RÉGIE DE L'ÉNERGIE

DEMANDE DE GAZIFÈRE INC.
PORTANT SUR LE TAUX DE RENDEMENT DE GAZIFÈRE INC.

DOSSIER : R-3724-2010 - Phase 2

RÉGISSEURS : Me LOUISE ROZON, présidente
M. RICHARD CARRIER
Me LISE DUQUETTE

AUDIENCE DU 31 AOÛT 2010

VOLUME 1

DENISE TURCOT
sténographe officielle

COMPARUTIONS

Me LOUIS LEGAULT,
procureur de la Régie

REQUÉRANTE :
Me LOUISE TREMBLAY et
Me VERONICA MOLLICA
procureurs de Gazifère inc.

INTERVENANTS :

Me STÉPHANIE LUSSIER
procureur de l'Association coopérative d'économie familiale de l'Outaouais (ACEFO)

Me GUY SARAULT
procureur de l'Association des consommateurs industriels de gaz (ACIG)

Me ANDRÉ TURMEL
procureur la Fédération canadienne de l'entreprise indépendante (FCEI)

Me GENEVIÈVE PAQUET (absente)
procureur du Groupe de recherche appliquée en macroécologie (GRAME)

Me DOMINIQUE NEUMAN (absent)
procureur de Stratégies énergétiques et Association québécoise de lutte contre la pollution atmosphérique (S.É.-AQLPA)

Me STEVE CADRIN
procureur de l'Union des municipalités du Québec (UMQ)

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EN L'AN DEUX MILLE DIX (2010), ce trente et unième (31e) jour du mois d'août,

LA GREFFIÈRE :

Protocole d'ouverture. Audience du 31 août 2010. Dossier R-3724-2010, phase 2, portant sur le taux de rendement de Gazifère inc.

Les Régisseurs désignés dans ce dossier sont maître Louise Rozon, présidente de la formation, de même que monsieur Richard Carrier et maître Lise Duquette.

Le procureur de la Régie est maître Louis Legault.

La requérante est Gazifère inc. représentée par maître Louise Tremblay.

Me LOUISE TREMBLAY :

Bonjour.

LA GREFFIÈRE :

Les intervenants sont Association coopérative d'économie familiale de l'Outaouais représentée par maître Stéphanie Lussier.

Me STÉPHANIE LUSSIER :

Bonjour.

LA GREFFIÈRE :

Association des Consommateurs industriels de gaz

représentée par maître Guy Sarault.

Me GUY SARAULT :

Bonjour.

LA GREFFIÈRE :

Fédération canadienne de l'entreprise indépendante représentée par maître André Turmel.

Me ANDRÉ TURMEL :

Bonjour.

LA GREFFIÈRE :

Groupe de recherche appliquée en macroécologie représenté par maître Geneviève Paquet.

Stratégie énergétique et Association québécoise de lutte contre la pollution atmosphérique représentée par maître Dominique Neuman.

Union des municipalités du Québec représentée par maître Steve Cadrin.

Y a-t-il d'autres personnes dans la salle qui désirent présenter une demande ou faire des représentations au sujet de ce dossier?

Je demanderais, par ailleurs, aux parties de bien s'identifier à chacune de leurs interventions pour les fins de l'enregistrement.

Aussi auriez-vous l'obligeance de vous assurer que votre cellulaire est fermé durant la

tenue de l'audience. Merci.

LA PRÉSIDENTE :

Merci, Madame la greffière et bonjour à vous tous. J'aimerais tout d'abord préciser qu'aux membres de la présente formation et au procureur de la Régie s'ajoute monsieur Phi Dang qui agit à titre de chargé de projets et monsieur Gaston Bilodeau qui agit à titre de spécialiste dans le cadre de la phase 2 du présent dossier.

Alors, aujourd'hui, la Régie tient une audience publique dans le cadre de cette phase 2 du dossier R-3724-2010 qui porte sur les sujets reliés au taux de rendement sur l'avoir de l'actionnaire.

Depuis le début de ce dossier, nous avons accompli beaucoup de travail. Voici en résumé les principales étapes franchies. Alors, le 4 mars 2010, Gazifère dépose à la Régie une demande relative au renouvellement de son mécanisme incitatif, à la fermeture réglementaire de ses livres pour la période du 1er janvier 2009 au 31 décembre 2009, à l'approbation de son plan d'approvisionnement pour l'exercice 2011, à la modification de ses tarifs et à l'approbation de certaines autres conditions auxquelles le gaz naturel sera fourni, transporté ou livré aux

consommateurs à compter du 1er janvier 2011.

Depuis le dépôt de cette demande, la Régie a rendu cinq décisions. Le 16 mars 2010 la Régie rend la décision procédurale D-2010-028 par laquelle elle décide notamment de procéder à l'examen de cette demande en quatre phases.

La phase 1 a porté sur le renouvellement du mécanisme incitatif et les taux d'amortissement. La phase 2 que l'on entend aujourd'hui porte sur les sujets reliés au taux de rendement sur l'avoir de l'actionnaire. La phase 3 sur la fermeture réglementaire des livres pour l'exercice 2009. Et la phase 4 sur le plan d'approvisionnement pour l'exercice 2011 et les modifications tarifaires à compter du 1er janvier 2011.

Trois autres décisions procédurales ont suivi cette première décision de la Régie, soit les décisions D-2010-037, D-2010-046 et D-2010-049.

Finalement, le 13 août dernier, la Régie rend sa décision D-2010-112 à l'égard des demandes de Gazifère visées par les première et troisième phases du présent dossier.

Vendredi dernier, une demande de rectification a été déposée par Gazifère et la Régie entend traiter cette demande avec diligence dans les

délais indiqués par Gazifère.

Après la présente audience, la Régie va tenir une dernière audience pour traiter des demandes visées par la phase 4 et rendre par la suite une décision finale sur les phases 2 et 4 dans les meilleurs délais afin que les nouveaux tarifs de Gazifère puissent entre en vigueur à compter du 1er janvier 2011.

Également, la Régie compte rendre prochainement sa décision sur les demandes de frais des intervenants relatives aux phases 1 et 3.

Pour le déroulement de la présente audience, la Régie entend respecter l'horaire mentionné dans le calendrier d'audience que vous avez tous reçu. Cet horaire est de 9 h 00 à 15 h 00 et nous allons débuter aujourd'hui par la preuve en chef de Gazifère.

Par la suite, la Régie entendra la preuve des intervenants selon l'ordre annoncé dans le calendrier d'audience et entendra, si nécessaire, la contre-preuve de Gazifère.

La reconnaissance du statut de témoin expert pour madame McShane et pour le docteur Booth se fera avant leur témoignage.

Évidemment, les participants pourront

contre-interroger les témoins et, comme nous avons l'habitude de le souligner, la Régie s'attend à une présentation succincte des points saillants de votre preuve.

Les argumentations des participants et la réplique de Gazifère devraient débuter jeudi, soit après la présentation de l'ensemble des preuves.

Alors, nous aimerions savoir si vous avez des remarques préliminaires ou des observations à soumettre concernant le déroulement de la présente audience. Maître Tremblay.

Me LOUISE TREMBLAY :

Bonjour, Madame la Présidente, Madame, Monsieur les Régisseurs, Louise Tremblay pour Gazifère. Je n'ai qu'un petit commentaire. Je voulais juste aviser la Régie que je suis accompagnée ce matin par maître Veronica Mollica de mon cabinet.

Me VERONICA MOLLICA :

Bonjour.

Me LOUISE TREMBLAY :

Je voulais vous en faire part mais je n'ai pas d'autres commentaires. Les trois témoins de Gazifère sont prêts. Alors, nous sommes prêts à procéder.

LA PRÉSIDENTE :

Parfait. Merci, Maître Tremblay. Est-ce que les intervenants ont des observations à soumettre avant le début de la preuve de Gazifère? C'est beau?

Alors, maître Tremblay, vous pouvez procéder.

Me LOUISE TREMBLAY :

Merci, Madame la Présidente. Alors, Madame la greffière, je vous demanderais, s'il vous plaît, de procéder à l'assermentation des témoins.

LA GREFFIÈRE :

Mme McShane, could you please stand up? Is the microphone open? Do you solemnly affirm to tell the truth, the whole truth and nothing but the truth; say I do?

Mme KATHLEEN C. McSHANE :

I do.

LA GREFFIÈRE :

Please state your name, occupation and business address?

Mme KATHLEEN C. McSHANE :

Kathleen C. McShane. I'm President of Foster Associates Inc., an economic consulting firm in Bethesda, Maryland. The address is 4550 Montgomery Avenue, Suite 350 North, Bethesda, Maryland, 20814.

LA GREFFIÈRE :

Thank you. Madame Vandal-Parent, affirmez-vous solennellement de dire la vérité, toute la vérité, rien que la vérité; dites je l'affirme?

Mme LUCIE VANDAL-PARENT :

Je l'affirme.

LA GREFFIÈRE :

Veuillez, s'il vous plaît, donner vos nom, profession et adresse d'affaire?

Mme LUCIE VANDAL-PARENT :

Mon nom est Lucie Vandal-Parent. Je suis directrice générale de Gazifère au 706, boulevard Gréber à Gatineau.

LA GREFFIÈRE :

Merci. Madame Mauviel, affirmez-vous solennellement de dire la vérité, toute la vérité, rien que la vérité; dites je l'affirme.

Mme LISE MAUVIEL :

Je l'affirme.

LA GREFFIÈRE :

Veuillez, s'il vous plaît, donnez vos nom, profession et adresse d'affaire?

Mme LISE MAUVIEL :

Mon nom est Lise Mauviel. Je suis directrice de la réglementation et des budgets chez Gazifère au 706, boulevard Gréber à Gatineau.

LA GREFFIÈRE :

Merci.

Me LOUISE TREMBLAY :

Alors, bonjour aux membres du panel. Ma première question s'adressera à madame Lucie Vandal-Parent?

INTERROGÉES PAR Me LOUISE TREMBLAY :

Q.1 Alors, Madame Vandal-Parent, au-delà de la preuve écrite qui a été déposée au dossier, y a-t-il des éléments particuliers dont vous désirez traiter qui doivent être pris en considération pour évaluer le risque d'affaires de Gazifère?

Mme LUCIE VANDAL-PARENT :

R. Oui.

Q.2 Alors, je vous demanderais de présenter sommairement ces éléments que vous considérez importants pour évaluer le risque d'affaire de Gazifère.

R. Alors, bien que madame McShane ait traité du risque d'affaire à la section 4 document 1 du présent dossier, j'aimerais apporter à votre attention certains faits issus de notre environnement et puis selon notre expérience sur le terrain, notre expérience au quotidien qui doit être

considérée lors de l'analyse du risque d'affaire de Gazifère.

Alors, moi, je ne vous présenterai pas de formules compliquées ou d'opinions basées sur des données historiques mais je vais vous dire qu'est-ce qu'on vit au quotidien pour que ce soit clair qu'est-ce qui se passe chez Gazifère.

Alors, on a mentionné souvent dans la preuve que la clientèle de Gazifère augmente d'environ 5% par année. C'est vrai et c'est une croissance remarquable. Mais elle est principalement due à la nouvelle construction résidentielle.

Gazifère connaît un tel succès parce que, à compter de 1990, ses efforts de persuasion auprès des entrepreneurs en constructions ont commencé à porter fruit.

En effet, Gazifère a convaincu les constructeurs majeurs, les gros joueurs de l'industrie, que l'avenir appartenait au gaz naturel. Et puis on sait tous que lorsque les gros embarquent, les petits suivent, et c'est ce qui est arrivé.

Mais au fil des ans, Gazifère a

développé une relation privilégiée avec les entrepreneurs en construction mais ce qu'il faut comprendre, c'est que cette relation-là elle est très fragile.

Alors, pour maintenir cette relation, Gazifère doit offrir un niveau de service élevé et constant auprès des entrepreneurs en construction, ce qui signifie pour Gazifère la mobilisation de ressources humaines compétentes et de plus en plus à l'affût des nouvelles technologies.

Il faut offrir des programmes d'efficacité énergétique pertinents.

Il faut répondre rapidement aux nombreuses demandes des entrepreneurs.

Il faut être présent sur les sites de construction pour résoudre les problèmes rapidement.

Il faut appuyer les promoteurs en mettant en place des stratégies pour promouvoir autant les nouveaux développements résidentiels que les maisons modèles à gaz naturel qu'elles construisent.

Alors, les entrepreneurs en

construction ce sont nos partenaires. Sans ces partenaires, il n'y en aura pas de croissance chez Gazifère. Celle-ci suit la nouvelle construction.

Et je ne suis pas certaine qu'on soit le distributeur le plus prometteur au Canada comme ça a été soulevé parce qu'on se fie uniquement ou majoritairement sur la nouvelle construction résidentielle que l'on pourrait perdre n'importe quel temps.

Un autre point que j'aimerais soulever, c'est qu'aujourd'hui Gazifère fait aussi face à une nouvelle problématique, le vieillissement de la population où des clients vieillissants qui amènent un changement dans le type de logement.

Pour cette population, les tendances d'achat d'une nouvelle propriété se dirigent beaucoup plus vers le condominium qui exige de nouvelles technologies à gaz naturel que Gazifère ne possède pas encore ou qui sont encore trop dispendieuses pour la rentabilité des constructeurs.

Ici notre part de marché n'est que de

33% alors que dans le reste de la nouvelle construction résidentielle notre part de marché est de 77%. C'est la moyenne des trois dernières années.

Dans cette même problématique de vieillissement de la population, on constate que les entrepreneurs en construction avec qui nous avons construit la majeure partie de notre clientèle arrive à l'âge de la retraite. C'est désormais une toute nouvelle génération d'entrepreneurs en construction qui prend la relève dans le domaine du développement résidentiel.

Pour cette nouvelle génération de développeurs, de plus en plus informés et exigeants en matière de protection de l'environnement, le gaz naturel répondra-t-il à leur exigence en matière d'énergie propre? La question se pose: Pourrons-nous satisfaire leurs attentes?

Dans ce contexte, la croissance de Gazifère dans le secteur résidentiel va-t-elle maintenir le rythme?

Au niveau du commercial et

institutionnel, Gazifère assiste présentement à la migration de ses volumes de ventes potentielles au profit de nouvelles technologies vertes.

La Ville de Gatineau dans ses nouveaux bâtiments, notamment la nouvelle caserne dans le secteur Gatineau, le nouveau centre sportif et la nouvelle caserne dans le secteur de Buckingham, a opté pour la géothermie. Le gaz naturel n'y est présent que comme source d'appoint.

Tous les bâtiments auront aussi la certification LEED, alors encore moins de volume.

De plus, il y a les programmes de l'Agence de l'efficacité énergétique, peuvent aussi nous affecter. Il y a les programmes d'aide à l'innovation, Technoclimat, le chauffe-eau solaire domestique, c'est un projet pilote de l'Agence de l'efficacité énergétique. Alors, tout ça a un impact sur la croissance.

Et parlons un peu d'Hydro-Québec. On

l'a soulevé à maintes reprises dans presque toutes les preuves, alors j'aimerais vous dire qu'Hydro-Québec nous surprend toujours. La semaine dernière, Hydro-Québec a approché le gestionnaire responsable de la construction d'une bâtisse fédérale dans le secteur de Hull pour lui présenter toutes les subventions liées aux divers programmes d'efficacité énergétique d'Hydro-Québec pouvant s'appliquer à son projet.

Alors que Gazifère était sur le point de signer un contrat avec ce client potentiel, toutes les démarches ont été suspendues. Nous sommes actuellement en attente de la décision du client craignant de perdre ce contrat.

Dans le secteur résidentiel, n'oublions pas qu'Hydro-Québec a un accès aux clients que Gazifère n'a pas. Ils sont présents dans toutes les maisons. Les clients ont besoin d'électricité mais ils n'ont pas besoin de gaz naturel.

A l'heure actuelle, ils laissent la place à Gazifère mais qu'est-ce qui les

empêche de changer de stratégie avec leurs mesures d'efficacité énergétique, avec leurs aides financières généreuses, sont-ils agressifs? Ils pourraient le devenir en tout cas.

L'augmentation des tarifs d'Hydro-Québec? On dit que ça va continuer à augmenter. Ça non plus ce n'est pas coulé dans le béton. Cette année en 2010 on a subi une hausse de .35 %. Le gouvernement pourrait changer d'idée n'importe quel temps.

Un événement qui nous fait mal, je vais vous donner un exemple, la perte de trois clients grand débit. Qui aurait pu savoir au début de notre mécanisme incitatif que Gazifère perdrait ces clients? Si je vous avais dit ça il y a cinq ans, vous ne m'auriez jamais crue.

En plus de perdre ces clients, Gazifère a subi des mauvaises créances. En se plaçant sous la Loi des arrangements avec les créanciers, un client a laissé derrière lui une dette de plus de 500 000 $, un autre de 40 000 $. Bien, je

vous dis que pour un petit distributeur, ça fait mal.

