

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF NEW MEXICO WATER	)	
SERVICE COMPANY’S APPLICATION FOR	)	
APPROVALS OF REVISED RATES	)	
PURSUANT TO ADVICE NOTICE NO. 23,	)	Case No. _____
FOURTEENTH REVISED RATE NOS. 1, 2,	)	
AND 4 AND FIRST REVISED RATE NO. 5	)	
	)	
	)	
NEW MEXICO WATER SERVICE COMPANY,	)	
	)	
APPLICANT.	)	
	)	
_____	)	

DIRECT TESTIMONY

OF

ZACHARY C. WRIGHT

ON BEHALF OF

NEW MEXICO WATER SERVICE COMPANY

June 26, 2026

NMPRC CASE NO.

DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY

DIRECT TESTIMONY OF
ZACHARY C. WRIGHT

TABLE OF CONTENTS

SECTION

PAGE

I.	INTRODUCTION	3
II.	PART II – RETURN ON EQUITY	6
A.	Purpose and Executive Summary	6
B.	Overview of Regulatory History and Issues in Return on Equity Development.....	8
C.	Proxy Group Selection.....	9
D.	Cost of Equity Estimation.....	11
i.	<u>Two-Stage DCF Model</u>	11
ii.	<u>CAPM Analysis</u>	13
iii.	<u>Other Discussion</u>	16
III.	PART III – CAPITAL STRUCTURE AND RATE OF RETURN.....	17
IV.	CONCLUSIONS AND RECOMMENDATIONS	20

LIST OF EXHIBITS

ZW-1	RESUME AND RECORD OF TESTIMONY FOR ZACHARY C. WRIGHT
ZW-2	NEW MEXICO WATER SERVICE COMPANY, INC. RETURN ON EQUITY MODEL
ZW-3	NEW MEXICO WATER SERVICE COMPANY, INC. RATE OF RETURN MODEL

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Zachary C. Wright. I am a Partner at NewGen Strategies and Solutions, LLC (“NewGen”). My business address is 49 Music Square West, Suite 505, Nashville, TN 37203.

Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.

A. I am a graduate of the University of Tennessee, Knoxville, with a Bachelor of Business Administration degree in Finance. I am also a graduate of Belmont University with a Master of Business Administration degree.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. From 2006 to 2009, I worked at Regions Financial Corporation (“Regions”) as a Commercial Credit Underwriter in the Nashville middle market. While at Regions, I was primarily engaged in pro forma financial analysis, underwriting various debt instruments, strategic capital planning, and other commercial banking functions. From 2009 to 2015, I worked at XO Communications (“XO”) as a Credit Supervisor. XO was a telecommunications company that owned various fiber and wireless spectrum assets throughout the United States and offered telecommunications services to commercial and governmental entities. While at XO, I was primarily responsible for performing financial analysis to determine the creditworthiness of existing and potential customers and developing strategies to mitigate default risk related to high-risk customers and service offerings.

NMPRC CASE NO.

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

1 I began working at NewGen in April 2015. I am currently a Partner at NewGen and
2 perform depreciation, cost of capital, appraisal, financial planning, cost of service, rate,
3 and benchmarking studies. I have developed and provided testimony on Return on
4 Equity and Rate of Return for utilities before the Federal Energy Regulatory
5 Commission, Public Utility Commission of Texas, North Carolina Utilities
6 Commission, and the Louisiana Public Service Commission. I am currently engaged
7 in other cases to provide similar analysis and expert witness testimony. In addition to
8 my NewGen responsibilities, I serve as the Vice President of the Society of
9 Depreciation Professionals and serve as the Chapter President and Secretary for the
10 Middle Tennessee chapter of the American Society of Appraisers. A copy of my
11 resume and record of testimony is provided in Exhibit ZW-1.

12 **Q. DO YOU HAVE ANY PROFESSIONAL CERTIFICATIONS?**

13 A. Yes. I am a Certified Rate of Return Analyst (“CRRA”) as conferred by the Society of
14 Utility and Regulatory Financial Analysts (“SURFA”). I am also a Certified
15 Depreciation Professional (“CDP”) by the Society of Depreciation Professionals and
16 an Accredited Senior Appraiser (“ASA”), Machinery and Technical Specialties, as
17 conferred by the American Society of Appraisers.

18 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. I am testifying on behalf of New Mexico Water Service Company, Inc. (“New Mexico
21 Water,” “Company,” or “NMWSC”). NMWSC is a wholly-owned subsidiary of
22 California Water Service Group (“CWSG”), a holding company traded on the NYSE

NMPRC CASE NO.

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

1 under the ticker symbol “CWT.” CWSG’s regulated operating subsidiaries include
2 California Water Service Company (“Cal Water”) in California and NMWSC in New
3 Mexico. Cal Water and NMWSC are affiliated regulated operating utilities under
4 common ownership of CWSG.

5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE NEW**
6 **MEXICO PUBLIC REGULATION COMMISSION (“COMMISSION”)?**

7 A. No, I have not previously testified before the Commission. However, I have previously
8 provided testimony before the Public Utility Commission of Texas in Docket Nos.
9 59530-804, 58830, 57518, and 58346; before the Louisiana Public Service
10 Commission in Docket No. U-36320; before the North Carolina Utilities Commission
11 in Docket No. W-1300 Sub 118; before the Florida Public Service Commission in
12 Docket No. 20260033-WS; before the Regulatory Commission of Alaska in Docket
13 No. TR2504670; and the Federal Energy Regulatory Commission (“FERC”) in Docket
14 No. 20260430-5657, and ER26-1136. The specific cases for which I provided
15 testimony are listed in Exhibit ZW-1.

16 **Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT**
17 **SUPERVISION?**

18 A. Yes.

19 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

20 A. Yes, I am sponsoring three exhibits: Exhibit ZW-1, my resume and a list of my prior
21 testimony; Exhibit ZW-2, NMWSC’s Return on Equity (“ROE”) Study as of April 30,

NMPRC CASE NO.

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

1 2026 (“ROE Study”); and Exhibit ZW-3, NMWSC’s Rate of Return (“ROR”)
2 calculation as of April 30, 2026.

