

1 **Reference: Volume 3, Cost of Capital Report by James Coyne**
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3 **Q. Volume 3, Cost of Capital Report by James Coyne, page 45, Figure 26. In Mr.**
4 **Coyne’s report dated June 1, 2018 for Newfoundland Power’s 2019/2020 General**
5 **Rate Application, Mr. Coyne, at page 39, lines 6-15, described adjustments he made**
6 **to his CAPM analysis due to concerns about the ability of the CAPM method to**
7 **produce reasonable results in the then current market conditions. The same**
8 **adjustments appear to have been made in his May 27, 2021 report. Describe any**
9 **adjustments made to Mr. Coyne’s 2021 CAPM analysis to adjust for current market**
10 **conditions.**
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12 A. The concerns with the CAPM methods are similar in 2018 and 2021. As discussed in
13 Concentric’s *Cost of Capital* report, the low interest rate environment is the primary
14 concern. This affects both the risk free rate and the market risk premium. Mr. Coyne
15 uses a projected risk free rate to account for investors’ expectation for higher interest
16 rates over the rate period. As discussed on pages 44-45 of Concentric’s *Cost of Capital*
17 report, Mr. Coyne’s market risk premium is based on an average of the historical and
18 projected total market returns for the S&P 500 and TSX indexes. In addition, Mr. Coyne
19 notes that while he has made no adjustments, the Beta coefficients (both raw and
20 adjusted) for utilities are substantially higher in 2021 than in 2018. This reflects the fact
21 that utility shares have traded more in-line with the broad market since February 2020,
22 and have not served as the traditional safe-haven for investors during the current
23 economic downturn.