Rapidement, j'aimerais ça qu'on regarde juste le côté coût auquel Gazifère fait face. Prises individuellement, toutes ces augmentations de coûts n'ont pas une réelle importance mais ça s'additionne et, au bout du compte, ça fait une différence sur les tarifs, donc la compétitivité du gaz naturel dans la franchise. Alors, tout le monde veut avoir sa part.

Là, présentement, la Ville de Gatineau veut nous imposer des coûts pour travailler dans les emprises municipales.

On a le Fonds vert qui, depuis 2008, nos clients paient cette redevance mais pas Hydro-Québec. On a des programmes d'efficacité énergétique qui augmentent d'année en année. On parle depuis un certain temps aussi d'une troisième traversée de rivière. Ça va avoir un gros impact sur nos tarifs.

Alors, qu'est-ce que nous réserve l'avenir? Votre boule de cristal est

aussi bonne que la mienne. Et si je comprends bien le risque d'affaire, c'est prospectif. Qu'est-ce qui va arriver dans le futur? On essaie, tant mieux que mal, de prévoir sur des données historiques ce qui va se produire dans l'avenir mais on a tout, tout le monde, on a des exemples de qu'est-ce qui arrive, auxquels on n'a jamais pensé.

Alors, je voudrais juste qu'on se rappelle que la croissance de Gazifère est fragile parce qu'elle dépend d'une relation privilégiée avec ses entrepreneurs en construction.

Alors, je vous laisse avec ces quelques réflexions pour pouvoir mieux comprendre l'environnement, le quotidien de Gazifère.

Q.3 Merci, Madame Vandal-Parent.

Now, I will turn to Mme McShane. Good morning, Mme McShane.

Mme KATHLEEN C. McSHANE :

R. Good morning.

Q.4 I refer you to your *curriculum vitae* filed under Tab GI-4, document 1.1. It's

Exhibit B-1 of the Régie. Can you please describe your education and summarize your professional qualifications, the whole in relation with the present hearing?

R. I have a masters degree in finance from the University of Florida. I'm a chartered financial analyst. I have been working on cost to capital matters since I joined Foster Associates in 1981 when I was a child.

I have been testifying on cost to capital matters since 1987. I've testified before most of the regulators in Canada on behalf of gas distributors, electric utilities, oil and gas pipelines and telephone companies.

There have been more than 200 cases, I believe, I've testified in since that time.

Q.5 And Mme McShane, I understand that you testified as an expert witness in these hearings?

R. Yes, I did. I was qualified as an expert witness in all of those proceedings. I also have testified before the Régie.

Previously I've testified on behalf of Gazifère in 1999 on cost to capital matters in several cases prior to that cost to capital matters.

Me LOUISE TREMBLAY :

Alors, Madame la présidente, à la lumière des informations que madame McShane vient de fournir, à la lumière, dans le fond, de ses qualifications professionnelles, de son expérience, je demanderais à ce que la Régie reconnaisse la qualité d'expert de madame McShane.

J'ai formulé cette demande-là dans une lettre du 23 juillet dernier qui est cotée B-30 dans les pièces de la Régie.

Alors, je demanderais que madame McShane soit reconnue comme expert en matière de taux de rendement et de coût du capital d'entreprises d'utilités publiques.

LA PRÉSIDENTE :

Alors, la Régie reconnaît le statut de témoin expert à madame McShane en matière de taux de rendement et de coût de capital.

Me LOUISE TREMBLAY :

Merci.

Q.6 Mme McShane, I refer you to your prefiled evidence filed under Tab GI-4, documents 1, 1.1 and 1.2 which constitute your opinion on return on equity for Gazifère and the relevant appendices and schedules to your report.

Did you prepare this evidence or was it prepared under your supervision or control?

R. It was prepared by me or under my supervision, yes.

Q.7 Do you wish to make any amendments or corrections to this evidence?

R. No, I do not.

Q.8 Do you adopt this evidence as your written evidence in the present file?

R. I do.

Q.9 I now refer madame Mauviel and yourself to the exhibits prefiled under Sections GI-30, 31 and 32 of the present file. It's Exhibit B-11 of the Régie's exhibits which constitutes Gazifère's answers to the information requests by the Régie, IGUA

and ACEF de l'Outaouais and the exhibits filed in support of these answers.

Have these exhibits been prepared under your control or supervision?

R. The majority of them were prepared by me or under my supervision. Some of them were prepared by Gazifère but I reviewed all of them.

Q.10 So, Madame Mauviel, I understand that certain of the exhibits were also prepared by you?

Mme LISE MAUVIEL :

R. C'est exact.

Q.11 So, do both of you have any amendments or corrections to make to these exhibits?

Mme KATHLEEN C. McSHANE :

R. Not that I'm aware of, no.

Mme LISE MAUVIEL :

R. Aucun changement.

Q.12 Do you both agree that the said exhibits shall constitute your written evidence in the present file?

Mme KATHLEEN C. McSHANE :

R. I do.

Mme LISE MAUVIEL :

R. Oui.
Q.13 Madame McShane, I understand that for the purposes of the present hearing, you have prepared a document summarizing your conclusions and recommendations. Is that correct?
Mme KATHLEEN C. McSHANE :
R. That's correct.
Q.14 We will file this document as Exhibit, I believe, B-36 of the Régie's exhibits and we will file it as document GI-4, document 2.
EXHIBIT B-36:
Document summarizing Mme McShane's conclusions and recommendations.
Me LOUISE TREMBLAY :
Has the presentation been distributed, Madame la greffière?
LA GREFFIÈRE :
Oui.
Me LOUISE TREMBLAY :
Oui? Okay, thank you.
Q.15 So, Mme McShane, can you please proceed with your presentation?
R. Yes. And I apologize in advance, I'm not

very technically qualified. So, I'm going to try to run this presentation.

Good morning, it's nice to be here today with you. I would like to start just by giving you a little bit of context around the request today.

As I'm sure you know, Gazifère last had its ROE reviewed comprehensively in 1999. And since that time, the ROE has been... annual ROE has been subject to an annual adjustment mechanism where the ROE has been changed by 75% of the change in forecast long-term Canada bonds.

In this proceeding, Gazifère and I are asking the Régie to take a fresh look at the ROE and the adjustment formula.

Now, as such, I believe it's incontrovertible that, during 2008, and part of 2009, that our global capital markets experienced a severe crisis.

And in the midst of that crisis, the operation of the automatic adjustment formulas, in jurisdictions throughout Canada, took centre stage if you will. And the question arose of whether the

formula was broken.

I guess from my point of view, the concerns with the formula and the returns that it was producing preceded the onset of the financial crisis.

I don't propose to go through various commentary that was made by various analysts, debt-rating agencies, prior to the financial crisis, but in my testimony, I do note that, in advance of the financial crisis, there certainly were concerns expressed that the formula was producing ROEs that were too low.

And I would, for example, point you to surveys that were taken by the National Energy Board in which they asked analysts, they asked debt-rating agencies, various questions about the financial position of the pipelines that they regulate. And the analysts, some of the analysts were saying they thought that the parameters of the formula were too low, that they thought that the parameters of the formula were not supportive of credit metrics. They did express some concern that, while the

pipeline companies were able to attract capital to some extent, that was a function of them having more than just regulated operations.

So, from my perspective, the issue with the formula and the level of ROEs is not a function of the financial crisis *per se* but a broader concern with the level of returns.

Clearly, during the financial crisis, there was an increased concern that the formula was producing results that were incongruous, I guess is the right way to put it, that the cost of capital in the marketplace was going up, that the formula was producing ROEs that were going down.

So, I say yes, the financial crisis has passed, for all intents and purposes, which is not to say that there aren't still risks to the capital markets out there, but the severe financial crisis that we experienced has clearly passed.

But I think that the basic issue that the formula returns are too low still exists and that it is appropriate to

review not only the base ROE for Gazifère but the formula that would, in the future, be used to adjust the ROE from year to year.

So, in very basic terms, what I'm suggesting is that the Régie rebase the ROE for Gazifère and revise the formula.

So, when I say that the ROE should be rebased, how I'm approaching this is let's take a fresh look at, you know, what is a benchmark utility ROE? And when I say benchmark utility ROE, essentially what I mean is what ROE is applicable to an average risk Canadian utility at a capital structure which is appropriate to that utility.

Then, if you have a utility that does not qualify as a benchmark utility, above-average utility or a utility that's below-average risk, then you would make an adjustment to that benchmark utility ROE to reflect the differences in the risk, business and financial risk in total, from the benchmark.

When I approach estimating the

benchmark ROE, I use multiple cost of equity tests and I apply those tests to companies that would be comparable to a benchmark Canadian utility.

Why do I use different tests as opposed to just one? I think that different tests give you a different perspective on what the cost of equity is. I don't think any of the tests is perfect.

Someone has described each of the test that we have to estimate the cost of equity as blunt instruments. That may be going a little far but they're inexact tools and I believe that you need to look at multiple tests in order to frame, you know, what a fair return would be.

And, of course, it is necessary to apply those tests to companies which are publicly traded, because you have to have market data to determine the cost of equity, and they should be of similar risk to your benchmark utility.

So, the title of this slide is "What Are the Tests", and perhaps this is not as broad as it could be, these are my tests

as opposed to... I mean, there are probably other tests that one could apply and have been applied.

But this is a list of the tests that I have applied in my study to estimate the benchmark return. I have three different risk premium tests. I'm not going to describe each of them at the moment but I'll give you some more detail as we go through and look at the results of each of the tests. But I have three different equity risk premium tests and three different approaches to estimating the cost of equity using the discounted cash flow test.

Now, in terms of, you know, comparable companies, I have, on the one hand, what effectively is the universe of Canadian regulated companies. Essentially, we have seven in Canada which have significant regulated operations. They're quite different one from the other. So, you know, it's difficult to take that group of companies and pick... difficult? It's not possible to pick a

group of companies from that universe that would be of comparable risk to any particular utility or in the utility industry, in estimating the cost of equity.

I also use then a U.S. utility sample. And what I've done to select this sample is to concentrate on companies that are in the distribution business. They are gas and electric distribution companies.

The reason for this is that, not just Gazifère but the typical Canadian utility is, that's publicly traded, or privately owned I should say, not publicly traded, is a pipes or wires company. So, focusing on companies that are in the same type of business gets you the comparability in terms of operating environment.

These are companies that are perceived as having a low-business-risk profile. These are companies that have, as a sample, strong capital structures, relatively low financial risk as a result. And these are companies whose debt is

highly rated.

So that when we look at the specific sample of companies, we have average debt ratings of A by Standard & Poor's, which is slightly better than the average rating that S&P gives to the typical Canadian utility. And we have debt ratings in the A category, low A, A-3, by Moodie's, which is approximately the same, or is the same, as the average and median ratings that are accorded those Canadian utilities which Moodie's rates.

So, in terms of the individual tests, I start with what I refer to as a risk-adjusted equity market risk premium test which is effectively the application of the capital asset pricing model.

The difference is that I do look beyond the beta for the determination of what the relative risk factor is. But essentially, what this test does is it looks at a measure of the risk-free rate and adds to that a risk premium for a benchmark utility and that risk premium is estimated by, first, estimating the risk

premium for the overall market, and then, applying to that risk premium a relative risk adjustment for a benchmark utility.

In terms of the different pieces which... components, which comprise the test results, when I applied this test, the risk-free rate was estimated at approximately 4.7% and that reflects, at the time, the forecast 30-year Canada Bond Yield in February.

I estimated the market risk premium at 6.75% and what I did to estimate that premium was essentially to look at what the historical risk premiums have been in Canada and then try to analyze what gave rise to that level and what may have changed since the history that generated those risk premiums has moved on.

So, a couple of things. One, if you look at the history of equity market returns in Canada, you could see that they have been, you know, within essentially a range of 11.5% to 12%. The risk premiums themselves are not just determined by the equity return but obviously also by a bond

return. So, the risk premium is the difference. The achieve risk premium is the difference between the two.

What we see is, that, historically, bond returns have been much higher than they're expected to be going forward. So, if all other things equal, if you expected lower bond returns in the future which, I believe, is the general expectation, when looking at bond returns depending on the period historically which, you know, have been in the mid 6's to mid 7% and today we're looking at bond returns going forward in the high 4's, low 5's.

So, compared to history, assuming no change in the equity market returns, you would have a considerably higher go for of risk premium than historically.

So, obviously, you can't just look at the bond returns and how the historical bond returns differ from a going-forward bond return. I have to look at what maybe have been the trends in the equity returns.

So, I looked at those, assess whether

there has been any kind of downward trend in the market returns in Canada and determined that there was no discernable trend downward or upward in the historical returns.

I looked also at whether one could explain the level of returns historically by rising price earning ratios. If the returns were produced, for example, by capital appreciation over time that could not be sustained, then one could conclude that, well, perhaps in the future equity returns would be lower. Well, my analysis indicated that that was not an issue.

I also looked at the relationship between the level of equity returns and inflation, knowing that inflation historically has been higher, then it's expected to be going forward. And what I find is that, in fact, the equity returns historically are higher when inflation is lower.

So, at the end of the day, my analysis indicates that, on the one hand, I have no reason to believe that the

equity returns going forward would be lower on average than they have in the future but yet the expectation is the bond returns will be lower which would lead to a higher risk premium in the future than in the past. And in some, the 6.75% then reflects the composite of those factors.

In terms of the relative risk adjustment, I have looked at a number of elements and including betas, including relative standard deviations of portfolios, of utilities versus portfolios of different industries that make up the Toronto stock exchange composite.

I've looked at the relationship between returns historically for utilities and returns on bonds and returns on the equity market. And taking account of all of those elements of relative risk, relative return, my estimate of the appropriate relative risk adjustment for a benchmark utility is in the range of 0.65 to 0.7 which, for the purpose of that test then, results in an estimated benchmark utility return of 9.25%.

The second risk premium test that I used, and I apologize, I think this slide's title of it is not exactly correct, it should be Discounted Cash Flow Based Equity Risk Premium Test. What this test does is estimates the difference between the discounted cash flow cost of equity and the corresponding long term government bond yield.

The DCF, discounted cash flow approach itself is an estimate of the cost of equity which adds the dividend yield on utility stocks to an estimate of long-term growth.

So, for the purposes of applying this test, I had my sample of benchmark U.S. utilities. I estimated each month, from 1995 to 2009, the discounted cashflow cost of equity for the sample from which the corresponding months long-term government bond yield was subtracted to arrive at an equity risk premium.

Then, we have an average essentially of risk premiums over that period of time but what we also then have is a variety of

interest rate environments. So, the question becomes: Is there a relationship between the level of the long-term government bond yield and the equity risk premium?

So, to determine this, I looked at correlations, regression analyses between the cost of equity and the long-term government bond yield and I also looked at relationships among the cost of equity, the long-term government bond yield and the yield on A-rated utility bonds.

And what I found was, is when I looked at the correlation using just long-term government bond yields that, over the full period, 1995 to 2009, the cost of equity changed by approximately 4.45% of the change in long-term government bond yields. And over the shorter period of time, which essentially corresponds to the period for which Gazifère has been subject to the automatic adjustment formula, the relationship was approximately .53%.

In other words, for every percentage point the long-term government bond yield

increased, the cost of equity increased by 53 basis points.

When I did the same type of analysis but including a second variable in the equation, then I find that, for the longer period, the ROE, our cost of equity changes by about 66, 65 basis points for each percentage change in the long-term government bond yield.

And there is also a large sensitivity to changes in the utility bond yield spread. That is for every percentage, for every, basically, every percentage point, the utility bond yield spread increases. Depending on the period, we're looking at an increase in the cost of equity of approximately 1%.

So, when I apply this test then, I use these relationships that I estimate... oh, sorry. And voilà! I think somebody was trying to get fancy with the presentation. They didn't know who they were dealing with.

So anyway, I applied this test using the forecast long-term government of

Canada bond yield and an estimate of the A-rated utility bond yield spread and those values that I used were the 4.7% that I discussed in the context of the risk adjusted market, risk premium test. And the estimate of the A-rated utility bond yield spread at the time was 1.6% which gave me a benchmark cost of equity of 9.4%.

The third equity risk premium test that I applied was looking at the utility equity risk premium historically and, for this purpose, I had three groups of... or three indices for which I had long-term utility returns and equity risk premiums.

The Canadian utility index which for gas and electric utilities can be constructed back to 1956, and U.S. gas and electric utility indices which go back to just after the Second World War.

And again, similar to what I did with the market risk premium, I looked at the individual pieces of the returns for the bonds, and the returns for the stocks and looked at the trends and the utility

returns, looked at the trends and the bonds, determined that there really was no trend in the utility returns, that they had been pretty consistently within the range of 11% to 12% whereas the bonds, similar to the case for the market risk premium test, returns higher historically than going forward. So that the equity returns themselves present a reasonable estimate of the return going forward.

So, I looked at that with the corresponding outlook for long-term government of Canada bond returns which was similar to the other test and the approximate range of 4, 7 to... we except an increase over time to around 5 1/4% which results in the utility risk premium of 6 1/4% and a cost of equity at the forecast 2011 long-term Canada bond yield of approximately 11.

