Consumers Council of Canada and the Vulnerable Energy Consumers Coalition (CCC) and (VECC) INTERROGATORY #10 List 1

Interrogatory

Ref: B1/T3/S1 p. 23

Issue 4.0
Issue: Cost of Capital/Capital Structure

Topic: Government intervention

Request:

a) Ms McShane asserts that TX is riskier than AltaLink and by implication that the Government of Ontario as the shareholder of Tx should be compensated for the possible (political) intervention of the Government of Ontario as the Government. Please explain in detail the basis on which a party should reward itself for the risk that it might hurt itself in he future?

b) Does Ms. McShane believe that potentially hurting oneself is a risk that justifies a higher ROE or common equity ratio? If the answer is yes please explain in detail.

Response

a) A distinction needs to be drawn between the Province as shareholder (on behalf of taxpayers who are the ultimate owners of the company) and the Province as author of public policy. If the Province in its public policy role makes decisions that impact the industry as a whole, this risk would flow through to the cost of equity for any utility regardless of the 'happenstance' of ownership.

b) The fair return on equity and appropriate capital structure are premised on prudent management; from that perspective, no, the return and capital structure should not provide compensation for poor management.