(9:08 a.m.)
CHAIRMAN:
Q. Well, it wasn't much of a storm, was it? No preliminary matters, I do believe, madam?
MS. GLYNN:
Q. No, Mr. Chair.
CHAIRMAN:
Q. Is that correct?
MS. GLYNN:
Q. That is correct.
CHAIRMAN:
Q. Mr. Johnson, sir.
JOHNSON, Q.C.:
Q. Thank you.
CHAIRMAN:
Q. We are back to you.
MR. JAMES COYNE (PREVIOUSLY SWORN) CROSS-EXAMINATION BY THOMAS JOHNSON, Q.C. CONT'D
JOHNSON, Q.C.:
Q. Thank you, Mr. Chairman. Good morning, Commissioners; good morning, Mr. Coyne.
MR. COYNE:
A. Good morning, Mr. Johnson. I have some responses to undertakings from yesterday. Would it please you if I read those into the

record?
JOHNSON, Q.C.:
Q. Certainly.
MR. COYNE:
A. Okay. There were—there was a question as to the footnote on my Exhibit JMC 8 in terms of the actual years associated with calculating the historic market equity risk premium, and I would like to update that footnote 5 here if I could. It should have read, "Average of the Duff and Phelps Canada Historical Risk Premium 1919 to 2014, Duff and Phelps US Historical Risk Premium 1926 to 2014." So that would be the correct footnote to insert into that exhibit. I was also asked by you and that became an undertaking. Well, I believe we reconciled the one pertaining to Central Hudson in terms of the allowed rate of return. So I think we're all set with that, are we not?
JOHNSON, Q.C.:
Q. Yes, you spoke to that yesterday.
MR. COYNE:
A. Right and we did not provide expert evidence in that testimony, in that case. And

Undertaking 12 pertaining to a table that Ms. McShane had provided, you had asked if I could provide same information expressed with total bond returns being subtracted from the overall market return, vis-à-vis the income portion only. So I've looked at that, and the—what I found is that there is a total bond return MRP. The data is published by Morningstar. The published a table for the US from 1926 to 2014, and if I could read that data into the record, I would.
JOHNSON, Q.C.:
Q. Just one second now. Let me get Ms. McShane's part of that cross aid that you're—Cross Aid Number 6.
MS. GLYNN:
Q. And that's Information Number 24.
KELLY, Q.C.:
Q. Twenty-four. Sam, Number 24.
JOHNSON, Q.C.:
Q. And the chart that she provided was at page –
MR. COYNE:
A. I believe it was page 64, table 9.

KELLY, Q.C.:
Q. She's got it. Okay, good.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. So I have that data for the US, and the total return on large company stocks over the entire period from 1926 to 2014 was 12.1 percent. The total return on government bonds was 6.1 percent. If you subtract one from the other as Ms. McShane did here, the number you would get would be six percent versus the seven percent that one would get on the bond income return. As best I could tell, Duff and Phelps does not publish the same detail on Canada, so I do not have that information, not to provide, but I would conclude with I stand by my approach because the standard measure of the risk free rate is the income only portion of the return, because that's the true risk free component, but -
JOHNSON, Q.C.:
Q. I think I –
MR. COYNE:

A. Those are the numbers per the undertaking.
JOHNSON, Q.C.:
Q. I wonder if—I think it would be more convenient for our purposes if we could have it in paper format so that we can compare one chart to the next.
KELLY, Q.C.:
Q. We'll do that.
JOHNSON, Q.C.:
Q. It would be more helpful.
KELLY, Q.C.:
Q. We'll do that, Mr. Chairman.
CHAIRMAN:
Q. Yes.
JOHNSON, Q.C.:
Q. Thank you.
MR. COYNE:
A. Okay.
MS. WHALEN:
Q. Could you do the same –
MR. COYNE:
A. And lastly –
MS. WHALEN:
Q. Could you do the—excuse me. Could you do the same for the previous one, the updated

footnote?
KELLY, Q.C.:
Q. Oh, certainly.
MS. WHALEN:
Q. I think that would be helpful.
MR. COYNE:
A. Yes, sir.
KELLY, Q.C.:
Q. We'll undertake to do that, Ms. Whalen.
MS. WHALEN:
Q. Yes.
JOHNSON, Q.C.:
Q. Okay, and –
MS. GLYNN:
Q. Both are noted on the record already, so.
KELLY, Q.C.:
Q. Thank you.
JOHNSON, Q.C.:
Q. Yes, okay.
MR. COYNE:
A. Okay, and lastly you had asked if I could confirm the regression results were provided in an undertaking would be the same had I removed the dummy variable, and they are as portrayed in the undertaking, but I realized

in looking at them that they were part of a broader response to a RFI in the BC case for FortisBC, and there was a much longer response provided on that. So it's a little bit out of context in my mind in terms of just looking at that sliver of the regression result. So if I could, I would just like to read a few of the highlights from that longer response that's a more complete response.
JOHNSON, Q.C.:
Q. Well, I don't understand that, Mr. Coyne, because I think these were inputs in relation to the regression analysis that you provided in this case.
MR. COYNE:
A. They weren't, no. I was asked if—what those results were and they were not results that I had provided. They're results removing a dummy variable, but I had included the dummy variable in my analysis. What those results were, were taking an excerpt from about a five-page RFI that I responded to in the BC case. It was just that one sliver, but there was a multitude of information

provided that provides much more context around that.
JOHNSON, Q.C.:
Q. Now I'm just –
MR. COYNE:
A. Around what would happen have if you removed periods of other anomalous events, what those regression results would look like.
JOHNSON, Q.C.:
Q. Show—that's not the—what we had put to you at all, Mr. Coyne. Could you refer us to your Regression Analysis that you filed for Newfoundland Power's case for a moment?
MR. COYNE:
A. Yes.
MS. GLYNN:
Q. Do you have a page reference, Mr. Johnson, so the –
JOHNSON, Q.C.:
Q. I'm hoping Mr. –
MR. COYNE:
A. It would have been one of my exhibits.
MS. GLYNN:
Q. Okay.
MS. PIERCEY:

Q. It's JMC 7.

JOHNSON, Q.C.:

Q. It's JMC 7.

MS. GLYNN:

Q. Thank you.

MR. COYNE:

Q. JMC 7, right.

JOHNSON, Q.C.:

Q. Thank you.

MR. COYNE:

A. Right. So those were not the regression results that you put to me in the undertaking. Those are the ones that I used to estimate the forward-looking market equity risk premium. The results that you put to me on a single page reflected those results removing a dummy variable which I did not do, and not know what I done because it was important to remove the great recession from those results.

JOHNSON, Q.C.:

Q. No, but my –

MR. COYNE:

A. Those results that were provided at the undertaking were provided in response to an

RFI in BC asking what would happen if I did remove the dummy variable. And I provided a multi-page response around that issue, and I can provide to—I can provide it to this Board in its full form, but I at least wanted to share with the Board the context of the full response.

JOHNSON, Q.C.:

Q. Mr. Coyne, I beg to differ with you. What that undertaking was, it was—or what that cross aid was about that we presented to you was based upon Exhibit JMC 7, but asking you instead of removing the dummy variable, to keep it in. That's all –

MR. COYNE:

A. Well, if you kept it in, then you'd have these results right here. There'd be no reason to ask.

(9:15 a.m.)

JOHNSON, Q.C.:

Q. Yes. Yes, I'm sorry. What that cross aid was, was what would be the impact if you took that dummy variable out. That's what that cross aid was representing. What you –

MR. COYNE:

A. Right, and you provided me with an answer to it and you asked me to confirm if that was the answer. Okay, I did not provide that in my evidence. That was provided by you, not by me and my evidence. And I—when I looked at that regression result again last night, I said, "I think I remember we provided something on that in the context of BC," and I went and looked, and we had about a six or eight-page response there on that issue. And that was just one sliver of that response.

KELLY, Q.C.:

Q. We'd be happy to undertake to file that if it's of assistance to the Board.

MR. COYNE:

A. Um-hm.

JOHNSON, Q.C.:

Q. Mr. Coyne, I'm—I have no idea what you're talking about, because I wasn't even aware of the regression analysis that you did in BC. We based the cross aid, sir, on JMC 7, and asked you, "What would"—"Would you confirm that the cross aid that we passed over to you would yield those results if you

took the—removed the number 1 for the dummy variable in 2008?"

MR. COYNE:

A. Could we bring up the cross aid, please?

JOHNSON, Q.C.:

Q. Sure.

MS. GLYNN:

Q. Number 25.

MR. COYNE:

A. Okay that's what I was given as a cross aid.

JOHNSON, Q.C.:

Q. Correct.

MR. COYNE:

A. I never provided that in my evidence.

JOHNSON, Q.C.:

Q. That's right.

MR. COYNE:

A. Okay.

JOHNSON, Q.C.:

Q. And that –

MR. COYNE:

A. And that—there's only one source that I have. Either you ran those results and provided the statistics or put them on a page--and those exact—those match exactly to

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evidence that I present in response to an RFI in BC as part of a multi-page response on this issue. So the—but that was the only data that was provided, and in that response I described what would happen, why that would be an inferior approach to estimating that regression, what the statistical results would be, what they would mean. And then I described what would happen if you excluded other anomalous years, what those regression results would look like and what it would mean for the market, for the estimate of the forward-looking market equity risk premium, what it would mean for my results. So it was a very complete response on this issue, and I don't think that cross aid just—does justice to the full response. So I just wanted to provide some context around that, but that's not part of my evidence. That was your cross aid.

JOHNSON, Q.C.:

Q. Well Mr. Coyne, maybe what you should do is undertake to file what it is you're referring to from BC so I can see if it refers to that.

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KELLY, Q.C.:

Q. Absolutely.

MR. COYNE:

A. Yeah, I'd be -

MS. GLYNN:

Q. Noted on the record.

MR. COYNE:

A. I'd be pleased to do that.

JOHNSON, Q.C.:

Q. All right.

MR. COYNE:

A. Okay. Now can we bring up Exhibit JMC 8 to the screen and—so this is the exhibit that we left yesterday. If you'd scroll down a little bit further there? I'm sorry, the other way. Yes, so this is the Capital Asset Pricing Model and as we were discussing yesterday this is what you used to come up with your recommendations to the Board for what CAPM produces for the US proxy group, the Canada proxy group and the North American electric proxy group, and we've seen, as we were discussing yesterday, is using various or two different risk free rates, right?

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MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Okay. Now as we established, this is different than what you did in British Columbia, correct?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Okay. Now if we just to page 27 of your report for a moment –

MR. COYNE:

A. Different in a sense that different risk free rates were applied here versus one risk free rate in British Columbia.

JOHNSON, Q.C.:

Q. Yes, that's right.

MR. COYNE:

A. Based on the source of the company.

JOHNSON, Q.C.:

Q. That's right. Now let's just look at your report at page 27, lines 4 to 6. When someone would read your report like I did, I read "My CAPM analysis relies on the 2016 through 2018 average Consensus Economics

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forecast of the of Canadian 10-year government bond, shown in Figure 10, plus the historical spread between 10-year and 30-year government debt." That's what you said you were basing your CAPM on, right?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. But that's not what you based your CAPM on, is it?

MR. COYNE:

A. Yes, I did.

JOHNSON, Q.C.:

Q. Excuse me?

MR. COYNE:

A. Well, I show down below the—okay, let me look at the sentence more carefully. I show both Canada and the US down below. This sentence only represents Canada, only indicates Canada, yes. I see what you mean.

JOHNSON, Q.C.:

Q. Yes, so you –

MR. COYNE:

A. Clearly I was using both Canada and the US in the table. Only Canada is mentioned in the paragraph.

JOHNSON, Q.C.:

Q. So if you read your report, you'd have the wrong impression what you were judging your CAPM on?

MR. COYNE:

A. Oh, I don't think so. You can see down below that I have Canada and the US, and if you go to the exhibits, I had both. So –

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. I wouldn't think that that would have been too misleading.

JOHNSON, Q.C.:

Q. Now, can we bring up the transcript from yesterday? Page 200. Around line 21, okay. This is after I brought it to your attention, I advised you that in British Columbia you didn't use two different risk free rates, and you said, starting at line 21, "No, I typically apply the risk free rate that's appropriate for the country that I'm deriving the proxy group from and I don't understand why, frankly, it's 3.68 in

the case of BCC. It should have been, I believe"—where does it go? "I believe it should have been the same as used here, and that is the 4.29. I think that was an oversight on my part."

MR. COYNE:

A. Yeah.

JOHNSON, Q.C.:

Q. That's what you said yesterday, right?

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. Now let me just turn to your BC evidence at page 40. That's at CA-NP-152. Page 40 of the report, Samantha, please. Keep on coming down. There you go. And this is what you say in your BC evidence at page 40, lines 19 to 23. "My CAPM analysis relies on the 2016 to 2018 average Consensus Economics Forecast of the Canadian 10-year government bond shown previously in table 2 and repeated below in table 4, and adds the historical spread between 10-year and 30-year government debt. This period has been chosen to match the period when FEI's rates

are most likely to be in effect." Right? That's what you indicated, correct?

MR. COYNE:

A. Yes. Can we go to 41, please?

JOHNSON, Q.C.:

Q. Yes.

MR. COYNE:

A. Right, okay. I'm illustrating the Canada and US again in the table, yeah.

JOHNSON, Q.C.:

Q. Yes, but you say what you're basing you CAPM on is your 2016 through 2018 Canadian forecast though, right?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Right. Now -

MR. COYNE:

A. But I show both.

JOHNSON, Q.C.:

Q. And let—can I turn to the transcript –

MR. COYNE:

A. Yeah, and I utilize both, but I—there is the distinction you're drawing is when I'm running—the distinction you're drawing is

when I am combining them in a CAPM model whether or not I'm using the Canadian risk free rate or the US risk free rate, which is the difference that we discovered yesterday. So I went and look at this last night and spoke to the two analysts that I'm working with on both of these cases, and discovered that they treated it differently. And that was not—we have done it differently in different cases in this regard. So I looked at it and when I work with typically in gas cases, one in electric cases, and there has been a difference in our approach in terms of which risk free rate we use when we're running the US numbers, whether or not it's the Canadian risk free rate or the US risk free rate. And the reason for that is –

JOHNSON, Q.C.:

Q. Excuse me, Ms. Coyne.

MR. COYNE:

A. Yes?

JOHNSON, Q.C.:

Q. Before you get on to the reason for that –

MR. COYNE:

A. Yeah.

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JOHNSON, Q.C.:
Q. - let me turn you to the transcript of what you told us yesterday.
MR. COYNE:
A. Um-hm, yeah.
JOHNSON, Q.C.:
Q. At page 204 at lines 13 to 14, okay. And you—I ask you, "Is that a long and about way of saying that you're not aware of any Canadian board that has ever accepted this type of approach?" And I was referring to the approach that you provided here in Newfoundland with the two different risk free rates going on. And you said, answer, "I've presented it this way in every case. We use--we keep it separate." Do you remember saying that yesterday? And then I went on to say, "Well, you don't do it every case; you didn't present it like it in B.C." "Well that's bit of an oversight in that particular case for that group." Was that your testimony yesterday?
MR. COYNE:
A. It is and still is, but as I realized there was a difference between how we were treating it.

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JOHNSON, Q.C.:
Q. So that statement yesterday to the Board wasn't accurate, was it?
MR. COYNE:
A. Well, the oversight is true, yes.
JOHNSON, Q.C.:
Q. But the statement –
MR. COYNE:
A. I checked on it and now I realize it was an oversight on my part.
JOHNSON, Q.C.:
Q. So the statement that "We presented it this way in every case," that's not accurate?
MR. COYNE:
A. It is not, no.
JOHNSON, Q.C.:
Q. And that's not. That's exactly right, it's not.
MR. COYNE:
A. I would like to correct the record if I might.
JOHNSON, Q.C.:
Q. Let me just continue on and see if you can correct it after.

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MR. COYNE:
A. Okay.
JOHNSON, Q.C.:
Q. Can I bring you to CA-NP-154? This is your Hydro Quebec evidence with Mr. Trogonoski. You confirmed in early cross-examination that you're responsible for the rate of return evidence in that filing, correct?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Right.
MR. COYNE:
A. Yeah.
JOHNSON, Q.C.:
Q. Can we turn to page 68 of your report? CA-NP-154, if we scroll down to Risk Free Rate. It's page 68. "What do you assume is a risk free rate in your CAPM analysis?" "To estimate the risk free rate Concentric relies on the 2013 through 2018," this time, "Consensus Economics forecast of the Canadian 10-year government bond and adds the current spreads between 10-year and 30-year government debt." So there was no use of other than Canadian risk free rates in that analysis, was there?

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MR. COYNE:
A. That's right. Yeah.
JOHNSON, Q.C.:
Q. And can we turn to your –
MR. COYNE:
A. I did report both and I estimated both, but when it came to running it through the CAPM I used the Canadian risk free rate.
JOHNSON, Q.C.:
Q. Well –
MR. COYNE:
A. When I was using the US proxy group, I was using the US only rate, but I—for the—well, I take it back. When it came to the risk free rate for the CAPM there, I was using the Canadian risk free rate.
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. Yeah.
JOHNSON, Q.C.:
Q. And in fact you don't present the American risk free rate there in this evidence

either. Just go over to page 69.
MR. COYNE:
A. Apparently not.
JOHNSON, Q.C.:
Q. Yes, that's –
MR. COYNE:
A. Well, I'm just looking at that one page. I don't know what precedes it. That was a while ago.
JOHNSON, Q.C.:
Q. Did you look at this material last night?
MR. COYNE:
A. Did I look at that last night?
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. No.
JOHNSON, Q.C.:
Q. No. Now could -
MR. COYNE:
A. No, but what I can clarify –
JOHNSON, Q.C.:
Q. Okay, hold just one second now. Let me just continue on.
MR. COYNE:

A. Yeah, yeah.
JOHNSON, Q.C.:
Q. Can I get you to look at JMC 6 that's an exhibit to this evidence? That's page 160 of 190. This is the exhibit that supports your Capital Asset Pricing Model, is that correct?
MR. COYNE:
A. Are we in JMC 6 here?
JOHNSON, Q.C.:
Q. If you could bring the page over, Samantha, please? Yes.
MR. HAYES:
Q. No, this is Quebec.
MS. GLYNN:
Q. Yes, that's still the Quebec, yes.
JOHNSON, Q.C.:
Q. Because that's—precisely, we're talking about Quebec.
MR. HAYES:
Q. Yes, Quebec.
MR. COYNE:
A. Right, okay.
JOHNSON, Q.C.:
Q. Yes, so you use the constant Canadian rate.

