Q. Page 46, Figure 23: Explain why, in Mr. Coyne's opinion, the authorized equity ratio has been historically higher for U.S. utilities than Canadian investor owned utilities. In the response include whether the higher equity ratio reflects the existence of higher financial or business risks for the U.S. utility group than for Canadian utilities.

A. In the U.S., regulated utility companies are typically allowed to manage their ratemaking capital structure within reasonable boundaries in relation to peer companies unless the company has credit metrics under pressure or other circumstances warranting a re-examination of the capital structure. In Canada, the regulator tends to deem an equity ratio that allows the utility to maintain its credit rating but that minimizes the amount of equity in the capital structure in order to minimize the cost for customers. The risk of the Canadian approach is that an unforeseen event at the utility or a disruption in the economy/financial markets may inhibit the utility's ability to raise capital on reasonable terms when needed if the equity ratio is too near the lower limit. The higher equity ratios for the U.S. utility group indicate that they have less financial risk than their Canadian counterparts, but there is no evidence of greater business risk.