market experiencing a “low hire, low fire”
5 environment. The February nonfarm payroll employment was revised down
6 significantly to a loss of 133,000, the biggest retreat since December, 2020. The March
7 nonfarm payroll employment showed signs of recovery by adding 178,000 jobs. The
8 unemployment rate, as a percentage of all workers remains steady at 4.3% with 7.2
9 million people unemployed.²¹

10 **Q35. How does an increase in market volatility affect utility stocks?**

11 A35. As global and trade tensions continue to weigh on market sentiment, there was a “flight
12 to safety” in March, with investors continuing to invest funds into the S&P 500 utilities
13 sector, which is up more than 22.50% over the last year. For investors, one of the most
14 attractive features of utility companies is their steady and predictable cash flows, which
15 can become a source of income for shareholders through dividend payments. As

²⁰ Randewich, N & Chauhan, S., Wall Street ends higher after Supreme Court rules against Trump tariffs (last updated Feb 20, 2026) <https://www.reuters.com/business/us-stock-futures-muted-ahead-economic-data-2026-02-20/>.

²¹ Bureau of Labor Statistics, U.S. Dept. of Labor, News Release at 1(March 2026)
<https://www.bls.gov/news.release/pdf/empst.pdf>.

1 volatility increases in the market, income investors will continue to purchase safe assets,
2 such as utility stocks.

3 **Q36. Did you also consider recent actions by the Federal Reserve in determining your**
4 **recommended rate of return?**

5 A36. Yes.

6 **Q37. What did the Federal Reserve Bank Open Market Committee decide at its last**
7 **meeting?**

8 A37. The latest press release issued on March 18, 2026 from the Federal Reserve Bank Open
9 Market Committee (“FOMC”) states: “Available indicators suggest that economic
10 activity has been expanding at a solid pace. Job gains have remained low, and the
11 unemployment rate has shown some signs of stabilization. Inflation remains somewhat
12 elevated. The Committee seeks to achieve maximum employment and inflation at the
13 rate of 2 percent over the longer run. Uncertainty about the economic outlook remains
14 elevated. The Committee is attentive to the risks to both sides of its dual mandate. In
15 support of its goals, the Committee decided to maintain the target range for the federal
16 funds rate at 3-½ to 3-¾ percent.”

17

18

19 **Q38. Did the Minutes from the March FOMC meeting provide additional reasoning as**
20 **to why the Federal Reserve voted to hold the target range for the federal funds rate**
21 **steady?**

1 A38. Yes. The March FOMC Minutes discussed the importance of the Federal Reserve being
2 nimble in adjusting its stance on monetary policy in response to incoming data and the
3 heightened degree of economic uncertainty due to the conflict in the Middle East which
4 has resulted in sharp increases in energy prices and could impact near-term inflation.
5 The near-term federal funds rate path implied by futures prices shifted higher, on net,
6 over the period, with a rate cut not fully priced in until December and the probability of
7 a rate hike increased to about 30 percent.²² Concerns were raised that a protracted
8 conflict in the Middle East could lead to a further softening in labor market conditions,
9 which could warrant additional rate cuts, as substantially higher oil prices could reduce
10 households' purchasing power, tighten financial conditions, and reduce growth abroad.
11 There is risk of inflation remaining elevated for longer than expected amid a persistent
12 increase in oil prices, which could call for rate increases to help bring inflation down to
13 the Committee's 2 percent objective.²³

14 **c. Credit Profile**

15 **Q39. Please describe the business operations of GMP.**

16 A39. GMP operates a vertically integrated electric utility in Vermont that is subject to the
17 regulatory and rate setting authority of the Commission. GMP is a wholly owned
18 subsidiary of Northern New England Energy Corporation ("NNEEC"), which is wholly
19 owned by Energir Inc.-Canada, a wholly owned subsidiary of Noverco Inc.- Canada, of

²² Federal Open Market Committee, Minutes of the Federal Open Market Committee at 2 (Mar. 17-18, 2026)
<https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20260318.pdf>.

²³ Id. at 7.

