

1 **Q. Reference: Dr. Cleary’s Evidence, Page 31, Lines 5-7**

2 **Please explain why Dr. Cleary believes it is not practical to perform an analysis of**
 3 **earned vs. authorized ROEs at the operating company level rather than the holding**
 4 **company level.**

5
 6 **A.** This is not practical due to the large number of operating companies operating in numerous
 7 jurisdictions that are held by the U.S. holding companies provided in Mr. Coyne’s sample,
 8 many of which were not part of that holding company during the entire 1995-2017 period
 9 that Dr. Cleary examined. So Dr. Cleary did not feel that such a long-term analysis was
 10 feasible from a logistical point of view.

11
 12 Dr. Cleary would note that during the 2018 Alberta Generic Cost of Capital (GCOC)
 13 proceedings, Jan Thygesen, an expert working on behalf of the Consumers’ Coalition of
 14 Alberta (CCA) attempted to conduct such an analysis.¹ Due to the constraints noted by Dr.
 15 Cleary, his analysis focused on the 2014-2016 period. He examined 25 U.S. utilities,
 16 including 8 of the 10 included in Mr. Coyne’s sample and found (paragraph 121 of his
 17 evidence) the average earned return for this sample of U.S. utilities was 8.9% over this
 18 period, versus the average “allowed” return of 9.9%. In other words, the average U.S.
 19 utility in this group earned a full 1% below their allowed ROE over this period. This
 20 observation is consistent with the observation of Oliver Wyman regarding U.S. utilities
 21 that the “average utility does not earn its allowed return on equity.”

22
 23 Using the results provided in Exhibit 471 (paragraph 120) of Mr. Thygesen’s evidence, Dr.
 24 Cleary constructed the following table for the 8 utilities that were included in Mr. Coyne’s
 25 proxy group of 10 U.S. utilities:
 26

	Average Earned ROE (%)	Average Allowed ROE (%)	Earned - Allowed (%)
Allette inc.	7.9	10.38	-2.48
Aliant Energy Corp.	10.0	10.26	-0.26
American Elec. Power	8.2	9.96	-1.76
Duke Energy Inc.	NA	NA	NA
Edison International Inc.	NA	NA	NA
Eversource Energy	8.4	9.7	-1.3
OGE Energy	10.1	9.55	+0.55
Pinnacle West.	9.5	10.0	-0.5
PNM Resources Inc.	5.5	10.1	-4.6
Southern Company	<u>10.0</u>	<u>11.4</u>	<u>-1.4</u>
Average	8.70	10.17	-1.47

¹ Reference: Alberta 2018 GCOC proceedings, document name - “22570-X0551 2018-01-12 CCA Evidence of J Thygesen Public Redacted.pdf.”

1 These 8 utilities clearly had a difficult time earning their allowed ROE, falling short by an average
2 of 1.47%. In sharp contrast, NP earned above its allowed ROE for 23 consecutive years, averaging
3 0.46% percent above the allowed ROE over this period. Over the comparable 2014-2016 period,
4 NP earned an average ROE of 9.01%, which is +0.31% above the average allowed ROE of 8.7%
5 over the period.