Q. In Concentric's article of May 1, 2015, "Authorized Return on Equity for Canadian and U.S. Gas and Electric Utilities" (reproduced at CA-NP-157, Attachment C, p. 1 of 4), it is stated:

> **"While authorized ROEs have converged between the two counties, the authorized common equity ratios have not. In 2014, the median common equity rates for Canadian gas distributors was 39.3% while the U.S. median was 51.9%, comparable to the differences for electric distributors which was 40% and 50.1% respectively. Allowed equity ratios for Canadian electric transmission companies are 4.0% lower than their electric distribution counterparts, and 14.0% below U.S. electric distributors."**

To what does Mr. Coyne attribute the significantly higher allowed equity ratios in the U.S.?

A. In Mr. Coyne's opinion, an important difference with respect to U.S. and Canadian regulation that is often overlooked is how capital structure is set for purposes of establishing rates. Utilities in the U.S. are generally given more discretion to set their own capital structures within reasonable boundaries, i.e. they often are allowed to use their actual capital structure for ratemaking purposes as long as reasonably within bounds of their peer group. By contrast, in Canada, equity ratios are generally deemed by the regulator. No prudent manager, acting autonomously, would set a company's capital structure such that the company is on the cusp of a credit downgrade, at least not without assurance of regulatory protection. In that vein, it seems reasonable for the ratings agencies to expect the regulator, in deference to the regulatory compact, to provide credit support for utilities if the regulators' capital structure decisions put the utilities in imminent danger of a ratings downgrade. Mr. Coyne believes the weaker financial structure of the Canadian utilities does increase their financial risk, but the expectation on the part of the ratings agencies that regulators will step in should the deemed equity ratio prove too weak to maintain favorable credit ratings, affords some leeway to the Canadian utilities.