Q. Please provide the forward-looking DCF market risk premium estimate from the data in JMC- 5&6 using a multi-stage DCF model and confirm that the market risk premium estimate drops to approximately 6.0%.

A. See Attachment A.

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

Mr. Coyne notes that the Federal Energy Regulatory Commission ("FERC") specifically rejected the use of a Multi-Stage DCF approach for the purpose of estimating the forward market equity risk premium, just as it rejected the use of a historic market risk premium after substantial evidence was submitted and evaluated on these topics (see 156 FERC ¶ 61,234, Opinion 551, September 28, 2016 at paras 170 and 171).

Mr. Coyne continues to believe it is appropriate to use the Constant Growth DCF model to perform this calculation of the forward-looking market risk premium, as we did in our March 31 report. We agree with FERC's rationale for relying on the Constant Growth DCF model rather than the Multi-Stage DCF model for this purpose, which FERC explained in Opinion No. 531-B as follows:[1]

> *Further, the fact that the Commission's two-step DCF methodology incorporates a long-term growth rate does not necessitate the incorporation of a long-term growth rate in the DCF study the NETOs used to develop the market risk premium for their CAPM analysis.*
>
> *The required return on the overall market is determined by conducting a DCF study of "a representative market index, such as the Standard & Poor's 500 Index."*
>
> *The rationale for incorporating a long-term growth rate estimate in conducting a two-step DCF analysis of a specific group of utilities does not necessarily apply when conducting a DCF study of the companies in the S&P 500. That is because the S&P 500 is regularly updated to include only companies with high market capitalization. While an individual company cannot be expected to sustain high short-term growth rates in perpetuity, the same cannot be said for a stock index like the S&P 500 that is regularly updated to contain only companies with high market capitalization, and the record in this proceeding does not indicate that the growth rate of the S&P 500 stock index is unsustainable.*

Therefore, while Mr. Coyne has provided these calculations as requested, he does not endorse their use or believe they are an accurate representation of the market risk premium.

[1] Federal Energy Regulatory Commission, Opinion No. 531-B, Order on Rehearing, issued March 3, 2015, at para. 113.

In addition, the exclusion of non-dividend paying companies distorts the results of the total market return. For example, several large companies in the U.S. that have historically paid dividends stopped doing so in order to preserve cash during the pandemic. These companies include: Boeing, Disney, General Motors, Hilton Worldwide Holdings, Marriott, and other companies in the airline and travel industries. Further, several U.S. companies with large market capitalization and that contribute significantly to GDP growth do not pay dividends and are therefore excluded from the calculation of the total market return. These companies include: Amazon, Facebook, Google, Netflix, and Tesla. Each of these companies has a high estimated growth rate. By excluding these non-dividend paying companies, the total market return that investors can expect is understated.