

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

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4 **Q. C&T reference forward and historic estimated risk premiums. Please confirm that**
5 **the historic risk premium estimates are 5.62% and 7.17% or a deviation of 1.45%**
6 **whereas the forward-looking estimates are 4.85% versus 10.33% for a difference of**
7 **5.48%. Please explain why the Board should place any weight on C&T's forward**
8 **looking risk premium estimates given the wide divergence between the two markets**
9 **that C&T claim are integrated.**

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11 A. As explained on pages 3-4 of Concentric's *Cost of Capital* report, Volume 2, and as
12 shown in Figure 2, Concentric's ROE recommendation of 9.85% is based on the average
13 results for the North American electric proxy group using three models: 1) the multi-
14 stage DCF model; 2) the capital asset pricing model using a historical market risk
15 premium; and 3) the risk premium model. Concentric has not used a forward-looking
16 market risk premium to estimate the cost of equity for Newfoundland Power in this
17 proceeding.