

1 confidence and confirms that an 8.07% ROE is sufficient for KAWC to attract equity
2 capital.

3 **Q. PLEASE EXPLAIN THE RATIONALE BEHIND YOUR RECOMMENDED COST**
4 **OF EQUITY RANGE OF 7.95% TO 9.11%, AND YOUR SPECIFIC**
5 **RECOMMENDATION OF 8.07%.**

6 **A.** My recommended range of 7.95% to 9.11% extends from the 80th to the 90th percentile,
7 and my **recommendation** of 8.07% is at the 85th percentile of my overall cost of equity results.

8 A strict mathematical approach would point to the absolute 50th percentile (the
9 median) of my results, which in this case is 6.93%. While I conclude this lower figure
10 accurately reflects current, observable market-based realities, I am mindful that currently
11 authorized ROEs across the utility industry remain disconnected from these lower market
12 costs.

13 Rather than recommending an immediate drop to the 6.93% median, I have applied
14 the regulatory principle of gradualism. To bridge the gap between currently authorized
15 returns and actual market realities, I have consciously focused on the upper-tail of my
16 results. By establishing a range between the 80th and 90th percentiles, I provide a
17 measured, transitional ROE recommendation that protects ratepayers from artificially
18 inflated rates while ensuring the Company's financial stability is maintained during this
19 market correction.

1 **Q. IS THIS THE SAME PERCENTILE RANGE YOU USE IN ALL OF YOUR**
2 **TESTIMONIES?**

3 **A.** No, it is not, because the percentile range I apply is based on the distribution of results
4 produced by my models in each case, evaluated against the same gradualism principle
5 discussed above. For example, in my recent testimony before the Washington Utilities and
6 Transportation Commission (the Puget Sound Energy case), the model results produced a
7 ~~lower~~ higher median than in this case; to maintain a recommendation consistent with that
8 gradualism principle under that different data distribution, I applied a wider 70th to 90th
9 percentile range, which captured a broader portion of the upper-end results consistent with
10 that principle. In this case, the distribution of results supports a range between the 80th and
11 90th percentiles, consistent with the same gradualism principle.

12 **Q. HOW DID YOU ARRIVE AT YOUR SPECIFIC RECOMMENDATION OF**
13 **8.07%?**

14 **A.** To arrive at my specific recommendation of 8.07%, I use the 85th percentile of my overall
15 cost of equity results, the results of which come from multiple models. These results do not
16 depend on selecting any one model or result over another. Selecting the 85th percentile
17 (8.07%) reflects a position within the range that is consistent with the Commission's
18 preference for gradual rate adjustments.

and dividends per share growth rates helps to mitigate the resultant error, but should not be viewed as the perfect way to quantify the impact of expected non-constant growth rates.²⁷

Q. HOW HAVE YOU IMPLEMENTED THE CONSTANT GROWTH FORM OF THE DCF MODEL IN THIS CASE?

A. I have applied the constant growth form of the DCF model by staying true to the mathematically derived “ $k=D/P + (b \times r + s \times v)$ ” form of the DCF model. I have also taken care to fully allocate all future expected earnings to either future cash flow in the form of dividends (D) or to retained earnings (the retention rate, b). This extra accuracy is obtained only when the retention rate “b” is derived from the values used for “D” and “r,” rather than independently.

Q. PLEASE EXPLAIN HOW YOU OBTAINED THE VALUES YOU USED IN THE CONSTANT GROWTH FORM OF THE DCF METHOD.

A. The DCF model generally calls for the use of the dividend expected over the next year. A reasonable way to estimate next year’s dividend is to annualize the current quarterly dividend and increase that amount by one-half of the expected annual growth rate. This is a good approximation of the rate that would be obtained if the full prior year’s dividend were escalated by the entire growth rate.²⁸

²⁷ Eugene F. Brigham & Joel F. Houston, *Fundamentals of Financial Management* (12th ed. 2009), at pp. 276–283; Michael C. Ehrhardt, *Financial Management: Theory & Practice* (15th Ed. 2017) (discussing the constant growth model and the mathematical relationship between the retention ratio and return on equity to determine sustainable growth).

²⁸ For example, assume a company paid a dividend of \$0.50 in the first quarter a year ago, and has a dividend growth rate of 4% per year. This dividend growth rate equals $1.04^{\{0.25\}} - 1 = 0.00985$, or 0.985% per quarter. Thus, the dividend is \$0.5049 in the second quarter, \$0.5099 in the third quarter, and \$0.5149 in the fourth quarter. If that 4% per annum growth continues into the following year, then the dividend would be \$0.5199 in the first quarter, \$0.5251 in the second quarter, \$0.5303 in the third quarter, and \$0.5355 in the fourth quarter. Thus, the total dividends for the

TABLE 6: CAPITAL ASSET PRICING MODEL (CAPM) - INDICATED COST OF EQUITY WEIGHTED - All Inputs Weighted From April to June 2026				
	3-Month Treasury Bill		30-Year Treasury Bond	
	Historical Blended Beta	Forward Beta	Historical Blended Beta	Forward Beta
Risk-Free Rate	3.76%	3.76%	4.95%	4.95%
Beta	0.37	0.60	0.37	0.60
Risk Premium	4.95%	4.95%	3.76%	3.76%
CAPM	5.61%	6.75%	6.35%	7.22%

Source: Exhibit ALR-4, page 1

TABLE 7: CAPITAL ASSET PRICING MODEL (CAPM) - INDICATED COST OF EQUITY (SPOT) SPOT - All Inputs Based on Last Available Data as of June 30, 2026				
	3-Month Treasury Bill		30-Year Treasury Bond	
	Historical Blended Beta	Forward Beta	Historical Blended Beta	Forward Beta
Risk-Free Rate	3.87%	3.87%	4.91%	4.91%
Beta	0.33	0.66	0.33	0.66
Risk Premium	4.35%	4.35%	3.31%	3.31%
CAPM	5.32%	6.74%	6.01%	7.09%

Source: Exhibit ALR-4, page 5

As shown in Rothschild, Exhibit ALR-12, the results of my CAPM analysis applied to the Bulkley Proxy Group demonstrate how the cost of equity has evolved since the onset of the COVID-19 pandemic. The cost of equity briefly spiked in early 2020 but then declined as markets stabilized. Most importantly, since peaking at about 8.91% in ~~November~~ December 2022, the CAPM-implied cost of equity for the proxy group has been on a clear downward trend, falling to under 7% by early to mid-2025.

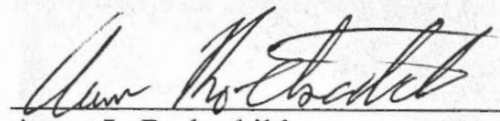
As detailed earlier in my testimony, my primary ROE recommendation of 8.07% for KAWC is derived directly from applying the DCF and CAPM methodologies to a proxy group of comparable regulated utility companies. Specifically, the Constant and Non-Constant Growth DCF models, alongside eight variations of the CAPM, produced an initial range of 5.32% to 9.66%. Applying my recommended percentile band to my cost of equity

AFFIDAVIT

STATE OF CONNECTICUT

COUNTY OF FAIRFIELD

AARON L. ROTHSCCHILD, being duly sworn, deposes and states that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information, and belief.


Aaron L. Rothschild

Sworn to and subscribed before me on this 7th day of October 2026.


Notary Public

