(9:12 a.m.)

CHAIRMAN:
Q. So good morning everybody. We're ready to continue our hearing and we're now dealing with cost of capital, and I understand our first witness is Mr. Coyne. Is that correct, sir?

MR. COYNE:
A. Yes, sir.

CHAIRMAN:
Q. Do you wish to use the Bible, sir, or otherwise?

MR. COYNE:
A. I'm comfortable with the Bible.

CHAIRMAN:
Q. Okay, sir.

MR. JAMES COYNE (SWORN) EXAMINATION-IN-CHIEF BY IAN KELLY, Q.C.

CHAIRMAN:
Q. You are now sworn, sir.

MR. COYNE:
A. Thank you.

CHAIRMAN:
Q. I think we're over to you, sir.

KELLY, Q.C.:

Q. Thank you, Mr. Chairman. Mr. Coyne, I understand you are a senior vice-president with Concentric Energy Advisors?

MR. COYNE:
A. Yes, I am.

KELLY, Q.C.:
Q. And you have filed two reports with the Board in this proceeding on behalf of Newfoundland Power. The first October 16th, 2015, "Cost of Capital" including a capital structure report. And on March 18th, 2016, "Rebuttal Testimony" responding to the evidence submitted by Dr. Booth and Dr. Cleary on behalf of the consumer advocate. Is that correct?

MR. COYNE:
A. Yes.

KELLY, Q.C.:
Q. And do you adopt those reports as your testimony in this proceeding?

MR. COYNE:
A. Yes, I do.

KELLY, Q.C.:
Q. Are there any changes in those reports at this time?

MR. COYNE:
A. No, no changes.

KELLY, Q.C.:
Q. Thank you. Now Mr. Coyne, since this is the first time that you've testified before this Board, perhaps you can begin by telling us a little bit about your own background and then Concentric Energy Advisors?

MR. COYNE:
A. Sure, I'd be glad to. Well first of all, good morning, Commissioners. This is my first time testifying before this Board. I appreciate the opportunity to be here and now experiencing a St. John's spring firsthand.

CHAIRMAN:
Q. It's a rare treat, isn't it?

MR. COYNE:
A. It is. Makes Boston almost look warm. The— I have—in terms of my background, and maybe we could just put up for reference the back page of my CV which I think summaries the—my experience. I have over 30 years of professional experience in the energy and utility sectors.

JOHNSON, Q.C.:
Q. Excuse me, I'm sorry to interrupt the witness. Our screen is blank. I'm just wondering if –

MS. GLYNN:
Q. Oh, okay.

JOHNSON, Q.C.:
Q. Is it unplugged or something?

MS. GLYNN:
Q. Okay, Mike is coming.

JOHNSON, Q.C.:
Q. Oh I'm not going to touch it.

MS. GLYNN:
Q. We leave that to Mike.

JOHNSON, Q.C.:
Q. It's all bad enough now.

MS. GLYNN:
Q. That's why we leave it to Mike.

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

MR. COYNE:
A. Are we all set?

KELLY, Q.C.:
Q. Okay, Mr. Coyne.

JOHNSON, Q.C.:

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Q. Sorry about that.

MR. COYNE:

A. Right, thank you. So as—in sum I have over 30 years of professional experience in the energy and utility sectors. I began my career coming out of graduate school working as an energy economist for the State of Maine. And there I worked on regulatory and policy matters affecting the State's consumers. From there I worked as a regulatory staffer for the Massachusetts Energy Facility Siting Council, and there I was responsible for approving the supply and demand forecast for the State's gas and electric utilities, and also project proposals from their gas and electric utilities that would be built and put into rate base for the State's utilities. I went on to work developing and publishing forecasts of North American energy markets, working for McGraw-Hill, and then served as manager of corporate planning and investor relations for an integrated energy company. From there I returned to consulting where for the past 20 years I've worked in roles

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studying energy and capital markets and working with a broad array of clients in North America on matters of rate regulatory policy, cost of capital, finance, transactions and planning. I provided expert testimony on these and related matters where my work is pretty much evenly divided between US and Canadian jurisdictions. My educational background includes a Bachelor's Degree in Business and Economics; and a Master's Degree in Natural Resource Economics. I've also passed security examinations that qualify me to act as a registered securities representative and supervisor of other security professionals in the US. Turning to my firm, my firm specializes in North American energy, the North American energy and utilities industries. We're a firm of approximately 60 professions focused on applied economics, finance, and regulatory advisory services to clients in the energy and utility sectors. We work for utilities, public agencies, consumers and investors on these matters.

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KELLY, Q.C.:

Q. Okay. Now next, just explain briefly the purpose of the evidence that you filed in this proceeding.

MR. COYNE:

A. Surely. The purpose of my evidence is threefold. One is to estimate a return on equity and capital structure for Newfoundland Power that will satisfy the fair return standard consistent with both Canadian legal and regulatory precedent which specifies three conditions. Those three conditions as this Board is well aware are comparable returns to those of like risk securities sufficient to enable the financial integrity of the regulated enterprise, and also permit incremental capital to be attracted on reasonable terms. And these conditions must be met both individually and collectively. In doing so I also consider the company's financial and risk characteristics on a standalone basis as is the practice of this commission and others in Canada. And thirdly, I consider the broad macroeconomic environment in

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Newfoundland, Canada, and the US that frames the investment environment for utilities in general and Newfoundland Power specifically.

KELLY, Q.C.:

Q. Okay well, let's start there with the macroeconomic and financial market conditions and perhaps you can explain to us the state of the economic conditions which are relevant?

MR. COYNE:

A. Sure. Yeah, generally speaking the global economic and capital market conditions today I would say are moderate—modestly more favourable today than when the company last filed its GRA in September 2012. In aggregate, although the outlook is mixed and it's certainly varies by—both by country and by region on a global basis, let me first address the situation in the US. And I thought what I might do is just compare the US and Canada with one exhibit which I will acknowledge may be difficult to read, but if I could focus your attention on columns 5 and 6 initially –

KELLY, Q.C.:

Q. And if I can just stop you, this is Exhibit JMC 1 in your material?
MR. COYNE:
A. Yes, it is. Thank you.
KELLY, Q.C.:
Q. Okay.
MR. COYNE:
A. And if I could focus your attention for a moment on columns 5 and 6, if you can make that out, what I've tracked there are 25 years of economic indicators for the Canadian and US economy, and I would just like to refer to those for a moment. And if you go down to the end of the recession in the 2008 and '09 period, what you'll see for the US, and that's in column 6, is that real GDP has grown by anywhere between 2 and 2.4 percent per year. There was a solid growth continuation of 2.4 percent in 2015. You can't see that on this chart because at the time I presented my evidence I didn't have that number. And expectations called for growth near these levels in the near term even though weakness in China and soft oil and gas prices were also having an effect on

the US economy. Nonetheless, the US is moving close to full employment of five percent, and this has supported the fed's cautionary increases and short-term interest rates as it raised the rate in December, and it's the first time it's raised that rate since 2006. I would then move over to column 5 to show that what you can see is that Canada and the US pretty much left the recession somewhat in tandem in terms of progressive, albeit bumpy, recovery from the reception—from the recession with GDP growing between 1.8 and 3.2 percent over that period of time in Canada. In fact, both economies plugged along at nearly the same average rate over these five post-recession years. The averages you can see down in the row that cites five-year average for both economies was 2.42 percent for Canada, slightly stronger than it was for the US at 2.2 percent. So a sign of two economies that were moving together recovering from the recession and at very close rates of growth. So while both economies have been impacted by the downturn

in China, the Canadian economy has been more significantly impacted by the downturn in oil and gas prices Real GDP grew at more a modest 1.2 percent in 2015 in Canada versus 2.4 in the US, so about half the rate. And this is upsetting the growth trend that had been experienced since 2010. The conference board now projects 1.7 percent growth for Canada in 2016, again under the rate of 2.4 percent for the US, but it also expects it to ramp up over 2 percent thereafter, according to—this is according to the Consensus Economics forecast that you can see that I cite down at the bottom of that page. Expectations done are for the Bank of Canada to hold onto any further changes in interest rates in the near term in light of this economic environment.
KELLY, Q.C.:
Q. Okay. Now what then about the Newfoundland and Labrador economy?
MR. COYNE:
A. Um-hm. Well, if I could just make one more point on this chart –
KELLY, Q.C.:

Q. Sure.
MR. COYNE:
A. - before I leave it, I would just draw your attention to the bottom of the page where I have a row titled "Correlation." And what I've estimated there is across—there's 25 years of history, would have been the correlations between the US and Canadian economies in some of these key indicators. And what you can see there is for GDP there's been an 86 percent correlation and for government bond yields there's been a 97 percent correlation. So these are very high correlations and indicating to me two economies that are moving very much together and very much in synch, although not precisely so in any given quarter in any given year, but two highly integrated economies. Two, as I mentioned, the economy does vary significantly by region and that's true both in the US and Canada, and if I could pull up a reference that was submitted by the company, and this is the most recent Conference Board outlook that we also use to look at the regional economies and compare

them on a province-to-province basis. I think you probably heard this outlook, but the outlook--they characterized the outlook for Newfoundland and Labrador as being grim. The Newfoundland economy 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. This is the weakest near term economic outlook in all of Canada.

KELLY, Q.C.:

Q. Okay. Now next let's turn to the financial markets, and perhaps you can explain to us where they are at this point in time?

(9:30 a.m.)

MR. COYNE:

A. Sure. On the issue of interest rates which factors directly into my analysis, there is currently a 46 basis point differential between the US and Canadian long-term government bond yield, but corporate and utilities spreads over government bond yields are higher in Canada than they are in the US. And what I'd like to refer to is

Figure 3 submitted in my Rebuttal Evidence which updates a slide pertaining to these spreads. So what you can see there is the two blue lines on the bottom of the chart are demoting the spreads and that is the price of the long-term utility and A and triple B rated bond yields over and above government bond yields in both Canada and the US. I focus principally on the A rated bond yield because that's principally where these utilities trade, and what you can see there is comparing them to the red lines in Canada. In both cases the spreads for what utilities are actually paying for new debt issuances over government bond yields are increasing over time and they've been doing so—they bottomed out in around the 2013 period. So they're increasing over time, and you can also see that there's a significant difference between the Canadian spread, the Canadian A bond yield over its government bond yield than there is for the US. As a result of that, this narrows the difference between the Canadian and the US bond yield to only—the actual total that the

companies are paying for this debt if you take the difference between that government bond yield in these spreads, it narrows the difference to what they're actually paying for capital or debt capital in this case to about 11 basis points. So they're nearly identical at this period of time. And as I mentioned, it's important to note that these spreads are widening and you can see the upward trend in these spreads. And that's indicating bond investors are requiring more compensation for utility risk, and we're also seeing that true for corporate risk, than they did in 2012, both in relative and absolute terms. And if I could turn to Figure 5, where I updated another chart in the Rebuttal Evidence, here what you can see is what utility investors or debt investors are requiring in terms of returns for A rated, Canadian A rated utility and corporate bond yields. And you can see that they're moving pretty much in lock step over the last few years, and what you can see again is they bottomed out earlier in this year. They were soft in 2012, they went up

again, they came down again and now they've since moved up again to the point where the cost of utility debt, long-term debt for a Canadian utility is now higher today than it was back in 2012. So the bottom line is that Canadian and US utilities are paying about the same for the long-term debt, but both are paying slightly more than they did in 2012. We can directly observe these costs for debt, but there's no reason to—but there's no reason to believe that it's not also true for the cost of equity which all would agree bears more risk than debt does.

KELLY, Q.C.:

Q. Okay. Next let's talk about capital structure and business risk. Can you explain your analysis on those points?

MR. COYNE:

A. Yes. So the Board has determined over the past 20 years that the existing capital structure was reasonable given the company's unique characteristics and operating circumstances. My assessment is that remains so today. I base this conclusion on analysis of the company's risk from three

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different perspectives as described in Appendix A of my October report, the Risk Appendix. Those perspectives again are threefold. One is a comparison of the company's risk today versus the last GRA filing in September 2012; secondly, a comparison of Newfoundland Power to other investor-owned utilities in Canada; and then thirdly, a comparison to a group of comparable electric utilities in the US. When I do this analysis, I find higher business risk today than in 2012, and the reason for that is that the company is exposed to more risk due to changes in the company's electric supply from Newfoundland and Labrador Hydro particularly in terms of cost, and I'll come back to that. It also is exposed to more risk as a result of a weakened economy. Both of these factors place Newfoundland Power in a unique and higher risk position than its Canadian and US peers. I also find it to have comparable financial risk to its Canadian peers with its higher equity ratio offsetting somewhat weaker credit metrics on two counts, but I

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also find that it has higher business risk than its Canadian peers due to its smaller size, its dependence on a single supplier, its weather and storm-related risks, and weaker economic and demographic fundamentals. The third comparison in relation to the US peer group, I find that the company has greater financial and business risk in relation to its US peer group based on these same factors.

KELLY, Q.C.:

Q. Okay. Now you spoke about changes in electricity supply and cost associated with that, and we certainly know Muskrat Falls is coming. Can you give us your perspective on how that affects the relationship?

MR. COYNE:

A. Yes. I thought it might be of use to try to put the Muskrat Falls project in perspective from an investor risk perspective. The project is projected to cost approximately nine point billion dollars when placed in the service in 2018, although I understand there's some uncertainty regarding the cost and the in-service date. The combined rate

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basis of Newfoundland Power and Hydro and Newfoundland—and Labrador Hydro is approximately 2.5 billion dollars collectively for both companies. That investment is ultimately spread across approximately 300,000 customers who will ultimately bear substantially all these costs responsibilities. And let me—and if I try to put that in perspective in terms of the world of North American utility projects, there is no other megaproject, and this is a megaproject, I am aware of of this size and scale in relation to the supporting rate base and the supporting customer base. The largest other megaproject that I am aware of in our work is OPG's refurbishment of its four unit Darlington Nuclear Station. That program is projected to cost 12.8 billion dollars currently. So 9 versus 12.8. This is equivalent to OPG's existing regulated rate base or 70 percent of its total plant, but this is spread over more than 2 million customers in Ontario for that 12.8 billion dollar investment. By contrast here in Newfoundland, the projected Muskrat

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Falls project cost represent 360 percent of the combined rate base of Newfoundland Power and Hydro together. So that is a four to five times differential in terms of its relative impact in rate base or customers however you want to look at it. There is simply no other North American utility exposed to this level of risk that I am aware of from a supply cost perspective and this is a risk that's not off in the distant future. It's within the near-term planning horizon. This creates more supply cost risk than any other company we've analyzed in Canada or the US. One thing is clear, electricity prices will rise. Nalcor projects over 50 percent, and this creates both market and regulatory uncertainty for the company because the company and the Board only have so many tools available to you and the company in order to be able to manage these cost pressures.

KELLY, Q.C.:

Q. So what are your conclusions then about risk and capital structure?

MR. COYNE:

A. I conclude that the existing capital structure is warranted by the company's risk profile. Any reduction in the equity component would send a negative message to credit rating agencies and debt investors and would expose equity investors to greater financial risk at a time of greater business risk. In sum, maintaining the existing capital structure reflects on financial management and it also reflects good regulatory practice.

KELLY, Q.C.:

Q. Finally then let's discuss your rate of return analysis of that?

MR. COYNE:

A. Sure. If I could turn to the October direct filing in Figure 1 on page 3, where I summarize our analysis and our results. As described in detail in the October report, I relied on three modeling approaches in three proxy groups for estimating the cost of equity for the company. I believe it's essential to use alternative models especially in the current market environment to estimate the cost of equity. I also

believe it's essential to draw upon market-based and transparent inputs to these models so they can be appropriately reviewed and critiqued both by regulators and by stakeholders. There is an element of professional judgment in selecting inputs and methods, but where possible, I've used market-based inputs or those from reliable third-party sources to minimize any potential for annalist bias in these estimates. On the estimates you'll see a range of 9.0 percent on the low end to 12.8 percent on the high end. Both of those highest and lowest estimates are coming from the Canadian proxy group. My analysis of the risk profiles and operating characteristics of these companies indicates the combination of the seven US utilities and two Canadian utilities that would satisfy my screen criteria, and the North American proxy group is the most representative of Newfoundland Power. So I ultimately place greater weight on these results. So that's the North American electric utility column. It's a challenge

to find comparable Canadian utilities I think, as their Board well understands, but by combining the two that qualify with my US sample, I have a reasonably comparable set of—risk set of companies to work with. The average of all three methods in that North American column is 9.7 percent with the range of 9.2 to 10.1 percent for this North American group. I therefore conclude that 9.5 percent is a reasonable estimate of cost of equity. This is just before the average of all methods and it's centered within the North American range, and ultimately 9.5 percent and 45 percent common equity I find would satisfy both the fair return standard and appropriately position the company over the next several years.

KELLY, Q.C.:

Q. Does that conclude your comments?

MR. COYNE:

A. Yes, it does.

KELLY, Q.C.:

Q. Thank you very much.

CHAIRMAN:

Q. Mr. Johnson, I believe, sir, you are on.

MR. JAMES COYNE, CROSS-EXAMINATION BY THOMAS JOHNSON, Q.C.

JOHNSON, Q.C.:

Q. I am, I am. Just for the Commissioners, Dr. Laurence Booth joins me at the table this morning.

(9:45 a.m.)

CHAIRMAN:

Q. Yes.

JOHNSON, Q.C.:

Q. And behind him is Dr. Sean Cleary from Queen's University who will be testifying as well. So Mr. Coyne, this is obviously your first time testifying here, but I understand you testify for other Fortis affiliates, is that correct?

MR. COYNE:

A. Yes, I have.

JOHNSON, Q.C.:

Q. Who have you testified for for other Fortis companies?

MR. COYNE:

A. I have testified for FortisBC, and I've also prepared expert testimony for Maritimes Electric.

JOHNSON, Q.C.:
Q. Okay. Were you involved in their most recent case where their return on equity went down?
MR. COYNE:
A. Which? Which case do you refer to?
JOHNSON, Q.C.:
Q. Maritime Electric?
MR. COYNE:
Q. Yes, I was.
JOHNSON, Q.C.:
Q. Okay. It was down 40 basis points?
MR. COYNE:
A. I believe that is correct, yes. That was a settlement as I recall for, I believe it's for multiple years.
JOHNSON, Q.C.:
Q. Okay, so Fortis agreed that their return on equity should go down in that case from where it had been?
MR. COYNE:
A. In the context of the settlement, apparently so.
JOHNSON, Q.C.:
Q. Okay.

MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Yes. And so, you indicate that Concentric does work for groups, utilities, other groups. In terms of your expert testimony that you've been providing on cost to capital, it's predominately for utilities, is that correct?
MR. COYNE:
A. Yes, that's true.
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. I have worked with the Ontario Energy Board on this issue, provided them with an expert report on this issue, but the testimony that I've done in Canada has been predominately for utilities.
JOHNSON, Q.C.:
Q. And the same is true in the United States on cost to capital?
MR. COYNE:
A. Yes, that's—yes, that's true.
JOHNSON, Q.C.:

Q. When did you begin giving cost to capital evidence in regulatory proceedings?
MR. COYNE:
A. In Canada or in general?
JOHNSON, Q.C.:
Q. General.
MR. COYNE:
A. About ten years ago.
JOHNSON, Q.C.:
Q. Ten, okay. So you had no involvement on that side of providing expert testimony until ten years ago?
MR. COYNE:
A. I had been working on cost to capital issues for a much longer period of time, but in terms of expert testimony that's correct.
JOHNSON, Q.C.:
Q. Okay, and so in terms of your—what was your first engagement in giving cost to capital evidence in regulatory proceedings?
MR. COYNE:
A. I believe it was the—do you mean in Canada or in general?
JOHNSON, Q.C.:
Q. In the United States, what was case was

that?
MR. COYNE:
A. Well, I will look at the—my CV in the back, but I think it might have been Aquarion Water Company in Connecticut about ten years ago.
JOHNSON, Q.C.:
Q. 2007?
MR. COYNE:
A. That would be about right.
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. And when did first start giving cost to capital expert evidence in Canada?
MR. COYNE:
A. Oh I want to say that was about 2008 or '09.
JOHNSON, Q.C.:
Q. That's right. That would have been on behalf of ATCO before the Alberta Utilities Commission?
MR. COYNE:
A. I'm not sure if that proceeded or not the

work that I did for Enbridge and the combined electric utilities in Ontario was around the same timeframe.
JOHNSON, Q.C.:
Q. Okay. I think the record reflects that you—that was in fact the first time you gave expert evidence was in front of the AUC.
MR. COYNE:
A. Well let me do this. Let me just go right to that record, so I can have it right on front of me. So ATCO was 2008, and Ontario was 2009. So that's correct.
JOHNSON, Q.C.:
Q. Yes. In that Alberta case you gave cost of capital evidence. Your expert evidence was explicitly rejected by the Alberta Utilities Commission, was it not?
MR. COYNE:
A. I think that's a fairly broad statement. Could you –
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. There were many facets. There was evidence on both risk and cost of capital.

JOHNSON, Q.C.:
Q. Okay. Can you recall any areas of your evidence that was explicitly rejected?
MR. COYNE:
A. That were explicitly rejected?
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. I think the commission weighed our evidence along with other experts and accepted some and rejected others.
JOHNSON, Q.C.:
Q. Okay. Could we bring up Dr. Booth's, Sur-Rebuttal? At page 12, line 17 Dr. Booth refers to the AUC.
MR. COYNE:
A. Yes, I see that.
JOHNSON, Q.C.:
Q. Did you read this Sur-Rebuttal before today?
MR. COYNE:
A. Pardon me?
JOHNSON, Q.C.:
Q. Did you read the Sur-Rebuttal before today?
MR. COYNE:
A. Did I read it today?

JOHNSON, Q.C.:
Q. Did you read this Sure-Rebuttal of Dr. Booth?
MR. COYNE:
A. Yes, I did.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. Yeah.
JOHNSON, Q.C.:
Q. So do you confirm, as Dr. Booth says, that the Commission, quote, says that—"The Commission," quote, "rejects Mr. Coyne's beta results as unreasonably high, because he because he adjusted his beta estimates on the assumption that they would revert to zero. In other words, his analysis assumes that, in time, utilities would be as risky as the market as a whole." Do you recall the Board's hold in that regard?
MR. COYNE:
A. Yes, I do see that quote and I recall it.
JOHNSON, Q.C.:
Q. You using adjusted betas in this proceeding, too, are you?

MR. COYNE:
A. Yes, I am using adjusting betas in this proceeding. Yes.
JOHNSON, Q.C.:
Q. And that would be again on the premise that utilities over time would be as risky as the market as a whole?
MR. COYNE:
A. No.
JOHNSON, Q.C.:
Q. No? Okay, we'll come to that in detail.
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Have you taken any graduate-level training in the cost of capital financial markets?
MR. COYNE:
A. My graduate-level training was in economics.
JOHNSON, Q.C.:
Q. In economics?
MR. COYNE:
A. And I had undergraduate training in finance and quantitative –
JOHNSON, Q.C.:
Q. Okay.

MR. COYNE:
A. Quantitative economics training and macro and microeconomic training as a graduate student, and again a series of examinations in broad securities issues.
JOHNSON, Q.C.:
Q. So in terms of –
MR. COYNE:
A. As a professional.
JOHNSON, Q.C.:
Q. In terms of your—I understand you took a Master's of Science from the University of New Hampshire in resource economics?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. What was the thesis area?
MR. COYNE:
A. My thesis area was a bio-economic--my thesis area was a bio-economic model. It studied the relationships between markets for fisheries and prices set in these markets and how they came together and ultimately it was kind of a complex mathematical model that examined the science as well as the

economics associated with fisheries markets.
JOHNSON, Q.C.:
Q. Okay. In the Northeast US?
MR. COYNE:
A. In the Northeast US, yes.
JOHNSON, Q.C.:
Q. Yes. So in terms of your publications and research that you've set out at page 85 of your testimony—that's Attachment 1 to the—to Mr. Coyne's evidence, his resume. Page 85.
MR. COYNE:
A. Yes, I see that.
JOHNSON, Q.C.:
Q. Okay, if you could keep coming down, okay. "Publications and Research." I see one, two, three, four, five, six, seven, seven materials that you cite on that page and if you go to the next page, we see two more. Does that--is that the sum total of what you've—of your publications and research in relation to any matter?
MR. COYNE:
A. Well I'm not sure of that, but certainly as it relates to energy and utilities matters as I last updated it, yes, it was.

JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. It would have been, yes.
JOHNSON, Q.C.:
Q. Can you indicate which of these matters concern cost to capital?
MR. COYNE:
A. Certainly the work that we did for the Board and a comparative analysis on the cost to capital was precisely on that issue.
JOHNSON, Q.C.:
Q. Which one is that?
MR. COYNE:
A. Third down, "Comparative Analysis of Return Equity of Natural Gas Utilities."
JOHNSON, Q.C.:
Q. Okay, anything further?
MR. COYNE:
A. That was—that compared the allowed equity ratios and the Canadian economies and financial markets, work that the Board asked us to do to determine if there were—there was good reason for differentials that the Board was seeing between the US and Canadian

allowed returns. So we did a fundamental analysis around those issues pertaining to the economies and allowed returns.
JOHNSON, Q.C.:
Q. Besides that, anything further that touched on cost of capital matters?
MR. COYNE:
A. "Do Utilities Deliver?" That was an analysis of earned returns from utilities pre and post acquisitions to look at the impacts on their shareholders.
JOHNSON, Q.C.:
Q. So this is—that appeared in "Public Utilities Fortnightly"?
MR. COYNE:
A. That's correct.
JOHNSON, Q.C.:
Q. That's every two weeks that publication comes out?
MR. COYNE:
A. Fortnightly.
JOHNSON, Q.C.:
Q. There you go.
MR. COYNE:
A. Yeah.

JOHNSON, Q.C.:
Q. Now the—or fortnightly every two nights, is it? Is that right?
MR. COYNE:
A. That's every two weeks.
JOHNSON, Q.C.:
Q. Every two weeks.
MR. COYNE:
A. Yeah.
JOHNSON, Q.C.:
Q. I'm sorry.
MR. COYNE:
A. Yeah.
JOHNSON, Q.C.:
Q. Okay. Now in terms of any of these publications and research that you have done –
MR. COYNE:
A. Well, I was still looking down through the list.
JOHNSON, Q.C.:
Q. Okay, I'm sorry.
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:

Q. Go ahead.
MR. COYNE:
A. "Winners and Losers in Restructuring," again we're looking at returns that shareholders were—impact of restructuring on utilities, both gas and electric utilities, and the impact on their shareholders.
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. So that certainly touched on that issue.
JOHNSON, Q.C.:
Q. So that was a paper presented to clients of your firm, was it?
MR. COYNE:
A. Yes, it was. That was presented I believe—yes, it was. That was a client paper.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. Yeah.
JOHNSON, Q.C.:
Q. What firm were you with then?
MR. COYNE:
A. In 2003 that would have been with FTI

Consulting.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. Yeah.
JOHNSON, Q.C.:
Q. Have you ever in any of your publications or research, any of this go through a peer review process?
MR. COYNE:
A. Always internal peer review and sometimes the client peer reviews, and usually with the editorial staff if you're publishing with the "Public Utilities Fortnightly" -
JOHNSON, Q.C.:
Q. Yes, but not –
MR. COYNE:
A. - they review.
JOHNSON, Q.C.:
Q. But not peer reviewed in the sense of an academic or a business journal going through a peer review process, correct?
MR. COYNE:
A. Not an academic review, no.
JOHNSON, Q.C.:

Q. No.
MR. COYNE:
A. I publish in—my focus is on the industry and not on academic review.
JOHNSON, Q.C.:
Q. Yes. When you say that it's "reviewed," who is it reviewed by before it's published and before it goes out, your colleagues?
MR. COYNE:
A. My colleagues and sometimes I send them to others in the industry to have them look at them. So I go through my own review process. In the case of publication, it would be with their editorial board.
JOHNSON, Q.C.:
Q. Okay. And I understand that you used to work with Mr. John Trogonoski?
MR. COYNE:
A. Trogonoski.
JOHNSON, Q.C.:
Q. Pardon me?
MR. COYNE:
A. Trogonoski, yes.
JOHNSON, Q.C.:
Q. Trogonoski?

MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. Yes, I still do.
JOHNSON, Q.C.:
Q. And you still do? Is he still—is he with your firm?
MR. COYNE:
A. Yes, he is.
JOHNSON, Q.C.:
Q. And I take—I think you've prepared evidence with that gentleman before the Regie?
MR. COYNE:
A. That's correct.
JOHNSON, Q.C.:
Q. In relation to cost of capital and capital structure matters for Hydro Quebec Transmission and Distribution, is that right?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Okay, yes. And what was the division of

work between and Mr. Trogonoski?
MR. COYNE:
A. I'm trying to recall. I don't recall specifically at this point in time what his work was versus mine. I do recall that he focused on the risk analysis. He does a lot of work on risk analysis with me.
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. He does the—for example, when this—in this report he does a lot of the detailed work that we do in comparing the specific rate treatment of utilities. So he will dig into the tariffs and do that type of work for us to bring it up to a formal risk analysis.
JOHNSON, Q.C.:
Q. I think –
MR. COYNE:
A. I'll have to go back and check to see what his—what the precise division of labour might have been there though.
JOHNSON, Q.C.:
Q. Well CA-NP-154.
MR. COYNE:

A. 154 you said?
JOHNSON, Q.C.:
Q. Yes, sir, at page 1 of that, page 1 of your report to the Regie.
MR. COYNE:
A. Okay. I see the—this was an attachment. Okay, I have the question here. I don't have the attachment in front of me.
JOHNSON, Q.C.:
Q. Just if we can scroll up?
MR. COYNE:
A. You'll have to bring that up online.
JOHNSON, Q.C.:
Q. Yes, there you go. In the introduction it indicates, "Mr. Coyne's testimony primarily relates to the determination of the appropriate ROE, but Mr. Trogonoski's testimony primarily relates the associated risk analysis."
(10:00 a.m.)
MR. COYNE:
A. Yes, which lines are you on?
JOHNSON, Q.C.:
Q. I'm on lines 3 to 6 it was on the screen there.

MR. COYNE:
A. Yes, okay. I see that.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. Yeah.
JOHNSON, Q.C.:
Q. So he's the one that had more to do with capital structure, is that correct?
MR. COYNE:
A. Risk—he did the heavy lifting on the risk analysis. I testified on –
JOHNSON, Q.C.:
Q. On the ROE?
MR. COYNE:
A. On both ROE and capital structure.
JOHNSON, Q.C.:
Q. Yes, I see.
MR. COYNE:
A. John was the head of staff of the Colorado Public Utilities Commission, so I rely on him heavily in terms of interpreting of utility tariffs, down at the tariff level to understand what the rate—the degree of regulatory protection is that a given

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utility has, and bringing them into our risk analysis. You'll notice that in the appendix that I—appendixes that I have here, that we try to break it all the way down to very specific provisions that each regulator allows concerning past cost throughs and things to that nature.

JOHNSON, Q.C.:
Q. I see.

MR. COYNE:
A. Because of his expertise as a commission staffer he does a lot of that work for us.

JOHNSON, Q.C.:
Q. I see. In preparing your – I see as well that you were at Arthur Andersen?

MR. COYNE:
A. Yes, I was.

JOHNSON, Q.C.:
Q. For a couple of years?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And Arthur Andersen, I guess, as met its demise around Enron?

MR. COYNE:

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A. It did meet its demise.

JOHNSON, Q.C.:
Q. And what was your work at Arthur Andersen?

MR. COYNE:
A. I was head of the Corporate Energy and Utilities Practice for their – this was in a corporate finance practice.

JOHNSON, Q.C.:
Q. Right, and how did Enron bring about the demise of Arthur Andersen?

MR. COYNE:
A. That's probably a much more complex story than I think one could offer a simple answer here, but the – well, there were claims that the audit function at Arthur Andersen wasn't adequately on top of the complex structures that Enron had in place at that time, and as a result of that the auditors at Arthur Andersen failed to meet their obligations and their responsibilities, and as a result of that suit was brought against them, and as a result of that they, in essence, lost their status as a reputable accounting firm as a result of that relationship. It was since overturned, but it was too late at

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that point in time, it suffered too much reputational damage to be able to continue. I was not in the audit function.

JOHNSON, Q.C.:
Q. No. Mr. Coyne, in terms of your meeting and interaction with the people at Newfoundland Power for preparing your report, who would you have met with personally?

MR. COYNE:
A. Primarily with their regulatory team, and that would be primarily through Peter Alteen and his staff.

JOHNSON, Q.C.:
Q. Can you tell us who you met with?

MR. COYNE:
A. I believe it was just with Peter, until I actually made this trip up here. Everything else was by phone, as I recall.

JOHNSON, Q.C.:
Q. And would you – on the phone, who would you have conversed with?

(10:00 a.m.)

MR. COYNE:
A. It would have been his team, who includes Mike Comerford and also Brian Menchenton.

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JOHNSON, Q.C.:
Q. Any others?

MR. COYNE:
A. I'm trying to recall if counsel was on – they may have been on later calls, and I quite honestly don't recall.

JOHNSON, Q.C.:
Q. No other company representatives?

MR. COYNE:
A. Not that I recall.

JOHNSON, Q.C.:
Q. Mr. Coyne, could we turn to your evidence, and I guess we'll start off on the ROE business, and if we could go to your report at page 3.

MR. COYNE:
A. Page 3?

JOHNSON, Q.Q.C.:
Q. Yes, sir. So we've seen this already in your direct, and, I guess, I take from this that the average of all the methods that you used comes to 10.1 percent, but you place primary reliance on the North American Proxy group, which comes to 9.7 percent, would that be correct?

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MR. COYNE:
A. Yes, it is.
JOHNSON, Q.C.:
Q. And you end up slightly below that with a recommended ROE of 9.5 percent, and with the maintenance of the common equity being at 45, is that right?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Okay, and you haven't changed any of these numbers or modified them, as you indicated in your direct, by reason of anything you've received through the interrogation process and the RFIs?
MR. COYNE:
A. No, I haven't. Well, I did provide – I was requested to provide updated numbers to interest rates, and as a result of that to update the CAPM numbers, so I did update those numbers in response to an RFI.
JOHNSON, Q.C.:
Q. Okay. Now in terms of –
MR. COYNE:
A. They did not change my recommendation.

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JOHNSON, Q.C.:
Q. Didn't change your recommendation, okay, and in terms of your estimation methods, you used the CAPM?
MR. COYNE:
A. Yes, did.
JOHNSON, Q.C.:
Q. And you're aware that this Board has placed primary reliance on CAPM?
MR. COYNE:
A. I'm aware that they have placed reliance on CAPM in the past, yes.
JOHNSON, Q.C.:
Q. And you also place some reliance on two forms of discounted cash flow analysis, is that correct?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. So you use a DCF model with constant growth, which we see in the second line there for the Canadian US and North American proxy group, right?
MR. COYNE:
A. Right.

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JOHNSON, Q.C.:
Q. And then you – and that's in part of your risk premium analysis, I take it, right?
MR. COYNE:
A. No.
JOHNSON, Q.C.:
Q. No?
MR. COYNE:
A. The risk premium analysis, CAPM is a version of risk premium analysis. DCF is DCF. It's not risk premium per se. It's a different model.
JOHNSON, Q.C.:
Q. All right, and then you used DCF again, as you've termed it, Multi-Stage DCF?
MR. COYNE:
A. Yes, that's right.
JOHNSON, Q.C.:
Q. And when I take the – when you say "Multi-Stage", that's a constant period of growth or a constant rate of growth, and then a different rate of growth for an interim period, then another rate of growth. Is that more or less what we're talking about in terms of -

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MR. COYNE:
A. Yes, that's accurate, three different periods.
JOHNSON, Q.C.:
Q. When I take the simple average of the three estimates for the North American sample, I arrive at 9.6 percent, but I take it that there must be a little bit of rounding or something, is that how -
MR. COYNE:
A. They're rounded to the single decimal, yes.
JOHNSON, Q.C.:
Q. I got 9.63, so perhaps you could at some point at the break indicate whether I'm right or 9.7 is right, but in any event -
MR. COYNE:
A. I will check that.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. But I did recommend 9.5, so it's below that number, anyway, but I will check that.
JOHNSON, Q.C.:
Q. So by equally weighting the three estimates, two of which are DCF based, is it reasonable

for us to assume that your estimate is actually one-thirds CAPM, and two-thirds DCF?

MR. COYNE:

A. Well, in terms of the simple average, that's true, but I also looked at the range and the range is from 9.2 to 10.1. 9.5 is closer to the midpoint. So I didn't take just the simple average to determine. I also looked at the range, and I also looked at all the other methods and the results they were producing. It wasn't a mathematical computation that got me to 9.5. I looked at all these numbers.

JOHNSON, Q.C.:

Q. Now your recommendation, as I understand it, if you could turn to page 17, we see here on Figure 7, this is your North American electric proxy group, right?

MR. COYNE:

A. Yes, it is.

JOHNSON, Q.C.;

Q. And so essentially, and because you've indicated that North American – you found the North American electric proxy group as

most representative of Newfoundland Power, and you indicated you placed greater weight on those results. Do you remember saying that in your report?

MR. COYNE:

A. Yes, I do, yes.

JOHNSON, Q.C.:

Q. So in terms of your North American electric proxy group, essentially we're – let's see, two Canadian companies and seven American utilities, is that right?

MR. COYNE:

A. That's right.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. By doing that, I was able to bring those – the problem we have in doing a cost of capital analysis in Canada is that we don't have many companies that are pure play, either electric or gas companies. So in this case, I was at least able to bring two that are primarily in the business of providing electric service into the proxy group, which is the first time I've been

able to do this. I like the idea of creating a North American proxy group for these purposes because you have both Canadian and US inputs, and I think it helps to alleviate some concerns that some regulators have had in the past in Canada about the integration of this analysis.

JOHNSON, Q.C.:

Q. And on page 3, you indicated in your report that, "While the average of all methods is 10.1 percent, because of utilities selected in the North American electric proxy groups are most representative, I place greater weight on those results". So essentially we're 7/9ths US and 2/9ths Canadian in your proxy group that you're placing primary reliance on?

MR. COYNE:

A. Yes, but as I've also mentioned, I calculated at a pure Canadian proxy group basis and a pure US utility proxy group basis, and the reason I did that is I wanted to make sure in doing so that any other analysis, i.e. a purely strictly Canadian analysis wouldn't give me substantially

different results.

JOHNSON, Q.C.:

Q. I understand.

MR. COYNE:

A. So I was able to confirm that.

JOHNSON, Q.C.:

Q. And, I guess, it would be fair to say that you have a desire to use data from investor owned utilities primarily engaged in electricity, is that correct?

MR. COYNE:

A. Well, it's not just my desire. We're trying to get at the cost of capital for an investor owned utility, and the market inputs required for that come from those that are publicly traded, so there's really no other way to proceed.

