Q: Reference: Page 29, Lines 5-13 and Schedule 24

With reference to NP-CA-44, please explain what has caused Dr. Cannon to change his views on the relative risk of the two utilities.

A: First, just to be clear, Dr. Cannon, along with most other expert witnesses that have testified before the OEB, has always recognized and stated that, as between the regulated operations of EGDI and Union Gas, EGDI is exposed to a lesser degree of overall investment risk than Union Gas. Dr. Cannon has not changed his views in this regard.

Dr. Cannon has not changed his view with respect to the risk of EGDI or Union between RP-2002-0158 and the current hearing. Rather, what he has done is adjusted the level of, or positioning of, the "average line" or "average bar" slightly since 2003. In his evidence in RP-2002-0158, Dr. Cannon's universe of Canadian regulated utilities consisted of 8 companies if one includes EGDI and Union along with TransCanada, Fortis, Terasen, Canadian Utilities, Emera, and PNG. In the current proceeding, Dr. Cannon's utility universe, including NP, consists of 12 firms (NP plus the 11 firms listed in Schedule 24) or 14 firms (NP plus the 13 entities listed in Schedule 6). In addition, Dr. Cannon has up-graded his view of Terasen since 2003, moving it from "average risk" to "lower-than-average risk." With this latter changed assessment and the expanded utility-universe composition (e.g., with Fortis split into NP, FortisAlberta, and FortisBC), Dr. Cannon judged that it was appropriate to reposition "average" within the utility universe.

The effect of this "repositioning," with EGDI now in the "average" category, can be seen in Schedule 24 where, if we include NP, there are 3 lower-than-average-risk firms, 4 average-risk firms including EGDI, and 5 higher-than-average-risk utilities – not a bad balance around "average" considering that a couple of the higher-than-average-risk firms are relatively small utilities. In contrast, if Dr. Cannon had stayed with positioning Union Gas in the "average" category, then Schedule 24 would have had 7 lower-than-average-risk utilities (all relatively large companies), 3 average-risk firms – including Union, Gaz Metro, and FortisBC – and only 2 higher-than-average-risk companies, namely Nova Scotia Power (Emera) and the small PNG – which would certainly have made "average" appear to mis-represent its actual status in the hierarchy of utilities within the utility-company universe.