

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

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4 **Q. In a June 19, 2014 Decision (Opinion 531, paragraph 33) the US Federal Energy**
5 **Regulatory Commission (FERC) pointed out that as long ago as 1983 it stated that**
6 **short term growth rates from investment advisory services cannot be relied on. It**
7 **therefore felt that “the constant growth DCF model requires (emphasis added)**
8 **consideration of long-term growth projections.” Has Mr. Coyne or Mr. Trogonoski**
9 **provided a recent cost of equity report before the FERC and if so, do they agree**
10 **with this decision of the FERC?**

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12 A. Mr. Coyne has filed cost of equity reports in several rate cases before the FERC. FERC’s
13 approach to cost of capital has continued to evolve over the past decade. Currently, FERC
14 relies on the average results of a Two-Step DCF analysis, a forward-looking CAPM
15 analysis, and a Risk Premium analysis. The Two-Stage DCF model adopted by FERC
16 assigns 80% weight to short-term earnings per share growth rates and 20% weight to
17 projected GDP growth. In Concentric’s report for Newfoundland Power, we present both
18 constant growth and multi-stage DCF models, but our ROE recommendation only utilizes
19 the results of the multi-stage DCF model, which is even more conservative than FERC’s
20 approach, along with the CAPM using a historical market risk premium, and the Risk
21 Premium model.