

1 **Q. Evidence of Ms. McShane Pages 63: With referenced to the accepted optimism of**  
2 **analyst growth forecasts, please indicate the Canadian regulators who have**  
3 **questioned their reliability and any ones that have accepted them and based their**  
4 **ROE awards on them *without* adjustment.**  
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6 A. The forecasts were accepted without adjustment by the BCUC in its March 2006 cost of  
7 capital decision for Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. (G-14-06,  
8 page 55). In its December 2009 Cost of Capital decision (G-158-09, page 45), the BCUC  
9 stated “As for the two most commonly used approaches, the Commission Panel finds that  
10 the DCF approach has the more appeal in that it is based on a sound theoretical base, it is  
11 forward looking and can be utility specific. The Commission Panel has considered the  
12 submission of the JIESC concerning “upward bias” of analysts’ estimates and considers  
13 that no allegations of upward bias have been levelled against utility analysts and that  
14 *Value Line* estimates will be free from any suggestion of upward bias. Accordingly the  
15 Commission Panel will not give any weight to suggestions of analyst bias.”  
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17 In its generic cost of capital decision in November 2009 (Decision 2009-216, paragraph  
18 269), the Alberta Utilities Commission expressed its concern about potential upward bias  
19 in analysts' growth estimates, but considered that a multi-stage DCF analysis that adjusts the  
20 long run growth expectations to a reasonable level could provide some guidance to the  
21 Commission. In its December 2011 generic cost of capital decision (Decision 2011-474,  
22 page 18), the AUC stated that it remained concerned with the potential upward bias in  
23 analysts' growth forecasts.  
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25 In its decision on cost of capital for Ontario Power Generation in October 2008 (EB-  
26 2007-0905, page 157), the Ontario Energy Board stated, “The Board finds that each of  
27 the analytical tests has value as each provides a different perspective on the question of  
28 the appropriate ROE. However, each test also has its weaknesses. For example, there is  
29 evidence of analyst bias, which although not conclusive with respect to utilities, suggests  
30 that the DCF cannot be relied upon wholly.” In its Report on the Cost of Capital for  
31 Ontario’s Regulated Utilities in December 2009, in which it reset the benchmark ROE  
32 and revised the automatic adjustment formula, the OEB did not address the issue.  
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34 In its November 2011 decision on cost of capital for Gaz Métro (D-2011-182, page 53),  
35 the Régie de l’énergie du Québec found that the DCF model entails some practical  
36 difficulties, including calculation of the dividend growth rates for the selected securities.  
37 The Régie noted that the dividend growth rate calculation is a projection based on  
38 financial analysts’ forecasts, but it did not specifically refer to analyst optimism.  
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40 In its cost of capital decision for Trans Quebec & Maritimes Pipelines (RH-1-2008,  
41 March 2009, page 27), the National Energy Board found that challenges remain in the  
42 applicability of the discounted cash flow test since historical growth rates might not  
43 reflect the future and analyst expectations might be different than the aggregate  
44 expectations of all financial market participants.