1 which the ultimate parent is Caisse de dépôt et placement du Québec – Canada.²⁴ GMP
2 has one wholly owned subsidiary, Vermont Yankee Nuclear Power Corporation and
3 holds a 75% stake in Vermont Transco LLC, which provides transmission of high-
4 voltage electricity in ISO New England. GMP serves approximately 275,000 customers
5 covering 76% of the state.²⁵

6
7 GMP currently operates under a four-year MYRP that provides certain adjustment
8 mechanisms designed to help smooth costs for customers from fluctuations in power
9 costs and from extensive storm damages.²⁶ The current MYRP expires September 30,
10 2026, and the proposed new MYRP will be in effect running from FY27 to FY30. The
11 final rates approved by the Commission in this rate review proceeding will set the base
12 rates in the first year of the new MYRP. Under the new MYRP, GMP plans additional
13 capital spending on transmission, distribution, and storage investments as part of the
14 Company’s proposed zero outage initiatives, which include a series of grid-hardening
15 upgrades and energy storage installations intended to enhance network resilience.²⁷

²⁴ Case No. 26-0096-TF, Attachment A.DPS.GMP.1-199b – Annual Review 2024 Energir Inc. (Apr. 10, 2025).

²⁵ Who We Are, GMP, <https://greenmountainpower.com/about/>.

²⁶ Case No. 25-1955-PET, GMP MYRP Direct Testimony of Doanne & Bingel at pages 6-8 (.).

²⁷ Case No. 26-0096-TF, GMP Attachment A. DPS.GMP.2-22 – S&P RatingsDirect, Green Mountain Power Corp. (July 16, 2025).

1 **Q40. Briefly describe what credit ratings are and how they are used in the financial**
2 **markets.**

3 A40. A credit rating reflects the general credit risk of the company, and its ability to pay its
4 financial obligations when due and is reflected in the amount of interest charged by
5 lenders. Investment grade credit ratings indicate that the company has access to capital
6 markets on reasonable terms, has demonstrated the capacity and capability to meet its
7 financial obligations, and has a stable or low risk of credit default.

8 **Q41. What are GMP's current corporate credit ratings?**

9 A41. GMP's current issuer credit rating is "A-" (Outlook: Stable) by S&P Global Ratings
10 ("S&P"). S&P considers GMP a core subsidiary of Noverco, the ultimate holding
11 company in the group, which provides a one notch uplift to the stand-alone credit profile
12 (SACP) of GMP. GMP's SACP remains unchanged from its previous rating of
13 "bbb+".²⁸

14 **Q42. What does this credit rating indicate for GMP?**

15 A42. GMP's current issuer credit rating is considered investment grade by S&P, which means
16 the company continues to have access to the credit markets on reasonable terms and
17 conditions. This is confirmed by GMP's capital investments of approximately \$476
18 million dollars closed to plant over the four-year MYRP period.²⁹

19 **Q43. How does S&P currently view GMP's credit profile?**

²⁸ Id. at 2.

²⁹ Case No. 26-0096-TF, Prefiled Direct & Supplemental Testimony of Kamran Hassan at 7 (Jan. 16, 2026).

1 A43. S&P states that GMP's credit quality is backed by a generally credit-supportive
2 regulatory framework under the VPUC and the Federal Energy Regulatory Commission
3 (FERC). S&P expects GMP will maintain stable financial measures over the next few
4 years with funds from operations (FFO) to debt in the range of 16%-19% through
5 2027.³⁰

6 **Q44. How does S&P currently view GMP's business risk profile?**

7 A44. S&P's business risk profile assessment of "excellent" reflects GMP's lower-risk,
8 regulated electric utility operations.

9 Rates are set through MYRPs with preapproved capex plans,
10 which enhance GMPs cash flow predictability and mitigate the
11 risks associated with regulatory lag and material disallowances.
12 GMP's unconsolidated transmission electric utility investment in
13 Vermont Transco LLC...is regulated by the FERC, allowing for
14 credit-supportive mechanisms such as forward-looking rates and
15 annual true-ups to recover prudently incurred costs....GMP's
16 business strengths are partially offset by the company's relatively
17 small customer base and limited geographic and regulatory
18 diversity....Overall, we consider GMP's business risk as being in
19 the weaker end of excellent business risk category relative to that
20 of its peers.³¹

21
22
23
24 **IV. SELECTION OF PROXY GROUP**

25 **Q45. Why do analysts select a proxy group?**

³⁰ See supra n.27 at 3.

