

1 Q. Reference: Dr. Cleary's Evidence, Page 25, Lines 7-11

2
3 *"Table 9 provides data on allowable ROEs and equity ratios for Canadian electric*
4 *distributors in 2018. I did not compare NP to the U.S. utilities included in Mr.*
5 *Coyne's U.S. and North American proxy groups since the analysis above shows*
6 *that U.S. holding companies are poor comparators for NP, because they have*
7 *significantly higher business risk – partly due to their holding company structure*
8 *and business holdings, and partly due to operating in the U.S. and not in*
9 *Canada."*

10
11 **Please confirm that the analysis referred to above includes Dr. Cleary's CV of**
12 **the EBIT/sales ratios analysis which was rejected by the Alberta Utilities**
13 **Commission in its 2018 Generic Cost of Capital Decision (22570-D01-2018).**

14
15 A. The analysis referred to includes several items, including the CV(EBIT/Sales) analysis
16 referred to above. For example, Dr. Cleary's analysis also places great emphasis on his
17 examination of earning the allowed ROE and CV(ROE) for NP and the US utilities, both
18 of which were clearly accepted by the Alberta Utilities Commission in Decision 22570-
19 D01-2018 (page11 - red and bold added for emphasis), as noted below:

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21 **"9.3.1 Overall assessment of business risk**

22
23 534. Dr. Cleary agreed with the favourable assessment of business risk for the affected utilities
24 included in credit rating reports issued by DBRS and S&P. Dr. Cleary stated that regulated
25 Alberta operating utilities possess low business risk and enjoy solid regulatory support. Dr.
26 Cleary undertook some empirical analysis that purported to support his conclusion that the
27 affected utilities operate in a low-risk environment that enables them to earn above their approved
28 ROEs with very little volatility in income.

29
30 535. Part of Dr. Cleary's empirical analysis examined the ability of the affected utilities to earn
31 their approved ROE on a consistent basis from 2005 to 2016, which he described as a bottomline
32 measure of the total risks faced by the utilities. The yearly figures illustrated that the affected
33 utilities earned average and median ROEs above the approved ROE in all years except 2005,
34 when the average ROE was 0.18 per cent below the approved ROE. Dr. Cleary submitted this can
be considered the strongest indication that the affected utilities possess low overall risk.

35 **Commission findings**

36 536. The Commission accepts that the favourable financial performance and **low volatility of**
37 **earnings** illustrated by Dr. Cleary is **support for the conclusion that the affected utilities have**
38 **generally low business risk."**
39

40 As noted in his response to PUB-CA-019, Dr. Cleary would place no weight on data associated
41 with Mr. Coyne's U.S. proxy group. Dr. Cleary's evidence supports his assertion that U.S.
42 holding companies are poor comparators for a regulated Canadian electric distributor such as NP.

1 This is reflected in the U.S. utilities' displaying higher EBIT volatility, higher ROE variability,
2 and is consistent with Oliver Wyman's observation regarding U.S. utilities that the "average
3 utility does not earn its allowed return on equity."¹ In sharp contrast, NP displays low volatility
4 in both its earned EBIT and ROE, and has earned above its allowed ROE for 23 consecutive
5 years, averaging 0.46% percent above the allowed ROE over this period.
6 The additional risk of the U.S. utilities included in Mr. Coyne's proxy group is partly due to their
7 holding company structure and business holdings, partly due to operating in the U.S. (which
8 entails additional regulatory risk) and not in Canada, and partly due to the nature of their
9 operations which entail more risk. The distinct nature of the U.S. utilities operations is obvious
10 by reviewing Mr. Coyne response to CA-NP-112 which shows the complicated holding company
11 structure of his sample firms. In addition, the response to CA-NP-114 shows that the utilities in
12 Mr. Coyne's U.S. sample participated in 74 M&A transactions over the 2008-2017 period. This
13 indicates that the nature of the companies held in the holding company "umbrella" is constantly
14 changing, which affects business risk and earnings growth, among other things.

¹ Source: Page 10 of "North America Utilities: Still a Smart Bet for the New Grid," Oliver Wyman, 2015.