Just if we could see the proxy groups here for a moment, all Canadian risk free rate, but this time over a five-year forecast?
MR. COYNE:
A. Yes, it was the Canadian risk free rate. Yeah.
JOHNSON, Q.C.:
Q. Over a five-year forecast?
MR. COYNE:
A. I don't recall if it was a five-year forecast or not.
JOHNSON, Q.C.:
Q. Well, let's just go back for a moment. Page 68 of your report. Do you see where--lines 17 to 18, use of the 2013 through 2018 forecast?
MR. COYNE:
A. Right, okay.
JOHNSON, Q.C.:
Q. Yes, so you now agree with me, you used five years there?
MR. COYNE:
A. Yes. Yeah, I was looking as then—then as now for an equilibrium level for the risk free rate.

JOHNSON, Q.C.:
Q. Now you were quite clear yesterday, Mr. Coyne, I must say to you, that the way you presented it in Newfoundland Power's case was the way you presented it in every case, okay. Now I –
MR. COYNE:
A. And I went on to say it looks like it's a bit of an oversight for that group. I went back and checked. Can I clarify this record?
JOHNSON, Q.C.:
Q. Go ahead.
MR. COYNE:
A. Thank you. So I went back and checked, and I thought I had used it in the same way in every one of our cases, and I was wrong. It's using two different analysts and we had two different approaches, and the reason we had—well, let me clarify the record for where it did show up as Canada only versus US and Canada. As you have noted in both BC and Hydro Quebec, we used the same risk free rate for both US and Canada in estimating the CAPM. In all the other cases, and I

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asked my analyst to look at this, they were presented as they are here in Newfoundland. So two cases where we didn't. I asked why. It was an oversight on my part that we didn't catch that, and it's an internal debate that we've had as a team about how to best represent any differences between the risk free rate in Canada and the risk free rate in the US. And if one is concerned about those differences, and one wants to, you know, have—set aside any concern about what that difference could be in terms of deriving the CAPM results, then one would use a Canada-only forecast because you're setting aside any difference in that risk free rate. So that's one argument. The other argument as I discussed here is if there were differences in the credit spread that are offsetting the difference in the risk free rate as we've seen here, then you've already taken care of that difference. Okay. The more conservative approach I guess you could say so that you can take it off the table altogether, is just to run the Canadian risk free rate all

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the way through. So I—that has been my typical approach, but not consistently so, and I apologize to this Board for the confusion in that regard. I wasn't clear myself, but there are merits to both approaches. I did look at the results, if one had done it this way, and if I could do so, I would just like to report that this morning.

JOHNSON, Q.C.:
Q. Okay, and I think it would probably be best to follow that in paper as well?

MR. COYNE:
A. I would be glad to.

JOHNSON, Q.C.:
Q. Thank you.

MR. COYNE:
A. So if the—maybe the best way to do this would be just to turn to my ROE results, and that's the summary page on page 3 of my testimony.

JOHNSON, Q.C.:
Q. What page, sir?

MR. COYNE:
A. Page 3. That's Figure 1. So this only

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affects the CAPM results, the top line, and it doesn't affect the Canadian results of course because that's a Canadian risk free rate. So the numbers it would affect would be the US utilities and the North American utilities. So now we're using only the Canadian risk free rate across. So instead of 10.1 percent, excuse me, instead of 10.4 percent for the US utilities, that number would be 9.8 percent, and instead of 10.1 percent for the North American utility group, that would be 9.6 percent. The bottom line average for the North American utilities, which I'll place greater weight on, instead of being 9.7 percent, is 9.5 percent. So the average for the three would be 9.5 instead of 9.7.

JOHNSON, Q.C.:
Q. What would be your average of CAPM coming across the top there?

MR. COYNE:
A. I did not compute that, but I can—what I can do is I could re-provide this table and those results.

JOHNSON, Q.C.:

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Q. Right, right.

MR. COYNE:
A. An undertaking or I could -

JOHNSON, Q.C.:
Q. And that's an undertaking, yes.

MR. COYNE:
A. Or I could just even do right now if we want to take a minute, but that's probably not –

JOHNSON, Q.C.:
Q. Okay.

MR. COYNE:
A. I'll pull -

MS. GLYNN:
Q. So the undertaking with be to re-file Figure 1 with the new—with the new numbers provided here this morning.

JOHNSON, Q.C.:
Q. For the risk free rate adjustments, yes.

KELLY, Q.C.:
Q. So undertaken.

JOHNSON, Q.C.:
Q. Okay. So Mr. Coyne, does that change your recommendations to the Board at all?

MR. COYNE:
A. No, it brings it down to 9.5 percent which

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was my recommendation anyway, so it would not change my result. And it's all well within the range of the results that I've calculated.

JOHNSON, Q.C.:

Q. You've indicated that, this morning, that you have in fact provided testimony in Canada where you have done the same thing as you're doing here, using two risk free rates and the CAPM analysis?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. What proceedings were they?

MR. COYNE:

A. These are the ones I was able to check on last night, and I think it's reasonably representative. Maritime Electric, ATCO.

JOHNSON, Q.C.:

Q. When was Maritime Electric?

MR. COYNE:

A. When was Maritime Electric? It was also filed in 2015.

JOHNSON, Q.C.:

Q. You did it like you did it here in Newfoundland?

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MR. COYNE:

A. Yes. ATCO and Enbridge.

JOHNSON, Q.C.:

Q. When was ATCO?

MR. COYNE:

A. Oh I believe we had that on record. I think it was either—I think it was 2009.

JOHNSON, Q.C.:

Q. And what was the other one?

MR. COYNE:

A. And Newfoundland.

JOHNSON, Q.C.:

Q. Those three instances?

MR. COYNE:

A. That is -

JOHNSON, Q.C.:

Q. Did you say Enbridge as well?

MR. COYNE:

A. That's four.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. Yeah, so –

JOHNSON, Q.C.:

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Q. Enbridge, when was that?

MR. COYNE:

A. Oh it would have been 2009 I believe.

JOHNSON, Q.C.:

Q. Could you—was that Enbridge, 2009, was that a technical conference or actually a cost to capital evidence?

MR. COYNE:

A. It was a full consultation.

JOHNSON, Q.C.:

Q. What does that mean?

MR. COYNE:

A. Experts brought in for utilities, for consumer groups before the board to reset the generic cost to capital and determine if the formula was working correctly.

JOHNSON, Q.C.:

Q. Was that—I understand that I wasn't a litigated matter?

MR. COYNE:

A. No, it was –

JOHNSON, Q.C.:

Q. It was a –

MR. COYNE:

A. It was a consultation where the board -

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JOHNSON, Q.C.:

Q. Right.

MR. COYNE:

A. The board brought together panels of experts to speak to these issues.

JOHNSON, Q.C.:

Q. So when –

MR. COYNE:

A. But we submitted significant evidence in that case and it was relied upon for the board in terms of resetting its cost to capital and also determining whether or not the formula was working correctly. Dr. Booth also was an expert that served in that consultation.

JOHNSON, Q.C.:

Q. Okay. Would you undertake to provide, Mr. Coyne, copies of the risk free rate sections of these materials, plus the accompanying associated exhibits that shows the risk free rates that you used for US and Canadian utilities in these three instances?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Let me ask you –
MS. GLYNN:
Q. Noted on the record.
JOHNSON, Q.C.:
Q. Let me ask you, Mr. Coyne, outside of these three other occasions, you've always done it with the same risk free rate, is that right?
MR. COYNE:
A. Two. We talked about six in entirety. Two were where I differentiated them; four where I didn't.
JOHNSON, Q.C.:
Q. So the four, the four examples that you gave us that time, are they going to be using a different Canada and US risk free rate or the same?
MR. COYNE:
A. They're—the four that I mentioned are –
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. Like here. This is one of those four where we used the Canadian risk free rate for the Canadian utilities and the US risk free rate for the US utilities.

JOHNSON, Q.C.:
Q. Okay. So now what I'm asking is did you check last night as to which proceedings other than FortisBC in 2015 that you used the one risk free rate?
MR. COYNE:
A. Yes, Hydro Quebec.
JOHNSON, Q.C.:
Q. Just Hydro Quebec, was it?
MR. COYNE:
A. Yes, that's all I was able to learn, yeah. I got these two analysts on the phone together and we talked about this.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. I said, "Let's look to see where we've done it this way and where we've done it the other way."
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. And this is what we learned.
JOHNSON, Q.C.:
Q. All these testimonies, weren't these all

done under your direction?
MR. COYNE:
A. Yes. Yeah, as I said, it was an oversight on my part that I didn't get that distinction. We have debated it as a team and I did not realize that we were not being consistent from case to case in terms of how we were utilizing those risk free rates.
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. There are merits to both approaches.
JOHNSON, Q.C.:
Q. Yes. So some on your team must have debated the appropriateness of using two risk free rates, I take it?
MR. COYNE:
A. I'm not sure. Repeat the question.
JOHNSON, Q.C.:
Q. You said there was a debate on your team. What debate on your team?
MR. COYNE:
A. As to—well, we go—we debate a variety of issues in terms of our evidence as we move from case to case. You know what can do

better and differently to address these important issues? And one apparently thought that we were going to go with a uniform risk free rate and the other with the differentiated risk free rate.
JOHNSON, Q.C.:
Q. So some members of the Concentric team were on the side of the debate of using one single risk free rate?
MR. COYNE:
A. No, I wouldn't say that. We're one team.
JOHNSON, Q.C.:
Q. I thought you said there was –
MR. COYNE:
A. Just a different—just a different—they took from me a difference of intent, and I didn't catch it in terms of reviewing our—that exhibit on a case-to-case basis. And as you pointed out here, it's not making a big difference, but it's a matter of do you want to set aside any difference that that risk free rate could make in terms of interpreting the results? You know, if the credit spread is adjusting for it, then one could feel that you don't need to do so. So

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JOHNSON, Q.C.:
Q. Well, sir I regard –
MR. COYNE:
A. I take it in Canada it's probably a more conservative approach. You just don't have to worry about it, but then, you're under, in my mind, you're underestimating. You're leaving out the difference in the credit spread when you do so.
JOHNSON, Q.C.:
Q. Sir, I regard it as a significant difference when you drop the US electric utilities from 10.4 to 9.8 and the North American from 10.1 to 9.6. You don't do –
MR. COYNE:
A. Well my results are transparent. You know they're—you can see from my exhibits what I've done and they are what they are. And it certainly doesn't affect the range of my results, and it doesn't even affect my recommendation. That's one of the reasons why we provide all exhibits, all work papers. We're not trying to hide any of our work from anyone. We're full disclosure in

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this regard.
JOHNSON, Q.C.:
Q. After some digging. Now let's now talk about betas.
MR. COYNE:
A. Um-hm.
JOHNSON, Q.C.:
Q. If we could bring up JMC 5 from the British Columbia evidence again?
MS. PIERCEY:
Q. Was that in information?
JOHNSON, Q.C.:
Q. Yes, it was. It was CA-NP-152 Attachment A, page 240 or 247. So I think this is where we were discussing yesterday, Mr. Coyne—is this 240 to 247? Yes, it must be. Sam, can I—Schedule 2, please. Okay. Okay, now Mr. Coyne –
MR. COYNE:
A. No, my screen has gone blank for some reason. I don't know if I put a book up against a power button here. Is that possible?
MR. HAYES:
Q. We'll get the technical assistants.

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MS. GLYNN:
Q. Here comes Mike again.
MR. COYNE:
A. Which version? Which exhibit are we in? CA –
JOHNSON, Q.C.:
Q. It's CA-152, Attachment A, page –
MR. COYNE:
A. Oh it was –
JOHNSON, Q.C.:
Q. Page 240.
MR. COYNE:
A. 152, page 240?
JOHNSON, Q.C.:
Q. That's correct.
MR. COYNE:
A. Right.
JOHNSON, Q.C.:
Q. Now we see, Mr. Coyne, that before the BC Board you reported raw betas for all of your utilities?
MR. COYNE:
A. Right.
JOHNSON, Q.C.:
Q. Okay. The raw betas, where did you—they're

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not reported in your equivalent table in this case, right, I think we confirmed from yesterday?
MR. COYNE:
A. Right.
JOHNSON, Q.C.:
Q. Right. Where did you get these raw betas from for your BC evidence?
MR. COYNE:
Q. It looks like they were source from Bloomberg.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. We can specify if you—you're able to pull raw betas from Bloomberg.
JOHNSON, Q.C.:
Q. Okay. And would you be able to undertake to provide the raw betas for your proxy groups in Newfoundland Power's case, please?
MR. COYNE:
A. I could.
MS. GLYNN:
Q. Noted on the record.
JOHNSON, Q.C.:

Q. Okay, and Mr. Coyne, can you confirm that in BC as we're seeing on this table, that the Canadian group had significantly lower betas than the United States proxy group?

MR. COYNE:

A. (No audible response).

JOHNSON, Q.C.:

Q. I see in the raw beta column, at Column 4, a Canadian mean of .47 versus an American mean of .62?

MR. COYNE:

A. I do see that. I see the—those, the raw betas, are lower for Canada.

JOHNSON, Q.C.:

Q. Yes.

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. Now you also report an industry index beta in Column 7?

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. Okay. The industry index beta, just explain what are these and why—and explain also why

they're lower than the Bloomberg and Value Line betas?

(9:45 a.m.)

MR. COYNE:

A. Those are betas for the—in industry. An industry utilizes index. And why are they lower than the—because they represent—those are—the Bloomberg and Value Line betas are the raw betas. Two-thirds weight on the raw beta and one-third weight adjusted to the market mean which is the Blume adjustment as reported by Bloomberg and Value Line and other sources.

JOHNSON, Q.C.:

Q. What's the—does the source for these industry index betas, is that also Bloomberg?

MR. COYNE:

A. Yes, for the S&P Utilities and the S&P TSX Utilities.

JOHNSON, Q.C.:

Q. Right. So are—could these also be provided as an undertaking for your Newfoundland Power proxy companies?

MR. COYNE:

A. Well, those aren't for the Newfoundland Power proxy companies; those are for those indices. Those are -

JOHNSON, Q.C.:

Q. Well understood.

MR. COYNE:

A. Those are for –

JOHNSON, Q.C.:

Q. Understood, but could the same—could you provide the same for the industry indexes for the companies, the company groups that you're using in Newfoundland Power's case?

MR. COYNE:

A. Yes, we could.

JOHNSON, Q.C.:

Q. Okay. Will you undertake to do that?

MR. COYNE:

A. Yeah.

MS. GLYNN:

Q. Noted on the record.

JOHNSON, Q.C.:

Q. Mr. Coyne, do you know if these industry index betas are themselves adjusted? Have they gone through an adjustment process in terms of Bloomberg is saying that the US

proxy group is at .47? Is that after some adjustment or –

MR. COYNE:

A. I would have to check.

JOHNSON, Q.C.:

Q. Okay. Could you advise us on that by way of an undertaking?

MR. COYNE:

A. Um-hm, yeah.

MS. GLYNN:

Q. Noted on the record.

JOHNSON, Q.C.:

Q. And if there is an adjustment, describe it if you would.

MR. COYNE:

A. Yeah, it would be the Blume if it were adjusted.

JOHNSON, Q.C.:

Q. Pardon me?

MR. COYNE:

A. It would be the Blume adjustment mechanism if it were adjusted as reported by Bloomberg.

JOHNSON, Q.C.:

Q. Okay. So when we look at your Bloomberg, these are betas that would be the Blume, B-L-U-M-E adjustment?

MR. COYNE:
A. That's correct.

JOHNSON, Q.C.:
Q. Okay.

MR. COYNE:
A. That's the standard adjustment.

JOHNSON, Q.C.:
Q. Right, and they would adjust one-third or the raw beta to one market, and two-thirds of the raw beta that—and you come up with that Bloomberg number? Is that right?

MR. COYNE:
A. I would say it differently. The weight is two-thirds on the raw beta.

JOHNSON, Q.C.:
Q. Yes.

MR. COYNE:
A. So in this case, let's take the example of—let's take the example of Atlas Energy at the top.

JOHNSON, Q.C.:
Q. Right.

JOHNSON, Q.C.:

Q. Right.

MR. COYNE:
A. So you would multiply the .57 by weight of 2/3rds and you would multiply 1, which is the market beta, times 1/3rd and that would give you the adjusted beta which we're seeing over in the case of Bloomberg is .72. The Value Line reports their own betas on adjusted basis, and that's .85 for the same company.

JOHNSON, Q.C.:
Q. Okay.

MR. COYNE:
A. We use the average of the two, the average of Bloomberg and Value Line, as adjusted by both sources.

JOHNSON, Q.C.:
Q. So when you do those adjustments, you see a significant increase in the betas, for instance, in B.C.?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. Yeah, and the –

MR. COYNE:

A. In order to be able to – well, they're adjusted for two reasons. One is betas for low beta companies. Betas for low beta companies tend to underestimate the market returns, and that's particularly the case for utilities, and as I showed in our discussion yesterday, if they're not adjusted, you cannot get reasonable results with the CAPM. You will not be able to get results that look like actual returns for these utilities. That's why I use the standard adjustment mechanisms.

JOHNSON, Q.C.:
Q. Mr. Coyne, would you undertake to file the equivalent in this proceeding of what you filed in B.C. in JMC-5, made applicable to this proceeding in terms of each of the columns that you provided to the Board in B.C. for this present proceeding?

MR. COYNE:
A. I could, but I would reinforce that it's adjusted towards – the standard adjustment would be the one that's consistent with my results, but, yes, I can do that.

JOHNSON, Q.C.:

Q. Okay.

MS. GLYNN:
Q. Noted on the record.

JOHNSON, Q.C.:
Q. Thank you very much. I think you would agree that in B.C., whereas your U.S. proxy group after adjustment came out to .78, essentially in Newfoundland Power's case your U.S. proxy group came out to .73, I think, is that correct?

MR. COYNE:
A. Yes, that's correct. Two different proxy groups. That's a gas proxy group and here we have an electric proxy group.

JOHNSON, Q.C.:
Q. Yes, but that leads to my next question, it really doesn't seem to matter what U.S. companies you use, your carefully selected Newfoundland Power one, this one, you know, .73, .78, would that be a fair comment?

MR. COYNE:
A. It varies by the proxy group. They also vary over time.

JOHNSON, Q.C.:
Q. But they don't vary very much. I mean,

these are -

MR. COYNE:

A. Well, you're looking at five years of data, and utilities, both gas and electric utilities, do tend to move more closely together in the market than not. They're regulated utilities. By and large, they have comparable investment profiles more so than not, so we do expect them to move together.

JOHNSON, Q.C.:

Q. Can we bring up your exhibit for the Newfoundland Power case, the equivalent of this one, which would be JMC-8, is it?

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. If we look in the third column, the average beta, now this would be the average after you just took an average of the Bloomberg and Value Line, right?

MR. COYNE:

A. That's correct.

JOHNSON, Q.C.:

Q. Okay, so we still end up with the Canadian

proxy group being at .64, the American being on average of .73, being less, obviously. Would it be fair to say that these beta estimates are point estimates?

