Q. Reference: PUB-NP-057

The multi-stage DCF ROE estimates provided by Mr. Coyne in Exhibit JMC-4 are lower than those determined using the constant-growth DCF model in Exhibit JMC-3. Please confirm that this is because the multi-stage approach reduces the impact of the high growth estimates obtained using analyst estimates, since this model assumes that these abnormally high growth rates only last 5 years, and not to infinity. If this cannot be confirmed, please explain why not?

A. As discussed on page 23 of Concentric's report, Mr. Coyne considers the results of the multi-stage DCF model because it provides an alternative to the limiting assumptions of the Constant Growth DCF model. The multi-stage DCF model allows the analyst to employ different growth rates in the various stages of the model to reflect the fact that current EPS forecasts (either high or low) may not continue in perpetuity. Nominal GDP growth is often used in the multi-stage DCF model as the long-term growth rate. By using nominal GDP growth in Years 11-200, the multi-stage DCF model tempers the effect of short-term growth rates on the long term earnings projection.