Major Issues in Mr. Hevert's Estimation of Cost of Equity and Required Rate of Return on Equity	
Issue	**Results and Implications**
Relies exclusively on EPS forecasts, and ignores DPS, BVPS, and Retained Earnings	Overstates median growth by 64 basis points. When his DCF constant growth results are corrected for this, they are close to the 7.71% in Exhibit___(BLC-1), Schedule 2.[1]
Inconsistent use of DCF Constant Growth model	Rejects results below 8%, but accepts results as high as 60%.[2]
Implausible and unrealistic long-term growth rate in his nonconstant DCF model	Uses 5.45%. A more realistic and plausible long-term growth rate for unregulated companies is 3.9%; for the sample of comparable companies, 3.5%. When corrected for this, the result, ≈7.28%, is comparable to the 7.05% in Exhibit___(BLC-1), Schedule 3 (with remaining difference owing to different price and dividend yield data).[3]
Claims the expected total return on the S&P 500 is approximately 15 percent.	Impossible. Would require expected long-term growth of about 13%. The S&P 500 cannot, over the long-term, grow faster than the economy (GDP) as a whole. In the post WWII era, a 10-year rolling average of nominal GDP peaked at just over 10% during the inflation of the late 1970's and has declined steadily since then. Current CBO forecast for GDP through 2028 is 3.9%. A 15% expected total return *just for the next few* years is outside *three* standard deviations (8.2% + 3x2% = 14.2% upper limit) of a survey of 1348 respondents (Fernandez, et. al). That it could be 15% in perpetuity is impossible.[4]
Claims the equity market risk premium is about 12 percent.	Incredulous. This is outside *three* standard deviations (5.4%, + 3x1.7% = 10.5% upper limit) of a survey of 1348 respondents (Fernandez, et. al).[5]
CAPM results are totally implausible for regulated utilities.	CAPM results range from 10.52% to 13.13%. Such returns, relative to a 5.3% market risk premium imply stock betas of 1.44 to 1.93 percent. Hevert's own data show stock betas only averaging 0.63 to 0.78.[6]
Assumes that *allowed* rates of return on equity have historically equaled *required* rates of return on equity (in "Bond Yield Plus Risk Premium" method).	This assumption is contradicted by two decades in which market-to-book ratios have exceeded 1.0, often by a substantial amount. Adjusting for this, the estimated risk premium is reduced from 6.2 percent to 4.0 percent. Relative to a present yield of 3.0% on long-term government bonds, the resulting estimate of cost of equity is just 7.2 percent.[7]
Claims that a "size premium" should be taken into consideration in determining the cost of equity for a public utility.	The evidence for a "size premium" is disputed, but in any case, is inapplicable to public utilities. It applies only to small companies with high beta coefficients and significant "alpha" coefficients. Utilities have low beta coefficients and evidence suggests that they do not have significant "alpha" coefficients.[8]

Footnotes (Page References to Copeland Direct Testimony)

[1] 47-48, 50.
[2] 48, 56-57.
[3] 51-55.
[4] 51-55, cf. 64-65.
[5] 59-62.
[6] 73-74.
[7] 75-76.
[8] 76-81, cf. 69-70.