1	Q.	Evidence of Ms. McShane Pages 63						
2 3 4 5 6 7		(a)	With referenced to the accepted optimism of analyst growth forecasts, please indicate the regulatory bodies who have questioned their reliability and any bodies that have accepted them and based their ROE awards on them without adjustment.					
8 9 10 11 12		(b)	Please provide all evidence that "sell side" analyst forecasts are accepted by investors and fully incorporated into equity prices. Further please indicate why "buy side" analysts exist if sell side analyst's views are fully incorporated into equity prices?					
13 14 15 16 17 18		(c)	Please indicate how the well accepted analyst optimism bias is removed even if they are accepted and fully incorporated into equity prices given that analysts disagree? That is, which analyst forecasts are fully incorporated into equity prices and why would it be the median or average when a new analyst has an incentive to give a radical forecast to distinguish them from the crowd?					
20 21 22 23		( <b>d</b> )	Please indicate why Ms. McShane believes that a private forecaster like Value Line whose estimates are not widely available is more likely to have their forecasts impounded into equity prices than other forecasters? Please indicate the annual cost of a Value Line subscription.					
24 25 26 27 28 29 20		(e)	Please provide the annual dividend per share for each of the firms in her US DCF sample both individually and as a sample average. Please provide a time series regression of their annual dividend per share growth rate against the growth rate in nominal US GDP to verify the assumption that growth rates will taper off to the long run GDP growth rate.					
30 31 32 33 34 35		( <b>f</b> )	If these utilities are comparable to a mature utility like NP please justify in full why a mature company is likely to grow at the average GDP growth rate. That is, where is the "room" for above average growth companies in GDP growth if mature companies are growing at the GDP growth rate?					
36 37 38 39 40 41 42 43 44 45	Α.	(a)	The forecasts have been accepted without adjustment by the BCUC (March 2006 Decision, Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc., <i>Application to Determine the Appropriate Return on Equity and Capital Structure and to Review and Revise the Automatic Adjustment Mechanism</i> , page 55). In its most recent decision on cost of capital (for Ontario Power Generation dated October 2008), the Ontario Energy Board stated, "The Board finds that each of the analytical tests has value as each provides a different perspective on the question of the appropriate ROE. However, each test also has its weaknesses. For example, there is evidence of analyst bias, which although not conclusive with respect to utilities, suggests that the DCF cannot be relied upon wholly." The					

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Alberta Energy and Utilities Board gave no weight to DCF in its Generic Cost of Capital Decision dated July 2004 because it found both the applicants' and intervenors' applications problematic.

- (b) It would be impossible to conclude with certainty whether sell side analysts' forecasts are always accepted by investors and fully incorporated into stock prices. There were close to 600 studies whose abstracts are contained in the I/B/E/S Bibliography dated March 2000 (on-line at www.gsb.columbia.edu/cis/ research/db/ibes/manual/bibliography.pdf), which analysed various aspects of analysts' forecasts. These studies fell into a relatively small number of categories, none of which attempted to measure the exact relationship between investors' expectations and analysts' forecasts. A newer version dated 2007 includes some 575 abstracts. The mere fact that researchers study in great detail the characteristics of analysts' forecasts underscores the importance of analysts' forecasts to equity price formation. Further, it is widely recognized that stock prices rise and fall in reaction to actual results which differ from the forecasts (earnings surprises).
  - Sell side analysts work for brokerage firms; their research is focused on determining whether an investment is suitable for the firm's clients generally. Buy side analysts work for pension funds and other institutional investors; their research is more focused on determining if investments are appropriate for specific portfolios or investment strategies. Buy side analysts' research is not available outside of the firm by which they are employed.
- (c) The preamble is premised on a questionable assumption, particularly in the case of utilities, where the business model is relatively well understood. The release of "radical" growth forecasts for a utility (which Ms. McShane interprets to mean outside of a range that is reasonably supportable by the company's earnings prospects) would be counterproductive for analysts, who are likely to be concerned with building reputation and an upward career path. As such, the median or average forecast represents the best estimate of the forecast that is built into share prices.
- 35 (d) The reasons for using *Value Line* as an alternative to the consensus of analysts' forecasts were primarily because (a) *Value Line* is widely available; it is available 36 without charge in many public libraries and (b) as noted at page 63-64, Value 37 38 *Line* is an independent research firm which has no incentive to inflate its growth 39 estimates and represents a means of testing the reasonableness of the consensus 40 of analysts' forecasts. The annual subscription fee for Value Line is \$750 for an 41 individual. 42
- 43 (e) Dividend data are provided for the companies in the sample for the longest period
  44 for which Ms. McShane has data for individual companies, in Attachment A.
  45 The requested regression is also provided. There is no statistical relationship

1		historically between dividend growth and GDP growth, nor would Ms. McShane
2		expect that there would be a significant correlation. In the late 1970s to early
3		1980s, when inflation was at relatively high levels, utility earnings did not keep
4		pace with inflation, thus constraining both earnings growth and dividend growth.
5		When inflation started to decline, the decline in inflation was accompanied by
6		reductions in allowed returns, which had reached levels of 15-16% in the mid-
7		1980s. By the mid 1990s, they were in the range of 11.0-11.5%. Such reductions
8		are not compatible with earnings keeping pace with long-term economic growth.
9		Other idiosyncratic factors (e.g., industry restructuring for electric utilities) would
10		also impact observed relationships.
11		
12	(f)	The life cycle of industries includes periods of above average growth, average
13		growth when industries are mature and below average growth when the industries
14		are in decline.

