

1 **Q. The constant growth discounted cash flow model results for Canadian regulated**
2 **utilities shown in Figure 16, page 34 of Concentric’s report are significantly higher**
3 **than the results of other tests. Does this demonstrate that the use of analysts’**
4 **forecasts in this model does produce unreasonably high results when compared to**
5 **other methods?**
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7 A. No, Mr. Coyne does not believe that the Constant Growth DCF results for Canadian
8 regulated utilities demonstrate that the use of analysts’ forecasts in this model produce
9 unreasonably high results when compared to other models. Rather, as Mr. Coyne
10 explains on page 15 of Concentric’s report, there are very few publicly traded companies
11 in the utility sector in Canada. Figure 5 of Concentric’s report shows that the Canadian
12 Utility Proxy Group is comprised of only four companies, making it more likely that the
13 mean Constant Growth DCF results will be skewed by either high or low DCF results for
14 an individual company. In addition, two of those four companies (Enbridge and Valener)
15 in the Canadian Utility Proxy Group derive the majority of their revenue and operating
16 income from natural gas distribution operations, and therefore have different risk profiles
17 than an electric utility such as Newfoundland Power. For these reasons, Mr. Coyne also
18 presents ROE estimates for two other proxy groups, one consisting of U.S. electric
19 utilities, and another comprised of North American electric utilities from both Canada
20 and the U.S. As Mr. Coyne notes in the response to PUB-NP-056, the DCF results for
21 the U.S. electric proxy group and the North American electric proxy group are generally
22 consistent with the results of other models that he has used to estimate the cost of equity
23 for Newfoundland Power. Furthermore, the Board’s 2013 order acknowledged the value
24 of considering the results of multiple methodologies to estimate the cost of equity, as
25 discussed on pages 19-20 of Concentric’s report.