Q. Reference: Dr. Booth's Evidence, Appendix D, Page 4, Lines 26-27

Please explain in detail why Dr. Booth believes that for non-regulated firms and utility holding companies, the underlying assumptions of the DCF model are frequently violated.

A. The DCF model requires constant long run growth in the dividend stream and firms subject to competition generally cannot support that assumption. Google for example, has shown phenomenal growth, but as Dr. Booth tells his students every growth stock wants to grow up to become a value stock". The fact is that all the "growth" stories from previous decades end up either as value stocks if they are successful or fail. It is only quite rarely that a firm satisfies the constant growth assumption for the DCF model.

In a June 19, 2014 Decision (Opinion 531, paragraph 33) the US Federal Regulatory Commission (FERC) pointed out that as long ago as 1983 it stated that short-term growth rates from investment advisory services cannot be relied on. It therefore felt that "the constant growth DCF model ***requires*** (emphasis added) consideration of long-term growth projections." Further, it stated (paragraph 39) that "short-term growth forecasts will be based on the five year projections reported by IBES."

If even the FERC, which relies heavily on DCF estimates, requires a two-stage DCF model with five year "short-term" growth forecasts, its application to higher risk competitive firms is questionable, particularly since 5 year growth forecasts are often not available or form few analysts.