

Authorized Return on Equity for Canadian Gas and Electric Distributors and Select Comparators

Volume I, October 1, 2013

Concentric Energy Advisors, Inc. (Concentric) is pleased to publish this first edition of a newsletter documenting authorized returns on common equity (ROEs) and common equity ratios for Canadian gas and electric distributors, U.S. gas distributors, and selected bond yields.¹ Up until this point, a common source for this data has not existed. Regulators, stakeholders, and analysts in Canada routinely consider allowed returns in other Canadian jurisdictions, and increasingly consider the comparability of Canadian and U.S. utilities when assessing the cost of capital. This newsletter seeks to assist with these inter-jurisdictional comparisons.

The newsletter and supporting database contain the authorized ROEs and common equity ratios for over 40 Canadian electric and gas utilities. Also presented are seven representative U.S. gas distributors in addition to the average authorized ROE and common equity ratios for all natural gas rate cases decided in a given year as provided by SNL Energy's Regulatory Research Associates.

Concentric observes that the gap between Canadian and U.S. authorized ROEs for gas distributors has narrowed from approximately 100 basis points in 2000 to approximately 50 basis points in 2012. In 2012, the median authorized ROE for Canadian gas distributors was 9.5 percent while the median for U.S. gas distributors was 10 percent. The gap has further narrowed in 2013.

Concentric attributes the closure of the gap between Canadian and U.S. authorized ROEs for gas distributors to the resetting and replacement of formulas widely used in Canada to adjust the authorized ROE on a periodic basis. While the authorized ROEs have converged in the two countries, the authorized common equity ratios have not.

For example, in 2012, the average common equity ratio for Canadian gas distributors was approximately 40 percent while the same figure in the U.S. was approximately 51 percent.

Government and corporate bond yields are often considered when setting authorized ROEs and directly incorporated in some formulas, so this newsletter also contrasts government and utility bond yields. The data demonstrate that since 2000, government bond yields (considered risk-free rates of return) in both Canada and the U.S. declined from over 5.5 percent to less than 3 percent in 2012. While government bond yields play an important role in determining the authorized ROE for utilities, changes in government bond yields do not imply a one-for-one change in the cost of equity for utilities. The relationship between government bond yields and the equity risk premium (the spread between government bond yields and the cost of equity) has historically exhibited an inverse relationship.

Moving forward, Concentric anticipates that improving economic conditions and the easing of accommodative monetary policy in both Canada and the U.S. will exert upward pressure on the cost of capital for utilities. The benchmark Canadian Long-Term Bond Yield reached a low of 2.2 percent in July 2012, but pushed past the 3 percent mark in August and September of this year. U.S. long bonds have followed a parallel path, but remain 61 basis points over the Canadian Long-Bond year to date. Corporate debt costs, as reflected in Canadian and U.S. utility bond yields, have also notched higher in 2013, but remain within a tighter band of 26 basis points year to date.

Concentric will publish an update to this newsletter in the first quarter of 2014.

¹ Concentric acknowledges the support of the Canadian Gas Association for conducting the research and building the database which serve as the foundation for this newsletter.

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Authorized Return on Equity for Canadian Gas and Electric Distributors ¹

