

Volume 2: Cost of Capital: Expert Opinion of James Coyne-Return on Equity

Q. The following is a comparison of the “average” results from Figure 1 of Mr. Coyne’s 2015, 2018 and 2021 reports on Newfoundland Power and C&T’s current report:

	2015	2018	2021	2023
CAPM	9.8%	9.33%	10.60%	10.4
Constant growth DCF	10.7%	9.85%	10.80%	10.2
Multi-stage DCF	9.6%	9.47%	9.90%	9.7
Average:	10.1%	9.55%	10.40%	10.1

- a) Please confirm that these averages are correctly reported and that it is C&T’s judgment that using Mr. Coyne’s consistent estimation techniques from his past reports the fair rate of return is 0.30% lower currently than in 2022 and the same as in 2015 when the ROE was set at 8.50%.
- b) Given that in 2018 and 2021 the ROE was settled at the same value as set by the Board in 2015 would C&T judge that the current 8.5% allowed ROE is fair and reasonable and that an allowed ROE of 8.5%, or 1.9% lower than that derived from their “normal” estimates in 2021 (10.40% above) is reasonable? Why or why not?
- c) Would C&T agree that the 8.5% settlement ROE in 2021 was 1.3% lower than its recommendation of 9.80% and that a deviation of 1.3% lower than its recommended ROE is within the bounds of reasonableness? If not why not?

A. a) The averages are correctly reported from the prior Concentric evidence. The recommended ROE from each of these cases is as follows:

2015	9.5%
2018	9.5%
2021	9.8%
2023	9.85%

The fair return recommendations in each case have been supported by the analytical results but have not been strictly based on a model average, so one could not conclude that the fair return is lower now than in 2015 or 2021.

- b) No. First, prior settled cases on ROE have no bearing on the current case as these settlements contained comprehensive solutions to rate matters of which ROE was just one factor among a basket of gives and takes in the settlement. Second, market conditions have changed considerably over this period and current estimates are the only reliable indicator of the fair return. Please see the response to Request for Information CA-NP-183 for a comparison of market data in 2023 and 2015.
- c) Yes, the settled ROE in 2021 was 1.3% lower than the recommended ROE by Mr. Coyne. No, an ROE 1.3% lower than the recommended ROE in the current case should not be considered reasonable for the reasons contained in response to part b).