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<p>1 (9:06 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. So we are back with Mr. Johnson.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. A couple of preliminary matters first, Mr.</p> <p>6 Chairman.</p> <p>7 CHAIRMAN:</p> <p>8 Q. Yes, sir.</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. The undertakings, there are some responses to</p> <p>11 be dealt with. Mr. Hayes.</p> <p>12 MR. HAYES:</p> <p>13 Q. Yes, Mr. Chairman, good morning. There are a</p> <p>14 number of written responses that Newfoundland</p> <p>15 Power has prepared to some of the undertakings</p> <p>16 that arose on Monday and so we're going to</p> <p>17 enter those into the record now in the order</p> <p>18 in which they arose in the transcript.</p> <p>19 The first one, numbered U-1, will be</p> <p>20 found on page -- discussion starting at page</p> <p>21 48 of the transcript on January 14th and was a</p> <p>22 request for Ms. McShane's evidence filed in</p> <p>23 the Alberta 2009 Cost of Capital proceeding</p> <p>24 and we were able to confirm that the Consumer</p> <p>25 Advocate had already requested that earlier in</p>	<p>1 Schedule.</p> <p>2 And undertaking 6, U-6, January 14th,</p> <p>3 page 197 of the transcript and it was a</p> <p>4 request for page 47 and 48 and Schedule 15 and</p> <p>5 16 from Ms. McShane's 2007 evidence for</p> <p>6 Newfoundland Power, and again, we filed the</p> <p>7 full section rather than just the couple of</p> <p>8 pages and the Schedules that were requested.</p> <p>9 CHAIRMAN:</p> <p>10 Q. Thank you.</p> <p>11 MR. HAYES:</p> <p>12 Q. That's those matters.</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. That's the first item, Mr. Chairman. The</p> <p>15 second item is Ms. Perry has an update on a</p> <p>16 matter which I'll ask her to speak to first.</p> <p>17 MS. PERRY:</p> <p>18 A. Mr. Chairman, late yesterday afternoon Moody's</p> <p>19 advised that they will be issuing updated</p> <p>20 credit rating on Newfoundland Power, an</p> <p>21 updated credit report on Newfoundland Power in</p> <p>22 the next few days. So, upon receiving the</p> <p>23 final copy, I will provide that to the Board.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. We'll file that when it's ready, available,</p>
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<p>1 the proceeding and that's already on the</p> <p>2 record.</p> <p>3 Undertaking 2 is a request for some new</p> <p>4 information, updated information from some</p> <p>5 previous testimony of Ms. McShane. That's</p> <p>6 being worked on by Ms. McShane's office and</p> <p>7 will be filed when it's ready.</p> <p>8 Undertaking 3 was the question of whether</p> <p>9 Ms. McShane had signed a confidentiality</p> <p>10 agreement with respect to certain information</p> <p>11 filed in the BCUC Generic Cost of Capital</p> <p>12 proceeding last year, and we've got a</p> <p>13 response, a written response for that.</p> <p>14 Undertaking 4 is a request for some new</p> <p>15 information again related to Ms. McShane and</p> <p>16 that's being worked on by her office and</p> <p>17 that'll be filed when it's ready.</p> <p>18 Undertaking 5 arose on January 14th</p> <p>19 transcript, page 196, and it was a request for</p> <p>20 filing of a page from Ms. McShane's October</p> <p>21 2002 testimony before this Board on behalf of</p> <p>22 Newfoundland Power and for Schedule 10 of</p> <p>23 that. We filed, in addition to the page that</p> <p>24 was asked for, the full section of the</p> <p>25 testimony that deals with that matter and the</p>	<p>1 Mr. Chairman.</p> <p>2 CHAIRMAN:</p> <p>3 Q. Sure. Good. So, Mr. Johnson, are we back to</p> <p>4 you?</p> <p>5 MR. JOHNSON:</p> <p>6 Q. Yes, Mr. Chairman. I guess in light of the</p> <p>7 updated Moody's report that's coming, it may</p> <p>8 be necessarily, unfortunately, to hear from</p> <p>9 Ms. Perry again, from my perspective, if upon</p> <p>10 review of it there's some further questions.</p> <p>11 I don't -- Mr. Kelly didn't address the</p> <p>12 presentation to Moody's issue which he took</p> <p>13 under advisement.</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. We will be providing a response to that</p> <p>16 undertaking request, Mr. Chairman. It's being</p> <p>17 worked on.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. Ms. Perry, in terms of the new Moody's report</p> <p>20 that's being filed, what prompted the filing</p> <p>21 of a credit opinion at this time?</p> <p>22 MS. PERRY:</p> <p>23 A. Moody's would issue a report for Newfoundland</p> <p>24 Power annually, so it's been since July 2011,</p> <p>25 so it's somewhat overdue, I guess, in terms of</p>

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<p>1 a standard timing with respect to a report for</p> <p>2 us, so I was surprised we didn't receive it in</p> <p>3 the fall, but again, as I mentioned yesterday,</p> <p>4 they've had a bit of turnover and new staff at</p> <p>5 Moody's, so I'm not surprised, I guess. So</p> <p>6 nothing precipitated it per se.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. Okay. And when would you have last met with</p> <p>9 Moody's?</p> <p>10 MS. PERRY:</p> <p>11 A. I met with Moody's early 2011 and I believe</p> <p>12 that's a presentation that we're going to be</p> <p>13 providing with the undertaking, and then the -</p> <p>14 - but my last conversation with respect to</p> <p>15 Newfoundland Power and the operations of</p> <p>16 Newfoundland Power and an update for</p> <p>17 Newfoundland Power was in August of 2012.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. And that discussion, was that in -- that was</p> <p>20 not a meeting, that was a telephone</p> <p>21 discussion?</p> <p>22 MS. PERRY:</p> <p>23 A. That was a telephone discussion that year,</p> <p>24 yes.</p> <p>25 MR. JOHNSON:</p>	<p>1 MS. PERRY:</p> <p>2 A. Yes.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. If you -- yeah. And with the assistance of</p> <p>5 Dr. Booth, I can now tell you that Dr. Booth</p> <p>6 advises me that what he did here was he took</p> <p>7 the NEB's formula or employing NEB's formula</p> <p>8 on the -- from 1995 to 2010 and incorporating</p> <p>9 the long term Canada yields and the credit</p> <p>10 spreads from Ms. McShane's evidence in a</p> <p>11 proceeding before the National Energy Board so</p> <p>12 that there would be no dispute as to the</p> <p>13 inputs. He then added the impact of a credit</p> <p>14 spread, an adjustment for a change in the</p> <p>15 credit spread, and what he arrives at in the</p> <p>16 column under Booth is 8.92 percent versus what</p> <p>17 the NEB formula which would have solely been</p> <p>18 an adjustment based on a 75 percent change in</p> <p>19 long Canada yield with yield at 8.37. And I</p> <p>20 guess the significance of it being 2010 is</p> <p>21 that that was the -- that was obviously the</p> <p>22 test year in Newfoundland Power's last general</p> <p>23 rate application where this Board, after a</p> <p>24 litigated proceeding, determined that a fair</p> <p>25 return on equity for Newfoundland Power was</p>
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<p>1 Q. Okay. And were there materials provided to</p> <p>2 Moody's at that time in relation to that</p> <p>3 discussion?</p> <p>4 MS. PERRY:</p> <p>5 A. No, there was no formal materials provided.</p> <p>6 It was a telephone conference call to discuss</p> <p>7 the operations and the financials.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. Who participated in the conference call?</p> <p>10 MS. PERRY:</p> <p>11 A. Myself and I believe, subject to check, the</p> <p>12 Manager of Finance, Mr. Hiscock.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. And who participated on Moody's end?</p> <p>15 MS. PERRY:</p> <p>16 A. I would have to get their names. I know it's</p> <p>17 David, and I'm forgetting his last name.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. There was more than one?</p> <p>20 MS. PERRY:</p> <p>21 A. Yes, there was two of them.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. All right. Ms. Perry, last day I asked you to</p> <p>24 turn to page 68 of Dr. Booth's report, having</p> <p>25 to do with the automatic adjustment formula.</p>	<p>1 nine percent. So that's the context, okay.</p> <p>2 And so, I take it, or I assume that you</p> <p>3 would not regard the difference between 8.92</p> <p>4 and nine to be material?</p> <p>5 MS. PERRY:</p> <p>6 A. I would agree that the 8.92 and nine is not</p> <p>7 material, but Mr. Johnson, I do have to -- the</p> <p>8 only, I guess where I'm confused with this</p> <p>9 formula or this display is that Dr. Booth's</p> <p>10 recommended proposal for us in 2009 was 7.75,</p> <p>11 so it wasn't the nine or the 8.92 that we're</p> <p>12 discussing here.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Well, there's no confusion. He's illustrating</p> <p>15 what his -- what a gloss on the NEB formula</p> <p>16 would produce.</p> <p>17 MS. PERRY:</p> <p>18 A. Okay.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. Okay?</p> <p>21 MS. PERRY:</p> <p>22 A. Yeah.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. Ms. McShane recommended what in 2009? 11.</p> <p>25 MS. PERRY:</p>

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<p>1 A. 11, yes.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. Now I want to circle back for a second on this</p> <p>4 OPEBs business. It might be -- what we know</p> <p>5 for sure, Ms. Perry, is that, as you indicated</p> <p>6 yesterday, drug coverage is the biggest area</p> <p>7 of expense under the OPEB's umbrella, right?</p> <p>8 MS. PERRY:</p> <p>9 A. It is, yes.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. And under the drugs category, you indicated</p> <p>12 that about 60 percent of the drugs were</p> <p>13 generics.</p> <p>14 MS. PERRY:</p> <p>15 A. Yes.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. Okay. And as well, we know that from prior to</p> <p>18 April 16, 2012, there were no limits on what</p> <p>19 could be charged for generic drugs in the</p> <p>20 province. That would just be regulated by the</p> <p>21 market, correct?</p> <p>22 MS. PERRY:</p> <p>23 A. Well, actually, we have pharmacy agreements.</p> <p>24 Blue Cross would negotiate pharmacy agreements</p> <p>25 with the different pharmacies with respect to</p>	<p>1 difference this would mean to the price of</p> <p>2 drugs, and the range that Blue Cross provided</p> <p>3 is that they suspect that on certain drugs it</p> <p>4 could be as high as 20 percent difference, but</p> <p>5 on other drugs, it could be substantially</p> <p>6 lower than that.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. Right. But it would make a positive</p> <p>9 difference obviously, relative to the</p> <p>10 agreement that's been reached?</p> <p>11 MS. PERRY:</p> <p>12 A. Everything else equal, I would agree, yes.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Okay. Now your 2013 forecast number for</p> <p>15 OPEB's expense, you indicated that that was</p> <p>16 developed in August or September?</p> <p>17 MS. PERRY:</p> <p>18 A. That is correct, yes.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. And just indicate to us how that number gets</p> <p>21 developed. What material is used to arrive to</p> <p>22 the place where Newfoundland Power says that's</p> <p>23 the number we can put in that table that we</p> <p>24 see in Section 3 of the evidence?</p> <p>25 MS. PERRY:</p>
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<p>1 the price that we're prepared to pay for</p> <p>2 generic drugs.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. Okay.</p> <p>5 MS. PERRY:</p> <p>6 A. So this is a further step to this and it's</p> <p>7 better rates than we've negotiated with the</p> <p>8 pharmacies, yes.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. They are better rates?</p> <p>11 MS. PERRY:</p> <p>12 A. They are better rates, yes.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Okay. And so what we know is that when I look</p> <p>15 at 2013, by 2013, by April 1st, 2013, which</p> <p>16 will be just a few months away, by that time,</p> <p>17 the maximum that will be able to be charged</p> <p>18 for generics will be 35 percent of the brand</p> <p>19 price, and do you have a sense as to how that</p> <p>20 compares to the agreement that you referred</p> <p>21 to, in terms of the price between generics and</p> <p>22 brand?</p> <p>23 MS. PERRY:</p> <p>24 A. It depends on the specific drug, so it's not</p> <p>25 as easy. I did ask the question about what</p>	<p>1 A. So the OPEB's expense is an actuarially</p> <p>2 determined number that's provided by our</p> <p>3 actuaries, Mercers, and there are a couple of</p> <p>4 key inputs that would factor into the</p> <p>5 determination of the expense.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. We're at Table 3-4, just for the record.</p> <p>8 MS. PERRY:</p> <p>9 A. Table 3-4. So the OPEB's expense, as I said,</p> <p>10 is actuarially determined but certainly there</p> <p>11 are a couple of key variables that are input</p> <p>12 into the determination of the expense each and</p> <p>13 every year. First would be the discount rate</p> <p>14 and that is prescribed by accounting rules and</p> <p>15 that was estimated to be 4.9 percent. One of</p> <p>16 the other key variables would be the health</p> <p>17 care trend cost rate, which is 4.5 percent for</p> <p>18 Newfoundland Power and has been for some time.</p> <p>19 That number I do rely on Mercers to provide</p> <p>20 because it's a forward-looking number about</p> <p>21 what it's expected to cost for the drug</p> <p>22 program and the health care costs, but</p> <p>23 primarily the drug costs.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. That 4.5 percent number is obviously distinct</p>

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<p>1 from the discount number obviously?</p> <p>2 MS. PERRY:</p> <p>3 A. Absolutely, yes.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. And we're talking 4.5 percent is the projected</p> <p>6 annual increase in the cost of the growth?</p> <p>7 MS. PERRY:</p> <p>8 A. Yes, it's the health care trend cost, which is</p> <p>9 factored in to the future obligation of post-</p> <p>10 retirement benefits, yes.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. And what will be increasing by 4.5 percent,</p> <p>13 the cost?</p> <p>14 MS. PERRY:</p> <p>15 A. Well, certainly it's a combination of the</p> <p>16 consumption of drugs and the cost of drugs. I</p> <p>17 think that's the two key variables. So</p> <p>18 depending on the consumption levels, the</p> <p>19 nature of the drugs, the composition of the</p> <p>20 drugs and the price of drugs are the key</p> <p>21 components of that health care trend.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. Okay. And so the thing that we are focusing</p> <p>24 in on here is the actual cost of the drug</p> <p>25 itself and the role that would play in the</p>	<p>1 that time frame, yes.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. And in August or so, would they have also</p> <p>4 provided the numbers for 2014?</p> <p>5 MS. PERRY:</p> <p>6 A. Yes.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. All at the same time?</p> <p>9 MS. PERRY:</p> <p>10 A. Yes, same time.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Okay. And when would they typically provide</p> <p>13 you those numbers in a regular year?</p> <p>14 MS. PERRY:</p> <p>15 A. Well, valuation is completed every three</p> <p>16 years, so that's when we review the</p> <p>17 demographics of Newfoundland Power,</p> <p>18 consumption of drugs, age of employees, you</p> <p>19 know, and each and every year, at the</p> <p>20 beginning of the year, we update for the</p> <p>21 discount rate. So in January of each year, we</p> <p>22 update for the discount rate because it's</p> <p>23 known as of December, and we will discuss any</p> <p>24 other proposed changes in any of the other</p> <p>25 variables, primarily the health care trend</p>
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<p>1 overall trend going forward.</p> <p>2 MS. PERRY:</p> <p>3 A. Yes.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. Okay. And in terms of the number, say, we see</p> <p>6 an OPEB's expense of 10.46 million dollars</p> <p>7 expected in 2013. That number was a number</p> <p>8 supplied to you, I take it?</p> <p>9 MS. PERRY:</p> <p>10 A. It was, yes.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Not internally calculated in any way?</p> <p>13 MS. PERRY:</p> <p>14 A. No.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. And who -</p> <p>17 MS. PERRY:</p> <p>18 A. Provided by Mercers.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. Provided by Mercers, okay. And that number</p> <p>21 would have been provided in August?</p> <p>22 MS. PERRY:</p> <p>23 A. Around that time, yes. We did ask for</p> <p>24 numbers. There were no changes. I'm not sure</p> <p>25 if it was August or July, but somewhere around</p>	<p>1 cost, which traditionally stays pretty stable.</p> <p>2 It's a long term average estimate, so it's not</p> <p>3 something that would fluctuate that greatly.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. And when they -- when Mercers provides this</p> <p>6 document or report to you, they outline the</p> <p>7 specific dollar amount?</p> <p>8 MS. PERRY:</p> <p>9 A. Yes.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. Okay. And can you provide us with a copy of</p> <p>12 their reports to you that provides the 2013</p> <p>13 and 2014 OPEB's expense numbers?</p> <p>14 MS. PERRY:</p> <p>15 A. Yes.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. Okay.</p> <p>18 MS. PERRY:</p> <p>19 A. I would think, yes.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. And I take it they must -- Mercers must</p> <p>22 interface somehow with Blue Cross in coming up</p> <p>23 with this number, do they, or not?</p> <p>24 MS. PERRY:</p> <p>25 A. No, they don't directly interface with Blue</p>

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<p>1 Cross, but -- because one's for purposes of</p> <p>2 execution of our actual drug program and then</p> <p>3 Mercers will compile actual data, actual</p> <p>4 experience of Newfoundland Power's.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. Right, okay.</p> <p>7 MS. PERRY:</p> <p>8 A. In their plan, and then they will extrapolate</p> <p>9 forward for purposes of accounting.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. Okay. In the normal course of events, outside</p> <p>12 of a situation where we're having two test</p> <p>13 years, when would you have normally been</p> <p>14 provided with the 2014 estimate of OPEB's</p> <p>15 expense?</p> <p>16 MS. PERRY:</p> <p>17 A. I believe, Mr. Chairman, that each and every</p> <p>18 year when we update for the discount rate</p> <p>19 particularly, Mercers will provide an update</p> <p>20 for that year, plus the following five years.</p> <p>21 So you know, I've got a five-year visibility</p> <p>22 as to the nature of these costs and where</p> <p>23 they're going.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. Just I want to come back to P.U. 43 (2009) and</p>	<p>1 comparables, including the significant levels</p> <p>2 of non-regulated and non-utility business,</p> <p>3 riskier generation projects, earnings</p> <p>4 volatility, more competition, less regulatory</p> <p>5 support, and then noting that while it was</p> <p>6 argued on balance that US comparables are</p> <p>7 reasonable proxy, the Board noted the</p> <p>8 overwhelming evidence of a lack of balance as</p> <p>9 that it was clear that on almost every</p> <p>10 measure, Newfoundland Power would have to be</p> <p>11 considered less risky. And then they go on to</p> <p>12 note that in the next paragraph that, at the</p> <p>13 bottom, line 31, 32, 33, "based on the</p> <p>14 evidence, the Board is not satisfied that the</p> <p>15 US comparables are reasonable proxies for</p> <p>16 determining appropriate return on equity</p> <p>17 without appropriate adjustments." And that's</p> <p>18 the concerns that I'm referring to and what</p> <p>19 was the reaction of Newfoundland Power to the</p> <p>20 Board's concerns in this regard?</p> <p>21 MS. PERRY:</p> <p>22 A. Well, certainly, we read what the Board's</p> <p>23 concerns were with respect to the comparison</p> <p>24 with US utilities and I believe this</p> <p>25 particular question was asked of Ms. McShane</p>
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<p>1 in particular, the concerns that were raised</p> <p>2 by this Board at page 17 of its decision.</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. Page reference, Tom?</p> <p>5 MR. JOHNSON:</p> <p>6 Q. Oh, page 17. Sorry. You can see -- you're</p> <p>7 familiar with this passage?</p> <p>8 (9:30 a.m.)</p> <p>9 MS. PERRY:</p> <p>10 A. Yes, I am.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Yes. Ms. Perry, what -- obviously the</p> <p>13 concerns are there in black and white. What</p> <p>14 was the reaction in Newfoundland Power as to</p> <p>15 these concerns, to your knowledge?</p> <p>16 MS. PERRY:</p> <p>17 A. And what specific concerns are we -</p> <p>18 MR. JOHNSON:</p> <p>19 Q. Well, that the data that's to be brought</p> <p>20 forward for -- that was brought forward in</p> <p>21 that case, if it's to be relied on, has got to</p> <p>22 be shown to be a reasonable proxy or that</p> <p>23 reasonable adjustments can be made. There was</p> <p>24 concerns that the evidence showed significant</p> <p>25 differences in virtually all of the</p>	<p>1 two days prior as well. One of the things</p> <p>2 that we asked in this proceeding was that we</p> <p>3 further detail and document the types of</p> <p>4 comparables, the types of companies that were</p> <p>5 included in the comparable group, and Ms.</p> <p>6 McShane actually displayed Appendix B of her</p> <p>7 application which talked about the nature of</p> <p>8 the operations, the percentage of the</p> <p>9 regulated assets, the credit rating of each,</p> <p>10 the regulatory deferrals and mechanisms that</p> <p>11 are used by each and so forth with respect to</p> <p>12 trying to give further information as to how</p> <p>13 these companies are comparable on an overall</p> <p>14 risk basis to Newfoundland Power.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. And did you personally have any role in</p> <p>17 talking to cost of capital experts in relation</p> <p>18 to this matter?</p> <p>19 MS. PERRY:</p> <p>20 A. No, I did not. That is Mr. Alteen's job.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. Okay. So you've got no direct knowledge as to</p> <p>23 what communications were given regarding that</p> <p>24 matter, I take it?</p> <p>25 MS. PERRY:</p>

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<p>1 A. No, but certainly I have discussed with Mr.</p> <p>2 Alteen prior to securing the experts that this</p> <p>3 is something that we had to do in this</p> <p>4 proceeding, stemming from the order that was</p> <p>5 issued in the last rate case.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. So Newfoundland Power is satisfied that what</p> <p>8 Dr. Vander Wiede has done satisfies the</p> <p>9 Board's concerns?</p> <p>10 MS. PERRY:</p> <p>11 A. I believe his testimony, yes, portrays the</p> <p>12 full description of the companies that he's</p> <p>13 using and why he's using the comparables.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. Oh, is that right? And I take it you're</p> <p>16 satisfied, Newfoundland Power is satisfied</p> <p>17 that the concerns of all the concerns of the</p> <p>18 Board have been met by the new manner in which</p> <p>19 Ms. McShane has presented testimony regarding</p> <p>20 these US companies?</p> <p>21 MS. PERRY:</p> <p>22 A. I certainly hope they are, Mr. Chairman.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. Would you regard it as important to address</p> <p>25 the Board's concerns in the presentation of</p>	<p>1 physically move things around?</p> <p>2 CHAIRMAN:</p> <p>3 Q. I don't, but I mean I'm -- you know, I think</p> <p>4 we should charge forward.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. Just allow us a few moments then, Mr.</p> <p>7 Chairman, for the witnesses to change place.</p> <p>8 CHAIRMAN:</p> <p>9 Q. Yes, sure.</p> <p>10 (OFF RECORD - 9:36 a.m.)</p> <p>11 CHAIRMAN:</p> <p>12 Q. Are we all ready to get started?</p> <p>13 MS. GLYNN:</p> <p>14 Q. We are -- Mr. Chair, there is just one</p> <p>15 preliminary matter before Mr. Johnson starts</p> <p>16 and that is the filing to Undertaking No. 7</p> <p>17 which was provided by Mr. Johnson and that was</p> <p>18 for the full response that Ms. McShane had</p> <p>19 provided.</p> <p>20 CHAIRMAN:</p> <p>21 Q. Okay. So Mr. Johnson, sir, we are in your</p> <p>22 hands.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. Thank you. Ms. McShane, good morning.</p> <p>25 MS. MCSHANE:</p>
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<p>1 the cost of capital evidence?</p> <p>2 MS. PERRY:</p> <p>3 A. Absolutely.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. Those are my questions.</p> <p>6 CHAIRMAN:</p> <p>7 Q. So we're finished now with -</p> <p>8 GREENE, Q.C.:</p> <p>9 Q. Yes.</p> <p>10 CHAIRMAN:</p> <p>11 Q. Next is -- oh, I'm sorry, yes. You guys got</p> <p>12 any questions? Excuse me.</p> <p>13 COMMISSIONER NEWMAN:</p> <p>14 Q. No questions. Thank you very much.</p> <p>15 COMMISSIONER OXFORD:</p> <p>16 Q. No questions.</p> <p>17 CHAIRMAN:</p> <p>18 Q. That's fine, thank you.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. Next would be then for Ms. McShane to continue</p> <p>21 cross-examination.</p> <p>22 CHAIRMAN:</p> <p>23 Q. Okay, yeah.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. Did you want to take five minutes while we</p>	<p>1 A. Morning.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. From the last day, I noted from the</p> <p>4 transcript, at page 124, that you indicated</p> <p>5 that by the time the hearing took place in</p> <p>6 Newfoundland Power's last general rate</p> <p>7 application, relative to the March-April</p> <p>8 period, you said that "there had been</p> <p>9 considerable improvements in market</p> <p>10 conditions." Recall that?</p> <p>11 MS. MCSHANE:</p> <p>12 A. Yes.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Okay. And you stated, on the same page or</p> <p>15 thereabouts, that you didn't believe that you</p> <p>16 had changed the recommendation for</p> <p>17 Newfoundland Power's ROE for 2010 at the</p> <p>18 hearing. Do you recall saying that?</p> <p>19 MS. MCSHANE:</p> <p>20 A. Yes.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. And can you now confirm that as a fact, that</p> <p>23 you did not make any change?</p> <p>24 MS. MCSHANE:</p> <p>25 A. I did not.</p>

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<p>1 MR. JOHNSON:</p> <p>2 Q. Okay. Now, Ms. McShane, at the last day as</p> <p>3 well, I asked you whether there was any</p> <p>4 evidence in this proceeding to substantiate</p> <p>5 that historically growth for the Canadian</p> <p>6 utilities that you have provided in your</p> <p>7 sample has met or exceeded GDP, and can you</p> <p>8 confirm that there is no evidence of that and</p> <p>9 none on the record in this case?</p> <p>10 MS. MCSHANE:</p> <p>11 A. For the Canadian utility?</p> <p>12 MR. JOHNSON:</p> <p>13 Q. Yes.</p> <p>14 MS. MCSHANE:</p> <p>15 A. I've not looked at that specifically, I don't</p> <p>16 believe, in this proceeding at least.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. There's nothing on the evidence, the record in</p> <p>19 this case that would -</p> <p>20 MS. MCSHANE:</p> <p>21 A. Not that I recall, no.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. Okay. And similarly, can you please confirm</p> <p>24 that there is no evidence in this proceeding</p> <p>25 that historically growth for US utilities has</p>	<p>1 MR. JOHNSON:</p> <p>2 Q. That's right. And in this hearing, you're</p> <p>3 using a forecast nominal rate of growth for</p> <p>4 the 2013 to 2023 period of 4.9 percent in the</p> <p>5 United States?</p> <p>6 MS. MCSHANE:</p> <p>7 A. Correct.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. Correct. And if you could confirm for me that</p> <p>10 when you look at your Canadian utility sample</p> <p>11 and apply the three-stage DCF analysis, you</p> <p>12 arrive at eight and a half percent as the ROE,</p> <p>13 right?</p> <p>14 MS. MCSHANE:</p> <p>15 A. On that test alone, that's correct.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. And when you use the three-stage US test, you</p> <p>18 arrive at 9.2 percent as per Schedule 19,</p> <p>19 correct?</p> <p>20 MS. MCSHANE:</p> <p>21 A. That's correct.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. And with that 70-point difference, does that</p> <p>24 tell us that the cost of equity for utilities</p> <p>25 is less in Canada than the United States?</p>
Page 26	Page 28
<p>1 met or exceeded GDP?</p> <p>2 MS. MCSHANE:</p> <p>3 A. We looked at this. I guess it's now an</p> <p>4 undertaking, Kat McShane ROE 21.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. Yes.</p> <p>7 MS. MCSHANE:</p> <p>8 A. Which was with respect to a somewhat different</p> <p>9 sample, but the GDP growth in this case for</p> <p>10 that sample was higher somewhat than book</p> <p>11 value per share growth and earnings per share</p> <p>12 growth and dividends per share growth.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. I'm sorry, you said it was somewhat higher?</p> <p>15 MS. MCSHANE:</p> <p>16 A. Yes. Than the three measures of growth that</p> <p>17 were provided in this IR response.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. But I took it from the US utilities that were</p> <p>20 referred to in Alberta in 2011 that on average</p> <p>21 you accepted they did not grow at GDP growth</p> <p>22 rates, whether you used dividends, earnings or</p> <p>23 book value per share, right?</p> <p>24 MS. MCSHANE:</p> <p>25 A. I believe that's what I just said.</p>	<p>1 MS. MCSHANE:</p> <p>2 A. No, it does not.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. Why wouldn't it tell us that?</p> <p>5 MS. MCSHANE:</p> <p>6 A. Because of the way the models work. First of</p> <p>7 all, there is an underlying assumption that</p> <p>8 the growth will be higher for -- in the long</p> <p>9 run, for the US utilities than the Canadian</p> <p>10 utilities simply because of the forecast of</p> <p>11 higher GDP growth in the US and Canada, but</p> <p>12 that's an assumption that may not really be</p> <p>13 that different as between the Canadian and the</p> <p>14 US utilities. The other difference is that</p> <p>15 we're starting for the Canadian utilities with</p> <p>16 relatively lower dividend yields because there</p> <p>17 is an expectation in the very short run or in</p> <p>18 the shorter run that the growth rates will be</p> <p>19 higher. So I don't think that you can take</p> <p>20 the results of this and say this means that</p> <p>21 the Canadian utilities are lower risk.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. We asked Ms. Perry if she regarded a ten basis</p> <p>24 point difference in ROEs would be material and</p> <p>25 I ask you, would you regard whether 70 basis</p>

