

1 **Reference: Volume 3, Cost of Capital Report by James Coyne**
2

3 **Q. Volume 3, Cost of Capital Report by James Coyne, page 40, line 6 to page 41, line 2.**
4 **In Order No. P.U. 13(2013) and Order No. P.U. 18(2016) the Board decided a**
5 **downward adjustment should be made to the DCF method to reflect differences in**
6 **the U.S. and Canadian experience. In Mr. Coyne’s opinion no such adjustment is**
7 **required. What changes, if any, have occurred since 2016 that would lead the Board**
8 **to now conclude that no downward adjustment is required?**
9

10 A. The Board has previously expressed concern that there are differences in risk and
11 associated returns between Canadian and U.S. utilities, and has indicated that it has not
12 been satisfied that the results of using U.S. data, in the form of a proxy group of
13 companies, can be accepted without adjustment to account for these differences.
14

15 Mr. Coyne has used screening criteria to select a low-risk group of U.S. companies that
16 are primarily engaged in the provision of regulated electric utility service, like
17 Newfoundland Power. As shown in Exhibit JMC-11, the U.S. electric proxy group
18 companies derive 97 percent of their regulated income and 96 percent of their regulated
19 revenues from electric utility service, and approximately 96 percent of their regulated
20 assets are dedicated to electric utility operations. The U.S. electric proxy group is more
21 comparable to Newfoundland Power than the Canadian proxy group in this regard.
22

23 Exhibit JMC-12 compares the business risk for Newfoundland Power to the U.S. electric
24 proxy group. As shown in that risk assessment, Newfoundland Power generally has
25 comparable business risk to the U.S. electric proxy group. In particular, the companies in
26 the U.S. electric proxy group have numerous regulatory mechanisms, adjustment clauses,
27 cost recovery mechanisms, and deferral/variance accounts that make them similar to
28 Newfoundland Power in terms of business risk. These regulatory mechanisms provide
29 comparable protection against variations in revenues and expenses, and comparable
30 recovery of capital costs. Mr. Coyne acknowledges that Newfoundland Power has less
31 generation risk than many companies in the U.S. proxy group, but this is partially offset
32 by the risk associated with Newfoundland Power’s reliance on a single source of power,
33 which places the Company at greater risk of supply disruptions than the utilities in the
34 U.S. proxy group.
35

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

Proxy Company	Institutional Investors – % by country		
	Canada	U.S.	Other
Algonquin Utilities and Power Company	56%	11%	32%
AltaGas Ltd.	49%	38%	13%
Canadian Utilities Ltd.	31%	48%	22%
Emera, Inc.	34%	40%	26%
Enbridge, Inc.	33%	53%	14%
Fortis Inc.	60%	11%	29%
Hydro One Limited	55%	28%	16%

1 In addition, while not new evidence, Mr. Coyne cites on page 40 of his report the
2 Moody's Investors Service September 2013 report indicating that Moody's changed its
3 view of the regulatory environment in the U.S., and now believes that the U.S. regulatory
4 environment is more favorable than it had previously thought due to increased use of cost
5 recovery mechanisms and reduced regulatory lag. In 2018, the equity analysts at Scotia
6 Bank published a report in which they indicate that they no longer view U.S. utilities as
7 more risky than Canadian utilities. In particular, the Scotia Bank report observes that
8 valuations (i.e., P/E ratios) are now lower for Canadian utilities than for U.S. utilities.
9 Also, the Canadian and U.S. economies and capital markets have become even more
10 integrated since 2016, and Canadian-based utilities have continued to acquire U.S.-based
11 utilities and fund their operations with debt and equity issued both in Canada and the U.S.

12
13 Further, as shown in Figure 1, the average ROE results for the U.S. electric proxy group
14 are 130 basis points below those for Canadian regulated utilities (10.0 percent for U.S. vs.
15 11.3 percent for Canada). This would not support a view that these U.S. utilities are
16 riskier than the Canadian proxy group.

17
18 In summary, Mr. Coyne believes that U.S. electric proxy group companies can be
19 effectively screened for purposes of estimating the cost of capital for Canadian utilities,
20 including Newfoundland Power, without the need for a country risk adjustment. This
21 view is supported by the comparability and supportiveness of the regulatory
22 environments, integration of Canadian and U.S. capital markets and the evolution of
23 North American business models in the utility industry.

Mr. Coyne's Canadian Proxy Group and Fortis Inc.
Analysis of Top Institutional Investor Ownership Positions

Entities italicized in the display below indicate subsidiaries with cross ownership holdings. These entities are either owned directly or indirectly by multiple entities within the larger corporate structure of the company in focus.

Top Institutional Investor and Stakeholder Summary of Algonquin Power & Utilities Corp.

