

1 **Q. Can Mr. Coyne confirm that in his risk premium analysis and graph on page 48 he**
2 **has the long Treasury yield in both the risk premium and as an independent**
3 **variable, that is they are on both sides of the equation. Please indicate whether he**
4 **judges this to automatically generate a negative slope coefficient. Please re-run the**
5 **regression equation as the allowed ROE against the long Treasury yield and provide**
6 **the results. Please provide all the underlying data to replicate Figure 27 in machine**
7 **readable form (Excel).**

8
9 A. The long treasury yield is on the right hand side of the equation (the independent
10 variable). The left hand side of the equation (the dependent variable) is the allowed
11 return less the long bond yield. This is the same methodology adopted by the FERC.
12 This does not automatically generate a negative slope coefficient.

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14 See Attachment A.

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16 Attachment A is available in electronic format on Newfoundland Power's stranded
17 website at: <https://ftp.nfpower.nf.ca/>.

18
19 Attachment A contains commercially sensitive information that may be proprietary,
20 subject to copyright, or otherwise injurious to commercial interests. Concentric requests
21 that the Board not make the contents of Attachment A publicly available, including
22 refraining from posting same on its public website.

23
24 As shown in Attachment A, the regression equation requested in the data request
25 produces the same predicted ROE results as Mr. Coyne's risk premium analysis. The
26 regression analysis in Attachment A confirms the positive relationship between Treasury
27 bond yields and authorized returns. That is, increases in Treasury bond yields result in
28 increases in the required ROE, although by a smaller amount than the change in the
29 government bond yield itself.

30
31 Mr. Coyne further notes that the R^2 for the regression equation used in his risk premium
32 analysis (Exhibit JMC-9) is 0.81, which indicates that the risk premium analysis can be
33 used to predict authorized ROEs for regulated utilities based on changes in government
34 bond yields.

35
36 Finally, Mr. Coyne's risk premium results are consistent with the conclusions reached by
37 Dr. S. Keith Berry in his 1998 article, which also found an inverse relationship between
38 bond yields and the equity risk premium.¹

¹ See e.g., S. Keith Berry, *Interest Rate Risk and Utility Risk Premia during 1982-93, Managerial and Decision Economics, Vol. 19, No. 2* (March, 1998), in which the author used a methodology similar to the regression approach described below, including using allowed ROEs as the relevant data source, and came to similar conclusions regarding the inverse relationship between risk premia and interest rates.