

1 **Volume 2: Cost of Capital: Expert Opinion of James Coyne- Capital Structure and Risk**  
2 **Profile**

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4 **Q. Is C&T aware that in the past, Canadian regulators such as the Ontario Energy**  
5 **Board have allowed an ROE less than the long Canada bond yield? If so, how does**  
6 **this fit with their risk premium analysis and the statement on page 48 that equity is**  
7 **riskier than debt and therefore requires a greater rate of return?**

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9 A. Concentric is not aware of the Ontario Energy Board making such a determination.  
10 However, Concentric is aware that in the 1980s, when yields on government bonds were  
11 as high as 18 percent in the U.S., authorized ROEs for regulated utilities were frequently  
12 lower than the Treasury bond yield as regulatory decisions lagged changes in capital  
13 markets. This provides additional support for Concentric’s conclusion that the authorized  
14 ROE is not solely determined by the level of interest rates, even though that is one  
15 important factor, as shown in the Bond Yield Plus Risk Premium analysis.