

1 **Q. Evidence of Dr. Vander Weide: US allowed ROEs Pages 23-26: Please indicate**  
2 **what ring fencing (structural insulation) means and why S&P won't rate operating**  
3 **utilities higher than their holding company parent without ring fencing.**  
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5 A. The term "ring fencing" refers to legal and operational provisions that insulate a  
6 regulated utility from the potential financial and operational problems of the parent and  
7 affiliates. A major requirement of ring fencing is that the regulated utility should be a  
8 separate subsidiary with separate books and records, separate debt and credit, and  
9 separate bond rating. This requirement is important because, according to U.S. laws,  
10 creditors of a legally separate subsidiary have first claim to the subsidiary's assets, and  
11 the claims of the parent's creditors are limited to the residual of the subsidiary's assets  
12 after the subsidiary's direct liabilities have been satisfied. In addition to the major  
13 requirements of ring fencing, utility commissions frequently impose additional  
14 restrictions on utility transactions with the parent and affiliates such as, restrictions on  
15 dividend payments to parent or affiliates, and restrictions on the utility's percentage of  
16 equity in its capital structure. Ring fencing is not an issue for U.S. utilities because U.S.  
17 utilities generally satisfy ring fencing requirements.