

Exhibit No. 149

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Testimony of Christopher C. Walters
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File No. ER-2024-0261

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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
FINANCIAL ANALYSIS DEPARTMENT

REBUTTAL TESTIMONY
OF
CHRISTOPHER C. WALTERS

THE EMPIRE DISTRICT ELECTRIC COMPANY,
d/b/a Liberty

CASE NO. ER-2024-0261

Jefferson City, Missouri
August 2025

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REBUTTAL TESTIMONY

OF

CHRISTOPHER C. WALTERS

THE EMPIRE DISTRICT ELECTRIC COMPANY,

d/b/a Liberty

CASE NO. ER-2024-0261

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Christopher C. Walters. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017.

Q. Are you the same Christopher C. Walters who previously filed Direct Testimony on behalf of the Staff of the Missouri Public Service Commission (“Commission”) on July 2, 2025?

A. Yes, I am.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my testimony is to respond to Empire District Electric Company (“Empire”) witness Mr. Daniel Dane. My silence with regard to any position taken by Empire in its Application or Direct Testimonies in this proceeding does not indicate my endorsement of that position.

1 **II. REVIEW AND CRITIQUE OF MR. DANE’S TESTIMONY**

2 **A. Summary of Rebuttal**

3 Q. What return on equity (“ROE”) is Empire requesting?

4 A. In his Direct Testimony, Mr. Dane recommends a cost of equity in the range of
5 9.75% to 11.00% for Empire, which has a midpoint of 10.38%.¹ After considering Empire’s
6 relatively smaller size, he concludes that an ROE above the midpoint would be reasonable.
7 However, Empire is requesting an ROE of 10.00%, which Mr. Dane supports.

8 His recommended range is based on the average of his analytical results from four
9 models: the Constant Growth Discounted Cash Flow (“DCF”) model, the Capital Asset Pricing
10 Model (“CAPM”), a Treasury Yield Plus Risk Premium analysis, and the Expected Earnings
11 analysis.² After reviewing Mr. Dane’s analyses and making reasonable adjustments, as
12 discussed below, I will demonstrate that a more reasonable ROE of 9.50% or less is more
13 aligned with current market conditions, Empire’s relative risk, as well as regulatory precedents.

14 Q. Please describe how Mr. Dane developed his market cost of equity for Empire.

15 A. Mr. Dane used a DCF model, a CAPM, a Risk Premium analysis, and an
16 Expected Earnings analysis to support his ROE estimate for Empire. Mr. Dane employed these
17 models to a proxy group of 17 publicly traded electric utility companies. His estimated ROE
18 results for Empire are shown in Table CCW-R1.

¹ Direct Testimony of Daniel Dane, page 4.

² *Id.* at 6.

TABLE CCW-R1

Summary of Mr. Dane's Return on Equity Estimates

<u>Description</u>	<u>Mr. Dane's Results³</u>
<u>Constant Growth DCF</u>	
Mean-Low Growth (5.30%)	9.09%-9.47%
Mean Growth (6.50%)	10.16%-10.54%
Mean-High Growth (7.50%)	11.08%-11.46%
<u>CAPM⁴</u>	
Current Risk-Free Rate	9.80%-10.90%
Near-Term Proj. Risk-Free Rate	9.78%-10.89%
Long-Term Proj. Risk-Free Rate	9.82%-10.90%
<u>Risk Premium</u>	
30-Day Average Yield	10.43%
Short-term Projected Yield	10.38%
Long-term Projected Yield	10.46%
Expected Earnings: Median/Mean	10.27%/10.93%
Mr. Dane's Recommended Range	9.75% - 11.00%
Requested Return on Equity	10.00%

1 With reasonable adjustments described in detail below, Mr. Dane's analyses would
2 support my recommended return of equity for Empire of 9.50%.

3 Q. Do you have any initial comments or observations you would like to make
4 regarding Mr. Dane's recommendations?

5 A. Yes. Mr. Dane's recommended ROE of 10.00% and proposed common equity
6 ratio of 53.10% for Empire overstates the cost of capital for a low-risk, rate-regulated electric

³ Direct Testimony of Daniel Dane, page 51, Figure 14.

⁴ *Id.*

1 utility, resulting in a rate of return (“ROR”) that unnecessarily increases costs to ratepayers.⁵
2 As I will demonstrate, Mr. Dane’s analyses produce excessive results because of flawed inputs
3 and assumptions.