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<p>1 points would be a material number in the</p> <p>2 context of ROE?</p> <p>3 MS. MCSHANE:</p> <p>4 A. I think 70 basis points is a material number,</p> <p>5 yes.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. And you confirm for us that for your Canadian</p> <p>8 sample of utilities that the long term growth</p> <p>9 assumption on average is 7.5 percent compared</p> <p>10 to forecast GDP at 4.3 percent?</p> <p>11 MS. MCSHANE:</p> <p>12 A. Sorry, could you repeat that, please?</p> <p>13 MR. JOHNSON:</p> <p>14 Q. For your Canadian sample, the long term growth</p> <p>15 estimate for those utilities on average is 7.5</p> <p>16 percent?</p> <p>17 MS. MCSHANE:</p> <p>18 A. The analyst forecast growth rate is on average</p> <p>19 seven and a half percent for the Canadian</p> <p>20 utilities.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. And that compares to forecast GDP at 4.3</p> <p>23 percent?</p> <p>24 MS. MCSHANE:</p> <p>25 A. Correct.</p>	<p>1 MS. MCSHANE:</p> <p>2 A. I'm not specifically aware of the reference in</p> <p>3 the decision. Maybe you could point me to it.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. Sure. Actually it's referenced in the 2011</p> <p>6 Alberta decision at paragraph 85.</p> <p>7 MS. MCSHANE:</p> <p>8 A. This was one of the aides that you provided</p> <p>9 before?</p> <p>10 MS. GLYNN:</p> <p>11 Q. Information Item No. 9.</p> <p>12 MS. MCSHANE:</p> <p>13 A. I'm sorry, Mr. Johnson, what page was that?</p> <p>14 MR. JOHNSON:</p> <p>15 Q. Paragraph 85.</p> <p>16 MS. MCSHANE:</p> <p>17 A. Paragraph 85. So I see page 85, but I'm not</p> <p>18 quite sure what they're referring to.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. Paragraph.</p> <p>21 MS. MCSHANE:</p> <p>22 A. Sorry, paragraph 85. But I'm not quite sure</p> <p>23 what they're referring to.</p> <p>24 MR. HAYES:</p> <p>25 Q. I'm not sure we've got it on the screen, Mr.</p>
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<p>1 MR. JOHNSON:</p> <p>2 Q. Okay. And would you not acknowledge that the</p> <p>3 constant growth model overstates the long term</p> <p>4 expected return?</p> <p>5 MS. MCSHANE:</p> <p>6 A. I would say in the case of the Canadian</p> <p>7 utilities that on its own the constant growth</p> <p>8 model likely overstates the expected return,</p> <p>9 but on the other hand, I think that the three-</p> <p>10 stage model likely understates, so it's</p> <p>11 important to look at both measures.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. And the three-stage, so would you put more</p> <p>14 weight on the three-stage model which provides</p> <p>15 8.5 percent?</p> <p>16 MS. MCSHANE:</p> <p>17 A. No, I would put equal weight on the two and</p> <p>18 look at it as being within the range.</p> <p>19 (9:45 a.m.)</p> <p>20 MR. JOHNSON:</p> <p>21 Q. You would be aware, Ms. McShane, would you</p> <p>22 not, that the Alberta Utility Commission has,</p> <p>23 in its 2009 decision, expressly rejected the</p> <p>24 use of long term or terminal growth rates for</p> <p>25 utilities that exceed estimates of GDP growth?</p>	<p>1 Johnson. Can you give us the reference again,</p> <p>2 please?</p> <p>3 MR. JOHNSON:</p> <p>4 Q. Yes, it's paragraph 85 of -</p> <p>5 MR. HAYES:</p> <p>6 Q. The 2011 decision?</p> <p>7 MR. JOHNSON:</p> <p>8 Q. Correct.</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Page is missing.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. It's page 18.</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. The page is missing in the electronic format.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. Okay. Could you provide Ms. McShane -- do you</p> <p>17 have a paper copy of it, Ms. McShane?</p> <p>18 MR. HAYES:</p> <p>19 Q. Oh yeah, it's on the paper copy. It just</p> <p>20 seems to be missing from the electronic</p> <p>21 version.</p> <p>22 MS. GLYNN:</p> <p>23 Q. Yes. Page 18 is missing from the electronic</p> <p>24 version here.</p> <p>25 MR. JOHNSON:</p>

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<p>1 Q. Okay. Remedy that. Ms. McShane, I guess for</p> <p>2 the record, paragraph -</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. Does the Board have it, Mr. Chairman? It's</p> <p>5 not on the screen.</p> <p>6 CHAIRMAN:</p> <p>7 Q. I don't know. Do we?</p> <p>8 MS. GLYNN:</p> <p>9 Q. It would be filed in your Information Items,</p> <p>10 Mr. Chair.</p> <p>11 CHAIRMAN:</p> <p>12 Q. Okay, all right.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. No. 10, Information Item No. 10.</p> <p>15 MS. GLYNN:</p> <p>16 Q. No. 9.</p> <p>17 GREENE, Q.C.:</p> <p>18 Q. No. 9. Sorry, No. 9</p> <p>19 CHAIRMAN:</p> <p>20 Q. Yeah, okay.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. Paragraph 85, Ms. McShane, states "in 2009,</p> <p>23 the Commission rejected the use of long term</p> <p>24 or terminal growth rates for utilities that</p> <p>25 exceed estimates of nominal dollar GDP growth.</p>	<p>1 Q. Well, perhaps we could move on now, as opposed</p> <p>2 to getting bogged down on that, if that's okay</p> <p>3 with the witness?</p> <p>4 MS. MCSHANE:</p> <p>5 A. That's fine.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. Okay.</p> <p>8 CHAIRMAN:</p> <p>9 Q. Well, I'm certainly glad you didn't understand</p> <p>10 it, because I mean, I don't know what they</p> <p>11 mean there either. It's not clear to me. I</p> <p>12 don't know how material it is.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Ms. McShane, we had some discussion as well</p> <p>15 about the issue of potential bias in analyst</p> <p>16 growth estimates and is that something that</p> <p>17 this Board should be concerned about in this</p> <p>18 proceeding?</p> <p>19 MS. MCSHANE:</p> <p>20 A. I don't think it's something they should be</p> <p>21 concerned about in this proceeding, no.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. And the basis for your saying that is the same</p> <p>24 basis that you provided to the Alberta Board</p> <p>25 in 2011, I take it, in your evidence?</p>
Page 34	Page 36
<p>1 For 2011, there was no indication that the</p> <p>2 terminal growth forecast -- growth rate</p> <p>3 forecast exceeded reasonable estimates of</p> <p>4 nominal GDP growth." So that's the reference</p> <p>5 I was bringing to you, that they indicate in</p> <p>6 2009, they rejected the long term rates that</p> <p>7 exceeded nominal GDP.</p> <p>8 MS. MCSHANE:</p> <p>9 A. I see that, but I'm not quite sure what they</p> <p>10 mean, frankly.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Okay.</p> <p>13 MS. MCSHANE:</p> <p>14 A. Because if you think of a terminal growth</p> <p>15 rate, that is the long term growth rate, so</p> <p>16 I'm not sure if they're talking about analyst</p> <p>17 forecast or exactly what they're talking</p> <p>18 about.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. Okay. Well, we can read the 2009 decision.</p> <p>21 MS. MCSHANE:</p> <p>22 A. Well, that's what I'm trying to do right now</p> <p>23 is go back to the 2009 decision and see what</p> <p>24 the reference was.</p> <p>25 MR. JOHNSON:</p>	<p>1 MS. MCSHANE:</p> <p>2 A. I believe it's approximately the same analysis</p> <p>3 that was done and support for the conclusion</p> <p>4 there's no bias for these utility forecasts.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. Okay. And the Alberta Utility Board did not</p> <p>7 agree that there would be no concern about</p> <p>8 upward bias, did they?</p> <p>9 MS. MCSHANE:</p> <p>10 A. They did say they remained concerned, yes.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. And that's, for the record, at paragraph 86 -</p> <p>13 MS. MCSHANE:</p> <p>14 A. Correct.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. - of the ACU decision that we just referred</p> <p>17 to.</p> <p>18 MS. MCSHANE:</p> <p>19 A. Yes, they did, and you know, to be fair, I</p> <p>20 mean, in the most recent BCUC decision, they</p> <p>21 concluded that they did not find any evidence</p> <p>22 of upward bias in analyst forecast.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. And in terms of the Canadian sample that</p> <p>25 you're using in this case, that's the same</p>

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<p>1 sample that you used in Alberta?</p> <p>2 MS. MCSHANE:</p> <p>3 A. It would be. There are only five or six</p> <p>4 Canadian utilities, so you're limited to</p> <p>5 what's available.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. Of course, and in terms of those, I think you</p> <p>8 will agree that the Board expressed concerns</p> <p>9 about the heavy non-regulated content of at</p> <p>10 least certain of those companies?</p> <p>11 MS. MCSHANE:</p> <p>12 A. They were -- they did express some concern</p> <p>13 about that and said that they were going to</p> <p>14 focus on the results for Fortis and Emera.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. Yes. And that's, for the record, at paragraph</p> <p>17 87 of the decision.</p> <p>18 MS. MCSHANE:</p> <p>19 A. Correct.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. So Ms. McShane, let's move on to your US</p> <p>22 sample, and if we could turn up, I guess, a</p> <p>23 convenient place to look at the names of your</p> <p>24 companies is Schedule 18.</p> <p>25 MS. MCSHANE:</p>	<p>1 A. That's true.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. And the common companies to your 2009 sample</p> <p>4 and this one were AGL, Consolidated Edison,</p> <p>5 Northwest Natural Gas, Piedmont Natural Gas,</p> <p>6 Southern Company, Vectren and WGL Holdings,</p> <p>7 and that's correct, right?</p> <p>8 MS. MCSHANE:</p> <p>9 A. Yes.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. And to that you added six more companies and</p> <p>12 those were ALLETE or Aleet (phonetic) Inc.,</p> <p>13 Alliant, Atmos Energy, Integrys Energy,</p> <p>14 Wisconsin Energy and Xcel Energy. Would that</p> <p>15 be right?</p> <p>16 MS. MCSHANE:</p> <p>17 A. Yes. That's in CA-NP-281.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. That's correct. And out of the six companies</p> <p>20 that you added, three of those were in fact</p> <p>21 used by Mr. Cicchetti, correct, and those were</p> <p>22 ALLETE or Aleet, Alliant and Wisconsin Energy?</p> <p>23 MS. MCSHANE:</p> <p>24 A. Just ask me that question again. I think</p> <p>25 there's one other company, but I just want to</p>
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<p>1 A. Yes, all of the companies are listed there.</p> <p>2 They're also listed on page 13, page one of</p> <p>3 two, which includes a lot of company-specific</p> <p>4 data.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. I'm fine with either one. 18 is up on the</p> <p>7 screen.</p> <p>8 MS. MCSHANE:</p> <p>9 A. That's fine, yes.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. Might as well use it.</p> <p>12 MS. MCSHANE:</p> <p>13 A. That's fine with me.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. Okay. And Ms. McShane, you will confirm that</p> <p>16 out of the 13 US utility holding companies in</p> <p>17 your sample that seven of them were used by</p> <p>18 you in 2009, correct? And just to be of</p> <p>19 assistance to you, that's confirmed at CA-NP-</p> <p>20 280.</p> <p>21 MS. MCSHANE:</p> <p>22 A. Right, I see that.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. Okay.</p> <p>25 MS. MCSHANE:</p>	<p>1 make sure.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. My understanding is that ALLETE, Alliant and</p> <p>4 Wisconsin Energy were used by Mr. Cicchetti.</p> <p>5 MS. MCSHANE:</p> <p>6 A. Right, as was Vectren.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. Yes, but what I'm getting at is out of the six</p> <p>9 that you've added, three of those were used by</p> <p>10 Cicchetti.</p> <p>11 MS. MCSHANE:</p> <p>12 A. Oh, sorry, okay, yes.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Okay. And you were here when I went through</p> <p>15 P.U. 43 (2009) with Ms. Perry a few moments</p> <p>16 ago where I read out what the Board's concerns</p> <p>17 were, correct?</p> <p>18 MS. MCSHANE:</p> <p>19 A. Yes.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. And you're familiar with that passage?</p> <p>22 MS. MCSHANE:</p> <p>23 A. Yes.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. And in that encapsulation of the Board, you do</p>

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<p>1 not see the Board expressing concern that some</p> <p>2 of the companies used as comparators by</p> <p>3 yourself and Mr. Cicchetti did not have a bond</p> <p>4 rating like that of Newfoundland Power,</p> <p>5 correct?</p> <p>6 MS. MCSHANE:</p> <p>7 A. Sorry, say that again.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. When the Board listed its concerns there, the</p> <p>10 Board did not indicate that one of its</p> <p>11 concerns was that Ms. McShane or Mr. Cicchetti</p> <p>12 used American companies that didn't have a</p> <p>13 bond rating like that of Newfoundland Power.</p> <p>14 That wasn't one of the concerns of the Board,</p> <p>15 right?</p> <p>16 MS. MCSHANE:</p> <p>17 A. I don't think it was, no.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. No. And despite that not being a concern of</p> <p>20 the Board, what you did in this case that you</p> <p>21 didn't do last time is you applied an</p> <p>22 additional selection criteria that required</p> <p>23 that your select companies have a Moody's</p> <p>24 rating no lower than Newfoundland Power's BAA1</p> <p>25 issuer rating, correct?</p>	<p>1 at the combination of business financial and</p> <p>2 regulatory risk.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. But just so that we understand, in terms of</p> <p>5 your addressing the Board's concerns, you</p> <p>6 still do not make any adjustments whatever to</p> <p>7 reflect any differences between Newfoundland</p> <p>8 Power and your sample US companies, correct?</p> <p>9 MS. MCSHANE:</p> <p>10 A. You mean I don't make a downward adjustment or</p> <p>11 an upward adjustment to their cost of equity?</p> <p>12 No, I don't make any downward adjustment or</p> <p>13 upward adjustment because I believe if you</p> <p>14 look at the total risk, including the</p> <p>15 financial risk, that the cost of equity for</p> <p>16 the sample of companies is a reasonable proxy</p> <p>17 for the cost of equity for Newfoundland Power</p> <p>18 at its capital structure.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. And that what you just said in that reply to</p> <p>21 me was precisely your contention before this</p> <p>22 Board in 2009, was it not?</p> <p>23 MS. MCSHANE:</p> <p>24 A. I believe that and if I said that in 2009, I</p> <p>25 wouldn't have been surprised.</p>
Page 42	Page 44
<p>1 MS. MCSHANE:</p> <p>2 A. Yes.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. Okay. And the only other thing you did was to</p> <p>5 have a cut-off point for percentage for</p> <p>6 unregulated assets, correct?</p> <p>7 MS. MCSHANE:</p> <p>8 A. In terms of the selection itself and those</p> <p>9 criteria, that's correct.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. That's correct.</p> <p>12 MS. MCSHANE:</p> <p>13 A. And then, but in addition to that, I did go</p> <p>14 through and do a detailed review of all of the</p> <p>15 operations and the characteristics.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. And so those two things that you did, they are</p> <p>18 to address the Board's concerns, I take it?</p> <p>19 MS. MCSHANE:</p> <p>20 A. In addition to the analysis that I presented</p> <p>21 in Appendix B of the operations, as well as,</p> <p>22 if you will, an overview of how I believe you</p> <p>23 should look at the comparability and the fact</p> <p>24 that you cannot simply focus on business risk</p> <p>25 and regulatory risk, but you do need to look</p>	<p>1 MR. JOHNSON:</p> <p>2 Q. Right. And you still believe that no</p> <p>3 adjustments are required, correct?</p> <p>4 MS. MCSHANE:</p> <p>5 A. I do.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. Are there circumstances where it would be</p> <p>8 appropriate, in your view, to make</p> <p>9 adjustments, Ms. McShane?</p> <p>10 MS. MCSHANE:</p> <p>11 A. Yes.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. Under what circumstances would you agree that</p> <p>14 it would be appropriate to make adjustments?</p> <p>15 MS. MCSHANE:</p> <p>16 A. If I found that the overall risk of the sample</p> <p>17 of companies was different enough to justify</p> <p>18 an adjustment. I mean, if you -- for example,</p> <p>19 if you look at my comparable earnings test, I</p> <p>20 made an adjustment in that instance to reflect</p> <p>21 differences in risk between the sample of</p> <p>22 unregulated companies and a utility, in this</p> <p>23 case Newfoundland Power.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. So if the differences were big enough, you'd</p>

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<p>1 make the adjustment?</p> <p>2 MS. MCSHANE:</p> <p>3 A. If I found that there was evidence that there</p> <p>4 was a difference in risk then I would make an</p> <p>5 adjustment.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. And what sort of difference in risk would you</p> <p>8 be referring to?</p> <p>9 MS. MCSHANE:</p> <p>10 A. What do you mean what sort of?</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Well, you said if there'd be a difference in</p> <p>13 risk, then you would make an adjustment. Did</p> <p>14 you not say if there was a difference in risk</p> <p>15 that you would entertain making an adjustment?</p> <p>16 (10:00 a.m.)</p> <p>17 MS. MCSHANE:</p> <p>18 A. If there was a quantifiable difference in</p> <p>19 overall risk, then I would make an adjustment.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. And how could we determine whether there was a</p> <p>22 quantifiable difference in overall risk?</p> <p>23 MS. MCSHANE:</p> <p>24 A. To some extent, I mean, it is a question of</p> <p>25 judgment. In this case, for example, I don't</p>	<p>1 there are significant differences in BETA</p> <p>2 between the Canadian utilities and the</p> <p>3 American utilities, whether you adjust them or</p> <p>4 don't adjust them?</p> <p>5 MS. MCSHANE:</p> <p>6 A. Not over the longer term, no. In the last</p> <p>7 couple of years, yes.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. But I think the evidence is established that</p> <p>10 it's not a couple years, it's over ten years,</p> <p>11 is it not?</p> <p>12 MS. MCSHANE:</p> <p>13 A. Well, it's - in the sense that there are ten</p> <p>14 full years of data involved, yes.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. Uh-hm. So one of the adjustments that you've</p> <p>17 made has to do with unregulated earnings and</p> <p>18 you've provided a threshold criterium in</p> <p>19 relation to having unregulated assets, right?</p> <p>20 MS. MCSHANE:</p> <p>21 A. I did.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. And let us see that issue by turning up CA-NP-</p> <p>24 310. Ms. McShane, in 310, we asked for you to</p> <p>25 provide, "Over the past three years what</p>
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<p>1 see that there's a basis for making an</p> <p>2 adjustment to the cost of equity. We are</p> <p>3 dealing with, you know, samples of companies,</p> <p>4 a sample of companies with a similar bond</p> <p>5 rating to Newfoundland Power and the bond</p> <p>6 rating is -- since Newfoundland Power is not</p> <p>7 publicly traded, the only objective measure of</p> <p>8 the relative risk on a total risk basis that's</p> <p>9 available.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. And as we pointed out, that was precisely your</p> <p>12 contention in 2009 as well, correct?</p> <p>13 MS. MCSHANE:</p> <p>14 A. I assume that I made the same contention in</p> <p>15 2012.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. And does not -</p> <p>18 MS. MCSHANE:</p> <p>19 A. Did you say 2012?</p> <p>20 MR. JOHNSON:</p> <p>21 Q. 2009.</p> <p>22 MS. MCSHANE:</p> <p>23 A. Sorry, yes, in 2009.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. And does not your evidence also reveal that</p>	<p>1 proportion of earnings of each of the</p> <p>2 companies in the US sample of Ms. McShane were</p> <p>3 derived from non-regulated operations, and</p> <p>4 providing an answer, please show the actual</p> <p>5 earnings attributable to regulated operations</p> <p>6 and non-regulated", and this is your response?</p> <p>7 MS. MCSHANE:</p> <p>8 A. Yes.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. And these numbers, I take it, were from the</p> <p>11 10-K that are filed with the SEC in the United</p> <p>12 States?</p> <p>13 MS. MCSHANE:</p> <p>14 A. Yes.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. Okay, and if we take AGL, which is right at</p> <p>17 the top, Ms. McShane, this was in your 2009</p> <p>18 sample, right?</p> <p>19 MS. MCSHANE:</p> <p>20 A. I believe so, yes.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. And they have significant unregulated revenue,</p> <p>23 don't they?</p> <p>24 MS. MCSHANE:</p> <p>25 A. They did.</p>

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<p>1 MR. JOHNSON:</p> <p>2 Q. And they do, they're at 20 percent in 2011,</p> <p>3 for instance, 26 percent in 2010, 33.5 percent</p> <p>4 in 2009. Isn't that significant?</p> <p>5 MS. MCSHANE:</p> <p>6 A. Well, in 2011, it's close to 80 percent, which</p> <p>7 is similar to the cut off for the assets.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. And -</p> <p>10 MS. MCSHANE:</p> <p>11 A. And this is - I mean, they've got now that</p> <p>12 they've merged with Nicor, which is another</p> <p>13 large natural gas utility. They would tend to</p> <p>14 have more regulated revenues going forward.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. Okay, and if we look at ALLETE, they're</p> <p>17 actually taking some losses, though,</p> <p>18 relatively minor on the non-regulated side?</p> <p>19 MS. MCSHANE:</p> <p>20 A. Correct.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. But in relation to, you know, 66 million</p> <p>23 dollars worth of income, 5 million dollar</p> <p>24 loss, not too insignificant, I suppose, why</p> <p>25 are they taking losses, do you know?</p>	<p>1 MR. JOHNSON:</p> <p>2 Q. In what business were they taking losses in?</p> <p>3 MS. MCSHANE:</p> <p>4 A. Let's see. It would be in their - it must be</p> <p>5 in their energy services operations which</p> <p>6 they're exiting.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. And energy services is closely related to</p> <p>9 regulated operations?</p> <p>10 MS. MCSHANE:</p> <p>11 A. It would be closely related, yes.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. Yes, and Piedmont Natural Gas, as recently as</p> <p>14 2010 we have them at a third of their income</p> <p>15 before taxes coming from the unregulated side.</p> <p>16 So in 2010, it was 78 million out of 156. It</p> <p>17 looks to be half to me.</p> <p>18 MS. MCSHANE:</p> <p>19 A. Yes, in 2010, it looks like that was a fairly</p> <p>20 unusual year. They did quite well in their</p> <p>21 retail marketing and storage operations.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. Again closely related to the regulated side?</p> <p>24 MS. MCSHANE:</p> <p>25 A. Correct.</p>
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<p>1 MS. MCSHANE:</p> <p>2 A. I'd have to look it up. I don't recall</p> <p>3 specifically what the - I can look at the</p> <p>4 Appendix "B" here. No, I can't tell you</p> <p>5 specifically what those arise from.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. That's fine, and if we look at Atmos, that's</p> <p>8 one of your new companies, and they took a</p> <p>9 loss in 2011 and they're about 19 or 20</p> <p>10 percent for each of 2009 and 2010. Now in</p> <p>11 terms of Integrys, they're actually losing a</p> <p>12 fair dollar on their non-regulated side,</p> <p>13 aren't they?</p> <p>14 MS. MCSHANE:</p> <p>15 A. Well, Integrys actually a company that the</p> <p>16 history of their earnings is probably less</p> <p>17 relevant because they've gotten out of their</p> <p>18 unregulated - a lot of their unregulated</p> <p>19 businesses and that's the reason that they're</p> <p>20 in the sample today and weren't in 2009,</p> <p>21 because they have transformed into a more</p> <p>22 highly regulated company. So the history</p> <p>23 doesn't really mean as much for them as it</p> <p>24 might for other companies that have had a</p> <p>25 similar operating base for quite a while.</p>	<p>1 MR. JOHNSON:</p> <p>2 Q. Vectren, this is from your old sample?</p> <p>3 MS. MCSHANE:</p> <p>4 A. Yes.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. And in 2011, out of 1 billion dollars in</p> <p>7 unregulated income versus regulated at 1.5</p> <p>8 billion?</p> <p>9 MS. MCSHANE:</p> <p>10 A. Yes.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. And that company nevertheless satisfies your</p> <p>13 test for inclusion in your utility group?</p> <p>14 MS. MCSHANE:</p> <p>15 A. Based on their assets, yes.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. But isn't the percentage assets a bit</p> <p>18 meaningless if the shareholders are getting</p> <p>19 such a lift from the unregulated side of the</p> <p>20 business?</p> <p>21 MS. MCSHANE:</p> <p>22 A. Well, it's hard to do it any other way because</p> <p>23 if there are - if there are losses in the</p> <p>24 unregulated operations, you would end up</p> <p>25 bringing in companies that you really</p>

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<p>1 shouldn't be bringing in because it would sort</p> <p>2 of misrepresent the relative side of the</p> <p>3 regulated operations. So that's why it's done</p> <p>4 on assets.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. But why wouldn't you just do it, like, in the</p> <p>7 fashion that I've set out, because what the</p> <p>8 Board, as I read PU-43, said they're concerned</p> <p>9 about unregulated activities, non-utility</p> <p>10 business, and why wouldn't you just go about</p> <p>11 it in terms of having - saying, look, you</p> <p>12 know, let's look at their income, where's your</p> <p>13 money coming from?</p> <p>14 MS. MCSHANE:</p> <p>15 A. Well, I just explained to you why not.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. And what's the answer?</p> <p>18 MS. MCSHANE:</p> <p>19 A. The answer is if you look at it that way, and</p> <p>20 if you're got a - in a number of years you've</p> <p>21 got significant losses on the unregulated</p> <p>22 operations, trying to do percentages of</p> <p>23 earnings would suggest that you've got very,</p> <p>24 very high percentage of earnings in the</p> <p>25 regulated operations relative to your</p>	<p>1 regulated side - maybe I'm making an</p> <p>2 assumption that's not warranted. In terms of</p> <p>3 Wisconsin Energy, this is one of the new</p> <p>4 companies, I take it, but one of the ones that</p> <p>5 Mr. Cicchetti used, the Wisconsin Energy?</p> <p>6 MS. MCSHANE:</p> <p>7 A. Yes.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. And we see a doubling of non-regulated income</p> <p>10 from 2009 to 2010, don't we, from 64 million</p> <p>11 to 128?</p> <p>12 MS. MCSHANE:</p> <p>13 A. Yes, we do.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. Ms. McShane, the Board remarked in PU-43 that</p> <p>16 there was significant differences shown in</p> <p>17 virtually all comparables including</p> <p>18 significant levels of non-regulated and non-</p> <p>19 utility businesses, but at least these numbers</p> <p>20 of companies that we've gone through have</p> <p>21 significant levels of non-regulated and non-</p> <p>22 utility businesses, don't they?</p> <p>23 MS. MCSHANE:</p> <p>24 A. Some of them have had significant amounts of</p> <p>25 income from non-regulated operations. They are</p>
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<p>1 unregulated operations. So to me it's fairer</p> <p>2 to look at the percentage of assets in the</p> <p>3 regulated operations.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. And just moving on, WGL Holdings, 2011, I</p> <p>6 mean, the majority of their income came from</p> <p>7 unregulated. A total unregulated in 2011 of</p> <p>8 48 million, versus regulated of 69 million.</p> <p>9 MS. MCSHANE:</p> <p>10 A. Right, and this again is related to their</p> <p>11 retail operations that aren't regulated, that</p> <p>12 are very closely related to the regulated</p> <p>13 operations.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. They must be quite profitable.</p> <p>16 MS. MCSHANE:</p> <p>17 A. Was that a question or -</p> <p>18 MR. JOHNSON:</p> <p>19 Q. They must be quite profitable relative to the</p> <p>20 regulated side, obviously.</p> <p>21 MS. MCSHANE:</p> <p>22 A. I guess I'm not supposed to ask you questions,</p> <p>23 but why do you say that?</p> <p>24 MR. JOHNSON:</p> <p>25 Q. Well, I mean, doing nearly as well as the</p>	<p>1 closely related to the regulated operations.</p> <p>2 It's not like we're dealing with totally</p> <p>3 unrelated types of businesses.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. But the -</p> <p>6 MS. MCSHANE:</p> <p>7 A. Again I think you have to look at the totality</p> <p>8 of the risks of the companies, not just</p> <p>9 whether they have unregulated operations or</p> <p>10 not. You do have to be aware of what those</p> <p>11 unregulated operations are and how they - how</p> <p>12 they relate to the regulated operations</p> <p>13 because there are synergies there.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. But the unregulated operations are, by</p> <p>16 definition, unregulated and they're subject to</p> <p>17 competition?</p> <p>18 MS. MCSHANE:</p> <p>19 A. To some extent, yes.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. And an equity investor who's looking at</p> <p>22 Wisconsin Energy, they would say, you know, in</p> <p>23 2011, 170 million from the non-regulated side</p> <p>24 versus 376 from the regulated, that would be</p> <p>25 material consideration for an equity investor,</p>

