

1 **Volume 3, Section 1 – McShane, Cost of Capital**

2  
3 **Q.** (page 16, lines 451-454, footnote 8, and Statistical Exhibit, Schedule 1)

- 4  
5 a. Please provide the empirical evidence on which the statement in lines 453-454 is  
6 based.  
7 b. For all those utilities listed in Schedule 1 with an “A” rating, please provide the  
8 indicated spread above similar-maturity Canada bonds, on a quarterly (quarter-  
9 ending) basis, for the past 5 years, as well as the average of these spreads for each  
10 period.  
11 c. For each of Fortis BC Inc. and PNG, please provide the indicated spread above  
12 similar-maturity Canada bonds, on a quarterly (quarter-ending) basis, for the past  
13 5 years.  
14 d. What have been the debt ratings for TransAlta Corporation’s various debt issues  
15 over the past 5 years, and which issue(s) and spreads are being referred to in  
16 footnote 8?

- 17  
18 **A.** (a) The indicated spread of 175 basis points represents the difference between the  
19 indicated spread for a new 30-year debt issue for TransAlta Corporation and the  
20 average indicated spread for a similar issue for CU Inc., Enbridge Inc., Enbridge  
21 Pipelines, Gaz Metro Inc., and TransCanada PipeLines at the end of May 2003.  
22 The support for the indicated spread is found in Attachment A.  
23  
24 (b) Ms. McShane has not compiled all of the data requested nor does she have access  
25 to all of the requested data. The indicated spread referred to in the testimony is no  
26 longer published in the RBC Credit Weekly. Therefore, the data have only been  
27 made available to Ms. McShane on a special request basis since late 2004.  
28 Attachment B contains the month-end history of the indicated 30-year spreads for  
29 those A-rated utilities found on Schedule 1 for which data are provided by RBC.  
30 The data are monthly for the period January 2002 through November 2004 when  
31 RBC ceased releasing the data in the Credit Weekly. The remaining data in the  
32 file represent all of the additional indicated 30-year spreads in Ms. McShane’s  
33 possession.  
34  
35 (c) Ms. McShane does not have the requested data.  
36  
37 (d) TransAlta’s debt ratings are provided in response to CA-NP 271b. The spreads  
38 referred to in footnote 8 are indicated spreads for a new 30-year debt issue as  
39 provided by RBC Capital Markets and therefore do not refer to specific debt  
40 issues.

**RBC Credit Weekly Report**  
**June 2, 2003**

**MTN NEW ISSUE SPREAD INDICATIONS**

PRICING BOND	2yr	3yr	5yr	7yr	10yr	30yr
	CAN 3.5% 1JUN05	Interp (0.75% 1DEC05 & 5.75% 1SEP06)	CAN 6% 1JUN08	CAN 5.5% 1JUN10	CAN 5.25% 1JUN13	CAN 5.75% 1JUN29
NEAR-TERM BENCHMARK BOND	CAN 3.5% 1JUN05	CAN 4.75% 1DEC05	CAN 6% 1JUN08	CAN 5.5% 1JUN10	CAN 5.25% 1JUN13	CAN 5.75% 1JUN29
NEAR-TERM BENCHMARK BOND YIELD	3.20%	3.33%	3.87%	4.21%	4.51%	5.04%
CURVE ADJUSTMENT	0.00%	0.11%	0.00%	0.00%	0.00%	0.00%
BENCHMARK YIELD	3.20%	3.44%	3.87%	4.21%	4.51%	5.04%

	Ratings			Credit Spreads (vs. curve)					
	DBRS	Moody's	S&P	2yr	3yr	5yr	7yr	10yr	30yr
ROYAL BANK OF CANADA	AA(low)	Aa2	AA-	20	24	30	41	51	
CITIBANK CANADA	AA	-	AA	31	36	46	57	69	