4 **B. Flotation Costs**

5 Q. Did Mr. Dane include a flotation cost adjustment in his recommended return
6 for Empire?

7 A. While Mr. Dane estimated an adjustment to account for flotation costs, he does
8 not make an explicit adjustment to his estimate. Rather, he takes it into consideration in
9 developing his overall range. Mr. Dane estimated a flotation cost adjustment of seven basis
10 points (0.07%) for flotation costs.⁶ He asserts that flotation costs, associated with issuing new
11 equity, justify this adjustment regardless of whether Empire’s parent company Algonquin plans
12 to issue additional shares.⁷

13 Q. Why is Mr. Dane’s flotation cost adjustment flawed?

14 A. Mr. Dane’s flotation cost adjustment is not based on Empire’s actual and
15 verifiable flotation expenses. Instead, he derives the adjustment from generic cost information
16 for his proxy group.⁸ Without evidence of Empire’s specific flotation costs, there is no basis to
17 verify the reasonableness or appropriateness of the 7-basis point adjustment. Furthermore,
18 flotation costs, if incurred, are more appropriately recovered as an expense through the cost of
19 service rather than as an ROE adjustment. This approach ensures that only prudently incurred

⁵ Direct Testimony of Daniel Dane, page 4.

⁶ Direct Testimony of Daniel Dane, page 45.

⁷ *Id.* at pages 44-45.

⁸ *Id.* Direct Schedule DSD-10, page 2.

1 costs are allocated fairly across Empire's operations, avoiding an unnecessary increase in the
2 ROE that burdens ratepayers.

3 Further, should flotation costs be allowed to be recovered, I believe it is more
4 appropriate to recover them as an expense through cost of service rather than an increase to the
5 ROE. This would allow for Empire's reasonably incurred flotation costs to be allocated in a
6 fair manner to its various operations.

7 **C. Mr. Dane's DCF Analyses**

8 Q. Please summarize how Mr. Dane applied the constant growth DCF model.

9 A. Mr. Dane applied the Constant Growth DCF model using average stock prices
10 over 30, 90, and 180 trading days, annualized dividend per share data, and company-specific
11 earnings growth forecasts for his 17 proxy group companies.⁹ He considers the results of each
12 proxy company's low, mean, and high growth rates.¹⁰

13 Q. What are the results of Mr. Dane's constant growth DCF analysis?

14 A. The results of Mr. Dane's analysis, summarized in his Direct Schedule DSD-4,
15 are as follows:

- 16 • 30-day average: Mean Low 9.09%, Mean 10.16%, Mean High 11.08%;
- 17 • 90-day average: Mean Low 9.31%, Mean 10.38%, Mean High 11.30%; and
- 18 • 180-day average: Mean Low 9.47%, Mean 10.54%, Mean High 11.46%.¹¹

⁹ Direct Testimony of Daniel Dane, Direct Schedule DSD-3.

¹⁰ Direct Testimony of Daniel Dane, Direct Schedule DSD-4.

¹¹ *Id.*

1 Q. Are the constant growth DCF results produced by Mr. Dane reasonable?

2 A. No. His DCF results are overstated primarily because his growth rates
3 are substantially higher than the projected long-term growth rate of the United States
4 economy. Specifically, Mr. Dane's constant growth DCF model is based on growth rates of
5 5.24% (low-growth) to 7.19% (high-growth).¹² These growth rates exceed the projected
6 long-term GDP growth rate of 4.14%,¹³ meaning even his lowest average growth rate scenario
7 produces excessive results. As I discuss in greater detail in my Direct Testimony, growth rates
8 that exceed the growth rate of GDP in the country in which the utility provides goods and
9 services cannot be sustained. Given the fact that Mr. Dane's lowest and highest average growth
10 scenarios assume growth rates of 5.24% and 7.19%, which exceed the consensus long-term
11 projected growth rate of the U.S. economy by 110 to 305 basis points, respectively, they should
12 be given little weight. Due to the economic flaws inherent in Mr. Dane's assumption that the
13 proxy companies will grow faster than the overall U.S. economy indefinitely, he should have
14 considered using a multi-stage DCF analysis. As shown on my Schedule CCW-D8, the results
15 of a multi-stage DCF model are in the range of 8.38% to 8.59%. Incorporating the results of a
16 multi-stage DCF model with the results of his mean and low-mean growth rate scenarios
17 support an ROE closer to 9.0%.

