1 **Q.** **Reference:** ***Fair Return for Newfoundland Power (NP),*** **Evidence of**
2 **Laurence D. Booth, September 28, 2021, page 85, lines 1-4.**
3
4 ***"I would regard long run growth at 65-68% of the GDP growth rate as being***
5 ***reasonable based on actual experienced median growth rates. This would***
6 ***mean 3.3-3.4% long run growth rates based on a 5% GDP growth rate, and a***
7 ***DCF equity cost of 6.8-6.9% when added to their current typical dividend***
8 ***yield of 3.4%."***
9
10 **a) Please provide any analysis Dr. Booth has performed to demonstrate that**
11 **the long-term EPS growth of 65-68% of GDP growth is reasonable for**
12 **utilities. If Dr. Booth has not performed any analysis, what is the basis for**
13 **this statement?**
14
15 **b) Has Dr. Booth conducted an analysis on a proxy group of utilities that**
16 **would support an EPS growth rate of 3.3% to 3.4%? If so, please provide**
17 **the analysis.**
18
19
20 **A.** The estimate is based on the data on page 83 where the dividend and earnings
21 growth rates are given as well as that for GDP. A fuller discussion is in Dr.
22 Booth's Appendix D where he states
23
24 *"Over the period from 1967-2017 US GDP grew on average (median) 6.49%*
25 *(5.99%), both slightly above the full period due to the absence of the 2020*
26 *negative growth rate. In contrast, these US utilities had average (median)*
27 *dividend per share growth of 3.1% (4.10%) with average (median) earnings*
28 *growth of only 4.25% and 3.91%. The compound growth rates are even worse*
29 *at 2.04% for earnings and 2.37% for dividends, while the least squares*
30 *regression results are worse still at 1.34% and 1.67%. The reason for the latter*
31 *two is that they implicitly put more weight on the later performance where the*
32 *utility EPS was $12.01 in 2017, but was also $12.36 in 2009, and $10.48 as far*
33 *back as 1993. So, there is little evidence of significant earnings growth.*

34 *This evidence from the S&P500 utility data is for the larger utilities included in*
35 *the S&P500 index and this reflects the problems of holding companies like*
36 *Duke Energy and PG&E. However, this is also in the minds of investors in*
37 *utility stocks in the U.S. From this data it is extremely difficult to justify U.S*
38 *utilities growing at rates higher than the US GDP growth rate as is implied in*
39 *the use of analyst growth forecasts. It is also difficult to justify including*
40 *growth at the GDP growth rate when a multi-stage DCF model is used. I*
41 *would regard long run growth at 65-68% of the GDP growth rate as being*

1 *reasonable based on actual experienced median growth rates. This would mean*
2 *3.3-3.4% long run growth rates based on a 5% GDP growth rate, and a DCF*
3 *equity cost of 6.8-6.9% when added to their current typical dividend yield of*
4 *3.4%. This estimate is consistent with the sustainable growth rate estimates*
5 *and a risk hierarchy when compared with the overall stock market equity cost*
6 *of 8.50-9.50%."*