JOHNSON, Q.C.:

Q. Now in terms of – I understand that you never made any adjustments to your United States based DCF estimates to apply in Canada, is that correct?

MR. COYNE:

A. No, I didn't find it necessary.

JOHNSON, Q.C.:

Q. Right, and I take it that you would be aware from this Board's 2013 GRA decision, that the Board found that it was appropriate to make a 50 to 100 basis point adjustment to United States based DCF results. Are you aware of that?

MR. COYNE:

A. I'm aware of the prior Board's decision, and one of the reasons I presented this analysis in this way, including an overall assessment of debt and equity cost, is to try to give the Board a greater assurance around the comparability of these results.

JOHNSON, Q.C.:

Q. And you'd also be aware that other regulatory boards in Canada have similarly said that you need to take – you can take US results and look at them, but you got to apply adjustments. You're aware of findings like that from other boards?

MR. COYNE:

A. I'm aware of one, and that was BCUC, and I believe it was back in – I think it was back in 2009 reached that conclusion, but they reversed that conclusion in 2012. They found

no such adjustment necessary, and I think for good reason if you look at – you need to look at two things. One is you could look at the level of overall debt cost for Canadian and US utilities, and you find that they're moving together suggesting that investors are not finding a reason to price that debt differently for Canadian and US utilities today, and secondly, you need to look at the comparability of the utilities underlying the analysis. I think those have both been concerns to regulators, and what you'll find -

JOHNSON, Q.C.:

Q. But just to be clear, and we're going to go through over the course of the next little while some of the differences and distinctions, but you're firmly on the record as telling this Board, don't be worried about making any adjustments because the companies we see in the North American electric proxy group, from the point of view of James Coyne, are close enough to Newfoundland Power, is that basically it in a nutshell?

MR. COYNE:

A. No.

JOHNSON, Q.C.:

Q. Pardon me?

MR. COYNE:

A. That's not at all what I've said.

JOHNSON, Q.C.:

Q. Well, you've indicated there's no need to make any adjustments whatsoever.

MR. COYNE:

A. Well, what I have indicated is that when I look at Canadian – let me go back to page 3. If we look at the Canadian result, they're higher than they would be for the US proxy groups. The average there is 10.7 percent. If you look at the US electric utility group, those results are also higher. The lowest results I get are for the North American electric utility group in aggregate. So there would be no basis for me – if I were running numbers that showed the US electric utilities, we're giving you much higher results. Then I might consider whether or not that was necessary or not, but the numbers just don't fall out that

way, and as I mentioned, you know, we look at the indicators of bond markets and debt markets specifically to see if there's anything there that would signal a difference, and I also look at the risk profiles in great detail of these companies to see if they're comparable, and we also have done detailed country analysis on how investors look at Canada versus the US. None of those suggest to me that a differential would be appropriate, and I'm not aware of a Canadian regulator right now that's holding that view.

JOHNSON, Q.C.:

Q. Mr. Coyne, that's all I was getting at, that you don't find there's any need to make an adjustment, isn't that right?

MR. COYNE:

A. That's correct.

JOHNSON, Q.C.:

Q. That's what you're telling the Board?

MR. COYNE:

A. But not for the reason that you had suggested. There was a lot of analysis behind that. It wasn't a cavalier indicator that I looked at this and I thought it was close enough, and, therefore, there's no need for adjustment. There's a lot of analysis behind that, that shows the comparability of these utilities; country risk, capital market risk, that all leads me to that conclusion. It wasn't a "close enough" kind of a conclusion.

JOHNSON, Q.C.:

Q. Let's put it this way, if this Board is of the view that there are distinctions of significance between Newfoundland Power and the American companies that you're using, for instance, would you not recommend to them that they make an adjustment for that?

MR. COYNE:

A. If the Board has that concern, then I would hope that they would look to – well, if they look at all the analysis and the comparative work that we've done, I would hope give them comfort around this comparability. If after all that then they still have that concern, then they could look to the Canadian proxy group results.

JOHNSON, Q.C.:

Q. But even if they still had the concern about difference between Newfoundland Power and the US utilities, would you not suggest that they should then make an adjustment?

MR. COYNE:

A. I would – I guess, I would have to understand what that concern was, just a hypothetical for me. I would have to understand what the concern was in order to suggest what that adjustment could be that would ameliorate the concern.

JOHNSON, Q.C.:

Q. I see. Well, what if the thought, boy, you know, there's a lot of these companies, and we'll get into this, they have heavy duty generation, some of whom have nuclear, for instance. You know, that's a pretty big distinction between Newfoundland Power and a small hydro plant in Petty Harbour. So if they said, you know, this is one of the things where we don't think that these companies really look like Newfoundland Power, would that be the type of things that would invite an adjustment in your view?

MR. COYNE:

A. No.

JOHNSON, Q.C.:

Q. No?

MR. COYNE:

A. No. They're all in the electric distribution business. Every company in my sample has been carefully screened for being a predominant electric utility provider. Some of them have diversified assets, including generation; others are pure T & D companies. I've also looked at a sample of pure T & D companies in my analysis as well, and I would find no reason to distinguish that. It is important –

JOHNSON, Q.C.:

Q. Just excuse me for –

MR. COYNE:

A. It's an important question, so I'd like to complete the answer if I could. What's important for a regulated electric utility is to understand; (a) the business it's in, and then (b) what provisions it has in its regulatory treatment that allows it to manage the cost and the risk associated with that business. So that's how I would have

dealt with it. Those are very large integrated utilities, there are sub-business aspects that are different than Newfoundland Power, and we will not find a utility that's exactly like Newfoundland Power in Canada or the US, but they're carefully screened for ones that are low risk predominantly electric utility providers that have credit ratings that are comparable or better than that of Newfoundland Power, to ensure that I have a sample that's reasonable for these purposes. That's about as good as it gets when it comes to cost of capital work.

JOHNSON, Q.C.:

Q. Okay, let's explore this a little bit further. Why don't we look at your evidence for Hydro Quebec distribution and Hydro Quebec TransEnergie, which is again at CA-NP-154.

MR. COYNE:

A. I think I'll find the page, but I don't have the report in my book, so I'll have to rely on what's up on the screen for us.

JOHNSON, Q.C.:

Q. Okay, page 13 of your evidence.

(10:15 a.m.)

KELLY, Q.C.:
Q. Perhaps the witness could be provided with a copy if you have it.
MR. COYNE:
A. Thank you, and page 13, did you say?
JOHNSON, Q.C.:
Q. Yes, we'll go to 13 and then we'll work our way through a couple of little areas first. Mr. Coyne, this was your – this is a summary of your results that you did for these two Hydro Quebec companies, correct?
MR. COYNE:
A. Right.
JOHNSON, Q.C.:
Q. Okay, and we see here, Mr. Coyne, that you at least framed your recommendation for the ROE in CAPM terms, would that be a fair comment, and 9.22 percent was your overall recommendation?
MR. COYNE:
A. Yes, it was.
JOHNSON, Q.C.:
Q. Okay, and at that time, Mr. Coyne, you were forecasting a long Canada yield of 4.23 percent as the risk free rate?

MR. COYNE:
A. I would have to check that in the report. Can you give me the page?
JOHNSON, Q.C.:
Q. It's right there on that summary of the table right there.
MR. COYNE:
A. Yes, right.
JOHNSON, Q.C.:
Q. So that was a beta of .59?
MR. COYNE:
A. Correct.
JOHNSON, Q.C.:
Q. What beta are you using in this case?
MR. COYNE:
A. Well, there's a different beta for the US and the Canadian proxy group, and those are .64 and .73 respectively.
JOHNSON, Q.C.:
Q. Okay, and then we go back to market risk premium. You're using 6.67 with a .3 flotation cost, and you're using, I think, 50 basis point flotation cost in this proceeding, is that correct?
MR. COYNE:

A. That's correct.
JOHNSON, Q.C.:
Q. And you come up with a CAPM estimate of 8.47, right?
MR. COYNE:
A. That's right.
JOHNSON, Q.C.:
Q. And you make some adjustments for other models, a three-quarter point adjustment to come to 9.22?
MR. COYNE:
A. That's right.
JOHNSON, Q.C.:
Q. And your overall recommended ROE for those firms was 9.2 percent, right?
MR. COYNE:
A. Yes, it was.
JOHNSON, Q.C.:
Q. And you accepted Hydro Quebec TransEnergie's common equity ratio of 30 percent and Hydro Quebec distributions of 35 percent, is that correct?
MR. COYNE:
A. That's correct.
JOHNSON, Q.C.:

Q. And you're aware that the Regie actually awarded an ROE of 8.2 percent on these same common equity ratios?
MR. COYNE:
A. I believe that's correct, yes.
JOHNSON, Q.C.:
Q. So take that subject to check, if you wish.
MR. COYNE:
A. Well, I have it right here, so I will check.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. Yes, that is correct.
JOHNSON, Q.C.:
Q. So that would have been 8.2 percent on 30 percent common equity for transmission and 35 percent for common equity for distribution?
MR. COYNE:
A. Right.
JOHNSON, Q.C.:
Q. Okay, and to be absolutely clear on this, you did assess these two individual companies on a standalone basis, correct?
MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. That's right. In other words, that they had to be viewed as if these entities were independently seeking to attract capital in the financial markets, right?

MR. COYNE:

A. That was the standard, yes.

JOHNSON, Q.C.:

Q. That's right. That's the one that was applied in that case. You were aware as well that HQD and HQT both pay for a provincial guarantee of their debt, right?

MR. COYNE:

A. Yes, I do.

JOHNSON, Q.C.:

Q. But still this was a standalone analysis that you did?

MR. COYNE:

A. Standalone, but also recognition that they are a – they're both crown corporations, so it's standalone with that recognition.

JOHNSON, Q.C.:

Q. Well, can I turn to your report, page 20, lines 13 to 19?

MR. COYNE:

A. Which page again? 20?

JOHNSON, Q.C.:

Q. Yes, sir.

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Lines 13 to – it's page 20 of the Hydro Quebec evidence.

MR. COYNE:

A. Yes, I see that.

JOHNSON, Q.C.:

Q. I haven't seen it yet. Yeah, so you and your colleagues posed yourselves the question, "Are there other key principles that Canadian regulators have adopted with regard to establishing a fair return on equity. Yes, Canadian regulatory authorities have determined that another key principle when establishing a fair return on equity for a regulated utility is the standalone principle. The Regie has indicated in prior decisions that the ROE for HQD and HQT should be set on a standalone basis as if the entities were

independently seeking to attract capital in the financial markets", and isn't that how you went about preparing your evidence?

MR. COYNE:

A. It's certainly how I went about preparing the ROE analysis.

JOHNSON, Q.C.:

Q. Is there anywhere in your report that you say, you know, I made some adjustments because they crown owned?

MR. COYNE:

A. No, but the companies –

JOHNSON, Q.C.:

Q. No?

MR. COYNE:

A. May I –

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. The companies made it clear to me that they were not looking to change their capital structures, and they were looking for an ROE estimate based on existing capital structure, so I made no such adjustments. It's also -

JOHNSON, Q.C.:

Q. But you -

MR. COYNE:

A. If I may, it's also clear to me, it was also clear to me then, that as crown corporations they had capabilities to raise capital that wouldn't be available to an investor owned utility. I'm not aware of any investor owned distributor or transmission company in North America that does raise capital on a standalone basis with that type of capital structure. So that was the situation they faced, and they were very sensitive to cost and rate pressure, and as crown corporations they had a different set of factors that they needed to consider. So I made no such adjustments. I did not make adjustments pertaining to their capital structure.

JOHNSON, Q.C.:

Q. But in any event, at the end of the day, you found that on a standalone basis that 30 percent and 35 percent common equity respectively, and at 8.2 percent, they met all three fair standard tests that you outlined to Newfoundland Power's counsel in

your direct, is that correct?
MR. COYNE:
A. Yes, I thought as crown corporations, they could do so, yes.
JOHNSON, Q.C.:
Q. And is there any reference at all in that testimony, Mr. Coyne, to your – any discussion about the fact that they're crowns in this context?
MR. COYNE:
A. Well, I know there was discussion on the stand. I don't recall if it's in the testimony or not.
JOHNSON, Q.C.:
Q. All right.
MR. COYNE:
A. We had substantial discussion of that issue on the stand.
JOHNSON, Q.C.:
Q. Can we go back to that page 13 of the summary of your evidence for Hydro Quebec? So if we could down, we see your discounted cash flow section of your report, and we see – see that, Mr. Coyne?
MR. COYNE:

A. If I might, I am checking one thing. I'm refreshing my memory regarding the testimony. I want to make sure I'm giving you a reliable answer to your last question. Okay, please proceed.
JOHNSON, Q.C.:
Q. Thank you. You were looking for a reference to the crown in your evidence, were you, that time?
MR. COYNE:
A. No, I was not.
JOHNSON, Q.C.:
Q. Okay. So in 2013, when we look at the chart on page 13 there under "Discounted cash flow", I notice one things that's different than what you filed for Newfoundland Power, and we see for the Hydro Quebec entities, you've prepared analysis at least for your US electric utility proxy group, DCF analysis under a constant growth methodology, a sustainable growth methodology, and a multi-stage methodology, would that be correct?
MR. COYNE:
A. That's right.

JOHNSON, Q.C.:
Q. You did not do that in this case, I notice. Can you confirm that?
MR. COYNE:
A. Yes, I've gone more towards the multi-stage approach.
JOHNSON, Q.C.:
Q. Right, and I notice when I look at the sustainable growth approach, and we see there at the bottom line of the screen, it talks – where it says on the left, "Average ROE with flotation costs". For constant growth it's 9.58; for sustainable growth it's 9.2, and for multi-stage it's 9.44, and so it was the lowest of the three estimates that you provided to the Regie, right?
MR. COYNE:
A. It was.
(10:30 a.m.)
JOHNSON, Q.C.:
Q. Would it be reasonable to assume that it would be the lowest again if you used it in this evidence for your client, Newfoundland Power?
MR. COYNE:

A. I'm not sure of that short of running numbers and seeing them, but the – I guess, I'd have to say I'm not sure.
JOHNSON, Q.C.:
Q. You didn't run those numbers, did you, in this case?
MR. COYNE:
A. As we discussed earlier, I ran the multi-stage, and the reason I've done that is I do a lot of work before the FERC pertaining to cost of capital, and the FERC has moved away from the sustainable growth model. One of the problems we had with it is we can only get inputs from it. I can't get Canadian inputs, first of all, and the other is that you can only get the sources that we need to run the model from Value Line, whereas with the multi-stage model, I can get the front end DCF growth rates from analysts from a variety of sources, including Value Line, so I have a broad array of inputs to use in the model, and it serves the same type of purpose in that it gives you an alternative to the cost and growth model with a more moderate growth rate in the long run for

either earnings of dividends, depending on how you're running the model.

JOHNSON, Q.C.:

Q. But in 2013, you were quite able to run a sustainable growth methodology before the Regie. You could have done the same here, couldn't you?

MR. COYNE:

A. Yes. It was unusual that I did. I have in a few cases, but for the most part, I run constant growth multi-stage and CAPM.

JOHNSON, Q.C.:

Q. The FERC is not dictating how you prepare your evidence in Canada, is it?

MR. COYNE:

A. No, it's not, but the reason I bring that up is that for similar reasons, the FERC has moved away from the sustainable growth model. It's not the common form of the DCF to present and utilize. It's either constant growth or multi-stage.

JOHNSON, Q.C.:

Q. So just to be clear, when we look at your Hydro Quebec testimony which you had CAP reconciled to 9.22 percent, and your

recommendation was 9.2 percent, I take it, it would be fair for us to say that you've now moved your estimates to two-thirds DCF, but you've dropped the sustainable growth model that gave you the lowest DCF figure in Quebec when you come here to testify?

MR. COYNE:

A. Well, as I mentioned, I looked at a variety of models here, three different alternatives, three different proxy groups, and three different alternative estimation methods. So I felt as though I was well bracketing what the range of results would be. If the difference there is 20 basis points, I have a far greater difference in that between the alternative models and proxy groups. So at some point in time, I think you're not adding additional information that's really giving you much more perspective.

JOHNSON, Q.C.:

Q. Now I understand that you've assessed Hydro Quebec distribution and transmission separately, so your evidence was for two different operating firms, is that correct?

MR. COYNE:

A. That's right.

JOHNSON, Q.C.:

Q. And I understand that the basis of your analysis was that you analyzed their operating and financial profile, and you selected Canadian and US proxy samples comparable to HQD and HQT in terms of both business and operating risk, is that fair?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And as we've established this evidence is based on a standalone principle, and presumably that's why you base your evidence on proxy samples of comparable firms, is that right?

MR. COYNE:

A. That's right.

JOHNSON, Q.C.:

Q. And so in many respects, this would be the same as what you've done here since Newfoundland Power is basically a transmission and distribution company, right?

MR. COYNE:

A. They have generation resources.

JOHNSON, Q.C.:

Q. It's minimal generating assets. They buy most of their power from Newfoundland Hydro, is that correct?

MR. COYNE:

A. That's correct, about 93 percent, as I recall.

JOHNSON, Q.C.:

Q. Right, so just a tiny fraction. They've been traditionally referred to as poles and wires. You're familiar with that, right?

MR. COYNE:

A. I am.

JOHNSON, Q.C.:

Q. And if you go to your Hydro Quebec testimony for a moment, page 9. I just bring your attention to business risk section that starts off at line 1 there.

MR. COYNE:

A. Yes, business risk.

JOHNSON, Q.C.:

Q. You indicate, "Both Canadian and US regulators have provided the operating companies in the proxy groups of cost of recovery and revenue stabilization mechanisms that mitigate many of the important business risks, such as fuel supply, fluctuations in volume demand, capital investment costs, operating costs that tend to fluctuate significantly from year to year". Then you go on to say this, "Based on the business risk identified in this testimony, the only important difference is that a percentage of electric utilities in the United States proxy group and in Canada own some regulated generation, which suggests that those companies have somewhat more business risk than HQD and HQT".

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. Mr. Coyne, I guess, in your judgment, generation poses more risk than straight transmission and distribution assets, even if they're regulated, correct?

MR. COYNE:
A. On that basis alone, yes, if you consider

that in the totality for the business risk for the firm.

JOHNSON, Q.C.:
Q. So what makes a straight transmission and distribution less risky than having generation?

MR. COYNE:
A. As we talked about in the context of the Nalcor project, generation project sometimes are large, they stretch out over many years. It's not that transmission projects can't be large and stretch out over many years, but the other issue is that the legal structure in both Canada and the US tends to shift more around generation resources than it does how we transmit or distribute electricity or natural gas. It's for that reason generation is considered to be a riskier element of the utility enterprise than pure transmission or distribution. That's accounted for in the regulatory treatment of companies that own generation because regulators understand that customers don't just need a pole or wire, they also need kilowatt hours to flow through this

poles and wires. So regulators accounted for that in one or two ways. They allow utilities to have those assets in rate base, in which case they compensate them for that risk, or they compensate them for the cost of the fuel or they compensate them for the pass through of the power cost associated with generation. Both can create risk. You can have a utility, such as Newfoundland Power, for example, that has risk associated with purchase power, and that risk can be greater than a company that has generation because in this case Newfoundland Power actually has risk associated with purchase power than a generator might not have if it has a full cost pass through in its purchase power costs in assets and rate base. So it's not – generation per se doesn't mean that a company is always riskier than one with it. It really depends on the specific regulatory protection they have as well that allows them to recover those costs.

JOHNSON, Q.C.:
Q. Okay, very good. Now let me just go back to page 50 then for a second of your Quebec

testimony.

MR. COYNE:
A. Page 50?

