Q. Vander Weide Evidence - Comparable Risk Utilities, page 14

a. Please provide extracts from any rating agency reports that indicate that the regulatory risk of Dr. Vander Weide's US sample of firms is the same as that for the Canadian firms.

b. Please provide extracts from any regulatory decisions in Canada that indicate that US data can be used in Canada without any qualifications or adjustments, that is not being used as a check or a "weighting" or where differences can be accounted for. Failing that please indicate where in Dr. Wander Weide's testimony he has "accounted for" or weighted or used his US "comparables" as a check.

c. Would Dr. Vander Weide agree that a proxy is not necessarily the same as the firm under examination or imply that its allowed ROE or risk can be used without qualification?

A. a. Dr. Vander Weide's testimony concerns the business and financial risks experienced by equity investors in public utilities such as Newfoundland Power. In contrast, rating agency reports assess the business and financial risks of investing in a company's bonds. Because rating agency reports do not assess risks from the equity investors' point of view, Dr. Vander Weide did not study what rating agency reports may indicate about the regulatory risk of my sample of utilities compared to the regulatory risk of Canadian utilities.

b. Dr. Vander Weide agrees that regulatory decisions in Canada generally recognize that cost of equity data for U.S. utilities can be helpful in estimating the cost of equity for Canadian utilities if potential differences in the risks of U.S. and Canadian utilities are taken into account. Dr. Vander Weide discusses the potential differences in risks of U.S. and Canadian utilities in Section IV of his written evidence. He concludes that: "the business risk of natural gas and electric utilities is approximately the same in the U.S. as it is in Canada" [Vander Weide evidence at 20]; and (2) "Canadian utilities generally have greater financial risk than U.S. utilities because…they rely more heavily on debt financing than U.S. utilities." [Vander Weide evidence at 22]

c. Dr. Vander Weide does not suggest that the allowed ROEs or risk of U.S. utilities can be used to estimate the cost of equity for Canadian utilities without examining potential differences in risk between U.S. and Canadian utilities. In fact, Dr. Vander Weide examines potential differences in business and financial risks of U.S. and Canadian utilities and concludes that the business risks of U.S. utilities are generally the same as those of Canadian utilities, while the financial risk of U.S. utilities is less than the financial risk of Canadian utilities.