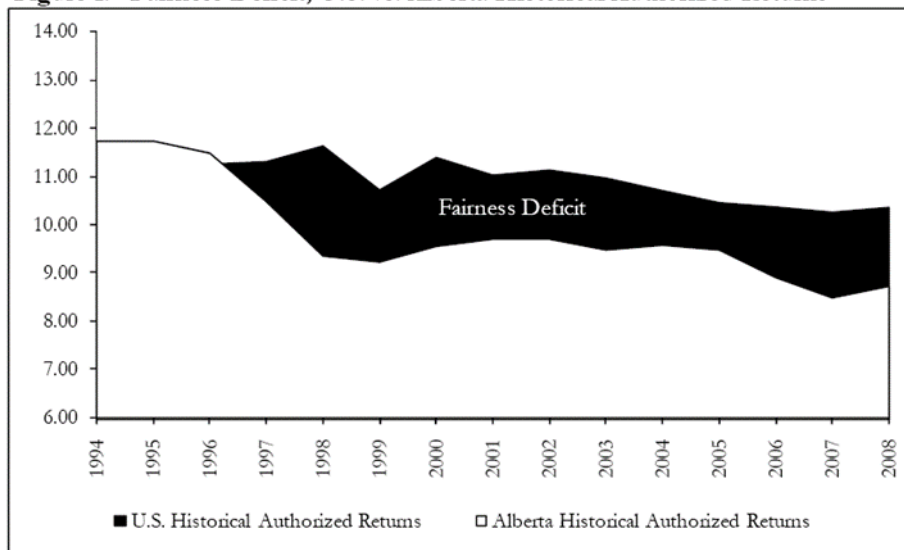


Volume 2: Cost of Capital: Expert Opinion of James Coyne-Return on Equity

Q. Before the AUC in 2009 testimony Mr. Coyne produced the following graphic comparing authorised (allowed) ROEs by the Alberta Utilities Commission with authorised ROEs in the U.S.

Figure 1: Fairness Deficit, U.S. vs. Alberta Historical Authorized Returns



- a) Can Mr. Coyne provide the underlying data used to generate this graph?
- b) Would Mr. Coyne confirm that the difference is less than 2.0% similar to the difference between Newfoundland Power’s current allowed ROE of 8.5% and C&T’s own recommendations and estimates?
- c) Would Mr. Coyne confirm that in 1994, 1995 and 1996 it is his judgment that the allowed ROE set by the AUC was the same as that in the US? If not, why not?
- d) Has Mr. Coyne ever stated that a decision of a Canadian regulator such as the Ontario Energy Board or the AUC, for example, violates the fair return standard which is the implication of a “fairness deficit”?

- A. a) The underlying data used to create Figure 1 is provided as Attachment A.
- b) The differential between the U.S. authorized ROE and the returns for Alberta utilities ranged from -0.53% in 1994 to 2.27% in 1998. The gap between average authorized ROEs in Canada and the U.S. has narrowed in more recent years, while the gap in average authorized equity ratios remains wide (with U.S. equity ratios 10-13% higher than their Canadian peers). Mr. Coyne does not believe the data in Figure 1 above can be used to draw any conclusions regarding the authorized ROE for Newfoundland Power in this proceeding.

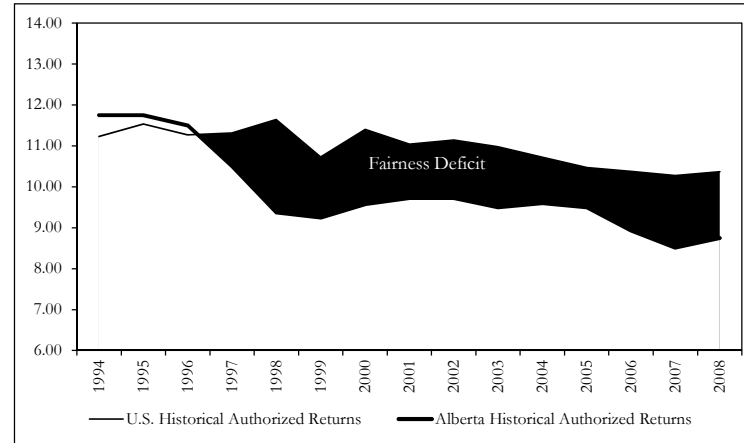
- 1 c) As shown in Attachment A, the authorized ROE for Alberta utilities from 1994-1996
2 was between 0.22% and 0.53% higher than the U.S. average.
3
- 4 d) Mr. Coyne has never stated that a Canadian regulatory decision violates the fair return
5 standard. He has, however, found that formulas used by Canadian regulators have
6 produced ROEs that would not satisfy the fair return standard. See, for example,
7 Ontario:
8

9 *Based on the foregoing assessment, the results produced by the current*
10 *Formula do not meet the fairness standard that serves as the*
11 *cornerstone of utility regulation. This places Ontario's utilities, their*
12 *shareholders, and ultimately consumers, at a distinct disadvantage in*
13 *contrast to their peers. Eventually, this leads to an inefficient*
14 *deployment of resources and causes a loss of confidence in the*
15 *regulatory compact that the Board upholds.¹*

¹ See *The Cost of Capital in Current Economic and Financial Market Conditions Prepared for: Enbridge Gas Distribution, Comments in Response to Consultative Process. Concentric Energy Advisors, Board File No.: EB-2009-0084, April 17, 2009, page 24.*