JOHNSON, Q.C.:
Q. Yes, sir, line 17 to 19. This comes after a discussion of Hydro Quebec's business risk and you conclude that – I'm looking at line 10, "From the perspective of establishing the ROE for HQD and HQT, Concentric concludes that the US proxy group at the holding company level is more comparable to HQD and HQT than the Canadian proxy group because it's comprised of companies that drive the majority of their operating income and revenues from electric utility service. Moreover, there are a very few potential proxy companies in Canada, which limits the ability to select companies that are comparable to the electric distribution and transmission operations of HQD and HQT. For that reason, Concentric believes that it is reasonable and appropriate to rely primarily on the results of the US electric utility proxy group and to use a Canadian proxy group to corroborate the reasonableness of

the US results", and, Mr. Coyne, that again is slightly different than what you're doing in your testimony in Newfoundland Power's case, whereas -

MR. COYNE:
A. Well, in this case, I was able to combine two Canadian companies with my US proxy group to create the North American proxy group. That's a new development for me.

JOHNSON, Q.C.:
Q. That's new, okay.

MR. COYNE:
A. I should say that this is ongoing analysis for us, so we're always trying to improve what we do, and I take the decisions that are made by this regulatory body and others to heart, and we go back – I have a team of people that I work with, and we're always moving our analysis forward. So we're trying to best address the issues that get addressed in these proceedings by going to where the issues are, doing an analysis on them in any attempt to bring as much solid evidence as we can to these proceedings, so boards are in the position they can be to

make reasonable decisions. So it's not a static process for us where I just take what we did last time and say let's do that exactly again. We're always trying to move it forward.

JOHNSON, Q.C.:
Q. So just go to page 53 for a moment of your evidence. There's a question that – are you there, Mr. Coyne?

MR. COYNE:
A. 53, yes.

JOHNSON, Q.C.:
Q. There's a question, "How does this adjustment for the difference in equity ratios between HQD and HQT and US proxy group compare to the effect on the cost of equity related to the US proxy group companies ownership of regulated generation", and your answer is, "As discussed in the following section of this testimony, the incremental ROE required to offset the increased operating risk of regulated generation is approximately 41 basis points".

MR. COYNE:

A. I see that, yes.

JOHNSON, Q.C.:
Q. So what are you saying there?

MR. COYNE:
A. Well, the principle I was trying to get at there was that if you try to isolate generation risk and you're able to do so, you might come to the conclusion that it were 41 basis points based on that evidence. What I'm trying to recall is exactly how we did that. That's in the following section of the testimony. I'd have to refresh myself with it in terms of how we arrived at that number, but that was an attempt to isolate what the generation portion of the risk was on a standalone basis.

JOHNSON, Q.C.:
Q. Okay. So recognizing that -

MR. COYNE:
A. I don't see that in terms of a lot of returns between pure T & D companies and those that have generation in them.

JOHNSON, Q.C.:
Q. So this would be a recognition that the cost of equity would be higher for firms that

unlike distribution and transmission outfits had regulated transmission in their rate base?

MR. COYNE:
A. I was trying to isolate generation only. I would not reach the conclusion that that was 41 basis points that would apply here.

JOHNSON, Q.C.:
Q. I have –

MR. COYNE:
A. We have – as you recall, we have three different proxy groups, and that's looking at the generation portion only. Some have generation, some have very little generation, such as Newfoundland Power, and some have a mix, and it also depends on what their cost recovery mechanisms are. So that would be a very narrow issue to focus on just that number and apply it here.

JOHNSON, Q.C.:
Q. I guess, I've searched your current testimony and certainly I couldn't see any adjustment for the fact that the proxy groups involving in your analysis all had fairly significant generation, and you

applied no adjustment for that, right?

MR. COYNE:

A. No, what you'll find in there is an analysis of which companies did and did not have generation, and I've also looked at the results from those that did or did not have generation.

JOHNSON, Q.C.:

Q. What do you mean -

MR. COYNE:

A. And I found no need to make an adjustment.

JOHNSON, Q.C.:

Q. No need for any adjustment on that?

MR. COYNE:

A. No.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. And again we looked at the regulatory mechanisms that are in place for those companies as well.

JOHNSON, Q.C.:

Q. I see.

MR. COYNE:

A. And compared to Newfoundland Hydro, and we

did not find a difference to make an adjustment on that basis.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. Again a distinction for this company is it has exposure through its purchase power cost that these companies don't have.

JOHNSON, Q.C.:

Q. What exposure to the purchase power cost does Newfoundland Power have?

MR. COYNE:

A. They have - in their annual purchase power recovery mechanism they have some exposure to what their actual purchase power costs are vis-a-vis their forecast of those costs.

JOHNSON, Q.C.:

Q. In the test year for 2016, is there any exposure to power purchase cost, Mr. Coyne?

MR. COYNE:

A. There should be a forecast, would be my understanding, and around that forecast there can be exposure, yes. That's my understanding.

JOHNSON, Q.C.:

Q. I see. You're aware that Moody's considers the business risk of Newfoundland Power to be lower than that of a typical vertically integrated utility, "which is exposed to the operational, financial, and environmental risks of generation", to quote Moody's?

(10:45 a.m.)

MR. COYNE:

A. Can you refer to a specific Moody's issue?

JOHNSON, Q.C.:

Q. Exhibit 4 of Volume 2, the bottom of page 2.

MR. COYNE:

A. I think this was submitted in response to one of the – was this a company exhibit, as I recall?

JOHNSON, Q.C.:

Q. Yes, it's a company exhibit.

MR. COYNE:

A. Okay. I do have it. Thank you. So bottom of page 2?

JOHNSON, Q.C.:

Q. Yes, sir.

MR. COYNE:

A. Yes, okay.

JOHNSON, Q.C.:

Q. Moody's is saying, "Although NPI is vertically integrated, NPI's only generation assets are regulated and represent only 14 percent of NPI's net property, plant, and equipment at year end 2014. Accordingly, we consider the business risk of NPI to be lower than that of a typical vertically integrated utility which is often exposed to commodity price and volume risks, or the operational, financial, environment risk associated with electricity generation".

MR. COYNE:

A. Yes, I see that.

JOHNSON, Q.C.:

Q. Right.

MR. COYNE:

A. The next sentence, they talk about the uncertainties and timing due to their expected of the Muskrat Falls Project, which they see as offsetting, and that's a point I'm getting to, that in isolation, yes, but you have to look at the whole power supply situation for the utility and what risk those present.

JOHNSON, Q.C.:

Q. No, but – I understand there will be discussion on that, what your perception is of those future risks, but Moody's for quite a while, to my memory, has been having an identical passage in each of their credit rating reports about Newfoundland Power being essentially exposed to less business risk than the typical vertically integrated utility. Would you not agree with Moody's that that is, in fact, the case, Mr. Coyne?

MR. COYNE:

A. As I've said, yes, generation is usually associated with higher risk than the T & D business on an isolated basis. You have to look at the entirety of the company, though, to understand what its full risk profile is.

JOHNSON, Q.C.:

Q. Okay.

MR. COYNE:

A. Just as Moody's has done here in the next sentence and more broadly in the report.

JOHNSON, Q.C.:

Q. Thank you. Mr. Coyne, when you put together your proxy samples for Newfoundland Power, you didn't screen companies based on whether

they owned regulated generation, correct?

MR. COYNE:

A. The screens that I used did not, but then I analyzed the amount of generation they did own in my risk appendix. I have it in there.

JOHNSON, Q.C.:

Q. But in terms of the companies that made it into your samples, it was immaterial to you whether they owned significant generation or not, and that wasn't a test, right?

MR. COYNE:

A. No, I wouldn't – I did not say it was immaterial. If you go to page 16 of my primary evidence, you can see there beginning on page 5 that we started with the 46 Value Line companies that are classified as electric utilities.

JOHNSON, Q.C.:

Q. On line 5?

MR. COYNE:

A. Yes, and then I screened the companies according to six different criteria; a credit rating that would be comparable to that of Newfoundland Power, they currently

pay dividends, so we can use the models that we need to use, they have positive earnings growth projections, they have at least 70 percent of their operating income derived from regulated operations, and at least 90 percent of their regulated operating income is derived from electric utility service and they're not involved in a merger. So the combination of those screens gave me my proxy group. I then eliminated two companies that I did not find comparable. Then if you go back to JMC 1, where I present high level summary data for these companies, what I'm doing there is I'm analyzing the operating statistics for each of the – I'm trying to break the holding company down to the operating subsidiary because these companies manage their risk from a regulatory perspective.

JOHNSON, Q.C.:

Q. JMC 1?

MR. COYNE:

A. Exhibit JMC 5, Schedule 1, and there you can see I'm recognizing those that have regulated generation versus those that

don't, and then if you look at -

JOHNSON, Q.C.:

Q. Excuse me.

MR. COYNE:

A. JMC 5, Schedule 1. Let's see, JMC 5, Schedule 1.

JOHNSON, Q.C.:

Q. Oh, I think you're talking about to your capital structure.

MR. COYNE:

A. This would have been the capital structure appendix, right.

JOHNSON, Q.C.:

Q. Oh, I see.

MR. COYNE:

A. That denotes the companies in my sample that have regulated generation or not, or those that have limited regulated generation.

JOHNSON, Q.C.:

Q. Mr. Coyne, just before we go off, like, I asked you a question and I understand you want to tell me a few things, but what I was basically trying to establish was that in the screens that you apply, you don't screen for regulated generation. I thought you would be able to agree with me on that.

MR. COYNE:

A. We did not screen a regulated generation. We analyzed it here after we screened.

JOHNSON, Q.C.:

Q. Right.

MR. COYNE:

A. We analyzed according to the six screens I just described.

JOHNSON, Q.C.:

Q. For instance, a company that had nuclear and 10,000 megawatts of generating capacity, that wouldn't fail a screen of yours? That's all I'm getting at, right.

MR. COYNE:

A. If it satisfied these other criteria, then it could still be in.

JOHNSON, Q.C.:

Q. All right.

MR. COYNE:

A. Then I do the risk analysis on the proxy group, and including how they generate power and what risk provisions they have in place to cover them from a regulatory perspective.

JOHNSON, Q.C.:

Q. So did Mr. Trogonoski do that risk analysis?

MR. COYNE:

A. In this case?

JOHNSON, Q.C.:

Q. Yeah.

MR. COYNE:

A. Yes, he assisted me with it.

JOHNSON, Q.C.:

Q. He assisted you?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. He's not authored on this report, is he?

MR. COYNE:

A. No, he's not.

JOHNSON, Q.C.:

Q. And he's not going to be testifying?

MR. COYNE:

A. No.

JOHNSON, Q.C.:

Q. And he's –

MR. COYNE:

A. I worked very closely with John on this analysis.

JOHNSON, Q.C.:

Q. I see. So Canadian Utilities is one of the companies in your North American proxy group. There's a total of nine companies, two of which are Canadian based. JMC 2, at page 1. That's to the first part of Mr. Coyne's evidence. In the overview at the top, 6800 employees, assets of approximately 17 billion, Canadian Utilities is an ATCO company, diversified global company delivering service excellence, innovative business solutions, utilities, pipeline, natural gas, transmission and distribution. They're into power generation and sales as well, Mr. Coyne?

MR. COYNE:

A. What was your specific question?

JOHNSON, Q.C.:

Q. They're into power generation, Canadian Utilities?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And would that be Calgary Power, for instance, they have coal power generation, I understand?

MR. COYNE:

A. That may very well be where that's cited, yes.

JOHNSON, Q.C.:

Q. And they have assets in Australia as well, I take it. Do you know if they have generating down there too?

MR. COYNE:

A. In Australia, I'm not sure. It is one of the reasons why I get concerned with the ability to come up with a Canadian proxy group that's comparable for this type of analysis. If you look at going back – I'll go back there. I think we cite a few pages into this. I'm on page 2, "The utility group makes up 80 percent of total assets". So 80 percent are involved in regulated operations. That's why they make the screen in this case.

JOHNSON, Q.C.:

Q. Could we turn to Emera at JMC 2, page 7?

MR. COYNE:

A. Page 7?

JOHNSON, Q.C.:

Q. Yes, sir. I understand its major subsidiary is Nova Scotia Power?

MR. COYNE:

A. That's correct.

JOHNSON, Q.C.:

Q. That's a fully integrated electric utility, right?

MR. COYNE:

A. It is.

JOHNSON, Q.C.:

Q. Have you provided evidence for Nova Scotia Power before?

MR. COYNE:

A. I've provided risk evidence for Nova Scotia Power before.

JOHNSON, Q.C.:

Q. Okay, and I understand that Nova Scotia Power has about – I thought it had less generating capacity than this, actually, but I looked it up, 2368 megawatts of generation, does that sound right to you?

MR. COYNE:

A. Which –

JOHNSON, Q.C.:

Q. Nova Scotia Power.

MR. COYNE:

A. Yes, which page are you on?

JOHNSON, Q.C.:

Q. I think I just looked it up online. Would you accept 2368 megawatts of generation, subject to check, Mr. Coyne?

MR. COYNE:

A. Yes, I'll accept that, subject to check.

JOHNSON, Q.C.:

Q. I understand that's with both renewable and fossil fuels, and if we keep on going, and I'm passing over Enbridge because they're not in your North American proxy group.

MR. COYNE:

A. No, they're not.

JOHNSON, Q.C.:

Q. If you look at Allete, I understand they have 1985 megawatts of regulated generation?

MR. COYNE:

A. I'll accept that, subject to check.

JOHNSON, Q.C.:

Q. I take that from CA-NP-160, page 19 of 299. That's part of your 10K filing.

MR. COYNE:

A. Okay.

JOHNSON, Q.C.:

Q. 1277, which is coal fired, 81 megawatts is wind, 105 is hydro. I'm sorry, 81 is biomass, 522 megawatts is wind, 1059 is hydro, 1277 is coal fired. Do you take that, subject to check?

MR. COYNE:

A. If you go to – on Allete, if you go over to page 2, I have a breakdown there of the percentage by – and I do this for each of the companies, the percentage that they own by each fuel type.

JOHNSON, Q.C.:

Q. Yeah.

MR. COYNE:

A. I just don't see the total megawatts there, but I'll accept your megawatts subject to check.

JOHNSON, Q.C.:

Q. Okay, thank you. Duke Energy, if you could turn to page 6 under "Supply, availability, and deliverability".

MR. COYNE:

A. Right. I have the same data there, yeah.

JOHNSON, Q.C.:

Q. So they generate 87 percent of their own

power, including coal, nuclear, gas, and oil?

MR. COYNE:

A. That's correct.

JOHNSON, Q.C.:

Q. They're also into merchant generation in Latin America, are you aware of that?

MR. COYNE:

A. Yes, but they're nearly 100 percent electric and nearly 100 percent regulated.

JOHNSON, Q.C.:

Q. And I -

MR. COYNE:

A. I have those statistics on Duke and all the other companies in the back of the appendix.

JOHNSON, Q.C.:

Q. I understand Duke owns 49,600 megawatts of generating capacity in 2014?

MR. COYNE:

A. I have the breakdown by percentage. I don't have the total megawatts, but why don't I just accept that, subject to check.

JOHNSON, Q.C.:

Q. Yeah, that's as of 2014.

MR. COYNE:

A. Are you in the 10K?
JOHNSON, Q.C.:
Q. I might have got that from 10K. I don't have the reference, but if you could take that subject to check -
MR. COYNE:
A. Okay. Are you looking for check on Allete as well?
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:
A. And what was the number that you had for Allete?
JOHNSON, Q.C.:
Q. 1985 megawatts.
MR. COYNE:
A. Okay. 1985?
JOHNSON, Q.C.:
Q. Yes, sir.
MR. COYNE:
A. What was the number that you had for Duke?
JOHNSON, Q.C.:
Q. 49,600 megawatts of generating capacity in 2014.
MR. COYNE:

A. 49?
JOHNSON, Q.C.:
Q. 49,600.
MR. COYNE:
A. 600, okay.
JOHNSON, Q.C.:
Q. The next one, Eversource Energy, that actually does seem to be a transmission and distribution company that's into electricity and gas in Connecticut.
MR. COYNE:
A. That's correct.
JOHNSON, Q.C.:
Q. New Hampshire, and Massachusetts. Mr. Coyne, can you confirm that this is the only company in your North American proxy group that does not contain significant generation?
MR. COYNE:
A. They have – well, again I have that data in the schedule I just showed you.
JOHNSON, Q.C.:
Q. Yeah.
MR. COYNE:
A. So I do back there. Well, I break it down

by operating utility.
JOHNSON, Q.C.:
Q. Where are you now, sir?
MR. COYNE:
A. I'm on page - JMC 5, schedule 1, and this is attached to my risk appendix.
JOHNSON, Q.C.:
Q. JMC 5, Schedule 1, yes.
(11:00 a.m.)
MR. COYNE:
A. Right, and you can see there that there are four operating companies; Duke Energy, Ohio, Connecticut Light and Power, ENSTAR Electric, that have none, and then Western Mass Electric that has a little. They're somewhat more like Newfoundland Power in that regard.
JOHNSON, Q.C.:
Q. Right, and we can see everybody else, with the exception of – everybody else has regulated generation?
MR. COYNE:
A. On the US side, that's correct.
JOHNSON, Q.C.:
Q. Yeah.

MR. COYNE:
A. And in the case of CU, I had none for regulated generation, so you may have been citing merchant generation elsewhere.
JOHNSON, Q.C.:
Q. I understand that generation of electricity in Alberta is not regulated?
MR. COYNE:
A. Yes, it's an open market. They're not in the generation portion.
JOHNSON, Q.C.:
Q. Okay, so Eversource Energy really is the only of these – the only one that really is not into generation?
MR. COYNE:
A. At the holding company level, that's the only pure applied company that has no generation.
JOHNSON, Q.C.:
Q. If we could go back then to JMC 2, page 19. Mr. Chairman it's 11 o'clock now, so maybe we could break.
CHAIRMAN:
Q. Yes, sir.
JOHNSON, Q.C.:

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Q. Thank you.
(11:02 a.m.)
RECESS
(11:37 a.m.)
CHAIRMAN:
Q. Mr. Johnson.
JOHNSON, Q.C.:
Q. Thank you, sir. Mr. Coyne, we were about to discuss for a moment Great Plains Energy, which is a company at page 19 of your Exhibit JMC-2.
MR. COYNE:
A. Mr. Johnson, if you don't mind, I'd like to supplement an answer I gave you earlier. I checked my memory, and you had asked had we provided a sustainable growth rate analysis, and I actually did in my rebuttal in response to Dr. Booth's testimony, and that's on page 45 of my rebuttal evidence.
JOHNSON, Q.C.:
Q. I see. It doesn't change your recommendation?
MR. COYNE:
A. No.
JOHNSON, Q.C.:

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Q. And you're not relying on it for the recommendation for Newfoundland Power, I take it?
MR. COYNE:
A. No, I presented it for illustrative purposes in response to the methodology he employed versus how I deemed to be the proper way to employ a sustainable growth solution.
JOHNSON, Q.C.:
Q. In terms of Great Plains Energy at page 19, and actually if we go over to page 20 under the box, "Supply availability and deliverability", I understand this is a Kansas City, Missouri headquartered company, Mr. Coyne, is that right?
MR. COYNE:
A. Yes, that's right.
JOHNSON, Q.C.:
Q. And so if we look at their supply availability, they are generating – they purchase power an average of 16 percent of their total megawatt hour requirements over the last three years. So they're about 80 percent plus of their generation?
MR. COYNE:

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A. That's right.
JOHNSON, Q.C.:
Q. Including coal 82 percent, nuclear 15 percent – flip back to page 19, the bottom of that first box on the left. It's in the middle of our screen now towards the end of that paragraph talks about the company having pending rate cases in Missouri and Kansas, in part to begin recovery costs from the La Cygne emissions control construction and spending at the Wolf Creek Nuclear facility. I understand that's a 1200 megawatt facility. Is that your understanding?
MR. COYNE:
A. Yes, it is.
JOHNSON, Q.C.:
Q. And I understand that in 2014, Great Plains Energy generated around 6660 megawatts. Can you – is that your understanding as well?
MR. COYNE:
A. Again I don't have the megawatts. I have the percentage of generation in front of me.
JOHNSON, Q.C.:
Q. Would you accept 6600, subject to check?

