

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE	)	
APPLICATION OF CORIX UTAH CITY	)	
HEATING AND COOLING LLC TO	)	Docket No. 26-2666-01
ESTABLISH A THERMAL TARIFF WITH	)	
RATES AND TERMS OF SERVICE	)	

REBUTTAL TESTIMONY OF

David Garrett

FOR THE

OFFICE OF CONSUMER SERVICES

October 9, 2026

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	DPU'S ANALYSIS AND RECOMMENDATION	2
III.	MR. COLEMAN'S 100-BASIS-POINT ADJUSTMENT	5
IV.	AUTHORIZED ROEs AND MARKET-BASED COST OF EQUITY.....	10

1 **I. INTRODUCTION**

2 **Q. STATE YOUR NAME AND OCCUPATION.**

3 A. My name is David J. Garrett. I am a consultant specializing in public utility
4 regulation. I am the managing member of Resolve Utility Consulting PLLC.

5 **Q. DID YOU FILE DIRECT TESTIMONY IN THE PROCEEDING?**

6 A. Yes. I filed direct testimony in this proceeding on September 3, 2026, on behalf of
7 the Office of Consumer Services ("OCS"). My direct testimony presented my cost
8 of capital estimate and authorized rate of return recommendation for Corix Utah
9 City Heating and Cooling LLC ("Corix" or the "Company").

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my rebuttal testimony is to respond to the direct testimony of
12 Division of Public Utilities ("DPU") witness Casey J. Coleman concerning the
13 appropriate Return on Equity ("ROE") for Corix. OCS and DPU agree on many of
14 the important cost of capital issues in this case. In particular, our respective
15 analyses provide substantial support for an ROE of approximately 9.0%. The
16 principal issue I address in rebuttal is DPU's decision to apply an additional 100-
17 basis-point qualitative adjustment for Corix's greenfield status, resulting in DPU's
18 recommended ROE of 10.0%. In my opinion, DPU has not presented sufficient
19 market evidence demonstrating that Corix's greenfield characteristics increase
20 investors' required return by 100 basis points above the approximately 9.0% level
21 otherwise supported by DPU's own analysis.

II. DPU'S ANALYSIS AND RECOMMENDATION

22 **Q. PLEASE SUMMARIZE DPU'S ROE RECOMMENDATION.**

23 A. DPU estimates a cost of equity range of approximately 7.15% to 9.63%.¹ Mr.
24 Coleman then applies what he describes as a 100 basis point, qualitative
25 greenfield adjustment and recommends that the Commission authorize a 10.0%
26 ROE for Corix. DPU also recommends a 50% debt / 50% equity ratemaking capital
27 structure and a 5.60% cost of debt, resulting in a 7.80% weighted average cost of
28 capital.²

29 **Q. HOW DOES DPU'S POSITION COMPARE WITH YOUR RECOMMENDATION?**

30 A. The positions are actually quite close in several important respects. Mr. Coleman
31 and I use the same general proxy group. In addition, we both conclude that Corix's
32 requested 10.5% ROE is too high and we both support a 50% debt / 50% equity
33 ratemaking capital structure. More importantly, Mr. Coleman's quantitative cost of
34 equity evidence provides substantial support for an authorized ROE around 9.0%,
35 which is the ROE I recommend. Thus, my disagreement is not principally with Mr.
36 Coleman's financial modeling. My disagreement concerns Mr. Coleman's
37 additional adjustment from approximately 9.0% to 10.0%.

¹ See DPU Exhibit 2.01.

² See DPU Exhibit 2.02.

38 **Q. PLEASE EXPLAIN HOW DPU'S OWN FINANCIAL MODELS SUPPORT AN**
39 **ROE OF APPROXIMATELY 9.0%.**

40 A. Mr. Coleman's workpapers show several results near or below 9.0%. For example,
41 Mr. Coleman's constant-growth DCF analysis produces an average result of
42 approximately 8.55%.³ DPU's CAPM analysis using Kroll inputs produces an
43 average of approximately 8.29%, and the CAPM result using the Value Line beta
44 is approximately 8.99%.⁴ Mr. Coleman's bond-yield risk-premium calculations
45 produce results ranging from approximately 8.21% to 9.63%.⁵ Mr. Coleman's
46 summary workpaper reports a mean of approximately 8.59% and a median of
47 approximately 8.74%.⁶ Significantly, Mr. Coleman's own ROE summary workpaper
48 identifies 9.00% as the "Final Estimate Applicable to Corix." For these reasons, I
49 view Mr. Coleman's quantitative analysis as substantial corroborating evidence for
50 my 9.0% recommendation.

