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 1er SEPTEMBRE 2010

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'Outouais (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)

TABLE DES MATIÈRES

PREUVE DE L'ACIG



CAUSE CONTINUÉE LE 2 SEPTEMBRE 2010 A 9H00

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EN L'AN DEUX MILLE DIX (2010), ce premier (1er) jour du mois de septembre,

LA GREFFIÈRE :

Protocole d'ouverture. Audience du 1er septembre 2010. Dossier R-3724-2010, phase 2 portant sur le taux de rendement de Gazifère inc.

Poursuite de l'audience.

LA PRÉSIDENTE :

Rebonjour à vous tous. Alors, nous allons poursuivre ce matin avec le contre-interrogatoire de maître Legault. A vous la parole.

Me LOUIS LEGAULT :

Bonjour, Madame la Présidente, les membres du panel, Mrs. McShane, madame Vandal-Parent, madame Mauviel, bonjour.

Alors, je vous avais indiqué hier certains documents sur lesquels ma prochaine ligne de questions porterait.

CONTRE-INTERROGÉES PAR Me LOUIS LEGAULT (suite):

Q.1 D'abord, Madame Vandal-Parent, est-ce que vous pourriez décrire concrètement le fonctionnement du financement de Gazifère? Comment Gazifère procède pour son financement?

Mme LUCIE VANDAL-PARENT :

R. Bon, je vais vous passer madame Mauviel.

Mme LISE MAUVIEL :

R. Le financement se fait tout à travers Enbridge inc. Notre dette à court terme, c'est une marge de crédit consolidée dans Enbridge inc. puis on a notre part qui est à nous puis on est financé par Enbridge au taux préférentiel de la banque.

Et la dette à long terme, lorsqu'on a besoin d'une dette à long terme, pour maintenir une structure telle qui est autorisée par la Régie autour du 40 - 55.5, on émet une dette à long terme et celle-ci est financée par Enbridge au taux du long terme Canada, le 10 ans, plus ce qu'on appelle une prime de risque ou un genre d'écart supplémentaire pour tenir compte de la taille de Gazifère, le principe de stand-alone.

Q.2 O.K. Et au cours des dernièˋres années, est-ce qu'il y a eu une modification méthodologique quelconque relativement à la façon dont ce financement-là est fait et de la façon dont il est inscrit aux livres?

R. Non.
Q.3 Mrs. McShane, what is the present risk premium added to the yield on Canadian bonds?
Mme KATHLEEN C. McSHANE :
R. Sorry, could you repeat that, please? Could you repeat the question, please?
Q.4 Well, what is the present risk premium added to the yield on Canadian bonds? I'm asking you the question but, if one of your colleagues on the panel can answer, that's fine.
R. For Gazifère's debt?
Q.5 Yes.
Mme LISE MAUVIEL :
R. Ce qui est prévu pour l'année témoin 2011... ce qui est prévu pour l'année témoin 2011, c'est 3.3%.
Q.6 O.K. Est-ce que cette prime est basée sur des obligations 10 ans, tel qu'il est mentionné dans le General Approach ou cinq ans comme il est utilisé dans l'exemple de madame McShane?
Bien, écoutez, je vous réfère, là, au document qui s'appelle *Evidence to Support*

*Gazifère's Debt Issuance.* On en a parlé hier quand je vous ai cité les documents où on mentionne *General Approach*. Et, là, on dit :

> "*Gazifère derives the cost of debt using a forecast 10 year government of Canada bond.*"

Et je m'abstiens de vous citer le reste. Et un peu plus loin on voit le *Actual debt cost* puis on voit *five-year bond rate*.

Alors, la question, c'est est-ce que la prime est basée sur 10 ans ou plutôt sur une approche cinq ans comme il est indiqué dans l'exemple?

Mme KATHLEEN C. McSHANE :

R. Maybe I can try this.

Q.7 As you wish.

R. So, if we look at GI-35, document 2.2.1...

Q.8 Yes.

R. ... is that the one that we're discussing? No.

Q.9 No, we'll get to that later.

R. Okay, all right. So, we want to refer to the premium in reference to what document precisely?

Q.10 So, the first document is Gazifère 31, document 1.3 where it is said that:

> "*Gazifère derives a cost of debt using a forecast 10 year government of Canada bond.*"

And then, I'm referring you a little farther down in the same document, where there is a chart and it is indicated that it is five-year bond rate where the actual debt cost is at 7.33 with a premium of 5.25.

R. My understanding is that, normally, Gazifère would borrow at a 10 year rate, for 10 years.

So, normally, Gazifère would borrow on a 10-year basis from Enbridge. My understanding is that, for the purpose of the issue that is discussed in GI-31, document 1.3, because of the state of the capital markets at the time, they needed to borrow the money that the term of the issue was reduced to five years to lower the cost of the issuance.

And so the example that is given on page 2 of 2 of the document, which speaks of the government of Canada rate of 2.08% that the premium is a five-year premium.

Q.11 Okay. Now, that's what I wanted to clarify and compare this to the document I've produced yesterday. We didn't file it because the documents are already in the Régie's file and that is document GI-23 from document 2.2.2 that comes from file 3692.

Now, I've also made available a few copies of a document, and I'll give you the number, it's Gazifère 35, 2.2.1 and this is part of the present file but that was filed only a few days ago regarding phase 4 of the present file.

Now, in these two documents, if you go down to... in the case of GI-35, 2.2.1, at line 27, and in the case of G-23, document 2.2 from file 3692 at line 29, you see that it's a 7.33% rate for the 10-year. So, what...

Mme LISE MAUVIEL :
R. Si je pouvais juste préciser, c'est une erreur. Ça aurait dû être un cinq ans. C'est vraiment une erreur dans les pièces. C'est janvier 2009 à janvier 2014 comme le précise la pièce GI-31, document 1.3.
Q.12 Alors, on aurait dû lire cinq ans dans les deux cas?
R. Exact. Alors, je comprends que vous allez mettre la pièce à jour?
Q.13 Oui.
R. Merci.
Q.14 Et est-ce que, dans vos dossiers, vous êtes en mesure de nous donner l'information à savoir par rapport, encore une fois à la pièce GI-31, document 1.3, quelle était la prime pour 10 ans et quel était le taux pour 10 ans? Est-ce que c'est de l'information qui vous est disponible?
R. Je vais prendre ça comme engagement, si ça ne vous dérange pas.
Q.15 Parfait.
R. Merci.
Q.16 Alors, engagement 3.

ENGAGEMENT #3:
Vérifier quel était le taux et la prime pour 10 dans la pièce GI-31, document 1.3.

Mme LISE MAUVIEL :

R. Donc, juste pour préciser, si l'emprunt aurait été sur un terme de 10 ans, quel aurait été le taux...

Q.17 Exact, et la prime.

R. Puis et la prime.

Q.18 Le taux et la prime.

R. Parfait.

Q.19 Merci. Pouvez-vous nous informer de quand est-ce que la prime de risque a été mise à jour la dernière fois?

R. Elle est mise à jour à chaque année lors de l'établissement des dossiers tarifaires pour qu'on ait un taux prospectif mais lorsqu'on émet la vraie dette, elle est validée, ce taux-là est validé pour s'assurer que c'est bel et bien le bon taux, donc, à chaque nouvelle émission.

Q.20 Donc, une fois par année au moment de l'émission?

R. Au moment de la préparation de la cause tarifaire, on a aussi un taux prospectif qui est établi.

Q.21 Parfait. Est-ce que vous êtes en mesure de nous fournir une liste des primes de risque pour chacune des émissions des 10 dernières années?

R. Je vais le prendre comme engagement. Je ne suis pas certaine si on est en mesure d'obtenir ce détail-là pour les 10 dernières années mais je vais regarder.

Q.22 Parfait. Donc, engagement numéro 4, liste des... dans la mesure du possible, là, liste des primes de risque des 10 dernières années.