So, then we move on... so, those are the equity risk premium tests, the three of them. And then, we move on to the Discounted Cash Flow Test and as I've described briefly earlier, the discounted

cash flow test is essentially taking a sample of companies, looking at what the price to... sorry, the dividend to price ratio is and adding to that an estimate of investors' expectations of long-term growth.

So, for this purpose, I had three different models that I applied, all applied to the same sample of companies, the U.S. benchmark utilities.

I applied what I call single stage models which means that the growth rate that's incorporated into that model is expected to be the same over the life, the perpetuity of the stock.

Two different estimates were used: analysts' forecasts of earnings long-term growth that they expect in the first instance; and then, a second model which used an estimate of sustainable growth as the long-term growth estimate.

The sustainable growth is a measure of earnings that a company can expect to maintain based on what it's expected to earn on book value, times the proportion

of the earnings that it's retaining and reinvesting in the business. So, that's what we call the internal growth part.

In addition to that, there would be a component of growth which would be attached to additional growth that the companies would be able to achieve by going out and raising additional equity and investing that.

And finally, I applied what I refer to as a three-stage model which changes the expected growth over the life of the equity. And essentially what it does is presumes that investors expect the growth that's estimated by analysts to persist for approximately five years and that there will be a gradual transition to long-term growth in the economy.

So, the second stage basically is a transitional stage which is based on the average of the first stage analyst growth forecast in the third stage, long-term growth in the economy.

And on average, you can see that all of these three models together produced an

approximate cost of equity of 10%.

So, each of the equity risk premium and discounted cash flow test is what we call a market test. All of the estimates are made in relation to market value.

And in the context of the regulatory model, the original cost model, these returns are applied to book value. So, in theory, what happens is when you apply a market-based cost to a book value, and the companies are expected to earn that return in the long term, you would end up with a market to book ratio of 1.0.

The financing flexibility allowance is intended in part to provide a cushion so that the return which is adopted and applied to book value does not... when applied to book value, the market value would not fall below book value and impair the existing value, the existing shareholders value of their investment.

The financing flexibility allowance that's estimated can be viewed as comprised of a number of elements. The first element is what I would call true

flotation costs.

Those flotation costs would be comprised of the actual costs, out-of-pocket costs of raising new equity. They would include the decline in the price of the stock when new stock is introduced into the market, market pressure that's called. And it would also include the potential decline in the share price, if new equity is raised in a market where there's truly a severe decline in the market during the issue period.

You can also view the financing flexibility allowance as just more generally a cushion for unanticipated market conditions that gives the utility a bit of cushion or room to maintain its market value at least equal to its book value.

And I also view the financing flexibility allowance as being consistent with what I call the fairness principle, that being that regulation is intended to be a surrogate for competition. In competitive markets, we do see that firms,

unregulated firms have consistently been able to maintain the market value of their investment well above their book value. And, to my mind, utilities should not be precluded from achieving some measure of market above book.

Finally, you can look at the estimate of the financing flexibility allowance as being a reflection of the fact that when you look at the market-based tests, the market-based tests are measuring the cost of equity, as I said, in relation to market value which includes market value capital structures.

So, in principle, for example, if you're measuring a beta, a relative risk adjustment, I meanm the beta reflects the market value capital structures of the companies whose betas are being measured.

So, if you've got market value capital structures that are well above the book value capital structures and then you turn around and apply those market value costs of equity to book value capital structures, essentially, you're applying a

cost rate that incorporates lower financial risks to one that reflects higher financial risks, the rate-making capital structure.

So, the financing flexibility allowance takes that issue into account as well. So, I have a range on the financing flexibility allowance of 0.5, which I would view as a minimum, and 1%, which essentially takes account of this market value capital structure versus rate-making capital structure differential.

So, summing up the various test results and the ROE, this is what this slide shows. And I'm not going to go through it all but you can... I just wanted to put it all in one place so that you could see what the various results of all the tests were and how you get ultimately to the benchmark utility ROE.

So, we start then with a benchmark utility ROE and develop an equity risk premium for Gazifère. I mean, this is based, first of all, on a qualitative assessment of the business risk and a

conclusion that, as a stand-alone company, Gazifère would really not be of the same risk level as a typical A-rated Canadian utility.

And so, what I did was I wanted to try to quantify what the difference, potential difference in the cost of equity between a benchmark utility and a Gazifère would be. And so I picked a sample of companies that were specifically rated Triple B, which would be, in my view, the likely outcome if Gazifère were indeed rated by the debt-rating agencies on a stand-alone basis.

And then, I applied the capital asset pricing model and the discounted cash flow test to the sample of companies to get an estimate of what the difference in the cost of equity between Triple-B companies and A-rated companies were.

So, the equity risk premium for Gazifère essentially represents or reflects the lower end of the range of those numbers that I estimated. And as a result, the ROE that I had proposed for

Gazifère was the benchmark utility ROE plus a risk premium of 0.5%, for 11.25%.

So, that was the basis of the ROE that I estimated in my testimony.

And in addition to that, what I have proposed is an automatic adjustment formula, a revised automatic adjustment formula, that takes the initial ROE and then changes it each year by 50% of the change in the forecast government of Canada bond yield and by 50% of the change in A-rated corporate bond yield spreads.

And essentially, this formula is predicated on the relationships that I estimated in the context of the discounted cash flow-based equity risk premium test and supported by looking at relationships between a series of allowed returns for U.S. companies over the past - well, since 1995 - on a quarterly basis with the idea that these ROEs do reflect the cost of equity.

Obviously, this same type of analysis cannot be done with Canadian-allowed ROEs since Canadian-allowed ROEs have

essentially been following a formula that changes the ROE by 75% of the long-term Canada bond yield. So, it's sort of a circular exercise to look at that relationship.

Anyway, the other thing that I would like to say about this formula is not only that it's based on what I would consider to be empirical evidence, it's important to recognize that there is a linkage between the benchmark ROE and the formula, that essentially the benchmark ROE is determined, premised on this type of relationship.

So, it would not be reasonable, in my view, to say that, while we agree with you that this formula better represents the relationship between the cost of equity and interest rates and spreads, but at the same time, adopt a base ROE that effectively represents a different relationship.

So, you can't say, on the one hand, this formula works, but on the other hand, say, well, the ROE should be, say, 8.5%

which reflects a 75% relationship with interest rates.

I think that that's a critical part of understanding the linkage between the formula and the rebased benchmark ROE.

Lastly, I did do an update to the ROE because the long-term Canada bond yield forecast has changed since I prepared this evidence. At the time that I prepared the evidence, the long-term Canada bond yield forecast was 4.7%, looking out 12 months. The August consensus forecast is now materially lower at 4.15%.

The bond yield spread that I had used in the context of my discounted cash flow based risk premium test was 1.6%. There hasn't been a large change in that since February. It's at the end of July, which was the date that I had the most recent evidence for, it was 1.5%.

So, essentially, if you go through and look at what the implications on the ROE of applying the formula, then you would arrive at a revised ROE for Gazifère of 10.9%. And so, that would be my best

view at the moment or at this time of what the benchmark ROE should be.

J'ai fini, merci.

Q.16 So, Mme McShane, I understand that this completes your testimony?

R. Yes, it does.

Q.17 Thank you.

Me LOUISE TREMBLAY :

Alors, Madame la Présidente, ceci complète la présentation sommaire de la preuve de Gazifère.

LA PRÉSIDENTE :

Merci. Merci, Madame McShane. Alors, nous allons débuter le contre-interrogatoire, alors, par l'ACEF de l'Outaouais. Maître Lussier.

CONTRE-INTERROGÉE PAR Me STÉPHANIE LUSSIER,
pour l'Association coopérative d'économie familiale de l'Outaouais (ACEFO) :

Bonjour, Madame la Présidente, Madame, Monsieur les Régisseurs. Stéphanie Lussier pour l'ACEF de l'Outaouais. Bonjour les membres du panel. Bonjour, madame McShane.

Q.18 Je vais vous référer à la pièce GI-32, document 1.2 A la vue... est-ce que vous avez cette pièce?

LA PRÉSIDENTE :

Pas encore.

Me STÉPHANIE LUSSIER :

GI-32, document 1.2.

LA PRÉSIDENTE :

Oui, je l'ai.

Me STÉPHANIE LUSSIER :

D'accord.

Q.19 Alors, je fais référence à cette pièce en lien avec une affirmation qui a été faite dans votre rapport à la page 5 où il est question du déclin durable des rendements des obligations à long terme du Canada. A la ligne 114 de la page 5 de votre rapport.

LA PRÉSIDENTE :

Oui, je l'ai.

Me STÉPHANIE LUSSIER :

D'accord.

Q.20 Alors, à la vue des chiffres du tableau GI-32, document 1.2, relatif au taux de rendement des obligations à long terme du Canada jusqu'en 2015, pouvez-vous confirmer l'idée d'un déclin durable des rendements des obligations à long terme du Canada et qui justifierait donc une

révision de la formule d'ajustement automatique?

Mme KATHLEEN C. McSHANE :

R. In terms of the sustained downward trend, what I was referring to was the fact that when these formulas were first introduced, we were talking about interest rates in the 9% level.

So, when I refer to the sustained downward trend, we're really talking about a downward movement from the 9's to the 5's. I mean, I recognize that when you look at this table, I mean, the yields have come down further than what the long-term sustainable rate might be which I would say was in the low 5's. But in terms of where they were at the time the formulas were first introduced, then yes, I would say that there has been a sustained downward movement.

Q.21 Je vous réfère toujours à votre rapport à la page 27. A la ligne 714, il est indiqué :

« *The mechanism includes an asymmetric*

sharing mechanism. Customers are credited with a share of earnings in excess of the allowed return but do not bear any shortfall. In comparison to the traditional cost of service methodology which was based on a single-year budget, the five-year term performance-based methodology exposes the utility to higher risk of not achieving the allowed return. »

Depuis la mise en place du mécanisme incitatif fondé sur la performance globale en 2006, combien de fois Gazifère n'a-t-elle pas atteint le rendement autorisé?

R. So, if we're talking about the mechanism that was introduced for 2006 and forward, the comprehensive PBR, is that correct?

Q.22 The actual return versus the authorized return.

R. Right, under the comprehensive performance-based mechanism which took effect in 2006.

Q.23 Right. Correct.

R. Between 2006 and 2009, so far Gazifère has not under-earned its allowed return.

Q.24 Maintenant, toujours dans votre rapport, à la page 33, à la note de bas de page 29 où il est question du test des bénéfices comparables?

R. Oui.

Q.25 Dans cette note de bas de page, il est indiqué que:

> « *The comparable earnings test is the only test which measures returns in a manner compatible with the base original costs to which they are applied.* »

Et à la fin de la note, c'est indiqué:

> « *Therefore, for the*

sole purpose of this evidence, in order to limit the issues relevant to the estimation of fair return, I have applied risk premium and discounted cash flow test only. »

Peut-on conclure que les modèles utilisés eux ne présentent aucune lacune, aucun problème d'estimation?

R. Sorry, so are you asking me if each test that has been applied is perfect?

Q.26 On pourrait dire que la question pourrait être interpréter de cette façon-là. Est-ce que ces tests sont parfaits et donc ne présentent aucune lacune, absolument aucune?

R. Absolutely not. I mean, each of them has its own little quirks. I mean, they are all, as I've indicated in my presentation, I mean, they are all subject to certain strengths and weaknesses. They all have different underlying premises. Some may

work better under certain capital market conditions than others.

So, no, I would never say that each test is perfect. That's why we apply, I apply multiple tests.

Q.27 Je vous réfère maintenant à la pièce GI-30, document 1.12.

R. Yes, I have it.

Q.28 Donc, Gazifère a sélectionné un échantillon de comparables américains et il apparaît de la pièce GI-30, document 1.12, que les taux de rendement autorisés pour ces entités américaines sont compris entre 10% et 10,60%, le dernier datant d'une décision de 2010 étant de 10,30%.

Comment expliquer que Gazifère demande aujourd'hui un taux de rendement du capital-actions très largement au-dessus de ceux de l'échantillon de benchmark américain?

R. Two reasons. One, the... so, these would be the lower-risk companies. So, you would expect in any event that these numbers might be lower than would be appropriate for Gazifère and, second, I

would say that these are the outcomes of regulatory decisions which are going to reflect the different views that are brought to bear by different experts to the respective commissions whereas the estimate the I've made is my own, you know, first principles estimate of the fair return.

Q.29 Et quels ajustements ont été apportés aux données de l'échantillon d'entités américaines, notamment au niveau du calcul de la structure financière afin de tenir compte d'éventuelles différences comptables entre les services publics américains et canadiens?

R. Sorry, I didn't understand your question.

Q.30 Je vais répéter. Quels sont les ajustements qui ont été apportés aux données de l'échantillon d'entités américaines, notamment au niveau du calcul de la structure financière afin de tenir compte d'éventuelles différences comptables entre les services publics américains et canadiens?

R. I didn't make any adjustments and I'm not

aware that any adjustments would be required.

Q.31 Maintenant, je vous réfère encore une fois à votre rapport à la page 68. Quand Gazifère présente la nouvelle formule d'ajustements proposés, pour quelle raison Gazifère ne parle-t-elle pas de substitution du rendement des obligations du gouvernement du Canada et de son coefficient de 70% par le rendement des obligations des sociétés cotées A avec le coefficient de 50%?

R. I'm sorry, but I'm not sure I got the import of your question. Why didn't Gazifère mention... what is it that you're looking for?

Q.32 Pour quelle raison Gazifère ne mentionne pas la substitution du rendement des obligations du gouvernement du Canada et son coefficient de 70% par le rendement des obligations des sociétés cotées A avec son coefficient de 50%?

Me LOUISE TREMBLAY :

Louise Tremblay pour Gazifère. Si je peux me permettre, Maître Lussier, est-ce que dans le fond

la question que vous demandez à madame McShane c'est pourquoi elle n'a pas proposé une seule variable dans la... plutôt que d'avoir deux variables distinctes, d'en avoir qu'une seule qui ne parlerait que des obligations corporatives?

Est-ce que c'est ça votre question?

Me STÉPHANIE LUSSIER :

Pas nécessairement.

Q.33 J'essaie de savoir pourquoi il n'est pas question de la substitution des obligations du gouvernement du Canada d'une part par les obligations des sociétés cotées A?

R. All right. I'll try to explain what I think you're asking. And if I'm not answering your question, you can stop me.

Q.34 Sure.

R. So, maybe if we start with what the previous formula was, and perhaps understand what the difference is between the old formula and what's being proposed.

So, under the old formula, the existing formula, there is one variable that adjusts the ROE, and that is the change in the forecast long-term Canada

bond yield. And the ROE is adjusted by 75% of the change. So, under the proposed revision, that variable stays, the change is measured the same way as it was previously but with a lower sensitivity factor applied to it.

In addition, we add a second variable, and that variable is the change in utility, or corporate A-rated utility or corporate bond yield spreads, difference between the corporate bond yield and the long-term Canada bond yield, and a sensitivity factor of 0.5% applied to it.

So, when I talk on page 68 of the new formula, I say, at line 16 - hopefully my line numbers are the same as everyone's - at line 1698 to 1702, that, you know, compared to the old formula, I would reduce the relationship between the forecast long-term government of Canada bond yield and the benchmark ROE from 75% to 50%, and then add the second explanatory variable, corporate bond yield spreads, to this original formula, and

that also with a 0.5 or 50% sliding scale factor.

Q.35 Pourquoi le rendement du capital-actions ne devrait-il plus dépendre du taux de rendement des obligations du gouvernement du Canada?

R. Why does it no longer depend on them, is that what...

Q.36 Pourquoi ne devrait-il plus?

R. Why should it no longer depend? Ah! see, my French isn't that bad. It does, it absolutely does. You still include the forecast long Canada bond yield and you change the ROE by 50% of the change in the forecast.

Q.37 Et comment Gazifère justifie-t-elle ce lien entre le rendement du capital-actions et le rendement des obligations des sociétés cotées A et le coefficient de 50%?

R. Sorry, could you repeat that?

Q.38 Oui. Comment Gazifère justifie-t-elle par des arguments ce lien présumé, ou par des faits plutôt, ce lien présumé entre le RCA et le rendement des obligations des

sociétés cotées A et le coefficient de 50%?

R. How do you justify the 50% coefficient on the spread, is that your question?

Q.39 Comment justifier le lien présumé entre le rendement du capital-actions et le rendement des obligations des sociétés cotées A et le coefficient de 50%?

R. So, the 50% coefficient on the A-rated bonds is developed by essentially the same analysis that was done to estimate the relationship between the long-term government bond yield and the ROE, incorporated into the discounted cash flow analysis, or discounted cash flow base risk premium analysis.

So, in the context of that analysis, there was a positive relationship between ROE and corporate bond yield spreads estimated, quite large.

On the other hand, when we looked at the relationship between allowed returns and government bond yields and spreads, we also found a positive return, I mean, a positive relationship, but not the same

degree of sensitivity.

