Q. Who are the members of the "investment community" referred to at lines 26-27 of p. 52 of the evidence of K.C. McShane? Which of them have the views attributed to that community by Ms. McShane and where have such views been expressed? If such views have been expressed in writing or have been recorded, please provide copies or audio tapes.

A. The Dominion Bond Rating Service stated in its May 2000 report on HydroOne, “future earnings will be tied to interest rates via the approved return on equity. Set at 9.35% for 1999 and 9.88% for 2000, the approved ROE is somewhat low compared to other alternative investments, but comparable to other Canadian utilities.”

RBC Dominion Securities’ “ROE Outlook for 2001” (October 31, 2000) stated, “In light of the low levels of allowed ROEs calculated by the various formulas, and the changing nature of the risk associated with the operations of these companies, a number of utility and pipeline companies are pursuing modifications to their ROE formulas and/or incentive regulation. Both endeavors are motivated by the objective of allowing the companies to earn higher ROEs that more appropriately compensate for the risk associated with their operations.”

The returns that have recently resulted from the NEB formula – which are similar to those allowed in other Canadian jurisdictions -- have been described as “anti-competitive returns that don’t really work in this high flying race for capital that we have here” (Donald J. Eassey, First Vice President, Merrill Lynch, cited in “Roundtable Forum: Natural Gas Transmission and Distribution”, *The Wall Street Transcript*, February 21, 2000). Ronald J. Barone, Managing Director of PaineWebber Inc., stated in the same forum, “The regulatory environment is totally unrealistic as far as authorized returns are concerned. I believe the regulators lose sight of the fact that there is only one capital market. With the S&P 500 earning ROEs of 20% or more, why should an investor accept a return on equity of 9%? To me, it just seems unrealistic.”