Q. Dr. Cleary Evidence, Page 25, Figure 7: Is Dr. Cleary aware of any Canadian or U.S. utility regulators that have used his measures of EBIT volatility to determine a regulated utility's equity ratio? If so, please identify the utility regulators and the docket numbers.

A. To the best of Dr. Cleary's knowledge, his measures of EBIT volatility have not been used in recent regulatory hearings in Canada, nor is he aware of any proceedings that rejected the use of such.

Dr. Cleary finds this surprising, since it is a common quantitative measure of business risk that is discussed in finance and accounting curriculum, and in professional educational programs such as the Chartered Financial Analyst (CFA) program. The use of a quantitative measure of business risk is logical, since many proceedings spend a great deal of time qualitatively debating over even the smallest amount of business risk for regulated monopolies, which can pass through legitimate costs to consumers, and many of which face virtually no competition (at least not in Canada). This was the motivating factor for Dr. Cleary's analysis.

The fact that it has not been used in recent Canadian hearings does not mean it hasn't been used in decisions in other countries, or in earlier years in Canada, nor does this detract from its legitimacy. For example, Dr. Cleary notes that three of the total of six DBRS analysts providing debt ratings reports for the Canadian utilities companies listed in Table 11 of Dr. Cleary's evidence have their CFA designation. This implies they would be familiar with this measure of business risk, which is included in the CFA curriculum. This curriculum is updated every few years through consultations with finance industry practitioners, so that it reflects the current tools needed by finance professionals.

While this "measure" of business risk may have not been used in previous hearings, Dr. Cleary would note that it is completely consistent with the definition of business risk proposed by Dr. Morin in the 2003 hearings, as noted on page 31 of Order No. P.U. 19 (2003), as quoted below:

Dr. Morin's definition of Business Risk:

> *"Refers to the relative variability of operating profits induced by the external forces of demand for and supply of the firm's products, by the presence of fixed costs, by the extent of diversification or lack thereof of services, and by the character of regulation."*

This definition was accepted by the Board at that time as noted on page 31 of Order No. P.U. 19 (2003):

> *"The Board feels the above definitions are consistent and reasonable. The Board accepts these definitions and sees no particular conflict in terms of the evidence presented during the hearing."*