MR. COYNE:

A. No, they're five years of data, weekly data, so I would say no, but they're calculated at that period of time that you're looking backward for five years. Point, in that sense, but they're five years of data. We would never use a singular period of time to calculate beta because that would give you distorted numbers.

JOHNSON, Q.C.:

Q. Do you have any data that would indicate that Canadian utilities, because we see a difference here of .64 to .73 even after the adjustment, do you have any data that would indicate that Canadian utilities are not in fact persistently lower beta than U.S. utilities?

MR. COYNE:

A. Your comment is how different they are, I mean, .65 versus .64 for the Canadian proxy group, there are two parts to your question.

JOHNSON, Q.C.:

Q. Well, .64 versus .73, and those –

MR. COYNE:

A. For the Canadian proxy? Are you comparing Canadian to Canadian, or Canadian to U.S.?

JOHNSON, Q.C.:

Q. Canadian to U.S.

MR. COYNE:

A. Okay.

JOHNSON, Q.C.:

Q. In Exhibit JMC-8.

MR. COYNE:

A. About the same difference, .78 to .65, .73 to .64 in this case. So we do – is your question whether or not we observed that Canadian betas are -

JOHNSON, Q.C.:

Q. Are persistently lower?

MR. COYNE:

A. Well, they certainly are in these two cases. I don't know about consistently over time. Perhaps they are.

JOHNSON, Q.C.:

Q. Okay. Now on page 28 of your report, you indicate at line 20 and 21 -

MR. COYNE:

A. If I can follow up on that answer, I would like to.

JOHNSON, Q.C.:

Q. Sure.

MR. COYNE:

A. One of the things that we observe in Canada is that because it's a much more narrow stock market, you just don't have the diversity of companies trading in Canada that you do in the U.S., you have much more exposure to commodity and natural resources in the U.S., and as we know those are very highly cyclical stocks. So as a result of that, when you're comparing Canadian companies to a stock market that has a less diversity of what the overall market is, it's not surprising that you would see a lower beta for a utility stock, vis-à-vis, a narrower market than you would against the broader market in the U.S.

JOHNSON, Q.C.:

Q. Did you calculate the betas or compare the betas for your Canadian proxy group as against the betas of the U.S. market as a whole? Oh, I'm sorry, I should have asked you whether you've calculated the Canadian betas as against the U.S. index as opposed to Canadian index?

MR. COYNE:
A. I did not in this case. In one of the many undertakings I've answered, I may have, I don't recall.

JOHNSON, Q.C.:
Q. Okay. In terms of page 28, line 20 to 21, you indicate that -

MR. COYNE:
A. Are you still in the B.C. evidence?

JOHNSON, Q.C.:
Q. No, I'm in our case now.

MR. COYNE:
A. Page?

JOHNSON, Q.C.:
Q. 28. You indicate at line 20 that the betas that you've used in your analysis are supported by the Brattle Study conducted for the BCUC on cost of capital methodologies?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:

Q. Okay. Are you aware that the Brattle Group presented testimony on behalf of TransAlta before the Alberta Energy and Utilities Board?

MR. COYNE:
A. When?

JOHNSON, Q.C.:
Q. Are you aware that they have, 1998?

MR. COYNE:
A. 1998?

JOHNSON, Q.C.:
Q. Yeah, are you aware of that?

MR. COYNE:
A. No, I'm not.

JOHNSON, Q.C.:
Q. Are you aware that the Brattle Group have presented testimony before the NEB on behalf of TransCanada Mainline?

MR. COYNE:
A. Yes, I am.

JOHNSON, Q.C.:
Q. Are you aware that the Brattle Group have presented testimony before the NEB on behalf of TransQuebec and Maritime Pipeline?

MR. COYNE:

A. Yes, I am.

JOHNSON, Q.C.:
Q. Are you aware that Brattle Group have presented testimony before the OEB on behalf of Union Gas?

MR. COYNE:
A. No, I don't recall that.

JOHNSON, Q.C.:
Q. Are you aware that the Brattle Group have presented testimony before the Regie on behalf of Gaz Metro?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And are you aware that the Brattle Group are currently presenting testimony before the AUC on behalf of the ATCO Utilities?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. Are you aware of the Brattle Group ever presenting testimony before any Canadian regulator on behalf of anyone other than a utility?

MR. COYNE:

A. I've not researched it. I assume they work for a large number of clients. They're a reputable company, a large company. I was aware that they were hired by the Commission to do this research, and that was the source of this quote. They were brought in as a consultant to the BCUC to look at cost of capital models, their pros, their cons, what estimation issues are associated with them. I found it a very helpful report, an informative report. I assume the Commission did as well, that's why they hired them.

JOHNSON, Q.C.:
Q. Mr. Coyne, if we could just bring up for a moment, page 3 of your testimony, the summary of results. You indicated when you were going through making the modifications earlier, because of the risk free rate, you pointed out that the Canadian regulated utilities CAPM estimate of 9 percent would still hold, right?

MR. COYNE:
A. Yes, we used the Canadian risk free rate for the Canadian utilities.

JOHNSON, Q.C.:

Q. Now the evidence that you prepared in British Columbia two weeks prior to filing this Newfoundland Power evidence, you would have used Canadian Utilities Limited, right?
MR. COYNE:
A. In the proxy group?
JOHNSON, Q.C.:
Q. Proxy group for the Canadian proxy group.
MR. COYNE:
A. I'll have to check. I think we have –
JOHNSON, Q.C.:
Q. Let's bring up again CA-NP-152, JMC-5, Schedule 2. Yes, so we'll see the list of companies. They're identical in name to the companies that you used for Newfoundland Power, with the exception of Fortis, right?
MR. COYNE:
A. Correct.
JOHNSON, Q.C.:
Q. Just come over and let's see what you said in B.C. about what the Canadian proxy group average ROE is, 8.5, and that would include Fortis who is actually above the mean at 8.73, wouldn't it?
MR. COYNE:

A. It would.
JOHNSON, Q.C.:
Q. Do you regard it as odd that in a fortnight a Canadian proxy group could on one end of the country have an 8.5 percent ROE under a methodology, and here we're talking 50 basis points in no time flat?
MR. COYNE:
A. Can we scroll back across the screen, so I can see the full page? I probably have that here in this exhibit book. Yeah, the only difference I see is the inclusion of Fortis in one, and the exclusion of Fortis in our case here. I included Fortis there because they brought something to the proxy group from a gas perspective in the case of Fortis BC, so that's the only difference I see. There are small differences in the input numbers otherwise.
(10:00 a.m.)
JOHNSON, Q.C.:
Q. I guess it would be – the result would be driven mostly by your beta selection, would it?
MR. COYNE:

A. Well, no, the bottom line betas aren't that difference. The Bloomberg beta is only different by .1. The average beta again is only different by .1.
JOHNSON, Q.C.:
Q. The average beta you used for the Canadian proxy group is .57, isn't it?
MR. COYNE:
A. .64 versus .65.
JOHNSON, Q.C.:
Q. I'm looking at column 7, average beta.
MR. COYNE:
A. I ran these two different ways.
JOHNSON, Q.C.:
Q. What number – your 8.5 percent recommendation ROE, or estimate, if we could scroll over a little bit further, Samantha, is that not based on a .57 average beta?
MR. COYNE:
A. I see, okay. The 8.5 is computed by comparing it to a beta adjusted to the industry average as opposed to the market mean. That's the difference for the 50 basis points primarily.
JOHNSON, Q.C.:

Q. That you adjusted to the industry average, so you used .49?
MR. COYNE:
A. Yes, .49.
JOHNSON, Q.C.:
Q. .49?
MR. COYNE:
A. Yes, although it says – no, I take it back, it's .57. What I'm doing there is I'm taking the average between the betas adjusted to the industry mean and the betas adjusted to the market mean, and that's the .57. I did that for an illustrative purposes. I did not rely on those in my recommendation.
JOHNSON, Q.C.:
Q. Can we just go down the page for a little bit to Footnote 12.
MR. COYNE:
A. Yeah, you can see the calculation in 10, the footnote for 10, equals 8 plus 7, times 9, and 7 is the average beta, and 9 is the average market risk premium. So I did this for illustrative purposes to show what the results would look like if you took the

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average of beta adjusted to the industry mean versus the market mean, but again I did that for illustrative purposes. That was not in my recommendation in B.C.

JOHNSON, Q.C.:
Q. Mr. Coyne, do you have any evidence, like, independent sort of corroboration evidence of market observers about how the market investors perceives the beta, if you will, to put it in that language, of American utilities?
MR. COYNE:
A. Could you repeat the question?
JOHNSON, Q.C.:
Q. Do you have any information from institutional investors or banks, or advisors, as to what they say to their investment clients about the relative volatility of utility stocks relative to the broader market?
MR. COYNE:
A. I'm having a hard time understanding your question.
JOHNSON, Q.C.:
Q. Let me put it this way, let me refer you to

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Cross-Aid 10, the Barrons Article that I sent over to you for cross-purposes.
MR. GLYNN:
Q. That will be entered as Information #26.
JOHNSON, Q.C.:
Q. Mr. Coyne, have you seen this article that I sent over a few days back?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. And Barrons, I take it, they're recognized in the investment industry in the United States?
MR. COYNE:
A. Yes, they are.
JOHNSON, Q.C.:
Q. Respected, would you say?
MR. COYNE:
A. Well utilized, yes.
JOHNSON, Q.C.:
Q. And you note what they say there in – this is entitled, "Time to give utility stocks another look". It's dated May 9, 2015 article, and they say, "Utilities aren't cheap, trading for an average of 16.4 times

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estimated 2015 earnings. However, the sector is at a 5 percent discount of Standard and Poor's 500 priced earnings ratio based on projected 2015 earnings compared with an average premium in the past decade of 4 percent, and while utility stocks got socked Tuesday falling 2 percent, the sector has only about half the market's volatility. The stocks also look good relative to treasuries and utility debt". Would that be a fair encapsulation of how the average investor, do you think, would regard utility stocks, that they're about half as risky as the market?
MR. COYNE:
A. Well, I think as we've just discussed, if you looked at it technically, you would say 2/3rds, but I don't know what they're basing that on. I mean, this is editorial writing, it's not technical writing about the specific risk of a proxy group, vis-à-vis, the whole market. So that's typical editorial financial writing. They take a lot of licence when they put these sentences together. They're saying - the fundamental

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premise, I agree with, is that they're less volatile than the entire market.
JOHNSON, Q.C.:
Q. It would tend to be a little bit more in line with the Bloomberg industry betas, though, wouldn't it?
MR. COYNE:
A. Well, you're comparing a technical analysis with writing, you know, a daily blog kind of a thing. That's just not – that's not the same level of analysis. The investors that are looking at this – when they want to invest in a specific stock, they would certainly look at a whole bunch of data pertaining to that stock, including its beta, its Sharpe ratio, and other statistics that show how it does move in the market. They're not going to take that sentence as indicative of the relative risk of the market. They're telling investors, look at these companies, they don't move with the market entirely, and they are generally less risky than the market. I certainly agree with those.
JOHNSON, Q.C.:

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Q. Mr. Coyne, I guess just summarizing, there are, as I understand it, three inputs to your risk premium estimates. We have the risk free rate, right?
MR. COYNE:
A. Uh-hm.
JOHNSON, Q.C.:
Q. Which you say in Canada is 3.68 over that 2016 to 2018 forecast – I'm sorry, you say it's 3.68, but you've confirmed that the forecast – that's based on the 2016 to 2018 forecast, is that right?
MR. COYNE:
A. That's correct.
JOHNSON, Q.C.:
Q. And you confirmed as well that that's 86 basis points higher than the test year estimate of the risk free rate in Canada?
MR. COYNE:
A. I understand that there's a multiple test year and that's 2016 and 2017 as filed. So if you're comparing it just to 2016, I don't think that's accurate, and in all probability, based on history, rates would be in effect for three years given the

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historic pattern in Newfoundland.
JOHNSON, Q.C.:
Q. I thought we established earlier on in the proceeding that the test year estimate of the risk free rate in Canada was 86 basis points below -
MR. COYNE:
A. Well, for 2016, but the company is actually filing for 2016 and 2017.
JOHNSON, Q.C.:
Q. I understand – for 2016.
MR. COYNE:
A. And 2017. If you're citing the 2016, that's the first year, but they're also filing for 2017 is my understanding, and in all probabilities these rates will be in effect through 2018. That's my understanding from the company.
JOHNSON, Q.C.:
Q. And you say as the second part of the risk premium analysis that the market risk premium is 7.6 percent, right?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:

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Q. All right, but if we instead used the multi-stage approach and listened to what Duff & Phelps had been saying recently, that that market risk premium would be down around 5 percent, wouldn't that be accurate? You don't have to agree that that's appropriate, but that would be the outcome, would it not?
MR. COYNE:
A. I'm going to ask you to break that down for me to its pieces. Can we take it one step at a time?
JOHNSON, Q.C.:
Q. Okay. Well, let's look at your rebuttal evidence for a moment where you tell us about the impact of using the multi-stage DCF.
MR. COYNE:
A. Yes, we have that in the primary filings. I used the multi-stage for all three proxy groups and you can see that on page 3.
JOHNSON, Q.C.:
Q. No, sir –
MR. COYNE:
A. Your question was what happens if I use the multi-stage DCF?

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JOHNSON, Q.C.:
Q. You'll recall your rebuttal evidence in this proceeding. Okay, can we go to that? You will recall that you were asked in British Columbia to provide that data, and then you said I should provide it here, and it found its way into this rebuttal report. Remember we had that discussion yesterday?
MR. COYNE:
A. Do you mean multi-stage DCF for the entire market, not for utilities? Is that your question?
JOHNSON, Q.C.:
Q. That's correct. Let's just go to it here.
MR. COYNE:
A. And where in my rebuttal testimony would you like me to turn?
JOHNSON, Q.C.:
Q. Page 29. Just to clarify now, if we go back to page 28, so we'll have no doubt, this is under your market risk premium section, if we could go back to page 28, Samantha.
MR. COYNE:
A. Right.
(10:15 a.m.)

JOHNSON, Q.C.:

Q. Okay, right. Now this is where you're criticizing Dr. Booth's reliance on the Fernandez Survey. Now just go over to page 29, or the bottom of page 28 first on the last line, line 23, "My analysis suggests that the current market risk premium is above my estimate of 7.6 percent, as indicated by my forward looking MRP of 9.8 percent for Canada, and 8.1 percent for the United States", and then you go on to say, "A further test of these results in British Columbia using a more conservative multi-stage DCF approach to the derive the forward market equity risk premium, the forward looking market risk premium is lower at 5.39 percent and 3.96 percent for Canada and the United States respectively", and then, of course, we've had the evidence of Dr. Booth's surrebuttal evidence where he puts in the advisory that Duff & Phelps sent out about how they revised their risk premium estimate from 5 to 5.5, okay.

MR. COYNE:

A. That was on top of a 4 percent bond yield.

We're not comparing apples to apples there.

JOHNSON, Q.C.:

Q. Okay, well let's –

MR. COYNE:

A. The historic numbers from Duff & Phelps were different than that.

JOHNSON, Q.C.:

Q. So you're disagreeing with the use of Duff & Phelps evidence and you're relying on other Duff & Phelps evidence, I think, is that -

MR. COYNE:

A. No, I'm just saying they're two different things.

JOHNSON, Q.C.:

Q. So if we were to use the more conservative multi-stage DCF approach, bearing in mind that some boards have quite a bit of difficulty using constant growth DCF -

MR. COYNE:

A. Those boards prefer multi-stage, which I've used. Those boards have accepted multi-stage, which I've used in my primary results applied to the utility companies.

JOHNSON, Q.C.:

Q. Sir, if we were to use your more

conservative multi-stage, what would that do to your MRP? It would bring it down substantially from 7.6 percent, would it not?

MR. COYNE:

A. Yes, and we've on page 5 indicated would be 5.39 and 3.96 for Canada, and I go on to describe it as being an anomalous result because it would be lower than the historic risk premium, when all evidence is that it's higher than its been in the past in this low risk free environment. The reason for that, you get these numbers, is I'm deducting from that an equilibrium kind of bond yield in order to get that. I'm not deducting the current bond yield. I'm deducting the ones that we're using in our forward looking analysis. So you have to look at the results. You just can't run these numbers blindly and say that they're fine, let's go ahead and use them. It doesn't make sense, vis-à-vis, what we know about the market.

JOHNSON, Q.C.:

Q. Are you not being informed in your market risk premium by the 14 or 13.5 percent

growth that we talked about in the TSX?

MR. COYNE:

A. Am I being informed by it?

JOHNSON, Q.C.:

Q. Yes.

MR. COYNE:

A. Yes, I'm being informed by it.

JOHNSON, Q.C.:

Q. Are you not using it in part to arrive at your market risk premium?

MR. COYNE:

A. Yes, I average that with the historic results, and then I test that with my regression analysis. We'll see more about that in the undertaking, describing additional regression analysis around that.

JOHNSON, Q.C.:

Q. So then finally, the third bit of your risk premium estimate relies on the beta which you've adjusted to 7.2 in this proceeding?

MR. COYNE:

A. I have not adjusted it. I've taken adjusted betas from the sources that provide them. I have not adjusted.

JOHNSON, Q.C.:

Q. Well, you've pitched on .72?
MR. COYNE:
A. I'm sorry?
JOHNSON, Q.C.:
Q. You have landed on .72?
MR. COYNE:
A. Well, the beta is different. Are you talking about the U.S. proxy group or the Canadian proxy group?
JOHNSON, Q.C.:
Q. Let's put it this way, they are lower than what we saw in your B.C. evidence?
MR. COYNE:
A. No, no, no.
JOHNSON, Q.C.:
Q. The B.C. evidence was lower than what you're using here, is it not?
MR. COYNE:
A. No, no. What you saw there, as we described, as an illustrative exhibit that looked at the mean between betas adjusted to an industry mean and the market, as a whole. I did not rely on those in my recommended ROE. It was an illustrative exhibit.
JOHNSON, Q.C.:

Q. But that 8.5 percent ROE that was spit out of that process was part of your ROE recommendation?
MR. COYNE:
A. It was not.
JOHNSON, Q.C.:
Q. Okay. Now finally, Mr. Coyne – not finally, but just turning to flotation cost, we saw earlier the first time we visited your Quebec testimony that your flotation cost in the Province of Quebec, you said, was .30, and you're using .50 here?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. And how did you arrive at the conclusion that 50 basis points should be added as opposed to .30 like in Quebec?
MR. COYNE:
A. Well, (a) I looked at the historic precedent before this Board in terms of flotation and flexibility allowances, and I did the same in Quebec.
JOHNSON, Q.C.:
Q. So your 50 basis point recommendation is not

borne out of analysis it's more borne out of what's been custom here?
MR. COYNE:
A. Here and elsewhere in Canada, 50 is common.
JOHNSON, Q.C.:
Q. Now I understand that you have in the past provided – done analysis as to what flotation costs would be, for instance, in the United States, would that be correct?
MR. COYNE:
A. Yes, just for the float portion.
JOHNSON, Q.C.:
Q. Just for the float portion, okay, and do I understand that you provided in your evidence for the Northern States Power Utility Company in Wisconsin an analysis that there should be an adjustment of 18 basis points?
MR. COYNE:
A. That sounds right for float only, and what we did there is we analyzed float costs for the parent company, Xcel Energy, based on prior issuances to determine that number.
JOHNSON, Q.C.:
Q. And that would be – that's borne out in that

evidence at page 42, line 17. We don't have to go there because you've acknowledged it. Would you also confirm what amount of adjustment the Wisconsin regulator does apply to allow for flotation costs in that state?
MR. COYNE:
A. I don't recall. I'd have to check. Some states allow flotation costs; others do not.
JOHNSON, Q.C.:
Q. I put it to you, and we could go there if need be, that the Wisconsin Board does not allow any flotation?
MR. COYNE:
A. That may very well be true. I accept that, subject to check.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. Some states do, and some don't, and -
JOHNSON, Q.C.:
Q. And why do some not?
MR. COYNE:
A. It varies by jurisdiction. Some assume that it's included in the allowed ROE and others

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do not, and they allow for specific adjustment based on the parent company's cost of debt issuances.