³¹ Id. at 3-4.

1 A45. Analysts select a proxy group of publicly traded companies with similar risk profiles to
2 estimate a company's cost of equity, especially if that company, like GMP, is not
3 publicly traded. However, a proxy group is important even if the company is publicly
4 traded, to smooth out any short-term market fluctuations over a group of companies with
5 similar risk profiles. This is because, as I mentioned earlier, cost of equity is not directly
6 observable.

7 **Q46. What criteria did GMP witness Ms. Lieberman use in selecting her proxy group?**

8 A46. Ms. Lieberman starts with the investor-owned electric utilities covered by Value Line
9 and then applies her screening criteria to exclude companies that in her opinion do not
10 have comparable risk to GMP. Ms. Lieberman excluded companies that: (1) do not pay
11 consistent quarterly cash dividends; (2) do not have investment grade long-term issuer
12 ratings; (3) are not covered by at least two utility industry equity analysts; (4) do not
13 have positive earnings growth rates published by at least two sources; (5) do not have
14 net generation comprising at least 15% of the Company's utility electricity sales to
15 customers; (6) do not have regulated revenues making up more than 60% of the
16 consolidated company's total revenues; (7) do not have regulated electric revenues
17 making up more than 80% of the consolidated company's total regulated revenues; (8)
18 do not have regulated net plant in service from regulated electric operations making up
19 more than 80% of the consolidated company's net plant in service; and (9) are not
20 involved in a merger or other transformative transaction for an approximate six-month
21 period.

Q47. Do you agree with Ms. Lieberman's proxy group criteria?

A47. For the most part yes, I do agree with Ms. Lieberman's recommended proxy group criteria, which are similar to criteria that I have previously recommended in past testimony. However, for criterion No. 7, I have previously recommended using a 60% threshold related to regulated electric operating income; and have not previously recommended a criterion similar to her No. 8 related to net plant-in-service from regulated electric operations. For criterion No. 7, Ms. Lieberman states that nine utilities were excluded and for criterion No. 8, no utilities were excluded from the proxy group.³² After further reviewing the nine utilities excluded as part of criterion No. 7, I recommend including Avista Corporation, Consolidated Edison, and Public Service Enterprise Group to the proxy group.

Q48. Please describe your proxy group.

A48. My proxy group is similar to Ms. Lieberman's proxy group, except that I included Avista Corporation, Consolidated Edison and Public Service Enterprise Group. Below in **Table CLZ-3** are the 18 comparable companies included in my proxy group.

Company	Ticker
Alliant Energy	LNT
Amer. Elec. Power	AEP
Ameren Corp.	AEE
Avista Corp.	AVA
Consolidated Edison	ED
Dominion Energy	D

³² See Case No. 26-0096-TF, GMP's Responses to the Department's Second Set of Discovery Responses, A.DPS.GMP.2-23 and A.DPS.GMP.2-24 (Apr. 1, 2026).

Duke Energy	DUK
Entergy Corp.	ETR
Evergy Inc.	EVRG
IDACORP Inc.	IDA
NextEra Energy	NEE
OGE Energy	OGE
Pinnacle West Capital	PNW
Portland General	POR
PPL Corp.	PPL
Public Service Enterprise	PEG
Southern Co.	SO
Xcel Energy Inc.	XEL

Table CLZ-3: Recommended Proxy Group

V. COST OF EQUITY

a. Discounted Cash Flow

Q49. Please describe the first methodology you used in determining the cost of equity for GMP?

