

1 **Q. Coyne Evidence: Mr. Coyne (page 18) states that Canadian regulators have**
2 **“accepted” the use of US data and proxy groups to estimate the ROE for Canadian**
3 **firms. Please provide statements from Canadian decisions that have used US**
4 **estimates without any adjustments in determining the fair ROE for a Canadian**
5 **regulated utility.**

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7 A. The complete quote from the Concentric evidence on p. 18 is as follows:
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9 “Canadian regulators have accepted the use of U.S. data and proxy groups to
10 estimate the allowed ROE for Canadian regulated utilities. The development of a
11 proxy group comprised entirely of Canadian electric utilities is compromised by
12 the small number of publicly traded utilities in Canada and the fact that many of
13 those Canadian companies derive a significant percentage of revenues and net
14 income from operations other than regulated electric utility service. This problem
15 has been exacerbated by the continuing trend toward mergers and acquisitions in
16 the utility industry, both within Canada and across the border with U.S. utility
17 companies.”
18

19 In its 2013 generic cost of capital decision, the British Columbia Utilities Commission
20 accepted the use of U.S. data and made no explicit adjustment.¹
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22 In its 2009 generic cost of capital decision, the Ontario Energy Board (“OEB”) also
23 accepted the use of U.S. data without making any adjustments. On pages 21-23 of the
24 decision, the OEB stated²:
25

26 “Second, there was a general presumption held by participants
27 representing ratepayer groups in the consultation that Canadian and U.S.
28 utilities are not comparators, due to differences in the “time value of
29 money, the risk value of money and the tax value of money.”¹⁵ In other
30 words, because of these differences, Canadian and U.S. utilities cannot be
31 comparators. The Board disagrees and is of the view that they are indeed
32 comparable, and that only an analytical framework in which to apply
33 judgment and a system of weighting are needed. The analyses of
34 Concentric Energy Advisors and Kathy McShane of Foster Associates Inc.
35 are particularly relevant in this regard, and substantially advance the issue
36 of establishing comparability to meet the requirements of the FRS.
37

38 The Board notes that Concentric did not rely on the entire universe of U.S.
39 utilities for its comparative analysis. Rather, Concentric carefully selected
40 comparable companies based on a series of transparent financial metrics,
41 and the Board is of the view that this approach has considerable merit.
42

¹ BCUC, GCOC Stage 1, Decision dated May 10, 2013.

² OEB, GCOC, EB-2009-0084, Decision dated December 11, 2009.

1 The use of a principled, analytical, and transparent approach to determine
2 a low risk comparator group from a riskier universe for the purpose of
3 informing the Board’s judgment was supported by various participants in
4 the consultation.
5

6 The Board is of the view that the U.S. is a relevant source for comparable
7 data. The Board often looks to the regulatory policies of State and Federal
8 agencies in the United States for guidance on regulatory issues in the
9 province of Ontario. For example, in recent consultations, the Board has
10 been informed by U.S. regulatory policies relating to low income customer
11 concerns, transmission cost connection responsibility for renewable
12 generation, and productivity factors for 3rd generation incentive
13 ratemaking.
14

15 Finally, the Board agrees with Enbridge that, while it is possible to
16 conduct DCF and CAPM analyses on publicly-traded Canadian utility
17 holding companies of comparable risk, there are relatively few of these
18 companies. As a result, the Board concludes that North American gas and
19 electric utilities provide a relevant and objective source of data for
20 comparison.”
21

22 In its TQM Decision, the National Energy Board (“NEB”) found that U.S. market returns
23 are relevant to the cost of capital for Canadian firms, and that the regulatory regimes in
24 Canada and the U.S. are sufficiently similar as to justify comparison. Moreover, the NEB
25 found that Canadian utilities are competing for capital in global financial markets that are
26 increasingly integrated. The NEB recognized that it is no longer possible to view Canada
27 as insulated from the remainder of the investing world, and that doing so would be
28 detrimental to the ability of Canadian utilities to compete for capital.³ These findings
29 suggest that it is reasonable and appropriate to consider a proxy group of U.S. utility
30 companies as sufficiently comparable to Canadian regulated utilities in terms of their risk
31 profile. Importantly, the NEB also found that the regulatory regimes in the U.S. and
32 Canada were sufficiently similar as to justify comparison between utilities in the two
33 countries, stating:

³ National Energy Board, Reasons for Decision, TQM RH-1-2008 (March 2009), at p. 66-72.

1 “The Board is not persuaded that the U.S. regulatory system exposes
2 utilities to notable risks of major losses due either to unusual events or
3 cost disallowances. The Board views the losses and disallowances
4 experienced by U.S. regulated entities as a result of the restructuring that
5 took place to terminate the merchant gas function of pipelines, as well as
6 some other circumstances such as the Duquesne nuclear build, to be, to a
7 large extent, unique events. The Board also finds that such instances are
8 not likely to weigh significantly in investors' perceptions today, and would
9 thus have little or no impact on cost of capital.”⁴

⁴ Ibid.