So, the proposed coefficient on the A-rated corporate bonds essentially is a balance between the estimates of the two different approaches reflecting that there is, you know, a positive relationship between cost of equity and corporate utility bond yield spreads.

Q.40 Toujours dans votre rapport, à la page 71, il est question à la ligne 1772 du seuil de 200 points de base.

R. Yes, I see that.

Q.41 Comment Gazifère justifie-t-elle le choix de ce seuil de 200 points de base ainsi que la périodicité de cinq ans?

R. It's a judgement.

Q.42 Y a-t-il des arguments rationnels et chiffrés au soutien de ce seuil et de cette périodicité?

R. Sorry, could you repeat that?

Q.43 Y a-t-il des éléments chiffrés et rationnels qui justifient ce choix de ce seuil de 200 points de base et la périodicité de cinq ans?

R. Certainly on the period of five years

there's no data that would support or not support that. It seems to me that if you think about the term... if you look at what a formula is supposed to do, I mean, it is essentially supposed to preclude having to have one of these hearings every so many years. I know you all love me but I'm sure you don't want to see me again for a long time.

The idea is that you have to balance how long a formula should be in place, otherwise, why bother, and making sure that, you know, the period is not so long that many things could have happened that could have, you know, moved the resulting ROE off where it should be.

I just point out in terms of the five years, I mean, there's nothing that says you have to have a hearing in five years. Basically, what the five-year period is intended to do is to say, look, in five years, we'll take a look, we'll see if there is a reason to have a hearing. If things have not changed materially, if the formula seems to be producing returns that

it should, well, everybody can go home and the formula can continue to operate.

I mean, in terms of the range, again, I mean, it's a judgement and it could be, you know, it could be lower or higher, but it's just intended to give a protective measure so that, you know, there's some limit, you know, outside of which we should take a look.

Q.44 Merci, Madame McShane.

R. Merci.

Q.45 Merci, Mesdames. Merci au panel. Et merci au banc des régisseurs.

LA PRÉSIDENTE :

Merci, Maître Lussier. Alors, nous allons prendre une pause bien méritée de 15 minutes et allons poursuivre avec le contre-interrogatoire de l'ACIG avec maître Sarault. A tantôt.

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

LA PRÉSIDENTE :

Vous aviez prévu un contre-interrogatoire d'une durée d'environ deux heures. On compte prendre la pause du lunch vers 12 h 00. Donc, je vous inviterais peut-être à couper...

Me GUY SARAULT :

Bien, quand je serai rendu autour de 12 h 00, là, je verrai si j'arrive à un point...

LA PRÉSIDENTE :

Oui, pour que vous puissiez...

Me GUY SARAULT :

... qui permet une segmentation.

LA PRÉSIDENTE :

Excellent. Alors, la parole est à vous.

Me GUY SARAULT :

Alors, avant de commencer le contre-interrogatoire du panel, j'aurais deux documents à distribuer.

Le premier, ce n'est pas compliqué, c'est la version anglaise de la partie *Rate of Return* de la décision D-2009-156 rendue le 7 décembre 2009 par la Régie dans le dossier de GazMetro de l'année dernière.

Alors, Madame la greffière, je vous en donne combien de copies?

LA GREFFIÈRE :

Vous pouvez toutes me les donner et moi je vais les distribuer.

Me GUY SARAULT :

Oui, O.K., voici.

LA GREFFIÈRE :

Juste les coter par contre.
Me GUY SARAULT :
Alors, vous allez coter ça comme?
LA GREFFIÈRE :
Celle-là ce serait C-2-23.

PIÈCE C-2-23 :

Version anglaise de la partie *Rate of Return* de la décision D-2009-156 rendue le 7 décembre 2009 par la Régie dans le dossier GazMetro.

Me GUY SARAULT :
Alors, C-2-23, c'est le document que je viens de décrire, donc la décision de l'année dernière.

Et comme C-2-24, je présume?

LA GREFFIÈRE :
Oui.
Me GUY SARAULT :
C'est un document intitulé *Comparative Approaches for Gazifère's ROE.*

PIÈCE C-2-24 :

Document intitulé *Comparative Approaches for Gazifère's ROE.*

Me LOUISE TREMBLAY :
C'est un document qui vient d'où ça, Maître Sarault?
Me GUY SARAULT :

Ah! c'est simplement un résumé des éléments essentiels de la décision D-2009-156, un résumé des recommandations de madame McShane dans le dossier et un résumé des recommandations du docteur Booth dans le présent dossier, simplement pour les mettre sur un même document à titre comparatif.

Alors, il n'y a rien d'inventé là-dedans, là. C'est juste une compilation.

CONTRE-INTERROGÉES PAR Me GUY SARAULT :

Q.46 All right. Do you have copy of the documents that we circulated?

Mme KATHLEEN C. McSHANE :

R. Yes.

Q.47 Yes. Mme McShane, have you ever read the English version of the Régie's decision on Rate of return that I distributed as C-2-23?

R. Actually I've read both the French and the English version.

Q.48 You've read both of them, well, that much better. All right.

If I were to suggest to you as a basic principle that it is very important for a regulator, such as the Régie, to be consistent in its decision-making vis-à-

vis the LTC's under its jurisdiction, especially when it comes to economic matters that are of general application or that are not unique to a given distributor, would you agree with me?

R. Clearly, I agree that a regulator has to treat the utilities under its jurisdiction consistently, I mean, in the sense that it's not fair to, you know, award utilities totally different returns within, you know, a time frame of a short period and with no underlying rationale for the differences.

On the other hand, I think that it's also fair to expect that a regulator will look at all the circumstances and the evidence that's before them.

Q.49 But in my question, and I would like to stress on this, would you agree with me that for those economic principles that are not unique to either one of the LCD's under its jurisdiction, that it is important for the regulator to be consistent?

R. Well, I certainly think that, from an

external perspective, that external market participants, they do look for consistency in regulatory jurisdictions.

On the other hand, I mean, I don't... I don't think that a regulator should be precluded from, you know, reconsideration of the factors that gave rise to decisions. I mean, you'd like to think that, you know, a regulator is continuously looking at the factors that pertain to a fair return.

Q.50 So, would you agree with me that, if a regulator chooses to reconsider a matter of principle, as you've just suggested, that we would normally expect to see justifications in the new decision explaining why the regulator departed from the principle that had been followed in a prior decision?

R. I think that's fair, yes.

Q.51 Thank you. Now, I would like to turn to page 4 of your written evidence under the heading *Background for Review of Gazifère's ROE.*

And in lines 98 to 103, at page 4,

you seem to be critical of the results produced by the formula ever since it was approved for Gazifère in February, 1999 and I quote:

> « *Since the automatic adjustment formula was originally adopted, the overriding factor determining the allowed ROEs for Canadian utilities - so, you're talking about more than Gazifère here - was the downward trend in long-term Canada bond yields, rather than factors which directly drive equity return requirements. Between 1995 and 2009, the forecast long-term Canada bond yield fell by 475 basis points; the corresponding*

average allowed ROEs fell by 335 basis points. »

First of all, would you agree with me that this is a matter of principle that applies to Canadian utilities at large that were... whose return was regulated on the basis of a formula and this is unique to Gazifère?

R. No, I wasn't suggesting that it was unique to Gazifère. I mean, this was a general comment.

Q.52 Okay. And this general comment would have equally applied to GazMetro. Correct?

R. Absolutely.

Q.53 Thank you. Now, the criticism, if I may use this expression that I read here, is basically the overriding concern that you reiterated this morning during your presentation, i.e., that the formula has consistently and, you know, this was exacerbated by the financial crisis but it has produced returns that you considered lower than what should be produced by normal cost of capital requirements.

R. Yes, that would be fair.
Q.54 That would be fair. Now, when we know the formula, the formulas that were in place in Canada and, you know, they are all very similar, you would agree with that as well?
R. Yes.
Q.55 Isn't what you described here, this result that ROEs fell correspondingly with the decline in long-term Canada's over this period, isn't this exactly what was to be anticipated from the outset ever since the adoption of these formula, at the request of the monopolies?

Like in your case, isn't it true that, in 1998, you testified and you supported the implementation of a formula that has been in place for all those years, with no downward limit in long-term Canada's that would justify a review or a reassessment or reconsideration, if you will, of the principle of having a formula?

What I'm suggesting to you is that this behaviour didn't come as a surprise?

I mean, it's inherent to the formula as adopted?

R. The behaviour of interest rates or the behaviour of the formula?

Q.56 The behaviour of ROEs correspond during the decline and interest rates. You know, this is exactly how it was supposed to work. It's not a surprise.

R. No, it's not a surprise that, you know, once the formula went in place and wasn't changed, that that's true. By construction, that's what the formula would produce. But first of all, when you go back and look at when the ROEs were... when the formulas were originally introduced, I don't think anybody anticipated that there would be this decline in interest rates. And to be fair, you know, at the outset, like before the National Energy Board, I mean, the evidence was provided then that the relationship between cost of equity and ROE was around .5.

And, yes, for I guess simplicity sake, you know, the .75 was viewed as not

too bad as long as the right ROE was adopted as in the case for Gazifère in 1999. I mean, we were willing to live with the formula that the Régie had adopted just previously for GazMetro on the grounds that, one, the point of departure was a reasonable return and, two, you know, at the time, there was no serious concern that there was going to be a material decline in interest rates from there.

But you're right, I mean, that there was not explicitly at the time a downward limit put on...

Q.57 Correct.

R. Right.

Q.58 And you didn't propose one?

R. No but there were other proposals that were made that you could always come in and have the formula reviewed. And as I said, I mean, we weren't looking at any particular volatility in interest rates at the time. So, yes, perhaps, you know, perhaps the formula should have been recommended at 0.5 at the time but the

0.75 was...

Q.59 Was judged to be reasonable?

R. Mostly because there was no real concern with the volatility in interest rates at that time.

Q.60 Now, would you agree with me that, from the Régie's perspective, the decision as to whether or not to use an automatic formula and the decision as to how to set its basic parameters as to how it's going to operate are decisions of principle as to how to determine rate of return and that this is not unique nor to Gazifère nor to GazMetro? This is a matter of principle?

R. Sorry, I'm not understanding what when you say...

Q.61 The decision to go along with a formula rather than setting ROE, for example, with expert testimony year after year, you know, this was a decision of principle rendered by the NEB in 1994 and other jurisdictions in Canada, and by the Régie in 1999. And this is, you know, I was talking about decisions of general

principle...

R. Yes.

Q.62 ... where you categorize this decision in particular to go along with a formula rather than normal testimony to be a question of principle which is not unique nor to Gazifère nor to GazMetro?

R. Fair enough. That a decision on the part of a regulator that a formula is the way they would prefer to proceed rather than hearing testimony every year would be a... I guess you could call it a matter of principle.

Q.63 Okay. Would you go to the decision rendered in December 2009, that's approximately eight months ago, for GazMetro. And you are aware that experts were heard on both sides, that, you know, GazMetro had experts from the Brattle Group, Drs. Wilberg and Colby?

R. Yes, I'm familiar with them.

Q.64 You know those experts?

R. I've actually only ever met one of them but I've read a lot of their material.

Q.65 Okay. And we had retained the services of

Dr. Lawrence Booth here present...

R. Yes.

Q.66 ... and also Mr. Mike Gorman from the United States.

R. I know him, yes.

Q.67 You know him as well. Now, after hearing all of these experts on questions of principle and all of that, the Régie is speaking of the formula and the results that it has generated over the years, as of paragraph 203, the last sentence states that, and I quote:

> « *Therefore, the Régie finds that the decrease in the rate of return arrived at using the AAF...* »

That's automatic adjustment formula.

> « *... closely reflects the general decrease in interest rates and financing costs on the markets during the period.* »

204:

« *With respect to year-to-year variances, the Régie observes that the rates of return yielded by the formula ranged from a peak of 8.89% in 2002-2003 to a low of 8.73% in 2006-2007. And the annual change has always been less than 50 basis points. Finally...* »

I'm in 205:

« *... the implicit risk premiums who were granted to the distributor increased during the same period, rising from 3.9% in 1999-2000 to 4.45% in 2006-2007. This outcome is consistent with the*

result that was anticipated when the formula was designed and adopted as long-term bond yields fell during the same period. »

Would you agree with me that these same comments could equally apply to the results provided by the formula to Gazifère ever since its approval in 1999?

R. If you're asking me whether the Régie could simply take those results and fill in the same words, then, of course they could.

Q.68 And are you in disagreement with these statements by the Régie?

R. Sorry, can I read through just one second? So, if I look at paragraph 203, the first part of that paragraph, the way I understand it, is just facts, all right. I mean, it's just describing the trend. I mean so...

Q.69 If I may help, I mean, I would suggest to you that these basic trends that are

described here are not unique to GazMetro nor to Gazifère. I mean, this is...

R. No, that's fair. I mean, the trends that are described are general trends in capital markets. And the question is, you know, how do you interpret those in terms of the impact on the cost of equity.

Q.70 Well, this is where I was about to lead you. Now, let's go together to paragraph 303, which is the last conclusion, very last page:

> « *In view of the Régie's opinion that under normal financial circumstances the automatic adjustment formula has produced valid results in the past while making it possible to significantly streamline the regulatory process, the Régie renews the automatic rate of*

return adjustment formula to be applied as of 2010 financial year. »

Are you in disagreement with the Régie's assertion that the formula produced valid results in the past under normal financial circumstances, so that is with the exception of the financial crisis of 2008 and 2009, that you say is now behind us?

R. I would say that, prior to the financial crisis, my view would be that the returns that were produced by the formula were low and that the... in part, I believe that that was the result of basically assuming a relationship between interest rates and ROEs that... I mean, there was... incorporated more sensitivity of ROEs to interest rates than was the case.

Q.71 Apart from this decision rendered in December 2009, in which GazMetro attempted to have the formula replaced by a new system, it was the ATWACC, you're aware of that?

R. Yes.

Q.72 Were you aware that GazMetro had made two prior attempts to either do away with the formula altogether or to change it?
R. Yes.
Q.73 And do you know the results of those two prior attempts?
R. I believe they... I can't remember which one came first but...
Q.74 There was a formula proposal by Dr. Stéphane Chrétien in the year 2007-2008. Do you know the outcome of that proposal?
R. My recollection is...
Q.75 For the formula?
R. Oh, for the formula?
Q.76 Yes.
R. The formula was renewed.
Q.77 Yes, was kept.
R. Right.
Q.78 And do you know about the attempt that followed...
R. I think...
Q.79 ... for the year 2008-2009?
R. I believe, if my recollection is right, that GazMetro asked for the formula to be at least temporarily suspended?

Q.80 That's right.
R. And the Régie said no.
Q.81 And that adjustments were to be made to take account of the high spreads...
R. Yes.
Q.82 ... and also to take account of flotation costs?
R. Right.
Q.83 Which were insufficient.
R. I believe that's right.
Q.84 And do you know the outcome of that?
R. I believe that was denied.
Q.85 Denied as well. So, we both agree that in the last three occasions where the Régie was called upon to reassess whether the formula was broken or not or whether it produces results that are reasonable or not, it decided to maintain it and that no change was brought to the mechanics of the formula?
R. That's my understanding.
Q.86 Thank you. Now, I note from your evidence that, contrary to what the Régie did in December for GazMetro, in which an allowance or an adjustment, if you will,

in the range of 0.25 to 0.55 was granted for the year 2009 and the year 2010 to account for the financial crisis, in your proposal in this case for the rebasing of Gazifère's ROE, I do not see any proposed adjustment for the financial crisis.

Am I to understand that you are of the opinion that the financial crisis is now behind us and that is the reason as to why you do not propose such an adjustment?

R. Well, I would say that circumstances are normal enough that it's not necessary to add a specific increment for a financial crisis.

But to the extent that current capital markets are, I guess I'll say different than normal, I mean, it would be captured in the costs of equity tests themselves. You don't have to add, specifically add some...

Q.87 A special adjustment?

R. Yes, exactly.

Q.88 I would like now to go to page 8 of your written evidence, lines 187 to 189. You talk here about comparisons between the

allowed ROEs for Canadian utilities versus U.S. utilities, and you say, and I quote:

> « *This comparison is germane given: 1. the significant integration into Canadian and U.S. capital markets; 2. the similarity in the business or operating environments for distribution utilities into Canada and the United States; and 3. the similarity in the regulatory models in the two countries.* »

Here again, would you agree with me that in the analysis leading to the determination of return on equity, that this question here, this comparison between U.S. and Canadian utilities is a matter of economic principle that's not unique nor to Gazifère nor to GazMetro?

R. So, whether those circumstances are the

case, if it were true for one, it would be true for the other.

Q.89 So, you agree with me that it's a matter of principle, it's not unique?

R. No, it's not unique. I mean, like these are factors that would be relevant and, you know, the same considerations would be taken into account for both.

Q.90 Now, if you go to decision D-2009-1156 rendered for GazMetro in December, and more specifically to paragraphs 293, 294 and 295, it's under the heading « *Comparison with U.S. Distributors* ».