3 **Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECT**
4 **SUPERVISION?**

5 A. Yes, I prepared these exhibits with the assistance of other consultants at NewGen.

6 **II. PART II – RETURN ON EQUITY**

7 **A. Purpose and Executive Summary**

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. The purpose of my testimony is to present evidence and provide an opinion about the
10 reasonableness of NMWSC’s requested ROE and requested ROR. The ROE Study and
11 ROR analysis was utilized by witness Chris Ekrut during the development of rates in
12 the rate case application. My analysis and resulting opinion of the reasonableness of
13 the requested ROE and requested ROR in this case are supported by the ROE Study.

14 **Q. WHAT APPROACHES DID YOU CONSIDER IN YOUR DEVELOPMENT OF**
15 **THE REQUESTED ROE?**

16 A. In conducting the ROE Study, I considered the two approaches that are commonly
17 relied upon for the development of Cost of Equity (“COE”) estimates. The Two-Stage
18 Discounted Cash Flow (“DCF”) and the Capital Asset Pricing Model (“CAPM”)
19 approaches are commonly used and accepted methodologies by this Commission. For
20 example, the methodologies were recently utilized and accepted by the Commission in

NMPRC CASE NO.

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

1 Docket W-218, Sub 629.¹ Additionally, these two approaches are relied upon by FERC
2 for the development of COE estimates, as discussed in Opinion Nos. 569,² 569-A,³ and
3 569-B⁴ and the Order On Remand in Docket Nos. EL14-12-016 and EL15-45-015.⁵
4 While NMWSC is not under FERC jurisdiction, these models represent widely
5 accepted methodologies grounded in empirical research. I gave equal weighting on the
6 estimated ROE developed using the DCF and the CAPM approaches. The development
7 and results of these models are discussed in greater detail in Part II, Section D of my
8 direct testimony.

9 **Q. WHAT ARE YOUR CONCLUSIONS REGARDING THE APPROPRIATE**
10 **ROE FOR NMWSC?**

11 A. My analysis in the ROE Study indicates that the appropriate ROE for NMWSC is
12 11.37%. The indicated range of ROE for the proxy group of water utilities in the ROE
13 Study is approximately 8.27% to 13.05%. It is my opinion, however, that the recently
14 approved ROE for California Water Service Company⁶, NMWSC's affiliated regulated

¹ *Order Approving Partial Settlement Agreement and Stipulations, Deciding Contested Issues, Approving Water and Sewer Investment Plan, Granting Partial Rate Increases, and Requiring Customer Notice*, Docket No. W-218, Sub 629, (N.C.U.C. February 20, 2026).

² *Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, 169 FERC ¶ 61,129 (2019).

³ *Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, 171 FERC ¶ 61,154 (2020).

⁴ *Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, 173 FERC ¶ 61,159 (2020).

⁵ *ALLETE, Inc. et al. v. Ass'n of Bus. Advocating Tariff Equity Coalition of MISO Transmission Customers et al.*, 189 FERC ¶ 61,036 (2024).

⁶ California Public Utilities Commission, Water Division. (2024, January 31). Approval of advice letter no. 2506: Cost of capital rate increase for Livermore district [Approval letter to California Water Service Company]. California Public Utilities Commission.

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

operating utility in California, represents an appropriate ROE for NMWSC. Cal Water’s approved ROE is 10.27%. I will discuss my conclusion about the appropriate ROE in subsequent sections.

B. Overview of Regulatory History and Issues in Return on Equity Development

Q. WHAT REGULATORY PRECEDENTS GUIDE THE ALLOWED RATE OF RETURN?

A. There are a number of cases decided at the United States Supreme Court (“U.S. Supreme Court”) that addressed the development of the allowed rate of return for utilities. Two of the most significant cases that shaped the current estimation of the allowed rate of return, and by extension the appropriate ROE, are the *Bluefield* and *Hope* cases.^{7,8} Dr. Roger Morin, Principal of Utility Research International, summarizes the precedent set by these cases as follows:⁹

In summary, the statements of the Court in the *Hope* and *Bluefield* cases established the following standards of fairness and reasonableness of the allowed rate of return for a public utility:

1. A standard of capital attraction
2. A standard of comparable earnings
3. Financial integrity

⁷ *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923).

⁸ *Federal Power Commission v. Hope Natural Gas Company*, 520 U.S. 391 (1944).

⁹ Morin, R. A., *Modern Regulatory Finance*. PUR Books LLC (2021).

NMPRC CASE NO.

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

1 These standards ensure that a utility can attract capital from investors by delivering a
2 rate of return that is commensurate with investments of similar risk and help ensure
3 that the utility can continue operating as a going concern.

4 **Q. EXPLAIN WHY IT IS IMPORTANT THAT A UTILITY BE ALLOWED THE**
5 **OPPORTUNITY TO EARN A FAIR RATE OF RETURN?**

6 A. If a utility is not allowed the opportunity to earn a fair rate of return, it may be unable
7 to attract capital and risks insolvency. The utility industry is capital intensive, and
8 ongoing investment in a plant is necessary to deliver the quality of service required by
9 regulation and the public. The services provided by the utility are essential, and the
10 utility's opportunity to earn a fair rate of return helps ensure that those services continue
11 to be delivered.

12 **C. Proxy Group Selection**

13 **Q. WHY IS A PROXY GROUP USED IN THE ESTIMATION OF THE**
14 **APPROPRIATE ROE FOR NMWSC?**

15 A. A proxy group is necessary in the development of the appropriate ROE for NMWSC
16 because NMWSC is not traded on a public stock exchange. While other components
17 of the total cost of capital, such as the cost of debt, have known cost rates, the cost of
18 equity is an estimate of the rate of return an average investor would require given the
19 level of risk of a particular investment. In this case, that investment is in the equity
20 component of NMWSC. Since NMWSC's equity is not actively traded on a public
21 exchange, the selection of a proxy group with similar characteristics and comparable

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

1 investment risk is necessary. This proxy group in the ROE Study is comprised of
2 investor-owned utilities that are actively traded on a public exchange.