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MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. And if we go over to OGE Energy Corp., this apparently is the parent company of OG & E, a regulated electric utility with over 800,000 customers in Oklahoma and Western Arkansas. In addition, they hold 26.3 percent limited partnership interest and 50 percent general partnership interest of Enable Midstream, and they go on for those interests in that, but my understanding is that in 2014 this company had 6845 megawatts of generation. Would you accept that?
MR. COYNE:
A. Again subject to check, I have no reason to doubt it.
JOHNSON, Q.C.:
Q. Okay. Are you aware whether this company faces competition?
MR. COYNE:
A. Competition in one of its service areas?
JOHNSON, Q.C.:
Q. Yes.
MR. COYNE:

A. If you look on page 24, we say no electric residential retail choice in Oklahoma, so that would suggest "no".

JOHNSON, Q.C.:

Q. If we could bring up just for your comment, the 10K for this particular company.

MR. COYNE:

A. I don't have a physical copy of that. I'm hoping we can bring it up on the screen.

JOHNSON, Q.C.:

Q. CA-NP-164.

MR. COYNE:

A. Would we be able to bring that up on the screen? Those were too large to print out.

JOHNSON, Q.C.:

Q. If you could go to page 21 of 47. Just come down a little bit further. What I read, and I thought this was the page, Mr. Coyne, but I read in the 10K that OGE is subject to competition in Oklahoma, where Oklahoma prohibits an exclusive – I'm sorry, that's actually at page 12 of 47. There you go, right there in front of us there now, that middle paragraph, "OGE is subject to competition in various degrees from

government owned electric systems and municipally owned electric systems, rural electric cooperatives, and in certain respects from other private utilities, power marketers, and co-generators. Oklahoma law forbids the granting of an exclusive franchise to a utility for providing electricity".

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Okay, so does that indicate competition to you?

MR. COYNE:

A. Well, we're describing on page 24 of our report, residential/retail choice program. There's a difference between exclusive jurisdictions and residential choice. So within OG & E's service area, they have not restructured or unbundled so that residential customers can shop, but what they're saying here is that the State of Oklahoma, there are other agencies that can compete for newly opened service areas.

JOHNSON, Q.C.:

Q. I see, okay. Just go to Pinnacle West for a moment at page 27 of JMC-2. This is a company out of Phoenix, Arizona, and at the top indicates, "6400 megawatts of generating capacity"?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And they generate about 78 percent of their own power, according to page 28, right, in their supply availability?

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. Including nuclear again?

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. Westar.

MR. COYNE:

A. This is pretty much the data that we summarized in the large table that I showed you.

JOHNSON, Q.C.:

Q. right, and Westar at page 31, that's the

State of Kansas, largest electric utility, according to the company overview.

MR. COYNE:

A. Right.

(11:45 a.m.)

JOHNSON, Q.C.:

Q. It says 7200 megawatts of electric generation capacity, fuelled by coal, uranium, natural gas, wind, and landfill gas. So uranium, I guess, is nuclear?

MR. COYNE:

A. Yes, it is.

JOHNSON, Q.C.:

Q. Now we saw in Quebec that you said in your report, yours and Mr. Trogonoski, that the incremental ROE to offset the increased operating risk of regulated generation is approximately 41 basis points, right? Is that right?

MR. COYNE:

A. We cited 41 basis points, yes.

JOHNSON, Q.C.:

Q. Right, and when I go through your sample, every one of these US companies, except Eversource, has significant generation

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assets. These would be integrated electric companies – that's a fair statement, isn't it?

MR. COYNE:
A. To varying degrees, yes.

JOHNSON, Q.C.:
Q. And can you explain for me, and perhaps for the Board's understanding as well, why you don't make a 41 basis point or larger reduction from your ROE estimates to reflect generation risk in this case?

MR. COYNE:
A. Sure. The analysis we've done here screens for a companies that are electric utilities that are predominantly regulated, and their income and their assets are dedicated to the electricity business, generation, transmission, and/or distribution. We examined their overall risk profile and we find that from an investor standpoint, they have credit ratings, they're comparable to Newfoundland Power, so they're not being diminished in their credit rating as a result in that business. If they were significantly disadvantaged as a result of

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being generators, we might see that show up in their credit rating. So we don't see that here. The research that we cited in Quebec was we looked at a period of time for allowed returns, not earned returns, and not set returns, allowed returns for companies in the United States that were vertically integrated full generation companies versus those that were T & D only companies, and that was the basis of that 41 basis points, but in our analysis, we have not – because we've screened for these companies, they're screened on credit rating, and their overall risk profiles, as well as the – if you flip through one of these reports, we cite the mitigation measures that they have in place to ensure that if they are in the generation business, that they have the regulatory mechanisms in place that allow them to pass through those costs. So for those reasons, we don't find it necessary, nor do I make an adjustment for the existence of generation or not in other testimony that we do on this basis. It's a very difficult thing to find and isolate a pure play T & D company, but I

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don't find it necessary to make that type of an adjustment here. As we talked about, there are other mitigating issues for Newfoundland Power that we have not made positive adjustments for either. You look at the basket of risk for these companies in its entirety.

JOHNSON, Q.C.:
Q. I see. I take it, Mr. Trogonoski, would he have a role to play in terms of whether there should be a 41 basis point reduction like he signed on to in Quebec?

MR. COYNE:
A. I'm not sure if I understand your question.

JOHNSON, Q.C.:
Q. Mr. Trogonoski, I guess, didn't feel that there should be a reduction for generation in this case either, did he?

MR. COYNE:
A. No, he did not.

JOHNSON, Q.C.:
Q. I see, okay.

MR. COYNE:
A. But nor was that – he assisted me in conducting the risk analysis and pulling it

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all together, but it was ultimately my recommendation when it came to the ROE.

JOHNSON, Q.C.:
Q. Mr. Coyne, a client of yours in Wisconsin is Northern States Power Company, isn't it?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And you've filed ROE testimony for Northern States Power in Wisconsin?

MR. COYNE:
A. And Minnesota.

JOHNSON, Q.C.:
Q. And Minnesota?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And you filed testimony for them on May 29th of 2015?

MR. COYNE:
A. That sounds about right.

JOHNSON, Q.C.:
Q. Can you turn to your evidence in that mater at CA-NP-155, Attachment "A"?

MR. COYNE:

A. I probably need that document as well. Will that be in this book? Okay. Did you say 155?

JOHNSON, Q.C.:

Q. Yes, sir, Attachment "A", and specifically, could you turn to page 9 of 49, where you describe that utility?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. So we're saying that, "NSPW is an operating utility primarily engaged in the generation, transmission, and distribution of electricity, and the distribution of natural gas in portions of North Western Wisconsin, and in the Western portion of the Upper Peninsula of Michigan. The company provides electric utility service to approximately 255,000 customers, and natural gas distribution service to approximately 110,000. Approximately 98 percent of their retail electric operating revenues are derived from operations in Wisconsin during 2014". So that gives us a little – and they own, I see at line 11, NSPU directly owns

approximately 830 megawatts of generation capacity?

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. Can you confirm for the Board that when you were preparing your evidence on behalf of Northern States Power, that you screened out companies who did not have generation assets?

MR. COYNE:

A. I'll have to look to the screens there.

JOHNSON, Q.C.:

Q. If you could turn to page 21 of 49 of your evidence in that case.

MR. COYNE:

A. Yes. I screened companies that owned generations that are include in rate base to get at companies that looked like NSPW, yes. I was screening to include them.

JOHNSON, Q.C.:

Q. I see, you were screening to include them, but you were screening out companies that didn't own enough generation, is that right?

MR. COYNE:

A. Yes, in that case, that's right.

JOHNSON, Q.C.:

Q. That's right, and just look at – we see here, "Please describe the specific screening criteria you've utilized", and you say, "I began with 46 companies that Value Line classifies as electric utilities and then screen companies according to the following criteria", and do you see the fifth criteria, "Owns generation assets"?

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. "That are included in rate base"?

MR. COYNE:

A. Right, that's what I just said, yeah.

JOHNSON, Q.C.:

Q. And the 46 companies you start off with, that's the same 46 companies you started off with for Newfoundland Power too, isn't it?

MR. COYNE:

A. It would have been, yes.

JOHNSON, Q.C.:

Q. That's right, and just go to the next page, screening criteria #6, so not only did it

have to own generation, your screening was "own generation comprises greater than 25 percent of the company's megawatt hour sales to ultimate customers", right?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And I think you've acknowledged that the percentage of electricity that Newfoundland Power provides directly to its customers is what, 7 percent?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. So you would have screened out Newfoundland Power if it had been a publicly listed company in that Wisconsin case because it just didn't have enough generation, is that right?

MR. COYNE:

A. That's correct.

JOHNSON, Q.C.:

Q. That's right, and when you were preparing evidence for Northern States Power, why did you consider it important to screen out companies with either no or small amounts of generation?

MR. COYNE:

A. Just for the discussion we just had, that generally speaking, generation is considered to be a risk element in the electric business, and in this case when you are screening these companies, you can screen more readily for those, as you can tell from this sample, that do have generation in their asset base than vice versa.

JOHNSON, Q.C.:

Q. I see. Just –

MR. COYNE:

A. You cannot find – if you screen publicly traded electric utilities, you can screen for those that are heavily generation rated, but you cannot screen for pure play set of T & D companies for the reasons that we described.

JOHNSON, Q.C.:

Q. Okay, you could screen for companies that had relatively low amounts of generation, couldn't you?

MR. COYNE:

A. You can, but it will not pass the other screenings is the problem. When you're trying to screen for the other five, including credit ratings and the percentage of operations in the electric business, you can't get to a representative proxy group that way. I've tried it; you can't do it.

JOHNSON, Q.C.:

Q. So, I guess, what you're saying is if there was low generation capacity companies out there, you would have preferred to have them in your proxy group for Newfoundland Power?

MR. COYNE:

A. If I could have screened for pure plays that satisfied all my other criteria, yes.

JOHNSON, Q.C.:

Q. Okay. Just to –

MR. COYNE:

A. It foregoes this type of a discussion when you're trying to determine whether or not there's incremental risk there or not.

JOHNSON, Q.C.:

Q. And just to page 24 of 49 of your evidence, starting at line 6, you say, "Further, the generation screens identify utilities that,

like Northern States Power unregulated generation of rate base, and bear the risk of generation in their asset mix. Those screens collectively reflect the risk factors that investors consider in making their investment decisions in utility companies". So I take it, Mr. Coyne, that that is something that an investor would consider, whether there's generation?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Yeah, because it affects the risk?

MR. COYNE:

A. They would consider whether or not they have generation. Most utilities do, but they would also consider the full range of other factors associated with the business risk, and if they do on generation, what mitigating regulatory factors are in place that help them manage the exposures associated with that and other elements of the business.

JOHNSON, Q.C.:

Q. Did you make any attempt in this case to

screen out companies that had relatively low levels of generation?

MR. COYNE:

A. No, as I mentioned, I can't get to –

JOHNSON, Q.C.:

Q. Relative or high levels of generation, I should say, in Newfoundland Power's case?

MR. COYNE:

A. No, I screened according to those that would give me – as it is with those screens, I get down to seven companies, and I don't like to get smaller than that. Then what I did is I examined whether or not they owned regulated generation, and I counted forward in my risk analysis. If I could screen just on pure play T & D companies as we talked about, I'd end up with Eversource, and that's not a proxy group that meet all the other criteria that I had. So you can't do cost of capital analysis with one company. I can't find any publicly traded companies in Canada that would satisfy that criterion. It's a desirable criterion to have, but it's not a possible one to have and still do this analysis.

JOHNSON, Q.C.:
Q. You screened out ITC Holdings Corp, didn't you?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Why did you screen ITC Holdings Corp out?
MR. COYNE:
A. They're a pure play transmission company with a lot of development projects, and they don't look anything like Newfoundland Power.
JOHNSON, Q.C.:
Q. At least they're in the transmission. They didn't contain generation, right?
MR. COYNE:
A. They did not, but they're a development company, they're not a mature electric transmission and distribution company. The FERC screens them out when it comes to setting transmission rates for other transmission companies for that reason.
JOHNSON, Q.C.:
Q. I see, but, I guess, the presence of – I take it we'd be in agreement that the presence or absence of generation is no more

important in Wisconsin as a factor for a Board to consider than it is in Newfoundland and Labrador?
MR. COYNE:
A. Certainly not, no, and I account for it in my analysis.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. I acknowledge that openly and readily. It's the reason why we look at it.
JOHNSON, Q.C.:
Q. So in Wisconsin, you screened out Eversource because it didn't have enough generation, is that right?
MR. COYNE:
A. Well, that would have been one of the criteria. I don't know if they were screened out on that basis or not without looking at the screening page, but they would have been screened on that basis, yes.
JOHNSON, Q.C.:
Q. And I understand with the exception of Eversource, all of the companies that that you used for Newfoundland Power's proxy

group were also included in the proxy group for Northern States Power, is that right?
MR. COYNE:
A. At the outset, yes, because you're starting with the same global group, but in terms of the final proxy group, no, there are many companies here that aren't included in this proxy group.
JOHNSON, Q.C.:
Q. But just to understand my question, all the companies – the American companies that you're relying on in Newfoundland Power's case in this GRA, okay, all of those companies with the exception of Eversource were in your Wisconsin proxy group for the Northern States Power?
MR. COYNE:
A. Would you like me to check to see if the other six are here? Is that your question?
JOHNSON, Q.C.:
Q. Yes, sure, page 23, I think. So they use some more companies, but included in that are all the companies you used for Newfoundland Power, with the exception of Eversource?

MR. COYNE:
A. Well, certainly Canadian Utilities is not there and Emera is not there.
JOHNSON, Q.C.:
Q. I'm speaking of the US ones.
MR. COYNE:
A. Right, okay.
JOHNSON, Q.C.:
Q. Ellete?
MR. COYNE:
A. Ellete.
JOHNSON, Q.C.:
Q. Yeah, Duke?
MR. COYNE:
A. Duke.
JOHNSON, Q.C.:
Q. Great Plains?
MR. COYNE:
A. Eversource was screened out, Great Plains is in.
JOHNSON, Q.C.:
Q. OGE?
MR. COYNE:
A. Is in.
JOHNSON, Q.C.:

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Q. Pinnacle West?
MR. COYNE:
A. Yeah.
JOHNSON, Q.C.:
Q. Is there any other further ones?
MR. COYNE:
A. And Westar, yes.
JOHNSON, Q.C.:
Q. Westar, okay, all right.
MR. COYNE:
A. And you can see it's a much larger proxy group because it's easier to find companies that are vertically integrated than it is for those who are pure play T & D companies, and that's the practical issue that you face.
JOHNSON, Q.C.:
Q. Okay. So that's the reason you're using seven US companies as opposed to a larger sample?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. I see. Typically in the United States you use how many companies in your samples?

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MR. COYNE:
A. It varies. It varies by jurisdiction. If you're before FERC, the standard there is to use all national utilities even though you're setting the rate for a regulated transmission company, because if you use vertically integrated electric utilities as being appropriate comparators, so you use in that case all 46 companies, except for those who would be screened out on a credit rating basis, or those that were involved in a merger, but for the typical work that I'm doing at a state jurisdiction where I'm left free to do the screening that I do, I would narrow it down on a basis like this where I'm using one hour criteria to get me to a smaller group. What I'm trying to do is get to the capital market information that starts with the ROE analysis, and then I could do more detailed risk analysis at the company level to determine if there are any necessary adjustments necessary for either ROE or capital structure based on the risk profiles of these companies.
JOHNSON, Q.C.:

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Q. Just turn to a further discussion of proxy group selection, if you go back to your Hydro Quebec testimony in 2013 at CA-NP-154, and page 24 of that evidence.
MR. COYNE:
A. Yes.
(12:00 p.m.)
JOHNSON, Q.C.:
Q. So as a starting point, you're saying, "Concentric utilized 48 companies that the Value Line classified as a selection of utility companies to ensure the companies considered to be primarily engaged in electric utility operations. From that group, Concentric screened for companies that have credit ratings of at least A- from Standard and Poor's". That was your number one listed screen there. Mr. Coyne, as I understand it, now you're using a S & P cut off of BBB+, or BAA1 from Moody's, so a lower level of credit rating?
MR. COYNE:
A. Right, consistent with this company's credit rating.
JOHNSON, Q.C.:

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Q. Well, Newfoundland Power, when they go to the bond market with their first mortgage bonds, they're rate A2 by Moody's, do you know that?
MR. COYNE:
A. I do, but those are first mortgage bonds. I'm talking about issuer security ratings.
JOHNSON, Q.C.:
Q. Yeah, but when they go to the market, aren't the bond people who are interested in Newfoundland Power bonds interested in how much security they have, and whether they cover the whole assets of the company?
MR. COYNE:
A. Well, I'm trying to use screens or apples or apples. If I were to use that screen – if I were to apply it to their first mortgage bonds, I'd want to do the same here and look at a different set of credit ratings. It's unusual for an electric utility to use first mortgage bonds. Most of them are not using secured debt in that way. So this is going to be the more practical and common credit rating screen for that reason. Newfoundland Power is different in that regard.

JOHNSON, Q.C.:
Q. So none of your US proxy groups issue debt that are secured by the assets of the utilities?
MR. COYNE:
A. They used to, but they've gotten away from it. It gives them far more financing flexibility. Some still exist out there. Those that have them have been steadily trying to undo them as they're able to over time.
JOHNSON, Q.C.:
Q. I see. You can understand why a credit rating agency would give a higher rating to a secured bond versus unsecured, can you?
MR. COYNE:
A. Surely, you have more security.
JOHNSON, Q.C.:
Q. Less risk for the lender?
MR. COYNE:
A. I didn't hear your last comment.
JOHNSON, Q.C.:
Q. Less risk for the lender?
MR. COYNE:
A. Well, more security associated with that

risk, so if there is a default, at least the lender in that case has a claim on the assets of the company, which of course you don't with an unsecured bond. The market for most utility debt is strong enough so that they're able to issue unsecured debt relying on the good faith of the company and its reputation, but you don't have the same level of security associated with the assets of the company.
JOHNSON, Q.C.:
Q. Okay. Just in terms of your sample then for the Quebec transmission and distribution, okay, if we could turn to page 25, Quebec Evidence. Let's look at your six companies that you felt met those criteria. You've got Consolidated Edison, NextEra, Northeast Utilities, Southern Company, Wisconsin Energy, and Xcel, right?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Okay, so I understand that Northeast is now Eversource, is that your understanding?
MR. COYNE:

A. That's right, they merged.
JOHNSON, Q.C.:
Q. So that's in your sample for Newfoundland Power?
MR. COYNE:
A. That's right.
JOHNSON, Q.C.:
Q. Con Ed is still around, and you're aware of that. Why did you reject Con Ed?
MR. COYNE:
A. Well, it would have been on one of the other screens. I'm not sure if it was credit rating or – I'd have to check the screen itself to see where they fell out.
JOHNSON, Q.C.:
Q. I think there was a bankruptcy associated with one of the utilities with Con Ed, is that right?
MR. COYNE:
A. With Con Ed?
JOHNSON, Q.C.:
Q. One of their utilities went bankrupt?
MR. COYNE:
A. Not that I'm aware of. Con Ed?
JOHNSON, Q.C.:

Q. Yeah, I think there was an RFI on that that asked why your report indicated that you had screened out two. One was screened out on the fact that it didn't have any distribution, which we talked about a moment ago, and the other one was screened out was Con Ed because it failed another test.
MR. COYNE:
A. Yes, and I just don't recall what that test was.
JOHNSON, Q.C.:
Q. I'll check the record this evening just to bring you back to the RFI. I won't spend a lot of time on it. Now NextEra, that's still around. That's listed as an electric company. Why did you reject them?
MR. COYNE:
A. Well, first of all, I didn't reject these companies. I used the screens that I described and they pass the screens or not, and I can go – let me see if I have the page here that'll tell me on which basis they either passed or not. I may not have that in front of me, but it would have been for one of those factors. Obviously, if your concern is whether or not

they're a vertically integrated company, they certainly are. The other issue in NextEra is that I don't think they would have passed the regulated income and asset test because NextEra is broadly diversified, oh, and lastly, they're involved with a merger with Hawaiian Electric right now, so they probably would have failed on that basis. They're in a long protracted proposed merger with Hawaiian Electric. That's the answer for NextEra, I'm sure.