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<p>1 would it not?</p> <p>2 MS. MCSHANE:</p> <p>3 A. It would be one of the considerations. I</p> <p>4 guess, they would look at all of the</p> <p>5 characteristics of Wisconsin Energy, including</p> <p>6 the fact that Wisconsin Energy operates in</p> <p>7 Wisconsin, which is one of the more supportive</p> <p>8 regulatory environments in the United States.</p> <p>9 They would look at the fact that they've got</p> <p>10 both - they've got diversification of their</p> <p>11 operations. They would be considered with all</p> <p>12 the factors relevant to Wisconsin Energy.</p> <p>13 (10:15 A.M.)</p> <p>14 MR. JOHNSON:</p> <p>15 Q. And these observations that you're making are</p> <p>16 precisely the sorts of observations that you</p> <p>17 made in 2009 when these types of differences</p> <p>18 were brought out to you, would that be</p> <p>19 accurate?</p> <p>20 MS. MCSHANE:</p> <p>21 A. Yes, because I believe them.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. Okay. Now as regards distribution and</p> <p>24 vertically integrated and the sectors, Ms.</p> <p>25 McShane, you've indicated in terms of the</p>	<p>1 integrated utility.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. And you'll confirm for us that out of your</p> <p>4 sample of 13 companies, that there is only</p> <p>5 precisely one that would be considered by</p> <p>6 Moody's to be a transmission and distribution</p> <p>7 company, correct, and that would be</p> <p>8 Consolidated Edison? CA-NP-315.</p> <p>9 MS. MCSHANE:</p> <p>10 A. Thank you. Did you say 315?</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Yes.</p> <p>13 MS. MCSHANE:</p> <p>14 A. Right, Moody's only uses the term,</p> <p>15 "transmission and distribution" in the context</p> <p>16 of electric utilities. So the only one that</p> <p>17 it refers to as - specifically as a</p> <p>18 transmission and distribution utility, I</p> <p>19 believe, is Consolidated Edison, although it</p> <p>20 does have gas distribution operations as well.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. You regard Consolidated Edison to be an</p> <p>23 electric transmission and distribution</p> <p>24 utility, do you not?</p> <p>25 MS. MCSHANE:</p>
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<p>1 evidence that you filed before the BCUC of the</p> <p>2 relative ranking of the sectors, right?</p> <p>3 MS. MCSHANE:</p> <p>4 A. I did.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. And would that sector ranking apply equally,</p> <p>7 Ms. McShane, to sectors in the United States?</p> <p>8 MS. MCSHANE:</p> <p>9 A. Generically.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. Generically, yeah, and would you confirm for</p> <p>12 us that you full know that Moody's considers</p> <p>13 Newfoundland Power's business risk to be more</p> <p>14 like that of a distribution and transmission</p> <p>15 utility, correct?</p> <p>16 MS. MCSHANE:</p> <p>17 A. That's Moody's view, yes.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. Yes, and, of course, that doesn't depart from</p> <p>20 your view, you consider them to be more - to</p> <p>21 be considered as a transmission and</p> <p>22 distribution utility as well, don't you?</p> <p>23 MS. MCSHANE:</p> <p>24 A. It would be closer to a transmission and</p> <p>25 distribution utility than fully vertically</p>	<p>1 A. I would, yes.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. And would you confirm for us that you would</p> <p>4 personally consider, in your opinion, that out</p> <p>5 of your 13 holding companies, you would</p> <p>6 consider five to be vertically integrated</p> <p>7 utilities, correct, and those would be ALLETE,</p> <p>8 Alliant, Southern, Wisconsin Energy, and I</p> <p>9 don't know if there was another -</p> <p>10 MS. MCSHANE:</p> <p>11 A. Xcel.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. Xcel would also be -</p> <p>14 MS. MCSHANE:</p> <p>15 A. I believe, yes.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. And -</p> <p>18 MS. MCSHANE:</p> <p>19 A. That's CA-NP-318, ALLETE, Alliant, Southern,</p> <p>20 Wisconsin Energy, and Xcel.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. And these are big generating companies, at</p> <p>23 least in certain of the cases, Ms. McShane?</p> <p>24 MS. MCSHANE:</p> <p>25 A. When you say "they're big generating</p>

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<p>1 companies", I'm not sure what you mean by</p> <p>2 that, big companies.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. They would be considered significant</p> <p>5 generators in the electricity generation</p> <p>6 business?</p> <p>7 MS. MCSHANE:</p> <p>8 A. They all - yeah, they all generate their own</p> <p>9 power for their own domestic markets.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. Yes, but Southern would be one of the bigger</p> <p>12 generators in the United States of America,</p> <p>13 would it not?</p> <p>14 MS. MCSHANE:</p> <p>15 A. That's a large company with a lot of</p> <p>16 generation.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. Including nuclear?</p> <p>19 MS. MCSHANE:</p> <p>20 A. It has some nuclear, I believe.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. And Xcel would have nuclear?</p> <p>23 MS. MCSHANE:</p> <p>24 A. I think Xcel has nuclear.</p> <p>25 MR. JOHNSON:</p>	<p>1 It has very strong regulatory support in the</p> <p>2 states that it operates in and it has very</p> <p>3 strong financial matrix. It has strong debt</p> <p>4 rating. So on balance, I would say it's not a</p> <p>5 riskier company than other companies in this</p> <p>6 sample.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. And that, of course, would have been your</p> <p>9 position with respect to Southern in the last</p> <p>10 hearing as well?</p> <p>11 MS. MCSHANE:</p> <p>12 A. I would believe so. I don't think I would</p> <p>13 have changed my position.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. Right, and in terms of gas distributors, you</p> <p>16 would rank those in the sectors as having a</p> <p>17 more business risk than the electric</p> <p>18 distribution, consistent with your Canadian</p> <p>19 approach to it?</p> <p>20 MS. MCSHANE:</p> <p>21 A. I would say it depends in the United States,</p> <p>22 but they tend to have a little bit more</p> <p>23 competition than a straight poles and wires</p> <p>24 company, but again it depends on the</p> <p>25 particular company.</p>
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<p>1 Q. Would ALLETE?</p> <p>2 MS. MCSHANE:</p> <p>3 A. I don't believe so.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. How about Alliant?</p> <p>6 MS. MCSHANE:</p> <p>7 A. I don't think so.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. But Southern and Xcel would. Wisconsin</p> <p>10 Energy, would that -</p> <p>11 MS. MCSHANE:</p> <p>12 A. I'm not positive.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. In any event, those would be the vertically</p> <p>15 integrated, and you would agree that companies</p> <p>16 that are in the business of generation, and</p> <p>17 certainly nuclear generation, have a</p> <p>18 significantly bigger business risk profile</p> <p>19 than a poles and wires company like</p> <p>20 Newfoundland Power?</p> <p>21 MS. MCSHANE:</p> <p>22 A. Some of them would. In the case of Southern</p> <p>23 company, for example, I mean, this is a very</p> <p>24 strong company that operates in states that</p> <p>25 are still traditional unstructured states.</p>	<p>1 MR. JOHNSON:</p> <p>2 Q. And so in terms of competition - well, first</p> <p>3 of all, in terms of the gas distributors, we'd</p> <p>4 have AGL would be considered a gas</p> <p>5 distributor?</p> <p>6 MS. MCSHANE:</p> <p>7 A. Yes.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. Would that face competition?</p> <p>10 MS. MCSHANE:</p> <p>11 A. Yes, I guess it would face some competition</p> <p>12 with electricity.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. And Atmos would be a gas distributor?</p> <p>15 MS. MCSHANE:</p> <p>16 A. It is.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. Northwest would be a gas distributor?</p> <p>19 MS. MCSHANE:</p> <p>20 A. Northwest Natural, yes.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. Piedmont?</p> <p>23 MS. MCSHANE:</p> <p>24 A. Yes.</p> <p>25 MR. JOHNSON:</p>

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<p>1 Q. And WGL?</p> <p>2 MS. MCSHANE:</p> <p>3 A. Yes.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. And to some degree, they would all face</p> <p>6 competition?</p> <p>7 MS. MCSHANE:</p> <p>8 A. To some degree.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. That Newfoundland Power is not exposed to?</p> <p>11 MS. MCSHANE:</p> <p>12 A. It does compete with oil.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. And then we have certain of your companies</p> <p>15 that are a combination gas and electric.</p> <p>16 Falling under that category would be Alliant?</p> <p>17 MS. MCSHANE:</p> <p>18 A. Are we going to put them in different</p> <p>19 categories - I mean, because we already talked</p> <p>20 about Alliant being -</p> <p>21 MR. JOHNSON:</p> <p>22 Q. Oh, Alliant is one of your integrated, okay.</p> <p>23 MS. MCSHANE:</p> <p>24 A. Yes. I mean, all - well, let's see.</p> <p>25 MR. JOHNSON:</p>	<p>1 MS. MCSHANE:</p> <p>2 A. That's the way S & P describes them because</p> <p>3 that was what the question was, how does S & P</p> <p>4 describe them.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. Yes, okay. Turn to the topic of weather</p> <p>7 normalization, if we could turn up CA-NP-235.</p> <p>8 MS. MCSHANE:</p> <p>9 A. Sorry?</p> <p>10 MR. JOHNSON:</p> <p>11 Q. CA-NP-235.</p> <p>12 MS. MCSHANE:</p> <p>13 A. 235.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. No, it mightn't be the right one. Let me find</p> <p>16 the correct - 335. This question we asked</p> <p>17 regarding what deferral and regulatory</p> <p>18 mechanism protection your sample has, and then</p> <p>19 you provided an attachment which listed all of</p> <p>20 your companies, and weather normalization is</p> <p>21 what I'd like to bring your attention to. Ms.</p> <p>22 McShane, you record that AGL has weather</p> <p>23 normalization because you have an "x" there</p> <p>24 under that name?</p> <p>25 MS. MCSHANE:</p>
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<p>1 Q. Would I be correct in saying that five of the</p> <p>2 vertically - the five vertically integrated</p> <p>3 companies, that would cover the basis of gas</p> <p>4 and electric? They're integrated into gas and</p> <p>5 electric.</p> <p>6 MS. MCSHANE:</p> <p>7 A. So the five that are, I'd say, more electric</p> <p>8 than gas, and I would call those vertically</p> <p>9 integrated; Alliant, ALLETE, Southern</p> <p>10 Wisconsin Energy, and Xcel. Then we have</p> <p>11 Vectren, which is - I guess, it's a</p> <p>12 combination gas and electric utility, and</p> <p>13 Integrys, which is a combination gas and</p> <p>14 electric utility.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. If I could turn up CA-NP-316. This provides</p> <p>17 how S & P would categorize these companies as</p> <p>18 well, Ms. McShane?</p> <p>19 MS. MCSHANE:</p> <p>20 A. Yes.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. And in terms of the Alliant, Integrys,</p> <p>23 Wisconsin Energy, and Xcel, they would all be</p> <p>24 described as combination gas and electric</p> <p>25 utilities?</p>	<p>1 A. Yes.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. But because you have an "x" under that name,</p> <p>4 by that you're only indicating, are you not,</p> <p>5 that one or more of its subsidiaries have</p> <p>6 weather normalization, right? You're not</p> <p>7 saying that each of their subsidiaries has it?</p> <p>8 MS. MCSHANE:</p> <p>9 A. Correct.</p> <p>10 (10:30 A.M.)</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Okay, and, in fact, if you could turn up the</p> <p>13 cross-examination aid that was sent to you</p> <p>14 regarding weather normalization with my letter</p> <p>15 of January 10th. If you could go into the</p> <p>16 page that's numbered 9 in my handwriting.</p> <p>17 MS. MCSHANE:</p> <p>18 A. I have that.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. Okay.</p> <p>21 MS. GLYNN:</p> <p>22 Q. That will be entered now as Information Item</p> <p>23 #15.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. Okay. Ms. McShane, do you recognize this</p>

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<p>1 document?</p> <p>2 MS. MCSHANE:</p> <p>3 A. I do.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. It's taken out of AGL Resources most recent</p> <p>6 10-K, right?</p> <p>7 MS. MCSHANE:</p> <p>8 A. It is.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. Okay, and if you look - these are all the</p> <p>11 regulated subsidiaries of AGL Resources?</p> <p>12 MS. MCSHANE:</p> <p>13 A. The major ones, yes.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. Okay, and if - and we see part way down after</p> <p>16 they talk about authorized return on rate</p> <p>17 base, on the left hand side you see weather</p> <p>18 normalization?</p> <p>19 MS. MCSHANE:</p> <p>20 A. I do.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. So you'll confirm for us that Nicor Gas in</p> <p>23 Illinois does not have it according to this</p> <p>24 10-K?</p> <p>25 MS. MCSHANE:</p>	<p>1 its rates are designed in such a way to</p> <p>2 recover all of its fixed costs and fixed</p> <p>3 charge. So weather normalization is really</p> <p>4 beside the point for Atlanta Gas Light because</p> <p>5 its rates are designed to recover all its</p> <p>6 fixed cost irrespective what the weather is.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. And would that same comment apply to Florida</p> <p>9 City Gas, that doesn't have -</p> <p>10 MS. MCSHANE:</p> <p>11 A. That I don't know. Florida City Gas is a tiny</p> <p>12 little operation.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Okay, but certainly Nicor Gas with 2.2 million</p> <p>15 customers, is that the biggest utility in AGL,</p> <p>16 is it?</p> <p>17 MS. MCSHANE:</p> <p>18 A. It is, but I'm surprised - my understanding is</p> <p>19 that they have a flat monthly fee rate design</p> <p>20 in Illinois as well, which really is an</p> <p>21 alternative to a weather normalization account</p> <p>22 where the rate design itself is set up in such</p> <p>23 a way to recover a high percentage of the</p> <p>24 fixed cost.</p> <p>25 MR. JOHNSON:</p>
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<p>1 A. Correct.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. And Nicor Gas, I think your Appendix "B" would</p> <p>4 indicate that they operate in the state of</p> <p>5 Illinois?</p> <p>6 MS. MCSHANE:</p> <p>7 A. They do.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. And they have 2.2 million customers?</p> <p>10 MS. MCSHANE:</p> <p>11 A. They do.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. And is Nicor gas used for heating or are -</p> <p>14 they carry heating load in Illinois?</p> <p>15 MS. MCSHANE:</p> <p>16 A. They do.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. And if you go across, Atlanta Gas Light in</p> <p>19 Georgia, they don't have it either, weather</p> <p>20 normalization?</p> <p>21 MS. MCSHANE:</p> <p>22 A. No, but what AGL and Atlantic Gas Light has is</p> <p>23 what's called straight fix variable rate</p> <p>24 design. Atlanta Gas Light doesn't sell natural</p> <p>25 gas any more. All it does is deliver gas. So</p>	<p>1 Q. Well, I don't see a tick mark under weather</p> <p>2 normalization.</p> <p>3 MS. MCSHANE:</p> <p>4 A. I don't either, no, I agree with you, but that</p> <p>5 was my understanding. I mean, I've read</p> <p>6 decisions for Nicor Gas in Illinois, and the</p> <p>7 Illinois gas companies including Nicor, to my</p> <p>8 understanding, do have them.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. In terms of going back to 335, you'll confirm</p> <p>11 for us that ALLETE doesn't have weather</p> <p>12 normalization protection?</p> <p>13 MS. MCSHANE:</p> <p>14 A. No, a lot of the electric utilities don't have</p> <p>15 weather normalization partly because they</p> <p>16 don't have large heating loads like</p> <p>17 Newfoundland Power does, but at the same time</p> <p>18 some of them do have decoupling, which covers</p> <p>19 more than weather.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. Minnesota Power comes under ALLETE?</p> <p>22 MS. MCSHANE:</p> <p>23 A. Minnesota Power is one of ALLETE's operating</p> <p>24 subsidiaries.</p> <p>25 MR. JOHNSON:</p>

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<p>1 Q. So they wouldn't have weather normalization, 2 and nor would Superior Water Light and Power, 3 which is also in Minnesota, is it not? 4 MS. MCSHANE: 5 A. Well, the answer to the first part of your 6 question is, no, neither of the subs have 7 weather normalization, and the answer to the 8 second part of your question is, no, they 9 don't both operate in Minnesota. 10 MR. JOHNSON: 11 Q. Minnesota Power does, I hope. 12 MS. MCSHANE: 13 A. They do. The other one operates in Wisconsin. 14 MR. JOHNSON: 15 Q. Alliant Energy, they don't have it either? 16 MS. MCSHANE: 17 A. No, that's true. 18 MR. JOHNSON: 19 Q. And that would include, I think you can 20 confirm for us, Interstate Power and Light, or 21 IPL, and they are comprised of - they offer 22 service to 526,000 electricity customers in 23 Iowa, and 234,000 gas customers in southern 24 Minnesota, would that be right? 25 MS. MCSHANE:</p>	<p>1 electric sales in New Jersey and Pennsylvania 2 are not subject to a decoupling mechanism. 3 MS. MCSHANE: 4 A. I see that. 5 MR. JOHNSON: 6 Q. So the statement in your report that there's 7 revenue decoupling for both gas and electric 8 has to be read subject to that O & R comment 9 in the 10-K? 10 MS. MCSHANE: 11 A. Yes. I mean, O & R - let's put this in a bit 12 of perspective. Consolidated Edison makes up 13 about - Consolidated Edison, a subsidiary of 14 Consolidated Edison Inc., the parent company, 15 makes up about 95 percent of the total 16 operations. The rest - so O & R itself is a 17 relatively small piece of Con Ed, and within O 18 & R, some of that's in Pennsylvania and some 19 of it's in New Jersey. So it's a small piece 20 of the total. 21 MR. JOHNSON: 22 Q. O & R, Orange and Rockland, that's one of the 23 companies that's talked about as being - by 24 Moody's as being a peer to Newfoundland Power, 25 is it not?</p>
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<p>1 A. So there's no weather normalization in - 2 clause, I should say, in Iowa or Minnesota, 3 but there's decoupling in Wisconsin. 4 MR. JOHNSON: 5 Q. Okay. You have no "x" for Alliant under 6 weather - 7 MS. MCSHANE: 8 A. No, I have an "x" for Alliant under 9 decoupling. 10 MR. JOHNSON: 11 Q. And Consolidated Edison, Ms. McShane, I think 12 your report at Appendix B15 says that there is 13 revenue decoupling for both gas and electric? 14 MS. MCSHANE: 15 A. Yes. 16 MR. JOHNSON: 17 Q. And could I - I might as well get you there 18 first. Is that B15? It says revenue 19 decoupling for both gas and electric, weather 20 normalization adjustment clause is for gas 21 companies, and so I'd like to bring you to the 22 cross-examination aid that we were just 23 referring to at page 1 of that, which is page 24 22 of 163 of the 10-K. I have an underlined 25 line there where it indicates that O & R's</p>	<p>1 MS. MCSHANE: 2 A. Yes. 3 MR. JOHNSON: 4 Q. And your report in relation to Consolidated 5 Edison says that there is weather 6 normalization adjustment clauses for gas 7 companies. Does that - I take it that there's 8 no weather normalization for the electric 9 companies? 10 MS. MCSHANE: 11 A. Decoupling. 12 MR. JOHNSON: 13 Q. It's just decoupling, okay. 14 MS. MCSHANE: 15 A. So that would cover weather. 16 MR. JOHNSON: 17 Q. Okay. 18 MS. MCSHANE: 19 A. And more. 20 (10:45 A.M.) 21 MR. JOHNSON: 22 Q. In terms of Integrys back at 335, there would 23 be no weather normalization, and as I 24 understand it, Integrys is made up of 25 Wisconsin Public Service.</p>

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<p>1 MS. MCSHANE:</p> <p>2 A. So Integrys - maybe I can help you out with</p> <p>3 this. Integrys is made up of six different</p> <p>4 regulated subsidiaries; Wisconsin Public</p> <p>5 Service which is in Wisconsin, People's Gas</p> <p>6 Light and Coke which is a gas utility in</p> <p>7 Illinois, North Shore Gas which is in</p> <p>8 Illinois, Upper Peninsula Power which is in</p> <p>9 Michigan, Minnesota Energy Resources which is</p> <p>10 a gas utility in Minnesota, and Michigan Gas</p> <p>11 Utilities which is in Michigan. So if you</p> <p>12 look at page B18 of my testimony, there is a</p> <p>13 section as there is for each of these</p> <p>14 utilities, where there is a description of</p> <p>15 which of these subsidiaries have either</p> <p>16 weather normalization or decoupling, and</p> <p>17 although you're correct, Mr. Johnson, that</p> <p>18 there is no "x" under weather normalization</p> <p>19 for Integrys, there is an "x" under</p> <p>20 decoupling, and as indicated at page B18, you</p> <p>21 can see where these different utilities have</p> <p>22 some form of decoupling protection.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. Well, if I could turn you to page 3 of my</p> <p>25 cross-examination aid regarding Integrys.</p>	<p>1 MS. MCSHANE:</p> <p>2 A. Yes.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. People's Gas, about 800,000. Minnesota</p> <p>5 Energy, 212,000. Michigan Gas, 166,000.</p> <p>6 North Shore Gas, 158,000. Would that be your</p> <p>7 understanding?</p> <p>8 MS. MCSHANE:</p> <p>9 A. Yes, but I'm not quite sure what the</p> <p>10 connection is.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Well -</p> <p>13 MS. MCSHANE:</p> <p>14 A. Between the number of customers in these</p> <p>15 various subsidiaries and -</p> <p>16 MR. JOHNSON:</p> <p>17 Q. Well, the connection is that these utilities</p> <p>18 with significant numbers of customers do not</p> <p>19 have weather normalization, and they provide</p> <p>20 heating in Minnesota and Wisconsin, or</p> <p>21 Michigan.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. So this decoupling mechanisms which cover off</p> <p>24 some of the weather variability, as well as</p> <p>25 covering off consumption variability due to</p>
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<p>1 MS. MCSHANE:</p> <p>2 A. I have that.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. It speaks of, "Integrys Energy group's</p> <p>5 revenues are affected by the demand for</p> <p>6 electricity and natural gas. That demand can</p> <p>7 vary greatly based upon weather conditions",</p> <p>8 is the second one, "weather conditions,</p> <p>9 seasonality, and temperature extremes".</p> <p>10 MS. MCSHANE:</p> <p>11 A. I see that.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. Okay. So it would look to me that if they're</p> <p>14 saying that their revenues are affected and</p> <p>15 they specifically point out weather</p> <p>16 conditions, then the decoupling is not fixing</p> <p>17 it for them?</p> <p>18 MS. MCSHANE:</p> <p>19 A. Well, I mean, it's clear from here that</p> <p>20 they're saying that they still are subject to</p> <p>21 some weather risk.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. Yes, and to put that in perspective, Wisconsin</p> <p>24 Public Service, 757,000 customers, I think,</p> <p>25 according to your materials?</p>	<p>1 other factors, and there is diversification</p> <p>2 across states which means that they're</p> <p>3 operating in different geographic environments</p> <p>4 which will tend to temper any remaining</p> <p>5 weather risk.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. But the geographical areas that they're</p> <p>8 operating in, I mean, Wisconsin, Minnesota or</p> <p>9 Michigan, I mean, is there much difference?</p> <p>10 MS. MCSHANE:</p> <p>11 A. Well, difference in Minnesota and Illinois.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. Okay. Now Southern Company, I take it they</p> <p>14 don't have weather normalization for Alabama</p> <p>15 Power, Georgia Power, Gulf Power, or</p> <p>16 Mississippi Power?</p> <p>17 MS. MCSHANE:</p> <p>18 A. No, but they're not high heating companies,</p> <p>19 anyway, because they're in the south.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. Could I turn you to page 5.</p> <p>22 MS. MCSHANE:</p> <p>23 A. Sorry?</p> <p>24 MR. JOHNSON:</p> <p>25 Q. Page 5 of the cross aid.</p>

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<p>1 MS. MCSHANE: 2 A. I have that. 3 MR. JOHNSON: 4 Q. And that's page 42 of 683 of the Southern 5 Company's 10-K, and they say, "Electric power 6 supply is generally a seasonal business. In 7 many parts of the country, demand for power 8 peaks during the summer months, with market 9 prices also peaking at that time. In other 10 areas, power demand peaks during the winter. 11 As a result, the overall operating results of 12 Southern Company, the traditional operating 13 companies, and Southern Power, may fluctuate 14 substantially on a seasonal basis. In 15 addition, the traditional operating companies 16 and Southern Power have historically sold less 17 power when weather conditions are milder. 18 Unusually mild weather in the future could 19 reduce the revenues, net income, available 20 cash, and borrowing ability of the Southern 21 Company". You don't take issue with that 22 statement in 10-K. 23 MS. MCSHANE: 24 A. That's how they describe their exposure to 25 weather, potentially.</p>	<p>1 not have a weather normalization mechanism for 2 its electric operations, significant 3 variations from normal weather could have a 4 material impact on earnings. However, the 5 impact of weather on the gas operation in the 6 company's Indiana territories has been 7 significantly mitigated through the 8 implementation in 2005 of a normal temperature 9 adjustment mechanism. Additionally, the 10 implementation of a straight fixed variable 11 rate design in January, PUCO Order, mitigates 12 most weather related to Ohio residential gas". 13 Now is Vectren - does Vectren have a number of 14 subs who are into electric sales? 15 MS. MCSHANE: 16 A. So Vectren is essentially made up of a gas 17 company, Indiana Gas, and then an electric - a 18 combined gas and electric company, Southern 19 Indiana Gas and Electric. Southern Indiana 20 Gas and Electric operates in both - I believe, 21 in both Indiana and Ohio. So the Indiana 22 electric operations don't have weather 23 normalization. The Ohio electric utility 24 operations have a straight fixed variable rate 25 design, which we discussed before with respect</p>
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<p>1 MR. JOHNSON: 2 Q. And likewise, Vectren, you have an "x" there 3 for Vectren, but that "x" should not be taken 4 as an "x" for everything for Vectren? 5 MS. MCSHANE: 6 A. No. 7 MR. JOHNSON: 8 Q. And, in fact, at page 6 of the cross aid, 9 which is page 17 of 137 of the 10-K, if you go 10 down a little bit further - 11 MS. MCSHANE: 12 A. You mean where the line is? 13 MR. JOHNSON: 14 Q. Yes. 15 MS. MCSHANE: 16 A. I see that. 17 MR. JOHNSON: 18 Q. It states, "A significant portion of Vectren's 19 electric utility sales are space heating and 20 cooling. Accordingly, its operating results 21 may fluctuate with variability of weather. 22 Vectren's electricity utility sales are 23 sensitive to variations in weather conditions. 24 The company forecast utility sales on the 25 basis of normal weather. Since Vectren does</p>	<p>1 to Atlanta Gas Light, and they have weather 2 normalization on their gas distribution 3 operations. 4 MR. JOHNSON: 5 Q. And WGL Holdings, if we could turn up page 7 6 of the cross aid, one of their utilities, 7 Washington Gas, they have to go out and manage 8 weather risk, I understand, by purchasing 9 heating degree day weather derivative 10 contracts? 11 MS. MCSHANE: 12 A. Let's understand there is only one subsidiary, 13 Washington Gas Light. That is the utility. 14 The utility operates in three states; 15 Maryland, DC, District of Columbia, and 16 Virginia. So of those three parts, the 17 District of Columbia is the smallest. It has 18 about 14 percent of the operations. Virginia 19 is the largest, and followed by Maryland. 20 They don't have weather normalization, as you 21 point out, in the District of Columbia and 22 they manage their weather risk through the 23 purchase of weather hedging instruments. In 24 Virginia, they do have weather normalization 25 and in the State of Maryland, they have full</p>

