
From: Ron Warrington [ron@ethree.com]
Sent: Thursday, October 12, 2006 8:47 PM
To: Russ Houldin; Allan Fogwill; Keith Ritchie; Lisa Brickenden; Duncan Skinner
Cc: Iain Clinton; Marika Hare; Michele Smart; Tunley, M. Philip
Subject: RE: Teleconference to discuss outstanding issues
Attachments: McShane NRG ihu41200.pdf

Mr. Houldin,

I left you a phone message today regarding our discussion of the calculation of ROE. It is unfortunate that we have not been able to connect with OEB staff. More importantly, I think Staff is overlooking a key issue due to a misunderstanding of our testimony last month.

It is our firm belief that (without changing assumptions) there are concerns in calculating the Staff proposed ROE. As you know from our testimony, submissions and off line conversations, we came to a higher estimate using the same assumptions.

We have been available both before and after the conference to explain how we obtained these estimates. Since we have been unable to connect, we thought we would make another attempt to encourage a review of Drs. Larzar and Prisman's (as well as our own) calculations. We are confident that a simple misapplication of a shortcut formula has caused their anomalous results.

For an independent Canadian corroboration of our methodology, would you be kind enough to look at Ms. Kathy McShane's March 2006 testimony in the NRG case (Attached). McShane's Theory 1 on Schedule 1, Page 1 [actually pages 23 -24] of her testimony follows our same calculation approach. In fact, her estimate of WACC is the same - 6.47% - and ROE is close at 10.42%. Furthermore, we use a similar approach to her Theory 2 on Schedule 1, Page 2 when responding to Chatham Kent's question 5 - which we would be happy to explain with all necessary references.

To simplify an effort to duplicate McShane's (and E3's) calculation method, here are Staff's own proposed assumptions from Appendix A using the 60 month All Rate Regulated Case:

60:40 Levered Average Debt:Equity
 6.01% debt rate [June 19 staff proposal]
 Tax Rate = 36%
 Ba = .29 unlevered after tax asset Beta
 Rm = 10.06% market return
 Rf = 5.01% risk free rate

[Note that after-tax WACC = $R_a = R_f + B_a \times (R_m - R_f) = 6.47\%$]

You may simply plug in Staff's debt rate and capital structure in her Step 2 to obtain the **ROE of 10.4%**:

[e.g. $6.47\% = (.06) \times (1-.36) \times (.6) + (.104) \times (.4)$ checks the result.]

Please be aware that we have not spoken with Ms. McShane in this regard, and only noticed her schedule and approach when researching testimony for references in answering the OEB / Intervener questions.

Once again, we look forward to speaking with you to clarify this issue.

Thank you,

10/27/06

Ronald C. Warrington
Michele Smart
Energy & Environmental Economics, Inc.
353 Sacramento Street - Suite 1700
San Francisco, CA 94111

wk: (415) 391-5100
fax: (415) 391-6500

From: Ron Warrington
Sent: Thursday, October 12, 2006 11:43 AM
To: 'Russ Houldin'
Cc: Iain Clinton; Marika Hare; Michele Smart; 'Tunley, M. Philip'
Subject: RE: Teleconference to discuss outstanding issues

Mr. Houldin,

Unfortunately, we have not yet made plans to attend the technical conference follow-up. However, we are concerned that the fundamental issues raised in our presentation were clouded or lost due the technicality of the discussion as well as the tone and tenor of the questions. This is unfortunate, since the ROE results are significant. We would like the opportunity to speak with staff directly to inform you on those issues. While we do not wish to omit your experts' participation - we do feel it is important for Staff to understand our viewpoint. You could then confer with Drs. Lazar and Prisman and make a judgement, or arrange for further discussion at a later date.

We remain available for discussion with you today or tomorrow. Please let us know if we may take a few minutes of your time.

Thank you,

Ronald C. Warrington
Michele Smart
Energy & Environmental Economics, Inc.
353 Sacramento Street - Suite 1700
San Francisco, CA 94111

wk: (415) 391-5100
fax: (415) 391-6500

From: Russ Houldin [mailto:Russ.Houldin@oeb.gov.on.ca]
Sent: Thursday, October 12, 2006 8:05 AM
To: Ron Warrington
Cc: Iain Clinton; Marika Hare
Subject: RE: Teleconference to discuss outstanding issues

Thank you. Fred Lazar is not available today or Friday (nor was he yesterday). Are you planning to come to Toronto for the follow-up Technical Conference? Perhaps that would be an opportunity to have a meeting rather than setting up a teleconference among several very busy people?

10/27/06

From: Ron Warrington [mailto:ron@ethree.com]
Sent: October 10, 2006 1:25 PM
To: Russ Houldin
Cc: Iain Clinton; Marika Hare
Subject: RE: Teleconference to discuss outstanding issues

Mr. Houldin,

I believe we are available this week, although the preferred day would be Thursday or Friday as we are working to respond to the Questions for tomorrow. Please let me know when you would like to discuss.