JOHNSON, Q.C.:

Q. And Southern, you rejected Southern?

MR. COYNE:

A. Yeah, they're also in a merger with AGL.

JOHNSON, Q.C.:

Q. And Wisconsin Energy, that's now WEC Group, traded on the New York Stock Exchange, I understand?

MR. COYNE:

A. Yeah, I'm not sure if that was a merger or if they fell out on one of the screens, I'd have to check.

JOHNSON, Q.C.:

Q. And Xcel Energy, they're still around and listed on the Stock Exchange, the New York

Stock Exchange?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Do you know why you rejected Xcel?

MR. COYNE:

A. I would have to check, yes.

JOHNSON, Q.C.:

Q. So I guess the bottom line, Mr. –

MR. COYNE:

A. Yeah, I guess here, you know, here I was using, again, I'll check, but it could be that their revenue, either that they didn't pass their revenue test or they didn't pass the asset concentration test associated with the electric utility business.

JOHNSON, Q.C.:

Q. So I guess the bottom line is that a few years ago in Quebec you used six U.S. companies to base your estimates for the transmission and distribution assets in Quebec.

MR. COYNE:

A. Right, and I have seven here. This isn't uncommon, I should say, and that's why we

used the screens, not the same companies because you're trying to screen for today's capital market conditions and how an investor would perceive these companies without other information that would suggest that the results wouldn't be reliable. Merger is a very common way, a common mechanism to get screened out, the revenue concentration could be another, that changes over time as well.

JOHNSON, Q.C.:

Q. So with the exception of Eversource, we see a wholesale change in your sample that even though we're in Newfoundland dealing with a T&D company.

MR. COYNE:

A. Right, and I see this from time to time, it just depends on whether or not those companies can pass these screens today. And especially with the amount of merger activity we've had over the last few years, that's certainly an issue. The screens are objective; I don't put a company in that's not passing them or vice versa.

JOHNSON, Q.C.:

Q. But I guess the screens, you get to pick what criteria goes in your screen, right?

MR. COYNE:

A. Right, and I lay those out. I want everybody to know what screens we're using and what companies are in or out on that basis and then we conduct risk analysis around the companies that are through the screens so that we can look at it and invite the Board and stakeholders to look at it to see if it's a legitimate comparator group for purposes of cost of capital analysis.

JOHNSON, Q.C.:

Q. So that's the work that you and Mr. Trogonoski do?

MR. COYNE:

A. And others, yes.

JOHNSON, Q.C.:

Q. So let's look at capital expenditure protection because I think you've looked at— I understand that you've identified capital cost recovery risk as a factor to compare the business risk of Newfoundland Power in your U.S. electric utilities, is that right?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Okay, and that's at Appendix A of your evidence.

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Pages 28 to 29.

MR. COYNE:

A. Yes, page 29, capital recovery risk.

JOHNSON, Q.C.:

Q. So that's, as I understand it, when you're making your comparisons to the U.S. electric utility proxy group, you're looking at regulated generation risk, fuel and purchase power cost risk, volume and demand risk, capital cost recovery risk, rate regulation and earning sharing, regulatory lag and operating cost recover mechanisms, is that right?

MR. COYNE:

A. That's right.

JOHNSON, Q.C.:

Q. So just starting off then just dealing with the capital cost recovery risk, you're

aware, Mr. Coyne, that Newfoundland Power files annual capital budget applications for review and approval to this Board?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And how is Newfoundland Power's preapproval regime for capital budgets relevant to its level of business risk?

MR. COYNE:

A. Could you be more specific in terms of your question? I'm not sure if I'm quite getting it.

JOHNSON, Q.C.:

Q. Well, is the fact that a utility has its capital budgets pre-approved before it commits and spends the money relevant to its level of business risk?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Okay, how is it relevant?

MR. COYNE:

A. It lowers the probability that the company is going to get sideways with its regulator

about a project that might later be disapproved.

JOHNSON, Q.C.:

Q. So that's a benefit to equity investors?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. And you're aware that Moody's has stated that the Board's review and approval of Newfoundland Power's capital spending plans and long-term debt issuances significantly reduce the risk of cost allowances and support the company's ability to recover costs?

MR. COYNE:

A. Are you quoting Moody's?

JOHNSON, Q.C.:

Q. Yes, you're aware of that and you agree with that?

MR. COYNE:

A. Yes, I am and I accept the quote.

JOHNSON, Q.C.:

Q. Okay, can we turn to JMC-5, Schedule 3? So in this exhibit, JMC-5, Schedule 3, this is regarding capital cost recovery risk, Mr.

Coyne?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. So if we look at –

MR. COYNE:

A. And maybe for the benefit of the Board, I think some of these schedules aren't easy to look at, so what we're doing there is we're looking at the capital recovery mechanisms that each of the operating companies have within the proxy groups that we're using for purposes of the analysis and we're rating them according to whether or not that have preapproval, whether or not they have CWIP or AFUDC treatment or some other capital cost tracking mechanism.

JOHNSON, Q.C.:

Q. So if we start with ALLETE in Minnesota, they have no preapproval?

MR. COYNE:

A. Right, and let me refer to the schedule, so we can go down that column but what I would like to indicate here is that there are a variety of different ways that utilities have managed their cost risks with a regulator. Preapproval is one, CWIP is another, AFUDC is another and a cost-tracking mechanism is another. So I would rely on all the columns and their answers to indicate the exposure that company has to capital investment risk, not just that one.

JOHNSON, Q.C.:

Q. Okay, just if you could bear with me for a moment now.

MR. COYNE:

A. I will.

JOHNSON, Q.C.:

Q. Westar Energy doesn't have preapproval, that's the company at the bottom.

MR. COYNE:

A. That's correct.

JOHNSON, Q.C.:

Q. And Pinnacle doesn't either? That's the Arizona utility just up from it?

MR. COYNE:

A. They have a cost-tracking mechanism along with CWIP and AFDUC, which is at least as good as preapproval.

JOHNSON, Q.C.:

Q. How is it as least as good?

MR. COYNE:

A. Well, utilities get capital projects approved in a couple of different ways, the large projects and large projects where the risk exists, they typically go before the regulator for what's called the CPCN which is a process where the utility is asking its regulator in advance to look at the economics and desirability of this large project and they typically only proceed once they have approval of the CPCN and that's a certificate of public convenience and necessity, okay, that's the standard. And once they have that approval that says that the project is in a good—the project is a reasonable one, we find it in the best—we find it in the public interest, you're okay to go forward, regulators will allow them and to rate them. The next step is for the company to go and execute on the project and then determine how it gets allowed into rate base. If they have a capital tracker, what happens is as they expend the funds for that project, it's then accounted for and they

have cash flow from it and that mitigates the risk associated with that project, of if they have CWIP, they're earning both an equity return, typically along with an interest return on that project, if they're building a many years' project that's over four, five, six or seven years more. So the combination of CWIP along with a cost tracking mechanism, gives the utility assurance that it's going to have the cash flow and it already has the approval from its regulator in terms of the CPCN at that point in time. So you have to look at those in combination to understand where the capital risks are and how they are mitigated by those mechanisms. Preapproval is just one way to get there.

JOHNSON, Q.C.:

Q. So if I look at Duke Energy in the Carolinas, they have preapproval, plus CWIP, plus AFUDC and do they have a cost-tracking mechanism? No. So –

MR. COYNE:

A. That actually, in Florida they actually do, yes.

JOHNSON, Q.C.:

Q. In Florida they do, yeah. And so in terms of, is it your evidence that CWIP provides more certainty that the expenditures will be approved than the budget preapproval like we have here?

MR. COYNE:

A. There are two different issues. So preapproval comes in the form, the surety of preapproval comes in the form of the CPCN where the commission has decided that the project is in the public interest, so that's the first standard. Then the second standard –

JOHNSON, Q.C:

Q. Okay, so if I could just stop you there for a moment.

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. There's no CPCN column, is that –

MR. COYNE:

A. It existed in almost every jurisdiction, yeah.

JOHNSON, Q.C.:

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Q. Okay.

MR. COYNE:

A. I'm not aware of a jurisdiction that doesn't have something like a CPCN, although the name may differ and the same has been my experience in Canada as well, large projects typically come as part of an overall capital filing or they come explicitly around that large project. And then the question is, okay, once the project is deemed as being within the public interest, is the utility at risk as it's being built? Does it have to wait five years to then get any cost recovery for that? There are a couple of different ways to mitigate that. One is through CWIP, whereas they're earning a return as if it were in rate base, on top, while they build it so when it does go into rate base, they have full recovery of the equity cost, along with the debt cost and all of that's placed in rate base. With AFUDC, I'm sorry, they're going to track that cost, with CWIP they'll actually be earning it as they go, or if they have a cost-tracking mechanism, it's an agreement

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with the regulator and typically cost-tracking mechanisms are for projects that everybody deemed are necessary and in the public interest and the faster they happen, the better. So with cost tracking, they're allowed into rate base with full cost recovery as you go.

JOHNSON, Q.C.:

Q. Which regime cuts down, best cuts down on the prospects of having the prudency of a project or a disallowance on account of an imprudency finding? I guess the preapproval would be better, would it?

MR. COYNE:

A. Well I think preapproval, if it's preapproval in its entirety without any prudence finding after the fact that I think that's probably the lowest risk from that standpoint; however, if they have preapproval but they don't have CWIP, they can become a cash flow hole for the company while they're waiting and move it into rate base. So what I'm trying to say is there's two different types of risk there, you know, one is the preapproval risk associated with

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am I going to be second guessed after I complete the project; and the other is can I earn something while I'm building that project. Both are good, both mitigate the utility's risk from an investor standpoint.

JOHNSON, Q.C.:

Q. But on the first—you isolated two in terms of the preapproval and in terms of being projected against later imprudency findings. I take it you'd agree that the preapproval is best from that standpoint?

MR. COYNE:

A. Preapproval is best from the standpoint of if it's ultimate approval of the project without any after the fact, prudence examination, that portion of it is subject to low risk, yes, but again, it depends on the CPCN. Some CPCNs are sticky and they basically say you can go ahead with the project; in other cases, it's a CPCN with a caveat we want you to come back. So even there they are nuances.

JOHNSON, Q.C.:

Q. Right, Moody's makes a point of saying that this preapproval of capital spending plans

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significantly reduces the risk of cost disallowances, so they must be familiar with jurisdictions that still have risk from cost disallowances that are not preapproved, we agree on that much, right?

MR. COYNE:

A. I agree they have experience. I also, well if you're quoting them, I accept the quote subject to check.

JOHNSON, Q.C.:]

Q. Well it's just Exhibit 4 to the company's evidence, right?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. So they're saying that they must significantly reduce the risk of cost disallowances compared to something else, right?

MR. COYNE:

A. Compared to not, yes. In my report I acknowledge the regulatory environment that exists in this province as being a good one.

JOHNSON, Q.C.:

Q. It's been termed in the past "exceptional",

would you agree with that?
MR. COYNE:
A. I don't think I've used the word "exceptional", but think I've used the words "very good".
JOHNSON, Q.C.:
Q. In Nova Scotia, do you know whether Nova Scotia Power gets preapproval on capital budgets?
MR. COYNE:
A. I don't know that we've—well, let me see, we have Emera here and the answer is no.
JOHNSON, Q.C.:
Q. Now in terms of regulatory lag, that's a factor that you also used to compare the business risk of Newfoundland Power and the U.S. electric utility group. That's at your Appendix A, page 29, I think you make reference to that.
MR. COYNE:
A. Page 29, yes.
JOHNSON, Q.C.:
Q. And what do you mean by regulatory lag, just briefly?
MR. COYNE:

A. Regulatory lag is the period of time from when a utility files for rate change to when it typically gets approval for that rate change.
JOHNSON, Q.C.:
Q. And how does regulatory lag affect business risk?
MR. COYNE:
A. If, in the type of inflation or environment they were in right now, it's modest. It's much more important when we're in an inflationary period, as we experienced back in the mid '80s where if you're delayed by six or 12 months, that can make a significant difference in terms of your ability to fully recover your costs.
JOHNSON, Q.C.:
Q. So regulatory lag is important to an equity investor?
MR. COYNE:
A. Most equity investors expect that utilities are going to recover their prudently incurred costs and we focus on this because we do this work, so I think we're down to micro risks when we're looking at that.

JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. Because these differences are generally pretty small, but we look at it as a risk factor, yes. Do equity investors look at it? I think, frankly, probably not.
JOHNSON, Q.C.:
Q. Let's put it this way, it's something of relevance to an equity investor.
MR. COYNE:
A. It should be.
JOHNSON, Q.C.:
Q. Yes. Now when I look at the forecast test year, like Newfoundland Power uses, can you explain why that would be better than a historical test year when it comes to regulatory lag?
MR. COYNE:
A. If you're able to fully anticipate your expenditures in a forward-test year, as opposed to having to file for them with a historic test year with known and knowable changes, you may be able to better reflect this cost increase than you might otherwise

and therefore, not have the delay in recovering the increment for that cost change in rates.
JOHNSON, Q.C.:
Q. In Canada the forecast test year is practically universal, is it?
MR. COYNE:
A. It is, yeah.
JOHNSON, Q.C.:
Q. And the United States is quite the opposite with using—where forecast test years would be pretty much the exception?
MR. COYNE:
A. Most states have either a forecast test year or they have a historic test year with known and knowable changes, so the difference between those two is that with a historic, the latter, is that if you can show that I've just signed a union contract that says that my labour costs are going to go up by three percent, then you will be allowed to put that into your adjustment to the historic test year.
JOHNSON, Q.C.:
Q. So it would have to be known and measurable,

otherwise you're at risk?

MR. COYNE:

A. That's the—well, you're at risk until you file if you anticipate those changes, yes.

JOHNSON, Q.C.:

Q. Right.

MR. COYNE:

A. The other issue there, and I think this is another distinguishing feature in the U.S., is that in Canada utilities typically file every year or two. In the United States, it's more common for utilities to stay out for multiple years and so between those multiple-year periods, what they're doing is they're measuring their own ability to be able to manage their costs within that timeframe associated with existing rates, and they may be counting on load growth to assist them in that regard and they're looking at when in forecasting, for internal purposes, when they think those rates will no longer be able to support their cost profile.

JOHNSON, Q.C.:

Q. So how long would it be routine or average

for a U.S. utility to stay out without coming in for rates?

MR. COYNE:

A. It varies significantly by state, it also varies according to that utility's specific situation, what their capital expenditure profile is, their load growth patterns and things of that nature. In these low inflation environments, we've seen utilities that have been able to stay out for quite some long period of time. We've seen some that have been able to stay out of rate hearings for ten years or even longer, and what that means is that those rates have been adequate for that utility to be able to continue to cover their costs during that period of time and still earn what their allowed ROE. The regulator can call them back in at any time if they have reason to believe or if a complaint is brought forward to them that suggests that their rates are no longer reasonable. So there are protective measures in place, but all parties generally believe that fewer rate cases are a good thing, but it does vary by

jurisdiction.

JOHNSON, Q.C.:

Q. So if we could turn back to your Exhibit JMC-5, Schedule 5? So this is your regulatory lag schedule?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. So we see the Canadian Proxy Group at the bottom all have forecasts, we see Newfoundland Power at the very bottom under Fortis Inc., having a forecast and practically everybody else for the U.S. Proxy Group companies being historical, with the exception of Kansas City Power & Light and Missouri which are only partial forecasts and Minnesota Power being only partial forecast?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. So I guess, in all fairness, let's put it this way, Mr. Coyne, would Great Plains Energy in Kansas City Power & Light, if given a choice, do you think they'd keep on

the historical or were they like forecast?

MR. COYNE:

A. Well I think that most utilities would probably prefer forecast if they're asked on that solution alone. They do have interim rates, so that means that if they find that there is a shortfall between their revenues and their costs, they can come in and ask for an interim rate increase, pending a full blown rate filing. So they have the ability to be able to remedy that situation.

JOHNSON, Q.C.:

Q. You've read my examination of Ms. Jocelyn Perry in this proceeding?

MR. COYNE:

A. I have read excerpts of it, I haven't read it in its entirety.

(12:30 p.m.)

JOHNSON, Q.C.:

Q. You recall my discussion with her about how Fortis Inc. puts in its MD&A discussion the fact that in the United States one of its utilities, I think it was in Arizona, subject to historic test year and that that implies a different level of risk? Do you recall that discussion?

MR. COYNE:
A. I do not, no.

JOHNSON, Q.C.:
Q. Now regarding interim rates, we see Newfoundland Power is down under "Emergency"?

MR. COYNE:
A. Right.

JOHNSON, Q.C.:
Q. Where did that information come from?

MR. COYNE:
A. I will have to check. I suspect it came from the company.

JOHNSON, Q.C.:
Q. So what do you mean by "emergency"?

MR. COYNE:
A. That is if there's dire circumstance between—because the company is able to file periodically but if there's a significant issue between rate cases, it's able to come back on an emergency basis is my typical interpretation of that, but I'm not sure what the provision is beyond that.

JOHNSON, Q.C.:

Q. Would you confirm that Newfoundland Power and I'm going over to the second last column on the right, rate case lag in terms of months, Newfoundland Power has—well, they're tied with just a couple of others at six months, so the lowest lag in the picture.

MR. COYNE:
A. Pretty darn good.

JOHNSON, Q.C.:
Q. Pretty darn good, yes. So when you compare it, let's say to ALLETE who are already, you know, they're a year; Duke in Florida is 11 months; Duke in Indiana is 16 months; Public Service of New Hampshire, they're 12 months.

MR. COYNE:
A. Yes, I ranked Newfoundland Power higher on this basis, we acknowledge these regulatory provisions.

JOHNSON, Q.C.:
Q. Yes, and then, but it all –

MR. COYNE:
A. There's a reason we presented this analysis.

JOHNSON, Q.C.:
Q. But in your balancing, they come out above average risk in which we'll come to, right?

MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And volume and demand risk, at page 27, you talk about that.

MR. COYNE:
A. Page 27.

JOHNSON, Q.C.:
Q. Yes. And over on page 28 you get into, at lines 25 to 28, you start talking about volume demand risk, okay? So this—now, Mr. Coyne –

MR. COYNE:
A. You're in 27, 28 of Appendix A.