JOHNSON, Q.C.:

Q. Do you know why there would be – would you expect any material difference in the amount of flotation cost between the United States and Canada?

MR. COYNE:

A. I've not examined the issue.

JOHNSON, Q.C.:

Q. Would you expect there to be?

MR. COYNE:

A. I guess it all depends. It's underwriting fees, it's legal fees, it's a broader and more competitive market in the U.S. that could drive costs lower. I just don't know, but I would note that the adjustment in Canada has historically been for float and also for financial flexibility, so it's serving two purposes.

JOHNSON, Q.C.:

Q. Neither of this is allowed in the State of Wisconsin?

MR. COYNE:

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A. Yes.

JOHNSON, Q.C.:

Q. Correct, right?

MR. COYNE:

A. Yes. I would note that those ROEs are typically considerably higher than those allowed in Canada, and that could account for some of the difference.

JOHNSON, Q.C.:

Q. They would be typically higher than allowed in Canada?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. So you would think that that would incorporate – are you suggesting that incorporates flotation?

MR. COYNE:

A. From a Canadian perspective perhaps. You know, I think Canadian regulators – I know there's a history that goes back over a couple of decades of this 50 basis point allowance for float and financial flexibility, and my understanding for it is that it's evolved over time, but it's a

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fairly consistent practice here to allow both for the cost of float and to give the company's financial flexibility when periods of raising capital are difficult.

JOHNSON, Q.C.:

Q. Was there a reason that you didn't put in 50 in Quebec?

MR. COYNE:

A. Yes, the Regie has been rather emphatic that that it's 30 in their prior decision-making.

JOHNSON, Q.C.:

Q. Should there be any reason to expect a different cost between Quebec and Newfoundland?

MR. COYNE:

A. I suspect so.

JOHNSON, Q.C.:

Q. You do suspect so?

MR. COYNE:

A. Right. Well, they're obtaining their capital in that case through a large Crown corporation. In his case, you have a much smaller utility that's raising capital on different terms and circumstances than Hydro Quebec is.

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JOHNSON, Q.C.:

Q. How about Gaz Metro, do you know?

MR. COYNE:

A. Again it's the Regie's practice, the same.

JOHNSON, Q.C.:

Q. So they would not be a Crown, right?

MR. COYNE:

A. They're not, no. This is specific in that case to Hydro Quebec, but their practice is the same for both Crown corporations as well as for Gaz Metro.

JOHNSON, Q.C.:

Q. Gaz Metro would be Valener – I don't even know how to say it, but it's in our Canadian proxy group, is that right, that's who -

MR. COYNE:

A. Valener, yes, and Gaz Metro is their Quebec subsidiary.

JOHNSON, Q.C.:

Q. Can we turn to your DCF estimates, page 20? These are, I'm going to call it, your straight on DCF estimates as distinct from the risk premium use of DCF, okay, Mr. Coyne?

MR. COYNE:

A. Are you in this testimony on page 20, because we're looking at this chart, which I'm looking at as well?

MR. HAYES:

Q. That's rebuttal.

JOHNSON, Q.C.:

Q. I'm looking at your main evidence, sir.

MR. COYNE:

A. Oh, okay.

JOHNSON, Q.C.:

Q. So if we come up the page a little bit, please, Samantha. This is a discounted cash flow model that gives the equation that, I guess, everybody agrees upon, would that be fair?

MR. COYNE:

A. I hope so, yes.

JOHNSON, Q.C.:

Q. Okay. Now you note on line 14 that you're saying, "Assuming a constant growth rate in dividends, the model may be rearranged to compute the ROE as shown in Formula 2", and this business about assuming a constant growth rate, this would be why it's called a constant growth rate model, no doubt?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And that constant growth rate is assumed to go on for infinity?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. So in the equation at line 7, we see an "n" in a couple of different places as exponents, is that right?

Mr. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. So in that equation, if that goes on to infinity, I'm given to understand that that equation would be a geometric series, which can be solved for the constant growth model from which the equation at line 16 is derived, would that be correct?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And just to cycle quickly back to the MRP study, I understand that your assumption was

that all Canadian firms that pay a dividend satisfied this assumption that their dividends are assumed by investors to grow at a constant rate forever, is that right?

MR. COYNE:

A. In the constant growth version, not in the multi-stage version.

JOHNSON, Q.C.:

Q. Understood.

MR. COYNE:

A. We ran it both ways.

JOHNSON, Q.C.:

Q. Understood. So on page 22 of your evidence, you have indicated starting at line 3, "Some utility regulators have expressed concern that analyst's earnings growth rates may be overly optimistic", right?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And then you refer then to a settlement by the then New York Attorney General, I guess it was Spitzer at the time, that you claim, as I understand it, removes the incentive to be biased, is that correct?

MR. COYNE:

A. It helped to mitigate it, yes.

JOHNSON, Q.C.:

Q. Just to be clear here, have you read the settlement?

MR. COYNE:

A. I've heard excerpts of the settlement. I have not read the settlement in its entirety.

JOHNSON, Q.C.:

Q. Okay. Now just to be clear, the New York Attorney General's case and prosecution, that had nothing to do with the optimism bias, did it?

MR. COYNE:

A. No, it had to do with separation of – there were a host of issues that were solved in that settlement agreement. It was a very large and complex agreement, but one was separation of the sell side from the – the analytical side of the shop from the sell side of the shop.

JOHNSON, Q.C.:

Q. Right, it was –

MR. COYNE:

A. And the potential that those two, that it could lead to bias in what analysts are saying about the stocks, if on the other hand those companies – the same banks were representing those companies in the marketplace and selling their securities. So that was one of the issues it addressed.

(10:30 a.m.)

JOHNSON, Q.C.:

Q. Just to be a bit more precise, that settlement, as I understand it, was due to analysts' compensation being tied to investment banking fees, which resulted in fraud, is that correct?

MR. COYNE:

A. There was much more in that settlement than that. It was a very complex and large settlement.

JOHNSON, Q.C.:

Q. Now that settlement was in 2003. I'm given to understand that it resulted in fines of about 1.4 billion dollars. Is that your understanding?

MR. COYNE:

A. I don't know what the fines were.

JOHNSON, Q.C.:

Q. Are you aware that there were several individuals banned from serving in the securities business after that?

MR. COYNE:

A. Yes, there were.

JOHNSON, Q.C.:

Q. Now do you think that the firms would have paid 1.4 billion dollars if their analyst had been simply optimistic? I mean, is optimism a crime?

MR. COYNE:

A. This again had much more to do than whether or not analysts were optimistic or not. This had to do with the fundamental separation of the banking business from the analyst side of the business and other aspects of the way the industry operated. It was much larger than that.

JOHNSON, Q.C.:

Q. Now this analyst optimism bias, as I understand it, this is simply the notion that analysts start out optimistic, and then gradually through time hone in on the right number, would that be right, that's what the

assertion is, that they start out wildly optimistic and as time goes on they start coming to grips with what's actually going to be the case with this growth?

MR. COYNE:

A. No, I don't think so. The way I find it typically characterized, you know, especially back in this day, the concern then was that an analyst might be motivated, especially if their compensation was tied to the other side of the bank selling those same stocks, that they would be biased in terms of recommending buy recommendations, when at the same time the other side of the bank might be selling those securities. So that was, I think, the fundamental nature of the concern.

JOHNSON, Q.C.:

Q. Would you accept the proposition that five year estimates have been shown to be more biased than three year estimates, which are more biased than one year estimates, would you accept that proposition?

MR. COYNE:

A. No, I would not. What I would accept is

that forecasting is difficult. There's always greater accuracy with one year than there is with two, three, or five, not that they're biased, but what we find here with utility stocks is that for those – there's been a lot of academic literature on this and have been various studies, is that for companies that are less transparent, smaller companies, and those that are subject to earnings surprises, those that are operating in very competitive industries, those have been the most difficult ones for analysts to forecast. So as a result of that, analysts don't tend to see the surprises which more often than not are big negative surprises. So as a result of that, those forecasts for those types of companies have led to forecast of earnings and growth that haven't fully factored in those negative surprises. So that's kind of the fundamental nature of where this optimism bias has been suggested to come from. What's important to recognize here is that we're talking about one of the most transparent industries in the marketplace, the utilities industry. They make regular filings, they do quarterly updates, they're before the regulator, so earnings – those same types of issues here certainly don't exist to the extent that they exist with those types of companies, but for the entire marketplace, what we're saying here is that that settlement and the regulations adopted both in Canada and the U.S. have helped to separate the analysts function from the banking function. Both of those things have led to better performance in terms of analysts' forecast of earnings and growth.

JOHNSON, Q.C.:
Q. Well, Mr. Coyne –

MR. COYNE:
A. And I want to just add one further thing to further address this, well you've asked an important question and the Board has expressed concerns on this issue as well, so one additional issue is that to the extent that there is concern about analysts working for banks and still having any remaining motivation, even though under these statutes they're prohibited from communicating with

the other side of the banks on these issues, you can go to an independent shop, such as Value Line that's not in the banking business and that's why we also use Value Line estimates, they're not in banking at all, and their estimates are typically pretty similar to those that we get from the consensus of the other analysts, but we use both for that reason.

JOHNSON, Q.C.:
Q. So when you were indicating in your report that, you say regulators have concerns about the optimism and bias, I guess you must have been thinking about, for instance, the Alberta Board in its 2011 decision, were you?

MR. COYNE:
A. Yeah, they're not alone in expressing that concern.

JOHNSON, Q.C.:
Q. Yeah, why don't we just bring up cross-aid 7 for a moment just to put in context how that concern has been expressed by some boards.

MS. GLYNN:
Q. And that would be Information No. 27.

MR. COYNE:
A. This is the 2011 decision?

JOHNSON, Q.C.:
Q. That's right. Paragraph 86 of that decision. Do you see that, Mr. Coyne?

MR. COYNE:
A. Yes, I do.

JOHNSON, Q.C.:
Q. 2009 the commission expressed concern about— and this is in 2011 now, they say "expressed concern about the potential upward bias and analyst growth estimates. However, Ms. McShane argued that as long as investors believe the optimistic forecast, they would price the securities lower, resulting in a lower dividend yield and the DCF test would still be an unbiased estimate of investor required returns. She indicated that this proposition had been successfully tested and described three tests, including the fact that such growth estimates have averaged less than GDP growth. In the Commission's view, this line of reasoning does not resolve the issue because a there is no evidence that investors believe optimistic

forecasts, therefore the Commissioner remains concerned with potential upward bias in analyst growth estimates." Do you see that?

MR. COYNE:
A. Yes, I do.

JOHNSON, Q.C.:
Q. Okay, so is there any evidence that investors believe optimistic forecasts?

MR. COYNE:
A. Well is there evidence that investors use these forecasts? They do, I mean that's why they're provided. These are the forecasts provided for investors for this very purpose.

JOHNSON, Q.C.:
Q. Mr. Coyne, do you recall your evidence previously in a 2009 proceeding that is referred to in this passage similarly being rejected by the Alberta Utilities Commission for this reason of higher than what would be expected growth in the DCF formula, do you recall that?

MR. COYNE:
A. But my evidence was not rejected by the

Alberta Utilities Commission. The Alberta Commission expressed concern here and there with these upward, with the potential for optimism bias and the reason that I have indicated in my evidence and acknowledge these concerns and run the multi-stage model is to address this concern.

JOHNSON, Q.C.:
Q. Can I refer you to, you say your evidence wasn't rejected in this regard, can I refer you –

MR. COYNE:
A. No, I said my evidence was not rejected, I didn't say "in that regard".

JOHNSON, Q.C.:
Q. Oh, okay. Well I didn't mean that it was rejected in toto.

MR. COYNE:
A. The Commission expressed concerns then and here with the potential of optimism bias in analyst forecasts.

JOHNSON, Q.C.;
Q. Okay, so just go to Dr. Booth's surrebuttal at page 15.

MR. COYNE:

A. As I recall, by the way, I think this Commission found some merit in the use of multi-stage analysis in looking—in addressing this issue and I think that's been a common refrain from regulators here and elsewhere. And I'm sorry, where are we turning?

JOHNSON, Q.C.:
Q. Page 15 of Dr. Booth's surrebuttal. Keep on coming down, Samantha, if you would. He's referring to what the AUC had said in 2009, paragraph 270. Do you have that before you, sir? "With respect to the analysis of Dr. Vander Weide and Mr. Coyne, the Commission considers the DCF growth estimates that exceed the expected growth in GDP over the long run are unrealistic, particularly for a stand-alone regulated utility. Dr. Vander Weide's DCF estimates assume dividend growth rates that frequently exceeded the expected Canadian GDP nominal growth rate of 5 percent to 6 percent, including inflation. Mr. Coyne's DCF analyses similarly forecast dividend growth rates that are for all but one of his proxy groups above the expected

GDP nominal growth rate. For this reason, the Commission rejects the result of the DCF analyses of both Dr. Vander Weide and Mr. Coyne." So that's what-they just threw it out; couldn't rely on it, is that right?

MR. COYNE:
A. The constant growth model, yes.

JOHNSON, Q.C.:
Q. And I think you just said a moment ago that some regulators are a little bit more comfortable with multi-stage?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And in this regard, you might have been referring to cross-aid 8 or at least the material in cross-aid 8 which is the BCUC in its 2013 decision?

MR. COYNE:
A. Yes.

MS. GLYNN:
Q. And we'll enter that as Information No. 28.

JOHNSON, Q.C.:
Q. If you could go to page 70, Samantha? There you go. It's right on the bottom of the

screen there now. "The panel finds that the use of analyst forecast is more consistent with multi-stage models where the analyst forecast can inform the early stage and longer term forecast, such as of GDP growth, can inform later stages." So that's the concern of the BCUC and that's' why you provided multi-stage to the BCUC, right?

MR. COYNE:
A. Yes, I've been listening; I understand the concern.

JOHNSON, Q.C.:
Q. Okay, now –

MR. COYNE:
A. They go on to say on the next page –

JOHNSON, Q.C.:
Q. Okay, go ahead.

MR. COYNE:
A. "The panel finds there is reason to be cautious of potential analyst bias in the utility sector. The expert testimony at this time does not, however, convince the panel that an adjustment for analyst bias should be made. The panel expects that future hearings would be informed of the

latest research and bias in the analyst reports in the utility sector." So we've been listening, that's why we have adopted a multi-stage approach and I acknowledge these concerns and on the next page of my testimony under "multi-stage model" I indicate, in order to address some of the limiting assumptions that is pertaining to the constant growth model, I utilize a multi-stage model, so this is all consistent with hearing what regulators have been saying.

JOHNSON, Q.C.:

Q. So let's look at what some other independent people, like the RBC investment people are saying about this issue, okay? And if we could turn to Dr. Booth's Appendix D of his main evidence, Samantha, at Schedule 17.

MR. COYNE:

A. In which section of his testimony?

JOHNSON, Q.C.:

Q. Appendix D which is the end of his—actually, if we could go first to the Schedule 15, which is the McKinsey chart that he refers to.

MR. COYNE:

A. And where is that?

JOHNSON, Q.C.:

Q. That's at Schedule 15 of Appendix D. Are you familiar with the McKinsey people?

MR. COYNE:

A. Yes, I know the McKinsey people.

JOHNSON, Q.C.:

Q. And who are they?

MR. COYNE:

A. They are a North American—well actually they're a global management consulting firm.

JOHNSON, Q.C.:

Q. Okay. Well respected?

MR. COYNE:

A. Yes, as a management consultant group. I can't read the copy that I have, so I'll just have to accept, subject to check, anything you want to quote from that. I can't read the one on the screen either.

JOHNSON, Q.C.:

Q. Yeah, okay, well let's just go to Section 16, because this in commentary on that article, Schedule 16, sorry. So this is published in the Global Mail, Friday, May

21st, 2010, and you've read this, obviously?

MR. COYNE:

A. No. Unfortunately, no.

(10:45 a.m.)

JOHNSON, Q.C.:

Q. Okay. So they're saying nearly a decade ago, about the time the bursting tech bubble had raised serious questions about conflicts of interest in Wall Street equity research. Consulting firm McKinsey and Company did a study on the accuracy of analyst company earning forecasts. The results were discouraging. Analysts were routinely over optimistic about earnings growth, too slow to revise forecasts when economic conditions changed and prone to increasing inaccurate forecast when the economy slowed. Since then, major scandals involving tainted research have come to light. Wall Street's biggest firms have paid 1.4 billion in penalties for those practices and regulators have put rules in place aimed at creating equity research with more independence and distance from the investment banking side of the business. Unfortunately, McKinsey

reports that changes have had little effect on the accuracy of analyst projections." They go on to say, "Down turn reveal same old habits. In an update of the 2001 study, McKinsey researchers found that from 2003 to 2006, analyst earnings projections actually did look less unrealistically rosy. In each of those years, analysts on average actually underestimated S & P 500 annual earnings for significant portions of the year and undershot through the entire year in 2005 and 2006, but unless we think this was evidence of a new kind of thinking within Wall Street Research Departments, the Street's wide-eyed optimism came back with a vengeance, starting in 2007. Going back over the past 25 years, McKinsey found that on average analyst earnings' growth forecast `have been nearly 100 percent too high'. Annual S & P 500 consents growth forecast have typically been in the 10 to 12 percent range, while actual earnings' growth has averaged 6 percent. Broken Clock Accuracy, looking at 5-year rolling average growth estimates, there have only been two periods

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in the past 25 years when the earnings met or exceeded analyst forecasts. Both were in recovery periods after the U.S. recessions of the early 1990s and the early 2000s. This pattern"—and this is a quite from McKinsey researchers—"this pattern confirms our earlier findings that analysts typically lag behind events in revising their forecasts to reflect new economic conditions", McKinsey Researchers wrote. And the quote continues, "When economic growth accelerates, the size of the forecast error declines. When economic growth slows, it increases. This pattern means that when the analysts are accurate with their forecasts, it's sort of the same way a broken clock is accurate, twice a day. As economic growth cycles up and down, the actual earnings S&P 500 companies report occasionally coincide with the analyst forecast." I would put to you that that is very powerful information and evidence in favour of not putting too much reliance on these analysts, would you not agree with that?

