

Volume 2: Cost of Capital: Expert Opinion of James Coyne-Return on Equity**Q. Further to the above question please indicate:**

- a) **What changes have been made to the three estimation techniques in this report used by C&T, that is, their constant growth, multi-stage DCF, average CAPM and risk premium models and the composition of their samples.**
- b) **In this report C&T provide a summary of alternative results using an historical market risk premium (Figure 2) with estimates that are approximately 1.0% lower, which they characterise as “conservative” and which they apparently rely on. Please indicate when they started structuring their evidence with this alternative “conservative” set of estimates, why they did not present this in their Eastward Energy evidence in 2023 before the NSUARB and whether they intend to continue relying on these conservative estimates in future reports on Canadian utilities.**

- A. a) As indicated in response to Request for Information CA-NP-170 the Eastward Energy report was filed by Mr. Coyne, and not “C&T”. As also indicated in that response, the Eastward analysis was based on gas proxy groups, whereas Newfoundland Power is based on electric proxy groups.

Methodological Comparison:

- The Canadian Proxy Group is common, although in Newfoundland, Enbridge Inc. and Hydro One were added, and Fortis Inc. (parent of Newfoundland Power) was excluded. This is the same proxy group used by Concentric in its 2021 Newfoundland Power evidence.
 - The U.S. proxy group screening criteria are the same, but three of the six screening parameters were changed to allow for a sufficiently sized proxy group in each case. These are the same screening criteria used by Concentric in its prior Newfoundland Power evidence.
 - BBB- (Eastward) vs BBB+ (Newfoundland) credit rating
 - 65% Operating Income (Eastward) vs. 70% (Newfoundland)
 - 90% from Gas Distribution (Eastward) vs. 90% from Electric Distribution (Newfoundland)
 - DCF – Constant Growth Model – same
 - DCF – Multi-Stage Model – same
 - CAPM
 - Risk Free Rate – Consensus forecast plus historic 10/30 spread - same
 - Beta – Value Line and Bloomberg - same
 - MRP – average of historic and forward looking (Eastward) vs. historic (average presented but not relied upon in Newfoundland)
 - Risk Premium – same (except reliance on gas vs. electric decisions)
 - Flotation and Financial Flexibility – same
- b) Mr. Coyne and Mr. Trogonoski presented CAPM results using both the average of the forward-looking and the historical MRP, and the historical MRP only, in their evidence submitted in the Generic Cost of Capital proceeding in Alberta in

1 February 2023. Evidence submitted prior to this date in Canada, including Eastward
2 Energy, was developed reporting both the historical and forward-looking MRP, with
3 primary reliance on the average.
4

5 We evaluate the reasonableness of the inputs to the models on an ongoing basis and
6 cannot say what combination of models, model inputs and data sources will be
7 reasonable in the future. The estimation of the cost of capital is by necessity a
8 dynamic exercise that responds to changes in market circumstances, regulatory
9 acceptance of models and their inputs, and the reasonableness of the results.