R. Yes, I have that.

Me LOUISE TREMBLAY :

Je m'excuse, Maître Sarault. Louise Tremblay pour Gazifère. Je me demande... je comprends que maître Sarault pose plusieurs questions sur la décision que la Régie a rendue dans le dossier de GazMetro, mais de demander à madame McShane d'interpréter la décision que la Régie a rendue a l'égard de GazMetro, il me semble, Maître Sarault, que vous êtes un peu dans le domaine de l'argumentation.

Vous demandez à... GazMetro a rendu une décision sur la base... GazMetro... la Régie a rendu

une décision sur la base de faits dans le dossier de GazMetro et vous référez madame McShane à des passages de cette décision-là.

Posez-lui des questions générales sur la comparabilité des données américaines et canadiennes. Mais de lui faire faire l'analyse de la décision de GazMetro, à mon avis, vous êtes dans le domaine de l'argumentation.

Me GUY SARAULT :

Alors, avec respect, je pense que madame McShane a déjà accepté que les questions dont il est question ici, dans ces trois lignes-là à la page 8, sont des questions d'intérêt économique général qui ne sont pas uniques, ni à Gazifère, ni a GazMetro.

La Régie a exprimé une opinion là-dessus, elle en exprime une, elle, dans son rapport. La question, je veux savoir si madame - je ne lui demande pas d'interpréter - madame McShane est d'accord avec l'opinion émise sur la Régie sur cette même question d'intérêt général qui s'applique autant à Gazifère qu'à GazMetro.

C'est un principe économique qui a été utilisé, c'est tout.

Alors, elle est ici comme témoin expert, elle exprime des opinions sur ces mêmes matières

dans son expertise. Cette décision-là est très pertinente, c'est une décision qui a à peine huit mois où la Régie a pris la peine de se prononcer sur la question générique de l'usage de précédents américains.

Et ce que je veux savoir c'est - et elle l'a dit elle-même - que la Régie, sur des questions générales doit faire preuve de *consistency* et que, si la Régie décide de s'éloigner d'opinions qu'elle a émises sur des questions de principe, ça doit être justifié.

Alors, c'est rien que là que je m'en vais. Alors, je veux savoir si elle est d'accord ou en désaccord. Puis si elle est en désaccord, qu'elle nous explique pourquoi ça devrait être différent maintenant.

Me STÉPHANIE LUSSIER :

Alors, posez-lui, Maître Sarault, des questions sur la preuve qui est dans le dossier présentement, pas sur la preuve qui est dans le dossier de GazMetro puis d'interpréter ce que la Régie a décidé dans les dossiers de GazMetro, parce que c'est ça que vous faites en ce moment.

Me GUY SARAULT :

Je pose des questions sur la preuve, je suis à la

page 8 de sa preuve écrite et je fais simplement la confronter avec une opinion émise sur la Régie rigoureusement sur le même sujet.

LA PRÉSIDENTE :

Écoutez, je crois que de s'en tenir en fait à demander à l'experte son opinion, on croit que pour la Régie ça peut être pertinent. Mais peut-être d'y aller de façon plus générale, même si vous faites référence à la décision de la Régie, parce que la Régie ne maintiendrait pas l'objection, Maître Tremblay.

On vous permet de poursuivre, Maître Sarault, mais peut-être en essayant d'être plus général à l'égard des principes qui ont été retenus par la Régie.

Me GUY SARAULT :

Q.91 Generally speaking, I will suggest to you that, in these three paragraphs of the decision, that the Régie expressed strong reservations about the appropriateness of using U.S. data and U.S. precedents for purposes of the determination of the parameters for GazMetro.

Do you agree or disagree with those reservations?

R. No, I agree that they had reservations. I don't know that I would agree with the strength with which you concluded... I mean, they said the evidence is inconclusive. I mean, I thought that for purposes of this presentation, and particularly in respect of the response to Régie 2.12, that we gave a fairly detailed comparison of the capital market circumstances, the comparability of the utilities, we completed a matrix in which we showed all of the different regulatory protections that were afforded these utilities.

And so, I think from the perspective of this proceeding, that the evidence was provided that showed that the utilities that we, that I selected are comparable. And operate in an environment which is comparable.

Q.92 Have you had a chance to take a look at the evidence that was produced in GazMetro's case with respect to the sample of U.S. utilities?

R. Probably at one point but I don't recall

it specifically.

Q.93 If I were to suggest to you that many of the utilities that were used as proxies by GazMetro are the same that we find in your evidence, would that be plausible?

R. It's possible. I think what I was trying to suggest to you was that I thought that I had done a fairly comprehensive job of establishing the comparability. I don't know what they did.

Q.94 I'm sorry?

R. I just said I just don't know what they had done in terms of making those comparisons.

Q.95 I can reassure you that similar information requests were addressed to GazMetro at the time. But can you tell me where, in the evidence, additional evidence that you may have produced in response to the Régie's information requests, we would find satisfactory evidence that the operating environment in which those U.S. proxies operate is similar to that of Gazifère?

R. Well, first of all, the comparison would

be more general than that as opposed to for Gazifère specifically. I mean, it would be comparability to a benchmark distribution utility. The IR that I was referring to in particular was the response to NEB 2.12.

Q.96 It's not NEB; it would be Régie?

R. Sorry, NEB, I don't know why I said that. The Régie 2.12.

Q.97 Maybe you can help me but, in the data, additional data that you filed, do we have information about the actual returns realized by those U.S. proxies versus the returns that were allowed to them by their respective regulators?

R. Not on a utility basis; on a holding company basis only.

Q.98 So, you don't have that for the individual utilities?

R. No.

Q.99 No. If I were to suggest to you that, generally speaking, in the United States, there is much more volatility between the actual returns realized by the utilities versus the allowed returns. Would you

agree with me?

R. I would believe that, and I could not point you specifically to the IR response at the moment, but if you give me a second...

Q.100 I'm just suggesting this to you as a matter of general principle.

R. So, in response to Régie 2.12, when I was discussing the regulatory models in the two countries, I did say that the application of the regulatory models in the two countries is not identical.

In the U.S., the approaches follow the philosophy that the regulated companies should be provided an opportunity to earn a fair return on average but not necessarily achieve the allowed return each and every year.

Whereas in Canada, the regulatory model historically has taken a form that has provided somewhat greater assurance that regulated companies will earn the allowed return from year to year. And then, it goes on to say:

« *With a longer term*

risk, the utilities will not be afforded the opportunity to earn a compensatory return on the capital invested and to recover the capital invested, Ms. McShane has not found there's a notable difference. »

So, yes, I realize that the allowed returns from year to year in the U.S. are more variable.

Q.101 The actual returns versus the allowed returns, you mean?

R. Yes, yes, that's correct.

Q.102 They're more volatile than they are in Canada, it's a different philosophy in the regulatory approach, as you correctly pointed out in your answer?

R. But at the end of the day, I mean, the idea is the same, that you have the opportunity to earn a compensatory return.

Q.103 But would you, you know, would you agree

with me if I was to suggest that this volatility in the United States is definitely a greater regulatory risk than the equivalent risk that's faced with the more conservative Canadian approach?

R. Well, I would say that there is, yes, that there is somewhat less short-term regulatory risk in Canada as a result of more deferral accounts.

Q.104 That was my next question, you anticipated. Would you agree with me, again as a general principle, that Canadian regulators are more generous than U.S. regulators when it comes to deferral accounts?

R. There tends to be more deferral accounts in Canada, which is what explains in large part...

Q.105 Less volatility?

R. Yes.

Q.106 I think I would now like to go to page 11 and following of your written evidence. And you go here through a series of decisions and also reports issued by regulators or financial companies and so

on about the flaws of the automatic adjustment formula, correct?

R. Yes, there are a number of analysts' reports which are referred to in a number of regulatory decisions.

Q.107 Is there a reason as to why you have not chosen to mention the Régie's decisions vis-à-vis GazMetro in your list of precedents here?

R. No. Well, yes, there was. Clearly, this was focusing on those decisions and analysts' reports which found that there was a problem.

Q.108 Okay, so those are on the critical side of the approach?

R. Yes, that's it, yes, they are.

Q.109 And we don't have the perhaps other half that are more favourable to the formula?

R. No, my point was really to focus on those analysts' reports and decisions that did find that there were problems with either the formula or the levels of the allowed returns.

Q.110 Okay. I would now like to go to page 22 of your written evidence. And you talk

here in general terms about the business risk of a utility which you define at lines 568 and 569 as follows:

> « *As noted above, the business risk of a utility is the risk of not earning a compensatory return on the invested capital and of the failure to recover the capital that has been invested.* »

Can I assume that, in the case of a regulated utility, what you mean by compensatory return is conceptually similar to what we call the allowed return?

R. No.

Q.111 No.

R. It's conceptually consistent with a fair return.

Q.112 That's it, the allowed return may sometimes not be fair?

R. True. Fair enough.

Q.113 So, that's why you prefer to use this expression?

R. Yes.

Q.114 Okay.

R. I mean, I can use... I could have used the word a "fair" return, but what I had in mind was that the return was not fully compensatory for the risk that it had been exposed to.

Q.115 Assuming for the purposes of my next question that the returns allowed to Gazifère over the last 10 years were reasonable, would you agree with me that the utility's ability to achieve in reality its allowed return is an important aspect to consider in our assessment of its overall risk?

R. I think that it's true that you have to look at what a utility has been able to earn relative to the allowed. I mean, that does give you some input into the assessment of the risk. I think you also have to consider, you know, what circumstances may have given rise to the allowed versus achieved returns. I mean,

if you're... you know, if you're in, say for example, early years of a price cap mechanism, where there are easy efficiencies to be gained, then yes, you would expect that, in those years, you might see, you know, a different relationship between allowed and achieved returns that you might once it became more difficult to eke out additional efficiencies.

Q.116 Generally speaking, if I were to suggest to you that over the years, and I'm talking about the last 10, 15 years, that Gazifère has demonstrated a very strong ability year after year to actually earn its allowed return, would you agree with me, generally speaking?

R. Yes, I would say, generally speaking, since 1999, Gazifère has been allowed to earn its allowed return. It looks like there are two years when...

Q.117 2003 and 2005. With the exception of those two years, we see that, you know, generally speaking, the return was exceeded.

R. Right.
Q.118 Now, we both agree that the current comprehensive PBR mechanism came into force in 2006. Right?
R. That's my understanding, yes.
Q.119 If you go to - I don't know if this is the exhibit that you were consulting - but if you go to Exhibit GI-31, document 1.1, page 1 of 3, providing historical data from 1999 to 2009?
R. Yes, I see that.
Q.120 Yes, would you agree with me that the excess returns generated in those four years are pretty good results?
R. I would say that, you know, these years show that Gazifère has effectively managed its... to date, it's PBR plan.
Q.121 Would you agree with me if I were to suggest that the years 2008 and 2009 were the years of the financial crisis that affected North America and, I mean, almost the world at large?
R. Those were the major years of the financial crisis.
Q.122 Correct. And would you agree with me that

those were the two years, since 2006, where the excess returns were the most important for Gazifère?

R. Sorry, can you repeat the question? I think you asked whether the returns were good in 2008 and 2009?

Q.123 Yes, that's right. I mean, those were the two years of the financial crisis and, for reasons that are yet to be discussed, these are the two years in the four during which the PBR has been in effect where the excess returns have been the most important?

R. They have, I agree. I'm not sure if anybody has anything.

Q.124 Given the severity of the financial crisis that we've all known, what conclusions, if any, would you draw from these results in 2008 and 2009 in terms of risk profile?

R. Without actually looking at what gave rise to these, I wouldn't draw any conclusions.

Mme LUCIE VANDAL-PARENT :

R. Si je peux me permettre aussi, il faut se rappeler que le mécanisme, comme vous avez dit, a commencé en 2006 et puis le

mécanisme veut que, à toutes les années, on garde aussi les bénéfices qui sont générés par la formule pendant la période.

Donc, en 2008, là, vous avez la troisième année du mécanisme incitatif. Donc, après ça, en 2009 aussi, là, vous avez une quatrième année. Alors, dans ça, vous avez ça.

Vous avez aussi le fait que, comme monsieur Trahan a dit dans sa preuve, qu'on est dans une région aussi qui est économiquement favorisée. Alors, on n'a pas connu, nous, tous les soubresauts de la récession, de la difficulté financière.

Q.125 Donc, ce que vous me dites, c'est que les conditions de votre mécanisme incitatif ajouté à un climat économique favorable à l'échelle régionale font en sorte qu'on a eu d'excellents résultats pour ces deux années-là, c'est ça?

R. C'est exact.

Q.126 O.K.

Mme LISE MAUVIEL :

R. Je peux quand même ajouter une petite affaire. Il ne faut pas oublier que les

impacts de l'économie peut-être nous on le sent moins dans notre région à cause de notre marché peut-être mais on a définitivement eu moins d'additions de clients pendant cette période-là, là.

On a quand même eu des impacts économiques liés à la récession par rapport au nombre d'additions de clients pendant cette période-là qu'on a vu une baisse par rapport aux années antérieures.

Q.127 Oui, on voit... en tout cas, les chiffres parlent d'eux-mêmes. Je ne veux pas commenter, simplement... Ça va?

Generally speaking, you've also looked at the evolution of Gazifère's business risk during the 1999 to today period, correct? It's something that you looked at in your analysis?

Mme KATHLEEN C. McSHANE:

R. I'd say generally, yes.

Q.128 Generally. Would you agree with me that the composition, the client mix of a regulated company, utility, is an important factor to consider in order to assess its business risk profile?

R. Yes.

Q.129 That, you know, residential or small commercial captive clients have an effect of reducing your business risk? Does it use natural gas for heating purposes.

R. Yes, I mean, in relation to a company that has... let me start over.

Q.130 High reliance on industrial load?

R. Yes, what I was trying to get across was that, I mean, it would depend if you are comparing two companies. It would sort of depended on the whole environment in which they were operating. So, I mean, it might be in a business environment which had a lot of residential and commercial customers but still be relatively risky because either the businesses or, you know, the industrials are connected directly to a pipeline, I mean, so there is a big industrial, concentrated industrial presence that affects the overall risk of the utility but generally speaking, yes.

I mean, if you've got a good solid residential, commercial base, I mean,

that's a good thing for the business profile of a utility.

Q.131 And would you agree with me if I were to suggest that, between 1999 and today, that Gazifère's client mix has improved from that perspective, that there is less reliance on large industrial users and more residential and small commercial clients?

R. Yes, they've lost a significant part of their industrial volumes because the pulp and paper industry in the region has encountered real difficulties and several of the industrial companies have entered into bankruptcy protection and as madame Vandal-Parent mentioned has left Gazifère with significant bad debt expense.

Q.132 So, the conclusion is that your answer is yes, I mean, the client mix has improved.

R. Partly as a result of losing... I mean, it's sort of a bit of a dilemma because on the one hand it's improved but it's improved because the customers went bankrupt.

Q.133 But there are more residential and

commercial clients. There have been additions, net additions?

R. Yes, yes, and I think again, I mean, if I understand what madame Vandal-Parent was saying this morning, that, you know, the reason that that's true is because the company has made an extraordinary effort to...

Q.134 Regardless of the reasons.

R. True, I mean, but you're right, I mean, you know, they do have... they have been able to add a significant number of customers.

Mme LUCIE VANDAL-PARENT :

R. Est-ce que je pourrais rajouter juste une chose?

Q.135 Certainement, Madame Vandal-Parent.

R. Comme je disais ce matin, parce que c'est tout vrai ce que vous dites mais ça c'est le passé.

Q.136 J'espère.

R. Qu'est-ce qui s'en vient, qu'est-ce qui s'en vient dans l'avenir, c'est ça qui nous intéresse, qu'est-ce qui s'en vient dans le prochain cinq ans. Puis comme je

disais ce matin, on ne le sait pas qu'est-ce qui s'en vient dans le prochain cinq ans.

Mais à cause de notre relation privilégiée avec nos entrepreneurs qui est fragile et puis aussi le vieillissement de la population relié aux entrepreneurs, c'est les fils qui prennent la relève, ils sont beaucoup plus éduqués, ils veulent avoir de l'énergie un petit peu plus propre. Est-ce qu'ils vont rester au gaz naturel? Est-ce qu'ils vont vouloir repasser à l'électricité?

C'est toutes des questions qu'on se pose et qu'on regarde pour l'avenir.

Q.137 Bien, pour l'avenir, parlons-en. Est-ce que vous seriez d'accord avec moi si je vous suggérais que la position concurrentielle du gaz naturel s'est améliorée depuis 1999 par rapport à l'électricité?

R. Non, je serais pas d'accord avec ça.

Q.138 Pas d'accord avec ça? Vous êtes en désaccord avec la preuve de monsieur Trahan sur cette question-là?

R. Bien, selon mes chiffres à moi, les chiffres à Gazifère, en 1999 - attendez, là, je ne veux pas vous induire en erreur.

Q.139 Je vais laisser monsieur Trahan élaborer là-dessus parce qu'il témoignera mais quand même. Après cette ligne de questions-là, j'ai bien noté qu'on était rendu autour de midi.

