

1 **Q. Can Mr. Coyne confirm that in his risk premium analysis he is using allowed**
2 **returns for US not Canadian utilities and that if US returns are consistently higher**
3 **than in Canada by say a constant 2% this will be reflected in his estimates? Further**
4 **that the use of allowed ROEs from US utilities has been specifically rejected by for**
5 **example the AUC? Please provide any decision by a Canadian regulator that has**
6 **specifically accepted the use of US allowed returns in Canada. Please provide the**
7 **underlying data in machine readable form (Excel).**
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9 A. Mr. Coyne can confirm he is using allowed returns for U.S. electric utilities in his risk
10 premium analysis. He cannot confirm that there has been a constant 2% difference
11 between allowed returns in Canada and the U.S. Further, he cannot confirm the
12 characterization of the AUC's decision, as there is no reference to a specific decision in
13 the question, but in its most recent decision on the evidence the AUC concluded on this
14 issue:
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16 *The Commission also does not consider that simply matching the ROE and*
17 *deemed equity ratios awarded by other regulators satisfies the fair return*
18 *standard, nor does it establish just and reasonable rates. The Commission*
19 *remains of the view that seeking to match approved returns in other jurisdictions*
20 *provides an outcome that is inherently circular. The objective of the GCOC is to*
21 *consider the market expectation for the utilities raising capital and providing*
22 *utility service in Alberta, not simply mimicking the returns awarded by other*
23 *regulators.*
24

25 *In addition, there is insufficient evidence to conclude that utilities in other*
26 *Canadian and U.S. jurisdictions are comparable and face the same risks as the*
27 *affected utilities. The determination of a "comparable" return requires the*
28 *Commission to apply its judgment in assessing the specific cost of capital for the*
29 *utilities based on the evidence presented and in the absence of any utility under*
30 *the Commission's jurisdiction issuing equity directly to investors. (Decision*
31 *22570-D01-2018, August 2, 2018, at 39-40.*
32

33 Mr. Coyne is not simply matching allowed ROEs. The risk premium analysis provides
34 an additional perspective on the cost of equity for U.S. electric utilities, depending on
35 changes in the government bond yield. Many U.S. regulators consider this information as
36 a benchmark to test the reasonableness of the DCF and CAPM results; several U.S.
37 regulators including the FERC explicitly rely on the results of the risk premium analysis
38 in setting a fair return for regulated utilities.
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40 See response to Request for Information CA-NP-157 for data used to create Mr. Coyne's
41 risk premium analysis.