Q. Vander Weide Evidence – As regards Dr. Vander Weide's Ex ante Risk Premium Analysis, Dr. Vander Weide reports at page 38 that his forward-looking risk premium for his natural gas group was 8.1% and was 7.7% for his electric utility comparable group. This leads to estimates of cost of equity of 11.3% and 10.9% respectively (including the 2.73% risk free rate and a fifty basis point flotation adjustment). Is the business risk of a U.S. electric utility and a U.S. natural gas utility the same? Why or why not?

A. The business risk of a U.S. natural gas utility is currently slightly less than the business risk of U.S. electric utilities because many electric utilities are increasing their capital expenditures to meet demand growth and satisfy environmental requirements. I note that in terms of authorized returns on equity in the United States, authorized ROEs have been approximately twenty basis points less for natural gas utilities than for electric utilities in 2011.