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<p>1 decoupling, and they also have in Maryland and</p> <p>2 Virginia declining block rate structure which</p> <p>3 provides further support of fixed cost</p> <p>4 recovery.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. Wisconsin Energy, there's no tick by Wisconsin</p> <p>7 Energy, Ms. McShane, and as I understand it,</p> <p>8 Wisconsin Energy Corp consists of Wisconsin</p> <p>9 Electric and Wisconsin Gas, and they</p> <p>10 respectively serve 1.1 million electric</p> <p>11 customers in Wisconsin, and the Upper</p> <p>12 Peninsula of Michigan, and the gas company</p> <p>13 serves a million or so gas customers in</p> <p>14 Milwaukee.</p> <p>15 MS. MCSHANE:</p> <p>16 A. Steam customers.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. Steam? Gas?</p> <p>19 MS. MCSHANE:</p> <p>20 A. I assume you're getting this information from</p> <p>21 my Appendix. It sounds like the same</p> <p>22 information that I have in here.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. Yeah.</p> <p>25 MS. MCSHANE:</p>	<p>1 heating. In addition, demand for natural gas</p> <p>2 peaks in the winter heating season. As a</p> <p>3 result, our overall results in the future may</p> <p>4 fluctuate substantially on a seasonal basis.</p> <p>5 In addition, we've historically had lower</p> <p>6 revenues and net income when weather</p> <p>7 conditions are milder. Our rates in Wisconsin</p> <p>8 are set by the PSCW based on estimated</p> <p>9 temperatures which are approximate 20 year</p> <p>10 averages. Mild temperatures during the summer</p> <p>11 cooling season, and during the winter heating</p> <p>12 season, will negatively impact the results of</p> <p>13 operations and cashflows. In addition, mild</p> <p>14 temperatures during the winter heating season</p> <p>15 negatively impact the operations and cashflows</p> <p>16 of our gas utilities". So that would involve</p> <p>17 earnings volatility, right?</p> <p>18 MS. MCSHANE:</p> <p>19 A. Year to year earnings volatility, yes.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. And earnings volatility is a concern to an</p> <p>22 investor in a company, is it not?</p> <p>23 MS. MCSHANE:</p> <p>24 A. Not if it's weather related. I don't think</p> <p>25 it's of that much concern. It is of concern</p>
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<p>1 A. And it says there are a million gas customers</p> <p>2 in Wisconsin and .5 million steam customers in</p> <p>3 Milwaukee.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. But 1.1 million electricity customers?</p> <p>6 MS. MCSHANE:</p> <p>7 A. In Wisconsin and Michigan's Upper Peninsula.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. Upper Peninsula, right, and that has no</p> <p>10 weather normalization?</p> <p>11 MS. MCSHANE:</p> <p>12 A. Correct.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. And their 10-K, which is page 8 of my cross</p> <p>15 aids, which is page 43 of 232 -</p> <p>16 MS. MCSHANE:</p> <p>17 A. Yes.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. They indicate that their energy sales are</p> <p>20 impacted by seasonal factors and varying</p> <p>21 weather conditions from year to year. They</p> <p>22 say, "Our electric and gas utility businesses</p> <p>23 are generally seasonal businesses. Demand for</p> <p>24 electricity is greater in the summer and</p> <p>25 winter months associated with cooling and</p>	<p>1 to the debt rating agencies. I mean, they</p> <p>2 were very pleased when weather normalization</p> <p>3 clauses were introduced, but, I mean, it's</p> <p>4 interesting - for example, if you look at</p> <p>5 Schedule 13, page 1 of 2, which is individual</p> <p>6 company risk data for sample of US utilities,</p> <p>7 and the last one we just talked about was</p> <p>8 Wisconsin Energy, which doesn't have weather</p> <p>9 normalization, yet it has, as among these</p> <p>10 companies in this sample, it has - you know,</p> <p>11 among the higher debt ratings. So again, I</p> <p>12 mean, I think you have to look at all of the</p> <p>13 characteristics of the companies. You can't</p> <p>14 just focus on one item.</p> <p>15 (11:00 A.M.)</p> <p>16 MR. JOHNSON:</p> <p>17 Q. We're not going to focus on one item. Xcel</p> <p>18 Energy, that similarly doesn't have weather</p> <p>19 normalization according to your answer, and</p> <p>20 you'll confirm for us that Northern Power</p> <p>21 Minnesota serves about 1.4 million electric</p> <p>22 customers in North Dakota and Minnesota?</p> <p>23 MS. MCSHANE:</p> <p>24 A. Sorry, can you repeat that, please?</p> <p>25 MR. JOHNSON:</p>

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<p>1 Q. Xcel Energy.</p> <p>2 MS. MCSHANE:</p> <p>3 A. Yes.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. Northern Power Minnesota serves about 1.4</p> <p>6 million electric customers in North Dakota and</p> <p>7 Minnesota?</p> <p>8 MS. MCSHANE:</p> <p>9 A. I don't have that in this table, but I'll</p> <p>10 accept that subject to check.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Okay, and they have half a million gas</p> <p>13 customers in South Dakota, if you take that</p> <p>14 subject to check.</p> <p>15 MS. MCSHANE:</p> <p>16 A. I will.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. And they have in - with Northern States Power</p> <p>19 Wisconsin, 251,000 electricity customers.</p> <p>20 MS. MCSHANE:</p> <p>21 A. Yes.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. And 107,000 gas customers.</p> <p>24 MS. MCSHANE:</p> <p>25 A. Yes.</p>	<p>1 yesterday and indicated in her evidence that</p> <p>2 regulatory lag was not an issue in this</p> <p>3 jurisdiction for Newfoundland Power, and I'd</p> <p>4 like your observations on the impact of</p> <p>5 regulatory lag on utilities.</p> <p>6 MS. MCSHANE:</p> <p>7 A. Well if there's significant regulatory lag, it</p> <p>8 can make it difficult for a utility to earn</p> <p>9 return it's allowed.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. And I understand in the United States that</p> <p>12 regulatory lag is fairly significant.</p> <p>13 MS. MCSHANE:</p> <p>14 A. Well it depends on the company.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. And are you aware of what the average</p> <p>17 regulated lag in the utility industry is in</p> <p>18 the United States?</p> <p>19 MS. MCSHANE:</p> <p>20 A. I don't know how you're defining that.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. Let me just see if we can bring up CA-NP-369,</p> <p>23 attachment 2. This is a document issued by</p> <p>24 Moody's, has a special comment in June of 2010</p> <p>25 having to do with cost recovery provisions key</p>
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<p>1 MR. JOHNSON:</p> <p>2 Q. And the Public Service Company of Colorado has</p> <p>3 1.4 million electric customers and 1.3 million</p> <p>4 gas customers, and finally, Southwestern</p> <p>5 Public Services has 376,000 customers in Texas</p> <p>6 and New Mexico?</p> <p>7 MS. MCSHANE:</p> <p>8 A. Correct.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. With no weather normalization?</p> <p>11 MS. MCSHANE:</p> <p>12 A. Correct.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. I guess, we're at the -</p> <p>15 CHAIRMAN:</p> <p>16 Q. Okay, we'll break for half an hour.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. Thank you.</p> <p>19 (RECESS - 11:03 A.M.)</p> <p>20 (RESUME - 11:36)</p> <p>21 CHAIRMAN:</p> <p>22 Q. Okay, I guess we're ready to resume.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. Ms. McShane, I just want to turn to the issue</p> <p>25 of regulatory lag. Ms. Perry testified</p>	<p>1 to investor-owned utility ratings and credit</p> <p>2 quality and I'm referring then specifically to</p> <p>3 page 4 of that document, and under the heading</p> <p>4 "Return on Equity and Regulatory Lag" and they</p> <p>5 state "A utility's allowed return on equity,</p> <p>6 ROE, first of all is one of the most obvious</p> <p>7 but potentially misleading statistics." Are</p> <p>8 you there? She's not there yet?</p> <p>9 MS. MCSHANE:</p> <p>10 A. Sorry, what page are we on?</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Page 4 of attachment 2.</p> <p>13 MS. MCSHANE:</p> <p>14 A. Sorry, I was in attachment 1.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. They make the comment at the top paragraph</p> <p>17 that "a utility's allowed return on equity,</p> <p>18 ROE, is one of the most obvious but</p> <p>19 potentially misleading statistics used to</p> <p>20 judge if a utility is recovering its cost and</p> <p>21 earning an adequate return." And they have a</p> <p>22 discussion about that, and they indicate in</p> <p>23 the next paragraph, about halfway down, "On</p> <p>24 the other hand, the relationship between a</p> <p>25 utility's allowed return on equity and its</p>

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<p>1 ability to recover its cost and earn an 2 adequate return is not as simple and clear cut 3 as it may appear. A utility may have a low 4 allowed ROE but be permitted to recover many 5 of its operating costs through automatic 6 adjustment clauses and other trackers, 7 reducing risk and mitigating the impact of a 8 low ROE. On the other hand, a utility may be 9 permitted a high allowed ROE, but because of 10 the higher than average risk associated with 11 operating within this jurisdiction, the 12 absence of such cost recovery provisions, 13 overly long rate cases or significant 14 regulatory lag may never actually earn its 15 allowed return." And then the statement is 16 made, "According to the Edison Electric 17 Institute, the average regulatory lag in the 18 utility industry is eleven months, close to 19 where it's been for most of the last two 20 decades. Adequate liquidity reserves on the 21 part of a utility should mitigate some of the 22 risks associated with regulatory lag." And 23 that's the context that I was raising 24 regulatory lag in. 25 MS. MCSHANE:</p>	<p>1 in terms of lag? 2 MS. MCSHANE: 3 A. From beginning to end it takes about eleven 4 months, I think so on average. 5 MR. JOHNSON: 6 Q. And what's the impact on the utility? Why 7 would that--how would it impact them? 8 MS. MCSHANE: 9 A. Well according to, if there are significant 10 regulatory lag, that it may be difficult to 11 earn the allowed rate of return. 12 MR. JOHNSON: 13 Q. And would you call eleven months significant 14 regulatory lag? 15 MS. MCSHANE: 16 A. From the beginning of the rate case to a 17 decision? It may be a bit longer than on 18 average in Canada, but I'm thinking about 19 cases that I've been involved in across the 20 country and it may be a little longer on 21 average. 22 MR. JOHNSON: 23 Q. But longer than here. 24 MS. MCSHANE: 25 A. Yeah.</p>
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<p>1 A. So you're talking about the time between which 2 the utility files a rate case and gets a 3 decision is basically what a new rate is going 4 affect. I think that's what that eleven 5 months is. 6 MR. JOHNSON: 7 Q. Okay, and that's your understanding of what 8 regulatory lag is, the amount of time it takes 9 - 10 MS. MCSHANE: 11 A. Well that's what they're saying. It says 12 "According to the Edison Electric Institute"-- 13 well, sorry, I should have started with the 14 sentence ahead of that. They refer to-- 15 Moody's refers to overly long rate cases, or 16 significant regulatory lag, so I interpret 17 that as the significant regulatory lag as 18 being related to overly long rate cases, and 19 then that seems to reconcile with the next 20 sentence which calls the average regulatory 21 lag in the utilities industry eleven months. 22 MR. JOHNSON: 23 Q. Okay, and would that be in keeping with your 24 experience in the United States, with that 25 observation, to be about that amount of time</p>	<p>1 MR. JOHNSON: 2 Q. And in relation as well, you're aware that 3 Newfoundland Power, pursuant to, I believe 4 Section 75 of our Public Utilities Act, can 5 apply for interim rates? 6 MS. MCSHANE: 7 A. So when you say "interim rates", you mean they 8 can apply--so let's say that there's a test 9 year starting 2013 and they file, they're 10 going to file the rate case six months before 11 that, so there are two different issues. One 12 is whether the rates are made interim, which 13 means that if, let's say that the case is 14 going to extend into the test period, rates 15 can be made interim so that when rates are 16 approved for site 2013, they would apply 17 retrospectively, if you will, back to the 18 beginning of 2013. You could also have 19 interim rate relief in the sense that you file 20 for new rates and let's say you're asking for 21 a ten percent rate increase, the regulator can 22 say you can implement immediately a percentage 23 of the increase that you've asked for, subject 24 to refund if we determine that your permanent 25 rate increase would be less than what you've</p>

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<p>1 asked for. Those are kind of two different</p> <p>2 things. I understand, like for example in</p> <p>3 this case, that Newfoundland Power asked to</p> <p>4 have its rates made interim, which is</p> <p>5 different from asking for interim rate relief.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. Okay, but in this jurisdiction you can seek</p> <p>8 interim rate relief.</p> <p>9 MS. MCSHANE:</p> <p>10 A. Oh yes, I don't disagree with that, I just</p> <p>11 wanted to make sure that we are on the same</p> <p>12 page in terms of -</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Yes, okay.</p> <p>15 MS. MCSHANE:</p> <p>16 A. - rates made interim verses interim rate</p> <p>17 relief.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. Right, and my understanding is that in some of</p> <p>20 the United States certainly utilities can</p> <p>21 petition for interim rates, but others it's</p> <p>22 more--in other states it's rather more limited</p> <p>23 in terms of the ability for a utility to apply</p> <p>24 for interim rates if it gets into trouble or</p> <p>25 if it needs interim rates to protect itself.</p>	<p>1 factors and considered those to be exigent</p> <p>2 circumstances to allow them less of an interim</p> <p>3 rate relief than they had asked for.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. That company was a subsidiary of one of our</p> <p>6 samples?</p> <p>7 MS. MCSHANE:</p> <p>8 A. I think so, yes.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. Was it ALLETE? Maybe you can advise us after,</p> <p>11 I don't want to spend a--to belabour the</p> <p>12 point.</p> <p>13 MS. MCSHANE:</p> <p>14 A. Okay, I will.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. But if I can bring you to page 10 of this</p> <p>17 Moody's report at the bottom, interim rate</p> <p>18 relief and here they get into some lengthy</p> <p>19 cases. "Because of the length of base rate</p> <p>20 cases with many lasting 12 months and some as</p> <p>21 long as 18 months, interim rate relief is</p> <p>22 often an effective way to accelerate rate</p> <p>23 relief, reduce regulatory lag and maintain</p> <p>24 utility cashflow while rate cases are pending.</p> <p>25 While some states allow utilities to petition</p>
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<p>1 MS. MCSHANE:</p> <p>2 A. There are certain jurisdictions where to</p> <p>3 obtain interim rate relief there has to be a</p> <p>4 showing of, for example, that there will be an</p> <p>5 impairment to the operations or an impairment</p> <p>6 to the ability to attract capital if interim</p> <p>7 rate relief is not approved. There is at</p> <p>8 least one state that I'm aware of where the</p> <p>9 law requires if a utility asked for interim</p> <p>10 rate relief that it has to be approved</p> <p>11 according to a specific formula, unless there</p> <p>12 are exigent circumstances not to approve it.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Where is that?</p> <p>15 (11:45 a.m.)</p> <p>16 MS. MCSHANE:</p> <p>17 A. Minnesota, I believe.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. Was there litigation over that, are you aware?</p> <p>20 MS. MCSHANE:</p> <p>21 A. Over that? Well there was a case that, in the</p> <p>22 last couple of years, where the utility asked</p> <p>23 for interim rate relief and the commission</p> <p>24 allowed them less than under the formula</p> <p>25 because, well they looked at three different</p>	<p>1 for interim rate relief, others only permit</p> <p>2 such relief in extraordinary or emergency</p> <p>3 situations, limiting its use to unusually dire</p> <p>4 circumstances. Interim rate relief is also</p> <p>5 difficult for state regulators to grant where</p> <p>6 there are poor economic conditions in the</p> <p>7 utility's service territory and some requests</p> <p>8 for interim rate relief are declined for these</p> <p>9 reasons." Would you have been familiar with</p> <p>10 circumstances of utilities being declined rate</p> <p>11 relief in circumstances where economic times</p> <p>12 were hard in the United States?</p> <p>13 MS. MCSHANE:</p> <p>14 A. Not specifically, no. Like one situation that</p> <p>15 I mentioned to you where the utility was</p> <p>16 allowed less than they asked for, but that</p> <p>17 hadn't anything to do with their permanent</p> <p>18 rate increase. And again, I mean, let's</p> <p>19 understand that even in that case and we are</p> <p>20 talking about a utility that's a highly rated</p> <p>21 company, I mean it's not a company that was</p> <p>22 denied all the interim rate relief that it</p> <p>23 wanted in a case where it was going to</p> <p>24 potentially face bankruptcy or something, you</p> <p>25 know, it was a highly rated company.</p>

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<p>1 MR. JOHNSON:</p> <p>2 Q. Might this observation about access to interim</p> <p>3 rate relief and the issue about regulatory</p> <p>4 lag, would you say that these are things that</p> <p>5 have--that would tend to the conclusion that</p> <p>6 the regulatory environment in Canada is or at</p> <p>7 least Newfoundland, is supportive relative to</p> <p>8 the United States?</p> <p>9 MS. MCSHANE:</p> <p>10 A. I think that you have to realize that the</p> <p>11 United States is not a single regulatory</p> <p>12 jurisdiction. There are 51 state regulatory</p> <p>13 jurisdictions and as well as a federal</p> <p>14 regulatory jurisdiction, so I don't think you</p> <p>15 can make sweeping comments or draw sweeping</p> <p>16 conclusions about the regulatory model or the</p> <p>17 level of regulatory supportiveness in the</p> <p>18 United States. I think you have to look, you</p> <p>19 know, where the companies you are dealing with</p> <p>20 operate and what the regulatory climate is in</p> <p>21 those states, and that is, you know, one of</p> <p>22 the things that I've set out in Appendix B.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. But you don't reference interim rate in</p> <p>25 Appendix B.</p>	<p>1 Q. But there would be no doubt that generally a</p> <p>2 forward test year is more advantageous to the</p> <p>3 utility than either a purely historic test</p> <p>4 year or a historic with known and measurable</p> <p>5 changes, correct?</p> <p>6 MS. MCSHANE:</p> <p>7 A. I think generally I would agree with you that</p> <p>8 it's better to have a forward test year than a</p> <p>9 historic test year. But at the same time, if</p> <p>10 the utility is able to achieve efficiencies</p> <p>11 through reductions in unit cost, that can be</p> <p>12 advantageous to the utility as well, if--as</p> <p>13 compared to a utility with a forward test year</p> <p>14 which comes in every couple of years or every</p> <p>15 year as is often the case in Canada, and</p> <p>16 essentially returns efficiencies to rate</p> <p>17 payers.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. Ms. McShane, I understand that out of your 13</p> <p>20 US utility companies, that you are only able</p> <p>21 to state that three operate exclusively in</p> <p>22 states that use forward test years, would that</p> <p>23 be correct?</p> <p>24 MS. MCSHANE:</p> <p>25 A. I think that's right.</p>
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<p>1 MS. MCSHANE:</p> <p>2 A. Not specifically no, but I've got a whole--the</p> <p>3 whole overview of the regulatory environment.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. How about test year, Ms. McShane, Newfoundland</p> <p>6 Power in this case is bringing forward their</p> <p>7 general rate application on the basis of two</p> <p>8 forward looking test years, as you're well</p> <p>9 aware, and you will confirm that the forward</p> <p>10 test year is the least risky test year that a</p> <p>11 utility could have available to it, isn't that</p> <p>12 correct?</p> <p>13 MS. MCSHANE:</p> <p>14 A. I think it's generally less risky, but it</p> <p>15 really depends again on the circumstances of</p> <p>16 the utility, the extent to which that's a</p> <p>17 factor. I mean, how much growth is there? Is</p> <p>18 the company experiencing reductions in unit</p> <p>19 costs because it's expanding, so I don't think</p> <p>20 you can just say that it makes a huge</p> <p>21 difference relative to say a historical test</p> <p>22 year with known and measurable differences,</p> <p>23 unless you have a sense of what the</p> <p>24 circumstances of the company are.</p> <p>25 MR. JOHNSON:</p>	<p>1 MR. JOHNSON:</p> <p>2 Q. And that's at CA-NP-329.</p> <p>3 MS. MCSHANE:</p> <p>4 A. Thank you.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. And that would be ALLETE, Integrity's and</p> <p>7 Wisconsin Energy? Though I think you point</p> <p>8 out Consolidated Ed and North West Natural are</p> <p>9 very heavily concentrated in states that use</p> <p>10 forecast test years.</p> <p>11 MS. MCSHANE:</p> <p>12 A. Sorry, 329?</p> <p>13 MR. JOHNSON:</p> <p>14 Q. That's what my note says. Yes.</p> <p>15 MS. MCSHANE:</p> <p>16 A. Yeah, but I don't think we want to overlook</p> <p>17 what I said about Southern Company either.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. No, no, okay, I'm not going to overlook it,</p> <p>20 but in terms of the three that operate only in</p> <p>21 states, there would only be three meeting that</p> <p>22 description.</p> <p>23 MS. MCSHANE:</p> <p>24 A. Formally, technically and that's why I wanted</p> <p>25 to bring up Southern Company because formally</p>

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<p>1 in Alabama, I mean they don't use a forward</p> <p>2 test year, but what they do have is a rate</p> <p>3 stabilization mechanism which basically</p> <p>4 automatically adjust rates in such a way that</p> <p>5 the company earns its allowed rate of return,</p> <p>6 so the idea of whether it's a forward test</p> <p>7 year or a historic test year is effectively</p> <p>8 mute.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. I put a cross examination aide in that I</p> <p>11 brought up with Ms. Perry having to do with</p> <p>12 forward test years for US electric utilities</p> <p>13 prepared for the Edison Electric Institute.</p> <p>14 MS. GLYNN:</p> <p>15 Q. Information Item No. 11.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. They state at page 1 in the executive summary,</p> <p>18 as I put to Ms. Perry, that "the US investor-</p> <p>19 owned electric utilities in jurisdictions with</p> <p>20 historical test year rate cases are grappling</p> <p>21 today with financial stresses that threaten</p> <p>22 their ability to serve the public well. Unit</p> <p>23 costs are rising because growth and sales</p> <p>24 volumes and other billing determinants are not</p> <p>25 keeping pace with growth and cost. Cost</p>	<p>1 MR. JOHNSON:</p> <p>2 Q. At page 7, towards the top, this goes back to</p> <p>3 the relationship between test year and</p> <p>4 regulatory lag. They say "the passage of time</p> <p>5 between a test year and the rate year is</p> <p>6 sometimes called regulatory lag. The lag</p> <p>7 between a historical test year and the rate</p> <p>8 year is typically two years. A utility filing</p> <p>9 for new rates in calendar 2011, for example,</p> <p>10 would typically file in March or April of 2010</p> <p>11 using a calendar 2009 test year; thus</p> <p>12 historical test year rates applicable in 2011</p> <p>13 would typically reflect business conditions in</p> <p>14 2009." And Ms. McShane, I take it that you</p> <p>15 would agree that that would be not as--that</p> <p>16 would be an issue of relevance to cost of</p> <p>17 equity of a utility.</p> <p>18 MS. MCSHANE:</p> <p>19 A. I think generally speaking the overall</p> <p>20 regulatory environment of which the test years</p> <p>21 -</p> <p>22 MR. JOHNSON:</p> <p>23 Q. That would be a factor.</p> <p>24 MS. MCSHANE:</p> <p>25 A. But let's understand here that if you compare</p>
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<p>1 growth is simulated by the need to rebuild and</p> <p>2 expand legacy infrastructure and to meet</p> <p>3 environmental and other public policy goals.</p> <p>4 In this situation historical test year still</p> <p>5 used in almost 20 US jurisdictions can erode</p> <p>6 credit quality and condemn IOUs to chronic</p> <p>7 under earning." So I mean, there's no contest</p> <p>8 in terms of which one is better, is there?</p> <p>9 MS. MCSHANE:</p> <p>10 A. I don't disagree that the forward test year is</p> <p>11 generally better, I think, you know, we do</p> <p>12 have to realize that if you look at page 32 of</p> <p>13 this document -</p> <p>14 MR. JOHNSON:</p> <p>15 Q. Uh-hm.</p> <p>16 MS. MCSHANE:</p> <p>17 A. - under Section 2.2 the authors conclude that</p> <p>18 historical test years are now used by most</p> <p>19 large IOUs in less than 20 US jurisdictions,</p> <p>20 nearly as many use forward test years</p> <p>21 routinely at least for larger utilities. So</p> <p>22 again, I mean this is one of the factors that</p> <p>23 you look at in conjunction with the other</p> <p>24 factors that relate to the overall risk</p> <p>25 profile of the utility.</p>	<p>1 what this report says, so this report says the</p> <p>2 lag between historical test year and the rate</p> <p>3 year is typically two years, so that's 24</p> <p>4 months verses the Edison Electric report that</p> <p>5 says the average regulatory lag in the United</p> <p>6 States is 11 months. So obviously there's a</p> <p>7 significantly lower regulatory lag on average</p> <p>8 than would be the case in a historical test</p> <p>9 year, according to the data, I think this is</p> <p>10 Christian (phonetic) & Associates or Pacific</p> <p>11 Economics.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. Do you accept Edison Electric Institute as</p> <p>14 being a reputable organization?</p> <p>15 MS. MCSHANE:</p> <p>16 A. It's the industry representative organization,</p> <p>17 yeah, I don't see any reason that they're not</p> <p>18 to be considered to be reputable.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. Okay. Let's get down to brass tacks now. If</p> <p>21 I was an equity investor in a utility and I</p> <p>22 said Ms. McShane, I can invest in this company</p> <p>23 that has a forward looking test year and they</p> <p>24 can even file two test years, forward looking,</p> <p>25 or I can invest in this one that has a</p>

