

1 **Volume 2: Cost of Capital: Expert Opinion of Mr. James Coyne – Automatic Adjustment**
2 **Formula**

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4 **Q. Volume 2, Cost of Capital Report, page 85, lines 3-11. Please confirm that it is Mr.**
5 **Coyne’s opinion that as formulaic approaches to establishing the fair return for a**
6 **utility run the risk of deviating from a fair return, they should not be used and that**
7 **periodic rate hearings remain the best and most reliable method for determining a**
8 **utility’s return on equity.**

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10 A. While formulaic approaches can provide regulatory efficiency, as discussed on pages 83-
11 85 of Volume 2, Concentric’s *Cost of Capital* report, the returns produced by ROE
12 formulas have tended to deviate from a fair return, especially during periods of economic
13 uncertainty and volatile capital market conditions. Concentric’s view is that periodic rate
14 hearings every 3-5 years remain the most reliable method for setting a fair return for a
15 public utility such as Newfoundland Power.