- 7.18% Owned by BMO Global Asset Management - United Kingdom
- 3.17% Owned by RBC Dominion Securities Inc. - Canada
- 2.97% Owned by Vanguard Group Inc. - PA, USA
- 2.97% Owned by The Toronto-Dominion Bank (TSX:TD) - Canada
- 2.77% Owned by TD Asset Management Inc. - Canada
- 1.57% Owned by Canadian Imperial Bank of Commerce (TSX:CM) - Canada
- 1.44% Owned by Manulife Asset Management - Canada
- 1.37% Owned by The Bank of Nova Scotia (TSX:BNS) - Canada
- 1.21% Owned by Legal & General Investment Management Ltd. - United Kingdom
- 1.19% Owned by Mackenzie Financial Corp. - Canada

	USA	UK	Canada
		7.18%	
			3.17%
	2.97%		
			2.97%
			2.77%
			1.57%
			1.44%
			1.37%
		1.21%	
			1.19%
<i>SUM</i>	<i>0.03</i>	<i>0.08</i>	<i>0.14</i>
Country %	11.49%	32.47%	56.04%

0.26

Notes:

Source: S&P Capital IQ, as of August 17, 2021

Entities italicized in the display below indicate subsidiaries with cross ownership holdings. These entities are either owned directly or indirectly by multiple entities within the larger corporate structure of the company in focus.

Top Institutional Investor and Stakeholder Summary of AltaGas Ltd.

6.30% Owned by RBC Global Asset Management Inc. - Canada
 3.05% Owned by Vanguard Group Inc. - PA, USA
 2.03% Owned by Energy Income Partners LLC - CT, USA
 2.02% Owned by QV Investors Inc. - Canada
 1.74% Owned by Dimensional Fund Advisors LP - TX, USA
 1.68% Owned by BMO Global Asset Management - United Kingdom
 1.63% Owned by BlackRock Inc. (NYSE:BLK) - NY, USA
 1.58% Owned by CIBC Asset Management Inc. - Canada
 1.23% Owned by Norges Bank Investment Management - Norway
 1.02% Owned by TD Asset Management Inc. - Canada

	USA	UK	Canada	Norway	
			6.30%		
	3.05%				
	2.03%				
			2.02%		
	1.74%				
		1.68%			
	1.63%				
			1.58%		
				1.23%	
			1.02%		
<i>SUM</i>	<i>0.08</i>	<i>0.02</i>	<i>0.11</i>	<i>0.01</i>	<i>0.22</i>
Country %	37.9%	7.5%	49.0%	5.5%	

Notes:

Source: S&P Capital IQ, as of August 17, 2021

Canadian Utilities Limited | Corporate Structure
 TSX:CU, TSX:CU.X (MI Key: 4142320; SPCIQ Key: 873742)

Entities italicized in the display below indicate subsidiaries with cross ownership holdings. These entities are either owned directly or indirectly by multiple entities within the larger corporate structure of the company in focus.

Top Institutional Investor and Stakeholder Summary of Canadian Utilities Limited

- 1.98% Owned by BlackRock Inc. (NYSE:BLK) - NY, USA
- 1.84% Owned by BMO Global Asset Management - United Kingdom
- 1.52% Owned by Vanguard Group Inc. - PA, USA
- 1.26% Owned by TD Asset Management Inc. - Canada
- 0.68% Owned by I.G. Investments Management Ltd. - Canada
- 0.62% Owned by Mackenzie Financial Corp. - Canada
- 0.50% Owned by JP Morgan Asset Management - NY, USA

	USA	UK	Canada
	1.98%		
		1.84%	
	1.52%		
			1.26%
			0.68%
			0.62%
	0.50%		
<i>SUM</i>	<i>0.04</i>	<i>0.02</i>	<i>0.03</i>
Country %	47.6%	21.9%	30.5%

0.08

Notes:
 Source: S&P Capital IQ, as of August 17, 2021

Entities italicized in the display below indicate subsidiaries with cross ownership holdings. These entities are either owned directly or indirectly by multiple entities within the larger corporate structure of the company in focus.