A49. I first used the constant-growth DCF model, also known as the dividend discount model and the Gordon growth model.⁴⁷ The DCF model is based on the concept that the price an investor is willing to pay for a share of common stock is equal to the present value of all future income streams. The income stream includes dividend payments and the final price appreciation once the share of common stock is sold. The rate at which the expected income stream is discounted reflects the investor's perception of the risk associated with the future income stream. In other words, the greater the likelihood that

1 actual future returns will be below required returns, the larger the discount rate investors
2 will require. The DCF model is expressed as follows:

$$P_o = \frac{D_1}{(1+k)^1} + \frac{D_2}{(1+k)^2} + \dots + \frac{P_n}{(1+k)^n}$$

3

4 Where P_0 = current share price
5 D_n = expected dividend in each future year
6 k_n = discount rate or the market cost of common equity
7 P_n = market price of a share of common stock in “n” year
8 n = year of expected share price realized

9 **Q50. What factors determine the cash flows or stream of future dividends?**

10 A50. The amount of dividends paid to investors will depend on the company’s earnings. The
11 portion of earnings not paid to investors as dividends is retained and reinvested, which
12 then generates additional growth in earnings and dividends because the utility earns a
13 return on the newly invested capital placed into rate base. The DCF model incorporates
14 this growth by discounting the future stream of dividends. The expected growth of future
15 dividends will depend on the company’s earnings retention ratio, as well as the sale of
16 new common stock. The standard DCF formula can then be expressed as follows:

$$P_n = \frac{D_n}{k_n - g_h}$$

17

18 Where P_n = market price of a share of common stock
19 D_n = current dividend
20 k_n = discount rate or the market cost of common equity, with $k > g$
21 g_h = expected growth rate in dividends per share

22

Q51. Is the market cost of equity a fair ROE?

A51. Yes. If the investor feels that the current market price is an adequate reflection of the risk in holding the stock, the investor will purchase at that price. If not, the price of the stock will either be bid up or down until the expected return sufficiently compensates for the risk. Since a company's stock must compete with other investment opportunities, the market cost of common stock will be the rate of return necessary for an investor to buy or hold the stock. By rearranging the above formula, the fair rate of ROE can be expressed as:

$$k_n = \frac{D_n}{P_n} + g_h$$

where $\frac{D_n}{P_n}$ = current dividend yield

The constant-growth DCF model recognizes that investors expect to receive a portion of their total required return in the form of dividends as well as through price appreciation.

Q52. Which variable is subject to the most disagreement amongst analysts when applying the constant growth DCF model?

A52. The primary disagreement among analysts relates to estimating the investor's expected dividend growth rate. The actual dividend yield can be measured at any point in time because the current dividend payment and stock price are directly observable. However,

1 the expected dividend growth rate is more subjective because the analyst must also
2 consider recent company performance, in conjunction with current economic
3 developments and other information available to the investor.

4 **Q53. How did you estimate a 2027 dividend yield for the Proxy Group?**

5 A53. I estimated the 2027 dividend yield for the proxy group by using the Value Line 2027
6 Projected Dividend Per Share and the average high and low stock price for each
7 company for the 6-month period beginning August 2025 through January 2026 as
8 reported by Yahoo!Finance. I used the average 6-month high and low stock prices to
9 minimize distortions in the dividend yield that can occur during shorter periods of time.
10 I also calculated an additional dividend yield by using the Value Line 2027 Projected
11 Dividend Per Share and the average 6-month high and low stock prices with the March
12 31, 2026 closing prices reported by Yahoo!Finance. I calculated this additional
13 dividend yield as a spot check to my first dividend yield to ensure that it continues to be
14 a reasonable estimate. The calculated 2027 dividend yields for each utility are shown in
15 **Exhibit DPS-CLZ-3**. The average 2027 dividend yield using the 6-month high and
16 low stock prices for my proxy group is 3.75% and 3.62%, when including the March
17 31, 2026 closing stock prices.

18 **Q54. Are the calculated dividend yields consistent with current market conditions?**

19 A54. Yes. My estimated 2027 dividend yield of 3.75%, using the average 6-month high and
20 low stock prices, has trended downwards by 13 basis points to 3.62%, using the average
21 6-month high and low stock prices and the March 31, 2026 closing stock prices. My

1 dividend yield results are consistent with current market conditions because of the
2 inverse relationship between stock prices and dividend yields. As volatility increases in
3 the market and a flight to safety occurs, it would be expected that the anticipated
4 dividend yield would decrease as utility stocks increase in price.