	Return on Common Equity (%)			Common Equity Ratio (%)		
	2013	2012	2011	2013	2012	2011
Canadian Gas Distributors ²						
AltaGas Utilities Inc. ³	8.75	8.75	8.75	43.00	43.00	43.00
ATCO Gas ³	8.75	8.75	8.75	39.00	39.00	39.00
Centra Gas Manitoba Inc.	N/A	N/A	N/A	30.00	30.00	30.00
Enbridge Gas Distribution Inc.	8.93	8.39	8.39	36.00	36.00	36.00
Enbridge Gas New Brunswick	10.90	10.90	10.90	45.00	45.00	45.00
FortisBC Energy Inc.	8.75	9.50	9.50	38.50	40.00	40.00
FortisBC Energy Inc. (Vancouver Island) ⁴	10.00	10.00	10.00	40.00	40.00	40.00
FortisBC Energy Inc. (Whistler) ⁴	10.00	10.00	10.00	40.00	40.00	40.00
Gaz Métro Limited Partnership	8.90	8.90	9.09	38.50	38.50	38.50
Gazifère Inc.	7.82	8.29	9.10	40.00	40.00	40.00
Heritage Gas Limited	11.00	11.00	13.00	45.00	45.00	45.00
Pacific Northern Gas Ltd. ⁴	10.15	10.15	10.15	45.00	45.00	45.00
Pacific Northern Gas (N.E.) Ltd. (Fort St. John/Dawson Creek) ⁴	9.90	9.90	9.90	40.00	40.00	40.00
Pacific Northern Gas (N.E.) Ltd. (Tumbler Ridge) ⁴	10.15	10.15	10.15	40.00	40.00	40.00
SaskEnergy Inc.	8.75	8.75	8.75	N/A	37.00	37.00
Union Gas Limited	8.93	8.54	8.54	36.00	36.00	36.00
Average	9.45	9.46	9.66	39.73	39.66	39.66
Median	8.93	9.50	9.50	40.00	40.00	40.00
Canadian Electric Distributors ²						
ATCO Electric Ltd. ³	8.75	8.75	8.75	39.00	39.00	39.00
ENMAX Power Corporation ³	8.75	8.75	8.75	41.00	41.00	41.00
EPCOR Distribution Inc. ³	8.75	8.75	8.75	41.00	41.00	41.00
FortisAlberta Inc. ³	8.75	8.75	8.75	41.00	41.00	41.00
FortisBC Inc. ⁴	9.90	9.90	9.90	40.00	40.00	40.00
Hydro-Québec Distribution	6.19	6.37	7.32	35.00	35.00	35.00
Manitoba Hydro	N/A	N/A	N/A	25.00	25.00	25.00
Maritime Electric Company Limited	9.75	9.75	9.75	43.50	41.70	42.70
Newfoundland and Labrador Hydro	4.47	4.47	4.47	20.00	20.00	20.00
Newfoundland Power Inc.	8.80	8.80	8.38	45.00	45.00	45.00
Nova Scotia Power Inc.	9.00	9.20	9.35	37.50	37.50	40.00
Ontario's Electric Distributors ⁵	8.98	9.12	9.58	40.00	40.00	40.00
Saskatchewan Power Corporation	8.50	7.40	7.40	40.00	40.00	40.00
Average	8.38	8.33	8.43	37.54	37.40	37.67
Median	8.75	8.75	8.75	40.00	40.00	40.00

¹ Data for an expanded group of Canadian gas and electric transmission companies is contained in the Concentric Energy Advisors Return on Equity Database.

² Allowed in rates for the corresponding year; where the year overlaps, the rate/ratio shown prevails for the majority of the year. Sources: Regulatory decisions and documents; annual information forms; annual reports.

³ The Alberta Utilities Commission has opened a Generic Cost of Capital proceeding in 2013 to review the current allowed ROE for regulated gas and electric utilities in Alberta.

⁴ The authorized ROE for 2013 is currently under review by the British Columbia Utilities Commission in Stage 2 of the Generic Cost of Capital proceeding. A decision is expected in January 2014. In Stage 1, the BCUC reduced the allowed ROE for the benchmark utility, FortisBC Energy, Inc., by 75 basis points and reduced its deemed equity ratio by 1.50%.

⁵ Rates effective May 1.

* N/A indicates the data is not available.

