Date Filed: October 29, 2026

Witness: Ann Bulkley
Request from: Public Utilities Regulatory Authority

Question:

(ROE-DCF) Bulkley Pre-Filed Test., pp. 24–32. Is there a time period during which the Company believes the constant growth discounted cash flow (DCF) model loses its reliability? Provide the time period and market circumstances.

Response:

Ms. Bulkley has not conducted a time series analysis of the DCF results. However, interest rates and utility share prices are inversely correlated, which means that increases in interest rates result in declines in the share prices of utilities and vice versa. For example, in an increasing interest rate environment, the utility sector would be expected to underperform the broader market with a likely decrease in the share prices of utilities occurring. Consequently, in an increasing interest rate environment, the DCF model, which relies on historical stock prices, will likely understate the cost of equity as utility stock prices decline and their dividend yields increase.