

1 **Q. Evidence of Ms. McShane: Overall recommendations Pages 2-3: Please confirm**
2 **that when regulators did place weight on comparable earnings testimony they did so**
3 **with a market to book ratio adjustment to ensure that they were not capturing the**
4 **impact of market power on the part of other powerful firms.**

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6 A. Ms. McShane cannot confirm. The Ontario Energy Board in a 1991 decision for Union
7 Gas (EBRO 470, April 1991) gave weight to the comparable earnings test incorporating a
8 market-to-book ratio adjustment. Although it did not specify its reasoning for the
9 adjustment, the OEB did note that intervenor and staff witnesses supported an adjustment
10 for market power, while the Union Gas witnesses did not. In a later decision for
11 Consumers Gas, now Enbridge Gas Distribution, (EBRO 485, December 1993), the OEB
12 stated that it “has taken account of the different results of all the tests and the other
13 evidence presented in the proceeding in its deliberations”, but made no mention of an
14 adjustment to the comparable earnings test for market to book ratios. In its 1993 decision
15 for TransCanada Pipelines, in which the National Energy Board gave weight to
16 comparable earnings (RH-2-92, February 1993), there was no discussion of a market to
17 book adjustment for any reason. In the most recent case in Alberta in which the regulator
18 gave weight to comparable earnings (City of Edmonton, E95070, June 1995), the
19 regulator considered that there may well be distortion in the market to book ratios due to
20 inflation. The decision did not reference market power, nor was there any indication of
21 an adjustment to the comparable earnings test for market power. In its cost of capital
22 decision in 2009 referenced in response to CA NP 40, the BCUC did not indicate that it
23 made an adjustment to the comparable earnings test for market power.