Authorized Return on Equity for Select U.S. Gas Distributors ¹

	Return on Common Equity (%)			Common Equity Ratio (%)		
	2013	2012	2011	2013	2012	2011
U.S. Gas Distributors						
Atlanta Gas Light Company (GA) ²	10.75	10.75	10.75	51.00	51.00	51.00
New Jersey Natural Gas Company (NJ) ²	10.30	10.30	10.30	51.20	51.20	51.20
Northern Illinois Gas Company (IL) ²	10.17	10.17	10.17	51.07	51.07	51.07
Northwest Natural Gas Company (OR) ²	9.50	10.20	10.20	50.00	49.50	49.50
Piedmont Natural Gas Company, Inc. (NC) ²	10.60	10.60	10.60	51.00	51.00	51.00
Southwest Gas Corporation (AZ) ²	9.50	9.50	10.00	52.30	52.30	43.44
Washington Gas Light Company (VA) ²	9.75	9.75	10.00	59.63	59.63	N/A
Average of all Rate Cases Decided in the Year ³	9.50	9.94	9.92	50.31	51.13	52.49
Median of all Rate Cases Decided in the Year ³	9.40	10.00	10.03	49.20	51.47	52.45

Economic Indicators (% Yields) ⁴			
	2013	2012	2011
Government of Canada Benchmark Long-Term Bond Yield	2.70	2.45	3.29
U.S. Treasury 30-Year Bond Yield	3.31	2.92	3.91
Bloomberg Fair Value Canada A-rated Utility Bond Yield	4.10	3.91	4.77
Moody's A-rated Utility Bond Index (U.S.)	4.36	4.13	5.04

Presented by Concentric Energy Advisors, Inc. For more information regarding this data, please contact:

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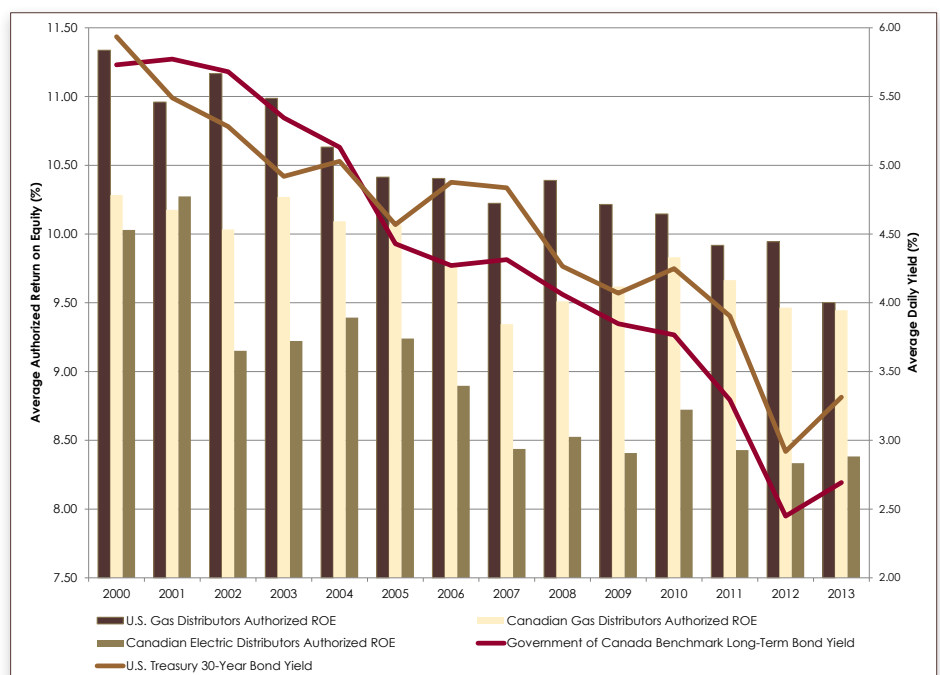
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¹ Companies included in this sample are publicly traded, or divisions of publicly traded companies, with investment grade credit ratings, principally focused on the natural gas distribution business. Where more than one state is served, the largest service area is reported.

² Allowed in rates for the majority of the corresponding year. Sources: Regulatory decisions and documents; annual reports.

³ Source: SNL Energy's Regulatory Research Associates Division. Data for 2013 includes decisions through September 13, 2013.

⁴ Average daily yield. Source: Bloomberg Finance L.P. Data for 2013 through September 16, 2013.