ENGAGEMENT #4:

Fournir la liste des primes de risque des 10 dernières années.

Me LOUIS LEGAULT :

Q.23 Je comprends que la prime de 5,25 utilisée dans votre exemple provient de RBC?

R. C'est exact.

Q.24 Est-ce que vous êtes en mesure de fournir le rapport de RBC qui détermine cette prime-là, en fait, le dernier rapport qui confirme la prime de 5,25?

En fait, quand je regarde la pièce

GI-35, document 2.2.1, il semblerait que la dernière fixation de prime est à 3,30.
R. C'est exact.
Q.25 C'est donc le rapport de RBC qui fixe ça.
R. Le 3,30?
Q.26 Oui.
R. O.K. Donc, ça, ça fait partie de l'engagement numéro 4?
Q.27 Ça pourrait être l'engagement numéro 5.
R. O.K.

ENGAGEMENT #5:
Fournir le dernier rapport de RBC qui confirme la prime de 3,30.

Me LOUIS LEGAULT :
Q.28 Madame Mauviel, vous nous avez expliqué que le financement de Gazifère provenait essentiellement à travers Enbridge. Pourquoi Gazifère n'émet-elle pas ses propres titres de dettes?

Mme KATHLEEN C. McSHANE :
R. My understanding is that, if Gazifère were to go out and issue its own debt, first of all, it wouldn't be able to do it in the public markets because the size of its issues would be too small to be of

interest to institutional investors.

So, it would have to do it through a bank or some institution, like perhaps a pension fund, and it would be more expensive for them to raise that debt in that fashion rather than doing it through Enbridge.

And in addition to that, the terms and conditions that an institution or a bank might require in conjunction with the issue could be more stringent than Enbridge Inc. would require.

For example, small utilities often have to amortize debt every year, so if they had a 10-year debt issue, they would have to basically repay a tenth of it every year. Whereas in the case where Gazifère raises debt through Enbridge Inc., they don't have those terms and conditions and they don't have any basic constraints like you have to maintain a certain interest coverage ratio or you have to maintain a certain debt to equity ratio.

Q.29 Now, yesterday, I pointed you towards part of Dr. Booth's written evidence, C-2-13, IGUA, page 89. Now, Dr. Booth gives an example, as an example, the OEB approach that uses the same long-term bond costs for all of its electricity distributors, whatever their size. Now, he says:

> « *As a benchmark, I would point out that the OEB applies the same long-term bond cost to all the electric distribution companies, regardless of size. This rate was described as the forecast LTC yield plus the average spread between A rated utility debt and LTC yields at the time of the calculation.* »

Now, do you consider that the clients of very small distributors must necessarily pay more for their services even if they are in the same jurisdiction as other utilities?

R. Could you repeat that, please?

Q.30 In essence, do you think that clients or consumers that buy their services from small distributors or very small distributors must necessarily pay more for their services as regards clients of other bigger distributors in the same jurisdiction, naturally as regards to the cost of debt?

R. No, I think that they should... the customer should pay what it would cost Gazifère to incur the cost, its own cost of debt. The idea being that, you know, Enbridge raises debt on behalf of a number of different operations. Those operations are of different levels of risk. And, you know, just as with the cost of equity, the cost of debt should reflect basically the risks and the position of the individual business to ensure that the individual businesses of Enbridge aren't being subsidized one by the other.

Q.31 So, just to clarify, on what principle, I mean, with your, you know, 20 plus years of experience in testifying in various different boards, regulatory boards, on what regulatory principle should the Régie find its ruling in establishing an equitable cost of debt for Gazifère?

R. I think that they should establish it based on the principle that the cost of debt should be based on the cost of debt that Gazifère would incur if it had to raise debt on its own.

Q.32 Doctor Booth indicates in his evidence that - and I'm reading from his evidence now:

> « *However, the stand-alone principle does not justify passing on these higher costs to consumers. Regulation of public utilities is designed to reap the benefits of competition without the exercise of a monopoly power from decreasing long-run*

*cost.* »

He adds an example where he says:

"*To allow the higher cost of a smaller utility to be passed on to consumers is then to pass on costs that are not justified in a competitive market.* »

I stop there. According to you, should Gazifère's customers pay a risk premium on the cost of debt or rather on the cost of debt incurred by Enbridge?

R. Sorry, should they pay a premium on the cost of debt paid...

Q.33 On Gazifère's cost of debt on a stand-alone or on the cost of debt incurred by Enbridge, if Enbridge is doing all of the financing?

R. Well, I guess the point I was trying to make is that Enbridge raises the capital, just like it raises the equity and then it puts that capital to use so that there is a cost of raising the capital and there is a cost of the use of the capital which reflects the risk of the operation.

So, the concept then is that the cost that Gazifère should pay should reflect the cost of the use of the capital, not the cost at which the capital is raised.

Q.34 So, in the end, the customer should be paying what?

R. They should pay a measure of the cost of debt as represented by what it would cost Gazifère to raise the capital in the market place.

Q.35 So, the benefits associated to the fact that Gazifère is a subsidiary of Enbridge, should this be shared?

R. Well, I think there is a lot of sharing in any event because Gazifère has access to, you know, many of the services of the Enbridge companies, the expertise. It is able to share in the scale and scope and, as I said, I mean, there are benefits to the type of debt that it is able to raise from Enbridge. You can go to Enbridge at any time and say: I need 10-year debt and there will not be, you know, conditions imposed on it the way there might be for a company that's actually raising it on its own.

And moreover, you know, if Gazifère were actually raising the debt itself, it may go to the bank and find the bank won't lend them any money. So, it's always able to raise money.

Q.36 So, specifically, should the benefits incurred by Gazifère related to the fact that Enbridge is raising the capital and Enbridge being a much bigger company, probably having access to better rates, and I'm speculating here, these benefits should be shared with Gazifère's customers and, if so, in what proportion?

R. I think that the way the debt cost is determined, that there is a sharing of the benefits by virtue of the... the way the debt is actually structured in terms of having, you know, no specific terms and conditions placed on it.

So, I'm not sure how else you would... and plus, sorry, plus Gazifère does not incur any issuance costs when it raises capital.

So, there are benefits that are already shared with the customers.

Q.37 When Dr. Booth - and I read out part of his example a little earlier on - he states in his evidence that, on March 5th, Enbridge raised a nine-year debt at 4.53 or at 109 basis points spread over Canadas, while on April 10, 2010 its long-term debt was 5.26 or about 126 basis points spread over long Canadas, charging customers a spread of 5.25. I mean, when Enbridge is incurring spreads of 109 to 125, Gazifère is charging 5.25.

R. Well, I think part of the problem here is that there is a timing difference.

So, Gazifère needed to raise funds in January 2009, so at the time, we were in a period in which the spreads generally were all very high.

So, the issue that Gazifère made for five years in January reflected the cost of debt in January 2009. The issue to which Dr. Booth refers was made in March of 2010, considerably later and after the spreads had decreased.

So, if Enbridge itself had... if we put the two companies on the same page, timeframe wise, the spread at which Enbridge would have raised debt in the public markets at the time Gazifère raised the debt in January 2009, Enbridge Inc.'s spread for a five-year issue would have been about 4.25 to 4.5%.

So, Gazifère essentially paid a premium at the time of about 0.75% to Enbridge Inc.'s debt cost.

Q.38 Now, in your filed evidence, Gazifère 4, document 1, I'll refer you to page 49, and then 54 and 55, and then to schedule 6, page 1 of... which is document 1.2. Now, at pages 54 and 55 you talk about historic utility equity risk premium test.

R. Yes.

Q.39 And then, at page 49, there is a table 9 which gives us Canadian utilities, U.S. gas utilities and U.S. electric utilities, equity returns, bond returns, and bond income returns. And where you state that using the 2011, the forecast 2011 long-term Canada bond yield of 4.7% and a utility risk premium of 6.25%. And then, at table 8, you give us relative risk indicators and risk factors.

