

Q. Vander Weide Evidence - Quarterly DCF Model, page 28

- a. Please provide abstracts of any regulatory decisions in Canada that have explicitly accepted the quarterly DCF model.**
- b. Please provide the quarterly dividend per share data for each Canadian and US utilities used in Dr. Vander Weide's analysis and a discussion of whether in his judgement dividends are increased annually or quarterly.**
- c. Please confirm that if the dividend is paid quarterly then the investor can reinvest the dividend to buy more shares and thus earn a higher rate of return, whereas Dr. Vander Weide is assuming that the utility reinvests the money to earn a higher rate of return and is therefore double counting.**
- d. Please provide the DCF fair return estimates without the quarterly compounding of dividends.**

A. a. Because Dr. Vander Weide was asked to prepare an independent assessment of Newfoundland Power's cost of equity, he did not examine abstracts of regulatory decisions in Canada regarding the quarterly DCF model in preparing his written evidence.

b. Dr. Vander Weide agrees that utilities in Canada and the United States generally pay dividends quarterly and increase dividends annually. Dr. Vander Weide's decision to use the quarterly DCF model takes into account that utility stock prices reflect the present discounted value of future dividend payments and that the present value of future dividend payments depends on the specific timing of the dividend payments. Because dividends are paid quarterly, only the quarterly DCF model can equate the present value of expected future dividends to the current stock price.

c. Cannot confirm. Dr. Vander Weide does not agree that there is a "double counting" of dividends when the analyst employs a quarterly DCF model. In employing the quarterly DCF model, Dr. Vander Weide is simply being consistent with the DCF model assumption that a company's stock price is equal to the discounted present value of all future dividend payments.

d. As shown in the following tables, the difference in the average DCF result for the comparable utilities in Exhibit 6 using the annual DCF model versus the quarterly DCF model is six basis points; and, for the comparable utilities in Exhibit 7, seven basis points (with no difference in the result rounded to one decimal point).

TABLE 1
COMPARISON OF QUARTERLY AND ANNUAL MODEL RESULTS
EXHIBIT 6

| Line No. | Company | Quarterly Model Result | Annual Model Result |
|----------|-------------------------|------------------------|---------------------|
| 1 | AGL Resources | 8.6% | 8.5% |
| 2 | Alliant Energy | 10.7% | 10.7% |
| 3 | Amer. Elec. Power | 8.7% | 8.6% |
| 4 | Atmos Energy | 8.9% | 8.7% |
| 5 | CenterPoint Energy | 8.5% | 8.4% |
| 6 | CMS Energy Corp. | 10.3% | 10.4% |
| 7 | Consol. Edison | 7.4% | 7.3% |
| 8 | Dominion Resources | 9.7% | 9.7% |
| 9 | DTE | 8.8% | 8.6% |
| 10 | Duke Energy | 8.4% | 8.3% |
| 11 | Exelon Corp. | 8.2% | 8.1% |
| 12 | FirstEnergy Corp. | 8.1% | 8.0% |
| 13 | Great Plains | 14.6% | 14.4% |
| 14 | Hawaiian Elec. | 13.3% | 13.0% |
| 15 | NextEra Energy | 9.1% | 9.1% |
| 16 | NiSource Inc. | 12.2% | 12.0% |
| 17 | Northeast Utilities | 9.7% | 10.1% |
| 18 | Pepco Holdings | 11.1% | 10.8% |
| 19 | Piedmont Natural Gas | 8.7% | 8.7% |
| 20 | Pinnacle West Capital | 11.0% | 10.8% |
| 21 | PNM Resources | 12.4% | 12.7% |
| 22 | Portland General | 8.3% | 8.2% |
| 23 | Public Serv. Enterprise | 8.4% | 8.3% |
| 24 | SCANA Corp. | 9.1% | 9.0% |
| 25 | Sempra Energy | 10.8% | 11.0% |
| 26 | Southern Co. | 10.1% | 10.1% |
| 27 | TECO Energy | 9.4% | 9.3% |
| 28 | Vectren Corp. | 10.2% | 10.1% |
| 29 | Westar Energy | 10.8% | 10.7% |
| 30 | WGL Holdings Inc. | 9.1% | 9.0% |
| 31 | Wisconsin Energy | 8.6% | 8.8% |
| 32 | Xcel Energy Inc. | 9.4% | 9.4% |
| 33 | Average | 9.78% | 9.72% |
| 34 | Financial Flexibility | 0.50% | 0.50% |
| 35 | Average | 10.28% | 10.22% |

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TABLE 2
COMPARISON OF QUARTERLY AND ANNUAL MODEL RESULTS
EXHIBIT 7

| Line No. | Company | Quarterly Model Result | Annual Model Result |
|----------|-----------------------|------------------------|---------------------|
| 1 | AGL Resources | 8.6% | 8.5% |
| 2 | Consol. Edison | 7.4% | 7.3% |
| 3 | Southern Co. | 10.1% | 10.1% |
| 4 | WGL Holdings Inc. | 9.1% | 9.0% |
| 5 | Wisconsin Energy | 8.6% | 8.8% |
| 6 | Alliant Energy | 10.7% | 10.7% |
| 7 | Atmos Energy | 8.9% | 8.7% |
| 8 | Northeast Utilities | 9.7% | 10.1% |
| 9 | Piedmont Natural Gas | 8.7% | 8.7% |
| 10 | Pinnacle West Capital | 11.0% | 10.8% |
| 11 | Portland General | 8.3% | 8.2% |
| 12 | TECO Energy | 9.4% | 9.3% |
| 13 | Vectren Corp. | 10.2% | 10.1% |
| 14 | Westar Energy | 10.8% | 10.7% |
| 15 | Xcel Energy Inc. | 9.4% | 9.4% |
| 16 | Amer. Elec. Power | 8.7% | 8.6% |
| 17 | DTE | 8.8% | 8.6% |
| 18 | Great Plains | 14.6% | 14.4% |
| 19 | Average | 9.63% | 9.56% |
| 20 | Financial flexibility | 0.50% | 0.50% |
| 21 | Model Result | 10.13% | 10.06% |