Volume 2: Cost of Capital: Expert Opinion of James Coyne- Capital Structure and Risk Profile

Q. Is it C&T's judgment that utility earnings can grow at 1.28% more than GDP growth for the time period required for the assumptions to go from equation 1 to equation 2 to be satisfied? Please be explicit since it might be a reasonable assumption that the short term (less than 5 year) analyst earnings forecasts are simply 1.28% over optimistic in terms of their long run forecasts.

A. Concentric assumes the question is referring to Figure 22 of Concentric's *Cost of Capital* report, Volume 2, which compares growth in earnings and dividends per share to nominal GDP growth from 2008-2022. That analysis shows that the actual earnings per share ("EPS") growth rates shown in Column [1] for the companies in the three proxy groups have exceeded nominal GDP growth rates shown in Column [3] by 1.28% from 2008-2022 (i.e., 5.87% vs. 4.59%). These are not forecast EPS growth rates, but the earnings growth rates actually achieved by the companies in the three proxy groups. Therefore, the issue of analyst optimism bias is not a relevant consideration. Nevertheless, Concentric did not rely on the constant growth DCF model results in establishing its ROE recommendation for Newfoundland Power, as shown in Figure 2 of the *Cost of Capital* report.