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<p>1 historic or even historic with known and</p> <p>2 measurable changes, everything else being</p> <p>3 equal, what would you suggest?</p> <p>4 MS. MCSHANE:</p> <p>5 A. I don't see how everything else could be</p> <p>6 equal. I mean, that's just not the way</p> <p>7 companies are structured and I think that it's</p> <p>8 unreasonable to expect that in equity investor</p> <p>9 is going to focus on one item. They're going</p> <p>10 to look at the overall risk profile of the</p> <p>11 company. They're going to look at where the</p> <p>12 company operates. Do they operate in a number</p> <p>13 of states? What are the regulatory climates</p> <p>14 like? Yes, they may look at the various</p> <p>15 regulatory mechanisms. I don't really believe</p> <p>16 that investors look at them, equity investors</p> <p>17 look at them with the same degree of</p> <p>18 granularity that we're discussing here today.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. And I think now, maybe my question -</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. I don't think the witness has finished, let</p> <p>23 the witness finish whatever answer she's</p> <p>24 giving.</p> <p>25 MR. JOHNSON:</p>	<p>1 A. Because I believe ir.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. Right, let's talk about customer base, Moody's</p> <p>4 has referenced the fact and others have, that</p> <p>5 Newfoundland Power only serves residential and</p> <p>6 commercial customers. And -</p> <p>7 MS. MCSHANE:</p> <p>8 A. Did Moody's say that?</p> <p>9 MR. JOHNSON:</p> <p>10 Q. They referenced the fact in their--in their</p> <p>11 credit report on Newfoundland Power.</p> <p>12 MS. MCSHANE:</p> <p>13 A. That was the July, 2011 report?</p> <p>14 MR. JOHNSON:</p> <p>15 Q. Yes. And I'm just--I didn't want to actually</p> <p>16 necessarily go there, but in your sample we</p> <p>17 have all of your companies, none of your</p> <p>18 companies are just into residential and</p> <p>19 commercial, they're all into industrial to</p> <p>20 some extent, would that be right?</p> <p>21 MS. MCSHANE:</p> <p>22 A. I know there's an answer to an RFI on this and</p> <p>23 I would like to find it.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. It's 327.</p>
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<p>1 Q. Okay, no, I have no problem.</p> <p>2 MS. MCSHANE:</p> <p>3 A. So they are going to look at growth prospects,</p> <p>4 they're going to look at the size of the</p> <p>5 company because they, if they're investing in</p> <p>6 a company they want something that has a</p> <p>7 certain amount of liquidity. There are all</p> <p>8 sorts of factors that they look at, so I don't</p> <p>9 think they just say, you know, I'm going to</p> <p>10 look at whether it's got a forward test year</p> <p>11 or not.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. But I thought you were in agreement that a</p> <p>14 forward test year would be more, is more</p> <p>15 desirable for a utility than -</p> <p>16 MS. MCSHANE:</p> <p>17 A. It is, but as I said two days ago, I mean no</p> <p>18 utility, no two utilities are identical. They</p> <p>19 all have different characteristics and that's</p> <p>20 why we have to look at the overall investment</p> <p>21 risk profile of the company.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. Right, which is what you said in 2009,</p> <p>24 correct?</p> <p>25 MS. MCSHANE:</p>	<p>1 MS. MCSHANE:</p> <p>2 A. Sorry?</p> <p>3 MR. JOHNSON:</p> <p>4 Q. 327.</p> <p>5 MS. MCSHANE:</p> <p>6 A. 327.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. And the basic question, having prefaced the</p> <p>9 question with what the DBRS rating report</p> <p>10 referenced about the stable customer base with</p> <p>11 power sales comprised solely of residential</p> <p>12 and commercial, the question was: "can Ms.</p> <p>13 McShane name any utilities in her sample that</p> <p>14 has power sales comprised solely of</p> <p>15 residential and commercial customers?"</p> <p>16 MS. MCSHANE:</p> <p>17 A. And the answer was no, although a number of</p> <p>18 the utilities report commercial and industrial</p> <p>19 together, and then I went on to say that, I</p> <p>20 mean, for Newfoundland Power it really -- it</p> <p>21 categorizes its customers as residential and</p> <p>22 general service, which is interpreted as being</p> <p>23 commercial, but if you look at the actual</p> <p>24 functions of some of those customers within</p> <p>25 that general service group, they're more akin</p>

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<p>1 to industrial customers than to commercial</p> <p>2 customers, the way that they are defined, for</p> <p>3 example, by the US Energy Information</p> <p>4 Administration, which is discussed in CA-NP-</p> <p>5 328.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. But, Ms. McShane, most of the bigger customers</p> <p>8 of general service customers of Newfoundland</p> <p>9 Power, the very biggest would be institutions,</p> <p>10 government.</p> <p>11 MS. MCSHANE:</p> <p>12 A. The biggest, yes, I mean, I don't disagree</p> <p>13 that the biggest ones are within that customer</p> <p>14 group are institutional type customers.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. So let's compare like ALLETE, one of your</p> <p>17 companies in your sample, ALLETE, does it not,</p> <p>18 gets half of its electric sales from cyclical</p> <p>19 industries such as is it taconite processing</p> <p>20 and other manufacturing?</p> <p>21 MS. MCSHANE:</p> <p>22 A. So there are -- yes, there are two -- there</p> <p>23 are two companies within the sample that are</p> <p>24 more heavily industrial than the others and</p> <p>25 those are -</p>	<p>1 fairly diversified.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. Southern Company is a big industrial supplier,</p> <p>4 isn't it?</p> <p>5 MS. MCSHANE:</p> <p>6 A. They have about 19 percent of their revenues</p> <p>7 are to industrial customers across multiple</p> <p>8 States.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. And Vectren, about 36 percent of revenues are</p> <p>11 industrial sales?</p> <p>12 MS. MCSHANE:</p> <p>13 A. Sorry, what percent?</p> <p>14 MR. JOHNSON:</p> <p>15 Q. About 36 percent of revenues.</p> <p>16 MS. MCSHANE:</p> <p>17 A. Are industrials?</p> <p>18 MR. JOHNSON:</p> <p>19 Q. Yes.</p> <p>20 MS. MCSHANE:</p> <p>21 A. Vectren?</p> <p>22 MR. JOHNSON:</p> <p>23 Q. Yes. I understand their service areas contain</p> <p>24 diversified manufacture and agricultural</p> <p>25 related enterprises, auto industry, feed,</p>
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<p>1 MR. JOHNSON:</p> <p>2 Q. ALLETE.</p> <p>3 MS. MCSHANE:</p> <p>4 A. ALLETE and I think Alliant.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. And in ALLETE's case, their sales are about</p> <p>7 nine percent residential, as I understand it?</p> <p>8 MS. MCSHANE:</p> <p>9 A. That's right. So, it's nine percent</p> <p>10 residential and then there's another</p> <p>11 proportion of their sales which basically are</p> <p>12 wholesale to other utilities or</p> <p>13 municipalities. So the actual residential and</p> <p>14 commercial breakdown would be higher than</p> <p>15 what's shown in, for example, my Appendix B.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. And at Piedmont Natural Gas, as I understand</p> <p>18 it, some 2300 industrial customers. Confirm</p> <p>19 that?</p> <p>20 MS. MCSHANE:</p> <p>21 A. Piedmont Natural Gas, I don't know how many</p> <p>22 industrial customers are. I mean, I know that</p> <p>23 nine percent of their revenues are industrial,</p> <p>24 which is not very high. If it's nine percent</p> <p>25 and 2300, I mean, that seems like it would be</p>	<p>1 flour, grain processing, metal casting. This</p> <p>2 is the Indiana and Iowa area.</p> <p>3 MS. MCSHANE:</p> <p>4 A. So is this -- this is -- I don't know that I</p> <p>5 agree with that.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. Would you take it subject to check that that</p> <p>8 information comes from around page eight of</p> <p>9 their 10-K?</p> <p>10 MS. MCSHANE:</p> <p>11 A. Which 10-K?</p> <p>12 MR. JOHNSON:</p> <p>13 Q. Of Vectren's.</p> <p>14 MS. MCSHANE:</p> <p>15 A. Which year, sorry?</p> <p>16 MR. JOHNSON:</p> <p>17 Q. 2011, or the most recent one.</p> <p>18 MS. MCSHANE:</p> <p>19 A. Can I have just one minute before -</p> <p>20 MR. JOHNSON:</p> <p>21 Q. Sure.</p> <p>22 MS. MCSHANE:</p> <p>23 A. So what I had were data for -- granted they</p> <p>24 were for 2010 and I can't imagine there would</p> <p>25 be a huge difference between the two years,</p>

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<p>1 and this is from my response to CA-NP-311</p> <p>2 Attachment 1, and it's a breakdown -- this is</p> <p>3 -- sorry, I'm not sure this page is actually</p> <p>4 numbered, but it would be the second page of</p> <p>5 the table. Is the table split into two</p> <p>6 pieces? Oh, you have it. Thank you. So, on</p> <p>7 the gas side, about 12 percent of the margin</p> <p>8 is industrial and on the electric side, it's</p> <p>9 about 28 percent. So it's got a -- so the</p> <p>10 margin, which is after the cost of power, the</p> <p>11 cost of gas are removed, is going to be less</p> <p>12 than 36 percent.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Perhaps you could undertake to, if you</p> <p>15 wouldn't mind, provide the 2011 revenues of</p> <p>16 the various breakdowns of Vectren?</p> <p>17 MS. MCSHANE:</p> <p>18 A. Sorry, and this is -- can you tell me again</p> <p>19 what page that is?</p> <p>20 MR. JOHNSON:</p> <p>21 Q. I believe it was at page eight.</p> <p>22 MS. MCSHANE:</p> <p>23 A. Okay.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. In that vicinity. Wisconsin Energy</p>	<p>1 passage Dr. Booth says that in Schedule 6, his</p> <p>2 report of the annual ROEs for 14 of the US</p> <p>3 integrated electric companies indicated in</p> <p>4 Schedule 5 as indicated in S&P's analyst</p> <p>5 reports and the annual ROE for Newfoundland</p> <p>6 Power over the same time period, and we'll get</p> <p>7 to that document in a second.</p> <p>8 And he says, in the far right column,</p> <p>9 what he's done is he then reports their</p> <p>10 average ROE and the standard deviation or</p> <p>11 volatility of their annual ROE, and he says</p> <p>12 "Newfoundland Power's average ROE 3002</p> <p>13 has been 9.5 percent, which puts it in the</p> <p>14 middle of the pack as the average for 14 US</p> <p>15 utilities ranges from PNM Resources five</p> <p>16 percent to 14.10 percent for the Southern</p> <p>17 Company. However," he says "when we look at</p> <p>18 the volatility of their ROEs, Newfoundland</p> <p>19 Power is by far the lowest risk electric</p> <p>20 utility with a standard deviation of its ROE</p> <p>21 of only .64 percent, whereas for the US</p> <p>22 utilities, it ranges from .31 percent to 7. 96</p> <p>23 percent and this understates the range," he</p> <p>24 says "as when a utility has a negative ROE</p> <p>25 Standards and Poors reports it as NM for not</p>
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<p>1 Corporation also, as I understand it, gets a</p> <p>2 significant share of its operating revenues</p> <p>3 from larger commercial and industrial</p> <p>4 customers and even small</p> <p>5 commercial/industrial? Can you confirm that,</p> <p>6 again in 2011? Do you report data on 2011?</p> <p>7 (12:15 p.m.)</p> <p>8 MS. MCSHANE:</p> <p>9 A. No, I didn't. It's on 2010 and my data showed</p> <p>10 commercial and industrial combined. So I</p> <p>11 didn't have a breakdown as between commercial</p> <p>12 and industrial.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Could you undertake to provide the 2011</p> <p>15 figures for Wisconsin Energy, both in their</p> <p>16 electric subs and their gas subs?</p> <p>17 MS. MCSHANE:</p> <p>18 A. I can.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. Thank you. Can we turn to another topic for a</p> <p>21 moment? And I'd like to start off by looking</p> <p>22 at earning volatility for Newfoundland Power,</p> <p>23 and if I could turn you to Dr. Booth's report,</p> <p>24 at page 86 of that report? And if you could</p> <p>25 scroll down a little bit further, in this</p>	<p>1 meaningful" for which he has substituted zero.</p> <p>2 And he says "what is clear from this ROE data</p> <p>3 is that US electric utilities have much more</p> <p>4 income or ROE volatility than does</p> <p>5 Newfoundland Power, which explains their</p> <p>6 greater stock market risk. It is extremely</p> <p>7 rare for a Canadian utility to lose money or</p> <p>8 to get ROEs in the low numbers reported by US</p> <p>9 electric utilities. These observations</p> <p>10 support his standing recommendation, which is</p> <p>11 to use caution in interpreting data from the</p> <p>12 United States."</p> <p>13 Now I'd like to turn you to Schedule 5,</p> <p>14 or is it 6? 6, I believe. Schedule 6. No,</p> <p>15 it -</p> <p>16 MS. MCSHANE:</p> <p>17 A. Schedule 6 to -- oh, I see where it is, okay.</p> <p>18 MR. HAYES:</p> <p>19 Q. Schedule 6 to?</p> <p>20 MR. JOHNSON:</p> <p>21 Q. 6 to -- let me just see. I think 6 to the</p> <p>22 main body of her testimony.</p> <p>23 MR. HAYES:</p> <p>24 Q. Okay.</p> <p>25 MS. GLYNN:</p>

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<p>1 Q. Of Ms. McShane's testimony?</p> <p>2 MR. JOHNSON:</p> <p>3 Q. No, Dr. Booth's.</p> <p>4 MS. GLYNN:</p> <p>5 Q. Dr. Booth's, okay.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. Yeah. There we are, there. Are you there</p> <p>8 now, Ms. McShane?</p> <p>9 MS. MCSHANE:</p> <p>10 A. I am.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Okay. And you've seen this schedule in Dr.</p> <p>13 Booth's evidence before?</p> <p>14 MS. MCSHANE:</p> <p>15 A. I believe so, yes.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. You don't take issue with what he has set out</p> <p>18 there in -</p> <p>19 MS. MCSHANE:</p> <p>20 A. I haven't looked these numbers up. None of --</p> <p>21 Well, I shouldn't say none, but very few of</p> <p>22 these companies are in my sample, so I mean, I</p> <p>23 didn't really have any reason to verify them.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. Right. And in terms of the use in finance of</p>	<p>1 A. Well, if you have -- I mean, if you have lower</p> <p>2 return year to year volatility, it may</p> <p>3 indicate that you've got lower short term</p> <p>4 risk.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. And part of risk, business risk in the</p> <p>7 regulatory environment is your ability to earn</p> <p>8 your allowed ROE year to year, is it not?</p> <p>9 MS. MCSHANE:</p> <p>10 A. It's an element of it. It also depends on,</p> <p>11 you know, whether your allowed ROE is a fair</p> <p>12 ROE. So if your -- if you can earn an ROE</p> <p>13 that's below fair, you still have, you know,</p> <p>14 the risk that you won't achieve a fair ROE.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. And for your sample of your US parents, I'd</p> <p>17 like to bring you to a cross aide -- where is</p> <p>18 that, I wonder? That would have been filed</p> <p>19 last short while, not with the first filing, I</p> <p>20 don't believe. Was it January 9th? That's</p> <p>21 the graph series, Ms. Glynn. Do you know</p> <p>22 where -</p> <p>23 KELLY, Q.C.:</p> <p>24 Q. Is that the information we got yesterday?</p> <p>25 MR. JOHNSON:</p>
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<p>1 the standard deviation as being applied to the</p> <p>2 annual rate of return, what would be the</p> <p>3 purpose of doing that? Does that help us</p> <p>4 measure the investment's volatility?</p> <p>5 MS. MCSHANE:</p> <p>6 A. It would -- well, it helps measure the -- in</p> <p>7 this context, it helps measure the annual ROE</p> <p>8 volatility.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. Okay. And is annual ROE volatility of</p> <p>11 relevance to the cost of capital?</p> <p>12 MS. MCSHANE:</p> <p>13 A. Well, I think one of the things that investors</p> <p>14 would look at would be return volatility, also</p> <p>15 look at the level of the ROE and how those two</p> <p>16 relate.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. And in terms of a company that has less</p> <p>19 earnings volatility, would that typically be</p> <p>20 indicative of a lower return?</p> <p>21 MS. MCSHANE:</p> <p>22 A. Low return?</p> <p>23 MR. JOHNSON:</p> <p>24 Q. Yeah, a lower risk I should say.</p> <p>25 MS. MCSHANE:</p>	<p>1 Q. January 13th.</p> <p>2 MS. GLYNN:</p> <p>3 Q. So this will be entered as Information Item</p> <p>4 No. 16.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. Thank you, Ms. Glynn. Do you have that in</p> <p>7 front of you, Ms. McShane?</p> <p>8 MS. MCSHANE:</p> <p>9 A. I do.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. Okay. And what I've provided here is a</p> <p>12 package of graphs that relate to return on</p> <p>13 equity of each of your companies in your</p> <p>14 sample and I have -- the first page on AGL</p> <p>15 Resources is followed by another page on AGL</p> <p>16 Resources and then we go to a brand new</p> <p>17 company, but the graphs in relation to each of</p> <p>18 the companies are different. The first graph</p> <p>19 for each of the companies in your sample</p> <p>20 graphs the ROE, and this is taken from charts,</p> <p>21 an online service who I believe gets their</p> <p>22 information data by Zacks, as it says in the</p> <p>23 footnote. The first chart shows the ROE,</p> <p>24 graphs it from December 31st, 2002 to</p> <p>25 September 30th, 2012 and then the next chart</p>

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<p>1 in relation to each of the companies displays</p> <p>2 the ROE as a percentage change, and you'll see</p> <p>3 in that graph, there's a little tick box there</p> <p>4 and you just tick display as percentage change</p> <p>5 to get a sense of obviously the change in ROE</p> <p>6 over that period. Now actually, on the AGL, I</p> <p>7 think I've -- I see that I've got a different</p> <p>8 period for the change, but I can -- for the</p> <p>9 display as change, but in any event -- I think</p> <p>10 most of the others are consistent.</p> <p>11 If I could just turn back for a second to</p> <p>12 AGL Resources chart, the first one, I see</p> <p>13 numbers here extremely low, for instance in</p> <p>14 2004, like just above zero.</p> <p>15 MS. MCSHANE:</p> <p>16 A. I have to tell you, I don't know where those</p> <p>17 numbers would have come from. I had looked at</p> <p>18 the earnings of all of these different</p> <p>19 utilities and in fact, had been asked to</p> <p>20 provide them in the most recent BCUC</p> <p>21 proceeding and my data show that the ROE for</p> <p>22 AGL Resources in 2003 was 16.4 percent and in</p> <p>23 2004 was 13.1 percent. So I don't know what</p> <p>24 these numbers represent during -</p> <p>25 (12:30 p.m.)</p>	<p>1 at year end. So the interim numbers are not</p> <p>2 particularly helpful.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. Well, let me have a look at those graphs</p> <p>5 perhaps at the next break, but I'll move on to</p> <p>6 the next area. Talk about competition, Ms.</p> <p>7 McShane. Ms. McShane, Newfoundland Power has</p> <p>8 market dominance in this jurisdiction. Would</p> <p>9 you regard them as having minimal competition?</p> <p>10 MS. MCSHANE:</p> <p>11 A. They do have some competition with oil for</p> <p>12 heating load.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. But you're familiar with their concentration</p> <p>15 of new customers in this jurisdiction?</p> <p>16 MS. MCSHANE:</p> <p>17 A. Yes.</p> <p>18 MR. JOHNSON:</p> <p>19 Q. Up around 90 percent?</p> <p>20 MS. MCSHANE:</p> <p>21 A. I think their new customer attachment rate is</p> <p>22 very high.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. And put that in relative terms for us, in</p> <p>25 terms of that catchment -- did you call it</p>
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<p>1 KELLY, Q.C.:</p> <p>2 Q. Mr. Chairman, we tried to replicate these</p> <p>3 graphs and were not able to do so at</p> <p>4 Newfoundland Power. So, I take it a witness</p> <p>5 will -- presumably Dr. Booth will somehow</p> <p>6 provide some substantiation for this evidence.</p> <p>7 We had difficulty with it as well.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. Well, I got them from a source from Zacks.</p> <p>10 Are you disputing -- you're disputing AGL</p> <p>11 then?</p> <p>12 MS. MCSHANE:</p> <p>13 A. I can't replicate these numbers. The other</p> <p>14 thing I would say is that, I mean, it looks --</p> <p>15 if you look at the first chart, the AGL that</p> <p>16 we were talking about, I mean, I tend to look</p> <p>17 at ROEs on an annual basis. So if I were</p> <p>18 looking from 2004 to 2012, I'd be looking at</p> <p>19 the ROEs for '04, '05, '06, '07, et cetera.</p> <p>20 But these look like they must be, you know,</p> <p>21 some kind of quarterly numbers, which I'm not</p> <p>22 sure that that tells you very much because if</p> <p>23 there are adjustments made for, you know,</p> <p>24 different deferral mechanisms, they may well</p> <p>25 be done at a certain point in the year, like</p>	<p>1 catchment rate?</p> <p>2 MS. MCSHANE:</p> <p>3 A. The attachment rate.</p> <p>4 MR. JOHNSON:</p> <p>5 Q. The attachment rate. In context of electric</p> <p>6 utilities, would that -- and even gas</p> <p>7 distribution utilities, would that not be very</p> <p>8 high?</p> <p>9 MS. MCSHANE:</p> <p>10 A. It's -- well, it would be higher than most gas</p> <p>11 utilities, probably not any higher than, for</p> <p>12 example, at ATCO Gas, which in Alberta where</p> <p>13 natural gas is the fuel of choice, but it's</p> <p>14 probably higher than the attachment rate for a</p> <p>15 lot of gas distributors.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. And you accept that many of your samples have</p> <p>18 -- sample companies have significantly -- face</p> <p>19 significantly more competition than</p> <p>20 Newfoundland Power?</p> <p>21 MS. MCSHANE:</p> <p>22 A. I'd say that they have faced probably somewhat</p> <p>23 more competition.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. Which ones faced somewhat more?</p>

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<p>1 MS. MCSHANE:</p> <p>2 A. Well, every - if you look at the electric</p> <p>3 utilities, all of the electric utilities in</p> <p>4 the sample are traditional electric utilities.</p> <p>5 Everybody needs electricity. So in relation</p> <p>6 to basic load, I mean, every electric utility</p> <p>7 in the sample is going to attach all the</p> <p>8 customers for something in their area.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. Right, but that's not so true for gas, is it?</p> <p>11 MS. MCSHANE:</p> <p>12 A. Not as true for gas, no. I mean - again, I</p> <p>13 mean, it sort of depends a bit on where</p> <p>14 they're located. In the southern US where</p> <p>15 heating load is not as large as in the</p> <p>16 northern states, there would probably be more</p> <p>17 competition between electricity and gas than</p> <p>18 in the northern states where heating load is</p> <p>19 high.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. Ms. McShane, why - knowing that there's a</p> <p>22 sectoral ranking difference in terms of</p> <p>23 business risk, as you've outlined, which has</p> <p>24 gas distribution higher than electric</p> <p>25 distribution, why does your sample contain so</p>	<p>1 may affect its future earnings. Are you aware</p> <p>2 of that?</p> <p>3 MS. MCSHANE:</p> <p>4 A. That's what their 10-K says.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. Yeah, and the 10-K, if we could go to the</p> <p>7 cross aids pertaining to competition which</p> <p>8 were filed on January 13th, 2013 -</p> <p>9 MS. GLYNN:</p> <p>10 Q. And that will be entered as Information Item</p> <p>11 #17.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. Ms. McShane, at page 9, it deals with Vectren.</p> <p>14 We'll talk about some others. It indicates</p> <p>15 that Vectren's regulated utilities operate in</p> <p>16 an increasingly competitive industry, which</p> <p>17 may affect its future earnings, and they note</p> <p>18 that, "The utility industry has been</p> <p>19 undergoing structural change for several years</p> <p>20 resulting in increasing competitive pressure</p> <p>21 faced by electric and gas utility companies.</p> <p>22 Increase for competition may create greater</p> <p>23 risk to the stability of Vectren's earnings</p> <p>24 generally, and may in the future reduce its</p> <p>25 earnings from retail and electric gas sales.</p>
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<p>1 many gas distribution companies?</p> <p>2 MS. MCSHANE:</p> <p>3 A. Because there is a lot of parallel between gas</p> <p>4 and electric distribution, and these gas</p> <p>5 utilities that I've selected are low risk</p> <p>6 companies.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. But -</p> <p>9 MS. MCSHANE:</p> <p>10 A. And they have higher - I mean, they may have</p> <p>11 slightly higher business risk, but they're</p> <p>12 larger companies and they've got less</p> <p>13 financial risk.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. But in the main, you'll agree that a gas</p> <p>16 distribution company faces more competition</p> <p>17 than an electric distribution company, as</p> <p>18 you've noted?</p> <p>19 MS. MCSHANE:</p> <p>20 A. Generally speaking, that's true, a little bit</p> <p>21 more competition, and depending on where they</p> <p>22 are, it may be more or less.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. Vectren, I understand, views itself as being</p> <p>25 in an increasingly competitive industry which</p>	<p>1 Currently several states, including Ohio, have</p> <p>2 passed legislation that allow customers to</p> <p>3 choose their electricity supplier in a</p> <p>4 competitive market. Indiana has not enacted</p> <p>5 such legislation. Ohio regulation also</p> <p>6 provides for choice of commodity providers for</p> <p>7 all gas customers. In 2003, the company</p> <p>8 implemented this choice for its gas customers</p> <p>9 in Ohio and is currently in the second of the</p> <p>10 three phase process to exit the merchant</p> <p>11 function in its Ohio service territory. The</p> <p>12 State of Indiana has not adopted any</p> <p>13 regulation requiring gas choice". So obviously</p> <p>14 Vectren faces competition; Newfoundland Power</p> <p>15 does not, and that is a material factor for</p> <p>16 the Board to consider, correct?</p> <p>17 MS. MCSHANE:</p> <p>18 A. I think it's a factor that one would consider</p> <p>19 in conjunction with all of the other factors.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. If we go to - start off with AGL, which is at</p> <p>22 pages 1 and 2 of this document. Page 12, is</p> <p>23 it. It's my number 1, but it's page 12 of 216,</p> <p>24 about all of their utilities facing</p> <p>25 competition from other energy products.</p>

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<p>1 Principle competition is from electric</p> <p>2 utilities, oil, and propane providers, etc.</p> <p>3 Would you regard AGL as facing more</p> <p>4 competition than Newfoundland Power?</p> <p>5 MS. MCSHANE:</p> <p>6 A. Probably a bit more, yes.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. And if you could turn to Alliant Energy</p> <p>9 Corporation, which is at page 3, and that's</p> <p>10 taken from page 15 of 311 in the 10-K, but in</p> <p>11 the proper 10-K, it's page 8, and it indicates</p> <p>12 that, "Competition, retail electric customers</p> <p>13 in Iowa, Wisconsin, and Minnesota, currently</p> <p>14 do not have the ability to choose their</p> <p>15 electric supplier. However, IPL and WPL</p> <p>16 attempt to attract new customers into their</p> <p>17 service territories in an effort to keep</p> <p>18 energy rate low for all. Although electric</p> <p>19 service in Iowa, Wisconsin, and Minnesota, is</p> <p>20 regulated, IPL and WPL still face competition</p> <p>21 from self generation by large industrial</p> <p>22 customers, alternative energy sources, and</p> <p>23 petitions to municipalize Iowa, as well as</p> <p>24 service territory expansions by municipal</p> <p>25 utilities". So would you regard Alliant</p>	<p>1 to industrial customers. We compete in all</p> <p>2 aspects of our business with alternative</p> <p>3 energy sources, including particular</p> <p>4 electricity. Electric utilities offer</p> <p>5 electricity as a rival energy source and</p> <p>6 compete for the space heating, water heating,</p> <p>7 and cooking markets, etc". So would regard</p> <p>8 Atmos as having more competition than</p> <p>9 Newfoundland Power?</p> <p>10 MS. MCSHANE:</p> <p>11 A. Slightly more, yes.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. Why would it be just slightly more when Atmos</p> <p>14 indicates that they face competition for space</p> <p>15 heating with electric, and they're into gas?</p> <p>16 MS. MCSHANE:</p> <p>17 A. Because, I mean, Newfoundland Power has -</p> <p>18 their customers have other alternatives for</p> <p>19 space heating as well.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. But gas distributors are significantly - face</p> <p>22 more competition, as you've acknowledged, for</p> <p>23 heating, correct?</p> <p>24 MS. MCSHANE:</p> <p>25 A. Again, I mean, it depends where they're</p>
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<p>1 Energy Corporation as having more competition</p> <p>2 than is profiled in Newfoundland Power?</p> <p>3 MS. MCSHANE:</p> <p>4 A. Slightly, but, I mean, to me the biggest issue</p> <p>5 is with respect to the main domestic customer</p> <p>6 base where there's no choice, except the local</p> <p>7 electric utility.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. Can I go to the next one dealing with Atmos,</p> <p>10 and again this is one of your new natural gas</p> <p>11 companies, right?</p> <p>12 MS. MCSHANE:</p> <p>13 A. It's in the same this time.</p> <p>14 (12:45 P.M.)</p> <p>15 MR. JOHNSON:</p> <p>16 Q. Okay, and for the record, it's page 27 of 215</p> <p>17 - I'm not sure if there's an internal number,</p> <p>18 and it similarly has a section on competition</p> <p>19 and saying that, "Although our natural gas</p> <p>20 distribution operations are not currently in</p> <p>21 significant direct competition with any other</p> <p>22 distributors of natural gas to residential and</p> <p>23 commercial customers within our service area,</p> <p>24 we do compete with other natural gas suppliers</p> <p>25 and suppliers of alternative fuels for sales</p>	<p>1 operating.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. Generally speaking?</p> <p>4 MS. MCSHANE:</p> <p>5 A. Well, no, probably more in the southern states</p> <p>6 than in the northern states, because in most</p> <p>7 states it's really not that - where there's</p> <p>8 significant heating load, I mean, it's not</p> <p>9 that cost efficient to have electric heating.</p> <p>10 It's cost efficient where the electric heating</p> <p>11 load is relatively low, but in states like</p> <p>12 Minnesota or Wisconsin, even Illinois, it</p> <p>13 would be more cost efficient to have natural</p> <p>14 gas heating.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. But even in the southern states, I guess, air</p> <p>17 conditioning can't use natural gas, can it?</p> <p>18 MS. MCSHANE:</p> <p>19 A. Oh, no, no, so air conditioning can't use</p> <p>20 natural gas, that's true. So the gas</p> <p>21 utilities aren't competing for air</p> <p>22 conditioning.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. I think you indicate as well that - if I could</p> <p>25 go to Integrys, which is at page 5, and at</p>