5 **Q55. Why are dividend yields for the electric utility industry at historical lows?**

6 A55. The average dividend yield for the electric industry as reported by Value Line is
7 currently 3.10%, which is low by historical standards.³³ The defensive characteristics
8 of electric utility stocks have attracted income-oriented investors worried about market
9 volatility and looking for stable dividend income. As the electric utility industry attracts
10 investors, it will continue to put downward pressure on dividend yields.

11 **Q56. How did you determine a sustainable retained earnings growth rate for your proxy**
12 **group?**

13 A56. I first determined the growth in book value per share for the proxy companies and then
14 determined the sustainable retained earnings growth rate. The sustainable retained
15 earnings growth rate is calculated by taking the expected retention ratio and multiplying
16 it by the expected rate of return on book-value common equity. The retained earnings
17 growth rate is also termed the BR growth rate, where B equals the retention ratio and R
18 equals the return on common equity.

19

³³ See supra n.19.

1 The retention ratio is the proportion of earnings kept back in the company as retained
2 earnings, rather than being paid out as dividends to shareholders. On a per share basis,
3 the retention ratio can be expressed as: $B = 1 - (DPS/EPS)$. The return on common equity
4 can be expressed as: $R = EPS/BVPS$. The formula for the BR growth rate can then be
5 expressed as:

$$6 \quad BR = \left(1 - \frac{DPS}{EPS}\right) \times \frac{EPS}{BVPS}$$

7 Where DPS = dividend per share
8 EPS = earnings per share
9 BVPS = book value per share

10 The BR growth rate is the long-term expected dividend growth rate. I calculated the
11 2027 BR growth rate for each utility in the proxy group using Value Line's 2027
12 projected earnings, dividends, and book value.

13 **Q57. Why is it appropriate to also calculate a sustainable retained earnings growth rate,**
14 **rather than relying solely on earnings growth rates, when estimating a long-term**
15 **dividend growth rate?**

16 A57. It is appropriate to also calculate a sustainable retained earnings growth rate (i.e., BR
17 growth rate) when estimating a long-term dividend growth rate because earnings that
18 are not paid out as dividends to shareholders are reinvested by the utility. As additional
19 plant is funded by retained earnings, the utility is allowed to earn its authorized rate of
20 return on the additional plant in rate base, which leads to future growth in earnings and
21 dividends. The BR growth rate helps gauge whether investors' current long-term
22 dividend growth rates can be sustained in future periods. Growth in earnings and

1 dividends alone generally do not provide reliable estimates of growth, particularly since
2 year-to-year changes in earnings and dividends can be unduly influenced by changes in
3 earned returns and/or dividend payout ratios.

4 **Q58. Why is it appropriate to consider historical growth rates for the proxy group?**

5 A58. The historical growth rates for the proxy group should be considered because the
6 regulatory ratemaking framework results in fewer fluctuations and more stable revenues
7 and earnings. In addition, investors attach more significance to past financial results
8 of utilities than for other sectors of the economy due to this regulatory ratemaking
9 framework. Also, since historical and projected data is easily accessible to investors, it
10 is likely that investors rely on both when making investment decisions in utility stocks.

11 **Q59. What are the historical growth rates for your proxy group?**

12 A59. In **Exhibit DPS-CLZ-4**, I provide a summary chart of the average 5-year and 10-year
13 historical growth rates for the proxy group. The 5-year average historical growth in
14 earnings, dividends, and book value for the proxy group are 4.29%, 4.53% and 3.62%,
15 respectively. The 10-year average historical growth in earnings, dividends and book
16 value for the proxy group are 3.90%, 4.66% and 3.66%, respectively. I used Value Line's
17 5-year and 10-year historical growth statistics to calculate the average for the proxy
18 group. I did not include any negative or missing values in the calculation of the proxy
19 group average.