51 **Q. SHOULD THE COMMISSION PLACE SIGNIFICANT WEIGHT ON THE HIGH**
52 **END OF DPU'S BOND-YIELD RISK-PREMIUM RESULTS?**

53 A. No. The high end of DPU's modeled range is produced by its bond yield risk
54 premium analysis, which relies in substantial part on historical authorized ROEs.

55 As I explained in my direct testimony, that approach can introduce circularity

³ DPU Exhibit 2.03.

⁴ DPU Exhibit 2.05.

⁵ DPU Exhibit 2.06.

⁶ DPU Exhibit 2.01.

because historical authorized ROEs reflect prior regulatory decisions rather than a direct measurement of investors' current required returns. The Commission addressed this issue in Rocky Mountain Power's recent general rate case. There, the Commission found the bond yield risk premium analysis unreliable in part because a fundamental component of the model was "commission behavior" rather than "investor behavior."⁷ The Commission explained that the relevant objective is to estimate the utility's market-based cost of capital, not to replicate past ROE decisions by other commissions. Accordingly, I do not consider DPU's bond yield risk premium results reliable evidence of Corix's market-based cost of equity, and I would not give those results material weight in determining the authorized ROE.

Q. IS DPU'S ULTIMATE 10.0% RECOMMENDATION WITHIN ITS MODELED COST OF EQUITY RANGE?

A. No. DPU identifies its modeled range as approximately 7.15% to 9.63%. Thus, Mr. Coleman's 10.0% recommendation is notably higher than the highest result in its stated range.⁸

⁷ *Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket No. 24-035-04, Order issued April 25, 2025, at 25-26.

⁸ DPU Exhibit 2.01.

71 **Q. MR. COLEMAN STATES THAT DPU APPLIED 100 BASIS POINTS TO**
72 **APPROXIMATELY THE MIDDLE OF ITS MODEL RANGE. IS 9.0% THE**
73 **MIDPOINT OF MR. COLEMAN'S STATED RANGE?**

74 A. No. Mr. Coleman's stated model range is 7.15% to 9.63%. The arithmetic midpoint
75 of that range is approximately 8.39%, not 9.0%. Moreover, Mr. Coleman's model
76 mean is approximately 8.59%, and the median is approximately 8.74%.⁹ I do not
77 believe this arithmetic issue alone determines the appropriate ROE. It does,
78 however, illustrate why the Commission should focus on the actual market
79 evidence underlying Mr. Coleman's recommendation. A 10.0% ROE is materially
80 above the central tendency of Mr. Coleman's financial modeling results.

III. MR. COLEMAN'S 100-BASIS-POINT ADJUSTMENT

81 **Q. DO YOU DISAGREE THAT CORIX'S GREENFIELD STATUS IS RELEVANT TO**
82 **THE COMMISSION'S ROE DETERMINATION?**

83 A. No. I addressed that issue directly in my direct testimony. Corix is different from
84 the mature electric, natural gas, and water utilities generally used to develop proxy
85 groups. It is a developing district energy utility, it has a relatively small initial
86 customer base, and it will undergo a substantial buildout over a number of years.
87 Those circumstances support the exercise of some regulatory judgment when
88 translating market-based cost of equity evidence into an authorized ROE. That is

⁹ See DPU Exhibit 2.01.

one reason I recommended a 9.0% authorized ROE even though my highest modeled market-based cost of equity estimate was approximately 8.4%. Thus, the issue is not whether Corix is different. The issue is how much additional investor-required return is supported by those differences.

Q. HAS MR. COLEMAN QUANTIFIED WHY CORIX'S GREENFIELD CHARACTERISTICS REQUIRE AN ADDITIONAL 100 BASIS POINTS?

A. No, not in my opinion. Mr. Coleman identifies several qualitative differences between Corix and the mature utilities in the proxy group, including startup risk, execution risk, customer concentration, and the extended development period.¹⁰ These factors are appropriate to consider. However, I did not identify market evidence in Mr. Coleman's analysis demonstrating that these factors increase investors' required return by precisely 100 basis points. Mr. Coleman does not derive the adjustment from observed financing spreads, changes in beta, investor surveys, comparable publicly traded companies, comparable transactions, or another market-based measure of incremental risk. Instead, the 100-basis-point adjustment appears to be based on judgment. Regulatory judgment is appropriate, but the size of such an adjustment should remain anchored to market evidence.

