Q. **In Order No. P.U. 13(2013), page 31, lines 13-16 and Order No. P.U. 18(2016), page 39, lines 14-25 the Board expressed concern on the assumption of constant growth in perpetuity and no offsetting adjustment for analysts' bias in the Constant Growth DCF method used by Mr. Coyne to estimate a fair return for Newfoundland Power. Mr. Coyne addressed the concern on analysts' bias on page 29 and referred to various factors which, in his opinion, demonstrate that projected analyst growth rates are reasonable. What changes have occurred since the Board's decision in 2016 that would lead the Board in 2018 to reach a different conclusion on the issue of analysts' bias in the Constant Growth DCF method?**

A. Mr. Coyne believes it is important to keep in mind that regulated utilities generally operate within a mature, stable industry so the assumption of constant growth in perpetuity is reasonable. The constant growth DCF model was originally developed by Professor Myron Gordon to estimate the cost of equity capital for companies in mature industries such as regulated utilities because the underlying assumptions of the constant growth DCF model are generally reasonable for companies with stable, predictable growth rates. Mr. Coyne also provides the results of a multi-stage DCF analysis that uses projected long-term GDP growth as the terminal growth rate for situations where the analysts' forecast growth rate may not be sustainable over the longer-term. The Board expressed its preference for the multi-stage model in its 2016 Order.

Mr. Coyne also provides a comparison of historical earnings per share and dividend per share growth rates for the U.S. Electric, Canadian, and North American Electric proxy groups against historical GDP growth rates over the period from 2008-2017, as well as a comparison of projected earnings per share growth and forecast GDP growth. Those results are summarized in Figure 13 of Mr. Coyne's report. Based on this comparison, Mr. Coyne draws the following conclusions, as stated on pages 30-31 of his report and summarized below:

1) Dividends track reasonably well with earnings growth, and earnings growth is a reasonable proxy for dividend growth, especially with a broad enough sample.
2) Both earnings and dividend growth exceeded GDP growth by a wide margin. There is no fundamental basis to assume that economy-wide GDP growth serves as a limit on utility earnings growth.
3) Looking to the future, it is not unreasonable to rely on analyst projections just because they exceed GDP growth. Further, projected earnings growth rates are substantially lower than actual earnings growth over the past ten years has been for the U.S. Electric, Canadian, and North American Electric proxy groups.

Given this additional evidence, Mr. Coyne believes it is reasonable and appropriate for the Board to find that analyst optimism bias is not a concern that should cause the Board to give less weight to the results of the Constant Growth DCF model in this proceeding.