

1 **Volume 2: Cost of Capital: Expert Opinion of James Coyne- Automatic Adjustment**
2 **Formula**

- 3
- 4 **Q. C&T state that Concentric has examined the use of automatic ROE formulae (page**
5 **85) and judge that the relationship between equity and bond returns cannot be fully**
6 **anticipated by historical relationships.**
- 7 **a) Please indicate whether off ramps from an ROE adjustment formula as**
8 **originally specified can moderate this judgment and ensure that the ROE is**
9 **always fair.**
- 10 **b) In terms of intervention is there a bias that an unfairly low ROE can always be**
11 **addressed in a periodic GRA by the company, whereas an unfairly high ROE**
12 **requires a well financed intervener to initiate a hearing, where at no time since**
13 **2008 has the OEB had a hearing into its ROE formula despite long periods of**
14 **being “generous” relative to the ROE awarded in litigated hearings?**
- 15 **c) Is it C&T’s opinion that a formulaic ROE between regular three-year GRAs**
16 **generates more risk to shareholders than a fixed ROE between the same three-**
17 **year GRAs?**
- 18 **d) At times it has been argued that a formulaic ROE converts utility shares into a**
19 **form of preferred shares and lowers utility risk. Since the yield on preferred**
20 **shares is more objective than the return on common shares does this reduce**
21 **regulatory risk?**
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- 23 **A. a) While offramps can serve as a safety valve in formulas, the deadband employed can**
24 **leave a wide margin between the formulaic result and the fair return.**
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- 26 **b) In Concentric’s experience in Canada, both utilities and intervenors have ample**
27 **opportunity to bring matters before utility regulators. Concentric is not aware of any**
28 **party in Ontario protesting the OEB’s formula as “generous” relative to litigated ROE**
29 **awards. Further, the OEB examined its formula and published a Staff report in 2016**
30 **that concluded: *Based on the results of this review, OEB staff has concluded that the***
31 ***methodology adopted in late 2009 has worked as intended.***¹
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- 33 **c) No, but we remain of the view, as expressed in our Report, that periodic rate hearings**
34 **remain the only reliable method for determination of utility ROEs, particularly during**
35 **uncertain economic conditions.**
- 36
- 37 **d) No. Unlike a preferred share with a stated coupon that an investor can evaluate on**
38 **face value, a formulaic rate produces an uncertain result that may deviate from a fair**
39 **return and the investor’s required return.**

¹ OEB, January 14, 2016, Re: OEB Staff Report: *Review of the Cost of Capital for Ontario’s Regulated Utilities*, Board File Number EB-2009-0084.