3 **Q. HOW MANY COMPANIES ARE INCLUDED IN THE PROXY GROUP?**

4 A. The ROE Study includes 10 publicly traded utilities in the proxy group. These utilities
5 are listed in Value Line's Water Utility classification¹⁰ in the United States. While the
6 initial proxy group includes all these publicly traded utilities, several are excluded
7 based on further analysis.

8 **Q. HOW DID YOU SELECT THE COMPANIES INCLUDED IN THE PROXY**
9 **GROUP?**

10 A. I applied several criteria in the development of the proxy group for the ROE Study.
11 First, each utility has an investment grade credit rating. Second, each utility regularly
12 pays dividends to its investors. Finally, none of the utilities participated in significant
13 merger and acquisition activity close to the date of the ROE estimation in the ROE
14 Study. These screening criteria resulted in the exclusion of four utilities from the initial
15 proxy group. Leaving these utilities in the proxy group would have the effect of
16 skewing the risk and return that investors would expect in an otherwise stable portfolio
17 comprised of proxy utilities.

18

¹⁰ Value Line is an investment research service which collects investment research, data, expert analysis, and commentary for a variety of U.S. and foreign companies and industries and scores companies' investment potential. Value Line is a trusted source and is typically used in developing and evaluating proxies for utilities.

DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY

1 D. Cost of Equity Estimation

2 Q. WHAT APPROACHES WERE UTILIZED IN THE ESTIMATION OF THE
3 APPROPRIATE ROE FOR NMWSC?

4 A. The ROE Study estimated the appropriate ROE using the DCF and CAPM models
5 which are commonly utilized and accepted determinations of ROE by this Commission.
6 Figure 1 illustrates the general structure for the range of zones for a reasonable ROE.¹¹

7 **Figure 1: Range of Zones for Reasonable ROEs**



8

9

10 *i. Two-Stage DCF Model*

11 Q. PLEASE DESCRIBE THE TWO-STAGE DCF MODEL USED IN THE ROE
12 STUDY FOR NMWSC.

13 A. The model can be described mathematically as shown in Figure 2 below.

¹¹ ALLETE, Inc. et al. v. Ass'n of Bus. Advocating Tariff Equity Coalition of MISO Transmission Customers et al., 189 FERC ¶ 61,036 (2024).

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

Figure 2: Two-Stage DCF

$$K = \frac{D_0}{P_0} (1 + 0.5g) + 0.8 (g_s) + 0.2 (g_l)$$

Where: K = cost of equity
D₀/P₀ = average dividend yield over the past six months
g = average growth rate
g_s = short-term growth rate (Earnings Per Share or “EPS” forecasts)
g_l = long-term growth rate (gross domestic product forecasts)

Q. PLEASE DESCRIBE THE STEPS TAKEN TO DEVELOP THE TWO-STAGE DCF MODEL USED IN THE ROE STUDY FOR NMWSC.

A. The first step in the development of the DCF model in the NMWSC Study was to determine the average dividend yield for each of the utilities in the proxy group over the prior six-month period. This was accomplished by dividing the average stock price over the course of the month by the annualized dividend for the respective quarter and determining the average value over the six-month period. The projected average earnings per share growth for the short-term period was estimated to be equal to the five-year projected growth rate as shown on S&P Global IQ’s Capital IQ platform. The indicated average dividend yield was then multiplied by 1 plus 0.5 times the projected earnings per share growth over the short-term period. This result is referred to as the Adjusted Dividend Yield in my testimony.

The next step was to estimate the long-term growth rate from Gross Domestic Product (“GDP”) forecasts. The ROE Study relied upon the average long-term GDP projections as forecast by S&P Global IQ, the United States Energy Information Administration, and the Social Security Administration. Next, the weighted growth

NMPRC CASE NO.

DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY

1 was determined by placing weightings of 80% and 20% on the short-term and long-
2 term indicated earnings per share growth factors, respectively. This weighted growth
3 was then added to the Adjusted Dividend Yield to arrive at the indicated ROE for each
4 utility in the proxy group.

5 **Q. ARE THERE ADDITIONAL STEPS IN THE DEVELOPMENT OF RANGES**
6 **OF ACCEPTABLE ROE UNDER THE TWO-STAGE DCF MODEL?**

7 A. Yes. After these steps, the results were separated into ranges as shown in Figure 1.
8 Any lower bound outliers that had indicated ROE results less than the yield on a
9 corporate Baa rated bond plus 20% of the Risk Premium developed in the CAPM
10 analysis were eliminated. Any high-end outliers with 200% of the median indicated in
11 the ROE results were also eliminated. No utilities in the proxy group for the ROE
12 Study were outliers based on this methodology.

13 **Q. WHAT ARE THE INDICATED ROE RESULTS FROM THE TWO-STAGE**
14 **DCF MODEL?**

15 A. The indicated reasonable range of appropriate ROE under the DCF model is
16 approximately 8.27% to 13.05%. The median of this analysis is approximately 10.21%.

17 *ii. CAPM Analysis*

18 **Q. PLEASE DESCRIBE THE CAPM MODEL USED IN THE ROE STUDY FOR**
19 **NMWSC.**

20 A. The model can be described mathematically as shown in Figure 3, below.

DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY

Figure 3: CAPM

$$K = R_f + B (R_m - R_f)$$

Where: K = cost of equity

R_f = risk free rate

R_m = return on market

B = beta

R_m - R_f = market risk premium

Q. PLEASE DESCRIBE THE STEPS TAKEN TO DEVELOP THE CAPM MODEL USED IN THE ROE STUDY FOR NMWSC.

A. The first step in the development of the CAPM was to determine the short-term weighted average dividend yield for dividend paying members of the S&P 500. This weighted average must exclude members that have either negative growth rates or growth rates exceeding 20%. Next, the short-term projected EPS was estimated from the projected annual growth for S&P 500 Members. The ROE Study employed estimates from S&P Global IQ for the short-term EPS growth forecast. The summation of these results is the indicated Return on Market ("R_m").

