Q. Evidence of Ms. McShane, bond ratings/credit metrics, Pages 18-23: Please discuss in detail why S&P changed their policy towards rating regulated subsidiaries that were part of utility holding companies unless they were ring fenced.

A. Ms. McShane is not aware that S&P has changed its policy. Its October 1999 report *Criteria: Ring-Fencing A Subsidiary* discussed the rating policy. In that report, S&P stated that it considers, in the absence of ring-fencing, a weak parent has the ability to siphon off assets from a healthy subsidiary. Thus in rating companies, S&P looks at the consolidated operations, including the degree of insulation between a subsidiary and its parent. A subsidiary which S&P views to be effectively ring-fenced from its parent can achieve a rating up to three notches higher than a weaker parent.