I'm just pointing you to information, my question will come soon.

And finally, there's a chart, historic equity market risk premiums, which is your schedule 6, document 1.2.

Now, the question is - make sure that you have access to all the documents - if the risk premium of regulated utilities is 6.25 and the beta that you recommend at reference Gazifère, at document 1, page 49, is 67%, are we to understand that the market risk premium is 9.3% and that market rate of return should be over 14%, i.e. 9.3 plus your forecast of the risk-free rate of 4.7?

R. No, I don't think that's right. I think you have to look at these tests individually and realize that they each bring a bit of a different perspective on what returns are and might be.

The calculation that you just did, I

mean, you could make that deduction but the... I think you have to look at the tests individually and realize that they're not necessarily all going to be internally consistent. And that the historical returns and risk premiums on regulated utilities alone provide one perspective on the size of the return that utility investors might expect in the future.

Q.40 If the Régie was to rely on this test at 6.25, what would the market premium be?

R. Well, as I indicated before, I don't think that you can really do that calculation. Well, you can.

And as you say, I mean, if you do a calculation by starting with the risk premium achieved by the utilities divided by a beta, I mean, you come up with a number that if... if the two tests were totally internally consistent, I mean, if all the achieved market data historically proved to be...

Q.41 Flawless?

R. ... flawless, that's a good word, flawless and the beta totally correlated with the actual returns, then the market risk premium would be as you say. But historic data are messy so I don't think you can do that calculation and expect to come up with necessarily a number that gives you a good estimate of the market risk premium.

I think you have to look at the returns on the utility sectors, in and of themselves, analyze them to see if there are any trends there, recognizing that utilities are generally stable, that investors can, you know, would tend to look at their historic returns to see what they might expect in the future. And in that context, you know, we're looking at a return of... or a risk premium of approximately 6.25%.

That said, it's not as if that test is being relied on in isolation, I mean, it is being given some weight within a full group of tests designed to estimate the fair return.

Q.42 All this being said, am I right in stating that we should expect that market premium should be higher than 6.25?

R. If the capital asset pricing model worked perfectly, then, you would expect the utility premium to be lower than the market premium.

Q.43 Okay. Now, just to clarify something, in your written evidence, page 27 - and we referred to that yesterday I think when maître Sarault was cross-examining you - at the end of the page 27, line 716, you state:

> « *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 allowed return.* »

And it was discussed essentially that your position is that the incentive mechanism creates a higher risk for Gazifère.

Did I understand you well when you stated that?

R. Yes. I believe that if you put the two frameworks next to each other, cost of service versus comprehensive PBR, that there is, by virtue of the way the mechanisms are designed, that there is a somewhat higher risk relative to a full cost of service model where you're not tied in to a plan for five years.

Q.44 When maître Sarault was asking his question yesterday, madame Vandal-Parent jumped in at one point when there was talk about risk.

And maître Sarault asked the following question. In fact, he was summarizing her answer and he says:

« *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?* »

And madame Parent said:

« *C'est exact.* »

Am I to read from that that the PBR in fact was not a risk for those two years but in fact a big plus for Gazifère?

R. It's clear that, for the two years that Gazifère was able to over-earn, my understanding from the explanation of madame Vandal-Parent was that, because of the way the mechanism works over time, that there is... when there are earnings to be shared, that they get built into or the portion that belongs to the utility gets built into the next year's rates and therefore although there were... the economic conditions themselves were not as favourable as in prior years, that that build-in of prior years' earnings assist in the performance of the years 2008 and 2009.

Q.45 So, it doesn't change your position that PBR's, as a general approach, increase the risk of utilities?

R. I think just in principle, if you have a plan where you are tied to the... your revenue cap, if you will, is tied to the rate of inflation, less a productivity factor, and you are subject to performance quality indicators in order to benefit from excess earnings and the mechanism is asymmetric in the sense that there is no sharing of any under-earnings, then, yes, there is a somewhat greater risk in PBR than there is in cost of service.

Q.46 Thank you. I have no further questions. Thanks.

LA PRÉSIDENTE :

Les membres de la formation vont avoir quelques questions pour le panel. Alors, Maître Duquette.

INTERROGÉES PAR LES MEMBRES DE LA FORMATION

Me LISE DUQUETTE :

Q.47 Bonjour. Lise Duquette pour la formation. En fait, j'ai une seule question. It will be for you, Ms. McShane. I'll say it in English.

R.        Okay.
Q.48      I'm just coming back to establishing an equitable cost of debt. I just want to make sure I understood correctly. So, if I understood, in essence what you're saying, is that Gazifère shouldn't raise money on its own because it would cost too much but even though they got capital from Enbridge, they should pay as if it was to raise money on its own and all this because they will get better access and less stringent reimbursement clauses on their deal.
          Am I understanding this correctly?
R.        Well, I guess I wasn't going so far as to say they shouldn't raise debt on their own but clearly they can get a better deal by raising it through Enbridge. And so, they should take advantage of that.
Q.49      Thank you.
LA PRÉSIDENTE :
Monsieur Carrier.
M. RICHARD CARRIER :
Q.50      Bonjour. Mes questions vont s'adresser principalement à madame McShane.

Premièrement, sur l'approche que vous utilisez pour établir le rendement recommandé à partir du modèle de prime de risque avec le modèle d'équilibre des actifs financiers, CRPM, à la page 42 et 43, vous traitez de l'impact de l'inflation sur le rendement observé dans le marché.

Vous faites également, à la page 43, un estimé de la prime de risque à partir de ce modèle. Et à la ligne 1096 vous mentionnez que la valeur attendue du rendement du marché serait de 11.5% et 12% basé sur les données historiques observées. Et donc, vous l'utilisez comme estimé pour le futur.

Et par la suite, lorsque vous établissez la prime de risque, vous l'établissez en soustrayant avec le taux des obligations courant et celui attendu pour les prochaines années et non pas avec le taux des obligations observé sur une base historique.

Est-ce que vous pourriez élaborer sur ce qui vous amène à établir la prime de risque sur cette base, en utilisant les données projetées et non pas les données historiques pour le rendement des obligations?

R. So, yes, in my Appendix B, where I analyzed the returns, what I tried to do was to recognize that the risk premium is, in effect, two pieces: the equity market returns and the bond returns.

So, I start with the history and look at what the historic achieved risk premium was. And then I look at the individual pieces in order to determine if there are things that are different today, one versus the other, to determine whether it's appropriate to deviate from historic risk premiums.

So, in the case of the equity market return component of the market risk premium, I looked at whether there were any trends over time in those premiums, I mean, in those returns.

I looked at whether or not historically an increase in the price earnings ratio for the market, where the return would have been produced by an increase through capital appreciation, an increase that would not have been or could not be sustainable in the long term and I determined that, based on my analysis of the day, that that wasn't the case.

And then I looked, as you suggested in your question, at the relationship between the historic returns and inflation to determine whether or not I should expect a lower return in the future because inflation historically has been a bit higher than we expect going forward.

And I determined, by looking at the relationship between the level of returns and rates of inflation in different periods of time that, in fact, the equity market returns are lower when inflation is higher.

So, as a result of that, I said, looking at that analysis in the aggregate, that I wouldn't expect that there should be a major difference in future equity returns compared to historic equity returns.

On the debt side, again, I mean, I tried to look at what generated those debt returns historically compared to what we would expect in the future. And as, I think, is fairly widely recognized, we have had in Canada a material change in the level of interest rates relative to the past.

So, if I look at the level of the bond return, historically compared to what the long term expectations for bond returns are, I concluded that it was appropriate to use those forecasts.

I mean, in the sense, on the equity return side, I'm using the historic numbers having analyzed them as the forecast.

