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

Q. C&T reference Dr. Roger Morin and the increased risk from using debt financing (page 54, and footnote 75). Are C&T aware that Dr Morin regularly provides expert testimony on behalf of utilities? Would C&T agree that a utility with extensive deferral accounts that very rarely suffers a below regulated ROE has, by definition, not suffered any business risk that its debt financing has magnified?

A. Yes, Concentric is aware that Dr. Morin provides expert evidence on behalf of utilities in both the U.S. and Canada. He also has published numerous books and academic articles on the cost of capital, including *New Regulatory Finance* (2006) and *Modern Regulatory Finance* (2021) which provide the financial theory on many issues related to setting a fair return for regulated utilities. Dr. Morin has taught at the Wharton School of Finance, University of Pennsylvania, Amos Tuck School of Business at Dartmouth College, Drexel University, University of Montreal, McGill University, and Georgia State University's Robinson College of Business.

Even though a utility may have deferral accounts or other mechanisms to mitigate various business and operating risks, and even though a utility may generally earn its authorized ROE, does not mean that the utility has no business risk. There are always unforeseen circumstances and events that occur during the course of providing electric or gas utility service to customers. The risks associated with such events are magnified if the percentage of debt financing in the capital structure does not provide the utility with sufficient financial flexibility.