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

Q. In terms of the cost of equity capital estimation techniques, can Mr. Coyne provide any information on what percentage of firms use DCF versus CAPM estimation techniques? Is he aware of any published survey results over the last 25 years that have looked at this? Are there any results specifically aimed at rate of return regulated versus non-regulated firms?

A. In his 2016 presentation at CAMPUT entitled *Rate of Return: Where the Regulatory Rubber Meets the Road*, Mr. Coyne discussed his research regarding the models used by regulatory jurisdictions in the U.S. and Canada to estimate the cost of capital for regulated utilities. For the U.S., the results are based on the most recent ROE decision in all 51 state jurisdictions as of April 30, 2016. For Canada, the results reflect the most recent decisions as of April 30, 2016 in Alberta, British Columbia, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, and Quebec.

As shown in the charts below, most U.S. regulators tend to rely on the DCF model, while many also consider the results of the CAPM method, the comparable earnings model, and other methods such as the risk premium model and authorized returns in other state jurisdictions to corroborate the reasonableness of the DCF results. In Canada, slightly more regulators tend to prefer the CAPM method, while also considering the results of the DCF model and the risk premium analysis as tests of the reasonableness of the CAPM results.

Chart 1

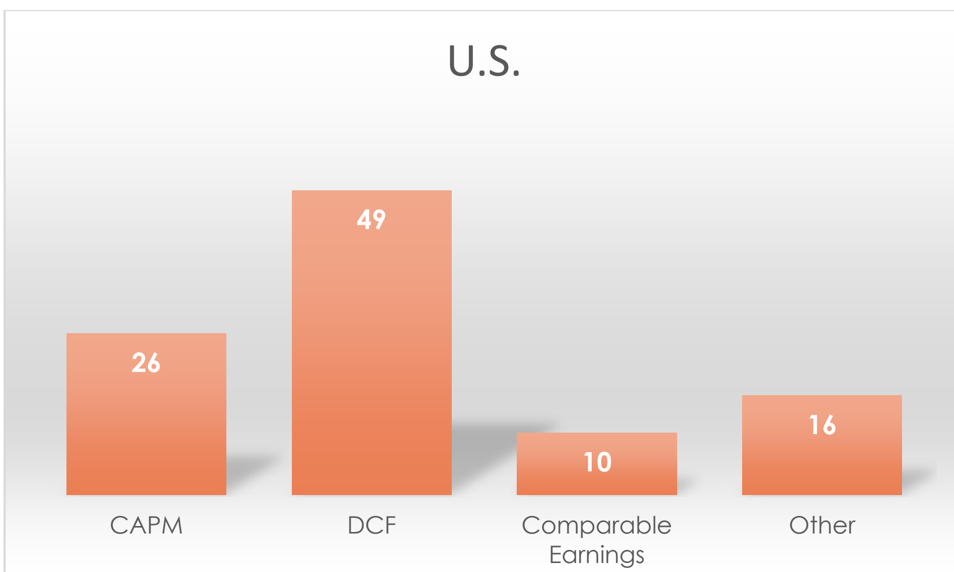
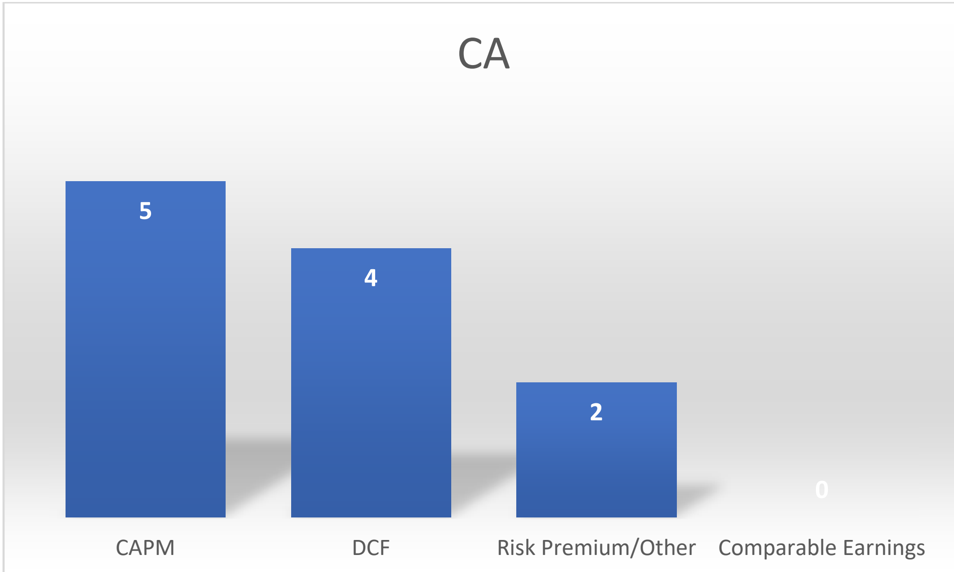


Chart 2



Concentric has not examined "what percentage of firms use DCF versus CAPM estimation techniques", but in its experience working with both regulated and non-regulated firms, the DCF and CAPM are the most commonly used for purposes of estimating the cost of capital.