Q. In Order No. P.U. 13(2013), page 31, lines 5-8, the Board accepted evidence that there are differences in the United States and Canadian experience that justify an adjustment to the discounted cash flow method results. Concentric, at page 25, lines 6-8 of its report, states no such adjustment is required to be made in this proceeding. What changes, if any, have occurred since 2013 that demonstrate that the differences accepted by the Board to exist in 2013 no longer exist?

A. One important change that has occurred since the Board's Order in 2013 is how investors view the relative risk of regulated utilities in Canada and the U.S. Moody's Investors Service, for example, had traditionally taken the view that regulation in Canada was more credit supportive for utilities than in the U.S. due, in part, to the large number of variance and deferral accounts that were used in Canada to ensure that regulated utilities were able to recover reasonable costs on a timely basis. As discussed on page 26 of Appendix A to Concentric's report, Moody's published a report in September 2013 indicating that it had changed its view of the credit supportiveness of U.S. utility regulation to be more favorable. In particular, Moody's cited the fact that cost recovery mechanisms and adjustment clauses were increasingly being used by U.S. utility regulators to ensure timely recovery of allowable costs. Consequently, Moody's came to believe that utility regulation in the U.S. had become more credit supportive. As result of Moody's view that U.S. utility regulation had become more favorable from an investor perspective, the credit rating agency upgraded the rating for most (but not all) regulated electric and natural gas utilities by one notch to reflect their view that U.S. regulation was more credit supportive than previously believed.

This is an important change because intervenors in Canada had previously argued that utility regulation in Canada was more credit supportive than in the U.S., and, as a result, intervenors had contended that an adjustment was necessary to the results of financial models that estimated the cost of equity for U.S. regulated utilities. After the Moody's report was published in 2013, it became clear that rating agencies and investors had come to the conclusion that utility regulation in Canada and the U.S. was comparable, a view which Concentric had held for several years prior to the Moody's report. For that reason, Mr. Coyne does not believe that a risk adjustment to the U.S. results is necessary or warranted in this proceeding.

Additionally, the PUB cited an earlier 2009 BCUC decision where it found U.S. data for the DCF model should be adjusted between 50-100 basis points.[1] Since that time, the BCUC has not repeated that adjustment, and in its 2013 generic cost of capital decision the BCUC made no explicit adjustment for U.S. data.[2]

1 BCUC, Terasen Gas Return on Equity and Capital Structure, Decision, December 16, 2009, page 51.
2 BCUC, GCOC Stage 1, Decision dated May 10, 2013.