Newfoundland Power Inc. – 2010 General Rate Application

Annual Dividend per Share and Time Series Regression of Annual Dividend per Share Growth Rate against the Growth Rate in Nominal US GDP

CA-NP-21 Attachment A

_	Yearly Dividends Per Share										-						
	AGL Resources	Consolidated Edison	Dominion	Duke	FPL	New Jersey Resources	Northwest Nat. Gas	NSTAR	Piedmont Natural Gas	Scana	Southern Co.	Vectren	WGL Holdings Inc.	Average	Dividend Growth Rate	Nominal US GDP	GDP Growth Rate
1970		0.45															
1971		0.45															
1972		0.45															
1973		0.45															
1974		0.26															
1975		0.30															
1976		0.40															
1977		0.50															
1978		0.55															
1979		0.61															
1980		0.67															
1981		0.74															
1982		0.84									0.83						
1983		0.94									0.86						
1984		1.06			0.93						0.92						
1985		1.20			0.97						0.98						
1986		1.34	0.92	0.66	1.01			0.87			1.03						
1987		1.48	1.00	0.69	1.05			0.90			1.07						
1988		1.60	1.04	0.72	1.09	0.58		0.91	0.37		1.07	0.57	0.93				
1989	0.95	1.72	1.08	0.76	1.13	0.61	1.07	0.91	0.40	1.23	1.07	0.62	0.97	0.96		100.00	
1990	0.99	1.82	1.12	0.80	1.17	0.65	1.10	0.76	0.42	1.26	1.07	0.66	1.01	0.99	2.40%	105.80	5.80%
1991	1.02	1.86	1.16	0.84	1.20	0.67	1.13	0.79	0.44	1.31	1.07	0.69	1.03	1.01	2.82%	109.30	3.31%
1992	1.03	1.90	1.20	0.88	1.22	0.68	1.15	0.82	0.46	1.34	1.10	0.72	1.06	1.04	2.66%	115.60	5.76%
1993	1.04	1.94	1.24	0.92	1.24	0.68	1.17	0.85	0.48	1.37	1.14	0.75	1.08	1.07	2.54%	121.40	5.02%
1994	1.04	2.00	1.28	0.96	0.94	0.68	1.17	0.88	0.51	1.41	1.18	0.77	1.10	1.07	0.23%	129.00	6.26%
1995	1.04	2.04	1.29	1.00	0.88	0.68	1.18	0.91	0.54	1.44	1.22	0.80	1.11	1.09	1.59%	134.90	4.57%
1996	1.06	2.08	1.29	1.04	0.92	0.69	1.20	0.94	0.57	1.47	1.26	0.83	1.13	1.11	2.46%	142.50	5.63%
1997	1.08	2.10	1.29	1.08	0.96	0.71	1.21	0.94	0.60	1.51	1.30	0.86	1.16	1.14	2.20%	151.40	6.25%
1998	1.08	2.12	1.29	1.10	1.00	0.73	1.22	0.94	0.64	1.54	1.34	0.90	1.19	1.16	1.89%	159.50	5.35%
1999	1.08	2.14	1.29	1.10	1.04	0.75	1.23	0.97	0.68	1.32	1.34	0.94	1.21	1.16	0.00%	169.00	5.96%
2000	1.08	2.18	1.29	1.10	1.08	0.76	1.24	1.00	0.72	1.15	1.34	0.74	1.23	1.15	-1.11%	179.00	5.92%
2001	1.08	2.20	1.29	1.10	1.12	0.78	1.25	1.03	0.76	1.20	1.34	1.03	1.25	1.19	3.43%	184.67	3.17%
2002	1.08	2.22	1.29	1.10	1.16	0.80	1.26	1.06	0.79	1.30	1.35	1.07	1.26	1.21	2.10%	190.90	3.37%
2003	1.11	2.24	1.29	1.10	1.20	0.83	1.27	1.08	0.82	1.38	1.38	1.11	1.27	1.24	2.14%	199.86	4.69%
2004	1.15	2.26	1.30	1.10	1.30	0.87	1.30	1.11	0.85	1.46	1.41	1.15	1.29	1.27	2.92%	213.08	6.62%
2005	1.30	2.28	1.34	1.17	1.42	0.91	1.32	1.16	0.91	1.56	1.48	1.19	1.31	1.33	4.76%	226.50	6.30%
2006	1.48	2.30	1.38	1.26	1.50	0.96	1.39	1.21	0.95	1.68	1.53	1.23	1.34	1.40	5.02%	240.29	6.09%
2007	1.64	2.32	1.46	0.86	1.64	1.01	1.44	1.30	0.99	1.76	1.59	1.27	1.36	1.43	2.36%	251.76	4.77%
2008	1.68	2.34	1.58	0.90	1.78	1.11	1.52	1.40	1.03	1.84	1.66	1.31	1.39	1.50	4.83%	260.39	3.43%

## CA-NP-21 Attachment A

## SUMMARY OUTPUT

Regression S	tatistics							
Multiple R	0.22310706							
R Square	0.04977676							
Adjusted R Square	-0.00611873							
Standard Error	0.01565947							
Observations	19							
ANOVA						_		
	df	SS	MS	F	Significance F			
Regression	1	0.000218375	0.000218375	0.890532723	0.358552464	-		
Residual	17	0.004168721	0.000245219					
Total	18	0.004387096						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.03966366	0.017180501	2.308643644	0.033798434	0.003415966	0.0759113	0.003415966	0.075911344
GDP Growth Rate	-0.3065602	0.324855949	-0.943680413	0.358552464	-0.991946332	0.3788259	-0.991946332	0.378825939