R. Alors, en 1999, le résidentiel était à 37% davantage. Aujourd'hui, au mois de juillet, on est à 24 %. Alors, ça, ce n'est pas une amélioration, c'est une détérioration.

Q.140 Ça complète votre réponse ça?

R. Oui.

Q.141 O.K. Alors, je pense qu'on peut, sur cette note, suspendre pour le lunch.

LA PRÉSIDENTE :

Merci, Maître Sarault. Merci, membres du panel. Nous allons prendre une pause lunch d'une heure. Donc, on va être de retour à 13 h 05 précisément. Merci.

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

LA PRÉSIDENTE :

Maître Sarault.

Me GUY SARAULT :

Rebonjour.

Q.142 So, Mme McShane, before we left for lunch, I was at page 24 of your written evidence about Gazifère's risk profile.

You do put an emphasis in your evidence on Gazifère's small size as being an element to consider for a higher risk profile.

However, putting small size apart for purposes of my discussion, would you agree with me that, if we look at Gazifère's client mix and organization, it's almost like a mini Enbridge that...

Mme KATHLEEN C. McSHANE :

R. I think that, if you look at the customer base, then you know there are certain similarities with a gas distributor which has, like Enbridge which has a relatively balanced customer base.

I mean there is, you know, one difference with Enbridge that is, to my mind, significant other than the size and that is the competitive environment

because Enbridge certainly is not operating in an environment where it is dealing, you know, day in and day out, competing with Hydro 1 for market share.

Q.143 I would now like to go to page 26 of your written evidence talking about energy policy and the Agence de l'efficacité énergétique. And you talk about the legislation that was passed in 2006 broadening the scope of the Agency's mission.

Were you aware that one of the measures that was part of the budget tabled by the Quebec government in March of this year, was the abolition of the Agence de l'efficacité énergétique, that by the end of this year will no longer exist? Were you aware of that?

R. No, I don't believe I was.

Q.144 Thank you.

R. I don't know... I mean, the point really was that the legislation was intended to really put emphasis on the development of energy technologies. So, I mean, I think that's really the key, the point I was

trying to make.

Q.145 I would now like to go, if I may, to the chart that we've prepared entitled *Comparative Approaches for Gazifère's ROE*.

You have that in front of you?

R. I do.

Q.146 Yes?

R. Yes.

Q.147 Okay. The first element that we find, the first factor that we find for all three columns is the risk free rate which is the first component of the traditional CAPM calculation as we know it. And I've put 4.70. That was based upon the February consensus forecast which is now updated to 4.15 to reflect the August 2010 consensus forecast.

I just want to make sure that I, fully understand the calculation you have made to update your recommendeded ROE at the last page which is page 15 of your presentation this morning, B-36. All right?

R. Yes.

Q.148 Would I be correct in suggesting that what

you've done here in order to update your recommendation was to use your initial recommendation of 11.25 as the going ROE as a starting point and then that you used the adjustment factors that you recommend in your report, i.e., if I look the August consensus forecast for the LTC, it's 55 basis points lower than what it was in February. And I multiply them by your proposed adjustment factor 50%, that gives me 0.275 of percentage.

And if I add to that the change in the spread which is a 10 basis points differential, multiply that by 50% which is the second adjustment factor that you proposed, I have another five basis points. And if I total that, it gives me 32.5 basis points and if I take your initial 11.25 subtract 32.5 basis points, I come to 10.925 which rounded up gives me 10.9. Is that the calculation that you made?

R. Except for one thing, I rounded it down.

Q.149 Yes, you rounded it down.

R. So, yes, that's it.

Q.150 That's it?
R. That's it, yes.
Q.151 Okay. Now, if we were to have used the current formula instead, still using your initial recommendation of 11.25 as a starting point, then the only factor would be the change in the LTC long-term Canada of 55 basis points multiplied by the factor of 75%, which gives me 41.25 basis points which, when subtracted to your 11.25, would lead me to a revised ROE recommendation of 10.84 which we could also round down to 10.80. Would that be an accurate calculation?
R. Yes, if you applied to the old formula to the 11.25 and used the difference in the long Canada rates, that's the result.
Q.152 Okay. Now, if rather than using your proposed adjustment formula with the two factors that we've just discussed, you were to use your 4.15 as the starting point of your calculation, as the risk free rate, and redo exactly the same calculations that you did in your report but starting with 4.78, would you arrive

at 10.9 or at something different?
R. Sorry, I didn't understand the question.
Q.153 Okay. Let's look at my chart, okay?
R. Yes.
Q.154 If we were to replace your 4.70 by 4.15...
R. Yes.
Q.155 ... all of the other parameters will remain the same. Correct? That doesn't change. The market risk premium doesn't change, the beta doesn't change, the results of your equity risk premium rate and DCF don't change either for the benchmark utility?
R. Okay, so, yes.
Q.156 If we were to do that exercise starting with the 4.15 risk... with a 4.15 risk free rate, what would be the ultimate result for the recommendation?
R. Oh! I see, you just want to go through and change that one number?
Q.157 Well, if we change the rate for your benchmark utility, correct, which is an average of 10% right now.
R. Yes, so I would have to... I would have to go through and change the first test to

put in 4.15, right?

Q.158 Yes.

R. And then change... I guess, because the second test is based on a 4.70 as well, the ERP.

Q.159 That's right.

R. Yes.

Q.160 If we were to redo those calculations instead of using your proposed adjustment formula, what would be the ultimate result? I didn't have time to do it because I knew that several of your tests, in order to arrive at the recommendation for the benchmark utility, could be affected.

R. Right. So, see, you would have to go through and pick out the ones that used that new risk free rate in there.

Q.161 Hmm-hmm.

R. I can do that calculation but I can't do it now.

Q.162 Could we do it in a form of an undertaking?

R. Absolutely.

Q.163 And get the result tomorrow?

R. Yes.
Q.164 Okay. The undertaking would be by using 4.15, the current consensus forecast, as the starting point as risk free rate, what would be the ultimate recommendation for Gazifère using the same, exactly the same tests and the same calculations as you have in your report.
R. I can do that.
ENGAGEMENT #1:
By using 4.15 as the starting point as risk free rate, provide the ultimate recommendation for Gazifère using exactly the same tests and the same calculations in Mme McShane's report.
Me GUY SARAULT :
Q.165 Okay. I now come to the section of your report dealing with the market risk premium. All right?
R. Yes.
Q.166 And we have your ultimate recommendation at page 43 of your written evidence. All right?
R. Yes.
Q.167 First of all, as a matter of principle, do

we agree that market risk premium is really an economic concept as general and it's not unique to any utility in Canada? A market risk premium is the premium of the market over other forms of basic investments?

R. There is nothing...

Q.168 It's the market as a whole?

R. Yes, so there is nothing unique to any particular utility or company for that matter.

Q.169 Exactly.

R. Yes.

Q.170 Okay. So if I look at your proposal on Exhibit C-2-24, the comparative approaches document, your recommendation is 6.75 whereas eight months ago the Régie came with a range from 5.50 to 5.75. Knowing that you've read the decision of the Régie, could you summarize to us what would be the salient differences in your approach leading you to 6.75 rather than this lower figure that the Régie arrived at in its decision?

Obviously, you know, your result is

not the same at all.

R. I have to say that I'm going to go on memory with respect to the rationale for the Régie's premium but my sense was that the outcome was based largely on historic risk premiums and giving weight, about 50% weight to Canadian...

Q.171 It would be 60-40 if my memory serves me right?

R. It has been moving. I think it's 50-50.

Q.172 Anyway.

R. I'll bet you a twonie on that. No, my recollection was it was 50-50 but the essence was that, you know, my understanding was it was based on historic risk premiums and I would say the salient differences between what the Régie found to be the risk premium would be how I interpret the difference between what actually occurred in terms of risk premium and what would be expected going forward as a result of the differences between historic bond returns and forward-looking bond returns which the higher bond returns historically, relative to what is

expected, would have resulted in a lower historic risk premium than you would expect going forward with similar equity returns but lower bond returns.

I think that would be, you know, the crux of it.

Q.173 So, these are the key differences between your approach and the Régie's approach for market risk premium?

R. You know, I'm not in a position to tell you, you know, in great detail what all the considerations were that the Régie gave when they came up with the risk premium but I know that they have said on at least, you know, one occasion that, from the Régie's perspective, you know, they want to look at long-term averages.

So, I took from that, you know, the long term... I've forgotten the exact terminology but rather than try to track changes in the cost of equity or changes in the risk premium, that they would focus on long-term averages.

So, I took from that that they were using historic risk premiums.

Q.174 And is it... and that's something you did not do?
R. Well, I start there. I mean, clearly, I start there and then look and see, you know, what the differences are today that would give rise to variations from what happened historically.

And to my mind, you know, the bond return issue is one of the major issue.

Q.175 You've read Dr. Booth's evidence?
R. Many times.
Q.176 And in this instance in particular, you did?
R. Yes, I have.
Q.177 And he comes with a market risk premium of... within a range of 5 to 6%, so 5.50 on average.

Again, what would be the differences, the salient differences between your approach and Dr. Booth's approach to market risk premium because the results are, again, within the same ballpark, in terms of differences with those of the Régie.

R. Well, I guess I would say that the key

difference would be the weight that he gives to surveys of other people who do risk premiums. And, I mean, I think that's really the... we all sort of all go throught the same fundamental analysis and he does a comparison of his results with surveys and I would say that probably, for him, confirms that his numbers are in the ballpark and...

Q.178 So, are you telling me that you basically used the same tools, but that at the end of the day, you don't make the same judgement call?

R. I would say that that's probably true.

Q.179 Do you remember having appeared in a case before the British Columbia Utilities Commission last year on rate of return?

R. Yes.

Q.180 Yes. Would you, off memory, would you agree if I were to suggest to you that the BCUC accepted a range of 5 to 6% for the market risk premium?

R. It rings a bell.

Q.181 It rings a bell. Do you remember what your recommendation was for market risk

premium in that case?
R. I would imagine it was pretty close to what I recommended here.
Q.182 6.75?
R. I would hope so.
Q.183 Okay. And off memory, you know, it does trigger a bell if I tell you that they went for a lower figure?
R. Well, I'm sure that they did because I recall looking at their CAPM result and it was quite low.
Q.184 Okay. Did you appear also before the Alberta Utilities Commission leading to the decision 2009-216?
R. Not on cost... yes, but I didn't do a cost of equity study.
Q.185 No. All right. And do you remember when the BCUC decision was rendered? It was late in 2009, I gather?
R. I believe it was...
Q.186 December?
R. ... December 2009?
Q.187 Yes, about the same as the Régie's decision for GazMetro?
R. I think the timing was... I can't remember

which one came before which but, yes, just to be fair, the BCUC decision didn't give much weight to the capital asset pricing model as it turned out.

Q.188 Okay. Just for purposes of the record, Madam Chairman, the BCUC decision was rendered on December 16th, 2009 and the excerpt dealing with their conclusion on market risk premium is referred to at page 15 of Dr. Booth's expert report and it reads as follows:

> « *The Commission panel establishes a CAPM estimate by using the Consensus estimate of 4.30 percent for the risk free rate, establishing an equity market premium in the range of the consensus estimate of Canadian professors of finance of 5 percent to 6 percent and using an adjusted beta in the*

range of 0.60 to 0.66. This produces a "bare-bones" CAPM estimate in the range of 7.30 percent to 8.30 percent before it amounts for financing flexibility. »

That rings a bell now?

R. It does.

Q.189 Okay. Again coming back to my little chart C-2-24, we go to the beta. You propose a range of 65 to 70 basis points compared to 50 to 55 for the Régie last year and 45 to 55 average of 50 for Dr. Booth this year for Gazifère.

Once again, can you summarize quickly the salient differences between your approach leading to this higher result versus the others? Conceptually what's the difference?

R. Well, I think conceptually the difference is that I would call the betas that the Régie used and the beta that Dr. Booth used essentially raw betas. I know

that...

Q.190 Raw you mean unadjusted?

R. That's what I mean.

Q.191 Okay.

R. But just to be clear and fair, when Dr. Booth does his relative risk adjustment, I mean he's not just picking whatever the most recent number happens to be from and using it. I mean, he looks at a long-term relationship perspective. I mean, you could call what he does adjusted, I mean, in the sense that it's...

Q.192 There is a judgement call?

R. Yes, fair enough.

Q.193 So, the difference, I guess, from my perspective is that, although you can calculate, you know, that this relationship has been .5 over the long term or recently, whatever, the relationship between the actual returns and this relative risk adjustment also has to make sense. I mean, it's one thing to say: Look, I can measure this as, you know, my best estimate of the slope of the relationship between the market... the

movement of the composite and the stock prices, you know, it moves, the price moves 0.5 for a utility for every one that the market moves.

But you also have to look at the reality of what investors have actually earned from low-beta stocks. And the fact is if, you know, the 0.5 relationship doesn't connect with the actual returns, then, you have to take that into account. You can't just ignore the observed or empirical behaviour.

And one of the things that I would point out is that in one of the big studies that was done on the capital asset pricing model showed that the companies with the lowest beta stocks had earned more - I'm trying to remember, the number was like... they had earned 2.8 percentage points more than, you know, the capital asset pricing model would predict.

Now, I mean, certainly part of that is probably... you can attribute it to the fact that researchers tend to use short-term interest rates when they do these

studies of the capital asset pricing model.

So, to some extent, if you apply your capital asset pricing model using not short-term rates but long-term rates, you can kind of make up for some of that understatement. But if you look at the magnitude of, you know, how much this study showed low-beta stocks had outperformed what the pure CAPM says or predicts, then, it seems to me that it has to end up in the relative risk adjustment. And that's what this does.

Q.194 So, what you're saying in essence is that the big difference between your approach and the two others that we have on this chart is essentially in the adjustments...

R. True.

Q.195 ... that you propose?

R. Yes. And if I can just add, I mean, this was an adjustment that, when you look at the BCUC decision and you look at the beta that that decision used for a benchmark utility, and as I recall, it was 0.6 to 0.66 or something like that.

Q.196 Yes, we just said that a minute ago.
R. Yes, that... oh, right, you read that part of the decision.
Q.197 Yes.
R. That that's exactly why that beta number is what it is, because the BCUC applied... they used an adjusted beta.
Q.198 All right. Now, we come to your tests. You have three equity risk premium tests and we see those results at page 55.

Would I be correct in suggesting to you that the first test producing a result of 9.25%, that you qualify as risk adjusted equity market, I looked at your calculations and it looked to me like the same calculation that we normally use for the typical CAPM, like risk free rate plus market risk premium multiplied by beta.

R. Right.
Q.199 That's what it is?
R. Yes.
Q.200 Okay. Now, if you go to the Régie's decision last year, you will see that the Régie does not at least, you know, quantify precisely other methods like you

have. It rather explains that it used primarily the CAPM approach and then it gave some weight to other models for which it provides an adjuStment of anywhere between a quarter and a half percentage point. You're aware of that?

R. I am.

Q.201 Okay And Dr. Booth also says in his evidence that he gives primary reliance to the CAPM approach. Is that your understanding of his evidence?

R. Yes.

Q.202 Now, would you agree with me that, as Dr. Booth says in his evidence, the vast majority of finance professors and regulators in North America, Canada and the United States, do give primary reliance to the CAPM approach?

R. I doubt he said that. He might have said that the majority of finance professors do look at CAPM. He might have said that...

Q.203 Okay, if I were to suggest to you that the vast majority of regulators in Canada do give more weight, primary reliance, to the CAPM approach versus other methods?

R. Maybe I'm clutching at straws here but I... and if I look at the regulatory jurisdictions where there are privately-owned utilities that the regulator regularly determines the cost to capital for, I would say that, in reality, although a number of the high profile, highest profile I'll call them, regulators use CAPM and that it's not quite as clear-cut as saying yes, the majority do.

I mean, if you look, for example, at Newfoundland, I would say yes. Nova Scotia, I would say no. Prince Edward Island, I would say no.

Q.204 Quebec?

R. I'm getting there, just moving across. New Brunswick really doesn't have any companies that are, you know, regulated regularly as are we in capital structure. Quebec, yes. Ontario, no. Manitoba and Saskatchewan, N/A, because they're all publicly owned. Alberta, yes. And B.C., no.

Q.205 In the excerpt that I quoted a minute ago from the BCUC, wasn't that a CAPM

approach?

R. Ah, they don't give... I believe that if you read that decision it clearly says we give primary weight to the discounted cash flow test.

Q.206 I stand corrected. Now, going to your other models, the figures that I show for the results here I've taken from pages 55 for the equity risk premium tests and page 58 for the DCF tests. Those are accurate results as reflected in your evidence, we both agree?

Well, the three first ones are easy, those are shown on table 10 at page 55, right? And the two DCF's, we find the two constant growth models at 10.2% at page 58, lines 1462 and 1463?

R. Right.

Q.207 And the two other models, the DCF, the three stage, at 9.75, at lines 1468 and 1469?