Q.51 Maintenant, concernant le relative risk adjustment, l'ajustement pour le risque différencié des utilités, à la page 45 et 46, vous traitez des notions de beta, beta brut, beta ajusté et aux lignes 1164 et suivantes, vous faites une régression pour estimer le risque relatif d'une utilité publique.

Est-ce que vous pourriez élaborer sur pourquoi introduire cette approche pour établir le risque relatif plutôt que la mesure pure des beta sur la base des données historiques des années récentes?

R. Essentially, what I was attempting to do here was to determine how much of the actual returns of utilities could be explained by beta or by the relationship between the market and the utility stocks. So, that was my point of departure in table 5.

And then, I said, well, I mean, the market doesn't really account, it accounts for about 30% of the variation in the prices, so we know that utility stocks are also interest sensitive stocks.

So, let's see how much additional explanatory power I can achieve by looking also at how sensitive utility stocks have been to interest rates and how much more of the return can I explain?

So, that's why in table 6, I introduced the additional variable, that being the monthly long Canada bond return, and determined that, essentially over the period that I looked at, that we have about 40% of the return explained by these two factors.

But still, we have a significant portion of the return that's not explained by either of these two factors which effectively is consistent with the idea that low beta stocks have had returns that are significantly higher than what the pure capital asset pricing model would project or predict, I should say.

So, what I did then was to try to determine if I took into account both the markets and interest rates as well as what the incremental return that investors achieved, relative to what was explained by those two factors, what would, in total, that return be relative to the market which I then translated into a relative risk adjustment?

Q.52 Merci. Maintenant, quant aux différents modèles que vous utilisez pour établir le rendement proposé, les modèles primes de risque avec les diverses variantes, vous utilisez également le modèle des flux monétaires actualisés, le discounted cash flow, dans les circonstances de marché actuel, le contexte économique et financier actuel, lequel de ces divers modèles-là croyez-vous est le meilleur outil disponible pour établir un rendement?

Est-ce qu'il y en a un qui, compte tenu du contexte actuel, devrait avoir une prédominance ou si on devrait plutôt utiliser la variété de tous ces modèles pour avoir l'univers le plus vaste possible en termes d'années de référence?

R. I'm going to be very wishy-washy in this. I mean, clearly to me, the capital asset pricing model it's very intuitively appealing.

But it's, at the same time, all of these pieces are essentially moving pieces. So, you can say what the long-term, you might expect the long-term market risk premium to be, but then you put it with a current... effectively a current interest rate instead of really a long-term... your long-term expected interest rate.

So, to some extent, there is always a bit of a mismatch. So, it has a perspective but not necessarily a superior perspective.

The discounted cash flow test, I mean, it has, of its own, reservations, in the sense that you don't know for sure whether you fully captured investor growth expectations but, at the same time, you are directly measuring through the dividend yield, a component, a large component of the cost of equity of utilities.

So, I think, from my own perspective, that particularly in this market or these capital markets, that my recommendation would be to use the battery of tests and not favour one over the other.

Q.53 Merci. Maintenant, en complément des questions qui ont été posées sur le coût de la dette tout à l'heure par le procureur de la Régie, il a été question notamment à la pièce GI-35, document

2.2.1, en note de bas de page on lit à la note 1 que, pour un correspondant au taux des obligations de 10 ans prévu pour l'année 2011, s'ajoute une prime de risque de 3.30 %.

Je vais attendre que vous ayez la pièce. Donc à la note de bas de page. On parle:

> "*Pour une émission d'obligations de 10 ans, une prime de risque de 3.30.*"

Quand on regarde pour le... et la note 1 correspond à la ligne... provient de la ligne 29 qui est pour une émission de 10 ans à un taux de 7.15% qui incorpore une prime de risque de 3.30. Ma question serait: lorsqu'on examine la prime de risque additionnel requise pour le rendement sur l'équité d'une entreprise comme Gazifère par rapport à un *benchmark*, on additionne un taux aux alentours de 1/2% ou 3/4 de 1%. Peut-être s'ajoutent à ça des coûts d'émission qui doivent être pris en compte, je vous laisse élaborer là-dessus.

Donc, pourquoi au niveau de la prime de risque additionnel, au niveau de l'équité pour une firme comme Gazifère, la prime serait de l'ordre de 1/2%, 1%, alors que pour le coût de la dette la prime de risque serait de 3,30?

Est-ce qu'on doit établir un lien entre les deux ou est-ce qu'on se trompe à faire une telle analogie?

Aussi, Madame Parent ou... si vous voulez intervenir sur la question, prenez le temps de regarder la chose.

R. Really, there is a linkage. The reference here to the 3.30 is at a given point in time. I guess the problem is when you do the, you know, the cost of equity and you make a recommendation as to the premium over, say, a benchmark utility, that that premium is, you know, fairly... it has some judgement in it. So, when I say, for example, that the equity risk premium for Gazifère relative to a benchmark utility is no less than 0.5%, I mean, that's essentially setting it at the bottom end of a range.

Whereas for the debt premium, I mean you're actually going out and looking in the marketplace each and every time you raise debt.

So, this premium here would be reflective of this point in time.

Q.54 Je vous remercie, ça complète mes questions.

LA PRÉSIDENTE :

Merci, Monsieur Carrier.

Q.55 J'ai une seule question pour vous, Madame McShane, qui est d'ordre plutôt général. La Régie va devoir fixer pour Gazifère un taux de rendement raisonnable et nous avons devant nous deux experts renommés, reconnus, qui nous font des propositions très différentes. Dr. Booth nous propose un taux raisonnable qui tournerait autour de 8.50% et vous nous proposez un taux de rendement qui serait davantage de l'ordre de 11% environ.

Comment pouvez-vous expliquer un tel écart entre ces deux expertises qui nous sont soumises dans le cadre du présent dossier? C'est presqu'une question existentielle.

R. It's a hard question to try to put in a few words. I think, to some extent, it arises from, first of all, the use of different tests which give different results.

And on the capital asset pricing model approach, for example, the difference arises from a quite different view of how to establish the market risk premium and a different view of how to appropriately reflect the relative risk adjustment. That explains some of it I think.

You know, the use of the discounted cash flow test in my testimony explains some of the difference. And also, there is, you know, some additional recommendation on my part for adjustment to the market-based cost of equity for financing flexibility.

And there's also, I would say, you know, I would estimate a higher premium specific to Gazifère.

So, to some extent, it's an incremental thing that I have values for different parameters that are, you know, higher than Dr. Booth's.

Q.56 Merci, Madame McShane.

Cela va clore les questions pour la formation. Maître Tremblay, est-ce que vous avez un réinterrogatoire?

Me LOUISE TREMBLAY :

Non, je n'ai pas d'autres questions, Madame la Présidente.

LA PRÉSIDENTE :

Merci, Maître Tremblay.

ET LES TÉMOINS NE DISENT RIEN DE PLUS.

LA PRÉSIDENTE :

Alors, nous allons donc poursuivre avec la preuve des intervenants. C'est l'ACEF de l'Outaouais qui va débuter.

Nous allons donc prendre une pause de 15 minutes, de retour à 10 h 22 environ. Elle est assez précise. Merci.

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

LA PRÉSIDENTE :

Alors, Maître Lussier.

Me STÉPHANIE LUSSIER :
Bonjour, Madame la Présidente, Madame et Monsieur les Régisseurs, Stéphanie Lussier pour l'ACEF de l'Outaouais qui va procéder à la présentation de sa preuve ce matin.

Nous avons déposé deux documents, le premier étant le curriculum vitae du docteur Kaouther Jouaber sous la pièce C-1-24 et la deuxième pièce, en fait, c'est la copie papier de la présentation PowerPoint qui sera effectuée ce matin, qui est déposée sous la pièce C-1-25.

PIÈCE C-1-24 :
Curriculum vitae de docteur Kaouther Jouaber.