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<p>1 page 5 under competition, it notes, "Although 2 the natural gas retail rates of Integrys 3 Energy group's regulated natural gas utilities 4 are regulated by various commissions, the 5 utilities still face competition from other 6 entities and forms of energy in varying 7 degrees, particularly for large commercial and 8 industrial customers who have the ability to 9 switch between natural gas and alternate 10 fuels. Due to the volatility of energy 11 commodity prices, Integrys Energy Group has 12 seen customers with dual fuel capabilities 13 switch to alternative fuels for short periods 14 of time and then switch back to natural gas as 15 market rates change". So would Integrys 16 similarly have to face more competition than 17 Newfoundland Power, wouldn't it?</p> <p>18 MS. MCSHANE: 19 A. I don't think that there is that much dual 20 fuel capability among Newfoundland Power's 21 customers, so in that regard Integrys would 22 face somewhat greater competitive pressure 23 than Newfoundland Power.</p> <p>24 MR. JOHNSON: 25 Q. If you could go to Northwest Natural, again</p>	<p>1 A. Yes, but one of the other things of notice is 2 they have considerable market growth 3 potential, which Newfoundland Power doesn't 4 have.</p> <p>5 MR. JOHNSON: 6 Q. But natural - that natural gas company is in 7 competition that Newfoundland Power - to a 8 much greater extent than Newfoundland Power?</p> <p>9 MS. MCSHANE: 10 A. To somewhat greater extent.</p> <p>11 MR. JOHNSON: 12 Q. And that would be of relevance to an equity 13 investor in terms of things like volatility in 14 earnings, etc, right?</p> <p>15 MS. MCSHANE: 16 A. In terms of volatility of earnings -</p> <p>17 MR. JOHNSON: 18 Q. And amount of earnings?</p> <p>19 MS. MCSHANE: 20 A. Well, from year to year, probably not, to any 21 great extent because if you attach the 22 customer, then you're going to deliver natural 23 gas to that customer and earn a return on 24 whatever rate base, if you will, is attributed 25 to those customers.</p>
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<p>1 around half way down, "Competition with other 2 energy products. We have no direct 3 competition in our service area from other 4 natural gas distributors. However, for 5 residential customers we compete primarily 6 with electricity, fuel oil, propane, and 7 renewable energy. We also compete with 8 electricity, fuel oil, and renewable energy 9 for commercial applications. In the 10 industrial market, we compete with all forms 11 of energy, including competition from third 12 party sellers of natural gas commodity. 13 Competition among energy suppliers is based on 14 price, efficiency, reliability, performance, 15 market conditions", and they go on to note the 16 relatively low market saturation of natural 17 gas under residential and commercial markets. 18 In the next paragraph, "The relatively low 19 market saturation of natural gas in 20 residential single family dwellings in our 21 service area is estimated at less than 60 22 percent". So again Northwest Natural Gas would 23 have more competition than Newfoundland Power, 24 wouldn't it?</p> <p>25 MS. MCSHANE:</p>	<p>1 MR. JOHNSON: 2 Q. But you wouldn't disagree that Northwest 3 Natural Gas faces more competition than 4 Newfoundland Power?</p> <p>5 MS. MCSHANE: 6 A. I agreed with you that I think they probably 7 face somewhat more competition, yes.</p> <p>8 MR. JOHNSON: 9 Q. Piedmont Natural Gas, which is the next page, 10 the third paragraph down, "As noted above, 11 many of our industrial customers are capable 12 of burning a fuel other than natural gas, with 13 fuel oil being the most prevalent energy 14 alternative. Our ability to maintain 15 industrial market share is largely dependent 16 on price. The relationship between supply and 17 demand has the greatest impact on the price of 18 natural gas", etc. They go on to say, "Our 19 liquidity could be impacted either positively 20 or negatively as a result of alternate fuel 21 decisions made by industrial customers". They 22 go on to say, "The regulated utility also 23 competes with other energy products". In the 24 second sentence, "The most significant product 25 competition is with electricity for space</p>

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<p>1 heating, water heating, and cooking. There</p> <p>2 are four major electric companies within our</p> <p>3 service areas". So again, Ms. McShane,</p> <p>4 Piedmont is subject to more competition than</p> <p>5 Newfoundland Power, correct?</p> <p>6 MS. MCSHANE:</p> <p>7 A. Somewhat more, but I think you have to go on</p> <p>8 and say that they believe that the consumer's</p> <p>9 preference for natural gas is influenced by</p> <p>10 such factors as price, value, availability,</p> <p>11 environmental attributes, comfort,</p> <p>12 convenience, reliability, and energy</p> <p>13 efficiency, and that they believe that it's</p> <p>14 the most efficient and cost effective use of</p> <p>15 natural gas.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. But that's the -</p> <p>18 MS. MCSHANE:</p> <p>19 A. So, yes, they do face a little bit more</p> <p>20 competition, but it looks like they've been</p> <p>21 fairly effective in retaining and attracting</p> <p>22 customers.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. But bottom line, more competition than</p> <p>25 Newfoundland Power?</p>	<p>1 Q. Well, Newfoundland Power must be even more</p> <p>2 conservative because it faces less.</p> <p>3 MS. MCSHANE:</p> <p>4 A. No, because you can't look at just one factor.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. WGL Holdings. It's my page 10, but page 13,</p> <p>7 for the record, of the 10-K, and there's</p> <p>8 references there to, "WGE Services competes</p> <p>9 with regulated utilities and other non-utility</p> <p>10 third party marketers to sell natural gas</p> <p>11 and/or electricity directly to residential,</p> <p>12 commercial, and industrial customers in</p> <p>13 Maryland, Virginia, Delaware, Pennsylvania and</p> <p>14 District of Columbia". Again, Ms. McShane,</p> <p>15 would your same comment apply, yes, it's more</p> <p>16 competition?</p> <p>17 MS. MCSHANE:</p> <p>18 A. Yes.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. And the next one is Wisconsin Energy.</p> <p>21 MS. MCSHANE:</p> <p>22 A. Yes.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. That's at page 49 of 232 of that company's 10-</p> <p>25 K, and you see restructuring in the regulated</p>
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<p>1 MS. MCSHANE:</p> <p>2 A. They do have somewhat more competition.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. Southern Company, and this is at page, roman</p> <p>5 numeral 8, I8, I should say of the 10-K, and</p> <p>6 again as I read, one of the - the fifth</p> <p>7 paragraph down, "Southern Power competes with</p> <p>8 investor owned utilities, IPPs, and others for</p> <p>9 wholesale energy sales, primarily in the south</p> <p>10 eastern US wholesale market. The needs of</p> <p>11 this market are driven by the demands of end</p> <p>12 users in the southeast and the generation</p> <p>13 available. Southern Power's success in</p> <p>14 wholesale energy is influenced by various</p> <p>15 factors, etc, including reliability and</p> <p>16 availability". Again, Ms. McShane, Southern</p> <p>17 Company is exposed to more competition than</p> <p>18 Newfoundland Power, isn't it?</p> <p>19 MS. MCSHANE:</p> <p>20 A. It is, and Southern Company is considered to</p> <p>21 be one of the most conservative utility</p> <p>22 investments in the United States, so I'm not</p> <p>23 sure how much impact the fact that it faces</p> <p>24 some competition makes.</p> <p>25 MR. JOHNSON:</p>	<p>1 energy industry could have a negative impact</p> <p>2 on our business, and they go on to mention</p> <p>3 some developments. "The regulated industry</p> <p>4 continues to experience significant structural</p> <p>5 changes, increased competition in the retail</p> <p>6 and wholesale markets which may result from</p> <p>7 restructuring effort, could have significant</p> <p>8 adverse financial impact on us. It is</p> <p>9 uncertain when retail access might be</p> <p>10 implemented in Wisconsin. However, Michigan</p> <p>11 has adopted retail choice which allows</p> <p>12 customers to choose their own electric</p> <p>13 generation supplier. Although competition in</p> <p>14 customers switching to alternate fuels in our</p> <p>15 service territories in Michigan has been</p> <p>16 limited, the additional competitive pressure</p> <p>17 resulting from retail access could lead to a</p> <p>18 loss of customers and our incurring stranded</p> <p>19 costs". So again with those dynamics, more</p> <p>20 competition than Newfoundland Power faces,</p> <p>21 correct?</p> <p>22 MS. MCSHANE:</p> <p>23 A. Yeah, in Michigan, that would be true. In</p> <p>24 Wisconsin, no, which is about 80 percent of</p> <p>25 their business.</p>

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<p>1 MR. JOHNSON:</p> <p>2 Q. But again these things all start to add up?</p> <p>3 MS. MCSHANE:</p> <p>4 A. Well, we're still just talking about</p> <p>5 competition. We're talking about the same</p> <p>6 thing.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. Okay. The next page is on Xcel Energy and it</p> <p>9 doesn't, in fact, deal with competition, but</p> <p>10 it does refer, interestingly enough, to NSP</p> <p>11 Minnesota being subject to the risk of nuclear</p> <p>12 generation, and I think that's one of the</p> <p>13 companies that you indicated earlier had</p> <p>14 nuclear -</p> <p>15 MS. MCSHANE:</p> <p>16 A. Correct.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. Ms. McShane, do you continue to agree that the</p> <p>19 regulator has the most influence on the</p> <p>20 utility's ability to earn a fair return and</p> <p>21 achieve the return of capital?</p> <p>22 MS. MCSHANE:</p> <p>23 A. Well, the regulator certainly is a very</p> <p>24 important influence on the ability to earn a</p> <p>25 fair return and recover the capital, yes.</p>	<p>1 as the most significant aspect of risk to</p> <p>2 which investors in the utility are exposed,</p> <p>3 correct?</p> <p>4 MS. MCSHANE:</p> <p>5 A. Yes.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. And you agree that it is regulation that has</p> <p>8 the ability to either mitigate or enhance the</p> <p>9 fundamental risks that the utility faces?</p> <p>10 MS. MCSHANE:</p> <p>11 A. Yes.</p> <p>12 MR. JOHNSON:</p> <p>13 Q. And in terms of the ability of a regulator to</p> <p>14 mitigate risks, what are the things that you</p> <p>15 have in mind there?</p> <p>16 MS. MCSHANE:</p> <p>17 A. Sorry, what can the regulator do?</p> <p>18 MR. JOHNSON:</p> <p>19 Q. Yes.</p> <p>20 MS. MCSHANE:</p> <p>21 A. Well, certainly they can provide for different</p> <p>22 types of supportive regulatory mechanisms.</p> <p>23 Obviously, they can allow a fair return. They</p> <p>24 can - they have influence over depreciation</p> <p>25 expense, what costs are allowed. They can</p>
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<p>1 (1:00 P.M.)</p> <p>2 MR. JOHNSON:</p> <p>3 Q. Would it be fair to characterize it as having</p> <p>4 the most influence, that the regulator has the</p> <p>5 most influence on the utility's ability to</p> <p>6 earn a fair return and achieve the return of</p> <p>7 capital?</p> <p>8 MS. MCSHANE:</p> <p>9 A. In the short term, that's true. In the long</p> <p>10 term, it really depends on the fundamentals of</p> <p>11 the utility. I mean, it may be that the</p> <p>12 utility - sorry, that the regulator no longer</p> <p>13 has the ability to ensure the opportunity to</p> <p>14 earn a fair return, but generally speaking,</p> <p>15 yes, the regulator is the most important</p> <p>16 influence.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. And including on achieving the return of</p> <p>19 capital, right?</p> <p>20 MS. MCSHANE:</p> <p>21 A. Yes.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. Right, and you continue to agree or hold the</p> <p>24 position that the regulatory framework in</p> <p>25 which a utility operates is frequently viewed</p>	<p>1 have a pre-approval process for capital</p> <p>2 expenditures. They can ensure that the rate</p> <p>3 structure is such that there's a reasonable</p> <p>4 opportunity to earn the fair return. Those</p> <p>5 are the kinds of things that I had in mind.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. And in terms of the capital budget aspect</p> <p>8 that, as you know, gets pre-approved here in</p> <p>9 Newfoundland and Labrador, have you - you have</p> <p>10 not studied whether your utilities in your</p> <p>11 sample have the same type of annual capital</p> <p>12 budget approval, Ms. McShane, have you?</p> <p>13 MS. MCSHANE:</p> <p>14 A. No, I haven't specifically done that, but I am</p> <p>15 aware that most utilities go through a</p> <p>16 required resource plan for their regulators.</p> <p>17 Utilities are not going to undertake major</p> <p>18 projects without getting pre-approved.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. But that's not the same process as the annual</p> <p>21 capital budget process that applies in this</p> <p>22 jurisdiction?</p> <p>23 MS. MCSHANE:</p> <p>24 A. No, it's not the same process, but the</p> <p>25 effective result -</p>

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<p>1 CHAIRMAN:</p> <p>2 Q. I'm sorry, we were going to take a break at 1</p> <p>3 o'clock. How long are we breaking for? Oh,</p> <p>4 fifteen minutes, okay.</p> <p>5 (RECESS - 1:04 A.M.)</p> <p>6 (RESUME - 1:24 P.M.)</p> <p>7 MR. JOHNSON:</p> <p>8 Q. Ms. McShane, you will acknowledge, I think,</p> <p>9 that Moody's are still saying like they were</p> <p>10 saying when we were last here in 2009, that</p> <p>11 they consider Canada's regulatory and business</p> <p>12 environments to be supportive relative to</p> <p>13 those in other jurisdictions, including the</p> <p>14 United States. Do you agree with that?</p> <p>15 MS. MCSHANE:</p> <p>16 A. Yes, they have made comments of that nature in</p> <p>17 their June, 2010, report; one of the two that</p> <p>18 was filed in response to - I think it was CA-</p> <p>19 NP-369 that we looked at earlier today.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. Uh-hm.</p> <p>22 MS. MCSHANE:</p> <p>23 A. I'm not going to be able to find it right now,</p> <p>24 so rather than search through these documents,</p> <p>25 I'll just paraphrase. They basically said</p>	<p>1 this document is the cover page. Do you see</p> <p>2 the name, "W. Larry Hess, Team Managing</p> <p>3 Director", who's listed on the cover page of</p> <p>4 this document?</p> <p>5 MS. MCSHANE:</p> <p>6 A. Yes.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. He's one of the analysts for Newfoundland</p> <p>9 Power, is he not, and his name appears on</p> <p>10 their credit opinion?</p> <p>11 MS. MCSHANE:</p> <p>12 A. His name appeared on the last one. I don't</p> <p>13 know if he still is or not. I remember Ms.</p> <p>14 Perry saying that there'd been a turnover, so</p> <p>15 I don't know whether he's one of those -</p> <p>16 because he's from New York. I don't know</p> <p>17 whether he's affected by that changeover or</p> <p>18 not.</p> <p>19 MR. JOHNSON:</p> <p>20 Q. Okay, we can see that exhibit on our own, but</p> <p>21 at page 6 on the bottom - page 6, Ms. McShane,</p> <p>22 at the bottom, this is the statement that I've</p> <p>23 referred to, "Moody's views the regulatory</p> <p>24 risk of US utilities as being higher in most</p> <p>25 cases than that of utilities located in some</p>
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<p>1 that they found Canada to be more supportive</p> <p>2 than many regulatory jurisdictions in the US,</p> <p>3 which means to me that there are regulatory</p> <p>4 jurisdictions in the US that they consider to</p> <p>5 be the same as those in Canada. One example</p> <p>6 would be - one of the companies in my</p> <p>7 testimony, Southern Company, which is rated A</p> <p>8 on both of the regulatory factors by Moody's,</p> <p>9 just as Newfoundland Power is.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. We'll come to those factors in a moment. If we</p> <p>12 could turn up CA-296. This is the most recent</p> <p>13 Moody's guidance document for regulated</p> <p>14 electric and gas utilities, is that right, Ms.</p> <p>15 McShane, on rating methodology?</p> <p>16 MS. MCSHANE:</p> <p>17 A. It is, but the - it is the more recent than</p> <p>18 the 2005 one, but the two reports that were</p> <p>19 issued in June, 2010, which were included in</p> <p>20 CA-NP-369, I guess, are follow ones to this</p> <p>21 methodology.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. And this document at the first page of it -</p> <p>24 can you scroll down? No, I guess it's behind</p> <p>25 this document. The first thing I'd note about</p>	<p>1 other developed countries including Japan,</p> <p>2 Australia, and Canada. The difference in risk</p> <p>3 reflects our view that individual state</p> <p>4 regulation is less predictable than national</p> <p>5 regulation. A highly fragmented market in the</p> <p>6 US results in stronger competition in</p> <p>7 wholesale power markets. US fuel and power</p> <p>8 markets are more volatile. There is a low</p> <p>9 likelihood of extraordinary political action</p> <p>10 to support a failing company in the United</p> <p>11 States. Holding company structures limit</p> <p>12 regulatory oversight and overlapping or</p> <p>13 unclear regulatory jurisdictions characterize</p> <p>14 the US market. As a result, no US utility</p> <p>15 except for transmission companies subject to</p> <p>16 federal regulation score higher than a single</p> <p>17 A in this factor", and that's what they were</p> <p>18 saying in that document. You recall that from</p> <p>19 the last case?</p> <p>20 MS. MCSHANE:</p> <p>21 A. Yes, and there are no Canadian utilities that</p> <p>22 have over A in that category.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. Now Ms. McShane, 9 of your 13 companies, as I</p> <p>25 understand it, score - have an inferior score</p>

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<p>1 to Newfoundland Power when it comes to</p> <p>2 regulatory support by Moody's. Can you</p> <p>3 confirm that?</p> <p>4 MS. MCSHANE:</p> <p>5 A. There are four that are A, like Newfoundland</p> <p>6 Power, and 9 that are BAA.</p> <p>7 (1:30 P.M.)</p> <p>8 MR. JOHNSON:</p> <p>9 Q. And at CA-NP-296, if we could turn to that -</p> <p>10 that's where we are, I'm sorry. So 9 of your</p> <p>11 companies would score lower than Newfoundland</p> <p>12 Power, so on page 7 under regulatory framework</p> <p>13 which they give 25 percent weighting to, "BAA</p> <p>14 would be regulatory framework that's well</p> <p>15 developed, with evidence of some inconsistency</p> <p>16 or unpredictability in the way framework has</p> <p>17 been applied or framework is new and untested,</p> <p>18 but based on well developed and established</p> <p>19 precedence, or (b) the jurisdiction has a</p> <p>20 history of independent and transparent</p> <p>21 regulation in other sectors. Regulatory</p> <p>22 environments may be sometimes challenging and</p> <p>23 politically charged". So 9 of your 13 would</p> <p>24 fall under BAA, correct?</p> <p>25 MS. MCSHANE:</p>	<p>1 MR. JOHNSON:</p> <p>2 Q. Would be Integrys, AGL Resources, Atmos, and</p> <p>3 Consolidated Edison would not be -</p> <p>4 MS. MCSHANE:</p> <p>5 A. Do not have - are BAA.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. Lower than Newfoundland Power, and out of</p> <p>8 those four, which ones are your new companies?</p> <p>9 MS. MCSHANE:</p> <p>10 A. Sorry, could we list them again. That's</p> <p>11 Integrys -</p> <p>12 MS. MCSHANE:</p> <p>13 A. AGL.</p> <p>14 MS. MCSHANE:</p> <p>15 A. AGL.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. Atmos.</p> <p>18 MS. MCSHANE:</p> <p>19 A. Atmos.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. And Consolidated Ed.</p> <p>22 MS. MCSHANE:</p> <p>23 A. Two would be - so Atmos and Integrys.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. Okay, and one of the companies that joined</p>
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<p>1 A. Yes, they do.</p> <p>2 MR. JOHNSON:</p> <p>3 Q. And as regards the ability to the Moody's</p> <p>4 rating factor in terms of the ability to</p> <p>5 recover cost and earn a return, there is four</p> <p>6 companies, I think you'll confirm, that do not</p> <p>7 get the rating that Newfoundland Power gets.</p> <p>8 Can you confirm that?</p> <p>9 MS. MCSHANE:</p> <p>10 A. 9A and 4 BAA, I believe.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. And the companies that don't match Moody's</p> <p>13 assessment of Newfoundland Power's ability to</p> <p>14 recover costs and earn return would be</p> <p>15 Integrys, correct -</p> <p>16 MS. MCSHANE:</p> <p>17 A. I don't have them at my fingertips, but I</p> <p>18 believe there's -</p> <p>19 MR. JOHNSON:</p> <p>20 Q. 342.</p> <p>21 MS. MCSHANE:</p> <p>22 A. Thank you. You refer in this -</p> <p>23 MS. MCSHANE:</p> <p>24 A. I'm sorry, I should have had better tabs. Go</p> <p>25 ahead. So, yes, Integrys.</p>	<p>1 your group was Alliant Energy, as well,</p> <p>2 relative to the last GRA?</p> <p>3 MS. MCSHANE:</p> <p>4 A. Yes.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. And you'll confirm that up until late</p> <p>7 September of 2012, that company had a negative</p> <p>8 outlook, as did several of its subsidiaries,</p> <p>9 correct?</p> <p>10 MS. MCSHANE:</p> <p>11 A. By Moody's, that may be true, and it was just</p> <p>12 upgraded yesterday or the day before to A- by</p> <p>13 S & P.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. Now Ms. McShane, the graphs that I showed you</p> <p>16 earlier were downloaded by me, and I take it</p> <p>17 you'll confirm that you yourself used Zacks as</p> <p>18 a data source, right?</p> <p>19 MS. MCSHANE:</p> <p>20 A. I get a piece of data from Zacks.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. Yes. So you trust Zacks as being reputable?</p> <p>23 MS. MCSHANE:</p> <p>24 A. I believe that they're capable of compiling</p> <p>25 analyst forecast.</p>

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<p>1 MR. JOHNSON:</p> <p>2 Q. And the graphs that I showed you, do they</p> <p>3 appear to you to present quarterly - ROE on a</p> <p>4 quarterly basis?</p> <p>5 MS. MCSHANE:</p> <p>6 A. If I had to guess what they were, that's what</p> <p>7 I would say just because of how the lines</p> <p>8 move. Otherwise, you know, if you were</p> <p>9 looking at 2004 to - well, let's look at AGL,</p> <p>10 for example.</p> <p>11 MS. GLYNN:</p> <p>12 Q. That's Information Item #16.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Yes.</p> <p>15 MS. MCSHANE:</p> <p>16 A. So the graph shows the vertical axis as, you</p> <p>17 know, a number of years written on it, but</p> <p>18 looking at the line, there'd have to be many</p> <p>19 more observations there than just the number</p> <p>20 of years. So I don't know exactly what is</p> <p>21 being presented here. As I said to you before</p> <p>22 the break, I mean, if you look back at the</p> <p>23 values at the very left of the chart up to</p> <p>24 what looks to be 2005, my data from S & P's</p> <p>25 research insight database show the returns for</p>	<p>1 volatility on a quarterly basis?</p> <p>2 MS. MCSHANE:</p> <p>3 A. I think the way they report their earnings,</p> <p>4 you'd still see the volatility because I don't</p> <p>5 think they make the adjustments until they do</p> <p>6 their audited financial statements. I could</p> <p>7 be wrong, but I believe that's the way it's</p> <p>8 done. So you would see the volatility if you</p> <p>9 just took numbers that are taken out of</p> <p>10 quarterly financial statements.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Ms. McShane, regarding the automatic</p> <p>13 adjustment formula, you can confirm for us</p> <p>14 that you were an expert witness on behalf of</p> <p>15 Ontario Power Generation, and that back in the</p> <p>16 proceeding - I believe it was in 2008, and you</p> <p>17 at that point supported Ontario Power</p> <p>18 Generation's request for the OEB's automatic</p> <p>19 ROE adjustment formula, and that request was</p> <p>20 granted by the OEB in November, 2008, I</p> <p>21 understand?</p> <p>22 MS. MCSHANE:</p> <p>23 A. Right. So the testimony was prepared in 2007.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. Right, and at that time I think you can</p>
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<p>1 AGL to have been 14.9 percent in 2002, 16.4</p> <p>2 percent in 2003, 13.1 percent in 2004. So it</p> <p>3 don't show any pattern that looks like what's</p> <p>4 on this graph.</p> <p>5 MR. JOHNSON:</p> <p>6 Q. Did you check for quarterly volatility?</p> <p>7 MS. MCSHANE:</p> <p>8 A. No, because I wouldn't normally calculate</p> <p>9 returns on equity based on quarterly data, and</p> <p>10 particularly for gas distribution utilities,</p> <p>11 the make very little sense because we all know</p> <p>12 that gas utilities have high seasonality in</p> <p>13 their earnings.</p> <p>14 MR. JOHNSON:</p> <p>15 Q. And so the high seasonality - I take it these</p> <p>16 - would this appear to you to be reporting</p> <p>17 quarterly data?</p> <p>18 MS. MCSHANE:</p> <p>19 A. As I said, that's what I would guess, but I</p> <p>20 didn't do the charts.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. If there were - if there were - why would the</p> <p>23 gas company have volatile quarterly returns if</p> <p>24 they're protected from these mechanisms like</p> <p>25 weather and - would you expect to see major</p>	<p>1 confirm that the formula at that time adjusted</p> <p>2 the ROE by 75 percent of the change in the</p> <p>3 forecast long Canada bond yield, would that be</p> <p>4 correct?</p> <p>5 MS. MCSHANE:</p> <p>6 A. It did.</p> <p>7 MR. JOHNSON:</p> <p>8 Q. So that formula was very similar to the</p> <p>9 Board's automatic adjustment formula in this</p> <p>10 province?</p> <p>11 MS. MCSHANE:</p> <p>12 A. It wasn't that different.</p> <p>13 MR. JOHNSON:</p> <p>14 Q. Ms. McShane, can you confirm that after</p> <p>15 Newfoundland Power's General Rate Application</p> <p>16 held in the fall of 2009, and, in fact, in</p> <p>17 2010, on behalf of Enbridge, you provided</p> <p>18 testimony to the National Energy Board in a</p> <p>19 hearing on its Line 9 oil pipeline. Do you</p> <p>20 recall that?</p> <p>21 MS. MCSHANE:</p> <p>22 A. I do.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. And can you confirm that you recommended an</p> <p>25 ROE adjustment formula to the Board and that</p>

