Dr. Booth's answers to questions from the Coalition of Large Distributors

52. Dr. Booth indicated that it is his perception that there is minimal risk attached to investing in regulated utilities in Canada. Have you performed empirical tests of this hypothesis, particularly with respect to electricity distribution utilities in Ontario? If so, please provide details of these analyses.

As indicated at the technical conference Dr. Booth believes that the Ontario Discos are in a transition period to a new regulatory regime and does not believe that such a study, even were consistent data available, would be useful. His comments were drawn from his knowledge of regulated Discos elsewhere in Canada and similar utilities regulated by the OEB.

53. Dr. Booth suggested in his questions to E3 (the expert witnesses supporting Newmarket Hydro) that preferred share issuances have been done at effective yields below that of Canadian Government bonds. To corroborate this assertion, please provide examples of preferred share issuances in Canada compared with effective Government of Canada bond yields of similar terms to maturity on the date of said preferred share issuances. Please also elaborate on any special characteristics of the preferred share issuances that would cause their effective yields to be lower than Government of Canada bond yields with similar terms to maturity.

The following data is from BMO-Nesbitt Burns Preferred Share Statistics November 2005.

PREFERRED SHARE AFTER-TAX SPREADS

Retractable Prefs.vs Mid Canada Bonds	30 NOV 05		31 OCT 05	
	Corp	Individ	Corp	Individ
Retractable Sub-Indices Yield to Retraction	3.33	3.33	3.61	3.61
Mid Term (5yrs) *	3.90	3.90	3.90	3.90
After-Tax Spreads**	0.80	0.20	1.08	0.39
Straight Prefs.vs Long Term Canada Bonds	**30 NOV 05**		**31 OCT 05**	
	Corp	Individ	Corp	Individ
Straight Sub-Indices Current Yield	5.22	5.22	5.32	5.32
Long Term (30yr) Cda's	4.19	4.19	4.35	4.35
After Tax-Spreads**	2.50	1.34	2.49	1.32
Floating Rate Prefs vs Bankers Acceptances	**30 NOV 05**		**31 OCT 05**	
	Corp	Individ	Corp	Individ
Floating Sub-Indices Current Yield	3.24	3.24	3.25	3.25
3 Month BA's	3.40	3.40	3.17	3.17
After tax Spreads**	1.03	0.40	1.19	0.53

Note: * Mid Term Bond now based on 5 yr Cda's whereas prior to Jan 31/02 Mid Term Bond based on 5-10 yr Cda's.
**Individual After-Tax spread calculation does not take into effect the proposed dividend tax reduction.

BMO-Nesbitt Burns picks the Canada bonds to be most representative of the equivalent preferred share indexes.

54. During the Technical Conference Dr. Booth stated that natural gas prices have exhibited higher volatility than electricity prices. Please provide empirical evidence (using volatility as measured by standard deviation or any other generally acceptable measure of volatility) that supports this assertion using natural gas prices at .Dawn. compared with the Hourly Ontario Energy Price from May 1, 2002 to August 31, 2006. Please note that this period encompasses Hurricane Katrina as well as the Terasen sale, both of which were referenced in the Transcript.

Dr. Booth also noted that he had not done such a study and his remarks were based on the Union Gas and Terasen Gas filings and the behaviour of natural gas prices at the time of Hurricane Katrina. The work required to undertake the suggested comparison is outside the scope of Dr. Booth’s evidence and it is questionable if a comparison of hourly prices is useful, given that the gas utilities contract for gas on a monthly or longer term basis, while Electric LDCs are billed monthly by the IESO.

55. Dr. Booth states in his pre-filed paper that he supports deferral accounts as a methodology for regulators to lower a utility’s risks. Please comment on whether you are familiar with LDCs. experience in Ontario with the OEB.s use of deferral/variance accounts following electricity spot market opening, and provincial government dictates that stalled the clearance of deferral/variance accounts with significant balances.

Note that Dr. Booth’s comments were on the basis of costs that the utility can not control, such as commodity price costs. The PGVA (gas) and PPVA (power) price variance accounts record differences in actual and reference commodity prices. Dr. Booth’s understanding is that the OEB has not disallowed recovery of the balances in these accounts. However, prudency reviews are always part of the process of adjusting the balances in deferral accounts.

56. Please comment on Board Staff.s reliance on using only the CAPM as the method by which to set LDC ROEs, and in particular, on the particular formulation of the CAPM. Please comment on the appropriateness of the estimation period(s) used by Lazar and Prisman for this purpose and compare them with those that you have typically used in your testimony at other proceedings.

As Dr. Booth remarked in his presentation there are two conceptually correct methods of determining fair rates of return; the DCF and risk premium methods. As he mentioned in both his testimony and presentation remarks, Dr. Booth believes in using as much data as possible and understanding the economic conditions that generated the data, rather than simply relying on recent statistical estimates.

57. Please comment on whether the practical impediments currently preventing the majority of electric LDCs from accessing equity market financing (and their municipal shareholders from injecting any further equity) continues to support your view that common equity ratios for said LDCs should remain in the 35% - 36% range.

Yes. Dr. Booth believes that the Alberta EUB got it right in stating that the regulator's responsibility is simply to determine fair ROEs and capital structures and not regulate on the basis of who the owner is. In transitioning to a new regulatory structure there may be minor changes that are needed to make this transition smooth. However, regulation is a flexible process and Dr. Booth believes that any required changes will be made.

58. Has Dr. Booth ever advised a bidder in a competitive M&A transaction, if so, was the bidder successful? Does Dr. Booth agree that a significant M&A transaction can accomplish a number of positive effects on the buying corporation including the diversification of business risk, broadening and creating a more liquid market for the buyers common shares and providing greater opportunities for rate base growth with a corresponding increase in dividends to shareholders?

No.

If there are diversification and liquidity benefits to an acquirer, this is simply another way of saying that the required (fair) rate of return on the part of the acquirer is lowered by these benefits. This was the conclusion of Mr. Carmichael as well in the case of the Fortis acquisitions. This in turn simply means that the allowed ROE is higher than the shareowner's required (fair) rate of return..

Rate base growth should have no impact on the market to book ratio or market prices if the utility only earns a fair ROE. Another way of saying this is that growth is only valuable if the shareholder earns an ROE in excess of their required or fair return.

59. Is it Dr. Booth's view that the regulatory and policy environment uncertainty has stabilized for Ontario electricity distributors? Are you aware that the proposed regime is transitory as well, with a relatively short expected lifetime of one to three years? Are you aware that the proposed interim regime is not linked to the more permanent one to follow? Given that you support the ROEs being proposed by the Board, is it your prediction that . going forward -- rates of return realized by Ontario distributors will closely track the approved rates of return, as has been the case for regulated pipeline and gas utilities documented in Schedules 1 and 2 of your evidence?

As Dr. Booth stated in the technical conference he is of the view that the system is transitioning to a new stable regulatory system. Dr. Booth also stated in the technical conference that if the Board is of the view that there is still some short term risks in this process, then the utilities should be compensated with a temporary premium to the ROE, rather than a permanently higher ROE or common equity ratio.

Dr. Booth supports the use of the same adjustment mechanism for the Electric Discos as is used for setting the ROEs for the Gas LDCs.

Dr. Booth's judgement is that with the movement towards a price cap regime, where the utilities keep 100% of the savings, their ROEs will be above the allowed ROE similar to the experience of FortisBC and other utilities on incentive regulation. He has seen no evidence that incentive regulation as adopted in Canada has hurt anyregulated firm.