20 **Q60. What are the projected growth rates for your proxy group?**

1 A60. In Exhibit DPS-CLZ-4, I also provide a summary chart of the 5-year projected growth
2 in earnings, dividends, and book value, the 2027 BR growth rate, and the 5-year
3 projected BR growth rate for the proxy group. The 5-year projected growth in earnings,
4 dividends, and book value for the proxy group are 6.11%, 4.86% and 4.69%, respectively.
5 The 2027 BR growth rate for the proxy group is 3.94% and the 5-year projected BR
6 growth rate is 4.49%. I used Value Line's projected growth statistics to calculate the
7 average for the proxy group.

8 **Q61. What DCF range do you calculate for the proxy group?**

9 A61. Based on my review, a reasonable (historical and projected) growth rate expectation for
10 the proxy group is 3.62% to 6.11%. This range incorporates my calculated 2027 BR
11 growth rate, 5-year projected BR growth rate, Value Line's 5-year and 10-year historical
12 dividend, earnings and book-value growth, and Value Line's 5-year projected dividend,
13 earnings and book-value growth. I calculated my recommended DCF range by:

- 14 • Adding the 2027 dividend yield of 3.75% (using the 6-month high and low stock
15 prices) to my growth rate range above, resulting in a DCF estimate range of 7.37%
16 to 9.86%;
- 17 • Adding the 2027 dividend yield of 3.62% (using the 6-month high and low stock
18 prices and the March 31, 2026 closing price) to my growth rate range above,
19 resulting in a DCF range of 7.24% to 9.73%; and
- 20 • Resulting in my overall recommended DCF range of 7.37% to 9.86%.

1

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b. Multi-Stage DCF

6 **Q62. Please describe the multi-stage DCF methodology you used in determining the cost**
7 **of equity for GMP?**

8 A62. For my two-step DCF model, I incorporated the projected earnings growth rates from
9 my constant growth DCF model for the first stage. For the second stage, I calculated a
10 long-term growth rate.

11 **Q63. What earnings growth rates did you use in your multi-stage DCF model?**

12 A63. I used Value Line's 5-year projected earnings growth rate and my calculated 5-year
13 projected BR growth rate.

14 **Q64. How did you calculate the long-term growth rate you used in your multi-stage DCF**
15 **model?**

16 A64. I calculated a 3.91% long-term annual GDP growth rate as the measure to use for the long-
17 term growth rate. In perpetuity, the value of the stock market should grow at the same rate as
18 the economy grows. The three sources of the expected growth I used are: (i) Energy
19 Information Administration, Annual Energy Outlook ("AEO") 2025; (ii) S&P Global
20 Connect: Long-Term Macro Forecast - Baseline (U.S. Economy 30-Year Focus, Fourth

1 Quarter - November 2025); and (iii) Social Security Administration, 2025 OASDI Trustees
2 Report. These sources are frequently used in cost of capital proceedings.

3

4

5

6 **Q65. What weights did you apply to earnings growth and long-term growth rate used in**
7 **determining the cost of equity for GMP?**

8 A65. When calculating the expected future earnings growth rate, I used the FERC-approved
9 weights of 80% and 20% for the earnings growth rate and the long-term annual GDP growth
10 rate, respectively.

11 **Q66. Please summarize your ROE results based on the multi-stage DCF model.**

12 A66. After adding the expected dividend yield to expected earnings growth rate for the two step
13 DCF models, I obtained a ROE range of 7.90% to 9.23%. My results are presented in
14 **Exhibit DPS-CLZ-5.**

15 **c. Capital Asset Pricing Model**

16 **Q67. How is CAPM used to determine the appropriate rate of return on common**
17 **equity?**

18 A67. The CAPM is a risk premium model that describes the relationship between risk and
19 expected return when pricing a security. CAPM estimates the cost of equity as the sum
20 of the interest rate on a risk-free security plus a market risk premium. The yield on long-
21 term U.S. Treasury bonds is typically used as the risk-free rate. The market risk premium

1 represents the investor-expected incentive for holding the stock instead of a risk-free
2 security, and it can be measured in a number of ways.