18 **D. Mr. Dane's CAPM Analysis**

19 Q. Please summarize Mr. Dane's CAPM analysis.

20 A. Mr. Dane's CAPM analysis incorporates three key inputs: the risk-free rate, Beta
21 coefficients, and the market risk premium ("MRP"). To estimate the risk-free rate, he used

¹² *Id.*

¹³ Direct Testimony of Christopher C. Walters, at page 35.

1 three different assumptions based on the 30-year U.S. Treasury bond: (1) a current 30-day
2 average yield of 4.23%, (2) projected yields of 4.12% for Q4 2024 through Q4 2025, and
3 (3) long-term projections of 4.30% for 2026–2030.¹⁴

4 For Beta, Mr. Dane used estimates from both Value Line and Bloomberg. The Value
5 Line Betas reflect five years of weekly returns relative to the New York Stock Exchange
6 (“NYSE”) Composite Index and averaged 0.95, while Bloomberg’s Betas are based on ten years
7 of weekly returns relative to the S&P 500 and averaged 0.794.

8 To estimate the MRP, Mr. Dane calculates a range of expected market returns:

- 9 • A high-end estimate of 14.21% using a Constant Growth DCF applied to all
10 dividend-paying S&P 500 companies.
- 11 • An adjusted estimate of 11.25%, which excludes companies with projected
12 growth less than 0% or greater than 20%, consistent with Federal Energy
13 Regulatory Commission (“FERC”) precedent.
- 14 • A historical average return of 12.17% from the Kroll dataset (1926–2023).

15 Using these market return estimates and risk-free rates, Mr. Dane derives MRPs ranging
16 from 6.95% to 10.09%, depending on the pairing of inputs. For example, pairing the 14.21%
17 expected return with the low-end 4.12% risk-free rate produces an MRP of 10.09%.

18 Based on these assumptions, Mr. Dane’s CAPM produces a range of ROE estimates
19 from 9.78% to 11.78%, with a midpoint of approximately 10.78%. These results are
20 summarized in Direct Schedule DSD-5.1 through DSD-5.5 of his testimony.

¹⁴ Direct Testimony of Daniel Dane, page 19.

1 Q. What are your concerns with Mr. Dane's CAPM analysis?

2 A. I have several concerns with Mr. Dane's CAPM analysis. First, Mr. Dane's
3 reliance on 5-year Betas without considering shorter-term estimates such as 3-year Betas
4 overstates the CAPM. Second, the assumed growth rates in his unadjusted DCF-derived market
5 return estimate is excessive. Third, he fails to consider the recommended MRP of 5.5%
6 from Kroll. Finally, Mr. Dane's MRPs of 12.11%-12.38% exceed MRPs supported by
7 empirical research.

8 Q. Why do you believe Mr. Dane's 5-year and 10-year Beta estimates overstate
9 the CAPM?

10 A. The Beta coefficients he references rely on five and ten years of prices and
11 volatility, which include the market fallout induced by the onset of the global pandemic in
12 early 2020. This period of extraordinary market volatility skews the Beta upwards, in particular
13 the 5-year Betas at the time of his study, reflecting short-term market disruptions rather than a
14 long-term change in the perceived risk of regulated utilities. As discussed in my Direct
15 testimony, prior to the market fallout from the pandemic, utility Betas were at historically low
16 levels. While incorporating 10-year Betas does help mitigate some of that impact, the
17 unprecedented volatility in early 2020 because of the global pandemic is still present in that
18 data. I note that Mr. Dane's analysis was in the latter portion of 2024. Therefore, Betas using
19 five years of prices did not reasonably reflect investor expectations, as the prices and volatility
20 from early 2020 will be included in the data through early 2025. This inclusion distorts the
21 Beta calculation, making it less representative of the true, long-term market risk of utilities.

1 Q. Have Mr. Dane's proxy group Value Line Betas declined since his analysis?

2 A. Yes. In fact, they have declined quite significantly. At the time of his analysis,
3 Mr. Dane's proxy group companies had an average Value Line Beta of 0.95.¹⁵ As of August 4,
4 2025, his proxy group's average Value Line Beta has declined to 0.77 with a median of 0.75.¹⁶

5 Q. Please explain why you believe the assumed growth rates in his unadjusted
6 DCF-derived market return estimates are excessive?