Next, the Risk-Free rate ("R_f") was developed. The ROE Study utilized the six-month average market yield on 30-year constant maturity United States Treasuries. Subtracting R_f from R_m yielded the Risk Premium ("Risk Premium"). The Risk Premium represents the extra return investors expect as compensation for assuming the additional risk associated with an investment in a diversified portfolio of common stocks, compared to the return they would expect from an investment in risk-free

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

1 securities. The Risk Premium was then multiplied by the beta, and the result was added
2 to the Rf to arrive at the implied ROE. This was completed for each utility within the
3 proxy group.

4 **Q. DID THE ROE STUDY INDICATE THE NEED TO ADJUST THE RESULTS**
5 **FOR A SIZE PREMIUM?**

6 A. Yes. A size premium adjusts for the higher risks associated with smaller, less
7 diversified companies which the CAPM may underestimate. I performed an analysis
8 of the potential size premium using Center for Research in Security Prices (“CRSP”)
9 inputs as provided by Kroll Cost of Capital Navigator (“Kroll”).¹² The size premiums
10 were applied to each utility in the proxy group based on the CRSP premium by decile,
11 based on the market value of each utility’s common equity. The size adjustments for
12 the utilities in the proxy group ranged from a low of 0.27% to a high of 1.05% for the
13 study period.

14 **Q. ARE THERE ADDITIONAL STEPS IN THE DEVELOPMENT OF RANGES**
15 **OF ACCEPTABLE ROE UNDER THE CAPM MODEL?**

16 A. Yes. The next step is to identify and exclude any outliers from the proxy group based
17 on the cost of equity estimated in the prior steps in developing the CAPM. The low-
18 end outlier is determined by adding the indicated yield on a Baa rated bond plus 20%
19 of the market risk premium estimated in the CAPM. Any high-end outliers with 200%

¹² 2024 data from Kroll, 2024 CRSP Decile Size Study - Supplementary Data Exhibits, Cost of Capital Navigator. The Kroll data is the type which is typically relied upon when developing ROEs under the CAPM model.

NMPRC CASE NO.

DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY

1 of the median indicated in the ROE results were also considered for exclusion. No
2 utilities in the proxy group for the ROE Study were identified as outliers based on this
3 methodology.

4 **Q. WHAT ARE THE INDICATED ROE RESULTS FROM THE CAPM MODEL?**

5 A. The indicated reasonable range of appropriate ROE under the CAPM model is
6 approximately 12.38% to 12.88%. The median of this analysis is approximately
7 12.53%.

8 *iii. Other Discussion*

9 **Q. WAS THE RISK PREMIUM MODEL APPROACH UTILIZED IN THE**
10 **ESTIMATION OF THE APPROPRIATE ROE FOR NMWSC?**

11 A. No. I did not utilize the Risk Premium Model (“RPM”) approach in the estimation of
12 the appropriate ROE for NMWSC. The RPM approach applies an equity risk premium
13 that does not include a mechanism to isolate the systematic component of risk. For that
14 reason, I utilized the CAPM approach, which uses beta to capture the systematic
15 component of risk of the subject company. The CAPM is a more robust model to
16 estimate the ROE and includes the core components of the RPM. The RPM as a
17 standalone model is not a complete analysis of all risk, in my professional opinion.

18 **Q. WAS THE SINGLE-STAGE DCF MODEL UTILIZED IN THE ESTIMATION**
19 **OF THE APPROPRIATE ROE FOR NMWSC?**

20 A. No. I did not utilize the Single-Stage DCF model in the estimation of the appropriate
21 ROE for NMWSC. The Single-Stage DCF model relies on a constant, perpetual growth

NMPRC CASE NO.

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

1 rate, meaning the resulting ROE is heavily dependent on the selected growth rate,
2 which may or may not be applicable into perpetuity. For that reason, I utilized the Two-
3 Stage DCF model, which relies on the projected average earnings per share for the
4 short-term growth rate, since near-term growth is more predictable, and GDP forecasts
5 for the long-term growth rate. In my professional opinion, the Two-Stage DCF model
6 provides a more complete analysis of all risks.

7 **III. PART III – CAPITAL STRUCTURE AND RATE OF RETURN**

8 **Q. WHAT CAPITAL STRUCTURE ARE YOU RECOMENDING FOR NMWSC?**

9 A. I recommend that NMWSC use a 46.60 percent debt and 53.40 percent equity capital
10 structure. This capital structure mirrors Cal Water's recently approved capital
11 structure.

12 **Q. WHAT COST OF DEBT AND EQUITY ARE YOU RECOMMENDING?**

13 A. I recommend that NMWSC use a 4.23 percent cost of debt and a 10.27 percent cost of
14 equity. This cost structure mirrors Cal Water's recently approved capital cost rates.

15 **Q. HOW WAS THE RATE OF RETURN DETERMINED?**

16 A. The Rate of Return ("ROR") was determined using NMWSC's weighted average cost
17 of capital ("WACC").

18 **Q. PLEASE DESCRIBE THE WACC FORMULA.**

19 A. The WACC calculates a utility's cost of capital based on debt and equity financing.
20 The cost of debt and equity financing are weighted to reflect the amount of debt

NMPRC CASE NO.

DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY

1 compared to equity. The mix of debt and equity is called the company's capital
2 structure.

3 **Q. HOW WAS THE APPROPRIATE RATE OF RETURN DETERMINED TO**
4 **APPLY TO THE RATE BASE?**

5 A. To develop an appropriate ROR for NMWSC, I determined a weighted average cost of
6 capital for NMWSC based on the recently approved capital structure and cost of capital
7 components for its affiliated California operating utility, Cal Water, as approved by the
8 CPUC in Advice Letter 2506.

9 **Q. WHAT IS THE RECOMMENDED WACC BASED ON YOUR RECOMMENDED**
10 **CAPITAL STRUCTURE?**

11 A. Using these amounts, the recommended WACC is equal to the cost of equity, weighted
12 at 53.40 percent, plus the cost of debt, weighted at 4.23 percent, which is equal to 7.46
13 percent. The WACC calculation is shown in Wright Exhibit 3.

