

1 **Q. Reference: PUB-NP-057**
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3 **The multi-stage DCF ROE estimates provided by Mr. Coyne in Exhibit JMC-4 are**
4 **lower than those determined using the constant-growth DCF model in Exhibit JMC-**
5 **3.**
6

7 a) **Please explain why Mr. Coyne believes it is reasonable that the earnings and**
8 **dividends of mature utilities would grow at rates well above GDP growth for**
9 **at least five years?**

10 b) **Please explain why Mr. Coyne believes that after five years of abnormally**
11 **high growth, it would then take another five years until utility earnings and**
12 **dividend growth would eventually decline to a rate equal to overall economic**
13 **growth?**
14

15 A. a) Mr. Coyne has presented the results of both the constant growth and multi-stage
16 DCF models. For the U.S. electric and North American electric proxy groups, the
17 multi-stage DCF results are approximately 40 basis points lower than the constant
18 growth DCF results, but still support Mr. Coyne's range of results and ROE
19 recommendation.
20

21 With regard to why Mr. Coyne believes it is reasonable that earnings and dividend
22 growth rates for utilities would be well above GDP growth for five years, Mr.
23 Coyne stated in his response to Request for Information CA-NP-296 that he does
24 not consider the EPS growth rates for the companies in the U.S. and North
25 American proxy groups to be well above long-term GDP growth. As for the
26 Canadian proxy group, the growth rates are based on market data (i.e., analyst
27 estimates) that investors use to set stock prices. Mr. Coyne assumes that these
28 analysts are aware of forecasted GDP growth rates in Canada when they are
29 making earnings forecasts.
30

31 b) Mr. Coyne does not agree with the underlying premise of the question that EPS
32 growth rates (especially for the U.S. electric proxy group and the North American
33 electric proxy group) are "abnormally high". Notwithstanding that disagreement,
34 it is common practice among practitioners to use a three stage DCF model in
35 which the growth rate in the second stage transitions from short-term growth to
36 long-term growth in a geometric averaging fashion. In Mr. Coyne's view, it is
37 more reasonable to assume that this change in growth rate occurs gradually over
38 time, than to assume that growth would abruptly change from the short-term rate
39 to the long-term rate between years 5 and 6. Mr. Coyne's application of the
40 multi-stage DCF model allows for a smooth transition from the short-term growth
41 rate to the long-term growth rate in years 6 through 10.