¹⁰ See *generally* DPU Exhibit 2.0 DIR, Direct Testimony of Casey J. Coleman, pp. 63-73.

106 **Q. IS YOUR 9.0% RECOMMENDATION SIMPLY A 60-BASIS-POINT**
107 **GREENFIELD ADDER COMPARABLE TO DPU'S 100-BASIS-POINT**
108 **ADJUSTMENT?**

109 A. No. I do not derive my 9.0% recommendation by taking a single financial model
110 result and mechanically adding 60 basis points. Rather, 9.0% represents my
111 overall authorized ROE recommendation based on the totality of the cost of equity
112 evidence in this case. My 8.4% CAPM result is an important market-based
113 benchmark. However, as I explained in my direct testimony, I also considered the
114 fact that Corix is a developing district-energy utility, that no publicly traded
115 company precisely replicates its operations, and that Corix does not presently have
116 an established authorized ROE that provides a direct regulatory benchmark. The
117 Company's own multi-stage DCF analysis also produces results of approximately
118 9.0%. DPU's independent analysis now provides additional corroborating
119 evidence. DPU's Value Line beta CAPM produces a result of approximately 8.99%,
120 and DPU's own summary workpaper identifies 9.00% as the "Final Estimate
121 Applicable to Corix." Thus, several independent pieces of evidence converge
122 around 9.0%.¹¹

123 DPU's 10.0% recommendation involves a different analytical step. After its
124 quantitative analysis produces substantial support for an ROE around 9.0%, DPU
125 applies an additional qualitative greenfield adjustment to reach 10.0%. My

¹¹ DPU Exhibit 2.01.

disagreement concerns that additional step, because DPU has not demonstrated through market evidence that Corix's greenfield characteristics require another 100 basis points of investor return.

Q. ARE THERE ALSO FACTORS THAT MITIGATE THE RISKS ASSOCIATED WITH CORIX'S GREENFIELD STATUS?

A. Yes. Greenfield status does not mean that every development-related risk translates directly into a higher investor-required return. DPU itself recognizes that Corix's regulatory mechanisms, including the Revenue Deficiency Deferral Account ("RDDA"), reduce financial risk to investors.¹² Those protections are relevant when evaluating the amount of any additional return that might reasonably be associated with Corix's development-stage characteristics. Corix also operates as a regulated utility rather than as an ordinary competitive enterprise. Its customer relationships, service territory, and regulatory cost-recovery mechanisms reduce important business risks that would otherwise be faced by an unregulated company competing for customers and revenues in the broader market. These factors do not eliminate all of the risks associated with Corix's development and buildout. They do, however, mitigate those risks and should be considered before concluding that Corix requires a substantial additional ROE premium.

¹² DPU Exhibit 2.0 DIR, p. 9.

144 **Q. CAN THE MAGNITUDE OF THE 100-BASIS-POINT ADJUSTMENT BE PUT**
145 **INTO PERSPECTIVE USING MR. COLEMAN'S OWN CAPM INPUTS?**

146 A. Yes. Mr. Coleman's Kroll CAPM uses a risk-free rate of approximately 5.22%, a
147 5.0% equity risk premium, and a Value Line beta of approximately 0.75.¹³ Those
148 inputs produce an indicated ROE of approximately 9.0%. Holding the risk-free rate
149 and equity risk premium constant, an ROE of approximately 10.0% would
150 correspond to a beta close to 0.96. In other words, the additional 100 basis points
151 has an economic effect roughly equivalent to moving Corix from the risk level
152 reflected in the utility proxy group toward nearly the risk level of the overall stock
153 market.¹⁴ Mr. Coleman has not presented market evidence demonstrating that
154 Corix's greenfield status causes such a large increase in systematic risk.

155 **Q. WHY IS THE DISTINCTION BETWEEN SYSTEMATIC AND COMPANY-**
156 **SPECIFIC RISK IMPORTANT HERE?**

157 A. Mr. Coleman correctly explains in his CAPM discussion that investors are
158 compensated for systematic, or market, risk and generally are not compensated
159 for firm-specific risks that can be diversified away.¹⁵ Many of the risks Mr. Coleman
160 identifies in support of his greenfield adjustment – such as development execution,
161 customer concentration, construction timing, and project-specific operating
162 circumstances – appear to be primarily company-specific risk factors. While such

¹³ DPU Exhibit 2.05.

