

1 **Q. Page 33, line 19 to page 34, line 16: Mr. Coyne states that in his opinion the U.S.**  
2 **electric utility proxy group is more comparable to Newfoundland Power than the**  
3 **Canadian utility proxy group companies and this is a reason that no adjustment is**  
4 **required to account for differences in U.S. and Canadian experience. Mr. Coyne**  
5 **expressed the same opinion in his October 16, 2015 report at page 25, lines 6-15 in**  
6 **Newfoundland Power’s 2016-2017 General Rate Application. Why should the Board**  
7 **conclude now when it did not in 2016 that the similarity of the U.S. proxy group to**  
8 **Newfoundland Power is a factor that supports a finding that no adjustment should**  
9 **be made to account for differences in the U.S. and Canadian experience?**

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11 A. Although the Board was not persuaded in 2016 by Mr. Coyne’s evidence, he continues to  
12 believe that the risk comparability of the proxy group companies and the supportiveness  
13 of the regulatory jurisdictions are more important factors in determining a just and  
14 reasonable ROE than whether the proxy companies are headquartered in Canada or the  
15 U.S. Based on the screening criteria used to develop Mr. Coyne’s U.S. proxy group, the  
16 resulting peer group is comprised of regulated utilities that derive the vast majority of  
17 their operating income (more than 90%) from regulated electric utility operations. The  
18 same is not true for the Canadian proxy group, many of which have significant natural  
19 gas operations as well as unregulated business operations that make them less comparable  
20 to Newfoundland Power.

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22 The important consideration is not the number of companies contained in the proxy  
23 group, but whether those companies are risk comparable to the subject company, and  
24 therefore could be expected to have similar return requirements. As the United States  
25 Court of Appeals for the District of Columbia noted in the *Petal Gas Storage* decision:  
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27 What matters is that the overall proxy group arrangement makes sense in  
28 terms of relative risk and, even more importantly, in terms of the statutory  
29 command to set “just and reasonable” rates, 15 U.S.C. § 717c, that are  
30 “commensurate with returns on investments in other enterprises having  
31 corresponding risks” and “sufficient to assure confidence in the financial  
32 integrity of the enterprise . . . [and] maintain its credit and . . . attract  
33 capital,” *Hope Natural Gas Co.*, 320 U.S. at 603.<sup>1</sup>  
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35 Finally, since 2016, Canadian-based utility holding companies have continued to acquire  
36 U.S. utilities, which demonstrates that the industry has become increasingly North  
37 American. Mr. Coyne began reporting ROE results for a North American proxy group  
38 three or four years ago, and that concept is even more relevant today than it was in 2015  
39 due to the ongoing industry consolidation that has occurred across the border.

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<sup>1</sup> *Petal Gas Storage v. FERC*, 496 F.3d 695, 699 (D.C. Cir. 2007), at 7.