Consumers Council of Canada and the Vulnerable Energy Consumers Coalition (CCC) and (VECC) INTERROGATORY #33 List 1

Interrogatory

Ref: B1/T3/S1 p. D-6

Issue 4.0
Issue: Cost of Capital/Capital Structure

Topic: DCF estimates

Request:

a) Ms. McShane characterises her final estimates as "bare bones" estimates to which she adds a financial flexibility adjustment designed to get the stock price above its book value. Is it not a necessary corollary to this that such an adjustment is not necessary if the OEB believes that Utility stock prices are already well above book value?

c) Please provide the average market price (average of high and low), average book value per share and average market to book ratio for each of the Canadian and US utilities used in her estimates

Response

a) No. The market-derived tests, risk premium and DCF, lead to estimates of the cost of equity that, in theory, if applied to book value without adjustment – and earned – would equate market value to book value. Thus, the results still need to be adjusted to a level that allows the market value to exceed book value to provide an adequate degree of financing flexibility.

c) Ms. McShane did not use Canadian utilities for reasons given at page 53 of her testimony. For her sample of US utilities, the average high/low prices and book value per share are shown on Schedule 21-1. The market to book ratios for the sample are shown on Schedule 18.