7 A. Mr. Dane's unadjusted DCF-derived expected market return of 14.21% assumes
8 a weighted average growth rate of 12.53%.¹⁷ As discussed in my Direct testimony with respect
9 to my own DCF model, the DCF model requires a long-term sustainable growth rate.
10 Mr. Dane's capitalization weighted average growth rate of 12.53% is far too high to be a
11 rational outlook for sustainable long-term market growth. Mr. Dane's unadjusted DCF-derived
12 expected market return assumes individual growth rates as high as 51.0% (Host Hotels and
13 Resorts Inc), which is approximately 12.3x the growth rate of the U.S. GDP long-term growth
14 outlook of 4.14%.¹⁸ Mr. Dane's market growth rates are irrational and unsustainable for
15 perpetuity, which is the assumed period of the DCF model.

16 In fact, in its Chartered Financial Analyst ("CFA") curriculum textbooks, the CFA
17 Institute notes as follows with regard to earnings growth rates for the companies within the
18 composite indices (i.e., S&P 500):

19 Earnings growth for the overall national economy can differ from the growth
20 of earnings per share in a country's equity market composites. This is due to
21 the presence of new businesses that are not yet included in the equity indices
22 and are typically growing at a faster rate than the mature companies that

¹⁵ Direct Testimony of Daniel Dane, Direct Schedule DSD-5.3.

¹⁶ *The Value Line Investment Survey*, May 9, June 6, and July 18, 2025.

¹⁷ Direct Testimony of Daniel Dane, Direct Schedule DSD-5.1.

¹⁸ Direct Testimony of Christopher C. Walters, at page 35.

1 make up the composites. **Thus, the earnings growth rate of companies**
2 **making up the composites should be lower than the earnings growth**
3 **rate for the overall economy.**¹⁹

4 Mr. Dane’s unadjusted DCF-derived expected return on the market is irrational,
5 excessive, and should be rejected.

6 Q. Please explain why you believe Mr. Dane’s MRPs of 9.91% to 10.09%²⁰ exceed
7 MRPs supported by empirical research.

8 A. These MRP estimates exceed the high end of the empirical evidence by as much
9 as 54.8%. For example, Dr. Morin notes in his book, Modern Regulatory Finance, that several
10 studies of the MRP have concluded that a MRP in the range of 5.0% to 8.0% is a reasonable
11 estimate for the United States.²¹ For example, the Duarte and Rosa study that Dr. Morin
12 cites concludes that the historical mean is “quite difficult to improve upon when considering
13 out-of-sample performance measures.”²² Dr. Morin also notes that a survey of professional
14 practices showed that 71% of textbooks/tradebooks used a historical average as the MRP, and
15 60% of financial advisors used a MRP in the range of 7.0% to 7.4% (similar to a long-term
16 arithmetic average MRP).²³

17 Based on this empirical research, it is clear Mr. Dane’s MRPs of 9.91% to 10.09% are
18 excessive and overstate the cost of equity.

¹⁹ CFA Program Curriculum, 2014 Level II Vol.1, “Ethical and Professional Standards, Quantitative Methods, and Economics”, Paul Kutasovic, Reading 15 – Economic Growth and the Investment Decision, p. 609, footnote 5. [Emphasis added.]

²⁰ Direct Testimony of Daniel Dane, Direct Schedule DSD-5.3.

²¹ Dr. Morin references studies by Duarte & Rosa; Professors Ross, Westerfield, and Jordan; Mahera; and Brealey, Myers, and Allen. Roger A. Morin, Modern Regulatory Finance, 190-192 (PUR Books LLC 2021). Dr. Morin notes in his textbook that there is a “slight preference” for the upper end of the range (i.e., 8%) during tumultuous times in capital markets with examples being the 2008-2009 credit crisis and the 2020 pandemic.

²² See Roger A. Morin, Modern Regulatory Finance, 191 (PUR Books LLC 2021) (citing the Duarte and Rosa study).

²³ *Id.*, at 190, n. 35.

1 Q. Do you have any other concerns with Mr. Dane's CAPM analysis?

2 A. Yes, I do. Mr. Dane's CAPM analysis fails to incorporate the MRP
3 recommended by Kroll, formerly Duff & Phelps, which is one of the most trusted and widely
4 used sources for estimating cost of capital parameters. Kroll currently recommends a long-term
5 normalized MRP of 5.5%, which is based on extensive empirical research, reflects
6 forward-looking investor expectations, and is routinely relied upon by rate of return analysts
7 across North America. Instead of using Kroll's recommended value of 5.5%, Mr. Dane
8 constructs his own MRP estimates that range as high as 10.09%, based on a DCF analysis of
9 the S&P 500 that includes companies with extreme and unsustainable growth assumptions—
10 some as high as 51.0%. By relying on these inflated inputs, Mr. Dane materially overstates
11 the MRP and, in turn, the cost of equity in his CAPM results. Had he applied the widely
12 accepted 5.5% MRP from Kroll, his CAPM-based cost of equity estimates would have been
13 significantly lower and more consistent with capital market expectations and professional
14 valuation guidance.