3
4 There are two types of risk associated with holding a stock. The first type of risk is
5 company-specific or unsystematic risk, and the second type of risk is market or
6 systematic risk. Systematic risk is measured by a company's beta (β). Investors receive
7 a return only for bearing systematic risk. The market has a beta of 1.0. A company with
8 a beta greater than 1.0 is considered riskier than the market, and its price movement will
9 be more volatile than that of the market. A company with a beta less than 1.0 is
10 considered less risky than the market and its price movement will be less volatile than
11 that of the market. The utility companies in the proxy group all have betas less than 1.0.
12 The CAPM formula can be expressed as:

13
$$K = rf + \beta(rm - rf)$$

14 Where K = required rate of return
15 β = risk of the individual security
16 rf = risk free rate
17 rm = market return

18 **Q68. What risk-free rate did you incorporate in your CAPM?**

19 A68. I calculated the six-month average yield (August 2025 - January 2026) for the 30-year
20 U.S. Treasury bonds. As shown on Exhibit DPS-CLZ-6, the average six-month yield is
21 4.77%.

22 **Q69. What beta did you incorporate in your CAPM?**

1 A69. I am using the betas for the proxy group as reported in Value Line. The average Value
2 Line beta for the proxy group is 0.75.

3 **Q70. Please describe the first ex-ante market risk premium estimate that you used in**
4 **your CAPM calculation.**

5 A70. I calculated the CAPM using an ex-ante market risk premium of 8.02%. First, I
6 calculated a constant growth DCF for the Value Line Investment Analyzer S&P 500
7 company list data as of January 30, 2026, which resulted in a total weighted dividend
8 yield of 1.41%, a total weighted Value Line earnings growth rate of 11.38% for a
9 12.78% total weighted ROE. Next, I subtracted the risk-free rate from the weighted
10 ROE and then multiplied the market risk premium by the beta to determine the ROE
11 for each utility in the proxy group.

12 **Q71. Please describe the second ex-post market risk premium estimate that you used**
13 **in your CAPM analysis.**

14 A71. I also calculated the CAPM using the ex-post market risk premium of 7.31% as reported
15 by Kroll (formerly Duff & Phelps) which is the arithmetic mean return value between
16 common stocks and long-term government bonds from 1926 through the end of 2024.³⁴
17 I multiplied the ex-post market risk premium by the beta and added the risk free rate to
18 determine the ROE for each utility in the proxy group.

19 **Q72. What are your CAPM results?**

³⁴ See Kroll 2025 Cost of Capital Navigator.

1 A72. My two CAPM models produce an ROE range of 10.25% to 10.83% as shown on
2 **Exhibit DPS-CLZ-6.**

3 **Q73. Please explain why the CAPM results in a higher cost of equity.**

4 A73. The CAPM produces a higher cost of equity for GMP primarily due to the current high-
5 interest rate environment. Although the Federal Reserve has begun reducing the federal
6 funds rate, U.S. Treasury yields remain elevated, and electric utility betas continue to
7 reflect residual pandemic-related volatility. Consequently, the CAPM produces a cost
8 of equity that exceeds what is reasonably necessary for GMP to maintain access to
9 capital.

10 **d. Cost-of-Equity Recommendation**

11 **Q74. What is your cost-of-equity recommendation?**

12 A74. I recommend an ROE of 8.91% for GMP based on the results from my constant growth
13 DCF, multi-stage growth DCF, and CAPM analyses. My recommended ROE of 8.91%
14 was derived from applying a similar weighting methodology as utilized by GMP witness
15 Julie Lieberman. Because the CAPM estimates are significantly above my other results
16 and recently awarded ROEs for vertically integrated electric utilities, I have balanced
17 the CAPM results by affording less weight (0.50) and more weight (1.25) to each of my
18 DCF models.

Methodology	Range	Average
Constant Growth DCF	7.37% to 9.86%	8.62%
Multi-Stage DCF	7.90% to 9.23%	8.57%

CAPM	10.27% to 10.80%	10.54%
Recommended Range	7.37% to 10.80%	8.91%*

*Weighted Average

Table CLZ-4: Summary of ROE Results

My ROE calculations produce results that align with current market conditions, as well as the current outlook for electric utility stocks. Electric utilities continue to have access to large amounts of capital under reasonable terms and conditions. Given current market conditions, GMP's regulated utility operations, its credit strengths and challenges, an ROE of 8.91% is reasonable and will allow GMP to continue to provide safe and reliable service, attract invested capital on reasonable terms, and maintain its financial integrity.

