

PC Data Request 16

RE: Direct Testimony of Kurt G. Strunk, Exhibit No. KGS-T1, p. 7, l. 20.

Please explain why the use of a proxy group of companies “assures... [an] objective estimate of the cost of capital.”

Response to PC Data Request 16

In cost of capital analyses, the financial analyst strives to achieve objectivity and accuracy through various means. The use of a group of comparable companies to gauge investors’ return expectations for investments with corresponding risks is one factor that helps to assure such objectivity. The analyst samples rates of return for the component companies using multiple, well-established models together with measures of central tendency for the group as a whole. The analyst uses data that reflects the market’s consensus expectations and is sourced from established sources that are widely relied upon by investors. It is in this context that Mr. Strunk suggests that the use of proxy companies helps to assure objectivity in the estimation of the cost of capital.

PREPARER: Kurt G. Strunk

SPONSOR: Kurt G. Strunk