14 **Q. IS THIS RETURN CONSISTENT WITH THE CAPITAL STRUCTURE,**
15 **CAPITAL COST RATES, AND RATE OF RETURN APPROVED FOR OTHER**
16 **NEW MEXICO WATER SYSTEMS?**

17 A. The return is consistent with the rate of return approved by the State of California
18 Public Utilities Commission (CPUC) in their Advice Letter No. 2506.⁶

19 **Q. WHY IS IT APPROPRIATE TO UTILIZE THE CAPITAL STRUCTURE,**
20 **CAPITAL COST RATES, AND RATE OF RETURN APPROVED BY THE**

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

1 **STATE OF CALIFORNIA IN THIS PROCEEDING BEFORE THE**
2 **COMMISSION?**

3 A. As a subsidiary of CWSG, NMWSC benefits directly from the financial relationship
4 with and the credit quality of its parent company. This enables an overall lower cost
5 of borrowing for NMWSC customers, resulting in lower overall rates than would be
6 achievable if NMWSC was a stand-alone entity. As noted in The Cost of Capital – A
7 Practitioner’s Guide¹³ several key questions help to determine an appropriate capital
8 structure when such a parent – affiliate relationship exists. Specifically:

9
10 **“Whether the subsidiary utility obtains all of its capital from its parent, or issues**
11 **its own debt and preferred stock; Whether the parent guarantees any of the**
12 **securities issued by the subsidiary; Whether the subsidiary’s capital structure is**
13 **independent of its parent...; and, Whether the parent...is diversified into non-**
14 **utility operations.”**

15
16 In this instance, NMWSC obtains its capital from CWSG and does not issue its own
17 debt or stock. The credit quality of the parent, not the subsidiary, drives the cost of
18 borrowing. Further, NMWSC is only involved in the water and wastewater business
19 and is not involved in non-utility operations. All of these aspects support the use, for
20 NMWSC, of the capital structure, cost of debt, and ROE most recently approved by the

¹³ Parcel, D.C. (2020). *The Cost of Capital: A Practitioner’s Guide*. Society of Utility and Regulatory Financial Analytics

NMPRC CASE NO.

**DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY**

1 CPUC for Cal Water, NMWSC's similarly situated regulated operating affiliate under
2 the same parent.
3

4 **IV. CONCLUSIONS AND RECOMMENDATIONS**

5 **Q. WHAT IS YOUR RECOMMENDED APPROPRIATE ROE FOR NMWSC?**

6 A. It is my recommendation that the appropriate ROE for NMWSC is 10.27 percent. This
7 reflects the ROE most recently approved by the CPUC for Cal Water, NMWSC's
8 California regulated operating affiliate, in Advice Letter 2506. This approach is
9 conservative in that it is lower than the midpoint of the average risk proxy group
10 indicated in the ROE analysis shown in ZW-2. I also note that any ROE less than this
11 may impede NMWSC's opportunity to earn a fair and reasonable return.

12 **Q. WHAT IS YOUR RECOMMENDED APPROPRIATE ROR FOR NMWSC?**

13 A. It is my recommendation that the appropriate ROR for NMWSC is 7.46 percent. This
14 represents a COE of 10.27 percent weighted at 53.40 percent plus a cost of debt of 4.23
15 percent weighted at 46.60 percent.

16 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A. Yes, it does.
18
19
20

NMPRC CASE NO.

DIRECT TESTIMONY OF ZACHARY C. WRIGHT
ON BEHALF OF
NEW MEXICO WATER SERVICE COMPANY

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF NEW MEXICO WATER
SERVICE COMPANY'S APPLICATION FOR
APPROVALS OF REVISED RATES
PURSUANT TO ADVICE NOTICE NO. 23,
FOURTEENTH REVISED RATE NOS. 1, 2,
AND 4 AND FIRST REVISED RATE NO. 5

NEW MEXICO WATER SERVICE COMPANY,

APPLICANT.

Case No. _____

ELECTRONICALLY SUBMITTED VERIFICATION

Zachary C. Wright, under penalty of perjury under the laws of the State of New Mexico,
states:

1. I make this verification pursuant to 1.2.2.10(E) NMAC and New Mexico R. 1-011(B) NMRA.

2. I have read and am familiar with the foregoing *Direct Testimony of Zachary C. Wright*, and the statements therein are true and correct based on my personal knowledge and belief.

Dated: 06/24/26

/s/Zachary C. Wright
Zachary C. Wright



ZAK C. WRIGHT

Partner

CONTACT

49 Music Square West, Suite 505
Nashville, TN 37203
zwright@newgenstrategies.net
www.newgenstrategies.net

EDUCATION

Master of Business Administration,
Belmont University

Bachelor of Business Administration in
Finance, University of Tennessee
Knoxville

PROFESSIONAL REGISTRATIONS/ CERTIFICATIONS/COMMITTEES

Accredited Senior Appraiser (ASA) by the
American Society of Appraisers

Certified Depreciation Professional (CDP)
by the Society of Depreciation
Professionals

Certified Rate of Return Analyst (CRRA) by
the Society of Utility and Regulatory
Financial Analysts

Vice President, Society of Depreciation
Professionals

President, Middle Tennessee Chapter,
American Society of Appraisers

KEY EXPERTISE

Appraisals and Valuation
Contract and Formula Rate Review
Cost on Equity/Rate of Return Filings
Cost of Service and Rate Design
Depreciation Studies
Financial Feasibility Analysis
Financial Planning & Budgeting Models
Municipalization Feasibility Analysis

Mr. Zak Wright performs appraisals, depreciation studies, rate of return analysis, financial forecast analysis, financial analyses, and cost of service and rate design studies for electric, natural gas, water, and wastewater utilities. Before joining NewGen, he worked as a Commercial Credit Analyst and has experience in corporate finance, pro forma financial analysis, financial modeling, underwriting, banking, and strategic and capital planning. He attained his Master of Business Administration from the Massey School of Business at Belmont University. Mr. Wright is an Accredited Senior Appraiser (ASA), Machinery and Technical Specialties by the American Society of Appraisers, a Certified Depreciation Professional (CDP) by the Society of Depreciation Professionals, and a Certified Rate of Return Analyst (CRRA) by the Society of Utility and Regulatory Financial Analysts.

