Q. Opinion on Capital Structure and Return on Equity
Kathleen McShane – Volume 3

Pg. 2, #3 - Please provide support for your assessment that Canadian and US utilities operate in similar operating and regulatory environments.

A. With respect to the operating environment, Ms. McShane's conclusion is based on the basic similarities and integration of the economies, the technologies used to deliver power and gas, the manner in which the utility sectors are structured (e.g., franchises for service areas, mix of investor-owned and publicly-owned utilities), demographic trends, industry trends (e.g., declining average customer usage in the gas distribution industry, capital requirements for aging infrastructure renewal, increasingly stringent environmental compliance regulations) and energy policies (e.g., energy clean air, energy conservation).

With respect to the similarity of the regulatory model, at a high level, utilities in both countries are governed by the fair return standard and the three requirements of comparable returns, financial integrity and capital attraction that the standard entails. In both countries, historical cost is the standard measurement of utility assets and revenue requirements are defined similarly. In both countries, regulators have adopted a variety of regulatory mechanisms designed, for example, to permit recovery of costs that are beyond the control of management (e.g., fuel cost recovery) or to address energy policy issues (e.g., revenue decoupling).