JOHNSON, Q.C.:
Q. Yes, that's right. So, again you're aware that that provides regulatory protection to Newfoundland Power against changes caused by abnormal weather conditions?

MR. COYNE:
A. Weather, yes. I understand they are exposed to forecast risk otherwise, though.

JOHNSON, Q.C.:
Q. To forecast risk otherwise?

MR. COYNE:

A. Yes, other changes in demand that they are responsible for and are at risk for.

JOHNSON, Q.C.:
Q. Now, in terms of Exhibit JMC-5, Schedule 2 and by the way, on the regulatory lag, that six months, that would be truly exceptionable, wouldn't it in North America?

MR. COYNE:
A. Well we can see that Duke Kentucky is six months; Duke Carolinas is five, I would say it's at the lower end of the range, but I wouldn't characterize it as exceptional. We have others that are at that rank or lower, and again, if you're coming back in every year too for rates, that's probably a little bit more important to you than a company that's able to stay out for five years and if they have the ability to file for interim rates in the meantime or emergency rates, then if there is an issue for them, they're able to mitigate it by filing for those interim rates, so it's not an issue that prevents them from coming in and asking for more if they need more. And what happens is those rates are suspended, which means that

they can file—that emergency rate would be accepted, but then they're going to have to come back and show that it was actually justified in their full rate case.

JOHNSON, Q.C.:

Q. Newfoundland Power, do you know how often they come in?

MR. COYNE:

A. Their GRA proceedings have been averaging about every three years.

JOHNSON, Q.C.:

Q. And that's more often than average in the United States, I take it?

MR. COYNE:

A. I'd say these days it's probably moving there because there's just, in the utility industry, there's just so much going on, everything from smart meters to significant investments and distribution and transmission reliability, I think that it's probably moving closer to three years than otherwise, I'd say probably three to five is the range I see; in other jurisdictions, it is one to two. We do have clients that file on an annual basis across five jurisdictions

because that's their history where the regulator or the company likes it that way and the regulator likes it that way.

JOHNSON, Q.C.:

Q. Okay, so if we look at JMC5, Schedule 2, having to do with volume and demand risk, just on the weather normalization piece, that looks to be pretty weird, just Newfoundland Power and Gas Metro in the Province of Quebec having weather normalization.

MR. COYNE:

A. Yeah, you'll see, again, there are several mechanisms, either full decoupling, partial decoupling or weather normalization.

JOHNSON, Q.C.:

Q. So just, if I can understand first before moving off of the weather normalization protection, in other utilities' cases that don't have weather normalization, is the risk of weather variances, in terms of sales, left with the utility in those circumstances?

MR. COYNE:

A. No, they have lower risks. With full

decoupling, not only don't they have risk for weather, they don't have risk for economic changes in their—or load changes, so they have the most protection under full decoupling, the next most under partial decoupling and then the least would be under weather normalization.

JOHNSON, Q.C.:

Q. So full decoupling is very rare and I think there's Duke in Ohio, Connecticut Light and Western Mass Electric.

MR. COYNE:

A. That's right.

JOHNSON, Q.C.:

Q. Okay. Now, in terms of this partial decoupling or LRAM, what does that stand for?

MR. COYNE:

A. Load Reduction Adjustment Mechanism, subject to check. If not, it's equivalent to that.

JOHNSON, Q.C.:

Q. Okay, and you're saying that Nova Scotia Power has this or Emera, you're saying that they have partial decoupling?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Okay, what partial decoupling do they have?

MR. COYNE:

A. Let me see if I have it specified in the Emera sheet exactly what they have.

JOHNSON, Q.C.:

Q. Mr. Coyne, my understanding in Nova Scotia Power is that they might get protected from variations from one or two of its industrial customers?

MR. COYNE:

A. Large industrial customers, yes, that's true.

JOHNSON, Q.C.:

Q. That's what you're referring to there. But they're at risk in all other respects, is that right?

MR. COYNE:

A. I would have to—well if you'd like, I can check that, subject to check, I'm aware of the industrial protection, I'd have to see if there's any remaining on residential or commercial, I just don't recall.

JOHNSON, Q.C.:

Q. Okay, if you could take that subject to check?
MR. COYNE:
A. Yes. If you could just hold on just one moment?
JOHNSON, Q.C.:
Q. Certainly.
MR. COYNE:
A. Right. All set, thank you.
JOHNSON, Q.C.:
Q. Okay. So if we look at some of these utilities, some of these are very large utilities on Exhibit JMC-5, Schedule 2, so if we look at Duke and the Carolinas, North Carolina, South Carolina, they have no full decoupling, they have no partial decoupling or LRAM and they have no weather normalization, so all the risks stay with the shareholder of that utility in these states, is that right?
MR. COYNE:
A. In the case of Duke Energy—you're asking those that don't have any of these?
JOHNSON, Q.C.:
Q. Yeah.

MR. COYNE:
A. Then they would be bearing the risk between rate cases, yes.
JOHNSON, Q.C.:
Q. Same with ALLETE, they would bear all that risk too?
MR. COYNE:
A. Right. What you're seeing there is that if they have no protection whatsoever, in the case of Duke Florida, what they're counting on is the overall—is the trend line in growth being sufficient to offset whatever kind of mitigating factors they might have due to weather, but they're at risk for it. Hence the purpose of this analysis.
JOHNSONS, Q.C.:
Q. I think during discussion with Ms. Perry earlier in the case, I think Duke's service area had about one percent sales' and customer growth and they describe that as "robust". Would that be your understanding of what the type of sales' growth would be considered, robust, in the United States?
MR. COYNE:
A. Electric sales have been coming down in the U.S. over the past decade, as we've seen more decoupling between GDP growth and electricity growth. I wouldn't call one percent robust, I would say one percent might be average across the industry at this point in time and the reason for that is, well twofold, one is that we're seeing significant increases, albeit they've been moderated by gas prices associated with major electric utility infrastructure investments, so we're seeing demand effects, but we're also just seeing much more energy efficient appliances being used in all aspects and all segments of the electric consuming economy. And we've also seen deliberate programs, promulgated by regulators and state agencies designed to assist customers with consuming less electricity, so it's both a policy result as well as an economic result.

JOHNSON, Q.C.:
Q. It's your report that I drew upon in my discussion with Ms. Perry that described one percent growth as "robust".
MR. COYNE:

A. I don't know that I used the word "robust".
JOHNSON, Q.C.:
Q. Well your report did. JMC-2, page 4. See under "business risk, strong", partway down through that -
MR. COYNE:
A. Right, we're citing S&P there.
JOHNSON, Q.C.:
Q. Oh, I see. You see where it says, "On aggregate, Duke Energy's customer base grew by about one percent reflecting the service territory's robust economic profile."
MR. COYNE:
A. Where are in on the page? I appreciate the prompt, I'm just noticing that we now have the capability.
JOHNSON, Q.C.:
Q. There you go.
MR. COYNE:
A. Yeah, I'm quote it—that's S&P.
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. Well one percent reflecting the service territory's robust economic profile, that's

the customer base that grew by one percent, it's not talking about demand; customer count.

JOHNSON, Q.C.:

Q. So you're saying the sales grew something different than that, are you?

MR. COYNE:

A. Right. That's not bad growth for customer account. Let's see what period of time they're talking about here. One percent, I'm not sure if that's just one year or not, but yeah, that's not bad customer count growth, that's just steady demographic and business growth will count that.

JOHNSON, Q.C.:

Q. Now –

MR. COYNE:

A. For a utility that's staying up between rate cases, that gives them flexibility to be able to spread their existing cost structure over more customers, and therefore, the ability to stay out, the point I was trying to make about how does a utility manage those risks if they have customer growth like that and they have sales' growth, then

they're able to mitigate any risk they have associated with weather, for example, by having that underlying trend and positive sales or a customer count growth.

JOHNSON, Q.C.:

Q. In terms of the breakdown of customers, in terms of, you know, whether it's a residential profile, commercial or industrial profile, I note that when you compare Newfoundland Power to your U.S. electric utility proxy group in that capital structure report there, that you didn't address how the breakdown of customers that Newfoundland Power has, compares with others as a risk issue.

MR. COYNE:

A. I don't recall. They have a couple of major industrial customers, they've been losing their industrial load, primarily paper companies.

JOHNSON, Q.C.:

Q. Who is that?

MR. COYNE:

A. Excuse me, are you talking about Nova Scotia Power or Newfoundland Power?

JOHNSON, Q.C.:

Q. No, I'm talking about Newfoundland now, I moved on to talking about breakdown of customers, like what type of customers.

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. And I notice that when you do your comparison of Newfoundland Power to other utilities on a risk type of discussion, you don't look at the breakdown of customers as being a factor.

MR. COYNE:

A. We do look at the breakdown of customers as a factor across each of the companies. We look at commercial, residential, industrial words. In each of the risk appendix profiles, we're looking at that issue.

JOHNSON, Q.C.:

Q. I thought we listed the ones that you looked at, just go back to page 27 of your Appendix A.

MR. COYNE:

A. We have volume demand risks listed there, that would be covered under the –

JOHNSON, Q.C.:

Q. Oh, that's where that is, is it?

MR. COYNE:

A. Right. If the customer mix is causing the company volume or demand risk, that's where we would be picking it up.

JOHNSON, Q.C.:

Q. But as I understand your volume demand risk discussion, that's—you talked about weather conditions there at the bottom of page 28.

MR. COYNE:

A. Right.

JOHNSON, Q.C.:

Q. Right?

MR. COYNE:

A. Uh-hm.

JOHNSON, Q.C.:

Q. And nothing about the type of customers served, and then if you flip over, then you're into talking about revenue decoupling mechanisms that we already talked about, but that's not addressing the breakdown of customers as to whether you got a high concentration of industrial or commercial or residential, is it?

MR. COYNE:
A. Right, that's just a high level summary there. If you go to each of the company profiles, we have percentage breakdown on residential, commercial and industrial customers.
JOHNSON, Q.C.:
Q. Okay, well how did that get figured into your overall risk assessment then of Newfoundland Power?
MR. COYNE:
A. We didn't see it as being a significantly differentiating factor for the company.
JOHNSON, Q.C.:
Q. Okay, so you're aware that Newfoundland Power is basically residential and commercial, right?
MR. COYNE:
A. That's right.
JOHNSON, Q.C.:
Q. With larger customers served by the generator, Newfoundland and Labrador Hydro directly, industrial customers?
MR. COYNE:
A. Yes.

JOHNSON, Q.C.:
Q. And you would be aware that domestic usage is around 61 percent of total sales? And this is from the company's energy and demand forecast.
MR. COYNE:
A. By domestic, you mean residential?
JOHNSON, Q.C.:
Q. Domestic residential, yes.
MR. COYNE:
A. That sounds reasonable to me.
JOHNSON, Q.C.:
Q. And general service is about 38 percent?
MR. COYNE:
A. I accept that.
JOHNSON, Q.C.:
Q. And street lighting is about one percent?
MR. COYNE:
A. I accept that.
JOHNSON, Q.C.:
Q. Right, now in terms of ALLETE, if you go to JMC-2, Mr. Coyne, I take it you're aware that ALLETE has a high concentration of industrial customers?
MR. COYNE:

A. Right, we have that cited on page 2.
JOHNSON, Q.C.:
Q. So they're over half industrial customers primarily involved in mining, iron concentrate, pulp and paper? These are somewhat cyclical industries; would that be fair to say?
MR. COYNE:
A. Yes, they would be, yes.
JOHNSON, Q.C.:
Q. And, of course, as we saw ALLETE has no protection against volume risk, right?
MR. COYNE:
A. Let's go back.
JOHNSON, Q.C.:
Q. Well we did that, but if you want to, go ahead.
MR. COYNE:
A. Right.
JOHNSON, Q.C.:
Q. Right, and just if you go to the next page in the exhibits, over to Duke, JMC-2 and in particular on page 5 we see the customer mix.
(12:45 p.m.)

MR. COYNE:
A. Right, we have it broken down by service area.
JOHNSON, Q.C.:
Q. Yeah, so we see relatively modest residential sales for the Duke subsidiaries, with the exception of Florida, in Florida it's about half, but in the rest it's, you know, 25 percent in residential and Carolina was 32 percent, residential in Duke Energy Progress, 29 percent; Indiana, 28 percent; and we see industrial for each of those at around 25 percent in the Carolinas; 16 percent in Progress; 32 percent in Indiana; 24 percent in Ohio. Now, would this be an example of where Newfoundland Power has a better risk profile than these utilities on account of their being more into residential and not into the industrial?
MR. COYNE:
A. Well on that basis alone, yes. A difference in this service area is it's a growing service area, as opposed to one that has a challenged economy. So if you're a utility equity investor and you have the choice

between those two, you would take the growing service area along with those industrial customers, but it does create cyclicality.

JOHNSON, Q.C.:

Q. But I'm just looking at a customer base versus a customer base.

MR. COYNE:

A. I know you are and on that basis, yes, but if you ask me, I think the question from an equity investor standpoint is what's the overall health of the service area as well, that's a key issue. So you wouldn't look at it in isolation, but on that basis, yes, residential customers are less cyclical and from that standpoint, they're preferable.

JOHNSON, Q.C.:

Q. Are you aware that DBRS is a credit rating agency for Newfoundland Power, you're aware of that, right.

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Have you read their reports in this case?

MR. COYNE:

A. I have.

JOHNSON, Q.C.:

Q. And you're aware that they have noted that a strength of Newfoundland Power is its stable customer base with power sales consisting solely of those to residential and commercial customers?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. Why would you expect DBRS would regard that as a strength of Newfoundland Power?

MR. COYNE:

A. As we just discussed, they're less cyclical.

JOHNSON, Q.C.:

Q. Right. Now let's look at Newfoundland Power risk for a moment. Let's start at a basic premise level, Mr. Coyne. The actual return on equity earned by a utility is after interest charges, would that be correct?

MR. COYNE:

A. Yes.

JOHNSON, Q.C.:

Q. So the ROE, I take it, would reflect the impact of all of the different sources of

risk faced by the utility, would you agree with that statement?

MR. COYNE:

A. No.

JOHNSON, Q.C.:

Q. Would the ROE earned by a regulated utility reflect its business risk, its regulatory risk and its financial risk?

MR. COYNE:

A. No.

JOHNSON, Q.C.:

Q. It wouldn't?

MR. COYNE:

A. No.

JOHNSON, Q.C.:

Q. Okay, so tell us then what the actual ROE earned by a utility does reflect.

MR. COYNE:

A. The earned ROE?

JOHNSON, Q.C.:

Q. That's right.

MR. COYNE:

A. Well from an accounting standpoint it's those earnings that flow to the bottom line after all other expenses are paid in that

year after interest and that's the bottom line that flows to the equity investor in that period of time.

JOHNSON, Q.C.:

Q. Okay, so what I thought I was putting to you is a simple proposition and that is, if you look at a utility's actual earnings over time, that those actual earnings reflect that utility's business risk, regulatory risk and financial risk; whatever risk they face show up in its record of earnings over time.

MR. COYNE:

A. It would reflect how they manage those risk over time, but risk is a—risk has a time dimension to it as well, it would reflect how they manage—those risks in that period, in terms of how they fell to the bottom line, but it's also a prospective thing going forward, so there's not just a one-dimensional element to risk, there's a time element too, but it would reflect how you managed those risks in that specific period. But it's not the sum total of their business financial and operating risks.

JOHNSON, Q.C.:
Q. It's certainly a reflection, what other risks are there besides business risk, regulatory risk and financial risk?
MR. COYNE:
A. Those are the risks.
JOHNSON, Q.C.:
Q. Those are the risks, okay.
MR. COYNE:
A. Yes, but they have a time dimension to them. You ask in any given period, in any given period that's a reflection of how they manage those risks and how they flow to the bottom line, but that may not be at all reflective of what the future risks are for the company.
JOHNSON, Q.C.:
Q. I see, I thought you might say that and we can have that discussion. Just for the moment, though, can we turn to Dr. Booth's testimony at page 78?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. So here at page 78 of Dr. Booth's testimony,

he has a graph of Newfoundland Power's allowed versus actual pre-sharing ROE, okay? You've seen this graph in his evidence?
MR. COYNE:
A. Yes, I have.
JOHNSON, Q.C.:
Q. Okay, now this goes back from 1990 right up to 2014. Now Mr. Coyne, in your judgment does this graph indicate the actual risk borne by Newfoundland Power's shareholders over the last 25 years?
MR. COYNE:
A. It's an indicator of how they managed that risk on behalf of their shareholders and customers.
JOHNSON, Q.C.:
Q. So it's, in terms of an indicator of how they manage that risk, what does that indicate as to how they manage that risk?
MR. COYNE:
A. That they have been a solidly run company able to earn their allowed return.
JOHNSON, Q.C.:
Q. Right, and in terms of the risks that are left to management to manage, are you

familiar with the full suite of deferral accounts that Newfoundland Power has?
MR. COYNE:
A. I have looked at them, yes.
JOHNSON, Q.C.:
Q. Okay, so those numbers would also reflect risks that they don't have to manage, is that correct?
MR. COYNE:
A. I wouldn't say don't have to manage, there's an element of prudence associated with every expenditure an utility makes, so even in the context of a deferral account, if the utility is deemed to be imprudent in how they incurred that expense, they would be exposed for it, in my estimation.
JOHNSON, Q.C.:
Q. So will you not grant me that that graph represents both risks, as you call them risks, that had been managed versus those they don't have to manage?
MR. COYNE:
A. I would agree that it reflects risk that they have managed versus, I don't know how you could say that reflects risks that they

didn't have to manage. It's a reflection of—it's a picture of this Board's allowed returns over time and like most boards, they set those allowed returns based on capital information, capital market information, such as we're discussing here, and then the ability of that, you know, that then becomes a cost, it's passed through rates and the ability of that utility to, in that operating period, manage their costs in such a way so that they're still left with that allowed return. It's a general expectation for regulated utilities, that's the contact with its regulator is that the regulator sets a fair return. The utility, with prudent management, is expected to go out and earn that rate of return and have the opportunity to earn it. Most utilities in North America do earn their allowed returns, so to me, it's a reflection of the regulatory compact in this province and a healthy relationship between the Board and the company and an indication of sound management.
JOHNSON, Q.C.:

Q. Did you say that most North American utilities earn their allowed returns?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Okay, do you have evidence of that on the record?
MR. COYNE:
A. We have looked at this issue in the past. I have not filed it here.
JOHNSON, Q.C.:
Q. We'll come to-we'll explore that a little bit further because that view is not shared everywhere, Mr. Coyne. Now, so the fact that Newfoundland Power has earned and exceeded its allowed return almost every year since the mid 1990s, what can we take away from that, if anything.
MR. COYNE:
A. That the—like I just said, that the company has done a good job of managing within its allowed costs profile including its rate of return to be able, or in that rate of return it's done a good job as a company of managing to be able to do so. It's had the

opportunity and it has earned its return. It's been able to manage within its environment to do so.
JOHNSON, Q.C.:
Q. Are Newfoundland Power's managers and leadership any more gifted or skilled than managers of utilities south of the border?
MR. COYNE:
A. I have read that they are characterized as being strong in the credit rating reports, but I've not done an independent evaluation of it beyond that.
JOHNSON, Q.C.:
Q. How would you characterize how typical U.S. utilities are equipped in terms of management, direction and skill?
MR. COYNE:
A. Their strengths vary by company. One of the reasons I like credit ratings as a screen is it gives me an indicator of how credit rating agencies are viewing the company. If there's a management team in place that's not deemed as doing a good job, then I think that's one of the factors they look at in coming up with their credit rating. So, it

gives me, at least, a secondary source of how they are being viewed by the credit rating agencies. But I think, by and large, it's a pretty transparent business and the graph that you show me here is one that's looked at by shareholders other places. You had the opportunity to earn this return. If you didn't, I expect that a management team would be held accountable to its board for reasons why it wasn't able to earn its allowed return. An exception here in Newfoundland is that other utilities, if they are able to manage their expenses in such a way to extend that return, they are able to do so unless they have an explicit earning sharing mechanism in place. My understanding is that here in Newfoundland if that earnings exceeds 40 basis points over and above the allowed return, that that's fully returned to customers. So, that's not the usual case elsewhere in North America.
(1:00 p.m.)
JOHNSON, Q.C.:
Q. So, Mr. Coyne, are you aware that

Newfoundland Power's currently allowed ROE of 8.8 percent, that's about 6 percent greater than the yield presently on the Long Canada Bond, would you accept that?
MR. COYNE:
A. Yes, present yield, yes.
JOHNSON, Q.C.:
Q. Okay. So, do you see anything wrong with Newfoundland Power consistently earning more than it's allowed ROE and thus, its risk premium while never experiencing actual risks of being hurt, as we see in Doctor Booth's evidence of its earnings, in that graph we've been discussing?
MR. COYNE:
A. Could you re-phrase the question or repeat it, please?
JOHNSON, Q.C.:
Q. Yes. Well, as we look at that graph, Mr. Coyne, that graph indicates that Newfoundland Power consistently earns more than its allowed ROE while never actually experiencing, in terms of the input on its ROE, these utility risks. Would you accept that?