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<p>1 the formula that you recommended adjusted the</p> <p>2 ROE by 50 percent of the change in the</p> <p>3 forecast long Canada bond yields, and b50</p> <p>4 percent of the change in credit spreads. Is</p> <p>5 that a fair -</p> <p>6 MS. MCSHANE:</p> <p>7 A. That's partly right. I think I'd like to give</p> <p>8 a little bit of perspective. Enbridge Line 9</p> <p>9 is a very small company, very small pipeline,</p> <p>10 and I was looking for a way to set rates for</p> <p>11 an extended period of time without going back</p> <p>12 to the National Energy Board. So what I did</p> <p>13 was suggest that they go back to the very</p> <p>14 beginning of when the National Energy Board</p> <p>15 had set the first return under the now</p> <p>16 rescinded RH294 formula, and essentially roll</p> <p>17 it forward based on the formula I proposed,</p> <p>18 which would have given them a return in - the</p> <p>19 formula return in 2010 would have been in the</p> <p>20 mid 10s, I think.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. In 2010, you, I understand, presented</p> <p>23 testimony as well before the Regie?</p> <p>24 MS. MCSHANE:</p> <p>25 A. I did.</p>	<p>1 was fair and reasonable that you were putting</p> <p>2 forward?</p> <p>3 MS. MCSHANE:</p> <p>4 A. Based on a fair and reasonable point of</p> <p>5 departure, yes.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. Just expand on that, the point of departure.</p> <p>8 You qualified the answer.</p> <p>9 MS. MCSHANE:</p> <p>10 A. Well, sorry, it was just meant to say that the</p> <p>11 -- there needs to be, to me, internal</p> <p>12 consistency between a formula and the starting</p> <p>13 point in the ROE. If you accept that the cost</p> <p>14 of equity for a utility only changes with long</p> <p>15 term government bond yields by about 50</p> <p>16 percent and you propose a formula on that</p> <p>17 basis, it doesn't seem reasonable to me to at</p> <p>18 the same time adopt a starting ROE that's</p> <p>19 premised on the assumption that over time the</p> <p>20 cost of equity has fallen at a significantly</p> <p>21 higher rate.</p> <p>22 MR. JOHNSON:</p> <p>23 Q. What do you regard as the changes since the</p> <p>24 proposal you made to the Regie that has caused</p> <p>25 you not to recommend a similar formula in this</p>
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<p>1 MR. JOHNSON:</p> <p>2 Q. And you proposed a similar formula for the</p> <p>3 Gazifere gas utility -</p> <p>4 MS. MCSHANE:</p> <p>5 A. Yes.</p> <p>6 (1:45 P.M.)</p> <p>7 MR. JOHNSON:</p> <p>8 Q. The same type of formula as you put forward in</p> <p>9 the Line 9 case?</p> <p>10 MS. MCSHANE:</p> <p>11 A. Yes, that's true, and again this was sort of a</p> <p>12 - a bit of a special situation inasmuch as</p> <p>13 Gazifere is about a 65 million dollar company,</p> <p>14 and the large gas utility in the province, Gaz</p> <p>15 Metro, had just previously had a formula</p> <p>16 adopted for them and it was very clear that</p> <p>17 come hell or high water the Regie was going to</p> <p>18 adopt a formula, so I recommended at the time</p> <p>19 the best one I could think of, and don't</p> <p>20 forget, I mean, in 2010, we were talking about</p> <p>21 a period of time which we expected long Canada</p> <p>22 bond yields to be significantly more normal</p> <p>23 than they are today.</p> <p>24 MR. JOHNSON:</p> <p>25 Q. But at the time, you thought that that formula</p>	<p>1 particular case?</p> <p>2 MS. MCSHANE:</p> <p>3 A. Basically the fact that we've seen a</p> <p>4 significant fall off in long term bond yields,</p> <p>5 both utility bond yields and long term</p> <p>6 government bond yields and there doesn't seem</p> <p>7 to have been any corresponding change in the</p> <p>8 cost of equity that correlates with that.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. Ms. McShane, the Regie, as I understand it,</p> <p>11 also heard evidence from Dr. Booth in that</p> <p>12 proceeding and I think you'll confirm that he</p> <p>13 proposed a formula that was in fact an</p> <p>14 alternative that he put forward. He put two</p> <p>15 alternatives forward, as I understand it. And</p> <p>16 the Regie decided to implement a formula that</p> <p>17 he put forward. You're familiar with that?</p> <p>18 MS. MCSHANE:</p> <p>19 A. I am.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. And his formula, the one that he put forward,</p> <p>22 and Dr. Booth can discuss in his own</p> <p>23 testimony. In the alternative, he proposed an</p> <p>24 adjustment formula where the -- it would go</p> <p>25 off 75 percent of the change in the Government</p>

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<p>1 of Canada 30-year bond yield compared with the</p> <p>2 initial rate and plus 50 percent of the change</p> <p>3 in the yield on 30-year A rated bonds issued</p> <p>4 by regulated Canadian companies, compared with</p> <p>5 the initial yield based on the Bloomberg</p> <p>6 Corporate Bond Index, which he referred to as</p> <p>7 a credit spread, correct?</p> <p>8 MS. MCSHANE:</p> <p>9 A. That's what he proposed.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. And that alternative suggestion that Dr. Booth</p> <p>12 put forward to the Regie was accepted. I</p> <p>13 think you'll confirm?</p> <p>14 MS. MCSHANE:</p> <p>15 A. I will.</p> <p>16 MR. JOHNSON:</p> <p>17 Q. Okay.</p> <p>18 MS. MCSHANE:</p> <p>19 A. And my understanding is that it's now produced</p> <p>20 such a low return for 2013 that Gaz Metro has</p> <p>21 gone in and asked the Board, the Regie, to</p> <p>22 reconsider it.</p> <p>23 MR. JOHNSON:</p> <p>24 Q. That's the utility that you represented in</p> <p>25 that case?</p>	<p>1 economic cycle, but they diverge from the</p> <p>2 allowed returns on an annual basis."</p> <p>3 And in paragraph 138, the Board said "in</p> <p>4 the Regie's view, Dr. Booth's formula makes it</p> <p>5 possible to adjust ROE on the basis of changes</p> <p>6 in the yield on 30-year bonds issued by</p> <p>7 regulated Canadian companies, while keeping</p> <p>8 the rate close to the allowed rates over an</p> <p>9 economic cycle. The Regie notes that</p> <p>10 according to the Bank of Canada study, the</p> <p>11 adjustment factor for credit spreads is in the</p> <p>12 order of .37."</p> <p>13 And then continued at paragraph 139, "The</p> <p>14 Regie is of the view that while Dr. Booth's</p> <p>15 alternative formula would lead to increased</p> <p>16 volatility in allowed rates of return, it</p> <p>17 would have produced more suitable allowed</p> <p>18 rates during the financial crisis. The Regie</p> <p>19 finds that it would be appropriate to replace</p> <p>20 the current formula by Dr. Booth's formula for</p> <p>21 the purpose of establishing ROE as of 2012."</p> <p>22 And I'll undertake to file that, but that</p> <p>23 was the outcome of the case.</p> <p>24 Ms. McShane, Dr. Booth, in providing an</p> <p>25 AAF recommendation to this Board in this</p>
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<p>1 MS. MCSHANE:</p> <p>2 A. No. No, it's the larger gas utility.</p> <p>3 MR. JOHNSON:</p> <p>4 Q. The Regie observed, I believe you would</p> <p>5 confirm, that the formula that you proposed</p> <p>6 produced higher rates of return than those</p> <p>7 that it had allowed in the past?</p> <p>8 MS. MCSHANE:</p> <p>9 A. I don't recall that, but maybe you have a</p> <p>10 reference to show me.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. I don't know if this decision is on the</p> <p>13 record, the Regie. It may not be on the</p> <p>14 record. Maybe just to facilitate it, we can</p> <p>15 file the Regie decision. I think it might be</p> <p>16 helpful. But, for present purposes, if I</p> <p>17 could just read a paragraph of what the Board</p> <p>18 stated in its decision. I'm citing from the</p> <p>19 English version of the Regie's decision at</p> <p>20 paragraph 137. The Regie -- this is a direct</p> <p>21 quote "The Regie observes that the formula</p> <p>22 proposed by Ms. McShane produces rates of</p> <p>23 return higher than those allowed in the past.</p> <p>24 Dr. Booth's formula produces returns that are</p> <p>25 similar to those allowed in the past over an</p>	<p>1 proceeding has suggested a floor of 3. 8</p> <p>2 percent on the long Canada, and you're</p> <p>3 familiar with his proposal in that regard?</p> <p>4 MS. MCSHANE:</p> <p>5 A. I am.</p> <p>6 MR. JOHNSON:</p> <p>7 Q. And would you -- if there were to be a floor</p> <p>8 on the formula, would you be okay with a 3. 8</p> <p>9 floor?</p> <p>10 MS. MCSHANE:</p> <p>11 A. I guess I'm just very concerned that given</p> <p>12 where we are in the -- with interest rates, I</p> <p>13 don't have much confidence that a formula</p> <p>14 would work in these circumstances.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. But if there was a floor, would that not</p> <p>17 alleviate that?</p> <p>18 MS. MCSHANE:</p> <p>19 A. Not to me, no.</p> <p>20 MR. JOHNSON:</p> <p>21 Q. I thought there was a Board question that was</p> <p>22 posed, PUB, on the formula. Let me just see.</p> <p>23 MS. MCSHANE:</p> <p>24 A. There were several, as I recall.</p> <p>25 MR. JOHNSON:</p>

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<p>1 Q. Yeah, there was one in particular. Yes, PUB- 2 NP-078. In this question, the Board staff 3 asked "are there any changes" -- asked you, 4 "are there any changes to the current 5 automatic adjustment formula in your view that 6 could make it more reliable in determining a 7 future return on equity for Newfoundland 8 Power?" And your reply was that "if the long 9 term government bond yields were within a 10 normal range, i.e. long term Canada bond 11 yields at or above four percent, Ms. McShane 12 is of the view that a formula which 13 incorporates the change in both forecast long 14 term Government of Canada bond yields and the 15 spread between A rated utility bonds, both 16 with a sensitivity factor of 50 percent, would 17 likely broadly capture both secular and 18 cyclical changes in the utility cost of 19 equity." 20 So in terms of that first part, there's 21 seemingly not much of a difference between 3.8 22 that Dr. Booth talks about as being a floor 23 and your four percent? 24 MS. MCSHANE: 25 A. What I said was it would likely broadly</p>	<p>1 A. No, I would think that you would have to have 2 a floor. I don't think that I would want it 3 to operate the way his does because, you know, 4 my concern is that the way his formula is 5 constructed, there's only a floor on the long 6 term Canada bond and no floor or trigger, if 7 you will, on the spread, which suggests to me 8 that the most likely outcome for ROE for say 9 2014 would be a reduction in ROE and that's 10 because if the ROE -- if you look at his 11 formula as being two variables and you would 12 increase or decrease the ROE by 75 percent of 13 the change in the long Canada bond yield as 14 long as the long Canada bond yield is over 15 3.8, so we wouldn't get any change from that 16 variable until we get to 3.8 and we're now at 17 2.40-2.50. But if long term Canada bond 18 yields start to rise towards that more normal 19 level, what you'll tend to see is the spread 20 contract and so if the spread contracts from 21 where the benchmark spread is, then the ROE 22 will go down as long Canada bonds go up, which 23 I think is a bit inconsistent. 24 MR. JOHNSON: 25 Q. I expect Dr. Booth will address that further</p>
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<p>1 capture the changes, but there were caveats to 2 that. 3 MR. JOHNSON: 4 Q. Right. 5 MS. MCSHANE: 6 A. And my recommendation was that we suspend the 7 use of a formula until interest rates do 8 return to more normal levels and then 9 reconsider, you know, how it should be put 10 together. We don't know that these 11 relationships will return to what they were 12 before and I just don't see any particular 13 benefit in imposing a formula at this time 14 rather than a fixed rate for a couple of 15 years. 16 MR. JOHNSON: 17 Q. But I guess the follow-up question would be, 18 and I know you've stated your preference, but 19 in the event this Board decides, having 20 listened to all the evidence, that it does not 21 want to abandon a formula and wishes to have 22 some sort of formula in place, I take it you 23 would regard the floor, like Dr. Booth has 24 suggested, as not being objectionable? 25 MS. MCSHANE:</p>	<p>1 when he testifies. I think those are my 2 questions, Ms. McShane. 3 MS. MCSHANE: 4 A. Thank you. 5 MR. JOHNSON: 6 Q. Thank you very much. 7 GREENE, Q.C.: 8 Q. Good afternoon, Ms. McShane. 9 MS. MCSHANE: 10 A. Good afternoon. 11 GREENE, Q.C.: 12 Q. I'd like first to talk to you about risk and I 13 understand that when you assess the risk for a 14 utility, you look at the overall risk and that 15 includes three categories, the business, the 16 financial and the regulatory? Is that 17 correct? 18 MS. MCSHANE: 19 A. Correct. 20 GREENE, Q.C.: 21 Q. And I want to talk to you a little bit about 22 how you assess the financial risk, and this 23 arises from a discussion you had with Mr. 24 Johnson the first day that you appeared. So 25 what do you take into account when you assess</p>

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<p>1 the financial risk for a company?</p> <p>2 MS. MCSHANE:</p> <p>3 A. Primarily the equity ratio, the financial</p> <p>4 metrics, credit metrics, the debt ratings and</p> <p>5 to some extent, I would consider size as -- I</p> <p>6 mean, that's sort of financial risk, as well</p> <p>7 as business risk. It has really two elements,</p> <p>8 I guess.</p> <p>9 GREENE, Q.C.:</p> <p>10 Q. And that is similar to the answer you gave to</p> <p>11 Mr. Johnson, and by including size in your</p> <p>12 list of criteria that you assess, I guess that</p> <p>13 was a little bit of a surprise to me, that you</p> <p>14 look at size and how do you look at size then</p> <p>15 in the business or the operating risk?</p> <p>16 MS. MCSHANE:</p> <p>17 A. Sorry, how do I look at size in the -</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. Size, does it fit under the business and</p> <p>20 operating risk as well? Because that's where</p> <p>21 traditionally it's talked about.</p> <p>22 MS. MCSHANE:</p> <p>23 A. It does. I mean, there are two elements to</p> <p>24 size. There's a business risk component</p> <p>25 because smaller utilities don't have the same</p>	<p>1 the four criteria that you've just outlined</p> <p>2 that you would consider under financial risk.</p> <p>3 MS. MCSHANE:</p> <p>4 A. It's hard to put them in any kind of rank</p> <p>5 order because, I mean, in a sense, capital</p> <p>6 structure is a credit metric itself and it is</p> <p>7 capital structure that, in conjunction with</p> <p>8 ROE and other elements of cash flow, which</p> <p>9 depreciation, sort of give rise to the credit</p> <p>10 metrics, and then the credit metrics,</p> <p>11 including the capital structure, as well as</p> <p>12 the business risk, give rise to the debt</p> <p>13 ratings, to the credit ratings. So, they're</p> <p>14 sort of interrelated.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. But it is your opinion that the Board should</p> <p>17 consider all of those factors when assessing</p> <p>18 the financial risk as part of the total risk</p> <p>19 for a utility?</p> <p>20 MS. MCSHANE:</p> <p>21 A. Yes.</p> <p>22 GREENE, Q.C.:</p> <p>23 Q. Looking at risk, your opinion is that</p> <p>24 Newfoundland Power continues to be an average</p> <p>25 risk Canadian utility? Is that correct?</p>
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<p>1 ability to diversify their operations as large</p> <p>2 utilities. So that's sort of the business</p> <p>3 risk aspect of it. On the financial risk</p> <p>4 side, it's really a question of smaller</p> <p>5 utilities having less access to capital</p> <p>6 because they don't need as much and so their</p> <p>7 securities tend to be less liquid. People are</p> <p>8 less interested. They have to pay more. So,</p> <p>9 oftentimes, as in the case in Newfoundland</p> <p>10 Power, you'd expect them to have a somewhat</p> <p>11 more conservative capital structure than</p> <p>12 larger companies which need more capital and</p> <p>13 whose securities are more liquid.</p> <p>14 (2:00 p.m.)</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. If you had to rank the four criteria that</p> <p>17 you've just outlined that you look at to</p> <p>18 assess the financial risk, which would be the</p> <p>19 most significant? The capital structure,</p> <p>20 would that be the most significant?</p> <p>21 MS. MCSHANE:</p> <p>22 A. Sorry, so the four we discussed were capital</p> <p>23 structure, credit metrics -</p> <p>24 GREENE, Q.C.:</p> <p>25 Q. - metrics, credit ratings and size, those are</p>	<p>1 MS. MCSHANE:</p> <p>2 A. Yes.</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. To put it in some perspective for us, could</p> <p>5 you outline who you believe -- what Canadian</p> <p>6 utility you believe would have a higher</p> <p>7 overall risk than Newfoundland Power and why?</p> <p>8 And I'm just talking about Canadian utilities.</p> <p>9 MS. MCSHANE:</p> <p>10 A. Can I just give one?</p> <p>11 GREENE, Q.C.:</p> <p>12 Q. Yes, one would be -</p> <p>13 MS. MCSHANE:</p> <p>14 A. Okay. I can give you two actually that would</p> <p>15 be easy. So, Nova Scotia Power I would</p> <p>16 consider to be higher overall risk than</p> <p>17 Newfoundland Power. Why? Partly because of</p> <p>18 the ownership of generation and it being coal</p> <p>19 generation that needs to be replaced with</p> <p>20 renewable resources and so, I think there's</p> <p>21 some operating and environmental issues that</p> <p>22 Newfoundland Power doesn't face to the same</p> <p>23 extent, and they do have a lower equity ratio,</p> <p>24 considerably lower equity ratio. So I think</p> <p>25 those are probably the two major elements.</p>

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<p>1 The other one that I would definitely say</p> <p>2 is of higher risk is Pacific Northern Gas,</p> <p>3 which is -- and I choose that because it did,</p> <p>4 up until the time it was purchased by AltaGas</p> <p>5 last year, it was a stand-alone publicly</p> <p>6 traded utility with debt ratings. It was very</p> <p>7 small; operated in a -- mostly in a relatively</p> <p>8 low growth area of BC; had lost -- at one</p> <p>9 point, 70 percent of its revenues came from</p> <p>10 one customer and lost that customer when it</p> <p>11 closed up. So those are kind of the main</p> <p>12 factors that I would say made it higher risk.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. And they all relate to business risk for</p> <p>15 Pacific Northern Gas, what you just outlined?</p> <p>16 MS. MCSHANE:</p> <p>17 A. No, not entirely. I guess I didn't really</p> <p>18 complete my response. They also had a</p> <p>19 relatively low common -- well, they had a</p> <p>20 relatively low allowed common equity ratio.</p> <p>21 They had a relatively high actual common</p> <p>22 equity ratio because they were -- their</p> <p>23 business risk was such that they couldn't</p> <p>24 raise the amount of debt that they required to</p> <p>25 actually equate their regulated and actual</p>	<p>1 GREENE, Q.C.:</p> <p>2 Q. So you can't think of anybody in Canada with a</p> <p>3 lower risk?</p> <p>4 MS. MCSHANE:</p> <p>5 A. Well, I'm not thinking right now of anybody</p> <p>6 that has -- where the business risk has been -</p> <p>7 - where the trade-off between business risk</p> <p>8 and financial risk has been such that the</p> <p>9 overall risk is that much lower.</p> <p>10 GREENE, Q.C.:</p> <p>11 Q. You have based your recommended fair return</p> <p>12 for Newfoundland Power on the fact that it is</p> <p>13 an average risk with its current capital</p> <p>14 structure. Would your recommendation have</p> <p>15 changed if the capital structure were reduced</p> <p>16 or changed to reduce the percentage of lower</p> <p>17 common equity?</p> <p>18 MS. MCSHANE:</p> <p>19 A. I would, yes, and I think that I answered an</p> <p>20 information request on that or an RFI and I</p> <p>21 don't know the number off the top of my head,</p> <p>22 but -</p> <p>23 GREENE, Q.C.:</p> <p>24 Q. And what would it have been? Can you remember</p> <p>25 what -- you would have lowered it, but do you</p>
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<p>1 capital structure.</p> <p>2 GREENE, Q.C.:</p> <p>3 Q. So they also would have had a higher financial</p> <p>4 risk then, from your perspective, than</p> <p>5 Newfoundland Power?</p> <p>6 MS. MCSHANE:</p> <p>7 A. Yes.</p> <p>8 GREENE, Q.C.:</p> <p>9 Q. So let's flip the question. Lower risk than</p> <p>10 Newfoundland Power in Canada?</p> <p>11 MS. MCSHANE:</p> <p>12 A. Lower risk? So on an overall risk basis?</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. Yes.</p> <p>15 MS. MCSHANE:</p> <p>16 A. That one's harder because to a large extent</p> <p>17 there's been sort of a trade-off with --</p> <p>18 between capital structure and business risk,</p> <p>19 so I would say that, in principle, a utility</p> <p>20 like AltaLink would have lower business risk</p> <p>21 but that's been reflected in a lower common</p> <p>22 equity ratio by the Alberta Utilities</p> <p>23 Commission, so I'm not sure that when you look</p> <p>24 at it on an overall risk basis, it's</p> <p>25 necessarily that much lower risk.</p>	<p>1 have an opinion as to what your recommendation</p> <p>2 would have been?</p> <p>3 MS. MCSHANE:</p> <p>4 A. Well, if it were lowered say by -</p> <p>5 GREENE, Q.C.:</p> <p>6 Q. Five.</p> <p>7 MS. MCSHANE:</p> <p>8 A. - five percentage points, and I would think</p> <p>9 that the difference should be about 50 basis</p> <p>10 points.</p> <p>11 GREENE, Q.C.:</p> <p>12 Q. Turning now very briefly to the group of</p> <p>13 American companies that you have chosen as</p> <p>14 comparables. Mr. Johnson reviewed with you</p> <p>15 this morning a number of factors where he was</p> <p>16 illustrating, in his opinion, where there were</p> <p>17 differences on each of those. I think I made</p> <p>18 a note of 13 to 14 different criteria. I'd</p> <p>19 like your response as to how the Board should</p> <p>20 view the criteria when they look at whether</p> <p>21 they're comparable or not. Do you look at</p> <p>22 criteria -- how did you assess that they were</p> <p>23 comparable and whether the Board should look</p> <p>24 at these criteria each by the each?</p> <p>25 MS. MCSHANE:</p>

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<p>1 A. Well, I'm not sure what Mr. Johnson was doing</p> <p>2 was looking at criteria necessarily, but</p> <p>3 factors. We'll call them factors.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. Factors that could be different among the</p> <p>6 proxy group.</p> <p>7 MS. MCSHANE:</p> <p>8 A. Yeah. So I think that -- I guess what I would</p> <p>9 say to you is it's difficult to sort of tick</p> <p>10 off little boxes and say higher, lower,</p> <p>11 higher, lower and you really need to look at</p> <p>12 the -- not only these business risk factors,</p> <p>13 but investment risk factors as well and the</p> <p>14 financial risk factors. Some of them do tend</p> <p>15 to be offsetting. I mean, if you look, for</p> <p>16 example, at a company like Southern Company,</p> <p>17 which is one of the companies in the sample, I</p> <p>18 think you have to recognize that yes, there</p> <p>19 are going to be some things that may suggest</p> <p>20 that Southern Company is higher risk than</p> <p>21 Newfoundland Power. It does have some</p> <p>22 competitive risk that may be higher than</p> <p>23 Newfoundland Power's, but it's a large</p> <p>24 company, very large company which means that</p> <p>25 it has very liquid securities, which are</p>	<p>1 various factors, it's the total picture for</p> <p>2 each company that must be reviewed to see if</p> <p>3 in total they are comparable, which at the end</p> <p>4 of the day doesn't mean that there may not be</p> <p>5 differences between them, but it's really your</p> <p>6 assessment and your opinion that there is</p> <p>7 enough similarities between them that they are</p> <p>8 a comparable group?</p> <p>9 MS. MCSHANE:</p> <p>10 A. Mostly they're -- it's not just that there are</p> <p>11 enough similarities per se. That's part of</p> <p>12 it, but also that when you look at the</p> <p>13 totality of these factors that the overall</p> <p>14 investment risk level would not be viewed as</p> <p>15 significantly different.</p> <p>16 GREENE, Q.C.:</p> <p>17 Q. And in doing that assessment, what role do the</p> <p>18 credit rating -- their credit ratings have?</p> <p>19 MS. MCSHANE:</p> <p>20 A. Well, in the case of Newfoundland Power, it</p> <p>21 would have a fairly significant role because</p> <p>22 you've got to be able to say -- well, you</p> <p>23 don't have to, but it's best to be able to say</p> <p>24 that there is something independent and</p> <p>25 tangible in terms of a relative risk factor</p>
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<p>1 obviously of interest to an investor, which</p> <p>2 all other things equal, lowers an investor's</p> <p>3 perception of risk. It has, you know,</p> <p>4 relatively low percentage of unregulated</p> <p>5 operations and the regulated operations that</p> <p>6 it has are related to its regulated</p> <p>7 operations. It's diversified across a number</p> <p>8 of regulatory jurisdictions. It operates</p> <p>9 largely in regulatory jurisdictions that</p> <p>10 haven't restructured, the very stable. Has</p> <p>11 very high -- not very high, but it has high</p> <p>12 regulatory risk rankings. It has low BETA.</p> <p>13 It has a low debt -- sorry, high debt ratings.</p> <p>14 So, on balance, I mean, this is a company that</p> <p>15 investors would look at as a very conservative</p> <p>16 investment.</p> <p>17 So, I mean, I'm not sure that you can go</p> <p>18 through and tick these off, but I think you</p> <p>19 have to consider -- you do have to consider</p> <p>20 all the factors.</p> <p>21 GREENE, Q.C.:</p> <p>22 Q. So if I could summarize what I took from your</p> <p>23 answer and to see if I will capture it</p> <p>24 correctly. While each company may be unique</p> <p>25 and each has its own unique profile on these</p>	<p>1 that you can point to and say, you know, these</p> <p>2 companies that I've selected are viewed by</p> <p>3 other people as being of comparable risk,</p> <p>4 albeit from a debt rating agency's</p> <p>5 perspective, but Newfoundland Power's not</p> <p>6 publicly traded. So, you know, it's one thing</p> <p>7 for me to say in my expert opinion alone that</p> <p>8 these companies are comparable, but I can</p> <p>9 point to, you know, a rating agency or two</p> <p>10 rating agencies who rate a whole spectrum of</p> <p>11 companies and Newfoundland Power sits, you</p> <p>12 know, in the same range as the companies that</p> <p>13 I've selected.</p> <p>14 (2:15 p.m.)</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. Now you mention that they're looking at it</p> <p>17 from a different perspective, the bond holder</p> <p>18 versus the equity investor. Is there a</p> <p>19 significant difference from the perspective of</p> <p>20 those two types of investors?</p> <p>21 MS. MCSHANE:</p> <p>22 A. There may be. I mean, clearly bond investors</p> <p>23 are more -- they're more concerned with</p> <p>24 recovering the interest on the debt and the</p> <p>25 principal. And equity investors are clearly</p>

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<p>1 more interested in earning an equity return</p> <p>2 and there are other things that, you know, a</p> <p>3 bond investor would look at and that would be</p> <p>4 what kinds of covenants or protections that</p> <p>5 they have. So for example, so when we look at</p> <p>6 Newfoundland -- when I look at Newfoundland</p> <p>7 Power's rating and try to see it from the</p> <p>8 perspective of an equity investor, I look at</p> <p>9 the issuer rater because the issuer rating has</p> <p>10 to do with the company and how creditworthy</p> <p>11 the company is. Whereas the debt rating has</p> <p>12 to do with the specific debt issue and what</p> <p>13 covenants there are that protect the first</p> <p>14 mortgage bond holders.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. So while those credit ratings may be helpful,</p> <p>17 it's not the end of the analysis because</p> <p>18 there's different perspectives, and that's why</p> <p>19 you do your overall analysis for the various</p> <p>20 companies?</p> <p>21 MS. MCSHANE:</p> <p>22 A. Yes, correct.</p> <p>23 GREENE, Q.C.:</p> <p>24 Q. My last area for questioning was the formula.</p> <p>25 Mr. Johnson did cover some of the areas that I</p>	<p>1 decision, but in the -- well, your</p> <p>2 recommendation in Alberta was that there be no</p> <p>3 formula. In the alternative, did you make a</p> <p>4 recommendation that if the Board decided to</p> <p>5 proceed with a formula that what changes there</p> <p>6 would be?</p> <p>7 MS. MCSHANE:</p> <p>8 A. That's a good question. I don't remember. In</p> <p>9 2011?</p> <p>10 GREENE, Q.C.:</p> <p>11 Q. The reference is to the information -- the</p> <p>12 2011 decision from the AUC. I'm just trying</p> <p>13 to find my reference to the note. Information</p> <p>14 Item No. 9. You don't recall that. Yes,</p> <p>15 while your initial position was that there be</p> <p>16 no formula, that you had an alternative</p> <p>17 recommendation that if the Board decided to</p> <p>18 proceed or the Commission decided to proceed</p> <p>19 with the formula what the adjustments would</p> <p>20 be. Do you recall that, Ms. McShane?</p> <p>21 MS. MCSHANE:</p> <p>22 A. Not specifically.</p> <p>23 GREENE, Q.C.:</p> <p>24 Q. Okay.</p> <p>25 MS. MCSHANE:</p>
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<p>1 had wished to review with you, but there are</p> <p>2 still a couple of questions that I have about</p> <p>3 the formula and your position. I understand</p> <p>4 your position to be that first</p> <p>5 philosophically, you're not opposed to having</p> <p>6 a formula provided that the market conditions</p> <p>7 are normal, whatever normal is, plus that the</p> <p>8 inputs to the formula appropriately reflect</p> <p>9 the relationship between the risk free rate</p> <p>10 and the cost of equity for the utility?</p> <p>11 MS. MCSHANE:</p> <p>12 A. Or any other variables that could be selected</p> <p>13 to be the adjusting variables.</p> <p>14 GREENE, Q.C.:</p> <p>15 Q. And Mr. Johnson took you through a proposed or</p> <p>16 modifications to the formula that you have</p> <p>17 proposed in Ontario and in Quebec. We already</p> <p>18 went through that. He didn't take you through</p> <p>19 what I understand were your recommendations in</p> <p>20 Alberta in the 2011 proceeding.</p> <p>21 MS. MCSHANE:</p> <p>22 A. I recommended the formula -- there not be a</p> <p>23 formula.</p> <p>24 GREENE, Q.C.:</p> <p>25 Q. Yes, but -- and I can take you to the</p>	<p>1 A. But if I did, I mean, it would certainly have</p> <p>2 been something along the lines of, you know,</p> <p>3 50 basis point change in -</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. If I could take you to paragraph 153 of this</p> <p>6 decision.</p> <p>7 MS. MCSHANE:</p> <p>8 A. Okay.</p> <p>9 GREENE, Q.C.:</p> <p>10 Q. And to summarize it, it would appear to me,</p> <p>11 having read the decision, that you proposed</p> <p>12 the 50 percent for the coefficient adjustment</p> <p>13 and a 50 percent credit spread, similar to the</p> <p>14 recommendation that Mr. MacDonald has made in</p> <p>15 this proceeding. So, if we could go to</p> <p>16 paragraph 153, please?</p> <p>17 MS. MCSHANE:</p> <p>18 A. Oh yes, I have that.</p> <p>19 GREENE, Q.C.:</p> <p>20 Q. Do you have -- oh, Information Item No. 9.</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. We're missing the electronic page again. You</p> <p>23 can just read it out.</p> <p>24 GREENE, Q.C.:</p> <p>25 Q. Sorry about that. So, Ms. McShane, you have a</p>

