1 **Volume 3, Section 1 – McShane, Cost of Capital**
2
3 **Q. (page 5, line 124, through page 6, line 171, and Statistical Exhibit, Schedule 13)**
4 **Please provide the most recent (2006) common-equity-to-total-capitalization ratios**
5 **for each of the utility corporate entities listed in Schedule 13 and discuss to what**
6 **extent, and how, these common equity ratios reflect the relative inherent business**
7 **riskiness of these companies.**
8
9 A. The 2006 book value capital structures of the seven companies are provided in
10 Attachment A. The referenced Schedule 13 contains betas for the seven companies.
11 However the market value capital structures are also relevant with respect to Schedule 13
12 because, in principle, beta is a function of business risk and market value capital
13 structure, rather than book value capital structure. The average market value common
14 equity ratio, as shown in Schedule 21, for the seven companies is approximately 51%.
15
16 With respect to the book value capital structures, the reported book value capital
17 structures of Canadian Utilities, Emera and TCPL have been largely a function of the
18 allowed common equity ratios, which in turn reflect their respective regulators' decisions
19 as to the appropriate capital structure for the business risks of the regulated entities. To
20 illustrate, the allowed common equity ratios of TCPL's mainline and Foothills were 36%
21 in 2006; the Alberta System's allowed common equity ratio was set at 35% in the EUB's
22 generic cost of capital decision in 2004. TCPL recently negotiated a 40% common equity
23 ratio for 2007. It would be expected that its actual corporate common equity ratio will
24 rise to reflect that change. The capital structure of PNG includes a higher common equity
25 ratio than is currently allowed (47% actual versus 40% allowed), primarily due to PNG's
26 limited access to new debt capital. For Enbridge, Fortis and Terasen, the reported capital
27 structures are consolidated capital structures; the unconsolidated debt ratios are at least as
28 relevant to the debt rating agencies. DBRS noted, for example, with respect to Fortis,
29 that its ratings are based on the strength of its non-consolidated balance sheet (Credit
30 Rating Report, February 8, 2006). The most recent DBRS-reported unconsolidated debt
31 ratios of the three holding companies were as follows:
32

Line	Company	Ratio
33	Enbridge (12/2005)	57.3%
34	Fortis (9/2005)	21.0%
35	Terasen (12/2005)	35.2%

36
37 The consolidated book value capital structures of the holding companies do not represent
38 capital structures that would be required for a stand-alone utility operating company to
39 access the capital markets on reasonable terms and conditions and to which a regulated
40 rate of return on equity would apply. For example, while Enbridge's 2006 consolidated
41 common equity ratio was, as shown in Attachment A, 30.5%, its average earned return
42 on consolidated equity over the past three years has been 14.7%.

2006 Book Value Capital Structure

Company Name	Equity Ratio	Total Debt Ratio	Preferred Ratio
CANADIAN UTILITIES -CL A	38.4%	51.1%	10.5%
EMERA INC	44.0%	56.0%	0.0%
ENBRIDGE INC	30.5%	68.6%	0.9%
FORTIS INC	28.6%	68.6%	2.7%
PACIFIC NORTHERN GAS LTD	47.9%	49.1%	3.0%
TERASEN INC	34.8%	65.2%	0.0%
TRANSCANADA CORP	35.8%	64.2%	0.0%

S&P Research Insight and Terasen Inc. Annual Information Form