Q. Reference: PUB-NP-056 and PUB-NP-057

Mr. Coyne obtains DCF growth estimates in JMC-3 for the U.S., Canadian and North American proxy groups of 5.32%, 8.03% and 5.28% respectively. Please explain why Mr. Coyne believes that regulated utilities, which are generally operating in mature markets, without any obvious abnormally high growth opportunities, would grow at a pace in the long run that is far greater than the rate of growth in the economy itself? For example, in the case of the Canadian proxy group, the estimated growth rate of 8.03% is more than twice the estimated growth rate in the economy.

A. Mr. Coyne recognizes the weaknesses of the Constant Growth DCF model applied to the Canadian proxy group for Newfoundland Power, not only because of the average EPS growth rate of 8.03%, but also because the group consists of only four companies, two of which derive little, if any, net operating income from regulated electric utility operations. For these reasons, in establishing his range of results and making his ROE recommendation, Mr. Coyne relies on the DCF results for the North American and U.S. proxy groups of electric utilities, as well as to the CAPM results for all three proxy groups. He provides essentially no weight to the Canadian Constant Growth DCF results.