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MR. COYNE:

A. It's certainly a note of caution and as I indicated, McKinsey is looking at the bond market, they're looking at the performance of all analysts and all stocks. They're not focussed on—utilities are much more transparent. We just discussed the reasons why analysts struggle with types of companies that have earning surprises, that are in high tech industries where there's much more going on than there is behind the typical utility business, in terms of its transparency and ability to understand its business model. I know that do this work for a living and they put together their own models and those that follow utilities have a much easier job than those that are trying to follow Apple and trying to figure out what their next product launch is going to be, let alone some much less transparent company than that. So for the market as a whole, I accept the McKinsey work for what it is. We have looked at other studies on this issue and they have found—and I've cited them on page 23, one of these studies,

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that overall analyst bias has been reduced hence the passage of the settlement and the SEC regulations around this time, both in Canada and the U.S. So I don't have the same degree of concern for utility stocks that exist for the market as a whole, (a), and secondly, if you go to the multi-stage approach, this is where FERC has gone recently in terms of their approach for all electric utilities and all the oil companies and all gas companies that they regulate, is to use a multi-stage approach to the DCF analysis. They're comfortable that this issue has been resolved by using a multi-stage approach; other regulators are getting more comfortable with it as well. But as you can see, the differences between the two aren't as great now as they had been in the past, but that's where I get comfort in working with this issue.

JOHNSON, Q.C.:

Q. So do you have any evidence that that optimism bias doesn't involve utility stocks as well?

MR. COYNE:

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A. No, it goes to logic, you know, if you look at where the sources of the analyst errors have come from, they're difficult to predict. There's two things (a) is –

JOHNSON, Q.C.:

Q. And that would be your logic, right?

MR. COYNE:

A. I would argue that it's the market's logic.

JOHNSON, Q.C.:

Q. Okay.

KELLY, Q.C.:

Q. I note, Mr. Chairman, that's a ten-year old newspaper article put forward as an Information Request, it does not, as Mr. Johnson say, constitute evidence. I thought I'd make the observation.

JOHNSON, Q.C.:

Q. Well actually, I beg to differ with you, this is evidence put forward in Dr. Booth's expert report, Mr. Kelly, so it does constitute something now, I would take it. And it's not 10 years old, it's from 2010.

KELLY, Q.C.:

Q. Sorry, 2010.

JOHNSON, Q.C.:

Q. And it's from McKinsey and Dr. Booth can also talk about, in due course, what the RBC Investment Strategy Playbook has to say in February of 2016 on that topic, which is pretty recent stuff.

MR. COYNE:

A. It is an article from a newspaper, it's not the whole study and we've looked at more in-depth analysis than was presented here.

JOHNSON, Q.C.:

Q. Do you reckon that investors read newspaper or your analyses?

MR. COYNE:

A. I think investors read newspapers, I think analysts do deeper work and look at more significant studies and additional studies. This is one. I don't think it pretended to present here the universe of analyses that been done on this issue.

JOHNSON, Q.C.:

Q. So just to be clear, your long-term analyst growth estimates in JMC-3, page 3 of 3, this is your North America proxy group, right?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Now we have estimates from Zacks, SNL which is not Saturday Night Live, I suppose. We have Value Line, First Call, so what time period are Zacks' estimates for?

MR. COYNE:

A. They're for five years.

JOHNSONS, Q.C.:

Q. Five years.

MR. COYNE:

A. Each of these are—well, each of these are consensus forecast estimates. They're for as long as they have available from the analysts. In some cases, those analysts may have shorter horizons. I believe the longest they have is five, sometimes they have three to five. It really depends—they're consensus forecasts, so they're rolling up the forecasts over the period that they have available to them. They try to get five, they don't always have five.

JOHNSON, Q.C.:

Q. Okay, so you think—it's up for five for Zacks, is that right?

MR. COYNE:

A. Pardon me? They take them for as long as they have them is my understanding, but I can double check that.

JOHNSON, Q.C.:

Q. Okay, that would be helpful and you can advise us. And the same thing goes, what time period are SNL estimates for?

MR. COYNE:

A. These are all typically five-year growth rates.

JOHNSON, Q.C.:

Q. So First Call and Value Line the same thing?

MR. COYNE:

A. I will check them all, but that is my understanding, yes.

JOHNSON, Q.C.:

Q. I understand that Value Line, that simply is an investment newsletter, it's not a survey of other analysts, is that right?

MR. COYNE:

A. Right, they have their own analysts that produce this forecast. And one of the reasons that—this issue of bias associated with banks, I like to compare Value Line estimates with those that are consensus from

the other analysts. They're associated with the institutions and you can see they're not that different.

JOHNSON, Q.C.:

Q. Okay, and if we look at your JMC-3, we see that your constant growth estimates are of, it provides a high ROE of what is it, 10.4 percent?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And I think it would be using multi-stage DCF, it would be 9.45, can you confirm that?

MR. COYNE:

A. The high? Is your question whether or not the 10.4 using multi-stage is—I'm not sure if I understand your question.

JOHNSON, Q.C.:

Q. Okay, your mean ROE out of the constant growth is 9.64, is that right?

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. But it would be lower again if you use multi-stage?

MR. COYNE:
A. But we have those numbers. Yes, 9.24.
JOHNSON, Q.C.:
Q. Okay. 9.24?
MR. COYNE:
A. Right. And those are the numbers that are reported in my overall results in front of the evidence.
JOHNSON, Q.C.:
Q. If we could take a break now, Mr. Chairman?
(RECESS – 10:55 A.M.)
(RETURN – 11:33 A.M.)
CHAIRMAN:
Q. So, before we continue I believe there's one undertaking to be placed on the record.
MR. GLYNN:
Q. Yes, Mr. Chair. Just before the break Mr. Johnson had asked the witness to provide the timelines that were covered by the investments on Exhibit JMC-3 and Newfoundland Power and the witness had agreed to provide that as a formal undertaking, so we'll note that on the record.
JOHNSON, Q.C.:

Q. Thank you very much. Mr. Coyne, before the break I had brought you to Dr. Booth's surrebuttal and there's no need to revisit it, about the finding of the Alberta Utilities Commission in 2009 where they had noted that the growth rates had exceeded the expected GDP nominal growth rate and rejected the evidence in that regard of yourself and Dr. Vander Weide. Can you confirm that the GDP growth rate you use in Canada is 3.94 percent? JMC-4, page 3 of 3.
MR. COYNE:
A. Yes. 3.94 percent.
JOHNSON, Q.C.:
Q. Okay, so that's the Canadian GDP growth into perpetuity.
MR. COYNE:
A. Yes, that's the nominal growth rate.
JOHNSON, Q.C.:
Q. And let's now look at JMC-3, page 2 of 3, this is your 90-day constant growth DCF, Canadian proxy group, and you'll see there that the average growth rate for Canadian Utilities Limited, Emera Incorporated, Enbridge and Valener is 8.03 percent.

MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. That would be twice the Canadian GDP, I think you will confirm?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. And that sounds a lot like the optimism that the people at McKinsey were talking, like twice as optimistic as what the GDP—so do you regard that as optimistic, sir?
MR. COYNE:
A. These are the analyst forecast for these companies over that period of time. No, I have no reason to think that that's optimistic. They have—I think they have better vision on five years than they do beyond that. Into perpetuity, clearly they struggle, but they have financial models for each of these companies. They put in assumptions regarding revenue growth, returns and things of that nature, so no, if they're consistently optimistic, then they're no longer serving value to their

customers, so I have no reason to believe that a priority.
JOHNSON, Q.C.:
Q. Now if we were to look at these one at a time, as I understand it, the Alberta Utilities Commission has recently indicated and we can go there, CANP-169, attachment A for the moment.
MR. COYNE:
A. 169 did you say?
JOHNSON, Q.C.:
Q. Yes, that's the March 2015 decision. Paragraph 190.
MR. COYNE:
A. Was this provided as a witness aid as well? What year is the decision?
JOHNSON, Q.C.:
Q. March, 2015.
MR. COYNE:
A. March, 2015.
JOHNSON, Q.C.:
Q. March, 2015. This is the decision from the—it's a 2013 Generic Cost of Capital decision, this is the decision where the Alberta Utilities Commission put down the

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return from 8.75 to 8.3, and just look at what they say at paragraph 190. You see at the bottom –

MR. COYNE:
A. Just one moment, please.

JOHNSON, Q.C.:
Q. I'm sorry.

MR. COYNE:
A. Paragraph 190?

JOHNSON, Q.C.:
Q. Yes, sir.

MR. COYNE:
A. Okay.

JOHNSON, Q.C.:
Q. "The Commission is also mindful that as both experts acknowledge"--referring to Cleary and Booth—"the GDP growth rate may be an ambitious target for long-run earnings growth in respect of low risk mature utilities."

MR. COYNE:
A. Yes, I see that.

JOHNSON, Q.C.:
Q. Would you agree with the Alberta Utility Commission in that regard?

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MR. COYNE:
A. No, I don't have any concerns with GDP growth rate being used as a long-term target. It's the overall rate of the economy and as we can see here, there was times when utilities will grow faster than the economy and other times not, so no, I don't share that concern, nor it is the concern of most regulators that rely on the multi-stage model. GDP is the standard in that regard. It's now the standard before the FERC as well.

JOHNSON, Q.C.:
Q. So if we go back to JMC-3, page 2 of 3 and look at the average growth rate in column 9 of your Canadian proxy group, if this Board were to be suspicious and doubtful of the ability of a mature utility to outgrow on a constant basis GDP, they would have to, would you not agree, reject Canadian Utilities Limited at 4.19 percent average growth and reject Emera at 6.3 percent and reject Embridge at 13.63 percent, and as well, reject Valener if they had difficulty with the proposition that these companies

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could all grow at these constant rates?

MR. COYNE:
A. If they struggled with it, then that's the very reason that I presented the multi-stage model.

JOHNSON, Q.C.:
Q. Right, just –

MR. COYNE:
A. And in my evidence on page 3, I present both of those results and there is a, in the case of the North American utility group, there's a 40 basis point differential between the two if you adopt the multi-stage approach.

JOHNSON, Q.C.:
Q. Let me just, before we move somewhere else, let's just look at the U.S. proxy group, JMC-3, page 1 of 3.

MR. COYNE:
A. The average is much lower.

JOHNSON, Q.C.:
Q. Now what do you—what is the assumed GDP growth long term for the United States?

MR. COYNE:
A. Which page are you on? 1 of 3?

JOHNSON, Q.C.:

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Q. Yes, sir.

MR. COYNE:
A. 1 of 3 is the constant growth model, the average growth rate is 5.32.

JOHNSON, Q.C.:
Q. Yes, I understand that.

MR. COYNE:
A. Okay, you want to know the GDP forecast that's used?

JOHNSON, Q.C.:
Q. That's right.

MR. COYNE:
A. In the multi-stage model, is that your question?

JOHNSON, Q.C.:
Q. Yes. 4.55, is that right?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. Yes, and that's borne out at JMC-4, page 1 of 3, so the GDP growth rate into perpetuity and your multi-stage DCF at 4.55?

MR. COYNE:
A. That's correct.

JOHNSON, Q.C.:

Q. Okay, so now just go back to our 90-day constant growth, JMC-3, page 1 of 3.
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. So if the Board had concerns about the ability of these companies to exceed U.S. GDP, I guess you'd concede that ALLETE at 6.17 percent would be in trouble; Duke would be above the GDP of 04.79; Eversource would be at 6.87 percent; Great Plains would be at 6.08; OGE gets under the wire at 4.16; Pinnacle would be over, they're at 4.96; and Westar would similarly be over, right, or they'd be under?
MR. COYNE:
A. No, that's correct. That's why you see less of a difference between the U.S. multi-stage and constant growth model than you do with the Canadian because they're closer together.
JOHNSON, Q.C.:
Q. So if we were to just consider the companies that actually—whose growth rate would be within U.S. expected GDP, we would be left

with OGE and Westar, would that be right?
MR. COYNE:
A. Yes, but you wouldn't have a proxy group, you would have two companies. That's not the purpose of the constant growth or the multi-stage analysis, so you would have two companies and two sets of growth rates. You wouldn't have a cost of capital analysis.
JOHNSON, Q.C.:
Q. So that's why it would have to be rejected in toto, I guess.
MR. COYNE:
A. Well no, that's why you would look at it as part of, you would look at it as part of a broader proxy group. One could use the same logic and ask why don't I just used that have the highest growth and for the same logic you wouldn't do so, you're trying to look at the representative growth for the proxy group in its entirety, that's why you run it that way.
JOHNSON, Q.C.:
Q. So the mean ROE in column 11 for OGE would be 7.56 percent; and for Westar it would be 8.24 percent. Would that include any

flotation?
MR. COYNE:
A. Which—okay, are you on 1 of 3 still?
JOHNSON, Q.C.:
Q. Yes, I am.
MR. COYNE:
A. Because I'm seeing different numbers. Are you looking at the mean ROE result?
JOHNSON, Q.C.:
Q. That's right.
MR. COYNE:
A. 9.01 and 8.24?
JOHNSON, Q.C.:
Q. No, OGE would be 7.56.
MR. COYNE:
A. Right.
JOHNSON, Q.C.:
Q. And Westar would be 8.24.
MR. COYNE:
A. Right, okay.
JOHNSON, Q.C.:
Q. And by the way, we've been talking about the Alberta board and what it has said, but did you familiarize yourself with what this Board said in just its last Newfoundland

Power GRA decision?
MR. COYNE:
A. Yes, I did.
JOHNSON, Q.C.:
Q. And just if we could turn it up, PU-13, page 31—or page 27 first, in fact.
MR. COYNE:
A. I have it, page 27.
JOHNSON, Q.C.:
Q. Yes, I'm waiting for Samantha. Thank you very much, page 27.
MR. COYNE:
A. This is the first time in three days I'm ahead of you.
JOHNSON, Q.C.:
Q. Lines 28 to 31, there you go. So the Board does not believe that much weight should be given to the experts' recommendations in relation to either the historic or forward looking equity risk premium models, as these are based largely on inadequate Canadian data, unadjusted United States data and analyst growth forecast using the constant growth model. Then they go on to say in line 38, 39, "The Board will place little

weight on the results of this historic and forward looking equity risk premium models." And then if we go over to page 31 at lines 1 to 11 in the Board's findings regarding discounted cash flow model, the Board finds that the evidence demonstrates Canadian utility data is inadequate to complete a discounted cash flow analysis and that the particular circumstances, it may be informed to look to data from the United States. As to how this data is to be used, the Board accepts the evidence of Dr. Booth and Mr. MacDonald that there are differences in the United States and Canadian experiences that justify an adjustment to the discounted cash flow results. Dr. Booth suggested an adjustment of 100 basis points; Mr. MacDonald, who is the Board's expert, makes a 72 basis point adjustment. The B.C. Utilities Commission has found that the United States data should be adjusted by between 1500 basis points. The Board finds an adjustment of 1500 basis points is appropriate." Now, I noticed that a couple of times you've indicated that in British

Columbia where the board had indicated that they had found issues with certain models, that you would provide something to address the concern. What concerns has your evidence or how does your evidence address the concerns that the boards had in these regards around, you know, the constant growth being used, the need for adjustments? Is there anything that addresses the Board's concerns in your evidence?

(11:45 a.m.)

MR. COYNE:

A. Well yes. Well, first of all –

JOHNON, Q.C.:

Q. Well you don't make any adjustments, do you?

MR. COYNE:

A. No, none are necessary. What I have done insofar as addressing concerns pertaining to constant growth is to use—I read this very carefully, and adopted the multi-stage as part of my analysis, so I have used a multi-stage growth model. Further down the page, lines 19 through 21, the Board believes that a multi-stage model best reflects the available information and how it is intended

to be used. The sustainable growth used by Ms. McShane may also be informative." So the multi-stage model was part of my evidence, first of all. Second of all, the BCUC decision cited here has since been reversed and the most recent BCUC cost of capital decision, they found no such adjustment necessary. So there are no needs for adjustment.

JOHNSON, Q.C.:

Q. Mr. Coyne, you do actually use constant DCF in your risk premium analysis, right?

MR. COYNE:

A. I show both constant, multi-stage, as well as CAPM.

JOHNSON, Q.C.:

Q. Okay, but you rely on the constant growth model for your DCF risk premium analysis?

MR. COYNE:

A. For the forward-looking market equity risk premium it is one piece of it, yes.

JOHNSON, Q.C.:

Q. That's right, that's the one that said that Canadian firms, the Canadian economy is going to go—the growth is going to be 13.5

percent, right?