Thanks,

Ron Warrington
(415) 391-5100

From: Russ Houldin [mailto:Russ.Houldin@oeb.gov.on.ca]
Sent: Thursday, October 05, 2006 2:55 PM
To: Ron Warrington
Cc: Iain Clinton; Marika Hare
Subject: RE: Teleconference to discuss outstanding issues

I'm sorry for not getting back to you sooner but, as you must have inferred, today & yesterday were not possible for me. Perhaps I could try your patience one last time and explore some times next week (bearing in mind that Monday is a Canadian Thanksgiving)?
Once again, my apologies

From: Ron Warrington [mailto:ron@ethree.com]
Sent: October 5, 2006 11:50 AM
To: Russ Houldin
Cc: Iain Clinton; Marika Hare
Subject: RE: Teleconference to discuss outstanding issues

Mr. Houldin,

I have not heard back on the issue of a teleconference regarding the issues before the technical board. Could you please provide us with an update/status on how you are likely to proceed?

Thank you,

Ronald C. Warrington
Senior Partner
Energy & Environmental Economics, Inc.
353 Sacramento Street - Suite 1700
San Francisco, CA 94111

wk: (415) 391-5100
fax: (415) 391-6500

From: Ron Warrington
Sent: Friday, September 29, 2006 2:07 PM

10/27/06

To: 'Russ Houldin'
Subject: RE: Teleconference to discuss outstanding issues

We can be available any time after 2 pm EST on Wednesday or Thursday. Does that work for you?

From: Russ Houldin [mailto:Russ.Houldin@oeb.gov.on.ca]
Sent: Thursday, September 28, 2006 6:13 AM
To: Ron Warrington
Subject: RE: Teleconference to discuss outstanding issues

How does the week of October 2 look for you? (I'm unavailable on Oct 2.)

From: Ron Warrington [mailto:ron@ethree.com]
Sent: September 22, 2006 5:20 PM
To: Russ Houldin
Subject: RE: Teleconference to discuss outstanding issues

Tuesday early is possible - though difficult. But, beyond that, travel schedules make a teleconference impossible.

From: Russ Houldin [mailto:Russ.Houldin@oeb.gov.on.ca]
Sent: Friday, September 22, 2006 1:19 PM
To: Ron Warrington
Subject: RE: Teleconference to discuss outstanding issues

Thank you. I don't think Monday is now going to work for me. What is your availability on Tuesday and Wednesday?
Have a good weekend.

From: Ron Warrington [mailto:ron@ethree.com]
Sent: September 22, 2006 4:14 PM
To: Russ Houldin
Cc: Michele Smart
Subject: RE: Teleconference to discuss outstanding issues

Mr. Houldin,

Attached is a short note and the attendant calculations. Please let us know if we can be of any further assistance. We look forward to our conversation on Monday.

Thank you,

Ronald C. Warrington
Michele Smart
Energy & Environmental Economics, Inc.
353 Sacramento Street - Suite 1700
San Francisco, CA 94111

wk: (415) 391-5100
fax: (415) 391-6500

From: Russ Houldin [mailto:Russ.Houldin@oeb.gov.on.ca]

10/27/06

Sent: Friday, September 22, 2006 9:25 AM
To: Ron Warrington
Subject: RE: Teleconference to discuss outstanding issues

Yes, I would appreciate the chance to review your materials. I'm working on Monday pm and I will try to be more definite this pm.

From: Ron Warrington [mailto:ron@ethree.com]
Sent: September 21, 2006 5:55 PM
To: Russ Houldin; flazar@yorku.ca; E. Prisman
Cc: Allan Fogwill; Keith Ritchie; Lisa Brickenden; Duncan Skinner; Michele Smart
Subject: RE: Teleconference to discuss outstanding issues

Mr. Houldin,

We are available all day Monday for a conversation on the topics explored by the Staff at the Technical Conference. As mentioned to Alan Fogwell on Wednesday, we have put together the proofs and calculations (as well as some brief explanatory materials) promised during the conference. They were available for the record yesterday, but Mr. Fogwell thought it might be useful to hold them out and use them for our discussions. We would be pleased to forward those to you for use during our discussions. As you know, we are on Pacific Time, so the afternoon would be best - though we could make arrangements to come in early should you require it.

Thank you,

Ronald C. Warrington
Michele Smart
Energy & Environmental Economics, Inc.
353 Sacramento Street - Suite 1700
San Francisco, CA 94111

wk: (415) 391-5100
fax: (415) 391-6500

From: Russ Houldin [mailto:Russ.Houldin@oeb.gov.on.ca]
Sent: Thursday, September 21, 2006 11:18 AM
To: Ron Warrington; flazar@yorku.ca; E. Prisman
Cc: Allan Fogwill; Keith Ritchie; Lisa Brickenden; Duncan Skinner
Subject: Teleconference to discuss outstanding issues

Alan Fogwill has asked me to arrange a teleconference to try to help Board staff to understand better the issues that were explored on Tuesday at the Technical Conference. Could you let me know if that would be acceptable and, if so, some timeslots next week?