15 Q. Have you estimated the impact of correcting certain inputs to Mr. Dane's
16 CAPM?

17 A. Yes. Simply reflecting updated Beta values from Value Line, rejecting his three
18 MPRs that are significantly more than 8.0% (9.91%, 9.97%, and 10.09%), and incorporating
19 Kroll's recommended MRP of 5.50% in conjunction with the spot 20-year yield of 4.79% (as
20 recommended by Kroll), Mr. Dane's CAPM results would be in the range of 9.04% to 10.39%.
21 This is a marked reduction from his CAPM range of 10.89%-11.78% using Value Line Betas.²⁴

²⁴ Direct Schedule DSD-5.5.

1 **E. Mr. Dane's Risk Premium Analysis**

2 Q. Please summarize Mr. Dane's risk premium analysis and its inputs.

3 A. As shown on his Direct Schedule DSD-6, Mr. Dane estimates an ROE estimate
4 based on the premise that equity risk premiums are inversely related to interest rates, meaning
5 as interest rates go up the equity risk premium should decrease, and conversely, as interest rates
6 go down, the equity risk premium should increase. Calculating the equity risk premium as the
7 authorized ROE less the contemporaneous 30-year Treasury yield, he estimates the quarterly
8 average equity risk premium for vertically integrated electric utilities to be approximately
9 6.03% over the period 1992 through the third quarter of 2024.²⁵ He performs an ordinary least
10 squares (OLS) linear regression using the 30-year Treasury yield as the independent variable
11 (x-axis) and the risk premium as the dependent variable (y-axis).²⁶ This model produces a
12 regression formula, which he applies by inputting his current, near-term projected, and
13 long-term projected 30-year Treasury bond yield of 4.23%, 4.12%, and 4.30%, respectively.
14 The resulting expected equity risk premium based on these inputs is 6.20%, 6.26%, and 6.16%,
15 respectively.²⁷ He then adds these estimated risk premiums to the corresponding
16 Treasury yields, producing cost of equity estimate in the range of 10.38% to 10.46%.²⁸

17 Q. Is Mr. Dane's risk premium methodology reasonable?

18 A. No. As an initial matter, even though his analysis is predicated on the authorized
19 ROEs for vertically integrated electric utilities as the starting point, all three of his Risk
20 Premium model results exceed all but one ROE awarded to any electric utility since 2024.
21 In other words, despite his Risk Premium model being predicated on authorized ROEs for

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.*

1 vertically integrated electric utilities, all three of his Risk Premium model estimates are higher
2 than 45 of the 46 authorized ROEs for vertically integrated electric utilities since 2024.

3 Notwithstanding that observation, my main concern with Mr. Dane’s Risk Premium
4 analysis is that his estimated equity risk premium is significantly overstated and inconsistent
5 with his own hypothesis. For example, based on the data presented in my Direct Testimony,
6 the average equity risk premiums in 2023, 2024, and 2025 were 5.57%, 5.37%, and 5.01%,
7 respectively. These recent averages are between 59 and 125 basis points less than the equity
8 risk premium of 6.16%-6.26% estimated by Mr. Dane. In a report issued last year, Regulatory
9 Research Associates (“RRA”) (a division of S&P Global) discussed the equity risk premium,
10 as measured by the authorized ROE spread over bond yields as follows:²⁹

11 However, with the uptick in interest rates since 2020, the spread has begun
12 to narrow, falling to around 550 basis points in 2023. With the myriad
13 factors putting upward pressure on customer bills, **the spread may continue**
14 **to narrow as regulators may become more reluctant to raise authorized**
15 **returns.**³⁰

16 As indicated by the data, the average Treasury yield in 2023, 2024, and 2025 were
17 4.09%, 4.41%, and 4.71%, respectively. The average equity risk premium over Treasury yields
18 over those years were 5.57%, 5.37%, and 5.01%, respectively. Mr. Dane assumed a 30-year
19 Treasury yield of 4.12% to 4.30%.³¹ To be consistent with Mr. Dane’s inverse relationship
20 hypothesis, the equity risk premium should be consistent with the equity risk premiums in
21 the range of 5.37% to 5.57% since interest rates assumed by Mr. Dane are relatively
22 consistent with the interest rates realized over 2023 and 2024. However, Mr. Dane’s estimated
23 equity risk premiums of 6.16%-6.26%, representing an increase of up to 89 basis points relative

²⁹ Direct Schedule DSD-6.

