

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

3 **Q. With respect to the stand-alone principle (page 8), is the requirement for just and**  
4 **reasonable rates satisfied if the parent of Newfoundland Power (Fortis) requires**  
5 **Newfoundland Power to borrow under its own name rather than the policy of**  
6 **ATCO subsidiaries in Alberta borrowing at the parent level and mirroring the costs**  
7 **down to its regulated subsidiaries? That is, if the parent imposes on its regulated**  
8 **“stand-alone” subsidiary policies that result in higher costs does that satisfy the**  
9 **legal requirement that rates be fair and reasonable even if they are the utility’s**  
10 **actual costs?**

11  
12 A. Concentric is not able to offer a legal opinion. Concentric has a different understanding  
13 of ATCO’s borrowing. Concentric’s understanding is that debt is issued by Canadian  
14 Utilities Ltd. and CU Inc. for its regulated utilities, and not at the parent level. Regulators  
15 are governed by the legal requirement to provide a fair return that reflects the risk profile  
16 of the utility for which the return is being set. If the parent company is able to borrow on  
17 a more favorable basis and pass that benefit along to its subsidiary, a regulator may  
18 consider that in the public interest, but the question is not that simple, as the regulator  
19 may also find ring-fencing provisions which separate the assets and liabilities of the  
20 subsidiary from the parent to also be in the public interest.

21  
22 In addition, as discussed on page 8 of Concentric’s report, the stand-alone principle  
23 requires that the utility must be regulated as if it were a stand-alone entity, raising capital  
24 on the merits of its own business and financial characteristics. In this way, capital may be  
25 efficiently allocated, with each business segment earning a return based on its own  
26 unique set of risks and business characteristics regardless of affiliations within the  
27 holding company structure.

28  
29 The Board has upheld the stand-alone principle and concluded that, in the interest of both  
30 customers and the utility, Newfoundland Power should be treated as a stand-alone utility.