

Indian Hills Utility Operating Company, Inc.
CASE NO. WR-2017-0259

**Recommended Rate of Return
for Indian Hills Utility Operating Company, Inc.
as of March 31, 2017**

Capital Component	Amount	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:	Pre-Tax Rate of Return	Tax Rate	Tax multipl	15.94%
Common Stock Equity	\$614,759.60	35.00%	—	3.27%	4.08%			
Long-Term Debt	\$1,141,696.40	65.00%	5.00% ²	3.25%	3.25%			
Total Capital	\$1,756,456	100.00%		6.52%	7.33%			1.24902

Notes:

1. Hypothetical Capital Structure Based on financial covenant typically required in CoBank's loan agreements.
2. Consistent with the interest rate charged on Terre Du Lac loan from First State Community Bank.

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245

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Missouri Public
Service Commission

OPC Exhibit No. 245
Date 11-30-17 Reporter KF
File No. WR-2017-0259

"Strong" Business Risk Profile

"Highly Leveraged" Financial Risk Profile 35% Equity (Hypothetical)

BB rating

Moody's BBB Utility Bond Yields

June 2016	4.47%
July 2016	4.16%
August 2016	4.20%
September 2016	4.27%
October 2016	4.34%
November 2016	4.64%
December 2016	4.79%
January 2017	4.62%
February 2017	4.58%
March 2017	4.62%
April 2017	4.51%
May 2017	4.50%

3-Month BBB Utility Bond Avg	4.54%
BBB-BB Corporate Bond Spread	0.80%
Implied BB Utility Bond	5.34%
Risk Premium	<u>4</u>
Cost of Equity	9.34%

FRED Graph Observations
Federal Reserve Economic Data
Link: <https://fred.stlouisfed.org>
Help: <https://fred.stlouisfed.org/help-faq>
Economic Research Division
Federal Reserve Bank of St. Louis

BAMLC0A4CBBEY BofA Merrill Lynch US Corporate BBB Effective Yield©, Percent, Monthly, Not S

Frequency: Monthly

observation_date	BAMLC0A4CBBEY
2012-05-01	4.01
2012-06-01	4.04
2012-07-01	3.80
2012-08-01	3.72
2012-09-01	3.58
2012-10-01	3.39
2012-11-01	3.35
2012-12-01	3.35
2013-01-01	3.32
2013-02-01	3.41
2013-03-01	3.37
2013-04-01	3.25
2013-05-01	3.30
2013-06-01	3.82
2013-07-01	4.01
2013-08-01	4.07
2013-09-01	4.13
2013-10-01	3.92
2013-11-01	3.89
2013-12-01	3.90
2014-01-01	3.81
2014-02-01	3.71
2014-03-01	3.70
2014-04-01	3.62
2014-05-01	3.47
2014-06-01	3.47
2014-07-01	3.46
2014-08-01	3.44
2014-09-01	3.54
2014-10-01	3.50
2014-11-01	3.63
2014-12-01	3.78
2015-01-01	3.64
2015-02-01	3.65
2015-03-01	3.56
2015-04-01	3.41
2015-05-01	3.63
2015-06-01	3.85
2015-07-01	3.90
2015-08-01	4.00
2015-09-01	4.07

2015-10-01	4.04
2015-11-01	4.16
2015-12-01	4.32
2016-01-01	4.41
2016-02-01	4.46
2016-03-01	4.16
2016-04-01	3.76
2016-05-01	3.69
2016-06-01	3.54
2016-07-01	3.33
2016-08-01	3.28
2016-09-01	3.30
2016-10-01	3.35
2016-11-01	3.67
2016-12-01	3.86
2017-01-01	3.75
2017-02-01	3.70
2017-03-01	3.76
2017-04-01	3.64
2017-05-01	3.59

Average last 12 months 3.56

Average Last 3 Months 3.66

Seasonally Adjusted

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BAMLH0A1HYBBEY BofA Merrill Lynch US High Yield BB Effective Yield©, Percent, Monthly, Not Se

Frequency: Monthly
observation_date

BAMLH0A1HYBBEY

2012-05-01	5.63
2012-06-01	5.90
2012-07-01	5.56
2012-08-01	5.25
2012-09-01	5.06
2012-10-01	4.96
2012-11-01	5.01
2012-12-01	4.78
2013-01-01	4.59
2013-02-01	4.70
2013-03-01	4.58
2013-04-01	4.49
2013-05-01	4.33
2013-06-01	5.22
2013-07-01	5.23
2013-08-01	5.27
2013-09-01	5.22
2013-10-01	4.94
2013-11-01	4.83
2013-12-01	4.73
2014-01-01	4.64
2014-02-01	4.56
2014-03-01	4.45
2014-04-01	4.41
2014-05-01	4.32
2014-06-01	4.26
2014-07-01	4.43
2014-08-01	4.57
2014-09-01	4.70
2014-10-01	4.81
2014-11-01	4.73
2014-12-01	5.12
2015-01-01	4.98
2015-02-01	4.66
2015-03-01	4.70
2015-04-01	4.56
2015-05-01	4.68
2015-06-01	4.92
2015-07-01	5.19
2015-08-01	5.48
2015-09-01	5.65

2015-10-01	5.67
2015-11-01	5.71
2015-12-01	6.20
2016-01-01	6.41
2016-02-01	6.58
2016-03-01	5.65
2016-04-01	5.38
2016-05-01	5.30
2016-06-01	5.17
2016-07-01	4.72
2016-08-01	4.56
2016-09-01	4.59
2016-10-01	4.47
2016-11-01	4.90
2016-12-01	4.74
2017-01-01	4.57
2017-02-01	4.51
2017-03-01	4.69
2017-04-01	4.42
2017-05-01	4.28

Average last 12 months 4.64

Average Last 3 Months 4.46

asonally Adjusted

3-Month Corporate Bond Average

BBB rating	3.66
BB rating	4.46

Corporate Bond Spread between BBB and BB rating
0.80