



Mike Kadas
Director

Montana Department of Revenue



Steve Bullock
Governor

March 30, 2015

Robert G. Strong
Executive Director – Tax
AT&T Inc.
2700 Watt Ave., Suite 4014
Sacramento, CA 95821-6236

RE: DOR Response to AT&T Provided Cost of Capital Studies

Dear Mr. Strong:

On behalf of the Montana Department of Revenue I would like to thank you for providing AT&T's Cost of Capital Studies for our review. After reviewing the provided studies the department made changes to our Capitalization Rate Study for the Telecommunications industry. These changes are summarized below:

- The department reconsidered the various cost of equity methods and put additional consideration on our various Dividend Growth Models
 - This resulted in our cost of equity for exchange carriers to be increased from 8.50% to 9.00% and our cost of equity for wireless carriers to be decreased from 9.50% to 9.25%
- The department adjusted our beta selection for exchange carriers from .85 to .90
 - This resulted in our CAPM determination for exchange carriers to be adjusted from 8.49% to 8.83%
- An error was discovered, and corrected, in the calculation of our Weighted Average Cost of Capital (WACC) calculation for exchange carriers. This resulted in an adjustment of the WACC from 8.25% to 7.00%. However, this was offset by the other adjustments discussed previously.
- With all changes and correction made our WACC for exchange carriers is determined to be 7.25% and our WACC for wireless carriers remains the same (due to rounding) at 7.75%

The Department welcomes the opportunity to discuss these changes and any other issues in more detail during the appraisal process. If you have further questions or concerns my contact information is below.

Thanks,

Doug Roehm, Unit Manager
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