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<p>1 hard copy there, do you?</p> <p>2 MS. MCSHANE:</p> <p>3 A. I do.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. Okay. So if we -- it talks about -- and it's</p> <p>6 very clear and I won't go through how</p> <p>7 obviously your position was that there be no</p> <p>8 formula, as you have said in this proceeding.</p> <p>9 It then goes on, in paragraph 153, which is</p> <p>10 utility's, what their recommendation was, and</p> <p>11 that's in paragraph 154, and the weightings,</p> <p>12 if you look at that, it says "however, the</p> <p>13 utility submitted that if the Commission</p> <p>14 determined that an automatic adjustment</p> <p>15 mechanism is warranted for 2012, the formula</p> <p>16 adopted by the OEB in its report" and then</p> <p>17 they give the reference to the report, "should</p> <p>18 be used. The formula is the initial ROE plus</p> <p>19 50 percent of the change in the forecast</p> <p>20 Government bond yield and the 50 percent</p> <p>21 change in the bond utility spread." You go on</p> <p>22 down below to "the utility has indicated that</p> <p>23 Ms. McShane's independent analysis supported</p> <p>24 the factors and weightings used in this</p> <p>25 formula, based on historical relationships</p>	<p>1 since -</p> <p>2 MS. MCSHANE:</p> <p>3 A. Oh yes.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. - the fall of '11 to -</p> <p>6 MS. MCSHANE:</p> <p>7 A. It was really in -- after August 2011, I</p> <p>8 think, that we saw a huge falloff in forecast</p> <p>9 long term Canada bond yield.</p> <p>10 GREENE, Q.C.:</p> <p>11 Q. If you're philosophically not opposed to the</p> <p>12 formula, you believe that the timing is wrong</p> <p>13 right now, given where we are?</p> <p>14 MS. MCSHANE:</p> <p>15 A. Yes.</p> <p>16 GREENE, Q.C.:</p> <p>17 Q. Do you have any recommendations as to a</p> <p>18 process that should be followed to look at an</p> <p>19 appropriate formula in the future, if this is</p> <p>20 not the right proceeding, if the time is</p> <p>21 wrong?</p> <p>22 MS. MCSHANE:</p> <p>23 A. Well, it seems to me that, you know, we've got</p> <p>24 a two-year test period. I know nobody likes</p> <p>25 to hear this stuff time after time, but I</p>
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<p>1 among the utility cost of equity, long term</p> <p>2 Government bond yields and corporate bond</p> <p>3 yields."</p> <p>4 So, the way it is phrased here doesn't</p> <p>5 say that Ms. McShane recommended it. It says</p> <p>6 that the utilities submitted a -- said that</p> <p>7 that's what the formula should be, based on</p> <p>8 your analysis. So, I just wondered, it would</p> <p>9 appear from my reading of that decision, that</p> <p>10 you would have supported those two adjustments</p> <p>11 to the formula that are proposed by Mr.</p> <p>12 MacDonald in this particular proceeding.</p> <p>13 MS. MCSHANE:</p> <p>14 A. I likely did and I can get back to you if</p> <p>15 that's not true, because the evidence is on</p> <p>16 the record filed in response to a RFI. Again,</p> <p>17 I mean, we were talking at that time about a</p> <p>18 more normal level of interest rates and the</p> <p>19 forecast long term Canada bond yield at the</p> <p>20 time was four and a quarter percent and it</p> <p>21 was, you know, after that that we really saw</p> <p>22 the huge slide in forecast long term Canada</p> <p>23 bond yields.</p> <p>24 GREENE, Q.C.:</p> <p>25 Q. So you would say that it has been significant</p>	<p>1 guess I would suggest that one take another</p> <p>2 look at it for the next, assuming that you're</p> <p>3 going to approve rates for a two-year test</p> <p>4 period, take another look at it and maybe just</p> <p>5 look at the formula part of it at the time of</p> <p>6 the next GRA application.</p> <p>7 GREENE, Q.C.:</p> <p>8 Q. Thank you, Ms. McShane that finishes my</p> <p>9 questions for you.</p> <p>10 CHAIRMAN:</p> <p>11 Q. I just got a couple of quick things. If I'm</p> <p>12 an equity investor, I can look at earnings per</p> <p>13 share, but do bond ratings tell me anything, I</p> <p>14 mean if a company has a good bond rating, is</p> <p>15 there a co-relation between that bond rating</p> <p>16 and its earnings per share? I mean, does one</p> <p>17 generally follow the other?</p> <p>18 MS. MCSHANE:</p> <p>19 A. I guess what the bond rating tells you is, to</p> <p>20 some extent, is yeah, it does tell you</p> <p>21 something about the earnings or the earning</p> <p>22 stability at least.</p> <p>23 CHAIRMAN:</p> <p>24 Q. Tells you that they got secure earnings, they</p> <p>25 got a good cashflow.</p>

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<p>1 MS. MCSHANE:</p> <p>2 A. Yeah, if you've got a--right, so if you have a</p> <p>3 high bond rating can mean, it's simplistically</p> <p>4 one of two things, it could mean low business</p> <p>5 risk and you might have, you know, relatively</p> <p>6 good or low financial risk, or it can mean</p> <p>7 you've got relatively high business risks, but</p> <p>8 it's offset by low financial risks, a high</p> <p>9 equity ratio. So, you know, investors are</p> <p>10 going to look at the two pieces, they're going</p> <p>11 to look at, you know, if they had two</p> <p>12 companies, let's say they had a bit difference</p> <p>13 business risk, they could view them as being</p> <p>14 equivalent in total risk if their financial</p> <p>15 risks were different.</p> <p>16 CHAIRMAN:</p> <p>17 Q. So a good bond rating does provide some</p> <p>18 assistance, some minimum guarantee to equity</p> <p>19 investors. I mean, that's not the sole thing</p> <p>20 you would use, but that would be a good--I</p> <p>21 mean in the absence of a, I mean, a poor bond</p> <p>22 rating you'd say, you know, no way, this</p> <p>23 doesn't look good.</p> <p>24 MS. MCSHANE:</p> <p>25 A. Or you would at least say that I would want a</p>	<p>1 have answered the question earlier, but I mean</p> <p>2 with the regulatory environment that we got</p> <p>3 here now, the kinds of accounts that we got</p> <p>4 set up to minimize risk to the company, I mean</p> <p>5 this--there's all sorts of things that we have</p> <p>6 here to try and make sure there are no</p> <p>7 surprises, does that mean that in terms of</p> <p>8 whether you use one approach or the other that</p> <p>9 it's rather mute whether you use a forward</p> <p>10 test year or a historic test year? I mean, I-</p> <p>11 -it seems to me to be a distinction without a</p> <p>12 difference. We got all this data that we've</p> <p>13 generated, we've got all these accounts that</p> <p>14 we've established to assist the company and</p> <p>15 there really should not be any surprises. So</p> <p>16 what's the point of--what's the meaning of</p> <p>17 distinction between the forward and a historic</p> <p>18 test year?</p> <p>19 MS. MCSHANE:</p> <p>20 A. Well I think partly it's because you don't</p> <p>21 really have costs--sorry, deferral accounts or</p> <p>22 regulatory mechanisms that address operating</p> <p>23 costs, except for, I mean, you do have on</p> <p>24 pension expense, right and OPEBs, but the</p> <p>25 majority of operating costs and on the</p>
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<p>1 higher equity return as an equity investor,</p> <p>2 you know, in a company that -</p> <p>3 CHAIRMAN:</p> <p>4 Q. Yeah, you're getting into speculation.</p> <p>5 MS. MCSHANE:</p> <p>6 A. Right.</p> <p>7 CHAIRMAN:</p> <p>8 Q. Very familiar with that. Bond ratings and</p> <p>9 different operating environments, basically</p> <p>10 what you're saying, when you do the exercise,</p> <p>11 when you run through all the aspects of the</p> <p>12 company, no matter what the operating</p> <p>13 environment is when two companies got the same</p> <p>14 bond rating they're pretty well at the same</p> <p>15 level of risk from the perspective of a bond</p> <p>16 investor?</p> <p>17 MS. MCSHANE:</p> <p>18 A. That's right, that you have--all the factors</p> <p>19 tend to offset each other where they need to</p> <p>20 be so that the overall total risk from a bond</p> <p>21 investor's perspective is similar.</p> <p>22 CHAIRMAN:</p> <p>23 Q. With respect to this business of historic test</p> <p>24 years verses forward test years, I have a bit</p> <p>25 of trouble with that one and I think you may</p>	<p>1 capital, the capital budget, so if you're</p> <p>2 setting the return on costs that are, let's</p> <p>3 say you're setting a return on a rate base as</p> <p>4 of 2012 on where you expect, you know, the</p> <p>5 rate base to be higher in 2013, you don't have</p> <p>6 some kind of a mechanism to pick up that</p> <p>7 change in rate base and if you expect your</p> <p>8 operating costs to be higher in 2013 than you</p> <p>9 do in 12, you don't have a deferral mechanism</p> <p>10 to pick up that change, so a forward test year</p> <p>11 still does give you a better opportunity, I</p> <p>12 think, to recover your costs and earn your</p> <p>13 allowed return in a purely historic test year.</p> <p>14 CHAIRMAN:</p> <p>15 Q. But I mean, you would adjust your historic</p> <p>16 test year for an anticipated -</p> <p>17 MS. MCSHANE:</p> <p>18 A. Yeah, I mean, if you say you're going to</p> <p>19 adjust the historic test year for known and</p> <p>20 measurable changes, you may be into, you know,</p> <p>21 what's effectively a forward test year anyway.</p> <p>22 CHAIRMAN:</p> <p>23 Q. Yeah, I mean you always start from your</p> <p>24 actuals, don't you? That's your starting</p> <p>25 point.</p>

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<p>1 MS. MCSHANE:</p> <p>2 A. Yes, I mean you would start from your actuals</p> <p>3 and then you would build into your, you know,</p> <p>4 your historic numbers, what you expect to</p> <p>5 happen during your rate year.</p> <p>6 CHAIRMAN:</p> <p>7 Q. Now, where are we with interest rates? Tell</p> <p>8 me what is normal. I don't want to take up a</p> <p>9 lot of your time now.</p> <p>10 MS. MCSHANE:</p> <p>11 A. It's a hard thing.</p> <p>12 CHAIRMAN:</p> <p>13 Q. But you used the word "normal".</p> <p>14 MS. MCSHANE:</p> <p>15 A. I did use the word "normal".</p> <p>16 CHAIRMAN:</p> <p>17 Q. You used it twice.</p> <p>18 MS. MCSHANE:</p> <p>19 A. I probably used it more than twice. I would</p> <p>20 say that over a full business cycle, once we</p> <p>21 get out of this situation with governments</p> <p>22 trying to keep interest rates low and the</p> <p>23 economies of the world -</p> <p>24 CHAIRMAN:</p> <p>25 Q. And how's that going to happen? Excuse me,</p>	<p>1 Q. I mean, what's going to happen with this, I</p> <p>2 mean this vast infusion of--I call it</p> <p>3 counterfeiting, into the money supply. I</p> <p>4 mean, how is that going to be sorted out and</p> <p>5 get back to what you consider to be normal?</p> <p>6 MS. MCSHANE:</p> <p>7 A. I would say that there's still some work to do</p> <p>8 in terms of particularly in the US, there's</p> <p>9 still some work to do to get out fiscal house</p> <p>10 in order. I mean, I think it can be done,</p> <p>11 it's just going to take awhile.</p> <p>12 CHAIRMAN:</p> <p>13 Q. Well according to what I read today, I wish</p> <p>14 you good luck with that one.</p> <p>15 MS. MCSHANE:</p> <p>16 A. Well thank you. Normal interest rates I would</p> <p>17 say would be in Canada of 5 percent for the</p> <p>18 long Canada yield and that would be sort of</p> <p>19 consistent with long term growth in the</p> <p>20 economy and inflation of about two percent.</p> <p>21 You know, you would expect that to vary</p> <p>22 obviously over a business cycle and I would</p> <p>23 think that if you got into the low 4s you</p> <p>24 could consider that you've gotten yourself</p> <p>25 back to the path to normal.</p>
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<p>1 just stop you there, how's that going to</p> <p>2 happen? How are they going to get out of this</p> <p>3 mess?</p> <p>4 MS. MCSHANE:</p> <p>5 A. Well if I could find you the answer, I'd be -</p> <p>6 CHAIRMAN:</p> <p>7 Q. Yeah, you'd be hove off in some Greek Island</p> <p>8 wouldn't you.</p> <p>9 MS. MCSHANE:</p> <p>10 A. If I had the crystal ball, I'd be rich.</p> <p>11 CHAIRMAN:</p> <p>12 Q. I mean, I read this stuff every day and I mean</p> <p>13 I read the Krugman, I mean everybody's</p> <p>14 favourite economist is saying well we're going</p> <p>15 to mint a trillion dollar coin, deposit it</p> <p>16 into treasury and that's going to solve the</p> <p>17 American debt.</p> <p>18 MS. MCSHANE:</p> <p>19 A. Sure it is, okay.</p> <p>20 CHAIRMAN:</p> <p>21 Q. I mean, but he's got credibility with you</p> <p>22 crowd in the states.</p> <p>23 MS. MCSHANE:</p> <p>24 A. Yes, I know.</p> <p>25 CHAIRMAN:</p>	<p>1 CHAIRMAN:</p> <p>2 Q. So your real returns would be around two to</p> <p>3 three percent, somewhere around there.</p> <p>4 MS. MCSHANE:</p> <p>5 A. Sorry?</p> <p>6 CHAIRMAN:</p> <p>7 Q. Your real returns would be around, depending</p> <p>8 on what date your inflation target is.</p> <p>9 MS. MCSHANE:</p> <p>10 A. That's right, exactly.</p> <p>11 CHAIRMAN:</p> <p>12 Q. So arising out of one of the questions that</p> <p>13 Ms. Greene asked you, I take it as a</p> <p>14 corollary, all companies in Canada say the</p> <p>15 EMERA and Pacific North West are average.</p> <p>16 MS. MCSHANE:</p> <p>17 A. Because of the way regulators tend to set</p> <p>18 capital structure, they sort of set them up in</p> <p>19 such a way to be average. I mean, that's kind</p> <p>20 of the approach.</p> <p>21 CHAIRMAN:</p> <p>22 Q. Therefore average doesn't really help us a</p> <p>23 lot, does it? We know we got Pacific North</p> <p>24 West and we got EMERA, other than that,</p> <p>25 everybody seems to be in the same boat.</p>

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<p>1 MS. MCSHANE:</p> <p>2 A. Because of the way the capital--I mean I'm</p> <p>3 sure there are others that you could say are</p> <p>4 somewhat different because there's not been</p> <p>5 this offset, but that tends to be the way the</p> <p>6 regulatory approach to cost of capital has</p> <p>7 worked across different provinces.</p> <p>8 CHAIRMAN:</p> <p>9 Q. Thank you.</p> <p>10 KELLY, Q.C.:</p> <p>11 Q. Mr. Chairman, I have two questions on re-</p> <p>12 direct, if I may.</p> <p>13 CHAIRMAN:</p> <p>14 Q. I'm sorry, yes, of course.</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. Ms. McShane, the first comes back to the</p> <p>17 discussion you were having with Mr. Johnson</p> <p>18 but Ms. Greene covered a lot of this is her</p> <p>19 examination. You talked about the various</p> <p>20 operating factors as Mr. Johnson went through</p> <p>21 with you and the uniqueness of any individual</p> <p>22 company from an operating perspective, yet</p> <p>23 your sample ultimately has overall investment</p> <p>24 risk profile essentially comparable. You have</p> <p>25 summarized that, I understand, in Exhibit B</p>	<p>1 factor. You look at the total assets, the</p> <p>2 total assets give you a sense of, I guess to</p> <p>3 state the obvious, size which I suggested to</p> <p>4 Ms. Greene, does give you a sense of how</p> <p>5 liquid the securities are going to be which is</p> <p>6 important to an investor. You look at the</p> <p>7 percentage of assets in the regulated</p> <p>8 operations which gives you an idea of pure</p> <p>9 play, how much utility is there. Then you can</p> <p>10 look at the customers by type to see if there</p> <p>11 is really something that sets this utility</p> <p>12 apart in terms of its customer base. Very</p> <p>13 important is all of these factors that are</p> <p>14 related the regulatory environment. We look</p> <p>15 at what kind of test year do these various</p> <p>16 operating subsidiaries have; what have their</p> <p>17 allowed returns been; did they have any kind</p> <p>18 of earnings/sharing framework; what kind of</p> <p>19 deferral mechanisms do their regulators allow?</p> <p>20 And that's not just deferral mechanisms on</p> <p>21 such things as employee pensions expenses, but</p> <p>22 very important would be fuel and cost since</p> <p>23 that happens to be a very large component of</p> <p>24 most utilities costs. And then we have some</p> <p>25 indication of whether they do have protection</p>
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<p>1 and I've asked Mr. Wells to bring you up on</p> <p>2 the screen the Southern Company one, which is</p> <p>3 the one you used when you were addressing Ms.</p> <p>4 Greene. And very quickly can you just take us</p> <p>5 down through the left-hand side of this and</p> <p>6 show to the Board where you've included in</p> <p>7 your analysis the consideration of all of</p> <p>8 these factors that you've talked about?</p> <p>9 Without going through it in great detail, just</p> <p>10 show it to the Board the inclusion of these</p> <p>11 factors?</p> <p>12 MS. MCSHANE:</p> <p>13 A. Okay. And I have to say that in addition to</p> <p>14 what's in Appendix B, per say, I mean there</p> <p>15 are factors that are set out on Schedule 13 as</p> <p>16 well.</p> <p>17 KELLY, Q.C.:</p> <p>18 Q. Exactly.</p> <p>19 MS. MCSHANE:</p> <p>20 A. So, if we look at Southern Company for</p> <p>21 example, start with the fact that you look,</p> <p>22 you know, what are the operations, where are</p> <p>23 they and immediately we see that you've got</p> <p>24 operations that are diversified across a</p> <p>25 number of states. So, that's a positive</p>	<p>1 on whether--or sales volumes, and also the</p> <p>2 view of the rating agencies as far as the</p> <p>3 regulatory climate, and also with Moody's, I</p> <p>4 mean, their view of the financial strength of</p> <p>5 the company. In addition, on Schedule 13 of--</p> <p>6 Schedule 13, page 1 of 2, for each of these</p> <p>7 companies, if you look down at Southern</p> <p>8 Company, there's some additional risk related</p> <p>9 information including a safety raking for the</p> <p>10 company. In case of Southern Company, it's</p> <p>11 one of the highest safety companies. It looks</p> <p>12 at the capital structure, what they're</p> <p>13 expected to earn, look at the beta of a</p> <p>14 company, you can see for example in Southern</p> <p>15 Company's case it's lower than the average for</p> <p>16 the sample. Also look at the business risk</p> <p>17 profile that Moody's--I'm sorry, that S&P</p> <p>18 assigns to each of these companies and you can</p> <p>19 see, for example, that Southern Company is</p> <p>20 excellent, which is the lowest business risk</p> <p>21 profile category. And then again the debt</p> <p>22 ratings for Southern Company, it's got a solid</p> <p>23 A rating by S&P and the same rating on</p> <p>24 Moody's, for Moody's as Newfoundland Power.</p> <p>25 KELLY, Q.C.:</p>

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<p>1 Q. And you've done that comparative analysis for</p> <p>2 each of the companies in your comparative</p> <p>3 group?</p> <p>4 MS. MCSHANE:</p> <p>5 A. Absolutely, yes, I have.</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. The last question I had for you, Ms. McShane,</p> <p>8 was a technical one. You had a discussion</p> <p>9 with Mr. Johnson about weather normalization</p> <p>10 and decoupling and it might be useful if you</p> <p>11 just explain for the Board what decoupling</p> <p>12 means.</p> <p>13 MS. MCSHANE:</p> <p>14 A. Decoupling is where revenues and volumes are</p> <p>15 essentially delinked, so that if a company has</p> <p>16 a certain revenue requirement, it has an</p> <p>17 opportunity to recover that full revenue</p> <p>18 requirement irrespective of how much it sells</p> <p>19 because there are adjustments for factors such</p> <p>20 as weather and for, say, reduction in</p> <p>21 consumption due to, it could be lower demand</p> <p>22 because of conservation, for example. And</p> <p>23 decoupling has become a very common approach</p> <p>24 in regulatory jurisdiction in the US and to</p> <p>25 some extent in Canada because, primarily</p>	<p>1 think the adjustments are made for that, you</p> <p>2 know, in every quarter, if you understand what</p> <p>3 I am saying. I mean, I think they report what</p> <p>4 they actually sold and earned in the quarter</p> <p>5 and then the adjustments are done later. And</p> <p>6 so that's why you really need to look at the</p> <p>7 annual numbers.</p> <p>8 MR. JOHNSON:</p> <p>9 Q. Are you suggesting that coupling obviates</p> <p>10 variability from lack of weather</p> <p>11 normalization?</p> <p>12 MS. MCSHANE:</p> <p>13 A. Sorry, could you say that again?</p> <p>14 MR. JOHNSON:</p> <p>15 Q. Are you suggesting that coupling fully</p> <p>16 obviates variations from lack of weather</p> <p>17 normalization?</p> <p>18 MS. MCSHANE:</p> <p>19 A. It depends on the decoupling mechanism. There</p> <p>20 are different decoupling mechanisms, some of</p> <p>21 them don't necessarily address weather, some</p> <p>22 of them do. Full decoupling would address</p> <p>23 both weather and changes in demand due to the</p> <p>24 things other than weather.</p> <p>25 MR. JOHNSON:</p>
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<p>1 because conservation has become such a big</p> <p>2 issue and utilities generally are not incented</p> <p>3 to promote conservation because they make less</p> <p>4 money, so decoupling makes, essentially makes</p> <p>5 utilities indifferent to whether they sell</p> <p>6 more or less gas or electricity. So it's not</p> <p>7 put in place as a risk mitigator per se, but</p> <p>8 that's effectively what is accomplished.</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Thank you, Mr. Chair, those are my questions.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. I just have one arising there regarding the</p> <p>13 decoupling, if I could. Is that permitted or</p> <p>14 -</p> <p>15 CHAIRMAN:</p> <p>16 Q. Sure.</p> <p>17 MR. JOHNSON:</p> <p>18 Q. In terms of the decoupling and the link with</p> <p>19 weather normalization, Ms. McShane, if there</p> <p>20 was pure decoupling which would totally take</p> <p>21 the place of, say, weather normalization,</p> <p>22 would you expect to see variations quarterly</p> <p>23 in terms of earnings, would you?</p> <p>24 MS. MCSHANE:</p> <p>25 A. See, I think you still would because I don't</p>	<p>1 Q. Thank you.</p> <p>2 CHAIRMAN:</p> <p>3 Q. So I think you are free, thank you.</p> <p>4 MS. MCSHANE:</p> <p>5 A. Thank you very much.</p> <p>6 CHAIRMAN:</p> <p>7 Q. Okay, now what are we doing?</p> <p>8 MS. GLYNN:</p> <p>9 Q. We are free as well.</p> <p>10 (2:45 p.m.)</p> <p>11 CHAIRMAN:</p> <p>12 Q. Are we finished for the day? Oh, okay, well</p> <p>13 we are finished for the day then, ladies and</p> <p>14 gentlemen.</p> <p>15 MR. JOHNSON:</p> <p>16 Q. I think and I don't want to step into it</p> <p>17 again, but I think -</p> <p>18 CHAIRMAN:</p> <p>19 Q. Why are you looking at her and not at me.</p> <p>20 KELLY, Q.C.:</p> <p>21 Q. In the previous discussion we've asked the</p> <p>22 witness to stand down when placed -</p> <p>23 GREENE, Q.C.:</p> <p>24 Q. No, and I think what--there have been some</p> <p>25 discussion earlier, we had been somewhat</p>

<p style="text-align: right;">Page 209</p> <p>1 optimistic and thought that we might finish 2 earlier and we had talked about that it would 3 be useful to hear Dr. Vander Weide's direct 4 today if that was based on finishing earlier, 5 but I think you would like--you're suggesting 6 we still go ahead with Dr. Vander Weide, is 7 it?</p> <p>8 MR. JOHNSON:</p> <p>9 Q. It would be preferable and I'm being--entirely 10 personal reasons for this, and that is -</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. Ask the witness to just stand down, he's 13 physically here, but we've proceeded on the 14 basis we'd put him on 9 o'clock in the 15 morning, as the previous discussion.</p> <p>16 GREENE, Q.C.:</p> <p>17 Q. Our discussion was based, we had thought that 18 we would finish Ms. McShane earlier, when we 19 had talked earlier and talked about this, 20 right.</p> <p>21 CHAIRMAN:</p> <p>22 Q. So we got a disagreement, you'd like to hear 23 him now and you're saying 9 o'clock.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. That's what we had discussed earlier and had</p>	<p style="text-align: right;">Page 211</p> <p>1 that's particularly a useful function and 2 we've proceeded accordingly.</p> <p>3 CHAIRMAN:</p> <p>4 Q. We shall adjourn. Thank you.</p>
<p style="text-align: right;">Page 210</p> <p>1 agreed and have so advised the witness.</p> <p>2 CHAIRMAN:</p> <p>3 Q. Oh.</p> <p>4 MS. GLYNN:</p> <p>5 Q. I'd also note that the later we proceed, the 6 later the transcript will be out for review, 7 so I don't know if that would affect any other 8 considerations for the parties.</p> <p>9 MR. JOHNSON:</p> <p>10 Q. Well having it late this evening is better 11 than hearing it tomorrow morning, from my 12 perspective. I guess from my perspective the 13 issue, I've had some cross-examination split 14 up already which meant that I've, you know, I 15 had to have two or three people in mind after 16 hours and it would be, it would be most 17 convenient if I could hear what Dr. Vander 18 Weide has to say, particularly given the fact 19 that, you know, we've indicated that we would 20 be prepared to sit a little -</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. And mindful, it's been a long day, we're going 23 to get into some more technical discussion and 24 at 10 to 3 in the afternoon, having sat since 25 9 o'clock this morning, I'm not sure that</p>	<p style="text-align: right;">Page 212</p> <p>1 CERTIFICATE</p> <p>2 I, Judy Moss, do hereby that the foregoing is 3 a true and correct transcript of a hearing in the 4 matter of Newfoundland Power Inc.'s General Rate 5 Application heard on the 16th day of January, 2013 6 at the offices of the Board of Commissioners of 7 Public Utilities, St. John's, Newfoundland and 8 Labrador and was transcribed by me to the best of 9 my ability by means of a sound apparatus.</p> <p>10 Dated at St. John's, NL this 11 16th day of January, 2013 12 Judy Moss 13 Discoveries Unlimited Inc.</p>

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