R. That's correct.

Q.208 Okay. So, collectively, if we add the results of these four other models to your CAPM of 9.25, we end up with an average of

10% for all tests, correct?

R. Correct.

Q.209 Which is 75 basis points higher than the results of your CAPM?

R. Right.

Q.210 So, the upward adjustment arising from the use of these four other models is of 75 basis points whereas, in its decision last year, the Régie granted an upward allowance of 25 basis points to 50 basis points for other models.

Are you in a position to identify conceptually what would be the differences between your approach and that of the Régie?

R. No. No, I don't know what the... first of all, I don't know offhand what the differences in the actual results were. I'm not that familiar with what the other tests were. So, no. And I don't know what the relationship between the numbers was either.

Q.211 Okay, fair enough. Now, this brings us to an aggregate average for the benchmark utility of 10% in your case versus the

other figures shown for Dr. Booth and the Régie last year. Now, when we come to the other factors, issuance costs, which we also call sometimes flotation costs or financing flexibility, you suggest a range of 50 to 100 basis points with an average of 75 basis points versus the Régie's much lower figure and Dr. Booth's figure of 50 basis points. Here again, are you in a position to tell us what reasoning, what differences in your approach lead you to this higher result?

R. As far as the Régie is concerned, my recollection of the decision was that the focus was on the, I'd say, the real out-of-pocket expenses that GazMetro may have incurred for flotation costs over the past years whereas the... I think from both Dr. Booth in my perspective, and he'll have a chance to...

Q.212 Explain himself.

R. ... correct me if... correct me if I mis-state, but the bottom end of my range and his 50 basis points are really in the sense of enough of a cushion to preclude

the impairment of financial integrity but whereas the upper end of my range as I explained in my presentation this morning is really to recognize two things, the fairness principle and the difference between the market and the book value capital structures which I don't believe that either the Board or Dr. Booth have considered in their adjustments.

Q.213 Obviously, you're a very experienced expert witness in these matters and I, from my part, have practiced for quite a number of years in this area as well and I've read a number of regulatory decisions both in Canada and in the United States. And when it comes to either finance and flexibility flotation costs, issuance costs, call it whatever you want, would you agree with me if I were to suggest that, by and large, this is very discretionary, it's a judgement call and you can find decisions all over the place?

I've even found that in its April, 2009 decision, approving the ATWACC for TQM, flotation costs were not there at

all. The NEB's practice is just not to include that.

R. Well, that's a tough one because the ATWACC methodology in and of itself, I mean, employs a market value capital structure construct. So, in some sense, if you're using market value capital structures to develop your cost to capital, I mean, the flotation cost adjustment is kind of buried in there. It's subsumed by the market value capital structure.

Q.214 Okay. That's for the ATWACC but I was led to understand, maybe I'm totally wrong and out to lunch, that the NEB wasn't really keen on flotation costs to begin with.

R. Yes.

Q.215 And I've seen... like in decisions I've seen 25 basis points and I've seen 50 basis points and I've seen 30 basis points and sometimes it's almost like in passing at the end of the reasoning, leading to an ultimate recommendation and some experts have even told me: Look, what we try to do with this thing is to round it up to

something that looks reasonable on the aggregate. Is that an approach that would make sense to you?

R. To round it up to something that...

Q.216 Makes sense from an aggregate point of view for the overall recommendation?

R. No, I do think that you need to look in and see what the flotation costs or financing flexibility allowance is supposed to encompass and I agree that there is judgement involved, but it should be constrained by, you know, what the facts are so to speak.

You know, you want to, on the one hand, ensure that the return is sufficient to, in theory, allow, you know, the price of the stock to be slightly above book value and that determines your bottom end of the range.

And then, if you do look at this, you know, financial risk in the market value capital structure versus book value capital structure risk, I mean, that determines sort of the upper end of the range.

Q.217 Actually, I was reading again the eleventh page of your presentation this morning and when I was listening to you, I said to myself, you know, I've heard flotation costs as title for this item. I've heard issuance costs as title for this item. And now, we have financial flexibility allowance.

Is your concept of financing flexibility allowance larger, wider in scope than flotation or issuance costs?

R. Yes.

Q.218 Okay. Could that be one reason as to why we end up with a higher figure?

R. Than?

Q.219 Than the others?

R. No. Well, it's clearly why we could end up with a higher number than the Régie because, as I said, I think that from my readings, that their focus was on the actual out-of-pocket financing... sorry, flotation costs.

Q.220 But where...

R. Whereas I don't think Dr. Booth's...

Q.221 It's a more generic approach.

R. Yes, it's a more generic approach.
Q.222 And here I read words like cushion and fairness. Would you agree with me that these are like abstract concepts that can lead to judgement calls that can be or not be arbitrary?
R. Well, they do require judgement. I mean, I don't find them arbitrary.
Q.223 They could be.
R. Well, you know, any decision can be arbitrary but, yes, they could be applied in an arbitrary manner.
Q.224 Thank you. Well, the equity risk premium for Gazifère, that's chapter 7 and, as of page 61 of your report, which is the last element that we had in the calculation, on this point in particular, I would like you, if you feel you can, to give me an idea of how much additional equity risk premium you would recommend for Gazifère to account for its higher risk profile vis-à-vis each of the three following utilities?

And my first example out of the three is Enbridge Gas which has a common equity

ratio of 36% and I am led to understand that its current return on equity is of the order of 8.39%.

So, how much more for Gazifère vis-à-vis Enbridge to account for its higher risk profile and why? It's the type of examples that you use in table 11.

R. Well, I haven't done a study for Enbridge Gas for many years. Now, I consider that Enbridge Gas was pretty much the epitomy of a benchmark utility. So, I would say that the ROE that I recommended here for a benchmark utility would apply to Enbridge Gas in which case it would follow that the return would be about 50 basis points higher.

Q.225 So, your benchmark here is 10% or 10.75% with the add-ons?

R. Yes.

Q.226 So...

R. Yes. So, but I think you're a sneaky fellow. I'm not going to let you get away with that 8.39. Yes, Endbridge Gas is...

Q.227 There is nothing I can do about it.

R. Enbridge Gas' ROE is 8.39 because it was

set that way for purposes of a five-year incentive plan which the OEB, you know, it basically said, you got 8.39 for five years and, I mean, that was the spirit of the incentive plan and you'll keep 8.39 until the incentive plan is up.

Q.228 Are you telling us they were had?

R. No.

Q.229 That it's unreasonable?

R. Well, all I mean to say is that I don't think it was unreasonable for the OEB to say: Look, I mean, you have a plan that has various elements in it. I mean, the ROE isn't the only thing that's in it. So, you know, just to change the ROE without revisiting every part of the plan is probably, you know, as I said before, not within the spirit.

But, you know, at the same time, I do think you cannot discount the fact that the OEB did have a cost of capital consultation and come up with a new policy and the policy, you know, says that ROE for benchmark utility for rates, actual rates effective May 2010 is 9.85%.

So, you know, I think you have to at least acknowledge that utilities of similar risk to Enbridge in the same province are being allowed 9.85 right now.

Q.230 What about Union Gas?

R. Same deal as Enbridge Gas.

Q.231 Okay. So, there are two of them.

R. Out of 94.

Q.232 So, we both agree that Enbridge Gas and Union are the two most important gas distribution companies in Ontario?

R. Sure and they're both under five-year incentive plans.

Q.233 Okay. And they both have a 36% common equity ratio which is four points under Gazifère?

R. Yes, they do.

Q.234 Yes. GazMetro, we look at the recommended ROE last year by the Régie. After an adjustment for financial crisis that is no longer necessary according to your testimony today because the crisis would be behind us, so... and we know for a fact that GazMetro's common equity ratio is 38.5%.

Now, what would be the premium for Gazifère vis-à-vis GazMetro if we subtract this adjustment for financial crisis from last year's decision for GazMetro? And the adjustment was 25 to 55.

R. Sorry, could we go through that? I'm not sure I can answer that question without some study because I really haven't made a study of GazMetro. So, let's go through the calculation that you are doing.

Q.235 Okay. Well, if you remove the upper end of the adjustment for financial crisis from 9.46, it's 9.46 les .55. So the upper edge of the range for GazMetro without this adjustment would be 8.91 and the lower end would be 8.03 minus .25, equals 7.78.

This would be the range without the adjustment for the financial crisis. How much more for Gazifère to account for the differences in risk profile?

I give it another full percentage, I come to 8.78 to 9.91. I'm still far from your recommendation. That's a full percentage point.

R. Which really doesn't have anything to do with the relative risk per se. I mean, it has to do with the difference in the estimation of the fair return to begin with.

Q.236 Well, I mean, this has been judged by the Régie for GazMetro to be a fair return and this is the calculation. You've got it all there.

R. I understand.

Q.237 Obviously, you know, if they use a lower market risk premium, lower beta, lower issuance costs and all of that, the ultimate result would be significantly lower.

What I'm trying to do is if I transpose this decision for GazMetro which has a slightly lower common equity ratio to account for the differences, if any, between GazMetro's risk profile and Gazifère's risk profile, what's the result?

And what I'm suggesting to you, if I add a full percentage point, full, over the range I've just given you, I'm still

well below your recommendation.

R. So, I mean, I think we agree that the difference in the recommended return for Gazifère and the actual return for GazMetro as determined by the Régie minus the financial crisis premium, I mean, it really doesn't boil down to difference in the risk between them. I mean, it does boil down to differences in the approach to determining, you know, what the basic return is and, you know, what relationships may come to bear in determining what the proper...

Q.238 Are you telling me in sneaky terms that the Régie's rationale for assessing GazMetro's rate of return last year and that ends up to a result that's too low from your perspective?

R. Yes, I would say that, from my perspective, it's too low. I don't think that there is any, you know, anything that I'm trying to hide. I would think that now given my recommendations, that I don't even have to say that.

Q.239 Okay. Now, these will be my closing

questions. I would like to go into the adjustment mechanism but before that I have someone pulling on my...

The first recommendation you make and we find both of your recommendations summarized at page 68 of your written evidence is to reduce the relationship between a forecast long-term government of Canada bond yields and the benchmark ROE from 75 to 50%.

Now, we have seen that initially, in 1998, for Gazifère, you have recommended an adjustment factor of 75%, correct?

R. I did.

Q.240 Okay. Isn't it correct as well that, in 2007, that's three years ago, that you supported Ontario Power Generation's request for a 75% adjustment factor?

R. I did.

Q.241 You did.

R. Again, I mean, I think that you have to... a couple of things. One, you do have to look at the circumstances in each case. In the case of Gazifère in 1999, the Régie had just approved the mechanism for

GazMetro...

Q.242 With a 75 adjustment.

R. With 75. It was clear that the Régie was interested in having a formula. We weren't looking at very much volatility in interest rates at the time. And I proposed an ROE which I thought, you know, at the outset was fair. So, the 75% formula was something that we could live with, if we got the right return and interest rates stayed stable, as they were expected to.

So, you know, a couple of times after that - I mean, I've always believed that the relationship is really 50-50 - so, a couple of times after that, I did make proposals to both the Alberta Utilities Commission and to the Ontario Energy Board that they adopt a return, you know, base return and a formula with the 50 in it.

At the time, they declined. And then, when this case with Ontario Power Generation came, again, the fairy tale that I live in, the thought was that we had finally reached a point where interest

rates would be relatively stable, the Ontario Energy Board had just reviewed the formula for the electricity distributors. And so, again, with a fair return to begin with, relatively stable interest rates, the 75 could have worked.

But ultimately, I mean, what I truly believe is that the relationship between interest rates and costs of equity should really drive the formula. And if you put the ROE that is indicated by these relationships in conjunction with the formula, then, truly, you know, a 50% sensitivity factor is what the formula should have.

Q.243 Is it true that one year before the Ontario Power Generation case, we're now in 2006, that you supported the 75% adjustment factor in BCUC in a BCUC case?

R. I believe that's right.

Q.244 That's right.

R. Same thing.

Q.245 So, what about that one?

R. I don't recall.

Q.246 So, once again, you supported something

that you didn't truly believe in?

R. It certainly would not have been my best position. I would think that the proper approach is the 50-50.

Q.247 But in your answers to information requests, and I'm now going to GI-31, page 12, answer 7.A, you say, and I quote:

> « *Mme McShane is recommending a 50% adjustment factor based on the empirical evidence that is presented in her testimony...* »

Fair enough.

> « *... and which reflects the experience of the past 10 plus years.* »

Yet, we see as recently as three, four years ago, you were still supporting a 75 adjustment factor in certain instances?

R. Correct.

Q.248 So, it's not 10 years, I mean, it's...

R. No, my point is that the evidence

continues to mount over time that that is the relationship.

Q.249 Now, the second adjustment factor, which is totally new, is explained as follows at page 68 of your written evidence, and I quote:

> « *Add a second explanatory variable corporate bond yield spread to the original formula with the same 50% sliding scale factor.* »

End of quote.

Just for my information, what would be the objective documentation that would be used by the Régie in order to establish the appropriate corporate bond yield spread?

R. So, you mean if the Régie wanted to actually pick a...

Q.250 A publication, whatever.

R. ... a publication and put that number in the decision so that here's the point of departure for long Canada yield and

spread?

Q.251 For example, we use the consensus forecast for long-term Canada.

R. Correct, right.

Q.252 I mean, that's... you know, it was necessary for the regulators to do that to make it...

R. Right.

Q.253 ... crystal clear. Now, here, what would be the... how would it work in terms of using a publication, what would be the operational parameters?

R. Okay, well, there are two sources. If you were going to use the A-rated corporate spread as the point of departure, you would need to subscribe to the... what is it called... the DEX bond yields that are provided by PC Bond Analytics, which is...

Q.254 And the samples in that...

R. Pardon me?

Q.255 And the samples in that publication are superior to others?

R. What do you mean the samples are superior?

Q.256 Those, I mean, the figures that we find, the data?

R. Well, I mean the data is an index which has... you know, this is an index that, as far as I understand, was created years ago by ScotiaMcLeod and was published by them for years, and maintained by them for years.

And then, at some point, in the mid-2000's I believe it was, they sold their bond index business to the Toronto Stock Exchange. And so, they maintain all these indices now and publish them all the time.

So, we, as a firm, subscribe to their monthly publication, so we get a publication that gives us the yields on all the different bond indices, the corporate A's, corporate A, Double-A, Triple A's, long-term, mid-term. So, that's one source.

Q.257 But could there be issues or disagreements as to sampling accuracy, completeness?

R. I don't know why, I mean, this is a corporate... well, you know, A-rated corporate bond yield index. It has, you know, 100 and some issues in it that... I mean, as far as I know, it's widely

accepted as, you know, the index of A-rated corporate bonds.

And the other one is the Bloomberg A-rated Canada bond index, which is the one that the Ontario Energy Board uses. And as far as I know, you have to subscribe to Bloomberg to get that. It's a much narrower index than the DEX corporate bond yield index.

Q.258 Okay. Now, you have filed as exhibit GI-30, document 1.19, a list of bond yields for a number of companies. Do you have that in front of you? Sample yields.

R. Yes, I have that.

Q.259 You have that?

R. Hmm-hmm.

Q.260 Now, what is the source of these sample yields, where did you take them?

R. They were provided to me by RBC.

Q.261 RBC, Royal Bank of Canada?

R. Yes.

Q.262 And it's neither one of the indexes that you mentioned?

R. No.

Q.263 Okay. So, it's another possible source?

R. Well, it's a source of data for me. I mean, it's something that they provide to me; it's not something that I would recommend that the Régie use.

I mean, I think if you were going to have a formula that has a corporate bond yield spread in it, that it should be in an established index, that you're not sitting there fighting over, you know, what issues go in, what issues are liquid.

So, this information that was provided here, yes, it's stuff, data that were provided to me for use in my work but it's not something I would recommend using for a formula.

Q.264 Is it correct that if we take the example Enbridge Gas, in the middle, for example, that perhaps with the exception of a significant increase during the crisis months in 2008 and 2009, that, as we are talking today, the spreads are largely back to what I would call normal, more normal levels as they were before like in 2006 and 2007.

R. They certainly are back to more normal

levels.

Q.265 Okay.

R. I think they're high relative to history and high - well, obviously, they're high relative to where they would be in the true expansion part of the cycle but I mean, I think they're generally a little bit higher relative to history than...

Q.266 Hmm-hmm. If, for example, for purposes of my question, for purposes of a discussion, what would have been the effect, I mean, looking at the figures from 2006 for example?

2006, I've calculated the average for Enbridge is 5.27. Had the Régie accepted, for purposes of that year, 2006, your recommendation for this new adjustment factor for bond spreads, what would have been the effect on the rate of return?

R. I have no idea.

Q.267 You have no idea?

R. I haven't gone through and looked at these numbers in that context. What are we talking about, first of all, are we talking about for Enbridge Gas or are we

talking about... for what?

Me GUY SARAULT :

Moi, je pense que j'ai pas mal terminé. Peut-être qu'avec une consultation de quelques minutes avec mon expert, je pourrais vraiment confirmer que c'est *over*.