MR. COYNE:
A. Well, no, I wouldn't say that. I would say that they've experienced those risks and they've managed them.
JOHNSON, Q.C.:
Q. But they have not manifested themselves in a hit to their bottom line.
MR. COYNE:
A. Well, in terms of under earning their return, yes, they've managed them within that allowed return and effectively so. It's typical, I think—what is unusual for a Canadian company is that they don't have periods where they exceed that return more, you know, as we've seen in looking at other evidence in other jurisdictions. Some companies substantially exceed their allowed return by being able to manage costs or have other things fall in their favor during these periods, but that's a pretty tight relationship between allowed and earned.
JOHNSON, Q.C.:
Q. Are you referring to PBR jurisdictions in relation to –
MR. COYNE:

A. Yes and others.
JOHNSON, Q.C.:
Q. Yes, PBR typically permits that and with sharing mechanisms, is that right?
MR. COYNE:
A. Permits it in its shared and the distinguishing feature there is typically there is a dead band where the company retains earnings up to some level. The typical dead band is 50 basis point and then after that, those excess earnings are shared and the typical sharing relationship is about 50 percent to the customer and 50 percent to the company. The exception here is that all earnings are returned to the customer after 40 basis points.

We do a lot of work on performance based regulation mechanisms and setting them up. And look at the incentives implied in each of those and the strongest incentives associated with PBR or non-PBR are those that have a significant potential for the company to exceed its allowed return.
JOHNSON, Q.C.:

Q. Are you aware of any Canadian utilities or American utilities that are at a straight forward cost of service methodology, not PBR and have consistently over-earned the allowed return for this period of time?
MR. COYNE:
A. I have not examined from 1990 through 2014 any one utility to see if that's the case. I've examined—I've done other examinations on this issue and what I find is that on average, both Canadian and U.S utilities earn their allowed returns.
JOHNSON, Q.C.:
Q. What material is that?
MR. COYNE:
A. Well we presented work in Hydro Quebec on this issue. It's probably in that evidence—I think that's the last time I've looked at it, in fact. Because the Regie had expressed a concern because a witness had indicated that that wasn't the case in the U.S. So, we bought evidence forth to show that by and large U.S. utilities do earn their allowed returns. That's the last time, I think, we looked at it. But the

other issue here is –
JOHNSON, Q.C.:
Q. And you're saying, to your knowledge, that's filed. Can we go back to your Hydro-Quebec testimony then, for a moment?
MR. COYNE:
A. Sure.
JOHNSON, Q.C.:
Q. CA NP 154.
MR. COYNE:
A. I have it open.
JOHNSON, Q.C.:
Q. Can you see what you're referring to there?
MR. COYNE:
A. I don't have the page in front of me. Do you happen to know?
JOHNSON, Q.C.:
Q. No.
MR. COYNE:
A. Okay. Well, I'll find it. I think we have some colorful charts in here that show that issue and maybe I'll put my hand on it. Let me just check my index. Okay, page 54 is where it starts. So here we're looking at—we're comparing earned versus allowed

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returns.

JOHNSON, Q.C.:

Q. That's relative in proxy group companies and not –

MR. COYNE:

A. Yes, okay, let me just re-orient myself in a moment. Okay, those were authorized returns and charts through—okay, on chart 4, page 59. So, where what I'm showing is, in that case, is 11 years of history and the average differential between the earned and the allowed returns for the U.S. proxy group that I used versus the authorized ROE. And you can see that over time they're nearly identical, 11.41 versus 11.42 percent.

JOHNSON, Q.C.:

Q. So, is that the only analysis that you've done where you've determined or where you've looked at how returns for U.S. utilities compare with allowed returns?

MR. COYNE:

A. No, it's most recent that I've done.

JOHNSON, Q.C.:

Q. That's the most recent that you've done.

MR. COYNE:

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A. The most recent that I recall, put it that way.

JOHNSON, Q.C.:

Q. Okay. So there's nothing more recent that you recall and it was limited to those just proxy groups companies.

MR. COYNE:

A. Right. And this was in specific response to the Regie and its prior decision having asked to see evidence on this issue.

JOHNSON, Q.C.:

Q. And have you done research more broadly as to how U.S utilities do in relation to earned versus actual returns? It's certainly not mentioned in your resume.

MR. COYNE:

A. No. We sometimes do it on a company specific basis because we do--the other work that I do and we do is to work with investors that are actually looking at acquire utilities. And we'd look at this issue on a utility over time to see if it is able to earn its allowed return. So, I do look at it on a company specific basis, but in aggregate I think this is the last piece

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of analysis that we have done like this. And the reason for that is –

JOHNSON, Q.C.:

Q. Just one second now.

MR. COYNE:

A. Okay.

JOHNSON, Q.C.:

Q. Just to clarify, Chart 4 in your Hydro Quebec testimony, that would indicate that there are years, in fact, where the earned ROEs below the authorized ROE which is not the case that happens in Newfoundland Power for the last twenty odd years, right?

MR. COYNE:

A. Right. And as I mentioned, companies in this proxy group have the ability to stay out for multiple years.

JOHNSON, Q.C.:

Q. Right.

MR. COYNE:

A. And one of the things that they will look at is, in our planning horizon are we going to fall below our earned ROE and then we'll come back in for a rate case. So, it becomes measured calculus on the company's

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behalf whether or not they need to come back in because cost pressures are forcing them to do so. So, they'll stay out for longer and as a result of that, they may have periods in the beginning of the rate case where they're higher and then towards the end of the rate case where they're lower. But they're looking to do the same thing, to earn their allowed ROE and then in that case, within one basis point over an 11 year period. And my other experience with U.S. utilities is the same as it is with Canadian utilities, that by and large they do earn their allowed ROEs. But there was something I did want to add –

JOHNSON, Q.C.:

Q. So, by and large you mean the average utility earns it's ROE in the United States?

MR. COYNE:

A. Well, I haven't studied the average utility because there are hundreds of gas and electric utilities and what I was about to say is that in order to do so, first of all, you have to do it at the operating company level. You can't take accounting data on earnings and do this because there are adjustments to the—there are regulatory adjustments for each utility. So, you have to be able to look at whether or not they've earned their allowed ROE on their regulated rate base. And that's the determining factor. If you're looking just at accounting data, you won't be able to do so with accuracy. So, it's a real burden to do this work unless you happen to have an annual report from the company to its commission that says this was our earned ROE in that year. And we have that for some utilities and others we don't. So, it's not as easy as just simply aggregating data from SNL or any other source and determining that's how they did against their allowed ROE.

JOHNSON, Q.C.:

Q. But you filed no evidence that this was important to the Quebec regulator.

MR. COYNE:

A. The Quebec regulator asked for it.

JOHNSON, Q.C.:

Q. Asked for it, but you didn't go through any

exercise of determining, in this case, whether your North American proxy group or U.S. proxy group operating companies actually earned their allowed returns.

MR. COYNE:

A. There's a lot that's not in my evidence, but this regulatory did not ask for it. I presented it in my evidence everything that I thought this Board would like to see pertaining to this evidence, but that was something that I hadn't seen expressed by this Board as it was by the Regie as being a constraint for them in terms of being able to utilize U.S. data and U.S. proxy groups.

JOHNSON, Q.C.:

Q. All I ask you Mr. Coyne is whether you did and it's going to take a fair bit of time if when I ask you a direct question, you go on, but I wish to stop you, but I just asked you whether you did, in this case, and the answer is you didn't.

MR. COYNE:

A. Well, but the implication, I'm sorry, was that I was not providing something that I felt was important or that the Board might

find important and I did not feel so.

JOHNSON, Q.C.:

Q. So, did you regard it as important or unimportant as to whether the U.S. operating companies in your proxy group are actually are able to earn their return on a—have a track record of actually earning their allowed return? Is that important or unimportant?

MR. COYNE:

A. Well, it is important in what I looked at beyond—and again, I mentioned the problems in the accounting data—it is important and the way I looked at it is I looked at the regulatory provisions that they had down to the tariff level in place that allowed them to manage their costs so that they would be able to earn their allowed returns. So, we looked at a more fundamental way because you're trying to look—this would tell you what they are able to do historically, but it doesn't tell you what they're going to be able to do on a going forward basis.

JOHNSON, Q.C.:

Q. Sorry, Mr. Coyne, but are you telling me

that as much as you looked as to whether or not, for instance, they had a partial de-coupling mechanism and then you drew a conclusion from that as to whether they've earned their returns in the past or not.

MR. COYNE:

A. No, the reason I'm looking at that partial de-coupling mechanism is it's a forward looking view that we're trying to provide here and what I'm trying to get at is whether or not the utility has in place adequate regulatory protection to be able to manage its costs on a going forward basis. So, that's the purpose of that analysis.

JOHNSON, Q.C.:

Q. So, you –

MR. COYNE:

A. This would only tell me what they've done historically, but if there was a significant shift in their regulatory paradigm, that's what I want to know. Are they going to have the ability to look for it on a going forward basis?

JOHNSON, Q.C.:

Q. Just to be clear, Mr. Coyne, are you saying

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as you sit there this afternoon that you do not know whether the operating companies in your proxy sample actually have a tract record of earning their allowed returns? Is that your evidence?

MR. COYNE:
A. Well, I'm familiar with these companies and I've done enough work on this to know that most of these utilities do because, if not, they will have a discussion again with their board and it will probably come back to the regulator. I have seen situations where that's not the case and we usually become aware of them.

JOHNSON, Q.C.:
Q. I see. We sent over a cross aide to you regarding a statement Ms. McShane who used to be Newfoundland Power's Cost of Capital expert, sent over on April 1st.

MR. COYNE:
A. Yes.

MS. GLYNN:
Q. Is that number 6 from the letter, Mr. Johnson?

JOHNSON, Q.C.:

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Q. No, sorry, Ms. Glynn, I'm sorry. Item 4.

MS. GLYNN:
Q. Number 4, yes that will be entered as Information No. 18.

(1:15 p.m.)

JOHNSON, Q.C.:
Q. Thank you. This is an RFI that Ms. McShane answered in the 2011 generic Cost of Capital Proceeding in Alberta. And in this question, the question was Ms. McShane states that Canadian utilities have weak debt ratios. Would she agree that this off set by the lower business risk and that the median debt rating of utility in Canada –

MR. COYNE:
A. I'm sorry, can you just tell me where in the RFI you are?

JOHNSON, Q.C.:
Q. I'm reading from A, right on the page here, on the screen right here now.

MR. COYNE:
A. Okay, oh, the question?

JOHNSON, Q.C.:
Q. Yes. So, just to put the question in context, would she agree that this is offset

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by the lower business risk and that the median debt rating of utility in Canada I higher than that in the United States, even though debt ratios are lower in the United States. And then if you go cover to the next page, her response, she says, "Ms. McShane's evidence states that further it is important to recognize that prior to decision 2009-216 the allowed common equity ratios of the Alberta utilities were regarded by the debt rating agencies as weak. Then she"—this is the point I'm bringing to your attention—"she would agree that the universe of U.S. utilities has higher business risk than the typical Canadian utility which is a wires or pipes utility whereas the preponderance of U.S. utilities are integrated electric utilities which are of inherently higher business risk than distribution utilities. This may not be true of the proxy sample of similar risk utilities presented in Ms. McShane's evidence". I just wanted to see if we could whether you accept that the typical U.S. utility is perceived as being riskier than

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the typical Canadian utility.

MR. COYNE:
A. No, I would not. I mean, it's too broad of a statement because I'm not sure there is a typical U.S. or typical Canadian utility. They're all different in some respects. There's much more diversity. There are many more utilities in the U.S. than there are in Canada and there are some that are riskier and some that are less. So, I don't know that I would make that judgment in the same way.

JOHNSON, Q.C.:
Q. Now, Ms. McShane was Newfoundland Power's expert previous to you. In fact, she testified in the 2013 case. Doesn't this statement that Ms. McShane acknowledge, doesn't this simply reflect what you and your colleagues said in your HQ testimony, that you make an adjustment, in that case, of 41 basis points for the generating risk in the U.S. sample that Newfoundland Power doesn't or that Hydro Quebec didn't have, nor does Newfoundland Power, isn't that reflective of that type of thinking?

MR. COYNE:
A. No, because to me the telling line there is her last line, is to say it may not be true, the proxy sample of similar risk utilities presented in Ms. McShane's evidence. So, what's she's saying, she characterizing a universe of Canadian/U.S. utilities, put that aside for a moment, but what she's saying is that I screened for companies that are comparable risk for purposes of my cost of capital analysis, the same as we have done without returning that field again pertaining to integrated utility versus wires and pipes risks. I acknowledge that, that if you're fully integrated on that basis, you have more generation risk than a company that's doesn't, but that's not the entirety of the risk profile of that company. That's why we look at all these other screens that we discussed including credit rating risks to see how they're viewed from an investor perspective.
JOHNSON, Q.C.:
Q. So you would not agree that typically the U.S. utility sector is regarded the higher

risk than the Canadian utility sector?
MR. COYNE:
A. No. And –
JOHNSON, Q.C.:
Q. Okay.
MR. COYNE:
A. - nor would Moody's whose done a report ton this recently. And again, when you say typical, there is a broader array of electric utilities in the U.S. than there are in Canada.
JOHNSON, Q.C.:
Q. And now you have put together a selected sample of 6 U.S. utilities that you're saying we should be looking upon those as similar to Newfoundland Power for risk purposes, correct?
MR. COYNE:
A. There are seven.
JOHNSON, Q.C.:
Q. Seven, okay, seven. And so you've gone through an exercise to try to make sure that these are comparable to Newfoundland Power, right?
MR. COYNE:

A. I've gone through an exercise of screening at the outset to get them as close as I can from a capital market screening standpoint. Then I've done risk analysis at the operating company level because where those risks get managed.
JOHNSON, Q.C.:
Q. Right, and you could have put, I take it you would agree, you could have put a lot more riskier companies in your sample, would that be right?
MR. COYNE:
A. Yes.
JOHNSON, Q.C.:
Q. Yes, okay.
MR. COYNE:
A. By the way, you're talking about the U.S. sample; we also did a Canadian sample.
JOHNSON, Q.C.:
Q. No, no, I understand, but understand something else though, that your North American group is 7/9ths U.S., right?
MR. COYNE:
A. It is, but I also have a peer Canadian sample as well.

JOHNSON, Q.C.:
Q. I understand that and we'll come to that. Now, so you've tried to construct this sort of low risk sample for this case, is that right?
MR. COYNE:
A. Comparable risk sample for Newfoundland Power.
JOHNSON, Q.C.:
Q. Okay. Now, is it your judgment that the U.S. market recognizes the lower risk of your carefully created lower risk sample and just doesn't look at them as U.S. utilities when they're assessing these stocks and investors are looking at these utilities, investing in utility stocks?
MR. COYNE:
A. When you say "they", who are you referring to?
JOHNSON, Q.C.:
Q. Equity investors.
MR. COYNE:
A. Equity investors look at it on a utility specific basis. They do look at the sector. There are times I see equity reports; I

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looked at entire sector. But ultimately it boils down to a company specific investment unless you are buying some sort of electronic product that trades the entirety of a sector.

JOHNSON, Q.C.:

Q. What evidence do you have that, in fact, the U.S. capital market distinguishes between the typically higher risk of U.S. utilities that are in the big broad universe and your carefully selected lower risk utility group?

MR. COYNE:

A. I'm not sure I characterized it that way, as high risk versus this proxy group. This proxy group was selected based on 6 criteria that are designed to give me companies that look more like Newfoundland Power than other companies in that universe. I didn't make a judgment as to whether or not, nor did I need to, as to whether or not the universe was more or less risky. Because if I did so, I can take Bonneville Power which is rated Triple A and I don't want to do that because that is much higher credit rating, that looking more like a Hydro Quebec, you

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know. Or I could take a very small utility that had a very lousy credit rating, for example, and I wouldn't want them in there as well. I'm trying to come up with something that looks to an investor as a risk that has a comparable profile to that of the target, in this case, Newfoundland Power.

JOHNSON, Q.C.:

Q. Mr. Coyne, what would your ROE and common equity recommendation be for a run of the mill, typical U.S. utility, not like, particularly your lower risk one like we're looking at here?

MR. COYNE:

A. Well, there's no such thing as a run of the mill typical utility". We do it on a company specific basis. I suppose you could say run of the mill would be that I would take all 46 companies and value line and not screen out any, but we never do that.

JOHNSON, Q.C.:

Q. So, if you were to do that, what do you think your ROE comment equity ratio recommendation would be, for the 46 company

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sample?

MR. COYNE:

A. Well, I don't know; I've never run it.

JOHNSON, Q.C.:

Q. Do you expect it would higher than what you're putting forward here now?

MR. COYNE:

A. No, I don' think so. I think these companies representative enough, so they're probably not going vary materially—and one of the reasons I can say that is we also do this work before the FERC and the before the FERC—the FERC has specified very specific screen criteria for utilities in that as they want to use a national sample. And that national sample is typically 26, maybe 30 of these companies. And those results don't materially differ from those that I'm looking at here, but I think it's better to show more care than to narrow it down to a sample that's as close as the company's starting with because to do the risk analysis we've done at the operating company level, if I try to do that on 46 companies I think we'd still be back doing our work and

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not able to file the testimony. Because you do the capital market work at the holding company level, but all the work that you've been looking at in the appendix has to be done at the operating company level to look at those risk elements. So, you'd be forever and a day trying to do the work at that level. But I don't think that the aggregate numbers would really significantly deviate from the sample, would be my judgment. You know, Triple A companies and then you may have—you will have companies lower on the range as well.

JOHNSON, Q.C.:

Q. So, some companies with pretty inferior bond ratings in that group you're referring to.

MR. COYNE:

A. You'd have a couple that would be Triple B- probably.

JOHNSON, Q.C.:

Q. Mr. Chairman, I was going to go to another cross aide, but I don't that I'd get very far into it.

CHAIRMAN:

Q. Okay, we'll adjourn until tomorrow.

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Upon conclusion at 1:25 p.m.

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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 4th 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
4th day of April

Judy Moss
Discoveries Unlimited Inc.

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