PIÈCE C-1-25 :
Copie papier de la présentation PowerPoint.

Me STÉPHANIE LUSSIER :
Alors, nous avons avec nous aujourd'hui monsieur Mounir Gouja et madame Kaouther Jouaber pour témoigner.

Je vais demander qu'on procède à l'assermentation des témoins, s'il vous plaît.

LA GREFFIÈRE :
Madame Jouaber, est-ce que vous pourriez vous lever,

s'il vous plaît. Est-ce que votre micro est ouvert?

Mme KAOUTHER JOUABER :

Oui.

LA GREFFIÈRE :

Affirmez-vous solennellement de dire la vérité, toute la vérité, rien que la vérité? Dites je l'affirme.

Mme KAOUTHER JOUABER :

Je l'affirme.

LA GREFFIÈRE :

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

Mme KAOUTHER JOUABER :

Alors, Kaouther Jouaber, je suis maître de conférences à l'Université Paris Dauphine et j'habite à boulevard de Verdun à Courbevoie en France.

LA GREFFIÈRE :

Merci. Monsieur Gouja, affirmez-vous solennellement de dire la vérité, toute la vérité, rien que la vérité? Dites je l'affirme.

M. MOUNIR GOUJA :

Je l'affirme.

LA GREFFIÈRE :

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

M. MOUNIR GOUJA :

Mounir Gouja, consultant en énergie, 6683 rue Jean-Talon Est à St-Léonard.

LA GREFFIÈRE :

Merci.

INTERROGÉS PAR Me STÉPHANIE LUSSIER :

Q.57 Madame Jouaber, je vais vous demander de prendre le mémoire qui a été déposé pour l'ACEF de l'Outaouais et qui est daté du 10 juin 2010, qui a été déposé comme pièce C-1-15. Et je vais vous demander également de prendre le document qui contient les réponses de l'ACEF de l'Outaouais et demandes de renseignements de Gazifère datée du 20 juillet, déposé sous la pièce C-1-20.

Est-ce que vous avez ces documents?

R. Oui, je l'ai.

Q.58 Est-ce que vous avez participé à la rédaction de chacun de ces documents?

R. Tout à fait.

Q.59 Est-ce que vous avez des corrections à apporter à un ou à l'autre de ces documents?

R. Alors, j'aurais deux corrections sur chacun des deux documents.

Q.60 D'accord. Alors, je vais vous demander de nous les indiquer à un rythme qui nous permet d'en prendre note, s'il vous plaît, et avec un ton de voix suffisamment fort. Merci.

R. Alors, le premier document, donc le mémoire de l'ACEF de l'Outaouais, j'aurais une correction sur la page 12. Le premier tiret:

> « *Éliminer tout ajustement par le rendement des obligations du gouvernement du Canada en ramenant son coefficient...* »

Donc, de 75 au lieu de 70.

> « *... à 0.* »

Donc, remplacer 70% par 75%.

La deuxième correction sur le même document, la page 13, dans la section « *Mécanisme de déclenchement* », la troisième ligne:

« *Un changement de plus ou moins 200 points de base et une périodicité...* »

De cinq ans et non pas de trois ans.

Pour le deuxième document...

Q.61 Et lorsque vous parlez du deuxième document, donc vous faites référence aux réponses de l'ACEF de l'Outaouais aux demandes de renseignements de Gazifère. C'est bien ça?

R. Exact.

Q.62 D'accord.

R. Je souhaite modifier ma réponse à la question 3, donc il n'y a pas de numéro de page, c'est la troisième page du document, la réponse 3 qui devient tout simplement oui. Donc, on confirme, en fait, ce qui existait dans notre texte de service public, donc c'est oui.

Q.63 Est-ce que vous avez d'autres modifications à apporter à un ou à l'autre de ces documents?

R. Alors, il me reste juste une dernière correction sur la réponse 9. Dans la réponse 9, la quatrième ligne, le chiffre 70% est à remplacer par 75%.

Q.64 Est-ce que cela complète les corrections que vous vouliez apporter à l'un ou à l'autre de ces documents?

R. Tout à fait.

Q.65 Est-ce que vous adoptez le contenu de ces documents comme faisant partie de votre témoignage dans le présent dossier?

R. Je les adopte.

Q.66 Alors, Docteur Jouaber, je vous invite à procéder avec la présentation de la preuve pour l'ACEF de l'Outaouais, s'il vous plaît.

R. Bien, Madame la Présidente, Madame et Monsieur les Régisseurs, bonjour. Permettez-moi de vous présenter les conclusions recherchées de l'ACEF de l'Outaouais concernant le taux de rendement du capital-actions de Gazifère.

En rappel de l'objet de cette phase 2 du dossier, donc étudier la proposition déposée par Gazifère pour en fixer un taux de rendement à 11,25% et étudier la proposition de Gazifère pour modifier le mécanisme d'ajustement automatique.

L'étendue de l'intervention de l'ACEF va porter sur les deux points, donc on va d'abord juger de la pertinence d'un taux de rendement de 11,25% pour 2011. Et ensuite, nous allons examiner les conditions de renouvellement du mécanisme d'ajustement automatique telles que proposées par Gazifère.

Concernant le premier point, donc un taux de rendement du capital-actions de 11,25% pour 2011, nous confirmons la définition donc de ce taux de rendement qui vient rémunérer le risque supporté par les actionnaires d'une firme. Et nous attachons également à ce qu'il soit tout à fait équitable.

Comment Gazifère a calculé ce taux, on a eu la présentation hier, donc ce n'est pas la peine d'y revenir longuement. C'est un taux qui est composé de plusieurs composantes avec un taux de rendement équitable d'un service public de référence de 10,75% et une prime de risque sur capitaux propres supplémentaires pour

Gazifère de 0,50%.

Pour obtenir ces résultats, la preuve de Gazifère a utilisé plusieurs méthodes de calcul, le MÈDAF avec trois calculs de prime de risque différents qui ont abouti à des taux de RCA de référence de 9,25%, de 9,4% et de 11%. Et un autre modèle qui est le modèle des flux monétaires actualisés.

A ce niveau, l'ACEF de l'Outaouais regrette la non-application de la troisième méthode qui était citée dans la preuve, qui est la méthode des comparables étant donné qu'un échantillon de comparables ait disponible et nous aurions aimé avoir les résultats également de cette méthode pour les comparer aux deux autres.

Nos commentaires sur ces calculs et ces résultats. L'ACEF de l'Outaouais est préoccupée par les choix de calcul de Gazifère qui tendent à privilégier certains résultats au détriment de d'autres, qui apparaissent également sur le document.

Je prends ici quelques exemples: un taux sans risque privilégié par Gazifère de 4,7% alors que le taux fondé sur une estimation à long terme est de 4,4%, qui est la somme du taux des obligations du gouvernement 10 ans et d'une prime historique.

Un taux de rendement du marché boursier à sa limite supérieure de 12% sur le marché canadien alors que le taux à plus long terme est de 11,6%, ce taux, ou le choix de ce taux de 12%, qui est donc la limite supérieure, a été appuyé par les calculs sur le marché américain.

Le choix d'une prime de risque de 6,75%, et là, je rejoins la question qui a été posée par monsieur le régisseur tout à l'heure, estimée de manière indirecte alors que la prime de risque historique directement observable est située entre 4,9% et 5,2%.

Nous déplorons aussi une référence systématique au marché boursier américain, notamment sans qu'il y ait des ajustements sur les données américaines pour qu'elles soient plus en harmonie, en conformité avec la réglementation et les pratiques canadiennes.

Quelles sont nos recommandations sur... avant les recommandations, une petite illustration pour expliquer aussi cette différence que vous aviez relevée tout à l'heure entre les chiffres donnés par Gazifère et ceux donnés par le docteur Booth.