Top Institutional Investor and Stakeholder Summary of Emera Incorporated

- 3.20% Owned by Vanguard Group Inc. - PA, USA
- 2.95% Owned by BlackRock Inc. (NYSE:BLK) - NY, USA
- 1.91% Owned by CI Investments Inc. - Canada
- 1.80% Owned by Pictet Asset Management Ltd. - United Kingdom
- 1.74% Owned by BMO Global Asset Management - United Kingdom
- 1.73% Owned by RBC Global Asset Management Inc. - Canada
- 1.62% Owned by TD Asset Management Inc. - Canada
- 1.27% Owned by First Sentier Investors (Australia) IM Ltd - Australia
- 1.15% Owned by Franklin Resources Inc. (NYSE:BEN) - CA, USA
- 1.02% Owned by Mackenzie Financial Corp. - Canada

	USA	UK	Canada	Australia	
	3.20%				
	2.95%				
			1.91%		
		1.81%			
		1.74%			
			1.73%		
			1.62%		
				1.27%	
	1.15%				
			1.02%		
SUM	7.30%	3.55%	6.28%	1.27%	18.40%
Country %	40%	19%	34%	7%	

Notes:
 Source: S&P Capital IQ, as of August 17, 2021

Enbridge Inc. | Corporate Structure
 TSX:ENB (MI Key: 4089108; SPCIQ Key: 280420)

Entities italicized in the display below indicate subsidiaries with cross ownership holdings. These entities are either owned directly or indirectly by multiple entities within the larger corporate structure of the company in focus.

Top Institutional Investor and Stakeholder Summary of Enbridge Inc.

4.42% Owned by Capital Research & Mgmt Co. - CA, USA	4.42%			
3.33% Owned by BMO Global Asset Management - United Kingdom		3.33%		
3.26% Owned by Royal Bank of Canada (TSX:RY) - Canada			3.26%	
3.11% Owned by Vanguard Group Inc. - PA, USA	3.11%			
2.68% Owned by RBC Global Asset Management Inc. - Canada			2.68%	
1.60% Owned by RBC Dominion Securities Inc. - Canada			1.60%	
1.48% Owned by TD Asset Management Inc. - Canada			1.48%	
1.06% Owned by The Bank of Nova Scotia (TSX:BNS) - Canada			1.06%	
1.05% Owned by Canadian Imperial Bank of Commerce (TSX:CM) - Canada			1.05%	
1.03% Owned by Mackenzie Financial Corp. - Canada			1.03%	
<i>SUM</i>	7.53%	3.33%	12.16%	23.02%
Country %	33%	14%	53%	

Notes:

Source: S&P Capital IQ, as of August 17, 2021

Entities italicized in the display below indicate subsidiaries with cross ownership holdings. These entities are either owned directly or indirectly by multiple entities within the larger corporate structure of the company in focus.

Top Institutional Investor and Stakeholder Summary of Fortis Inc.

- 4.73% Owned by BMO Global Asset Management - United Kingdom
- 3.45% Owned by 1832 Asset Management L.P. - Canada
- 3.27% Owned by Fidelity International Ltd. - Bermuda
- 3.14% Owned by Vanguard Group Inc. - PA, USA
- 3.01% Owned by RBC Global Asset Management Inc. - Canada
- 2.65% Owned by RBC Dominion Securities Inc. - Canada
- 2.32% Owned by TD Asset Management Inc. - Canada
- 2.22% Owned by The Toronto-Dominion Bank (TSX:TD) - Canada
- 1.51% Owned by Mackenzie Financial Corp. - Canada
- 1.47% Owned by The Bank of Nova Scotia (TSX:BNS) - Canada

	USA	UK	Canada	Bermuda	
		4.73%			
			3.45%		
				3.27%	
	3.14%				
			3.01%		
			2.65%		
			2.32%		
			2.22%		
			1.51%		
			1.47%		
SUM	3.14%	4.73%	16.63%	3.27%	27.77%
Country %	11%	17%	60%	12%	

Notes:

Source: S&P Capital IQ, as of August 17, 2021

Entities italicized in the display below indicate subsidiaries with cross ownership holdings. These entities are either owned directly or indirectly by multiple entities within the larger corporate structure of the company in focus.

Top Institutional Investor and Stakeholder Summary of Hydro One Limited

- 1.74% Owned by 1832 Asset Management L.P. - Canada
- 1.72% Owned by Vanguard Group Inc. - PA, USA
- 1.55% Owned by BMO Global Asset Management - United Kingdom
- 1.02% Owned by BlackRock Inc. (NYSE:BLK) - NY, USA
- 0.81% Owned by TD Asset Management Inc. - Canada
- 0.80% Owned by Beutel Goodman & Co. Ltd. - Canada
- 0.75% Owned by RBC Global Asset Management Inc. - Canada
- 0.70% Owned by Manulife Asset Management - Canada
- 0.53% Owned by Mackenzie Financial Corp. - Canada

	<u>USA</u>	<u>UK</u>	<u>Canada</u>	
			1.74%	
	1.72%			
		1.55%		
	1.02%			
			0.81%	
			0.80%	
			0.75%	
			0.70%	
			<u>0.53%</u>	
<i>SUM</i>	<i>2.74%</i>	<i>1.55%</i>	<i>5.33%</i>	<i>9.62%</i>
Country %	28%	16%	55%	

Notes:

Source: S&P Capital IQ, as of August 17, 2021