Utilities
2011 Generic Cost of Capital Proceeding
Application No. 1606549
Proceeding ID. 833

Information Response to:
Canadian Association of Petroleum Producers (CAPP) Information Request to
Ms. Kathleen C. McShane (McShane)
Received: April 11, 2011

CAPP-McShane (ROE)-21

Reference: Analyst growth estimates, page 63-71 and Schedule 13.

Issue/Sub-Issue: Opinion Capital Structure and Return on Equity for the Alberta Utilities

Request:

(a) On page 63 and in Appendix B Ms. McShane discusses her DCF estimates based on US utilities and indicates that they are based on IBES analyst growth forecasts and a sustainable growth estimate. Please indicate any and all evidence that Ms. McShane is aware of that indicates that analyst growth forecasts are unbiased estimates of future growth rates rather than being optimistic.

(b) Can Ms. McShane confirm that in previous hearings she has confirmed the analyst optimism bias, but claimed instead that, regardless of the optimism, they affect security prices?

(c) Can Ms. McShane confirm that her Schedule 13 indicates that the average forecast growth rate in 2010 for her US utilities is 4.9% which means a DCF estimate of 9.3% and that this DCF estimate is 1.2% less than her 2009 DCF estimate of 10.50%?

(d) Please explain why the AUC should not take the drop in her US DCF estimate in (c) above as indicating that the financial crisis has passed and fair rates of return for low risk US utilities have dropped by 1.2%.

(e)   Please run a simple regression of the average dividend yield against the long US treasury yield in Schedule 13 and discuss the result.

(f)   Please run a simple regression of the IBES growth rate against the treasury yield in Schedule 13 and discuss the result.

(g)   With her three stage growth model Ms. McShane assumes that these utilities will grow at the average growth rate of US GDP. Please indicate what this long run GDP growth rate is and provide all statistical work that supports the assumption that US utilities can grow at this rate.

(h)   Further to (f) above, please provide the earnings per share, book value per share, dividend per share and net rate base per share for each of the utilities in her US proxy sample back to 1990 and the annual growth rate in each. Then please estimate a regression of the annual growth rate in each of these variables against the annual growth rate of US GDP and report the size of the coefficients and their significance.

(i)   Please provide a table of the average arithmetic and compound growth rates for dividend, earnings and book value per share for each utility in (h) since 1990 and compare this with the same growth rate for US GDP and discuss in detail whether these US utilities have grown their dividend, earnings and book values at the GDP growth rate over the last 20 years.

(j)   If the results in (i) above indicate that US utilities have not grown their dividends, earnings or book values at the average GDP growth rate, please discuss in detail why they are expected to perform better in the future than they have done in the past and why this would not be taken as indicative of analyst optimism.

(k)   For each Canadian utility holding company in Ms. McShane's Schedule 11 please provide the annual dividend, earnings and book value per share back to 1990 where available and the source of the data.

(l)   For each utility in (k) above contrast the average growth rate in dividends, earnings and book value per share with the average growth rate in Canadian GDP each year using arithmetic and compound growth rates.

1990-2010	Book Value Per Share		Dividends Per Share		Earnings Per Share	
	Arithmetic Average Growth	Compound Growth	Arithmetic Average Growth	Compound Growth	Arithmetic Average Growth	Compound Growth
Consolidated Edison	3.3%	3.3%	1.4%	1.4%	2.6%	2.0%
New Jersey Resources	6.0%	5.6%	3.9%	3.9%	24.5%	9.9%
Northwest Natural Gas	3.7%	3.7%	2.2%	2.1%	8.5%	2.6%
Piedmont Natural Gas	5.6%	5.5%	5.0%	5.0%	7.1%	6.0%
South Jersey Industries	5.4%	5.3%	3.4%	3.4%	8.3%	6.3%
Vectren Corp	4.5%	4.5%	4.1%	3.7%	7.8%	2.8%
WGL Holdings	4.1%	4.1%	2.0%	2.0%	8.5%	2.8%
Sample Average	4.3%	4.2%	2.7%	2.7%	4.5%	4.0%

Arithmetic GDP Growth   4.8%
Compound GDP Growth   4.7%