MR. COYNE:

A. We have discussed this, yes.

JOHNSON, Q.C.:

Q. Now, the multi-stage DCF at JMC-4, page 1 of 3 being the United States proxy group, so can you confirm that as appears to be the case in column 3, that for the growth rate from years 1 to 5 for these U.S. companies, ALLETE down to Westar, your model assumes that these utilities grow at an average of 5.32 percent over the next five years, is that right?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And that would be faster, as we've established, than the U.S. growth rate and GDP at 4.55, is that right?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Okay, now from years 6 to 10 of your multi-stage DCF, year 6 would be at 5.19 percent on average, that's above the GDP growth

rate, correct?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Year 7 at 5.06, that too is above the GDP growth rate?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. And year 8 at 4.93, the same thing?
MR. COYNE:
A. Yeah, that's the very purpose of the multi-stage is you step it down from the analyst growth rate over five years to the GDP growth rate. They will all be higher until you get to year 9 or to year 10 when you then go to the GDP growth rate.
JOHNSON, Q.C.:
Q. And then under this model, it takes off forever at 4.55 percent, right?
MR. COYNE:
A. I'm showing 4.41 percent there. Oh, that's because it's a North America proxy, which page are you on?
JOHNSON, Q.C.:

Q. I'm at page 1 of 3 on what's on the screen.
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. What page were you looking at?
MR. COYNE:
A. I was looking at a different page in the same schedule which is the North American proxy group.
JOHNSON, Q.C.:
Q. Okay, so now let's look at –
MR. COYNE:
A. They're on average in the U.S. and Canadian GDP.
JOHNSON, Q.C.:
Q. Now let's look at the Canadian firms at JMC-4, page 2 of 3, so again, we see, as it is obvious, a growth rate in the years 1 to 5 of 8 percent, so more than twice the Canadian GDP and years 6, 7, 8, 9, 10, all above GDP and then finally we get to 3.94 in column 9 and then we assume that goes on forever too.
MR. COYNE:
A. Right, that's how the model works. This is

the model adopted by FERC and the one that's most broadly used when you're adopting a multi-stage approach.
JOHNSON, Q.C.:
Q. Okay. Now, do you have any evidence that these electric utilities have on average grown at the rate of GDP in either Canada or the United States?
MR. COYNE:
A. No, I'm comparing them, I'm using the analyst growth rates and then I'm using the GDP as a long-term growth rate. It's an assumption.
JOHNSON, Q.C.:
Q. Right.
MR. COYNE:
A. They could grow faster or they could grow slower. How can I have evidence—well, you're asking do I have evidence that do, growing faster or slower historically?
JOHNSON, Q.C.:
Q. And the answer is "no".
MR. COYNE:
A. No, I have not provided that evidence.
JOHNSON, Q.C.:

Q. Now can I refer you to cross-aid from Oliver Wyman.
MS. GLYNN:
Q. Information No. 21.
JOHNSON, Q.C.:
Q. That's Item No. 11 that was sent over to you on April 1st, 2016. This is a document "North American Utilities Still a Smart Bet for the New Grid". Looks to be a 2015 publication.
MR. COYNE:
A. Which number was that in the cross –
MS. GLYNN:
Q. No. 21.
JOHNSON, Q.C.:
Q. It would be No. 11 in my letter, but –
MR. COYNE:
A. Hold on.
JOHNSON, Q.C.:
Q. Page 7 at the bottom and you will see that paragraph talks about the growth challenge, the next 15 years. Now just go down to the bottom paragraph and see what they say after talking about electric distribution, electric transmission generation, would you

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read what Oliver Wyman is saying in 2015?

MR. COYNE:
A. Yes, I see what's on the page.

JOHNSON, Q.C.:
Q. They're saying "What does it all mean for utility earnings? Well, it's not all that bad. Oliver Wyman's most likely market scenario suggest that utility earnings will grow on average about 3.3 percent annually during the next 15 years. That's not a bad starting point at all, not superb but not a death spiral either." So Mr. Coyne, do you— you cannot point to anything that would contradict that assertion other than your own analysis?

MR. COYNE:
A. Well there on the next page, that same report, there's a lot going on. They're talking about better utilities and good management practices being accessible in the business. Certainly I agree with those things. They also say in the very next page, page 8, "it's hard to get excited about 3 percent per year earnings growth. The asset securing growing dividend helps

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and certainly Oliver Wyman's analysis suggests that earnings growth would be less than the 4 to 6 percent range that many utilities have (unintelligible) delivered during the recent period.“ So –

JOHNSON, Q.C.:
Q. Of exemplary utility stock performance.

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. Right, okay.

MR. COYNE:
A. And we're talking here about better than average utilities. Not your run of the mill utility; better than average utilities. Some manage, these are the kinds of returns that they have provided. It's not an unreasonable expectation.

JOHNSON, Q.C.:
Q. Let me turn to Fortis for a moment, Newfoundland Power's parent.

MR. COYNE:
A. By the way, in their report they go on to say Oliver Wyman believes the utilities are a smart bet for the new grid. They go on to

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talk about how utilities are adapting, on page 10, to the new business challenges that are out there.

JOHNSON, Q.C.:
Q. And I take it you agree with those comments from Oliver Wyman, do you?

MR. COYNE:
A. I agree with those comments, yes.

JOHNSON, Q.C.:
Q. But do you also agree with Oliver Wyman when they say that the average U.S. utility doesn't earn its allowed return?

MR. COYNE:
A. No.

JOHNSON, Q.C.:
Q. Oh you don't? Okay, all right.

MR. COYNE:
A. Our analysis shows that they do, as we've discussed.

JOHNSON, Q.C.:
Q. All right, now let's look at Fortis. Can we turn to the Standards & Poor's rating on Fortis for April 30th, 2015, which we passed across as a cross-aid. It's cross-aid No. 1.

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MS. GLYNN:
Q. And we'll enter that as Information No. 29.

MR. COYNE:
A. Which cross-aid number was it?

MS. GLYNN:
Q. No. 1 from the correspondence.

MR. COYNE:
A. Oh, okay, right.

JOHNSON, Q.C.:
Q. On page 2, if you would, can you see there, Mr. Coyne, that they have Standards & Poor A- rating, which I understand is to be a good rating, would that be your understanding as well, an A- rating?

MR. COYNE:
A. It's a solid investment grid credit rating, yes.

JOHNSON, Q.C.:
Q. Now can we turn to page 9 and you will see at the top, having an excellent business risk profile, on the top left-hand side, would you agree with that?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:

Q. Excellent business risk profile?
MR. COYNE:
A. Yes. They have a stable of regulated utility businesses and that's consistent with an excellent business profile.
JOHNSON, Q.C.:
Q. So the A rating is based on its excellent business risk profile, not just its financial profile, right?
MR. COYNE:
A. Well they're looking at a metrics of both a financial risk and business risk.
JOHNSON, Q.C.:
Q. Okay, so Standards & Poors doesn't seem to regard the Fortis common equity ratio as aggressive, does it?
MR. COYNE:
A. Significant is their ranking.
JOHNSON, Q.C.:
Q. Right, and in fact significant is the word that's used for all of your companies in your proxy groups too, correct?
MR. COYNE:
A. I would have to go check, but I think that's –

JOHNSON, Q.C.:
Q. Take that subject to check?
MR. COYNE:
A. In the Canadian or the U.S. proxy group?
JOHNSON, Q.C.:
Q. In the U.S.
MR. COYNE:
A. Yeah, I'd have to check.
(12:00 p.m.)
JOHNSON, Q.C.:
Q. It will only take a second. Let's start at JMC-2 and we can start right at page 1 for Canadian Utilities. Can you see that?
MR. COYNE:
A. I do.
JOHNSON, Q.C.:
Q. Financial risks significant. If we just want to take a second just to confirm that they're all considered financial risk significant?
MR. COYNE:
A. Why don't I just accept it subject to check, to save time.
JOHNSON, Q.C.:
Q. Fair enough for Canadian and U.S. Now, can

we turn to page 6 of the Standard & Poor's report where it has Fortis' ROE.
MR. COYNE:
A. Well I think I have, I just checked briefly and I see no, they're not all significant, not all proxy group of companies, so I think I can say they're not.
JOHNSON, Q.C.:
Q. Which ones aren't then?
MR. COYNE:
A. I'm seeing financial risk for OGE as being intermediate, that's just a spot check. I'm seeing Pinnacle West as being intermediate. So those would be stronger than significant.
JOHNSON, Q.C.:
Q. And the Canadian ones, they're all significant though, right, Canadian utilities is significant?
MR. COYNE:
A. That rings a bell, they typically have higher leverage.
JOHNSON, Q.C.:
Q. Emera is significant?
MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And Valener is significant?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. And then we're out of Canadian companies.
MR. COYNE:
A. Right. And then in the U.S. companies and models, just dispense with this and not have it subject to check, so ALLETE is significant; Duke is; Eversource is significant, OGE is intermediate; Westar is significant. I may have skipped by one, so I think all but two were and I think two were intermediate as I flipped through this.
JOHNSON, Q.C.:
Q. So actually to make more sense of this material, we're going to have to go to page 6-- page 5 first, it shows the financial summary, Table 2, and it runs from right to left, 2010 right on up to 2014 for Fortis and it shows rating histories, revenues, EBITDA, funds from operations, et cetera, dividends paid, debt, and if you flip over we notice that it has preferred stock,

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equity, debt and equity, so then you see return on common equity? Okay, at the second last line there?

MR. COYNE:
A. Right.

JOHNSON, Q.C.:
Q. So if we start over in 2014, which is the column closest to us, okay, we see, well actually start over at 2010, on the far side, we see return on equity of 7.9 percent in 2010?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. Okay, and 2011 we see 7.8 percent; 2012 would be 7.4 percent; 2013, 6.9 percent; 2014, 4.7 percent, Mr. Coyne?

MR. COYNE:
A. I see that.

JOHNSON, Q.C.:
Q. You have no reason to doubt these figures?

MR. COYNE:
A. I have not, well they're S&P's. S&P goes through their own analysis of these data and the put it together in their own model, so

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they can be reported different ways, but these are using their accounting data.

JOHNSON, Q.C.:
Q. Let's just turn to CANP-19 now, for a moment.

MR. COYNE:
A. 19 did you say?

JOHNSON, Q.C.:
Q. Yes, sir. If you go down the page a little bit further and then into the next page, in fact. Okay, right there. So this is showing Newfoundland Power's approved and actual ROE for, going back, I think to 1990 or so and bringing it up to 2014. So we're now at CANP, the second page, Table 1. So you see, Mr. Coyne, that Newfoundland Power's actual ROE in 2014 was 9.15 percent and we just established that Fortis' was 4.7 percent. So Newfoundland Power was about 4.45 percent higher than Fortis, would you accept that subject to check?

MR. COYNE:
A. Well they're different types of numbers.

JOHNSON, Q.C.:
Q. Well we're talking about ROEs, are we not?

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Return on common equity?

MR. COYNE:
A. But as we discussed at some length these are based—I assume these are based on a filed actual ROEs based on the regulatory books of Newfoundland Power. These are based, I presume, on the accounting books at Fortis Inc. My guess is that there's a substantial amount of goodwill on the balance sheet of Fortis Inc., that would make that a very different type of number. You're not going to find goodwill on the balance sheet of the regulated utility, so they're not comparable in that sense. You're measuring two different things.

JOHNSON, Q.C.:
Q. Let us depart from what your guess might be for a moment and just continue for a moment –

MR. COYNE:
A. Well it's not my guess, I'm familiar with how these companies do their work and it's not a guess, those are real factors that make for a difference in these numbers.

JOHNSON, Q.C.:

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Q. Well let's just compare the numbers and we can argue about it later. For Newfoundland Power in 2013, they earned, did they not, 9.16 percent, while Fortis would have earned 6.9 percent. So would you accept the math is right that Newfoundland Power earned 2.16 percent higher than Fortis, would you accept the math?

MR. COYNE:
A. It's not an "apples to apples" comparison. One is an accounting set of books for the holding company and the other is a regulated set of books for the utility. So I accept the numbers you're reporting of those two pages, but they're not comparable in the way you suggest without making appropriate adjustments.

JOHNSON, Q.C.:
Q. Okay, I've heard you but let's go down and make some comparisons. For 2012 Newfoundland Power earned 8.98 percent; whereas Fortis, in 2012, earned 7.4 percent, so subject to check, Newfoundland Power earned 1.58 percent higher than Fortis.

MR. COYNE:

A. Well it's not subject to check. I see the difference in the two numbers you're pointing out, but I'm saying they're being measured and calibrated a different way.

JOHNSON, Q.C.:

Q. Okay. In 2011, Newfoundland Power earned 9 percent and Fortis, as we've established, earned 7.8 percent, so Newfoundland Power is 1.2 percent higher and I know you'll repeat your comment, but let's go down to comparison.

MR. COYNE:

A. I would, so I could just state for each year if we could.

JOHNSON, Q.C.:

Q. That's fine. In 2010, Newfoundland Power earned 9.1 percent, and Fortis earned 7.9 percent, so Newfoundland Power is 1.41 percent higher. There seems to be a trend. Would you take it, subject to check, that over that period of time, at least by comparing these numbers to each other, that Newfoundland Power earned on average 2.16 percent more than Fortis over this period of time? Would you concede that the math is

right, anyway?

MR. COYNE:

A. I have no reason to dispute your math, with the cautions regarding the numbers.

JOHNSON, Q.C.:

Q. In relation to the goodwill that you mentioned, you've indicated that there wouldn't be goodwill on Newfoundland Power's balance sheet?

MR. COYNE:

A. I'm not aware if there is or isn't, but there typically isn't large quantities of goodwill.

JOHNSON, Q.C.

Q. And why would that be?

MR. COYNE:

A. The acquisitions are typical – well, the acquisitions are typical for a company like this that have been known (phonetic) for some time. This was the company that formed the basis of what became Fortis, so I'm not aware of whether or not there is or is not goodwill. I haven't made that comparison, but I know there is substantial amounts of goodwill on the parent company's balance

sheet because they've been in a period of acquisitions over this period of time.

JOHNSON, Q.C.:

Q. So why specifically would there be goodwill on Fortis' books?

MR. COYNE:

A. It accounts for the difference between the market value of the assets it acquired and the book value of its assets it acquired.

JOHNSON, Q.C.:

Q. So they, I take it you would agree, paid a premium to buy the regulated assets to earn that regulated return, and the regulated return is just based on book value, would that be a fair assessment?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. Those premiums could include other – I mean, that's one factor, but those premiums could include other factors as well. Generally speaking, utility companies sell for more than their book value.

JOHNSON, Q.C.:

Q. So Fortis was happy to pay the amount that they paid and not earn anything on the goodwill, which is why their ROEs, I would suggest to you, would be lower than Newfoundland Power's?

MR. COYNE:

A. It could be one reason.

JOHNSON, Q.C.:

Q. Could be one reason.

MR. COYNE:

A. I have not analyzed the differences between how theirs is calculated by Standard & Poor's versus those we see reported on the regulated books here, but an important point is that a holding company like Fortis makes these investments for the very long term, so they may accept very low ROEs in the early years for these investments in exchange for the promise of better returns in future years. They typically take a very long view, especially companies that are acquiring utilities, of returns over 10, 20, 30, 40, 50 year period even. So it is not unusual for a company to accept a lower return as a result of that on

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the front end of the investment, hoping that over time they extract synergies from those operations and a strategic footprint to diversification of earnings that are all consistent with that type of strategy.

JOHNSON, Q.C.:

Q. Mr. Coyne, could you go to Dr. Booth's testimony at page 92, and if you'll come down a little bit further on the page, Samantha, please. Dr. Booth has taken an extract starting at line 20 or so from the Fortis 2014 annual report at page 36, and this is what it says on capital structure, "The corporation's principal businesses of regulated electric and gas distribution require ongoing access to capital markets to enable the utilities to fund maintenance and expansion of infrastructure. Fortis raises debt at the subsidiary level to ensure regulatory transparency, tax efficiency, and financing flexibility. Fortis generally finances a significant portion of acquisitions at the corporate level with proceeds from common share, preference share, and long term debt offerings. To help

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ensure access to capital, the corporation targets a consolidated long term capital structure containing approximately 45 percent equity, including preference shares, and 55 percent debt, as well as investment grade credit ratings. Each of the corporation's regulated utilities maintain its own capital structure in line with the deemed capital structure reflected in each of the utility's customer rates". Now, Mr. Coyne, I take it you are aware that Newfoundland Power's parent has a target capital structure of 35 percent common shares and 10 percent preferred, are you aware of that?

MS. COYNE:

A. I'm aware of the 45 – 35 common and 10 percent preferred? Is that down below here?

JOHNSON, Q.C.:

Q. Yeah, well, if you look at the table there below, actually they've got – up above they said approximately 45 percent equity, including preference shares and 55 percent debt, and you look down below for 2014, you see they got 34.4 percent common share

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holders' equity, and 9.1 percent preference shares, right?

MR. COYNE:

A. I see that for 2014, yes.

JOHNSON, Q.C.:

Q. So would Fortis' finances with 35 percent common shares compared with Newfoundland Power's 45 percent, would you say that Fortis has more financial risk than Newfoundland Power due to its lower common equity ratio?

MR. COYNE:

A. Well, that would only be one factor. When you say lower financial risk -

JOHNSON, Q.C.:

Q. Yeah, would Fortis have more financial risk in their capital structure than Newfoundland Power due to it having a lower common equity ratio?

MR. COYNE:

A. I would say, yes, they are more levered, yes.

JOHNSON, Q.C.:

Q. And Fortis, as we've gone through mathematically and established at least,

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Fortis earns an ROE that is on average, over that period 2010 to 2014, 2.16 percent a year less than Newfoundland Power, okay, and so -

MR. COYNE:

A. When you say "okay", I don't think those numbers are comparable, so I can't say "okay".

JOHNSON, Q.C.:

Q. Okay, all right. So you don't accept that Fortis has a lower average ROE than Newfoundland Power?

MR. COYNE:

A. On that accounting basis, yes. Is it equivalent in the way that you suggest to Newfoundland Power's, I don't know without looking at them the same way.

JOHNSON, Q.C.:

Q. So let's put it this way, the way Fortis' ROEs are reported in Standard & Poor's would show earnings from 4.7 percent in 2014 up to, say, 7.8 percent in 2012. Those lower average ROEs, at least as reported in the S & P, hasn't spelled trouble for its bond rating, would you agree?

MR. COYNE:
A. They've been able to maintain their bond rating.
(12:15 p.m.)
JOHNSON, Q.C.:
Q. Yeah, and they've maintained an A- Standard and Poor's bond rating. Can we turn to page 95 of Dr. Booth's evidence?
MR. COYNE:
A. I do understand that there's a negative watch was issued after they acquired ITC with concerns about their leverage.
JOHNSON, Q.C.:
Q. And I take it, that's the recent acquisition of the transmission asset.
MR. COYNE:
A. Of ITC Holdings, yes.
JOHNSON, Q.C.:
Q. I see, but they maintained their A- rating?
MR. COYNE:
A. They have.
JOHNSON, Q.C.:
Q. So if we look at page 95 of Dr. Booth's evidence, he has there a slide from a Fortis presentation in its management and

discussion analysis from the 2014 annual report, and you see the management discussion and analysis talks about the A- stable long term corporate unsecured debt rating, DBRS grades it A-low, and they note, "The above-noted credit ratings reflect the corporation's low business risk profile and diversity of its operations", and then below Dr. Booth has set out that, "In its 2015 third quarter presentation, Fortis states that they have ample liquidity and strong credit ratings". Would you agree, Mr. Coyne, that based on what we've seen here and what you know of Fortis, and you testified for their utilities, would you similarly regard an S & P rating of A- as strong, Mr. Coyne?
MR. COYNE:
A. I think it's adequate for the utility business. They're strongly in the investment grade range. You wouldn't want to drop lower in the Canadian market.
JOHNSON, Q.C.:
Q. So Fortis is telling people in their presentations that they regard themselves as

having a strong credit rating at Standard & Poor's A-. You wouldn't disagree with that?
MR. COYNE:
A. It's sufficient for their business model, yes.
JOHNSON, Q.C.:
Q. I mean, people are relying on this in the public document, right?
MR. COYNE:
A. Yes, they are.
JOHNSON, Q.C.:
Q. And do you think that Newfoundland Power, with 35 percent common equity or do you think that with its – Fortis, with its 35 percent common equity, and we would submit, on average, lower earned ROEs ranging from 4.7 up to 7.9, that that would put its financial strength in jeopardy with 35 percent common equity and earning as we've seen in that range from 2010 to 2014 of 4.7 to 7.9?
MR. COYNE:
A. I'm not sure what the question is implied in that. Can you tell me what the question is?
JOHNSON, Q.C.:

Q. Do you think that with just 35 percent common equity in Fortis' capital structure, and we've seen its ROEs in that range of 4.7 percent in 2014, down to – over that four year period, a low of 4.7, a high of 7.9 percent as reported by Standard and Poor's, that that - on that type of common equity, that that would be putting Fortis' financial strength in jeopardy?
MR. COYNE:
A. Well, you're looking at – let's go back to page 6 and page 5. You took one line from a two page table that Standard and Poor's is focusing on here, and that is the return on common equity. They're looking at a variety of cash flow and coverage metrics here in order to reach the credit rating. It's not just their return on common equity. That's just one factor they're looking at. So you're suggesting that you can compare one, just look at that number and it's going to tell you what the credit rating is, and it doesn't. It's a much broader analysis than that (a), and (b) the negative credit watch that came out after the ITC Holdings

acquisition indicated to me that they're at the edge of maintaining that credit rating with the amount of leverage that they have, so I would – I'm not sure that I could – well, I'm not sure if that's entirely a response to your question, but the answer is that you just can't look at return on common equity, you have to look at all those financial measures, and that adds to their credit rating. As we discussed earlier, they are already at the significant range in terms of their financial leverage, and that's an issue to be considered, but they have a diverse portfolio of utility holdings. They have a diverse portfolio of utility holdings, and that's recognized in these credit ratings that these are good stable businesses. By and large, these are solid businesses to own from a credit perspective.