Q75. When assessing the reasonableness of your recommended ROE, did you calculate and review the Market-to-Book (M/B) ratios for the Proxy Group?

A75. Yes, I did. I calculated the M/B ratios for the proxy group by using the 6-month high and low stock prices from my constant DCF model and the 2026 Value Line reported book value per share. The M/B ratio for the proxy group is 1.91 and is shown on **Exhibit DPS-CLZ-7**.

Q76. What does a M/B ratio in excess of 1.00 indicate?

A76. A M/B ratio in excess of 1.00 indicates that the company is able to sell common equity at a premium to book value, thereby avoiding dilution to existing shareholders. Dilution occurs when new shares are sold at a price below book value. Given the regulated nature of utilities, M/B ratios approaching 2.0 are not an appropriate standard for the industry.

VI. COST OF CAPITAL

a. Capital Structure

Q77. What is a capital structure?

A77. As discussed in Section III.a., a capital structure is how a company finances its overall operations and growth by using different sources of funds, including debt from bond issuances and/or long-term notes payable, and equity classified as common stock, preferred stock (if any) and retained earnings.

Q78. What capital structure is GMP requesting?

A78. GMP is currently authorized a common equity ratio of 50% and is proposing that its regulatory capital structure allow 50% equity (plus or minus 1%).

Q79. What capital structure do you recommend for GMP?

A79. I recommend a common equity ratio of 50% to calculate GMP's rates, which continues to be an appropriate capital structure for a vertically integrated utility.

b. Weighted Average Cost of Capital

Q80. When calculating GMP's WACC, did you make any adjustments to GMP's requested cost of debt?

A80. No, I did not. I am using GMP's calculated long-term cost of debt of 4.74% in my WACC calculation.

1 **Q81. What is your recommended WACC?**

2 A81. I recommend a WACC of 6.83%. My results are summarized in **Table CLZ-1**
3 reproduced below:

	% of Capitalization	Cost	Weighted Cost
Long-Term Debt	50%	4.74%	2.37%
Common Equity	50%	8.91%	4.46%
TOTAL	100%		6.83%

4 **Table CLZ-1: Recommended Rate of Return**

5

6 **VII. SUMMARY OF COST OF CAPITAL RECOMMENDATIONS**

7 **Q82. Please summarize your recommendations.**

8 A82. I recommend a rate of return of 6.83% for GMP, based on an ROE of 8.91%, long-term
9 cost of debt of 4.74%, and a capital structure of 50% long-term debt, and 50% equity.
10 Given the continued market turmoil coupled with high stock valuations for utility
11 equities means continued access to capital on reasonable terms and conditions. Since
12 regulated utilities also offer safety and stable dividend yields, utility stocks continue to
13 be attractive to investors looking for income and defensive characteristics.
14

1 This is further confirmed by GMP's ability to issue \$139 million in First Mortgage
2 Bonds with spreads on each issued bond consistent with market conditions at the time
3 for similarly rated entities even when GMP's authorized ROE was as low as 8.20% in
4 FY21, 8.57% percent in FY22 and FY23.³⁵ My recommended ROE of 8.91% is based
5 on the results from my constant growth DCF, multi-stage DCF and CAPM analyses.
6 These analyses estimate a fair ROE based on observable market information and will be
7 reasonably sufficient for GMP to continue to provide safe and reliable service, attract
8 invested capital on reasonable terms, and maintain its financial integrity.

9
10 I also recommend that the ROE approved by the Commission remain fixed throughout
11 the new MYRP term. Heightened market volatility, combined with AAM-driven ROEs
12 that exceed what is reasonably required to attract capital impose upward pressure on
13 GMP's rates and adversely affect ratepayer affordability.

14 **Q83. Does this conclude your direct testimony?**

15 A83. Yes.

³⁵ See Exhibit DPS-CLZ-2.