**Requested Underlying Data for
Figure 1: Fairness Deficit, U.S. vs. Alberta Historical Authorized Returns**

Comparison of Historical U.S. and Alberta Authorized Returns to the Recommended Formula															
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
U.S. Historical Authorized Returns	11.22	11.53	11.26	11.31	11.64	10.73	11.40	11.04	11.14	10.98	10.72	10.47	10.38	10.27	10.37
Alberta Historical Authorized Returns	11.75	11.75	11.50	10.50	9.38	9.25	9.58	9.73	9.73	9.50	9.60	9.50	8.93	8.51	8.75
Difference between U.S. and Alberta Historical	-0.53	-0.22	-0.24	0.81	2.27	1.48	1.83	1.31	1.42	1.48	1.12	0.97	1.45	1.76	1.62



Company Name	Docket Number	Decision Date	Test Year	Equity Return	30 Year Canada Yield	Risk Premium		
NOVA Gas Transmission		11/94	1994	11.75	8.25	3.50	1994	11.75
Centra Gas Alberta, Inc.		1/96	1995	12.00	8.25	3.75	1995	11.75
NOVA Gas Transmission		1/96	1995	11.50	8.38	3.13	1996	11.5
Centra Gas Alberta, Inc.		1/96	1996	11.75	8.00	3.75	1997	10.5
ATCO Electric/EPCOR/TansAlta		10/97	1996	11.25	7.75	3.50	1998	9.375
CWNG		2/00	1997	10.50	6.70	3.80	1999	9.25
CWNG		2/00	1998	9.375	5.60	3.78	2000	9.575
TransAlta/EPCOR		11/99	1999	9.25	5.75	3.50	2001	9.725
TransAlta/EPCOR		11/99	2000	9.25	5.75	3.50	2002	9.725
AltaGas Utilities, Inc.		8/02	2000	9.90	6.00	3.90	2003	9.5
AltaGas Utilities, Inc.		8/02	2001	9.70	5.80	3.90	2004	9.6
ATCO Gas & Pipelines		12/01	2001	9.75	6.00	3.75	2005	9.5
AltaGas Utilities, Inc.		8/02	2002	9.70	5.80	3.90	2006	8.93
ATCO Gas & Pipelines		12/01	2002	9.75	6.00	3.75	2007	8.51
ATCO Pipelines	2003-100	12/03	2003	9.5	6.00	3.50	2008	8.75
ATCO Gas	2003-072	10/03	2003	9.5	6.00	3.50		
2004 Generic Cost of Capital	2004-052	7/04	2004	9.6	5.68	3.92		
2005 Generic Cost of Capital	2004-423	11/04	2005	9.5	5.55	3.95		
2006 Generic Cost of Capital	2005-410	11/05	2006	8.93	4.78	4.15		
2007 Generic Cost of Capital	2006-292	11/06	2007	8.51	4.22	4.29		
2008 Generic Cost of Capital	2007-347	11/07	2008	8.75	4.55	4.20		

Rate Case Statistics

Date	Electric: Return on Equity (%)	# of Electric Rate Cases	Gas: Return on Equity (%)	# of Gas Rate Cases	U.S. Equity Return	
2007	10.31	37	10.23	34	2007	10.27
2006	10.35	26	10.43	14	2006	10.38
2005	10.51	25	10.43	25	2005	10.47
2004	10.81	21	10.63	22	2004	10.72
2003	10.96	20	10.99	25	2003	10.98
2002	11.21	14	11.09	18	2002	11.14
2001	11.06	16	10.96	5	2001	11.04
2000	11.48	10	11.34	13	2000	11.40
1999	10.72	6	10.74	6	1999	10.73
1998	11.77	10	11.51	10	1998	11.64
1997	11.33	10	11.30	12	1997	11.31
1996	11.40	18	11.12	17	1996	11.26
1995	11.58	27	11.44	13	1995	11.53
1994	11.21	28	11.24	24	1994	11.22
1993	11.46	28	11.37	40	1993	11.41

Past Rate Cases

State	Company	Case Identification	Service	Date	Increase Requested				Increase Authorized							Lag (months)		
					Increase (\$M)	Return on Rate	Return on Equity (%)	Common Equity /Total	Rate Base (\$M)	Date	Increase (\$M)	Return on Rate	Return on Equity	Common Equity /Total	Test Year End		Rate Base (\$M)	Rate Base
Colorado	SourceGas Distribution	D-08S-108G	Natural Gas	3/4/2008	17.7	8.53	10.75	53.13	120.30	8/27/2008	14.9	8.26	10.25	53.13	08/2007	114.20	Average	5
Georgia	Atmos Energy Corp.	D-27163-U	Natural Gas	3/20/2008	6.2	8.30	11.30	45.00	68.00	9/17/2008	3.4	7.75	10.70	45.00	03/2009	66.90	Average	6
Idaho	Avista Corp.	C-AVU-E-08-01	Electric	4/3/2008	32.3	8.74	10.80	47.94	548.30	9/30/2008	23.2	8.45	10.20	47.94	12/2007	530.30	Average	6
Idaho	Avista Corp.	C-AVU-G-08-01	Natural Gas	4/3/2008	4.7	8.74	10.80	47.94	85.70	9/30/2008	3.9	8.45	10.20	47.94	12/2007	85.20	Average	6
West	Appalachian Power Co.	C-08-0278-E-P	Electric	2/29/2008	156.3	7.65	10.50	41.54	1,972.00	6/27/2008	106.1	7.65	10.50	41.54	12/2007	1,972.00	Year-end	3

Avg 2008 10.37