

Re: p. 2, lines 5-8

Dr. Vilbert states, “I testified before the Alberta Energy and Utilities Board (“AEUB”) on behalf of TransAlta Utilities in 1999, and I have filed written evidence before the U.S. Federal Energy Regulatory Commission (“FERC”), the Canadian National Energy Board (“NEB”) and before the AEUB in 2000.

- (a) Please provide Dr. Vilbert’s recommended ATWACCs for TransAlta in his evidence before the AEUB in 1999 and 2000 and in the evidence filed with the National Energy Board.

**Response:**

The sample estimated ATWACC’s for Dr. Vilbert’s samples in the proceedings identified above are presented in the table below.

Note that in the referenced filings, Dr. Vilbert analyzed several samples and estimated the sample’s average ATWACC as benchmarks for evaluation by Dr. A. Lawrence Kolbe, also of The Brattle Group. The estimates below are the sample average ATWACCs for Dr. Vilbert’s samples in the three proceedings, and his point estimate for TransAlta as an integrated electric utility. The second column is Dr. Kolbe’s recommendation for the specific circumstances in the case. The last two columns show the book equity component of the capital structure and return on equity corresponding to Dr. Kolbe’s recommended ATWACC, using the utility in question’s marginal tax rate at the time of the filing. Note that the last three columns in the table pertain to the part of the business for which the filing was made.

<b>Recommended ATWACC in Previous Filings in Canada</b>				
	<b>Vilbert's Estimated ATWACC and Recommendation</b>	<b>ATWACC Used in the Filing (business line)</b>	<b>Book Equity Percentage</b>	<b>Implied Return on Equity</b>
AEUB 1998 (TransAlta)	6¼ - 6¾ Canadian 7 - 7½ U.S. Electric Range: 6¾ - 7¼ Point Estimate: 7	6.9 (Integrated Regulated Utility)*	42%	10.8%
AEUB 2000 (TransAlta)	6.7 - 7.4 Canadian 6.9 - 8.4 U.S. Electric 8¼ - 9 U.K. Electric Range: 7 - 7½ Point Estimate: 7¼	7 (Transmission for Unbundled Utility)	40%	11.08%
NEB 2001 (TransCanada)	6 ½ - 7 Canadian 7 - 7 ½ Gas LDC 7 ½ - 8 Pipelines Range: n/a Point Estimate: n/a	7 ½ (Mainline)	40%	12.52%
*Dr. Kolbe actually provided line-of-business ATWACCs for three parts of an integrated, fully regulated utility, the average of which was 6.9 percent.				

Re: p. 2, lines 5-8

- (b) In each of the three cases referred to in part a) above, please indicate what book value common equity ratio and equity return on book value corresponding to Dr. Vilbert's ATWACC recommendations were included in the companies' rate filings.

**Response:**

See response to part (a) of this question.

Re: p. 2, lines 5-8

- (c) Please provide a copy of Dr. Vilbert's evidence in the 2000 proceedings before the AEUB.

**Response:**

A copy of Dr. Vilbert's direct evidence before the Alberta Energy and Utilities Board on behalf of TransAlta Utilities Corporation for approval of its 2001 transmission tariff, May 2000 is attached.

Re: p. 2, lines 5-8

- (d) As an independent expert on cost of capital, does Dr. Vilbert believe Hydro's ATWACC would be significantly different from that which he determined to be reasonable for TransAlta's transmission operations in his 2000 evidence? If so, please explain why and by approximately how much.

**Response:**

Please see Dr. Vilbert's written evidence page 12, line 12 through page 13 line 4 for Dr. Vilbert's views on the issue of benchmark samples for Hydro. Dr. Vilbert believes that Hydro is less risky than the average company in the sample of Canadian Investor Owned Utilities ("IOU").

Dr. Vilbert was not asked to determine the ATWACC for TransAlta in his 2000 evidence. However, he would note that in the 2000 AEUB proceeding, Dr. Kolbe's value of 7 percent was for an unbundled transmission business in a partially deregulated market for electric power. Dr. Kolbe's value for transmission as a part of an integrated, fully regulated electric utility in the prior year's proceeding for TransAlta was 6 ¼ percent, at a time interest rates were higher than they are today.

Additionally, since Dr. Vilbert was not asked to determine a cost of capital for Hydro in this proceeding, he has not studied how much less the ATWACC for Hydro would be compared to that of TransAlta.