JOHNSON, Q.C.:

Q. Mr. Coyne, for the first time an expert, at least to my knowledge, an expert has come to the province testifying here, and has opined, made a conclusion that Newfoundland

Power is now an above average risk Canadian utility, okay, and -

MR. COYNE:

A. From an operating risk standpoint. I looked at it from a financial risk standpoint and an operating risk standpoint.

JOHNSON, Q.C.:

Q. So your analysis – so your suggestion that they're above average risk is just from a business risk standpoint, is that right?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And in terms of the present economy, you've indicated that Newfoundland Power is exposed to more risk in 2016 because of a weakened economy in Newfoundland and Labrador, is that correct?

MR. COYNE:

A. That's one of the factors, yes.

JOHNSON, Q.C.:

Q. But you can confirm for me that Newfoundland Power has earned its allowed ROE without fail over each of the last 20 years, correct?

MR. COYNE:

A. Yes, they have.

JOHNSON, Q.C.:

Q. Yes, and you would also confirm for me that the only year that, I think, going back to the early 90s that they actually had negative sales growth was 1998, is that right?

MR. COYNE:

A. I don't know if that – are you looking at a specific reference?

JOHNSON, Q.C.:

Q. If we look at Dr. Cleary's Report at Figure 5. That's on page 20 of Dr. Cleary's Report, isn't it? Are you familiar with this chart in Dr. Cleary's Report?

MR. COYNE:

A. Yes, I recall looking at it. One is showing revenue growth and the other is showing real GDP growth. Is that the figure?

JOHNSON, Q.C.:

Q. Yes, I think -

MR. COYNE:

A. That's revenue growth.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. I assume that's all revenue, including power cost, but I don't know for sure.

JOHNSON, Q.C.:

Q. Would you confirm that Figure 5 would indicate that in 2009, GDP in Newfoundland and Labrador went down by 9 percent, according to this information, and the data source being Newfoundland Power's annual reports that Dr. Cleary looked at?

MR. COYNE:

A. Uh-hm.

JOHNSON, Q.C.:

Q. Do you see that, and we see that revenue growth at Newfoundland Power in that very poor year grew by 2 percent, would that be right?

MR. COYNE:

A. It looks at that level in the chart, yes.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. I see that it was over 15 percent the year before, so it obviously had a significant impact on the company.

JOHNSON, Q.C.:

Q. Yeah. I mean, those were very, very buoyant times in the Newfoundland economy. You're probably aware of that, are you?

MR. COYNE:

A. Buoyant at times.

JOHNSON, Q.C.:

Q. Well, we had some very buoyant years in the 2000s, you're aware of that?

MR. COYNE:

A. Well, I can see from the real GDP growth that there were some very strong growth years there, yes.

JOHNSON, Q.C.:

Q. Yes, that's right, and would that have been - those strong GDP growth periods, would that have been reducing the company's business risk?

MR. COYNE:

A. By and large, yes, strong growth is favourable for utility.

JOHNSON, Q.C.:

Q. And if you look at Figure 6 of Dr. Cleary's Report, he looks at Newfoundland Power's

EBIT and EBITDA over a long period of -

MR. COYNE:

A. Are we leaving this chart?

JOHNSON, Q.C.:

Q. Yes, for the moment, yes.

MR. COYNE:

A. But before we leave the chart, going back to your initial premise, you had talked about sales growth and this is revenue growth, so I'm assuming that includes power cost, and power cost, if it does, and I don't know that it does or not, but power costs were about 66 percent of total revenue, so that's just a pass through for the company, it has nothing to do with what – that would mask whatever is going on for what the cost structure is at Newfoundland Power. So I just note that as something that's not shown here.

JOHNSON, Q.C.:

Q. I believe the record does reflect that Newfoundland Power's last year of having negative sales growth was 1998. Are you familiar with that?

MR. COYNE:

A. I would accept that, subject to check, if its been established on this record. Where are we going next?

JOHNSON, Q.C.:

Q. We are still on Figure 6. This is earnings before interest taxes - that's earnings before interest taxes depreciation over that long period of time, and you see a steady growth pattern over the entirety of that period through good and bad years in the Newfoundland economy, including the 2009 year, right?

MR. COYNE:

A. I see that, yes.

JOHNSON, Q.C.:

Q. Okay, and you said in direct when you started testifying, Mr. Kelly was questioning you, you said that in 2015, GDP declined by 5.4 percent in Newfoundland and Labrador?

MR. COYNE:

A. I believe that's correct.

JOHNSON, Q.C.:

Q. Can you confirm that the GDP decline in 2015 was actually greater than forecast in the

original filing when Newfoundland Power filed its General Rate Application?

MR. COYNE:

A. Are you asking me to confirm that?

JOHNSON, Q.C.:

Q. Yeah.

MR. COYNE:

A. Or accept that, subject to check?

JOHNSON, Q.C.:

Q. Okay, and –

MR. COYNE:

A. Which are you asking me to do?

JOHNSON, Q.C.:

Q. Why don't we look at the original application, Exhibit 4, being the Conference Board, page 5. I need the original application.

MR. COYNE:

A. Is this one of the company's exhibits?

(12:30 p.m.)

JOHNSON, Q.C.:

Q. It would be one of the company's exhibits. It would be the Conference Board of Canada attached to the – I guess it was attached to the load forecast. I might have referred to

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it improperly by exhibit number.

MR. HAYES:
Q. That's the revision – pre-revision.

KELLY, Q.C.:
Q. I don't know if Ms. Blundon has the original filing for the witness. Is that the original filing, Cheryl, before the revision?

MS. BLUNDON:
Q. That would be the October filing.

JOHNSON, Q.C.:
Q. If you could turn to the load forecast. That's at Tab 4, I should have said, and I'm looking at the Conference Board of Canada, page 5.

MR. COYNE:
A. What exhibit number is it in the book? Oh, Tab 4.

JOHNSON, Q.C.:
Q. It's Tab 4.

MR. COYNE:
A. Customer Energy and Demand Forecast, okay, I see that, and which page?

JOHNSON, Q.C.:
Q. Page 5. It's at the – you got to keep on

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going through the load forecast and then you'll come to the Conference Board of Canada Reports. There you go. Just keep on going into page 5, please. There's a chart called, "Key Economic Indictors, Newfoundland and Labrador".

MR. COYNE:
A. I think I have it. Do I have it?

MR. HAYES:
Q. Yeah.

MR. COYNE:
A. Okay, page 5.

JOHNSON, Q.C.:
Q. Just if you could bring the screen over a little bit further, please. Let's look at – I'm sorry, you're going to have to go back over again, Samantha, so we can see – okay so GDP at market prices, 2007, is the second line on the left. If you now go all the way back over again to show people – okay, you see in 2015 they were looking for –0.1 percent GDP. Do you see that, Mr. Coyne?

MR. COYNE:
A. Where are you?

JOHNSON, Q.C.:

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Q. It's in the top, right up here. There you go right there.

MR. COYNE:
A. You're looking at the full year?

JOHNSON, Q.C.:
Q. That's right. That was the -

MR. COYNE:
A. GDP at market price is $2,007.00, is that what you're looking at?

JOHNSON, Q.C.:
Q. That's right, exactly. So that was what the expectation was when the application was filed, right?

MR. COYNE:
A. I don't know.

JOHNSON, Q.C.:
Q. Well, it's filed with the original application.

MR. COYNE:
A. Yeah, I don't know the connection, though, between this and the original application and what the timeline was.

JOHNSON, Q.C.:
Q. Well, you indicated in your direct evidence that 2015 GDP declined by 5.4 percent. You

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said that in the transcript at page 13.

MR. COYNE:
A. Yeah, I think that was from the most recent forecast from the Conference Board.

JOHNSON, Q.C.:
Q. That's right, I understand the point. So what happened was 2015 ended up being significantly worse than had been forecast?

MR. COYNE:
A. At this point in time, yes.

JOHNSON, Q.C.:
Q. Okay. Now in 2015, Newfoundland Power still earned its ROE of 8.98 percent, right?

MR. COYNE:
A. I believe your prior page showed that it did, yes.

JOHNSON, Q.C.:
Q. That's right, and in 2015, if we could go to CA-NP-329.

MR. COYNE:
A. Are we still looking at this page?

JOHNSON, Q.C.:
Q. No, we're done with this page.

MR. COYNE:
A. Thank you.

JOHNSON, Q.C.:
Q. So if we go to Attachment "A", the first revision, page 3. It's page 4 of the set, page 4 of 27. So we see that earnings before income and taxes increased from 2014 from $48,635,000.00 to $50,239,000.00 from 2014 to 2015, and we also see revenue in 2014 was $629,772,000.00, and it was $652,000,000.00 in 2015.
MR. COYNE:
A. I assume that includes power cost because those are shown below.
JOHNSON, Q.C.:
Q. Right, yeah. Well, we see power cost increased 20 million, but revenue had increased about 20 million and change by the looks of that, right?
MR. COYNE:
A. Yes, so it looks like most of that was coming from the increase in purchase power. It looks like operating expenses were down. I see that.
JOHNSON, Q.C.:
Q. Now when the original application was filed, the GDP estimate, I understand for 2016, was

–1.7 percent, is that correct, do you understand that?
MR. COYNE:
A. I don't know what was – when you say the original estimate, I don't know what was projected for 2015 earnings during the 2015 test year. If you're asking me that question, I don't know. I know that the data on that Conference Board sheet you showed me had that number, but I don't know the relationship between that and what expectations were from the company for 2015. It may have been that or it may have been not.
JOHNSON, Q.C.:
Q. I'm taking about 2016. If you could go back to the original application, the same material that you had there previously, Samantha, you see that in blue, the expectation was 2016 would be -
MR. COYNE:
A. Oh, 2016, yes.
JOHNSON, Q.C.:
Q. Right, a –1.7 percent GDP growth for Newfoundland and Labrador.

MR. COYNE:
A. Yeah, I see that. I don't know what role that played in the company's filing.
JOHNSON, Q.C.:
Q. You said –
MR. COYNE:
A. I know it was an exhibit you're showing me, but I don't know how it factored into their expectations.
JOHNSON, Q.C.:
Q. You said on direct evidence on Monday morning that the 2016 forecast GDP was positive instead of a decline, do you recall saying that?
MR. COYNE:
A. That was a long time ago. We have that in front of us.
JOHNSON, Q.C.:
Q. Can we bring you to your transcript, page 13.
MS. PIERCEY:
Q. Is that yesterday's transcript?
JOHNSON, Q.C.:
Q. No, that would be Monday's. We see at page 13, you said, "The Newfoundland economy",

reading from line 5, "is being hurt more by others, by the soft oil prices, with real GDP declining by 5.4 percent in 2015 and projected to just positive in 2016, and a modest 1.1 percent growth in 2017". So you highlighted that in your opening, right?
MR. COYNE:
A. Yes, I see that there. I see, yes, it's focusing on 2017 as well. Yes, I see that, yes.
JOHNSON, Q.C.:
Q. Okay. In terms of – did you compare volatility of earnings of Newfoundland Power to other Canadian utilities?
MR. COYNE:
A. No.
JOHNSON, Q.C.:
Q. So no comparisons to ATCO Electric, FortisAlberta, FortisBC, BC Electric, Maritime Electric, and Nova Scotia Power, none of those?
MR. COYNE:
A. No, it was not part of my analysis, nor is it typically.
JOHNSON, Q.C.:

Q. But these are the companies that you're asserting Newfoundland Power is now above average risk in relation to, correct?
MR. COYNE:
A. From an operating risk standpoint, yes.
JOHNSON, Q.C.:
Q. Operating risk shows up in earnings, does it not?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Mr. Coyne, you assert in your report that Newfoundland Power's credit metrics are weaker than the average for the Canadian proxy group companies in terms of cash flow to interest coverage and cash flow to debt, don't you?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. So let's turn to JMC-2 of Appendix "A". This is your exhibit where you show Newfoundland Power, and you compare its debt to capital ratio, EBITDA to interest coverage, cash flow to interest coverage,

cash flow to debt, and debt to EBITDA, and you compare them to the -
CHAIRMAN:
Q. What does the "A" stand for?
MR. COYNE:
A. Amortization.
CHAIRMAN:
Q. Amortization, right.
JOHNSON, Q.C.:
Q. And so you pointed out in your report that Newfoundland Power is weaker than average for the Canadian proxy group companies in terms of cash flow to interest coverage and cash flow to debt, which you just agreed to. Now first of all, you will acknowledge, Mr. Coyne, that Valener and Enbridge are not primarily engaged in the provision of electricity, correct?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. That's why I suggest that the proxy group is a better comparable to Newfoundland Power

than the Canadian proxy group in general.
JOHNSON, Q.C.:
Q. Right, and the credit metrics that you're reporting for Valener, I take it, a lot of it is missing, you don't have anything for EBITDA to interest coverage for Valener or for a cash flow to interest coverage at all, right?
MR. COYNE:
A. Right, I mentioned in the S & P report does not include them, so I, therefore, didn't have them. My source didn't have them.
JOHNSON, Q.C.:
Q. And I understand from the footnote that your information for Valener is in relation to 2013?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. And the information from Newfoundland Power is 2015, is it, or 2014 probably?
MR. COYNE:
A. I think it would have been 2014, which would have been the most recent year I would have had them.

JOHNSON, Q.C.:
Q. Now if Valener, for which you have partial data, and which is not in the business of the provision primarily of electricity, were to be removed, okay, the combined cash flow to debt percentage average of the others, being Canadian Utilities Limited, EMERA, and Enbridge, would drop to 13.37 percent, agreed?
MR. COYNE:
A. On which metric?
JOHNSON, Q.C.:
Q. On the cash flow to debt percentage metric?
MR. COYNE:
A. I have not done that math.
(12:45 p.m.)
JOHNSON, Q.C.:
Q. Would you accept that, subject to check?
MR. COYNE:
A. I will.
JOHNSON, Q.C.:
Q. And would compare to Newfoundland Power's cash flow to debt percentage of 17.5 percent, correct?
MR. COYNE:

A. Yes. It then would be better than that average with Valener.

JOHNSON, Q.C.:

Q. And that would be significantly better than 13.5, would you not agree with me?

MR. COYNE:

A. It would be better.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. But this is the Canadian proxy group.

JOHNSON, Q.C.:

Q. I understand that, and we've got to take it, I guess, with all its warts, don't we?

MR. COYNE:

A. We do. Well, when you say "we do", this is one of the reasons why I prefer the U.S. proxy group because they have a more comparable business to this company than do the Canadian proxy group companies, and that's why I prefer them. You'll note when I do the North American proxy group, the two that I'm including are the Canadian Utilities Limited and EMERA Incorporated.

JOHNSON, Q.C.:

Q. Okay, and I take it that – we see that the average of Canadian Utility Limited and EMERA's and Enbridge's debt to EBITDA, if Valener were taken out, that average would be 5.54 percent, right?

MR. COYNE:

A. Debt to EBITDA?

JOHNSON, Q.C.:

Q. Yeah.

MR. COYNE:

A. And you want to take out Valener?

JOHNSON, Q.C.:

Q. Yes, that's right. Would you agree, subject to check, that the average would then be 5.54 as the average of the Canadian proxy group?

MR. COYNE:

A. I will accept that, subject to check.

JOHNSON, Q.C.:

Q. And that would compare to Newfoundland Power much lower at 3.30 percent. That would be much better, right?

MR. COYNE:

A. It would be better.

JOHNSON, Q.C.:

Q. Yes, significantly better, no one else comes close, do they?

MR. COYNE:

A. Well, I tend to use better, but, yes, I'll accept the numbers for what they are.

JOHNSON, Q.C.:

Q. And these Canadian holding companies, these are not close matches for Newfoundland Power, which is poles and wires. Would you agree with me on that?

MR. COYNE:

A. Yes, I do.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. Especially those two. I'll go back, I think the U.S. proxy group is the better comparator than any of the Canadian companies.

JOHNSON, Q.C.:

Q. And Newfoundland Power is clearly better on debt to capital ratio than the Canadian proxy group by a large margin, right?

MR. COYNE:

A. They are better.

JOHNSON, Q.C.:

Q. Yes, their debt to capital ratio is 55 percent. The Canadian proxy group, even if we included Valener, would be 65 percent, so a 10 percent difference, right?

MR. COYNE:

A. Yes, compared – what we're doing there, of course, because we're dealing with a holding company, we're comparing their capital structure for the regulated company against the holding company's capital structures, yes. That is the comparison.

