

1 **Q. Reference Evidence of Dr. Sean Cleary dated September 25, 2018**
2

3 **Pages 22-25: Dr. Cleary includes data on US utilities and at page 22, line 26**
4 **states that US utilities have much higher business risks and on page 25, line 9**
5 **states that the US holding companies included in Mr. Coyne’s proxy groups**
6 **are poor comparators for Newfoundland Power. In Dr. Cleary’s opinion what**
7 **degree of reliance should the Board place on US data when considering the fair**
8 **ROE and capital structure for Newfoundland Power?**
9

10 A. Dr. Cleary would place no weight on data associated with Mr. Coyne’s U.S. proxy
11 group. Dr. Cleary’s evidence supports his assertion that U.S. holding companies are
12 poor comparators for a regulated Canadian electric distributor such as NP. This is
13 reflected in the U.S. utilities’ displaying higher EBIT volatility, higher ROE
14 variability, and is consistent with Oliver Wyman’s observation regarding U.S.
15 utilities that the “average utility does not earn its allowed return on equity.”¹ In sharp
16 contrast, NP displays low volatility in both its earned EBIT and ROE, and has earned
17 above its allowed ROE for 23 consecutive years, averaging 0.46% percent above
18 the allowed ROE over this period.
19

20 The additional risk of the U.S. utilities included in Mr. Coyne’s proxy group is partly
21 due to their holding company structure and business holdings, partly due to
22 operating in the U.S. (which entails additional regulatory risk) and not in Canada,
23 and partly due to the nature of their operations which entail more risk. The distinct
24 nature of the U.S. utilities operations is obvious by reviewing Mr. Coyne response
25 to CA-NP-112 which shows the complicated holding company structure of his
26 sample firms. In addition, the response to CA-NP-114 shows that the utilities in Mr.
27 Coyne’s U.S. sample participated in 74 M&A transactions over the 2008-2017
28 period. This indicates that the nature of the companies held in the holding company
29 “umbrella” is constantly changing, which affects business risk and earnings growth,
30 among other things.

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