RELEVANT EXPERIENCE

Financial Planning & Budgeting Models

Mr. Wright develops comprehensive financial models to streamline utility rate design studies and determine the optimal level of funded debt and capital investment within various budget, usage, and customer base scenarios. His clients include:

- City of Charlottesville, VA
- City of Denton, TX
- Fayetteville Public Works Commission, NC
- City of Georgetown, KY
- Cleveland Public Power, OH
- Fairbanks Natural Gas / Interior Gas Utility, AK
- Kentucky Municipal Energy Agency, KY
- Neel-Schaffer, Inc. (City of Biloxi), MS

Cost of Service and Rate Design

Mr. Wright conducts and assists with wholesale and retail cost of service and rate design studies for electric distribution, natural gas distribution, and water and wastewater utilities to help them understand the operational and financial impacts of their residential and commercial services. These studies include creating wholesale and retail rate models in Microsoft Excel that are customized to meet the needs of each client. Many of these studies also included the creation of complex databases from Advanced Metering Infrastructure (AMI) datasets to support the wholesale and retail models. His clients include:

- City of Bonham, TX
- City of Gatesville, TX
- City of Justin, TX
- City of Lewisville, TX
- City of Mansfield, TX
- City of Marshall, TX
- City of Mt. Pleasant, TX
- City of Paris, KY
- City of Nicholasville, KY
- City of Niles, OH
- City of Springfield, MO Coachella Valley Water District, CA
- Corbin Utilities Commission, KY
- Fox Metro Wastewater Reclamation District, IL
- Princeton Electric Plant Board, KY
- South Toledo Bend Water District, Many, LA

ZAK C. WRIGHT

Partner

Cost of Service and Rate Design Cont'd

- State of Louisiana – Office of Community Development
- Village of Greenport, NY
- Village of Orland Park, IL

Rate Benchmarking

Mr. Wright benchmarks competitors' rates against the client's rates to determine costs based on several factors, including specific usage patterns and customer classes. He developed recommendations on the potential rate design. His benchmarking clients include:

- City of Bardstown, KY
- CPS Energy, TX
- Mayfield Electric and Water Systems, KY
- City of Nicholasville, KY

Rate Analysis

Mr. Wright analyzed the impact of fluctuating natural gas and funded debt prices on the economic viability of constructing a natural gas distribution system and utility in Alaska. He assessed the customer conversion rate and its impact on the utility's ability to deliver gas at a lower price. Mr. Wright also reviewed the rate for Cumberland River Southeastern Power Administration (SEPA) end-use customers. The assessment helped illustrate to the power administration that building a 50-year rate that included the cost of all potential capital improvement projects during that period would make the power unmarketable to these customers. This analysis helped encourage the power authority to incorporate a compromise true-up approach into their rate design.

- Cumberland River Southeastern Power Administration (SEPA) customers
- Stantec (Interior Gas Utility), AK

Municipalization Feasibility Analysis

Mr. Wright compiled demographic information from comparable municipal electric districts to approximate customer base, usage, and revenue information to support the client's investigation into forming a municipal electric system. He utilized the compiled data and the most recent incumbent utility's cost of service data to develop a financial model assessing the financial feasibility of this undertaking and its economic impact on the city and its residents. Mr. Wright's municipalization projects include:

- City of Spearfish, SD

Contract and Formula Rate Review

Mr. Wright reviews annual rate formulas to ensure they comply with settlement agreements between a group of municipal utilities and an investor-owned utility (IOU). He also verifies that settlement formulas and calculations that the IOU filed with the Federal Energy Regulatory Commission (FERC) accurately determined the monies due to the cities. Mr. Wright's clients include:

- City of Bardwell, KY
- City of Paris, KY
- Kentucky Municipal Group, KY
- City of Nicholasville, KY
- Kentucky Municipal Energy Agency, KY

Franchise Fee Analysis

Mr. Wright developed a database to test the accuracy of franchise fee payments to a group of cities in Texas. He manipulated approximately 40GB flat file of raw data from discovery into models that tested for under-recovery for cities and provided defensible results.

- Lloyd Gosselink Rochelle & Townsend, PC

ZAK C. WRIGHT

Partner

Power Supply Planning

Mr. Wright reviews requests for proposal responses and develops a common-size expense model to determine the all-in cost of each respondent's proposal. He also supports the development of the project award recommendation. His projects include:

- City of Bardwell, KY
- Kentucky Municipal Energy Agency, KY
- Kentucky Municipal Group, KY
- City of Paris, KY

Appraisals and Valuation

Mr. Wright has conducted valuations and fair market value appraisals to determine an indication of value for acquisitions/dispositions or to evaluate municipalization or privatization of utilities. His experience also includes service area valuations to assess compensation for decertification of areas covered by certificates of convenience and necessity.

Water and Wastewater Systems

- Abby Plantation DBA Louisiana Sewer Utilities
- Aqua Texas
- Bickerstaff heath Delgado Acosta LLP
- Canyon Lake Water Service Company
- Carteret County, NC
- City of Lawrenceville, GA
- Clifford, Ross, Raudenbush & Cooper, LLC, AZ
- Conrad Consulting & Training LLC, IN
- CSWR Texas – Carroll Water Company
- CSWR Texas – City of Ferris, TX
- CSWR Texas – Douglas Utility Company
- CSWR Texas – Lake Limestone Coves
- CSWR Texas – Leon Springs
- CSWR Texas – North Orange
- CSWR Texas – Northside Subdivision Water Plant and Distribution Corp.
- CSWR Texas – Patterson Water Supply
- Dentons Bingham Greenebaum LLP
- Gregg Law PC
- King George County Service Authority, VA
- Monarch I, LP – Woodland Oaks
- Nexus Water Group – Crystal Springs Water Company, Inc.
- Public Utility Commission of Texas
- Sands Anderson, PC
- Scurry County, TX
- SouthWest Water, Inc.
- Texas Water Utilities – Arroyo Doble Water System
- Texas Water Utilities – NextEra Water Texas
- Town of Lexington, SC
- York Water Company

Power Generation Assets

- CPS Energy, TX
- Greer, Herz & Adams, LLP, TX
- MWH America, Inc.
- Robbins Schwartz
- Somervell County Appraisal District, TX
- Williams Mullen

