Q. In Order No. P.U. 13(2013) and Order No. P.U. 18(2016) the Board accepted that there are differences in the U.S. and Canadian experience that require adjustment to the DCF method results. Mr. Coyne, at page 33, line 14 to page 34, line 16, states no such adjustment is required. What changes, if any, have occurred since 2016 that demonstrate that the differences determined by the Board to exist in 2016 no longer exist?

A. The Board has previously expressed concern that there are differences in risk and associated returns between Canadian and U.S. utilities, and has indicated that it has not been satisfied that the results of using U.S. data, in the form of a proxy group of companies, can be accepted without adjustment to account for these differences.

Mr. Coyne has used screening criteria to select a low-risk group of U.S. companies that are primarily engaged in the provision of regulated electric utility service, like Newfoundland Power. As shown in Exhibit JMC-9, the U.S. Electric proxy group companies derive 98 percent of their regulated income and 96 percent of their regulated revenues from electric utility service, and approximately 96 percent of their regulated assets are dedicated to electric utility operations. The U.S. electric proxy group is much more comparable to Newfoundland Power than the Canadian proxy group in this regard.

Exhibit JMC-10 compares the business risk for Newfoundland Power to the U.S. Electric proxy group. As shown in that risk assessment, Newfoundland Power generally has comparable business risk to the U.S. electric proxy group. In particular, the companies in the U.S. Electric proxy group have numerous regulatory mechanisms, adjustment clauses, cost recovery mechanisms, and deferral/variance accounts that make them similar to Newfoundland Power in terms of business risk. These regulatory mechanisms provide comparable protection against variations in revenues and expenses, and comparable recovery of capital costs. Mr. Coyne acknowledges that Newfoundland Power has less generation risk than many companies in the U.S. proxy group, but this is partially offset by the risk associated with Newfoundland Power's reliance on a single source of power, which places the Company at greater risk of supply disruptions than the utilities in the U.S. proxy group.

Another important consideration is the fact that Canadian utilities are funded by an international group of investors, including U.S. investors, and vice versa. This is evidence that the market for equities in these companies has become a North American market, at a minimum. Supporting this view, the table below summarizes the top institutional investor ownership positions (based on the 10 largest institutional investors) for each of the companies utilized in Mr. Coyne's Canadian proxy group and Fortis, Inc.

Proxy Company	Institutional Investors – % by country		
	Canada	U.S.	Other
Canadian Utilities Ltd.	79%	13%	8%
Emera, Inc.	61%	34%	5%
Enbridge, Inc.	38%	62%	0%
Fortis, Inc.	55%	40%	5%
Valener, Inc.	68%	15%	17%

In addition, while not new evidence, Mr. Coyne cites on page 34 of his report the Moody's Investors Service 2013 report indicating that Moody's changed its view of the regulatory environment in the U.S, and now believes that the U.S. regulatory environment is more favorable due to increased use of cost recovery mechanisms and reduced regulatory lag.

In summary, Mr. Coyne believes the risk comparability of the U.S. electric proxy group companies and the supportiveness of the regulatory jurisdictions are more important factors in the risk comparison than whether the proxy companies are located in Canada or the U.S.