Q. Re: Mr. Cicchetti's estimation techniques page 16

a. Please confirm that Mr. Cicchetti uses two direct DCF estimates on samples of US electric and gas utilities and one risk premium test which in turn is based on monthly DCF estimates for an index of firms. If not please explain in detail how his estimation procedures do not rely on DCF estimates.

b. Please indicate any decision by a Canadian regulatory board that has awarded a fair ROE based entirely on DCF estimation procedures at any time over the last 20 years.

c. Please indicate any decisions by a Canadian regulatory board that has placed even partial weight on DCF based recommendations. In this case please indicate the decision and the weight placed on any DCF estimates.

d. Please provide all documentary support for the assertion that DCF models are the "most commonly used approach for estimating a utility investor 's required return on common equity capital."

e. Please provide any documentary support to the notion that the DCF model is a commonly used technique for estimating the required rate of return for any type of firm, utility or otherwise.

f. At page 17 Mr. Cicchetti refers to the way in which a bond yield to maturity is calculated. Please confirm:

i. Given that the yield is the discount rate that's sets the present value of the contractual payments equal to the current market value, this yield is often referred to as a promised yield since it relies on the payers promise to make the contractual payments. If not why not.

ii. Please confirm that only in the case of the Government of Canada is such a promise default free which is why the only yield to maturity which is also an expected rate of return is the yield on a Government of Canada bond, if not why not and explain in detail.

iii. Further to (f.ii)., please confirm that default risky bonds have no limits on their yield, which as result exceeds the investors expected rate of return. For example, bonds issued by companies close to default like GM often have yields close to

100% but investors do not expect to earn that rate of return since default is likely. If not why not.

iv. Given (f.iii) please explain in detail and provide citations to the literature of the relevance of comparing an expected rate of return on a share (from the DCF model since the cash flows are expected not contractual) with a promised yield on a default risky bond.

A. (a.) Confirmed.

(b.) Mr. Cicchetti is not aware of any.

(c.) Mr. Cicchetti is not aware of any.

(d.) See Allowed Return on Equity in Canada and the United States, An Economic, Financial and Institutional Analysis, National Economic Research Associates, Inc.

(e.) See (d) above.

(f.) (i) Confirmed.

(ii) Confirmed.

(iii) Investor's expected rate of return is based on the amount paid for a security and what they expect to be paid in return. Risk averse investors expect to receive their required return or they would not make the investment.

(iv) The DCF model used by Mr. Cicchetti in his analysis calculates the required return of a stock. An investor can evaluate the expected return on a share of stock relative to the expected return on a bond to determine if the additional return associated with a share of stock satisfies his/her risk return requirement. It should be noted there are valid reasons for investing in bonds versus stocks beyond the risk/reward tradeoff. For example, pension funds or insurance companies may desire to match assets and liabilities.