¹⁴ See OCS-2D Garrett Direct at 22

¹⁵ DPU Exhibit 2.0 DIR, pp. 45-46.

factors are not irrelevant to regulatory judgment, identifying firm-specific business risks does not by itself demonstrate that investors require an additional 100 basis points of return. This is because under basic CAPM theory, investors do not expect an additional return for company-specific risks because they can be effectively and prudently eliminated through portfolio diversification.

IV. AUTHORIZED ROEs AND MARKET-BASED COST OF EQUITY

Q. MR. COLEMAN ALSO RELIES ON AUTHORIZED ROES FOR OTHER UTILITIES. DO YOU AGREE THAT THOSE DATA PROVIDE SOME CONTEXT?

A. Yes, but they should be given secondary weight. DPU itself recognizes an important limitation with relying on historical authorized ROEs: those figures reflect prior regulatory decisions rather than a direct measurement of investors' current required returns.¹⁶ Mr. Coleman discusses the work of Werner and Jarvis and other evidence indicating that authorized utility ROEs historically have remained above market-based cost of equity benchmarks.¹⁷ Mr. Coleman also recognizes that relying on historical authorized returns can introduce regulatory inertia and circularity.¹⁸ I agree with those concerns. If regulators previously authorized returns above the market-based cost of equity, those prior decisions should not

¹⁶ See DPU Exhibit 2.0 DIR, Direct Testimony of Casey J. Coleman, p. 72.

¹⁷ *Id.* at p. 42.

¹⁸ DPU Exhibit 2.0 DIR, p. 72.

179 become an independent basis for continuing to authorize returns above current
180 market evidence. Otherwise, the process can become self-reinforcing.

181 **Q. DOES MR. COLEMAN'S 10.0% RECOMMENDATION CREATE THAT**
182 **CONCERN?**

183 A. Yes, to some extent. Mr. Coleman acknowledges that authorized utility ROEs
184 have historically exceeded various market-based benchmarks. Mr. Coleman then
185 cites the fact that authorized ROEs currently tend to be around the upper-9% range
186 as one reason he is comfortable recommending 10.0%.¹⁹ That reasoning risks
187 relying on the very circularity Mr. Coleman otherwise criticizes. The more direct
188 evidence of investors' required return is the market-based evidence produced by
189 the DCF, CAPM, and other financial analyses. Here, that evidence, including Mr.
190 Coleman's own analysis, provides substantial support for an ROE around 9.0%.

191 **Q. HAS THE COMMISSION PREVIOUSLY EXPRESSED CONCERN WHEN AN**
192 **ROE RECOMMENDATION EXTENDED ABOVE THE RESULTS OF THE**
193 **UNDERLYING FINANCIAL MODELS?**

194 A. Yes. In Rocky Mountain Power's recent general rate case, the Commission
195 expressed concern that Mr. Coleman's proposed reasonable ROE range extended
196 beyond the range directly supported by Mr. Coleman's financial models. The
197 Commission concluded that this discrepancy detracted from Mr. Coleman's ROE

¹⁹ *Id.* at pp. 20-21, 70.

198 position and reduced the usefulness of the underlying modeling.²⁰ According to
199 the Commission:

200 The range of reasonable ROEs provided by DPU is not expressly
201 supported by its modeling. DPU's modeling results range from an
202 ROE of 6.87 percent to 9.78 percent, but DPU's proposed
203 reasonable ROE range is 9.2 percent to 10.10 percent, thus
204 rendering the high-end of its range not directly supported by its
205 modeling. This evidentiary discrepancy detracts from DPU's ROE
206 position and limits the value of its modeling.²¹

207 I do not interpret that decision as prohibiting regulatory judgment. Rather, I believe
208 it reinforces the importance of providing a link between the financial models and
209 any recommendation outside their indicated range. In this case, DPU has
210 identified qualitative reasons for exercising judgment, but it has not demonstrated
211 why those considerations require a 100-basis-point adjustment. The distinction is
212 not simply the number of basis points by which a recommendation exceeds a
213 particular model result. The important question is whether the record provides
214 sufficient evidence linking the market-based analysis and the ultimate authorized
215 ROE. As discussed above, I believe the broader record in this case provides that
216 support for 9.0%, while DPU has not demonstrated a comparable market-based
217 basis for the additional adjustment to 10.0%.

218 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

219 **A.** Yes.

²⁰ *Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket No. 24-035-04, Order issued April 25, 2025, at 24.

²¹ *Id.*