En utilisant les calculs faits par Gazifère dans la preuve, mais en faisant des choix de résultats différents, on peut arriver à des résultats différents qui sont très en dessous de ce qui est proposé par Gazifère.

Nous obtenons, par exemple, ici un RCA de référence compris entre 7,59% et 8,04% qui est largement en dessous du taux de référence proposé par Gazifère qui est de 10%.

Donc, ça donne une idée sur l'écart qui peut exister en fonction des choix de résultats qu'on peut faire à partir des mêmes calculs et des mêmes données.

Nos recommandations concernant cette partie, c'est de veiller à la cohérence des choix de calculs financiers, calculs à partir d'historique, calculs à partir de prévisions. De privilégier les calculs directs tant que cela est possible, sans passer par l'intermédiaire de d'autres valeurs. Centrer les calculs plus sur le marché canadien ou s'il faut parfois utiliser des données américaines, ajuster ces données afin de tenir compte des différences existantes entre les deux marchés.

Et nous demandons à la Régie également de ne pas tenir compte de la valeur du RCA de 11% obtenue avec le MÈDAF en appliquant la troisième méthode d'estimation de la prime de risque, étant donné que cette valeur est très éloignée des deux autres valeurs obtenues par le même modèle de MÈDAF, mais avec d'autres calculs de prime de risque. Donc, les deux autres valeurs étant 9,25% et 9,4%.

Concernant le deuxième volet, le mécanisme d'ajustement automatique, je rappelle ici la proposition de Gazifère qui est de réduire de 75% à 50% la pondération du rendement prévu des obligations à long terme du gouvernement du Canada.

D'ajouter l'écart du rendement des obligations de sociétés cotées A comme seconde variable explicative avec un coefficient de pondération de 50%. Et d'instaurer un mécanisme de révision quinquennal du RCA ainsi que de la formule avec un seuil de déclenchement fixé à une variation de plus ou moins 200 points de base.

Quels sont nos commentaires et nos recommandations. Pour justifier la modification de la formule, Gazifère s'affiche sur des prévisions de base, celui du taux de rendement des obligations à long terme du Canada.

Les prévisions montrées à l'inverse, on a montré hier un tableau qui souligne cette tendance du taux de rendement des obligations à long terme du Canada.

Et si on y va de plus près, ces

modifications proposées reviennent en effet à éliminer de la formule d'ajustement le taux de rendement des obligations du Canada et à instaurer un ajustement exclusif par rapport au taux de rendement des obligations des sociétés avec une pondération de 50%.

Cela vient du fait que le *spread* dépend du taux de rendement des obligations du Canada et donc, ça s'annule, en fait, l'impact s'annule. Donc, une variation du taux de rendement des obligations du Canada de 1% n'aura plus aucun impact sur le taux de rendement du capital-actions.

Mais seule une variation du taux de rendement des obligations des sociétés cotées A aurait un impact sur le taux de rendement du capital-actions de Gazifère avec une pondération de 50%.

Alors, cette pondération n'est pas justifiée dans la preuve, donc cette nouvelle lecture, en fait, de la formule n'apparaît pas dans la preuve et donc, il n'y a pas de justification de ce lien qui pouvait exister entre le RCA de Gazifère et le taux de rendement des obligations des sociétés cotées A.

Donc, la preuve ne procède pas à cette analyse et on ne comprend pas le lien qui pourrait exister entre ces deux variables.

De même, le choix du seuil de déclenchement de 200 points de base et de la périodicité de cinq ans me paraît arbitraire. A titre d'exemple, l'une des dernières décisions modifiant c'est à instaurer un seuil de 200 points de base, la décision de la CPUC, sur un seuil de 100 points de base avec une périodicité de trois ans, alors nous ne comprenons pas le choix qui est fait ici.

Ce que recommande l'ACEF de l'Outaouais, c'est de ne pas autoriser la modification de la formule d'ajustement proposée par Gazifère, mais plutôt de conserver le mécanisme d'ajustement actuellement en vigueur.

Si toutefois la Régie opte pour une modification de sa formule d'ajustement, nous recommandons à ce moment-là d'opter pour un seuil de déclenchement, mais ce seuil devrait être plus bas et avec une périodicité plus faible pour protéger les intérêts des consommateurs.

Et à titre d'exemple donc, je le disais tout à l'heure, le CPUC effectue des révisions triennales avec un seuil de 100 points de base.

Voilà, je vous remercie.

Q.67 Docteur Jouaber et Docteur Gouja, est-ce que vous avez d'autres commentaires à formuler dans le cadre du témoignage pour l'ACEF de l'Outaouais?

M. MOUNIR GOUJA :

R. Aucun.

Me STÉPHANIE LUSSIER :

Alors, Madame la Présidente, les témoins sont maintenant prêts pour leur contre-interrogatoire.

LA PRÉSIDENTE :

Merci. Merci, Maître Lussier. Maître Tremblay.

Me LOUISE TREMBLAY :

Je vous remercie, Madame la Présidente. Louise Tremblay pour Gazifère. Alors, bonjour à vous deux.

CONTRE-INTERROGÉS PAR Me LOUISE TREMBLAY :

Q.68 J'aimerais tout simplement revenir sur un élément, ne serait-ce que pour m'assurer que la proposition de Gazifère est bien comprise. Je vous réfère donc à votre présentation C-1-25 où vous traitez du déclenchement du 200 points de base. Alors, vous nous dites que, à l'acétate numéro 9, vous nous dites:

> « *Instaurer un mécanisme de révision quinquennal du RCA ainsi que de la formule du RCA avec un seuil de déclenchement fixé à un changement de plus ou moins 200 points de base.* »

Quelle est votre compréhension de la proposition de Gazifère au niveau justement de ce seuil de déclenchement ou comme madame McShane l'appelle *trigger mechanism*, quelle est votre compréhension de cette proposition-là de Gazifère?

Mme KAOUTHER JOUABER :

R. Alors, ce que j'en comprends, c'est ce que je lis sur la preuve de Gazifère, c'est si le RCA a calculé par rapport à la formule révisée que nous proposons, de réaugmenter ou diminuer de 200 points de base par rapport au RCA initial de Gazifère, fixé sous la nouvelle formule et donc à ce moment-là, il y aurait une révision de ce RCA.

Q.69 Confirmez-moi là que vous êtes bien dans le rapport de madame McShane, GI-4 document 1, à la page 71. C'est bien ça?

R. A la page 70.

Q.70 Probablement que vous avez un écart parce que vous avez la version française, mais si je vous suggère que c'est 71, je suis certaine que vous allez me croire.

Alors, avec l'extrait que vous venez de lire, c'est parce que je veux m'assurer qu'il n'y a pas de confusion là. Vous venez de lire cet extrait-là, vous avez relaté dans votre preuve quelque chose. Et à mon avis, ça ne correspond pas. Et surtout parce que vous faites référence dans votre preuve à la décision qui a été rendue en Californie par la CPUC.

Ce que Gazifère propose, ce n'est pas d'ajuster le taux de rendement si le seuil dépasse ou pas, là. La proposition, c'est de toujours utiliser la formule et d'ajuster à chaque année. Ce n'est pas du tout la même proposition que la CPUC. Madame McShane l'a expliqué hier, ce n'est pas la même proposition.

Alors, ce n'est pas un seuil de déclenchement, c'est seulement quand il va y voir une variation de plus de 200 points qu'on va appliquer la formule. Est-ce que c'est bien compris par l'ACEF que la proposition de Gazifère n'est pas la même que la proposition de la CPUC?

R. Tout à fait.

Q.71 Parfait. Ensuite, vous référez, toujours dans la même présentation, la même pièce, à la C-1-25, vous nous dites, alors à l'acétate 10, vous nous dites:

« *Les modifications proposées reviennent à éliminer de la formule d'ajustement l'ajustement par le* *taux de rendement des obligations du Canada et deuxièmement instaurer un ajustement exclusif par rapport au taux de rendement des obligations des sociétés avec une pondération de 50%.* »

Si je comprends bien, quand vous nous dites reviennent à, il s'agit de l'interprétation que l'ACEF fait des recommandations de Gazifère au niveau de la nouvelle formule. Est-ce que c'est exact?

