Update to Evidence

In arriving at my recommended return on equity for Newfoundland Power (NP), I performed a Discounted Cash Flow-based Equity Risk Premium Test, among others. This test had two versions, one which estimated the cost of equity based on the relationship between DCF costs of equity and long-term government bond yields and one which estimated the cost of equity based on the relationship between DCF costs of equity, long-term government bond yields and the spreads between A rated utility bond yields and long-term government bond yields. Both were based on a forecast long-term Canada bond yield of 4.25%. There is no change to that forecast and thus no change to the test results. The latter version was premised on a higher spread than prevails today (225 to 250 basis points versus the current approximately 170 basis points). Updating the latter version of the test for the change in spread reduces the cost of equity estimate to 10.1% including the .50% allowance for financing flexibility and my overall estimate of the fair return by approximately 5 basis points. The 5 basis point change does not change my recommended return for NP.