³⁰ RRA, Major energy rate case decisions in the U.S. January-December 2023 Quarterly update on decided rate cases, February 6, 2024. [Emphasis added.]

³¹ Direct Schedule DSD-6.

1 to the 2023 and 2024 equity risk premiums.³² Notably, the year-to-date average authorized
2 ROE for vertically integrated electric utilities is 9.74%, a decline from 9.84% in 2024.

3 Importantly, it is a clear indication that Mr. Dane’s Ordinary Least Squares (“OLS”)
4 regression using quarterly data is unreliable given his model produces an ROE estimate that
5 significantly exceeds the recent ROEs awarded to other regulated utilities. Further, given
6 Mr. Dane’s estimates of the equity risk premium are inconsistent with the inverse relationship
7 he asserts is present, Mr. Dane’s Risk Premium analysis should be given little weight.

8 Q. Why might a regression using quarterly data to estimate the equity risk premium
9 produce less reliable results than one using annual data?

10 A. Quarterly data introduces more statistical noise due to the irregular timing of
11 utility rate case decisions and the corresponding authorization of ROEs. A single ROE award
12 in a given quarter, especially if it is unusually high or low, can disproportionately influence
13 the quarterly equity risk premium (“ERP”). Because ROE decisions occur sporadically based
14 on the timing of rate case proceedings, the resulting quarterly ERP values may not reflect
15 accurate assessments of the ERP. In contrast, annual data aggregates across multiple rate case
16 outcomes, smoothing the influence of any single decision and providing a more representative
17 picture of the prevailing cost of equity. Similarly, average Treasury bond yields can fluctuate
18 significantly from quarter to quarter due to short-term interest rate movements, monetary policy
19 events, or market volatility. These high-frequency changes further contribute to the noise in
20 quarterly ERP estimates.

21 Finally, Mr. Dane’s OLS regression model assigns equal weight to all observations from
22 1992 through 2024, implicitly assuming that the relationship between the equity risk premium

³² *Id.*

1 and bond yields has remained stable over that entire period. However, this approach may fail
2 to capture structural changes in the regulatory landscape, investor expectations, and utility
3 ratemaking practices that have occurred over time, particularly in more recent years. As a result,
4 the model may give undue influence to outdated data and underrepresent the conditions
5 currently driving authorized returns.

6 **F. Mr. Dane's Expected Earnings Analysis**

7 Q. Please summarize Mr. Dane's expected earnings analysis, including its inputs.

8 A. Mr. Dane's Expected Earnings analysis estimates the ROE based on projected
9 returns on book equity for proxy companies, using Value Line's projections for 2027-2029.³³
10 He argues this approach reflects the opportunity cost of investing in Empire by comparing
11 expected returns of risk-comparable companies. The average result is 10.93% while the median
12 result is 10.27%.³⁴

13 Q. What are your concerns with Mr. Dane's expected earnings analysis?

14 A. An expected earnings analysis does not measure the return an investor requires
15 in order to make an investment. In other words, the accounting measure of the earned ROE
16 does not measure the opportunity cost of capital. Rather, it measures the earned return on book
17 equity that companies have experienced in the past or are projected to achieve in the future.
18 The returns investors require in order to assume the risk of an investment are measured from
19 prevailing stock market prices.

20 In addition, FERC has recently found that the Expected Earnings model does not satisfy
21 the requirements of *Hope*. In part, FERC states as follows:

³³ Direct Testimony of Daniel Dane, Direct Schedule DSD-7.

³⁴ *Id.*

1 As a result, the expected return on a utility's book value does not reflect
2 "returns on investments in other enterprises" because book value does not
3 reflect the value of any investment that is available to an investor in the
4 market, outside of the unlikely situation in which market value and book
5 value are exactly equal. Accordingly, we find that relying on the Expected
6 Earnings model would not satisfy the requirements of *Hope*.