R. C'est une deuxième lecture, effectivement, de la formule.

Q.72 Vous avez entendu le... étiez-vous présente hier lors du témoignage de madame McShane?

R. Oui.

Q.73 Avez-vous compris de son témoignage que Gazifère, dans sa proposition, n'élimine pas l'ajustement portant sur le taux de rendement des obligations?

R. Tout à fait. Au fait, c'est la première lecture qu'on peut trouver dans la preuve, avec les deux variables qui apparaissent chacune avec un coefficient de 0.5 ou de 50%.

Ce que moi, je décris ici, c'est une deuxième lecture de cette même formule. D'ailleurs, dans le rapport du docteur Booth, ça apparaît aussi, il y a un exemple chiffré qui le démontre, une variation de 1% du taux de rendement des obligations du gouvernement n'a plus aucun impact sur le RCA.

Q.74 Alors, il s'agit de votre interprétation de la formule proposée.

R. Oui.

Q.75 C'est exact?

R. C'est une deuxième lecture, absolument.

Q.76 Parfait, merci, je n'ai pas d'autres questions.

LA PRÉSIDENTE :

Merci, maître Tremblay. Est-ce qu'il y a des intervenants qui désirent contre-interroger le panel de l'ACEF de l'Outaouais?

Me GUY SARAULT :
Non.
Me ANDRÉ TURMEL :
Non.
LA PRÉSIDENTE :
Maître Legault, est-ce que vous avez des questions?
CONTRE-INTERROGÉS PAR Me LOUIS LEGAULT :
Peut-être une question, madame la présidente.
Q.77 D'abord, bonjour.
R. Bonjour.
Q.78 A la page 8 de votre présentation PowerPoint, vous mentionnez qu'on devrait favoriser une concentration sur des calculs plus axés sur le marché canadien. Vous ajoutez que, à défaut, on devrait ajuster les données américaines afin de tenir compte des différences existantes.
Etes-vous en mesure de nous faire une suggestion sur comment on procéderait pour faire cet ajustement?
R. Alors, j'avoue que je ne connais pas le détail de la comptabilité américaine ou canadienne, mais je pense qu'il existe des différences. Il y a une différence qui a été citée dans le rapport du docteur Booth

notamment, dans l'évaluation des actifs et donc, l'évaluation par conséquent des capitaux propres, enfin du capital-actions et de la dette. C'est un exemple de différence qui devrait être prise en compte à mon sens.

Par ailleurs, je pense également qu'il y a une différence de risque entre les deux marchés. Alors, calculer la prime de risque sur le marché américain pour l'appliquer au marché canadien, ça me paraît un peu...

Q.79 Alors, je comprends que, de façon générale, mais vous n'avez pas fait une étude plus poussée sur cette question-là?

R. Non, non, pas du tout.

Me LOUIS LEGAULT :

Merci.

LA PRÉSIDENTE :

J'aurais une seule question pour vous.

Q.80 Est-ce que l'ACEF fait une recommandation précise quant au taux de rendement raisonnable que la Régie devrait retenir pour Gazifère?

R. Alors, l'ACEF de l'Outaouais n'a pas

procédé à des calculs d'un taux de rendement RCA à proposer. Ce que nous avons fait, c'est une lecture différente des résultats de madame McShane.

Et nous aboutissons à ce qui apparaissait dans la diapo 7 tout à l'heure, un RCA de référence compris entre 7,59% et 8,04%, qui remplacerait le taux de 10% qui est le taux de base ou de référence pris par Gazifère.

LA PRÉSIDENTE :

Je vous remercie. Alors, vous êtes maintenant libérée. Maître Lussier.

Me STÉPHANIE LUSSIER :

Je n'aurai pas de questions pour les témoins de l'ACEF de l'Outaouais. Alors, je vous remercie, Madame la Présidente et merci aux témoins.

LA PRÉSIDENTE :

Merci beaucoup.

ET LES TÉMOINS NE DISENT RIEN DE PLUS.

LA PRÉSIDENTE :

Alors, nous allons maintenant procéder à la présentation de la preuve de l'ACIG. Est-ce que vous préférez qu'on prenne une pause pour vous permettre de vous installer? Alors, on va prendre une pause de cinq minutes. Donc, à 10 h 55. On m'a suggéré d'arrondir.

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

LA PRÉSIDENTE :

Maître Sarault?

Me GUY SARAULT :

Alors, rebonjour, Madame la Présidente, Monsieur, Madame les régisseurs.

Alors, avant de procéder à l'assermentation de mes témoins, deux petites questions d'intendance. *Primo*, j'espère que ça a été bien reçu, je vous ai fait parvenir des versions électroniques de la preuve de l'ACIG en audience, c'est-à-dire la pièce C-2-24 qui était le « *Comparative Approaches* », petit document d'une page, et les deux présentations PowerPoint, celle de monsieur Trahan et celle du Dr. Booth.

Deuxièmement, je remarque que la preuve de madame McShane a été complétée ce matin mais qu'on n'a pas reçu de réponse à l'engagement numéro 1, qui était de recalculer le taux de rendement recommandé pour Gazifère selon la même méthode que celle qui est préconisée dans le rapport de madame McShane mais à partir du taux, sans risque modifié, de

4,15%.

Me LOUISE TREMBLAY :

Bonjour, Madame la Présidente. Louise Tremblay pour Gazifère. Votre remarque est bonne mais on a la réponse. Alors donc, alors réponse à l'engagement numéro 1 de Gazifère qui sera cotée comme pièce B-37 de la Régie, GI-4, document 3.

PIÈCE B-37 :

Réponse à l'engagement numéro 1 de Gazifère.

Me GUY SARAULT :

Alors, ces questions d'intendance étant réglées, je crois que nous pouvons maintenant procéder à l'assermentation de nos deux témoins.

LA GREFFIÈRE :

Monsieur Trahan, veuillez vous lever, s'il vous plaît? Affirmez-vous solennellement de dire la vérité, toute la vérité, rien que la vérité? Dites: Je l'affirme.

M. JEAN-BENOIT TRAHAN :

Je l'affirme.

LA GREFFIÈRE :

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

M. JEAN-BENOIT TRAHAN :

Jean-Benoit Trahan, économiste. 120, rue Guy, St-Jean-sur-Richelieu.

LA GREFFIÈRE :

Merci. Dr. Booth, could you please stand up? Do you solemnly affirm to tell the truth, the whole truth and nothing but the truth? Say: I do.

DR. LAURENCE D. BOOTH :

I do.

LA GREFFIÈRE :

Please state your name, occupation and business address?

DR. LAURENCE D. BOOTH :

Laurence Booth, professor of finance at the University of Toronto. 105 St. George Street, Toronto.

LA GREFFIÈRE :

Thank you.

Me GUY SARAULT :

Alors, maintenant, compte tenu que le témoignage du Dr. Booth est présenté à titre de preuve d'expert sur le taux de rendement, je demanderais à la Régie de reconnaître Dr. Booth comme témoin expert en la matière, conformément, évidemment, aux qualifications relatées dans le *curriculum vitae* détaillé qui est annexé à son expertise, qui a été produite comme pièce C-2-13.

Alors, je ne sais pas s'il y a des objections de la part de maître Tremblay? Dr. Booth est un habitué de la Régie.

LA PRÉSIDENTE :

Je me suis avancée un peu tantôt en disant qu'on avait devant nous deux expertises déposées par des gens reconnus. Alors, oui, la Régie reconnaît le statut de témoin expert en taux de rendement pour le Dr. Booth.

