

1 **Q. Dr. Cleary Evidence, Page 25, Figure 7: Is Dr. Cleary aware of any debt**
2 **rating agency that has used his measures of EBIT volatility to determine a utility's**
3 **business or financial risk? If so, please identify the debt rating agency and provide a**
4 **copy of the report(s).**

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6 A. To the best of Dr. Cleary's knowledge, his measures of EBIT volatility have not
7 been used in recent debt rating reports. As discussed in the response to NP-CA-014, Dr.
8 Cleary finds this surprising, since it is a common quantitative measure of business risk
9 that is discussed in finance and accounting curriculum, and in professional educational
10 programs such as the Chartered Financial Analyst (CFA) program. The use of a
11 quantitative measure of business risk is logical, since many rating reports spend a great
12 deal of time trying to qualitatively assess even the smallest amount of business risk for
13 regulated monopolies, which can pass through legitimate costs to consumers, and many
14 of which face virtually no competition (at least not in Canada).

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16 The fact that it has not been used in recent debt rating reports does not detract from its
17 legitimacy. For example, Dr. Cleary notes that three of the total of six DBRS analysts
18 providing debt ratings reports for the Canadian utilities companies listed in Table 11 of
19 Dr. Cleary's evidence have their CFA designation. This implies they would be familiar
20 with this measure of business risk, which is included in the CFA curriculum. This
21 curriculum is updated every few years through consultations with finance industry
22 practitioners, so that it reflects the current tools needed by finance professionals.