JOHNSON, Q.C.:

Q. Okay, now -

MR. COYNE:

A. That's not true if you compare the regulated utility capital structures, but in the holding company, yes.

JOHNSON, Q.C.:

Q. Now in terms of the Muskrat Falls weather and supply risks that you referred to, in your evidence, if we could turn on page 16 of your evidence -

MR. COYNE:

A. Are you in Appendix "A"?

JOHNSON, Q.C.:
Q. Before we move on, did you have something to say about including regulated utility debt? I missed it, but I want to understand what you just said.
MR. COYNE:
A. Well, the data that we're comparing – we have the data there on that basis for Newfoundland Power, and that's the regulated utility, and there we're comparing in this case the metrics are at the holding company level, I believe. Let me just go ahead and check. I expect they are.
JOHNSON, Q.C.:
Q. At the regulated level, Newfoundland Power has the highest common equity in the country, so wouldn't you not expect to see -
MR. COYNE:
A. I wouldn't expect that the relationship to change, just the magnitude of the numbers could change.
JOHNSON, Q.C.:
Q. Now with relation to Muskrat Falls weather and supply risks -
MR. COYNE:

A. Are you in the Appendix, the risk Appendix "A"?
JOHSON, Q.C.:
Q. Yes, I am, sir.
MR. COYNE:
Q. Which page?
JOHNSON, Q.C.:
Q. Page 16.
MR. COYNE:
A. Right.
JOHNSON, Q.C.:
Q. Now, you're indicating there at line 16 to 23 that, you're pointing out that "with regard to the impact of Nalcor's new generation plant at Muskrat Falls, Newfoundland Power expects electricity rates will increase substantially due to higher supply costs. According to Newfoundland Power's evidence power supply costs currently account for approximately 64 percent of the company's 2014 revenue". And you go on to say "Newfoundland Power recovers changes in power supply costs through the RSA which allows for recovery of variation in Newfoundland and Labrador

Hydro's production costs". You go on to say, "that the RSA also recovers their credits as appropriate variations in Newfoundland Power supply costs due to changes from test year energy and demand costs and that the RSA effectively limits Newfoundland Power's risk of recovery of supply costs to plus or minus 640,000". Now, Mr. Coyne, in terms of supply costs, normally utilities can pass on supply costs, is that correct?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Okay. And in terms of the risk to Newfoundland power, the utility, this is what we're talking about here, these mechanisms, in terms of passing on supply costs are still, do exist, like they have existed, correct?
MR. COYNE:
A. Can you re-state the question?
JOHNSON, Q.C.:
Q. The ability of Newfoundland Power to pass on supply costs has been well established,

right?
MR. COYNE:
A. Yes, that's covered under the RSA.
JOHNSON, Q.C.:
Q. Right.
MR. COYNE:
A. As just described.
JOHNSON, Q.C.:
Q. And you're indicating that this poses a risk to Newfoundland Power, the utility itself, the new supply costs that are coming.
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Okay. Now, you're suggesting that Newfoundland Power is somehow going to be unable to collect its cost of service, are you?
MR. COYNE:
A. I'm suggesting that over time the cost pressures associated with Muskrat Falls are going to be significant and they would represent a problem for the company. And Moodys has indicated so in their credit rating report. Because of the cost

pressures associated with that project, an increase in rates over 50-—increase in power costs of over 50 percent, it will put significant pressure on the company in terms of its cost profile. And as I discussed, I think it Monday, I know of no other North American utility that's facing that kind of supply cost pressure over this foreseeable period of time. So, yes, I do see them having pressures there. How that's going to work out with this Board, obviously they have the RSA in effect and they have cost recovery mechanism in place, but both the company and the Board will be under significant pressures, I believe, in that period of time to ensure that they can continue to recover the full costs.

JOHNSON, Q.C.:

Q. So, in terms of this rate case, you're making and putting forward the view that today we've got to start considering Newfoundland Power as an above average risk utility, in part based upon how the supply costs will get handled in the rate setting mechanism.

MR. COYNE:

A. Not as part of how they will handled in the rate setting mechanism. I don't have any concern for that in this period. It's that those pressures are going to grow over time, once these power costs start to flow through. From an investor perspective, it's on the horizon, it's visible and it's evident. And I also look at the fact that it's coming at a time when the province is facing the weakest economy in the country. So, you have an unprecedented increase in power supply costs combined with the weakest economy in the country. Both of those to me are significant risk factors that other utilities in either Canada or the U.S. don't face right now.

JOHNSON, Q.C.:

Q. So, in terms of the horizon, you would be taking the view that right now we have immediately to start treating Newfoundland Power as an above average right utility, notwithstanding that fact that for decades they've been considered average risk.

MR. COYNE:

A. From an operating, we'll recall, it's financial and business risk, yes, from a business risk standpoint I think we could say at this point in time this is not an average risk utility. These factors are very different for Newfoundland Power than they are for any other company in the proxy group. So, there's nothing about those factors that are average.

JOHNSON, Q.C.:

Q. And the risk to the equity investor would be that they would not be able to get return on their cost of service, is that the –

MR. COYNE:

A. That's the ultimate long term risk, is well, two fold, we talked about positive economic growth as being a healthy thing for utility it is. So, if you're looking at these cost pressures at a time when you have either negative or flat economic growth, what you're going to see if a lot of pressure on the cost per kilowatt hour and cost per customer going up over time. And that implies that you're going to have either more competition from other fuels. There's

a lot of residential space heating in this jurisdiction that you have in other jurisdictions. And the company does compete on the margin with fuel oil and also with wood and wood pellets. So, my view is that it's going to increase competition between electricity and those other fuels. And ultimately that puts an investor at greater risk than it does with a utility that's smooth sailing, that's not facing those types of risks. It's on the margin. I know that this company has a supported regulator and I have no reason to believe that the regulator and the company aren't going to work together to try to manage this challenge, but it is a challenge that other companies are not facing.

JOHNSON, Q.C.:

Q. So, the risk in terms of competitiveness with, like say, furnace oil, as a for instance, that depends upon what furnace oil is going to be looking like in three or four years' time, wouldn't it?

MR. COYNE:

A. It depends on the choices consumers make today based on their views around the relevant prices between the two. So, that doesn't have to wait for three or four years' time. Those that are renovating their houses or putting in new sources of fuel or maybe building new ones will look at those factors and if they see oil prices coming down by 50 percent and electricity prices going up by 50 percent, they may decide that fuel oil is going to be their home heating fuel of choice. And they could make that decision today. The fact—this is in the press, people know in Newfoundland what's going on in terms of the Muskrat Falls project and the cost impacts it's going to have. So, that's not a secret. There is no reason to believe that consumers or businesses would wait until three or four years if they're making those decisions today.

JOHNSON, Q.C.:
Q. We saw that Newfoundland Power had pricey competition in terms of furnace oil back many years ago that you're probably aware of, right?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And at that point I think it bears out that in the 1990s oil had a 40 percent cost advantage, at one point during the 90s, are you aware of that?

MR. COYNE:
A. I'm not aware of that specific event. Are you referring to a specific reference?

JOHNSON, Q.C.:
Q. Yes, it's CA NP 042. So, this would indicate, starting from line 7 that "in the 1990s approximately 6000 or 3.7 percent of domestic customers switch from electric space heating to other space hearing fuels such as furnace oil and wood. During this period furnace oil had a 40 percent operating cost advantage. The cost advantage reflected increasing electricity prices combined with stable furnace oil prices".

MR. COYNE:
A. I see that, yes.

JOHNSON, Q.C.:

Q. And so this—and I guess you'd have to figure in the capital cost involved with making a switch of that magnitude, right?

MR. COYNE:
A. Yes, both capital and operating.

JOHNSON, Q.C.:
Q. Okay.

MR. COYNE:
A. But I understand that there are many homes in the province that have the ability to do both. So, during period of high oil prices they'll switch over to electricity. During periods of low prices, they will use their wood furnace or they will use their oil more. It's not uncommon to see fuel switching in that way amongst residential customers that have those capabilities. We see that in the north east and we see that also in Maritimes Canada.

JOHNSON, Q.C.:
Q. Can you point me to the evidence that you're referring to in this in province in relation to that fact.

MR. COYNE:
A. No, that's my understanding from discussions

with the Company.

JOHNSON, Q.C.:
Q. It's not on the record though, to your knowledge, is it?

MR. COYNE:
A. I don't know if it's on the record or not.

JOHNSON, Q.C.:
Q. Okay. The estimated cost to convert to a forced air furnace CA NP 041. Reading from line 6 to 9, "the cost to convert a domestic customer to oil can vary significantly depending on the dwelling. Typical cost of conversion to a forced air furnace is approximately ten thousand which the cost of conversion to an oil fired hot water radiation system can range from 15 to 25 thousand.

(1:00 p.m.)
A. Yes, I see that.

JOHNSON, Q.C.:
Q. Okay. Given the magnitude of that type of investment which is a lot of money, would you not think that a customer would want to see where things are going to land on pricing before they were to embark on that

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type of expenditure?

MR. COYNE:

A. It take time before the capital stock in homes turns over, so those decisions aren't made overnight. So, I would expect that if customers are making those decisions today and they're aware, they see low oil prices and they're aware that electricity prices are going up, they might make that decision today or they might wait. Those, where we typically see more response in markets for those that already have the alternative fuel capability, that's easy for them to load up on wood pellets and use it more or load up on cord wood and use it more when prices are high, so they can make a more immediate response there. The consumers have three choices when prices go up. They can consume less of it; turn down the thermostat a little bit. They can use an alternative fuel. Or they can make the bigger decisions as reflected here and make the capital cost to switch to alternative fuel. But it is typically the case that capital cost changes are the slowest to happen, does happen over

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time because the expense, the time it takes to actually switch.

JOHNSON, Q.C.:

Q. I guess the one thing that customers can't do in Newfoundland is go off Newfoundland Power altogether, like they can do, I guess, with gas companies and things of this nature.

MR. COYNE:

A. That's right. They'll be getting some power.

JOHNSON, Q.C.:

Q. And you've also indicated that--you've pointed to supply risks in the sense of weather related risk having to do with the transmission line coming down under the—the line comes under the ocean, down through the Great Norther Peninsula, across the interior onto the Avalon Peninsula. And you've indicated in your capital structure evidence that that thereby increased potential weather related risk to Newfoundland Power's electricity supply?

MR. COYNE:

A. Yes.

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JOHNSON, Q.C.:

Q. Okay. And this is a matter as you're probably aware, Mr. Coyne, that is under quite active consideration by the Board and the Board's consultants. Are you aware of that?

MR. COYNE:

A. I understand that, yes.

JOHNSON, Q.C.:

Q. And, of course, there are studies ongoing to assess all of that and I wonder if you might consider that making a determination now that Newfoundland Power is above average risk while taking into consideration that matter might be somewhat premature, given the fact that it's under intensive study as we speak.

MR. COYNE:

A. Right. That's not my primary consideration, that judgment.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. As I mentioned, it's the power supply cost and it's the economy primarily and it's on

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the backs of a utility that's small size and also a province that's small size in terms of absorbing those costs. We talked about the magnitude of that project given these customers and this rate base in this province as being nothing like anything else that's out there for these proxy group companies by way of a challenge. Those are facts. What is not known precisely is what will be the impact on reliability and the impact of reliability on costs. That is speculation at this point in time and I understand being examined by this Board.

JOHNSON, Q.C.:

Q. And I suppose you would agree with me that that may well be an issue that will be determined not only, or looked at in detail at the next GRA and perhaps the one after that. Fair comment?

MR. COYNE:

A. I couldn't speculate on that. I don't know how determinative this study will be, but with many of these projects there's also the experience of the project over time. Like, for the actual risk that results as a result of an 1100 kilometre solution versus one that's more local.

JOHNSON, Q.C.:
Q. I take it your understanding would be that the first power from that facility is probably going to be beyond the period during which rates are going to be in effect for Newfoundland Power?

MR. COYNE:
A. My understanding is that the last public date for in service was 2018, but there's—which should be the last year that these rates are most likely going to be in effective, but I understand that there's some chance that the project date could slip.

JOHNSON, Q.C.:
Q. Okay.

MR. COYNE:
A. But that doesn't meant that the risk isn't there. This is a forward looking concept. That doesn't mean that an investor wouldn't look at the circumstances and evaluate this as being something other than an average risk utility right now. Because what's

known is that that project will be completed and built at something of 9 billion dollars or more and that these customers will have to bear those costs.

JOHNSON, Q.C.:
Q. Mr. Coyne, I take it you, as we now well understand, you provided evidence before the BCUC in relation to FEI's application?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And you would have been aware of FEI's filing and application that was put to the BC Utilities Commission.

MR. COYNE:
A. In that same case?

JOHNSON, Q.C.:
Q. Yes.

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And we previously visited with Ms. Jocelyn Perry, evidence that FEI had included in its application pertaining to Newfoundland Power's comparison based on DBR credit

metrics, do you recall that from your experience in Fortis BC?

MR. COYNE:
A. Do I recall that they had submitted comparisons based on DBRS metrics?

JOHNSON, Q.C.:
Q. Yes, comparing Newfoundland Power to FortisAlberta FortisBC, a number of other companies -

MR. COYNE:
A. I do recall those comparisons, yes.

JOHNSON, Q.C.:
Q. Okay. And did you have any role in putting that information together for FortisBC?

MR. COYNE:
A. If it was in their filing, I don't think so.

JOHNSON, Q.C.:
Q. Okay.

MR. COYNE:
A. Not that I recall.

JOHNSON, Q.C.:
Q. Okay. You were content with their filing, I take it?

MR. COYNE:
A. I'm sorry.

JOHNSON, Q.C.:
Q. You were content with the filing for which you were –

MR. COYNE:
A. They didn't ask us to review or approve their filing.

JOHNSON, Q.C.:
Q. Now, Mr. Coyne, if the Board were to not accept that Newfoundland Power should now, after these many years, be considered an above average risk Canadian utility, what would the implication for your ROE recommendation?

MR. COYNE:
A. Well, I did not make any adjustments for it being an above average business risk utility. So, we considered the risk profile in order to consider its comparability vis-a-vis the two proxy groups, the Canadian, the U.S., and the North American. But I made no explicit adjustments for it being above average business risk vis-à-vis those proxy groups. I looked at the financial risk of the company as well and I found it there to be comparable risk to its Canadian

peers, although a greater financial risk than the U.S. peers. But I did not find the magnitude of the increased business risk vis-à-vis the average financial risk to be of such magnitude that it would cause me to make an upward adjustment to the ROE. So, I did not make one. I did find some—in looking at the capital structure of the company, it has a higher capital structure than its Canadian peers. And I found that to be somewhat of an offsetting and mitigating factor vis-à-vis the current increased operating risk profile. So, therefore, I chose not to make any upward adjustment to ROE based on the fact that I found it to be an above average business risk utility.

JOHNSON, Q.C.:
Q. So, above average business risk, but below average financial risk?
MR. COYNE:
A. Average financial risk, vis-à-vis the Canadian proxy companies.
JOHNSON, Q.C.:
Q. The Canadian proxy companies that we just

examined earlier in my cross-examination with you, Canadian Utilities and those.
MR. COYNE:
A. Yes, we compared -
JOHNSON, Q.C.:
Q. Yes, and you have concluded, had you not, that Newfoundland Power were slightly weaker and credit metrics in relation to those companies, hadn't you?
MR. COYNE:
A. I concluded that they were weaker on two counts, better on two and they had a higher capital structure and a higher equity ratio and therefore I found them, on balance, to be of average financial risk compared to their Canadian peers. But on the same basis I found the company to be weaker at a financial risks standpoint vis-à-vis its U.S. peers.
JOHNSON, Q.C.:
Q. Could we just go to your evidence, your Appendix, bottom of page 2. This is your executive summary and you said, "the following points summarize the conclusions of our risk assessment." And you said they

have comparable –
MR. COYNE:
A. Are you in the Appendix A or the main evidence?
JOHNSON, Q.C.:
Q. I'm in what's on the page here of Appendix A.
MR. COYNE:
A. Appendix A.
JOHNSON, Q.C.:
Q. I just note that at the bottom you had indicated that they have comparable financial risk as the Canadian proxy group companies, but that would, I guess, depend on whether you accepted Valener or not, would that be right?
MR. COYNE:
A. Well, that was part of my analysis, but I looked at much more than that.
JOHNSON, Q.C.:
Q. No, but I'm just talking about this.
MR. COYNE:
A. Well, just talking about that includes much more than that. I looked at a host of factors in the financial analysis that was

one set of financial metrics, but that wasn't it in its entirety.
JOHNSON, Q.C.:
Q. And these other companies in the Canadian proxy group, they're all graded by S&P, are they?
MR. COYNE:
A. I have that in one of my exhibits. I'm just trying to remember which one. Do you have it in front of you? Are you looking at something –
JOHNSON, Q.C.:
Q. No, I don't, actually. I might be able to get there.
MR. COYNE:
A. I don't know that they're all rated by S&P at the top of my head without looking at the data.
JOHNSON, Q.C.:
Q. Oh, here we, JMC 2.
MR. COYNE:
A. In JMC 2.
JOHNSON, Q.C.:
Q. Yes, they are all, in fact, rated by Standard and Poors.

MR. COYNE:
A. Correct, that's right.
JOHNSON, Q.C.:
Q. And if we go to JMC 1—I'm sorry, JMC 1, yes. So, we see here at the bottom, S&P rating for Canadian utilities –
MR. COYNE:
A. Are you JMC 1 of the main evidence or the risk—you're in the risk appendix.
JOHNSON, Q.C.:
Q. Yes, sir. So, Canadian Utilities has an S&P rating of A.
MR. COYNE:
A. Right.
JOHNSON, Q.C.:
Q. Emera is triple B plus; Enbridge is A minus and Valener is A minus as is Fortis which is not part of the proxy group, but it's A minus. And Newfoundland Power doesn't have a Standard and Poors rating anymore, do they?
MR. COYNE:
A. That's my understanding.
JOHNSON, Q.C.:
Q. And you can't tell us what they would have

under S&P, I take it?
MR. COYNE:
A. No. They're usually close to Moodys, but sometimes they differ. I find Moodys and S&P tend to rate more closely together than does DBRS, but occasionally they differ by a notch.
JOHNSON, Q.C.:
Q. And are these others ranked by DBRS?
MR. COYNE:
A. I suspect they probably are. DBRS ranks most of these larger Canadian companies.
JOHNSON, Q.C.:
Q. Could you undertake to provide the rankings for that Canadian proxy group from DBRS or the credit ratings? (Undertaking).
MR. COYNE:
A. Yes, I will.
JOHNSON, Q.C.:
Q. Thank you.
MR. COYNE:
A. As available.
JOHNSON, Q.C.:
Q. Mr. Chairman, it's been sort of a long day for me and no doubt for everybody. So, if

we could stop here and if I have anything, it will be very brief in the morning, I expect.
CHAIRMAN:
Q. Okay.
JOHNSON, Q.C.:
Q. Thank you.
Upon conclusion at 1:15 p.m.

CERTIFICATE

I, Judy Moss, do hereby certify that the foregoing is a true and correct transcript of a hearing in the matter of a General Rate Application by Newfoundland Power Inc. to establish customer electricity rates for 2016 and 2017 heard on the 6th day of April, 2016 at the Public Utilities Commission office, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.

Dated at St. John's, NL this
6th day of April, 2016

Judy Moss
Discoveries Unlimited Inc.

F