Q. In a June 19, 2014 Decision (Opinion 531, paragraph 33) the US Federal Energy 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.*" Has Mr. Coyne provided a recent cost of equity report before the FERC and if so does he agree with this decision?

A. Mr. Coyne has filed cost of equity reports in several recent rate cases before the FERC. The returns on equity authorized by the FERC for electric transmission companies are generally in the range of 10.0% to 11.5%. The FERC's approach to cost of capital has continued to evolve over the past decade. Currently, the FERC relies on the average results of a Two-Step DCF analysis, a Capital Asset Pricing Model analysis and a Risk Premium analysis.

In order to address the FERC's concern with using short-term growth rates from equity analysts, the Commission has adopted a Two-Stage DCF model that assigns 80% weight to short-term earnings per share growth rates and 20% weight to projected GDP growth.

In his Newfoundland Power testimony, he estimates both a constant growth and multi-stage DCF model, which would produce a lower result than the FERC's two-step approach, which places only a 20% weight on GDP.