

1 **Volume 2: Cost of Capital: Expert Opinion of Mr. James Coyne – Return on Equity**
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3 **Q. Volume 2, Cost of Capital Report, page 46. Mr. Coyne presented both the historical**
4 **and forward looking Market Risk Premium and at lines 21-22 states he relies on**
5 **only the historical MRP in his CAPM analysis. “in order to temper the results” of**
6 **the analysis. Please explain why Mr. Coyne believes that it is necessary to do this.**
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8 A. As shown in Exhibit JMC-7, the projected total market return for the U.S. as of
9 August 31, 2023, was 14.31 percent and the forward-looking market risk premium was
10 10.33 percent. While Concentric continues to believe that it is reasonable and appropriate
11 to use a forward-looking market risk premium in the CAPM analysis, under current
12 circumstances that value is elevated relative to the historical market risk premium of
13 7.17 percent based on data from Kroll due to the projected total market return being
14 higher than may be reasonable. Therefore, Concentric relied only on the historical MRP
15 in the CAPM analysis. In doing so, Concentric believes that the more conservative
16 estimate of the market risk premium produces a more reasonable result from the model
17 and a more reliable indication of Newfoundland Power’s cost of capital.