Hydro-electric Generation Assets

- City of Hamilton, OH
- Hudson River-Black River Regulating District
- Walden Environmental Engineering
- Dentons Bingham Greenebaum LLP

Oil Refining Facilities

- Greer, Herz & Adams, LLP, TX

ZAK C. WRIGHT

Partner

Coal Generation Assets

- Robbins Schwartz
- Rusk County Appraisal District, TX
- Shawnee Community Unit School District 84
- Tri-State G&T Association, CO

Power Distribution Assets

- City of Harrisonburg, VA
- Dairyland Electric Cooperative
- HDR – Bureau of Indian Affairs
- MWH Corporation, TN
- Middle Tennessee Electric Membership Corp

Gas Assets

- City of Rockport, TX

Power Transmission Assets

- City of Abilene, TX
- Dairyland Power Cooperative, WI

Streetlight and Lighting Assets

- City of Kileen, TX

Waste-to-Energy Facilities

- City of Lisbon, CT
- Onandaga County Resource Recovery Agency, NY

Power Supply Contracts

- Basic Management, Inc., NV

Solar Assets

- Parker Gentry & Parker, Inc.

CCN Decertification

- Bickerstaff Heath Delgado Acosta LLP, TX
- Gregg Law PC, TX
- Lloyd Gosselink Rochelle & Townsend, PC
- Mustang/Marilee SUD, TX
- Public Utility Commission of Texas

Depreciation Analyses and Studies

Mr. Wright conducts and assists in Depreciation Studies to determine the estimated useful life span and depreciation parameters of utility assets. These studies include:

- Bryan Texas Utilities
- City Light & Power, WA
- CPS Energy, TX
- Farmington Electric Utility System, NM
- Kauai Island Utility Cooperative, HI
- Los Angeles Department of Water and Power, CA
- Golden Valley Electric Association, Inc.
- Lubbock Power & Light, TX
- New Braunfels Utilities, TX
- Tri-State G&T Association, CO
- Barrow Utility and Electric Cooperative, Inc.

Record of Testimony: Zak Wright, ASA, CDP, CRR

UTILITY	PROCEEDING	SUBJECT	BEFORE	CLIENT	YEAR
1. Basin Electric Power Cooperative	Docket No. 20260430-5657	Petition for Declaratory Order of Basin Electric Power Cooperative under EL26-62.	Federal Energy Regulatory Commission	Basin Electric Power Cooperative	2026
2. Old North State Water Company, Inc.	Docket No. W-1300 Sub 118	Application for Authority to File a General Rate Case to Increase Rates for Water and Sewer Utility Services in Authorized North Carolina Service Areas for Old North State Water Company, Inc.	North Carolina Utilities Commission	Old North State Water Company, Inc.	2026
3. Blue Topaz Utilities	Docket No. 59530-804	Application of T&W Water Service Company DBA Blue Topaz Utilities for Authority to change rates	Texas Public Utility Commission	Blue Topaz Utilities	2026
4. Placid Lakes Utilities, Inc.	Docket No. 20260033-WS	Application for authority to transfer assets of exempt entity in Highlands County by Placid Lakes Utilities, Inc. to Sunshine Water Services Company, and amendment of Certificate No. 347-S, by Sunshine Water Service Company.	Florida Public Service Commission	Placid Lakes Utilities, Inc.	2026
5. Farmington Electric Utility System	Docket No. ER26-1136	Southwest Power Pool, Inc. submits tariff filing per 35.13(a)(2)(iii): Farmington Electric Utility System Stated Rate Filing to be effective 4/1/2026 under ER26-1136	Federal Energy Regulatory Commission	Farmington Electric Utility System	2026
6. Bryan Texas Utilities	Docket No. 58830	Application of Bryan Texas Utilities to Change Wholesale Transmission Service Rates	Texas Public Utility Commission	Bryan Texas Utilities	2025
7. Golden Valley Electric Association	Docket No. TR2504670	Golden Valley Electric Association - Revenue Requirement and Cost of Service Study	Regulatory Commission of Alaska	Golden Valley Electric Association	2025

Record of Testimony: **Zak Wright, ASA, CDP, CRR**

UTILITY	PROCEEDING	SUBJECT	BEFORE	CLIENT	YEAR
8. City of San Antonio	Docket No. 58346	Application of City of San Antonio, Acting By and Through the City Public Service Board (CPS Energy), to Change Rates for Wholesale Transmission Service	Texas Public Utility Commission	CPS Energy	2025
9. Energy Transmission Texas, a subsidiary of AEP Texas, Inc.	SOAH Docket No. 473-25-11563; PUC Docket No. 57518	Application of Electric Transmission Texas LLC for Authority to Change Rates	Texas Public Utility Commission	Office of Public Utility Counsel	2025
10. Abby Plantation Estates Sanitary Sewer Corporation	Docket No. U-36320	Wastewater Cost of Service Rate Filing	Louisiana Public Service Commission	Abby Plantation Estates Sanitary Sewer Corporation	2024

New Mexico Water Service Company, Inc.
Table A: Utility Proxy Group

	Column A	Column B	Column C	Column D	Column E
Line No.	Company [1]	Ticker	Value Line Industry Name/Location	S&P Long-term Issuers [2]	Moody's Long-term Issue and/or Senior Unsecured [2]
All Investment Grade Value Line Utilities					
1	American States Water Co	AWR	Water Utility	A	WR*
2	American Water Works	AWK	Water Utility	A	Baa1
3	California Water Service Group	CWT	Water Utility	A+	WR*
4	Essential Utilities	WTRG	Water Utility	A-	Baa2
5	H2O America	HTO	Water Utility	A-	N/A
6	Middlesex Water Co	MSEX	Water Utility	A	WR*
Companies Excluded from Utility Proxy Group					
7	Artesian Resources Corporation	ARTN.A	Water Utility	N/A	N/A
8	Consolidated Water	CWCO	Water Utility	N/A	N/A
9	Global Water Resources Inc	GWRS	Water Utility	N/A	N/A
10	York Water Company	YORW	Water Utility	A-	N/A

Footnotes:

- [1] Value Line water utilities as of April 30, 2026
 [2] Credit ratings as of April 30, 2026
 * Rating was Withdrawn

