

1 **Volume 2: Cost of Capital: Expert Opinion of James Coyne- Capital Structure and Risk**  
2 **Profile**

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4 **Q. C&T reference the BCUC decision on page 45. Will C&T confirm that a panel has**  
5 **to make a decision based on the evidence before it and in that hearing there was no**  
6 **expert put forward by an intervener disputing the Blume adjustment procedure for**  
7 **utilities? Please confirm that the experts put forward were all based in the US. If**  
8 **not, please indicate their residence and nationality.**  
9

10 A. Concentric confirms that no intervenor submitted expert evidence in the BCUC *Generic*  
11 *Cost of Capital* proceeding that was decided in September 2023. Rather, the intervenors  
12 and Staff elected to rely on the August 2021 report and subsequent testimony of Dr.  
13 Jonathan Lesser, who was retained by the BCUC to advise it on the appropriate  
14 methodologies for estimating the cost of equity for regulated public utilities. Dr. Lesser's  
15 report indicated that he supported the use of Value Line betas (which are Blume  
16 adjusted), while Mr. Coyne used betas from Bloomberg and Value Line. On page 41 of  
17 Dr. Lesser's August 2021 report to the BCUC, he noted issues with the use of raw betas  
18 and indicated that most regulators use adjusted betas:  
19

20 *One potential problem with using raw beta values – in addition to the*  
21 *problem of determining the appropriate time period, data frequency, and*  
22 *so forth – is that estimating the allowed ROE for a utility is a forward-*  
23 *looking exercise.*  
24

25 And

26  
27 *Because regulators establishing the allowed ROE for a regulated utility*  
28 *are basing that allowed ROE on expected market conditions over an*  
29 *indefinite future, adjusted beta values are typically considered to be*  
30 *more appropriate when applying the CAPM. One reason is that*  
31 *estimated raw beta values can be negative.*  
32

33 Dr. Lesser specifically referred to the method developed by Dr. Marshall Blume to adjust  
34 raw betas on that same page of his report.  
35

36 Dr. Lesser is a recognized expert on cost of capital matters and is based in the U.S.