Q. McShane Evidence – Please confirm that in her November 8, 2004 evidence before the PUB filed on behalf of the Insurance Bureau of Canada, Ms. McShane stated at p. 15:

“Key differences in the U.S., which point to somewhat higher business risks for the U.S. utilities, include the use of historic test year costs for setting future rates and less reliance on deferred accounts to mitigate the utilities’ cost recovery risks.”

Please confirm that in her November 8, 2004 evidence, Ms. McShane stated at p. 15:

“To the extent that U.S. gas utilities face higher business risks than their Canadian counterparts, these risks have been reflected in higher approved equity ratios (lower financial risk).”

A. Confirmed. Please note that testimony was prepared eight years ago, since which time, there has been a significant trend toward adoption of protective regulatory mechanisms for U.S. utilities, e.g., decoupling mechanisms. Please also note that the reference included the additional statement: “To the extent that U.S. gas utilities face higher business risks than their Canadian counterparts, these risks have been reflected in higher approved equity ratios (lower financial risk)." That statement is critical; risk includes both business and financial risk. As indicated in response to CA-NP-302, that higher business risk can be offset by lower financial risk so that total risk is equivalent is at the heart of the Alberta Utilities Commission’s approach to cost of capital, i.e., it sets a capital structure for each utility under its jurisdiction based on its relative business risk sufficient to allow it on a stand alone basis to achieve a debt rating and then allows each utility the same ROE.