Q. Coyne Evidence: Mr. Coyne points to the correlation between GDP growth rates between the US and Canada; unemployment rates, inflation etc., as indicators of integration between the two countries. Can Mr. Coyne provide a similar analysis for Canada and the UK, Japan and Europe?

A. Mr. Coyne focused on the comparability of U.S. utilities because they present a larger universe of publicly traded companies operating in a similar macroeconomic and business environment, with a comparable regulatory framework, common legal principles, and a physically connected network of gas and electric systems. There is also considerable cross-border investment in utilities and more broadly, as the countries are their respective largest trading partners. Lastly, the data for U.S. utilities are readily available from a variety of public and subscription sources. For these reasons, Mr. Coyne did not find it necessary to consider utilities, regulatory frameworks, or macroeconomic assessments of other countries in this analysis. He has, however, previously provided assessments that included Canada, the U.S., U.K., Australia, and the Netherlands. In that report, based on its analysis for the OEB, Concentric concluded:

> "CEA also extends the analysis beyond Canada and the U.S., to determine whether other countries, specifically the U.K., Australia, and the Netherlands, might form an adequate basis of comparison and thus allow for a larger population of comparable companies. While the gas markets in these countries bear certain resemblances to those of Canada and the U.S., there are a few substantial differences that weaken the comparison. Thus, allowed returns in these countries are not considered adequate benchmarks against which to examine ROEs in Ontario.
>
> As a result of the interplay between the Canadian and U.S. markets, Canadian utilities compete for capital essentially on the same basis as utilities in the U.S. In the current market environment, no fundamental differences were identified that would indicate a significant difference in investor required returns between the two markets. Capital flows efficiently between these two markets, and over the long-term, equity investors earn nearly identical returns. On the issue of subsidiaries competing for capital we find that subsidiaries of larger holding companies ultimately compete for capital much like stand-alone companies, as they must compete among their affiliates for parental investment. Nonetheless, the parental obligation to invest necessary capital to maintain system integrity will typically provide the wholly owned subsidiary sufficient capital to sustain operations, where no such provision exists for stand-alone utilities.

> Over time, however, the equity returns must ultimately reward the parent or investor at the same rate as a similar investment of comparable risk. This 'comparability standard' is a guiding principle in both Canadian and U.S. utility regulation."[1]

[1] A Comparative Analysis of Return on Equity of Natural Gas Utilities, Concentric Energy Advisors, Prepared for The Ontario Energy Board, June 14, 2007.