LA PRÉSIDENTE :

Est-ce que vous voulez qu'on prenne une pause de cinq minutes?

Me GUY SARAULT :

Oui, cinq minutes, ce serait suffisant.

LA PRÉSIDENTE :

Bon, donc on revient à et 30.

Me GUY SARAULT :

Parfait, merci.

LA PRÉSIDENTE :

14 h 30. Merci.

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

LA PRÉSIDENTE :

Je comprends, Maître Sarault, que vous avez terminé votre contre-interrogatoire?

Me GUY SARAULT :

Tout à fait. Merci.

LA PRÉSIDENTE :

Maître Turmel.

Me ANDRÉ TURMEL :

Bonjour, Madame la Présidente. Bonjour aux membres du banc. Premièrement, je m'excuse pour mon air un peu chiffonné, je me mouche depuis ce matin. Je suppose la qualité de l'air dans cette salle ici, mais c'est difficile parce que j'ai beaucoup d'allergies. Alors, excusez-moi.

Me LOUIS LEGAULT :

Vous êtes allergique à la Régie.

Me ANDRÉ TURMEL :

Oh non. Alors, mon nom est André Turmel pour la Fédération canadienne de l'entreprise indépendante. Mes questions seront courtes et adressées à madame Vandal-Parent.

CONTRE-INTERROGÉE PAR Me ANDRÉ TURMEL :

Q.268 Ce matin, Madame Vandal-Parent, ce matin... premièrement, bonjour.

R. Bonjour.

Q.269 Ce matin, vous avez fait une petite déclaration d'ouverture avant le témoignage de madame McShane puis vous avez évoqué deux points que je voulais revoir avec vous pour m'assurer que j'ai bien compris.

Vous avez insisté lourdement sur le

fait que Gazifère a connu à l'égard du secteur résidentiel une croissance de 5% dans les dernières années, c'est exact, de sa clientèle?

R. Exact.

Q.270 Puis, est-ce qu'il est correct de dire que, en cela, ça vous distingue beaucoup par rapport à GazMetro qui n'a pas un tel succès à l'égard de la croissance de la clientèle résidentielle?

R. Est-ce que vous pouvez me rappeler qu'est-ce que c'est leur compte, leur...

Q.271 Écoutez, je vous soumets que je n'ai pas les chiffres, mais je pense que c'est 4000 à 5000 nouveaux clients par année mais sur une base beaucoup plus importante puis ils en perdent aussi par année, mais je vous soumets que c'est peut-être 2, 3%, mais ce n'est certainement pas 5%.

Je voulais juste m'assurer que vous étiez bien différents de GazMetro à cet effet?

R. Ça doit.

Q.272 Ça doit. Et si vous êtes bien différents de GazMetro à cet effet, est-ce que quand

vous faisiez référence au fait que vous avez une relation privilégiée avec les entrepreneurs, ça, ça explique une grande partie de ce succès-là que vous avez développé pour la croissance résidentielle?

R. Ça l'explique presque entièrement parce que la majorité de nos clients, nouveaux clients résidentiels proviennent de la nouvelle construction.

Q.273 Puis je comprends que ce succès-là qui provient grandement de cette relation-là, ça ne se bâtit pas en une année, ça se bâtit sur plusieurs années?

R. C'est exact.

Q.274 Et si ça se bâtit sur plusieurs années, vous êtes d'accord avec moi que ça ne se débâtit pas ou ça ne se déconstruit pas rapidement.

Ça prend du temps également si on veut, si ça se met à aller mal, ce n'est pas une question qui change du jour au lendemain, cette relation-là qui est bâtie, ce n'est pas avec un entrepreneur, c'est avec des entrepreneurs, c'est un peu

dans la culture régionale que vous avez établi cette relation-là, c'est ce qui fait que vous connaissez un succès, mais donc, si le passé est garant de l'avenir, pour l'avenir, les perspectives sont très intéressantes?

R. Bon, si la relation continue comme elle est aujourd'hui, je suis d'accord avec vous. Par contre, je ne suis pas d'accord avec vous que ça ne se détruit pas du jour au lendemain.

Vous allez vous souvenir que, en 2005, on était venu devant la Régie pour défendre ou pour demander à la Régie de nous donner le même niveau de financement, d'aide financière, je devrais dire, pour le programme d'efficacité énergétique Novoclimat.

Puis la raison pour laquelle on avait demandé ça, c'est parce qu'on avait un entrepreneur de construction majeur qui construisait des maisons Novoclimat, mais que là, puis ça, c'était un de nos plus fidèles partenaires, et qui là voyait Hydro-Québec offrir plus que le double de

Gazifère en subventions, donc je m'excuse, mais quand ça affecte le bénéfice d'une compagnie, je les comprends qu'ils vont vouloir aller vers Hydro-Québec.

Puis comme j'ai dit ce matin, quand on a les gros industriels, les entrepreneurs majeurs en construction, les petits suivent, bien là, ce serait la même chose qui arriverait: « Ah, on s'en va vers l'électricité, bien, nous autres aussi, on s'en va vers l'électricité. »

Q.275 Mais je comprends comme aujourd'hui, je ne veux pas vous interrompre, mais vous n'avez pas de raison de croire qu'il y a des faits récents qui font que ça va moins bien avec ces entrepreneurs-là, ça va bien en ce moment? C'est une situation, la situation actuelle, factuelle est celle d'une relation saine avec ces entrepreneurs-là, ça va bien?

R. Ça va bien, sauf que comme c'est là, on a la nouvelle génération des entrepreneurs qui commencent à prendre la relève pour leurs parents, donc nous, la relation privilégiée qu'on avait, c'était plutôt

avec la génération d'avant, si vous voulez.

Donc, là, on arrive avec une nouvelle génération qui ont des nouvelles attentes. Ils sont plus... ils sont plus informés, c'est des gens qui sont tournés vers l'efficacité énergétique, l'énergie verte.

Il y a eu un temps où on disait que le gaz naturel était une énergie propre à 100% bien proche, mais ça, c'est parce qu'on la voyait remplacer l'huile, le mazout tranquillement, mais là, ça, c'est presque terminé ça, cette conversion-là.

Donc, là, on se tourne, qu'est-ce qu'on a, on a l'électricité qui est une énergie verte, une énergie renouvelable et on a le gaz naturel. Alors, ces gens-là, est-ce qu'ils vont rester avec nous, je ne le sais pas.

Q.276 Je comprends que vous prenez les moyens pour qu'ils restent avec vous?

R. On essaie.

Q.277 D'accord.

R. Oui, c'est entendu.

Q.278 D'accord. Et maintenant, vous avez fait

référence au fait que, dans les dernières années, Gazifère ont perdu quelques grands ou plusieurs clients industriels. C'est exact?

R. C'est exact.

Q.279 Et puis aujourd'hui, si on parle de clients industriels, on parle environ d'une douzaine de clients, de grands clients industriels, 13 pour être exact?

R. Oui, mais ce n'est pas des grands clients.

Q.280 Bien, c'est-à-dire des clients, oui, il y a des très grands, mais des clients industriels, vous en avez combien, un ordre de grandeur?

R. Alors, autour de 12.

Q.281 Autour de 12. Ce n'est pas le point que je veux faire avec vous.

R. Mais il y en a qui sont très, très petits.

Q.282 Très, très petits. Mais entendons-nous pour dire qu'il y en a moins, beaucoup moins qu'il y en avait il y a quelques années. Ça, c'est un fait non contredit?

R. C'est les grands débits. Comme c'est là, il nous en reste deux, puis il y en a un de ces deux-là qui menace encore de fermer

ou de partir, de vendre.

Q.283 Mais en général donc, pour tous ceux, parce que ce matin, vous parliez quand on regarde le risque de manière prospective, vers le futur, il est exact de dire que comme il y a moins de clients industriels qu'il y en a, nécessairement ou mathématiquement, les risques d'en perdre beaucoup sont moindres parce qu'il y a moins de clients industriels. Est-ce que c'est exact de penser comme ça?

R. Ceux qu'on a perdus, on aurait aimé les garder.

Q.284 Ça, ce n'est pas la question, je suis d'accord avec vous que ce serait une bonne chose. Mais quand on en a perdu six ou sept ou huit puis qu'il en reste deux ou trois, le risque d'en perdre six est inexistant parce qu'il en reste deux ou trois seulement?

R. Je ne peux pas dire non.

Q.285 D'accord. Je vous remercie, je n'ai pas d'autres questions.

LA PRÉSIDENTE :

Merci, Maître Turmel. J'ai fait une promesse à

notre procureur de ne pas l'oublier cette fois-ci. Alors, Maître Legault...

Me LOUIS LEGAULT :

Écoutez, je sais que le procureur de l'UMQ avait annoncé 20 minutes, mais il n'aura pas de questions?

LA PRÉSIDENTE :

Il est absent, donc je ne l'ai pas appelé.

Me LOUIS LEGAULT :

Mais vous savez, il n'est pas dans la salle, ça ne veut pas dire qu'il est absent.

LA PRÉSIDENTE :

O.K. Mais on va tout de même tenter de terminer vers 15 h 00 et on va nécessairement poursuivre demain matin avec le contre-interrogatoire du panel de Gazifère. Donc, Maître Legault.

CONTRE-INTERROGÉES PAR Me LOUIS LEGAULT,

pour la Régie :

Merci, Madame la Présidente. Mesdames, bonjour. La première question va s'adresser à madame Vandal-Parent et c'est plutôt une demande d'engagement.

Q.286 Je vous réfère à une décision rendue par la Régie en 2007, la D-2007-52, je vais vous en lire un extrait qu'on retrouvait à la page 8.

« *La Régie demande*

donc au distributeur d'utiliser la moyenne des prévisions pour les obligations de 10 ans du consensus forecast du mois d'octobre de chaque année et les écarts entre les taux des obligations du gouvernement du Canada de 30 ans et de 10 ans observés au mois de septembre de chaque année pour le calcul du taux de rendement sur l'avoir de l'actionnaire. »

Pouvez-vous prendre l'engagement de déposer la mise à jour du taux de rendement de l'avoir propre selon la formule et selon la décision D-2007-52 lorsque le *consensus forecast* du mois d'octobre 2010 sera disponible? Vous comprenez?

Mme LUCIE VANDAL-PARENT :

R. C'est parfait.

Q.287 C'est parfait. Alors, on va le coter, en fait, un engagement numéro 2.

ENGAGEMENT #2:

Déposer la mise à jour du taux de rendement de l'avoir propre selon la formule et selon la décision D-2007-52 lorsque le *consensus forecast* du mois d'octobre 2010 sera disponible.

Me LOUIS LEGAULT :

Q.288 Mme McShane, I'll refer you to two documents Gazifère-4, document 1, so that you have them close if you need to refer to them, Gazifère-4, document 1 and document 1.2, schedule 28. Now, in Gazifère 4, document 1, at page 69, note 79 at the bottom of the page, you wrote:

> « *Previously, the CPUC had conducted annual cost of equity reviews under the new approach. It will conduct cost of equity reviews every three*

years. »

You go on by saying that:

« *The utility bond yields to be used in the adjustment mechanism for each utility will be governed by the specific utility's debt rating, that is if the utility's debt is rated A, its ROE will be adjusted by 50% of the change.* »

And then:

« *The operation of the mechanism is also subject to a trigger of 100 basis points.* »

Can you confirm that the formula that was adopted by the Public Utilities Commission of the State of California does not carry any adjustment to the authorized rate of return, or to the approved rate of return, when the relevant long-term utility bond

yields changed by less than 100 basis points?

Mme KATHLEEN C. McSHANE :

R. Correct.

Q.289 The formula you propose carries an adjustment to the authorized rate of return for any variation in the bond yields of the DEX index.

R. Correct.

Q.290 Can you explain why you didn't retain the CPUC's approach?

R. Because my approach wasn't intended to be the CPUC approach. I mean, the only point with the CPUC was it was an example of a regulator who had adopted some mechanism which used a 50% relationship and a utility bond yield.

Q.291 And you then judge that it is fair that for any variation there should be an adjustment?

R. Yes, that was the premise of my recommendation, that the formula basically work in the same manner that it had in the past. I mean, that would be that it would be adjusted, that the ROE would be

adjusted once a year based on, you know, the values of the parameters at the time the formula was calculated.

Q.292 Now, in the evidence document Gazifère 30, document 1.16, and that is answers for request of information from the Régie, it is a chart that lays out the rates of return on common equity achieved for different U.S. utilities from 1990 to 2009.

R. Yes, I have that.

Q.293 Okay. Could you please explain the methodology used by S&P Research Insight to calculate the achieved rate of return?

R. Ah, well, sorry, S&P doesn't do that. S&P owns the database, so the numbers come... the basic data come from this database that's owned by S&P but the ROE's that are actually in the schedule are calculated using a function that's defined by me.

So, that would be the reported net income available to common equity before extraordinary items divided by the average book value of common equity.

Q.294 Okay. So, am I to assume that the

achieved return, as appears in document 1.16, includes all of the assets of the American corporations part of this group, part of the benchmark, i.e. regulated and non-regulated assets?

R. Yes.

Q.295 Have you identified for all of these entities, and for every year, the regulated and non-regulated asset ratio?

R. You said I did?

Q.296 Did you?

R. Oh, did I? I believe I did, yes.

Q.297 If that's the case, can you provide and file this information? Well, you just said you believed you did, so...

R. Okay, I'm not understanding what it is you want me to provide.

Q.298 I'm asking you if you identified the regulated and non-regulated asset ratio for all of these corporations? You said you believed you did.

Q.299 Oh, sorry. When you say asset ratio, maybe I... I think I might have misunderstood what you were saying. What we provided was the ratio of regulated

assets to total assets. But if you're asking me for something different, then I'm not sure what it is you want.

Q.300 If you use the data provided by S&P, does that data - I'm thinking of the French word but - *discrimine* - the information regarding the regulated and the non-regulated assets?

R. No.

Q.301 No. So, it's the total?

R. Yes.

Q.302 Okay. Now, my question is have you identified the ratio between the regulated and non-regulated assets? Or have you, in any way, separated what is regulated and what is non-regulated in the big picture?

R. Only to the extent that I know what percentage of the assets are regulated and what percent of the assets are not regulated. But I don't have, for these companies, actual achieved rates of return on the regulated portion of the business only.

Q.303 Have you consulted the 10K forms for all of these corporations and for every year

to compare the achieved rate of return and the board-approved allowed rate of returns?

R. No, not in a, I guess, in a systematic way. I mean, I know what the allowed returns are for the underlying regulated operations and I know what the achieved returns for the total operations are.

And so, I know that on average the total returns... sorry, the achieved returns on the consolidated operations have exceeded the allowed returns but what I don't know is the exact relationship between the allowed returns and the achieved regulated returns.

Q.304 Now, I'll refer you to, in the evidence, Gazifère 31, document 1.3, Gazifère 32, document 1.1. I'll also refer you to a document in the 2009 file, file number R-3692-2009, exhibit Gazifère 23, document 2.2.2, page 1. And finally, I'll refer you to some of Dr. Booth's evidence, C-2-13, page 89. I'm giving you all of this upfront so that we don't have to run around afterwards.

R. So, could you repeat all those? Sorry.
Q.305 Now, regarding the document from the 3692 file, I have copies of this document.
LA PRÉSIDENTE :
Maître Legault, il vous reste cinq minutes.
Me LOUIS LEGAULT :
Écoutez, je vous suggère de... j'ai présenté les documents auxquels je vais référer, qu'on suspende et on continuera avec les questions demain matin.
Ça va peut-être être plus simple parce que c'est une ligne de questions sur l'ensemble des documents.
LA PRÉSIDENTE :
O.K., peut-être, si vous avez le temps de répéter les pièces auxquelles vous avez référé les témoins?
Me LOUIS LEGAULT :
Il n'y a pas d'inconvénient.
Q.306 So, the documents I'll refer you to tomorrow when I ask the questions is Gazifère 31, document 1.3. And this is a document called « *Evidence to support Gazifère's debt issuance process and cost of borrowing, 2001 rates, phase 2* » and where you present a general approach. The second document I'll be referring to is

Gazifère 32, document 1.1. And the third document, I just gave you a handout, is an extract from file R-3692-2009. And finally, I'll refer you to C-2-13, that's an IGUA document and it's an extract from Dr. Booth's filed written evidence at page 89.

Have a good evening, we'll see you tomorrow morning.

LA PRÉSIDENTE :

Merci beaucoup. Maître Tremblay, est-ce que vous avez... non? Alors, on va suspendre les audiences jusqu'à demain matin, de retour à 9 h 00. Bonne soirée.

TÉMOIGNAGES SUSPENDUS

CAUSE CONTINUÉE LE 1ER SEPTEMBRE 2010 A 9H00.

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Je, soussignée, DENISE TURCOT, sténographe officielle, certifie sous mon serment d'office que les pages qui précèdent sont et contiennent la transcription fidèle et exacte de mes notes, le tout conformément à la loi.

Et j'ai signé,

DENISE TURCOT, s.o.