

1 **Q. In terms of the stand-alone principle (page 7). Is the requirement for just and**
2 **reasonable rates satisfied if the parent of NP (Fortis) requires NP to borrow under**
3 **its own name rather than the policy of ATCO borrowing at the parent level and**
4 **mirroring the costs down to its regulated subsidiaries? That is, if the parent imposes**
5 **on its regulated “stand-alone” subsidiary policies that result in higher costs does**
6 **that satisfy the legal requirement that rates be just and reasonable?**
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8 A. Mr. Coyne is not able to offer a legal opinion. Mr. Coyne has a different understanding
9 of ATCO’s borrowing. His understanding is that debt is issued by Canadian Utilities Ltd.
10 and CU Inc. for its regulated utilities, and not at the parent level. Regulators are
11 governed by the legal requirement to provide a fair return that reflects the risk profile of
12 the utility for which the return is being set. If the parent company is able to borrow on a
13 more favorable basis and pass that benefit along to its subsidiary, a regulator may
14 consider that in the public interest, but the question is not that simple, as the regulator
15 may also find ring-fencing provisions which separate the assets and liabilities of the
16 subsidiary from the parent to also be in the public interest.
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18 In addition, as discussed on page 7 of Concentric’s report, the stand-alone principle
19 requires that the utility must be regulated as if it were a stand-alone entity, raising capital
20 on the merits of its own business and financial characteristics. In this way, capital may
21 be efficiently allocated, with each business segment earning a return based on its own
22 unique set of risks and business characteristics regardless of affiliations within the
23 holding company structure.
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25 The Board has upheld the stand-alone principle and concluded that, in the interest of both
26 customers and the utility, Newfoundland Power should be treated as a stand-alone utility.
27 See also Newfoundland Power’s response to Request for Information CA-NP-069.