**ENERGY UTILITIES**

ALLIANCE PIPELINE LIMITED PARTNERSHIP (25 yr. final, 15 yr. average life)	A(low)	A3	BBB+						140
TERASEN INC.	A(low)	A3	BBB		95	105	125	145	200
TERASEN GAS INC.	A	A2	BBB+		85	95	115	130	180
CU INC.	A(high)	-	A+		46	52	64	77	110
CANADIAN UTILITIES LIMITED	A	-	A+		53	62	76	92	130
ENBRIDGE GAS DISTRIBUTION INC.	A	-	A-		55	65	80	95	135
ENBRIDGE INC.	A	A3	A-		65	75	95	115	175
ENBRIDGE PIPELINES INC.	A(high)	-	A-		55	65	80	95	135
EPCOR UTILITIES INC.	A(low)	-	BBB+		90	105	125	145	195
GAZ METROPOLITAIN INC.	A	-	A	43	48	55	70	85	120
HYDRO ONE INC.	A	A2	A-		47	56	68	80	110
NOVA SCOTIA POWER INCORPORATED	A(low)	-	BBB+		85	100	120	140	190
TRANSALTA CORPORATION	BBB(high)	Baa1	BBB-		160	195	230	250	310
TRANSCANADA PIPELINES LIMITED	A	A2	A-		75	90	105	125	175
UNION GAS LIMITED	A	-	A-		65	80	90	100	145
WESTCOAST ENERGY INC.	A(low)	-	A-		73	88	102	122	172

**TELECOM**

ALIANTELECOM INC.	A	-	A	42	50	60	70	80	137
BCE INC.	A	Baa1	A-	48	58	73	88	103	165
BELL CANADA	A(high)	A3	A	42	50	60	70	80	137
MANITOBA TELECOM SERVICES INC.	A(low)	-	A	42	50	60	70	80	137
TELUS CORPORATION	BBB	Ba1	BBB	210	220	230	250	270	315

**NON-BANK FINANCIALS**

ASSOCIATES CAPITAL CORPORATION OF CANADA	AA	Aa1	AA-	31		46	57	69	
BOMBARDIER CAPITAL LTD.	BBB(high)	Baa3	BBB-			Pricing Indications Temporarily Suspended			
CATERPILLAR FINANCIAL SERVICES LIMITED	A(high)	A2	A+	45	50	60			
DAIMLERCHRYSLER CANADA FINANCE INC.	A(low)	A3	BBB+	145	155	175			
FORD CREDIT CANADA LIMITED	BBB(high)	A3	BBB	345	365	385			
GE CAPITAL CANADA FUNDING COMPANY	AAA	Aaa	AAA	35	41	53	63	73	
GENERAL MOTORS ACCEPTANCE CORPORATION OF CANADA	A(low)	A2	BBB	260	270	290	315	335	
HOUSEHOLD FINANCIAL CORPORATION LIMITED	A	A2	A-	66	71	82			
JOHN DEERE CREDIT INC.	A	A3	A-	56	66	81			
MBNA CANADA BANK	A(low)	-	-	120	125	135			
TEXTRON FINANCIAL CANADA FUNDING CORPORATION	-	A3	A-	140	150	175			
BRASCAN FINANCIAL CORPORATION	A(low)	-	BBB+		225	250	275	300	
WELLS FARGO FINANCIAL CANADA CORP.	AA(low)	Aa2	A+	29	34	44	54	66	

**OIL & GAS**

BURLINGTON RESOURCES CANADA ENERGY INC.	BBB(high)	Baa1	-		100	115	135	150	
CANADIAN NATURAL RESOURCES LIMITED	BBB(high)	Baa1	BBB+		90	105	125	140	
CANADIAN OIL SANDS LIMITED	-	Baa2	BBB+			125	140	155	
CONOCO CANADA RESOURCES LIMITED	-	A3	A-		100	115	135	150	
DEVON CANADA CORPORATION	BBB(low)	Baa3	BBB		115	135	155	185	
ENCANA CORP.	A(low)	Baa1	A-		66	75	85	100	
HUSKY ENERGY INC.	BBB(high)	Baa2	BBB		115	135	150	165	
NEXEN INC.	BBB	Baa2	BBB		110	135	150	165	
SUNCOR ENERGY INC.	A(low)	A3	A-		60	70	80	95	
TALISMAN ENERGY INC.	BBB(high)	Baa1	BBB+		95	110	130	145	