New Mexico Water Service Company, Inc.
Table B: Two-Step Discounted Cash Flow (DCF) Analysis Results

	Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H
Line No.	Company	Ticker	6 Month Average Dividend Yield [1]	Projected EPS Growth [2]	GDP Growth [3]	Weighted Growth [4]	Adjusted Dividend Yield [5]	DCF ROE Estimate
1	American States Water Co	AWR	2.72%	6.93%	3.84%	6.31%	2.81%	9.12%
2	American Water Works	AWK	2.52%	8.05%	3.84%	7.21%	2.62%	9.83%
3	California Water Service Group	CWT	2.84%	10.62%	3.84%	9.26%	2.99%	12.25%
4	Essential Utilities	WTRG	3.50%	4.89%	3.84%	4.68%	3.59%	8.27%
5	H2O America	HTO	3.30%	8.00%	3.84%	7.17%	3.43%	10.60%
6	Middlesex Water Co	MSEX	2.76%	11.70%	3.84%	10.13%	2.92%	13.05%
7	Summary		DCF Estimate					
8	Lower Bound		8.27%					
9								
10	Median		10.21%					
11								
12	Upper Bound		13.05%					
13	Low-End and High-End Outlier Test							
14	Baa Yield + 20% Risk Premia		7.71%					
15	Moody's 6 Month Baa Avg Yield November '25 - April '26 [6]		5.89%					
16	Risk Premia		9.12%					
17	Median		10.21%					
18	Median * 2		20.42%					
19	Summary - After Removing Outliers							
20	Lower Bound		8.27%					
21								
22	Median		10.21%					
23								
24	Upper Bound		13.05%					

Footnotes:

- [1] Average of the monthly low and high dividend yields for the six months ending April 30, 2026
- [2] S&P Capital IQ ("SPCIQ") reported consensus of analysts' projected 5 year earnings per share growth rate as of April 30, 2026.
- [3] Based on EIA, IHS Markit, and SSA reports.
- [4] Composite average growth rate with SPCIQ and GDP growth rates weighted 80% and 20%, respectively.
- [5] Dividend yield times $(1 + 0.5g)$, where g = SPCIQ growth rate.
- [6] Moody's Corporate Bond Index Yield from Mergent Bond Record

NewGen
Strategies & Solutions

New Mexico Water Service Company, Inc.

Table C: Capital Asset Pricing Model (CAPM) Analysis

	Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Column K
Line No.	Company	Ticker	Dividend Yield [1]	Projected Growth [2]	Return on Market	Risk-Free Rate [3]	Risk Premium	Beta [4]	Implied Cost of Equity	Size Adjustment [5]	Adjusted Cost of Equity
1	American States Water Co	AWR	1.46%	12.47%	13.93%	4.81%	9.12%	0.75	11.65%	0.88%	12.53%
2	American Water Works	AWK	1.46%	12.47%	13.93%	4.81%	9.12%	0.80	12.11%	0.27%	12.38%
3	California Water Service Group	CWT	1.46%	12.47%	13.93%	4.81%	9.12%	0.75	11.65%	0.88%	12.53%
4	Essential Utilities	WTRG	1.46%	12.47%	13.93%	4.81%	9.12%	0.80	12.11%	0.40%	12.51%
5	H2O America	HTO	1.46%	12.47%	13.93%	4.81%	9.12%	0.75	11.65%	1.05%	12.71%
6	Middlesex Water Co	MSEX	1.46%	12.47%	13.93%	4.81%	9.12%	0.80	12.11%	0.77%	12.88%
7	Summary		CAPM Estimate								
8	Lower Bound		12.38%								
9											
10	Median		12.53%								
11											
12	Upper Bound		12.88%								
13	Low-End and High-End Outlier Test										
14	Baa Yield + 20% Risk Premia		7.71%								
15	Moody's 6 Month Baa Avg Yield November '25 - April '26 [6]		5.89%								
16	Risk Premia		9.12%								
17	Median		12.53%								
18	Median * 2		25.07%								
19	Summary - After Removing Outliers										
20	Lower Bound		12.38%								
21											
22	Median		12.53%								
23											
24	Upper Bound		12.88%								

Footnotes:

[1]

Weighted average for dividend-paying stocks in the S&P 500 based on data from SPCIQ as of April 30, 2026

[2]

Weighted average growth rate for dividend-paying stocks in the S&P 500 based on data from SPCIQ as of April 30, 2026

[3]

Six-month average yield on 30-year Treasury bonds for November 2025 - April 2026 from the Federal Reserve Board at <https://www.federalreserve.gov/datadownload/Choose.aspx?rel=H15>.

[4]

Value Line Betas as of April 30, 2026

[5]

2024 data from Kroll, 2024 CRSP Deciles Size Study – Supplementary Data Exhibits, Cost of Capital Navigator.

[6]

Moody's Corporate Bond Index Yield from Mergent Bond Record

NewGen Strategies & Solutions

New Mexico Water Service Company, Inc.

Table D: Results of DCF and CAPM Analyses Averaged

	Column A	Column B	Column C	Column D	Column E	Column F
Line No.	Discounted Cash Flow Model		Capital Asset Pricing Model		DCF and CAPM Results Averaged	
1	Lower Bound	8.27%	Lower Bound	12.38%	Lower Bound	10.33%
2						
3	Median	10.21%	Median	12.53%	Median	11.37%
4						
5	Upper Bound	13.05%	Upper Bound	12.88%	Upper Bound	12.96%

NewGen Strategies & Solutions New Mexico Water Service Company, Inc. Rate of Return Calculation			
	Capital Structure % [1]	Cost Rates	Weighted Cost of Capital
	(A)	(B)	(C) = (A) x (B)
Debt [1]	46.60%	4.23%	1.97%
Equity [1]	53.40%	10.27%	5.48%
Weighted Average Cost of Capital	100.00%		7.46%
Footnotes: [1] California Public Utilities Commission, Water Division. (2024, January 31). Approval of advice letter no. 2506: Cost of capital rate increase for Livermore district [Approval letter to California Water Service Company]. California Public Utilities Commission.			