



September 27, 2006

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Cost of Capital and IRM

Re: Questions for New Market Hydro and Energy and Environmental Economics

1. Are you aware of any regulatory cases in Canada or the US where utility equity returns have been adjusted for size?
2. You mentioned Ibbotson as a source for a study that identifies a small capitalization stock risk premium? Please define "small" and please describe how large was this risk premium?
3. Do you believe that US small cap stocks can serve as a proxy for the Canadian market?
4. You mentioned that an increase in the percentage of debt in the capital structure would lead to higher required returns on equity. Could you please explain - in ordinary language - why?
5. Your calculation of the return on equity differs from that provided by Dr. Lazar and Prisman, can you explain any underlying assumptions that might lead to this difference?

Jim Hogan
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