**GENERAL**

CANADIAN PACIFIC RAILWAY COMPANY	BBB	Baa2	BBB		70	85	105	125	175
CANADIAN TIRE CORPORATION LIMITED	A(low)	-	BBB+		65	75	95	110	
COCA COLA ENTERPRISES (CANADA) BOTTLING FINANCE COMPANY	A	A2	A	42	52	62	77	92	
DOFASCO INC.	A(low)	-	A-	90	105	130	150	170	
FINNING INTERNATIONAL INC.	BBB(high)	-	BBB+		105	120	130	150	
GEORGE WESTON LIMITED	A(low)	-	A-		50	55	70	83	125
GREATER TORONTO AIRPORTS AUTHORITY	A(high)	A2	A		90	100	115	140	185
IMPERIAL TOBACCO CANADA LIMITED	A	Baa1	A-		100	120	140	180	
LOBLAW COMPANIES LIMITED	A(high)	-	A		40	45	58	68	105
NAV CANADA	AA(high)	Aa3	AA		43	50	60	70	100
ROYAL GROUP TECHNOLOGIES LIMITED	BBB(high)	-	BBB			Pricing Indications Temporarily Suspended			
SEARS CANADA INC.	BBB(high)	-	BBB		165	195	215	230	
THE THOMSON CORPORATION	A(low)	A3	A-		55	65	75	85	125

**The Month-End History  
of the 30-Year Spreads for A-Rated Utilities**

Date	CU Inc.	Gaz									
		Enbridge Gas Distribution Inc.	Enbridge Pipelines Inc.	Epcor Utilities Inc.	Métropolitain Inc.	Hydro One Inc.	Nova Scotia Power Inc.	Terasen Gas Inc.	Union Gas Ltd.	TransCanada Pipelines Ltd.	Westcoast Energy Inc.
Jan-02	95	128	128				145	140	110	130	110
Feb-02	103	142	142				165	150	120	135	120
Mar-02	96	133	133				148	143	113	118	113
Apr-02	95	133	133				148	145	100	123	100
May-02	100	125	125				150	145	103	130	103
Jun-02	105	125	125				160	150	110	135	110
Jul-02	125	145	145	230		105	180	165	190	165	190
Aug-02	125	135	135	220		105	190	165	165	170	170
Sep-02	125	145	145	250		113	195	170	175	185	180
Oct-02	130	143	143	300		120	205	180	185	205	190
Nov-02	103	125	125	255		115	195	170	165	180	170
Dec-02	103	125	125	220		114	195	170	165	190	170
Jan-03	104	130	130	215		86	200	170	180	200	200
Feb-03	105	135	135	210		100	210	185	190	205	215
Mar-03	115	140	140	215		115	210	190	180	205	205
Apr-03	105	128	128	190	120	98	190	180	145	165	165
May-03	110	135	135	195	120	110	190	180	145	175	172
Jun-03	105	125	125	180	120	99	190	175	135	158	160
Jul-03	100	125	125	175	120	92	190	170	135	145	150
Aug-03	97	125	125	175	115	95	170	170	135	145	150
Sep-03	95	110	110	160	100	82	160	150	130	139	145
Oct-03	90	103	103	150	95	80	155	145	127	137	142
Nov-03	90	95	95	135	86	80	150	135	110	120	128
Dec-03	85	85	85	125	82	78	135	125	105	105	120
Jan-04	83	84	82	125	82	78	135	125	105	103	120
Feb-04	82	87	87	127	84	77	135	122	104	104	128
Mar-04	85	93	93	130	88	87	140	127	113	115	140
Apr-04	85	90	90	130	88	76	135	125	110	110	135
May-04	96	100	100	135	93	86	135	135	120	120	145
Jun-04	100	107	107	140	95	88	145	140	122	123	145
Jul-04	97	105	105	145	91	91	142	137	121	120	145
Aug-04	95	103	103	147	88	88	138	138	123	120	140
Sep-04	95	100	100	138	87	87	135	135	121	118	138
Oct-04	97	104	104	135	87	88	133	135	120	119	138
Nov-04	88	99	99	131	84	84	125	132	115	116	130
Aug-05	80	90	90	126	80	74	122	120	114	114	125
Apr-06	90	100	100	129	89	85	135	129	118	117	123
Jun-06	94	105	105	132	94	87	140	145	123	120	128
Sep-06	97	100	100	133	99	85	142	142	120	120	125
Nov-06	93	96	96	130	95	77	140	130	114	116	120
Dec-06	92	95	95	135	97	79	138	130	107	115	118