

1 Q. Reference: CA-NP-157
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3 It has been noted several times throughout Mr. Coyne's evidence that U.S. utilities
4 have higher allowed equity ratios and ROEs than Canadian utilities. For example,
5 page 2 of the document referred to in CA-NP-313 above (i.e., Attachment C) reports
6 2015 averages for the allowed ROEs and equity ratios for Canadian Electric
7 Distributors of 8.72% and 38.53%, versus corresponding figures of 9.66% and
8 51.81% respectively for U.S. Electric Distributors. Combining this with higher
9 credit metrics for the U.S.-based utilities suggests that U.S. utilities possess lower
10 financial risk, on average. Further, the response to CA-NP-123 suggests that Mr.
11 Coyne believes that "the average U.S. utility has lower regulatory risk than the
12 average Canadian utility." Would Mr. Coyne agree that the discussion above
13 implies that one of the main reasons for the higher yield on U.S. utilities must then
14 be that U.S. utilities possess greater business risk (excluding regulatory risk) than
15 do their Canadian counterparts? If not, please explain what is causing the
16 additional risk premium that is reflected in the higher yields required by bond
17 investors for U.S. utility bonds relative to Canadian utility bonds.
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19 A. No, Mr. Coyne does not agree that U.S. utilities possess greater business risk than their
20 Canadian counterparts. First, the conclusions on business and financial risk in
21 Concentric's report pertain to a comparison of Newfoundland Power to a proxy group of
22 U.S. electric utilities that was chosen based on its risk comparability to Newfoundland
23 Power. Therefore, Mr. Coyne does not draw any general conclusions regarding the
24 relative business risk of Canadian and U.S. utilities. Second, as stated on pages 30-31 of
25 Appendix A of Concentric's report, Mr. Coyne concludes that Newfoundland Power has
26 somewhat higher business risk than the proxy group of U.S. electric utility companies.
27 Among the factors contributing to this higher risk profile include Newfoundland Power's
28 small size, dependence on one supplier, and weather and storm related risk. By choosing
29 U.S. utilities with long-term issuer ratings that are equal to or better than Newfoundland
30 Power's long-term issuer rating of BBB+, Concentric has selected proxy group
31 companies with similar investment risk as Newfoundland Power. In Mr. Coyne's
32 opinion, the risk comparability of the proxy group to Newfoundland Power is a much
33 more relevant consideration for determining a reasonable ROE than whether the average
34 yield on generic utility bonds is higher or lower in Canadian vis-à-vis the U.S.