Q. Evidence of Ms. McShane Pages 63: Please provide the annual dividend per share data for each of the firms and for all years used in her estimation procedures in her US DCF sample both individually and as a sample average. Please provide a time series regression of their annual dividend per share growth rate against the growth rate in nominal US GDP to verify the assumption that growth rates will taper off to the long run GDP growth rate.

A. Annual dividend data for the years 1998-2011 are provided for the companies in the sample in "CA NP 129 Attachment.xlsx" along with the requested regression. The requested regression indicates no statistical relationship exists historically between dividend growth and GDP growth, nor would Ms. McShane expect that there would be a significant correlation. As illustrated in the table below, allowed returns for U.S. utilities have trended lower over the period since 1998. Reductions in allowed returns are not consistent with earnings and dividends keeping pace with long-term economic growth. Further, the observed growth rates in dividends for the sample of U.S. utilities reflect the companies' conservative approach in raising dividends over time. Utilities are likely to raise dividends only when they are confident the increases are sustainable. In addition, other factors such as industry restructuring for electric utilities during the period of the analysis and preservation of earnings for system capital expenditures would impact the estimated relationships. Thus, the lack of correlation of annual dividend growth rates with annual growth rates in GDP, which vary widely over a business cycle, is understandable.

	U.S. Utilities	**U.S. Gas Utilities**	**U.S. Electric Utilities**
1998	11.59	11.51	11.66
1999	10.74	10.66	10.77
2000	11.41	11.39	11.43
2001	11.05	10.95	11.09
2002	11.10	11.03	11.16
2003	10.98	10.99	10.97
2004	10.66	10.59	10.73
2005	10.50	10.46	10.54
2006	10.39	10.44	10.36
2007	10.30	10.24	10.36
2008	10.42	10.37	10.46
2009	10.36	10.19	10.48
2010	10.24	10.08	10.34
2011	10.14	9.92	10.22
Average	**10.71**	**10.63**	**10.76**
Median	**10.58**	**10.53**	**10.64**

Source: Schedule 3, page 3 of 3

The assumption that growth rates will move to the long run GDP growth rate in the longer-term is consistent with the concept of the industrial life-cycle which includes periods of above average growth, average growth when industries are mature and below average growth when the industries are in decline. As stated at page C-6, utilities are quintessentially mature companies. Ms. McShane notes that the FERC adopted direct reliance on expected long-term growth in GDP as an input to its DCF model for gas pipelines. In Order 396-B (Northwest Pipeline Corp., June 11, 1997), the FERC cited the fact that all experts in the proceeding had relied on long-term GDP forecasts as support for, or confirmation of, their pipeline growth forecasts in their own DCF models.

Annual Dividend Data, U.S. DCF Sample
(CA NP 129 Attachment.xlsx)

Yearly Dividends Per Share

	AGL Resources	ALLETE	Alliant Energy	Atmos Energy	Consolidated Edison	Integrys Energy Group	Northwest Nat. Gas	Piedmont Natural Gas	Southern Co.	Vectren	WGL Holdings Inc.	Wisconsin Energy	Xcel Energy	Average	Average Dividend Growth Rate	Nominal US GDP	GDP Growth Rate
1998	1.08	1.02	2.00	1.06	2.12	1.96	1.22	0.64	1.34	0.90	1.19	0.78	1.42	1.29		160.40	
1999	1.08	1.07	2.00	1.10	2.14	2.00	1.23	0.68	1.34	0.94	1.21	0.78	1.45	1.31	1.71%	170.62	6.37%
2000	1.08	1.07	2.00	1.14	2.18	2.04	1.24	0.72	1.34	0.98	1.23	0.69	1.48	1.32	1.05%	181.53	6.39%
2001	1.08	1.07	2.00	1.16	2.20	2.08	1.25	0.76	1.34	1.03	1.25	0.40	1.50	1.32	-0.47%	187.63	3.36%
2002	1.08	1.10	2.00	1.18	2.22	2.12	1.26	0.79	1.35	1.07	1.26	0.40	1.13	1.31	-0.87%	194.13	3.46%
2003	1.11	1.13	1.00	1.20	2.24	2.16	1.27	0.82	1.38	1.11	1.27	0.40	0.75	1.22	-6.58%	203.25	4.70%
2004	1.15	1.15	1.01	1.22	2.26	2.20	1.30	0.85	1.41	1.15	1.29	0.42	0.81	1.25	2.33%	216.22	6.38%
2005	1.30	1.25	1.05	1.24	2.28	2.24	1.32	0.91	1.48	1.19	1.31	0.44	0.85	1.30	3.89%	230.26	6.49%
2006	1.48	1.45	1.15	1.26	2.30	2.28	1.39	0.95	1.53	1.23	1.34	0.46	0.88	1.36	5.06%	244.01	5.98%
2007	1.64	1.64	1.27	1.28	2.32	2.50	1.44	0.99	1.59	1.27	1.36	0.50	0.91	1.44	5.72%	255.90	4.87%
2008	1.68	1.72	1.40	1.30	2.34	2.68	1.52	1.03	1.66	1.31	1.39	0.54	0.94	1.50	4.29%	260.69	1.87%
2009	1.72	1.76	1.50	1.32	2.36	2.72	1.60	1.07	1.73	1.35	1.45	0.68	0.97	1.56	3.62%	254.26	-2.47%
2010	1.76	1.76	1.58	1.34	2.38	2.72	1.68	1.11	1.80	1.37	1.49	0.80	1.00	1.60	2.80%	264.98	4.22%
2011	1.90	1.78	1.70	1.36	2.40	2.72	1.75	1.15	1.87	1.39	1.53	1.04	1.03	1.66	3.97%	275.22	3.86%

Dividend Growth Rate Vs. GDP Growth Rate

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.067439
R Square	0.004548
Adjusted R Sq	-0.085948
Standard Erro	0.034047
Observations	13

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	5.826E-05	5.83E-05	0.050257282	0.8267257
Residual	11	0.0127515	0.001159		
Total	12	0.0128097			

	Coefficients	*tandard Erro*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*.ower 95.0%*	*Upper 95.0%*
Intercept	0.024174	0.0193008	1.252466	0.236373483	-0.0183071	0.0666543	-0.018307	0.0666543
GDP Growth F	-0.088407	0.3943538	-0.224181	0.826725721	-0.9563737	0.7795601	-0.956374	0.7795601