

**Q. McShane Evidence - Use of US comparables, page 57**

- a. Please confirm that where the Boards cited on page 58 indicate that US companies can be informative and results are similar, Ms. McShane is taking them to be identical.**
- b. Please report the decisions of the AUC, the Regie and this Board that rejected the use of US firms as comparables and the reasons why.**

A. a. Ms. McShane does not consider that they are identical. No two utilities are identical. Every utility has unique characteristics. It would be impossible to find two companies in any industry that are identical. The sample of utilities needs to be of comparable total (business plus financial) risk to be used as proxies for Newfoundland Power to rely on its cost of equity estimate as a proxy for the cost of equity for Newfoundland Power. Ms. McShane has selected a sample of U.S. utilities that is of comparable total risk to Newfoundland Power.

- b. Ms. McShane does not consider that the AUC rejected use of U.S. utilities as comparables. She acknowledges that, in Decision 2009-216, in determining that it would not give weight to allowed ROEs in the U.S., the AUC found that the business risks of Canadian and U.S. utilities were generally comparable except for regulatory risk, which the AUC considered was materially higher in the U.S. However, the Commission did give weight to DCF analyses applied to U.S. utilities without any indication that it considered a downward adjustment was required due to higher risk of the U.S. utilities compared to the Alberta utilities. In Decision 2011-474, the AUC made no comment about the relative risk of Canadian or Alberta versus U.S. utilities, and, in that decision, also appears to have given weight to the results of DCF analyses applied to U.S. utilities with no relative risk adjustment to the results.

In Order No. P.U. 43(2009), the PUB concluded that it was clear that on almost every measure Newfoundland Power would have to be considered less risky than the U.S. comparables. In its most recent decision for Gaz Métro (D-2011-182), the Régie concluded that it has not seen sufficient evidence to conclude that the two countries' regulatory, institutional, economic and financial environments, and their impact on the resulting opportunities for investors and for the regulated-rate companies, are comparable. Despite this broad finding, the Régie gives 50% weight to U.S. market return data in arriving at its estimate of the market risk premium.