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INVOICE TO: Guy Sarault, Heenan Blakie
FROM: Laurence Booth
DATE: May 9, 2008
RE: Gaz Metro Estimate

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I have read the Gaz Metro submission on rate of return. There are two major themes:

- credit spreads vs equity risk premia;
- issue costs.

The latter issue can be dealt with quite easily since the question is whether the overall return is fair. Different jurisdictions have arrived at the formulae in different ways but the question is whether the overall ROE is fair and reasonable and you can not “cherry pick” the individual pieces. I would discuss the following:

- Tax treatment of some of the costs which reduces the estimate;
- Dilution is relative to the book value and if the stock is selling above book value, there is no need for any issue costs;
- My 50 basis points results from a consensus on the “cushion” of the ROE over the capital market required return.

The bigger issue is the credit spread and to be honest I am somewhat surprised that other witnesses have not picked up on this argument, since it is so “objective” and plausible. Here I would discuss the following:

- Cyclical nature of the spreads;
- Liquidity spreads not related to risk premia;
- Bond and equity markets do not necessarily move together and risk premia embedded in bonds are time dependent.

The data to support the risk premia is generally not available on corporate bonds, since they do not trade very often and there are so many different bond issues outstanding

versus generally a single common share issue.

Overall I would estimate about \$25,000 plus GST. This is based on the following hourly estimates:

	Hours
Reading testimony and preparing IRs	7
Collecting literature on structural spread models	14
Collecting and analysing spread data	21
Reviewing issue costs	7
Writing & discussing report	14
Answering IRs	4
Attendance at hearing	9
Total	76
Invoice Estimate at \$330 an hour	26334

The cost is relatively high compared to standard ROE testimony since the issues are unique so I can't simply update existing appendices and there are fixed costs attached to testifying, ie., asking and answering IRs and attendance.

Since the amount is low relative to a full ROE hearing I would not require a retainer.