7 The return on book value is also not indicative of what return an investor
8 requires to invest in the utility's equity or what return an investor receives
9 on the equity investment, because those returns are determined with respect
10 to the current market price that an investor must pay in order to invest in the
11 equity.³⁵

12 Later in the same Opinion, FERC observes that Expected Earnings model does not
13 identify investments of comparable risk. It states as follows:

14 Moreover, we find that the record demonstrates that the Expected Earnings
15 model does not identify investments of comparable risk and which
16 alternatives will have a higher expected return as MISO TOs' witness
17 Mr. McKenzie indicates.^[footnote omitted] In particular, because the Expected
18 Earnings model measures returns on book value, without consideration of
19 what market price an investor would have to pay to invest in the relevant
20 company, it does not accurately measure the investor's expected returns on
21 its investment.³⁶

22 Additionally, the historical and projected earned ROE for these holding companies can
23 be significantly influenced by the financial performance of nonregulated operations. For these
24 reasons, Mr. Dane's expected earnings analysis should be disregarded.

25 **G. Mr. Dane's Assertion that Empire is Riskier than the Proxy Group**

26 Q. Please explain how Mr. Dane views Empire's risk relative to his proxy group.

27 A. Mr. Dane discusses several factors that he believes contribute to Empire's
28 overall risk profile. He identifies exposure to extreme weather events, inflationary pressures,
29 rising interest rates, supply chain disruptions, and the transition to cleaner energy as general

³⁵ Opinion No. 569, 169 FERC ¶ 61,129 at p. 201-202.

³⁶ *Id.* at p. 205.

1 business risks. More importantly, Mr. Dane concludes that Empire faces somewhat higher
2 regulatory risk than his proxy group, citing two primary reasons: (1) Missouri's use of a
3 historical test year, which he claims contributes to regulatory lag, and (2) the absence of revenue
4 decoupling or weather normalization mechanisms, which he argues leaves Empire exposed to
5 volumetric sales risk.³⁷ Based on these considerations, Mr. Dane asserts that Empire's
6 regulatory framework imposes a higher level of risk relative to the companies in his
7 proxy group.

8 Q. Do you agree with his assessment that Empire is of higher risk than the
9 proxy group?

10 A. No. Empire's credit ratings of BBB from S&P and Baa1 from Moody's are
11 consistent with the proxy group's average ratings of BBB+ and Baa2, respectively, as shown
12 in my Schedule CCW-D2.

13 In addition, Mr. Dane's assessment is outdated as it fails to account for the passage of
14 Senate Bill 4 ("SB 4") that was passed and signed into law in Missouri earlier this year, which
15 will enhance cash flows and reduce the notion of regulatory lag for Empire. For example, SB 4
16 authorizes electric utilities the ability to request CWIP for natural gas generators and or projects
17 approved through the IRP. This provision enables utilities to proactively recover anticipated
18 expenses, such as those associated with infrastructure investments, potentially leading to more
19 stable financial planning. However, it may also result in higher rates for consumers if
20 projections overestimate future costs.

21 Furthermore, Empire's requested common equity ratio of 53.1% is higher than the
22 proxy group's average equity ratio of 38.8% (including short-term debt) and 43.1% (excluding

³⁷ Direct Testimony of Daniel Dane, page 43.

Rebuttal Testimony of
Christopher C. Walters

1 short-term debt), as calculated by S&P Global Market Intelligence and Value Line. This higher
2 equity ratio indicates a less leveraged capital structure, further reducing Empire's financial risk
3 compared to the proxy group. Therefore, Empire's comparable credit ratings, the passage of
4 SB 4, and stronger capital structure demonstrate that it is of lower risk than the proxy group,
5 contrary to Mr. Dane's assertion.

6 Q. Does this conclude your Rebuttal Testimony?

7 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Request of The Empire)
District Electric Company d/b/a Liberty for)
Authority to File Tariffs Increasing Rates for) Case No. ER-2024-0261
Electric Service Provided to Customers in its)
Missouri Service Area)

AFFIDAVIT OF CHRISTOPHER C. WALTERS

STATE OF MISSOURI)
) ss.
COUNTY OF ST. LOUIS)

COMES NOW CHRISTOPHER C. WALTERS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of Christopher C. Walters*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.



CHRISTOPHER C. WALTERS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for St. Louis County, State of Missouri, at my office in Chesterfield, on this 18th day of August, 2025.


Notary Public