INTERROGÉS PAR Me GUY SARAULT :

Q.81 Now, both of you, Mr. Trahan and Dr. Booth, have already prefiled, should I say, written evidence in this case. I will start with you, Mr. Trahan. Je vais commencer avec vous, Monsieur Trahan.

Alors, comme pièce C-2-13, on a produit un exemplaire de votre preuve sur le risque d'affaires de Gazifère et c'est daté de juin 2010. Alors, vous reconnaissez avoir préparé ce document pour les fins du présent dossier?

M. JEAN-BENOIT TRAHAN :

R. Oui.

Q.82 Et vous l'adoptez comme votre preuve dans

le présent dossier?
R. Tout à fait.
Q.83 Et est-ce que vous avez des corrections à y apporter aujourd'hui?
R. Non.
Q.84 Non. Et, en plus de ça, nous avons déjà distribué, et ce sera la pièce C-2-25, une présentation PowerPoint intitulée « *Preuve sur le risque d'affaires de Gazifère* ».
Alors, ce document a été préparé par vous-même encore une fois?
R. Oui.
Q.85 Et ce sera votre preuve, présentation, ce matin dans le présent dossier.
Now, to you, Dr. Booth, your report has already been prefiled as exhibit C-2-13. Do you confirm having prepared this document yourself?
DR. LAURENCE D. BOOTH :
R. I do.
Q.86 And do you adopt it as your evidence in this case?
R. I do.
Q.87 Do you have corrections to bring to your report?

R. Yes, I've got two corrections. On page 64.
Q.88 Yes?
R. The equation at line 13.
Q.89 Yes?
R. Should read ROE is equal to 9.9%. And then, where it says equals 6.12, remove that, that shouldn't be there.
Q.90 So, the 6.12 should not be there...
R. That's right.
Q.91 ... at the beginning of the equation?
R. It should just read 9.9 plus 0.75.
Q.92 Okay.
R. Similarly, at the top of page 65...
Q.93 Yes?
R. ... exactly the same, that should read the ROE is equal to 9.46, and then remove that equals 5.50.
Q.94 Okay. And we remove the equal?
R. That's correct.
Q.95 Okay.
R. Yes, it should just read ROE is equal to 9.46 plus 0.75...
Q.96 Fine.
R. ... and then the rest of the equation.

Q.97 Alors, il faut également biffer la mention égale.

Are these the only two corrections you wish to bring to your written evidence?

R. That's correct.

Q.98 So, under reserve of these two corrections, you adopt this as your evidence in this case.

Oh, I forgot something, excuse me. In addition to that, we have filed on your behalf, as exhibit C-2-19, answers to information requests that were addressed to you. Those are also part of your evidence.

Do you have any corrections to bring to those answers?

R. No, I don't.

Q.99 And you adopt them as a complement to your evidence in this case?

R. I do.

Q.100 And as a last item, we have already circulated this morning as C-2-26 your PowerPoint presentation entitled « *Gazifère fair return capital* *structure* »?

R. That's correct.

Q.101 Okay. And this is a document you prepared yourself, which is another complement to your evidence?

R. I did.

Q.102 Thank you. So, I believe that this completes the written material part of our evidence, and now we're ready to... I believe that Mr. Trahan has chosen to be first, judging from the screen. So, please go ahead, thank you.

M. JEAN-BENOIT TRAHAN :

R. Alors, Madame la Présidente, Monsieur et Madame, ou plutôt Madame et Monsieur les régisseurs, ça me fait plaisir aujourd'hui de vous parler du risque d'affaires de Gazifère, lequel sera par la suite repris en charge par docteur Booth.

Le risque d'affaires s'évalue toujours de manière prospective et s'évalue sur deux thèmes, le court terme et le long terme. Mais d'emblée, il faut avoir quand même un portrait d'une franchise ou d'une région qui est détenue par un distributeur. Alors, c'est le contexte socio-économique de la franchise.

La franchise de Gazifère est privilégiée au Canada, elle se retrouve dans une région privilégiée, la région de la Capitale nationale canadienne. On retrouve une population qui est hautement éduquée, au niveau scolaire plus élevé. On parle de 24% d'études universitaires comparativement à 20% pour le Québec.

Q.103 Désolé de l'interruption, mais je pense que l'écran ne vous suit pas.

R. Puis je pense que je parlais trop vite également.

Et également, on retrouve un secteur tertiaire qui est très important, à la hauteur de 85%. C'est un changement quand même majeur dans la région de Gatineau, parce qu'auparavant, la région de Hull et puis tout l'arrière-pays, si on veut, de cette région-là étaient axés sur le développement de l'industrie, notamment des pâtes et papiers, de la forêt. Alors qu'aujourd'hui, c'est beaucoup plus axé avec la construction du Portage dans le temps, les Terrasses de la Chaudière, tout le secteur tertiaire gouvernemental a pris sa place.

Quand on parle du secteur tertiaire gouvernemental, il faut bien comprendre que dans la région de Gatineau, ce n'est pas uniquement le gouvernement canadien, mais c'est également l'ensemble des gouvernements. Donc, le gouvernement québécois est présent, les institutions scolaires sont très présentes également. Il y a l'université, il y a le cégep, mais il y a également toutes les écoles primaires, secondaires et autres qui sont présentes automatiquement. Mais également la municipalité qui est importante.

Une fois tout ça mis en place, le secteur tertiaire plus tous les services connexes, parce que lorsqu'on développe du secteur tertiaire gouvernemental, il y a des services connexes qui sont associés, qui ne sont pas nécessairement aussi tributaires de la conjoncture économique que, par exemple, d'autres types d'industries.

Le taux de chômage de la Ville est un des plus bas au Canada. En 2006, c'était 4.7%, comparativement à 7% pour le Québec et à 5,8% pour le Canada. Donc, récemment, il y a quelqu'un qui me disait c'est comme la Suisse du Canada, tu sais, ce n'est peut-être pas tout à fait précis, mais ça ressemble un petit peu à ça.

Alors, lorsqu'on regarde cette petite région-là, on se dit bon, bien, c'est quoi le risque à court terme, maintenant lorsqu'on fait une analyse de risque, c'est quoi le risque à court terme de cette entreprise?

Même madame McShane dit bien, au niveau court terme, il n'y a pas vraiment de risque. Le seul risque qu'elle envisage de manière un peu plus importante, c'est au niveau du mécanisme incitatif.

Alors, au niveau du mécanisme incitatif, là-dessus, j'ai fait la même chose que lorsqu'on a fait le dossier de Gaz Métro. Moi, je ne vois pas de risque associé nécessairement à un mécanisme incitatif. Théoriquement, oui, il peut y en avoir, selon le type de mécanisme incitatif lorsqu'on s'en va vers des types style price cap, des choses comme ça. A ce moment-là, oui, on peut se retrouver dans des situations un peu plus compliquées.

Dans le cas de Gazifère, c'est un mécanisme incitatif qui est basé sur le revenu par consommateur, qui est basé donc d'une manière à être capable de bien suivre la nature du distributeur. Donc, si on prend, par exemple, l'historique, bien, de 2006 à aujourd'hui, on le sait là, je ne serai pas le premier à vous le dire qu'il n'a a pas eu de perte par rapport au rendement de base, donc il y a eu des gains à chacune des années. Ce qui n'a pas été le cas lorsqu'on regarde précédemment au niveau du coût de service. Le coût de service, il y a eu des pertes par rapport au rendement de base. Donc, ça, c'est un élément important.

L'utilisation d'une forme basée sur les coûts, lesquels sont largement fixes et connus d'avance. Les coûts sont fixes, on le sait. Mais également, les coût sont relativement connus d'avance. Je veux dire, même les salaires...

Q.104 L'écran est toujours en retard.

R. Mon Dieu, excusez-moi. Je suis mon papier. Je vais peut-être tasser mon papier; ça va peut-être m'aider.

Les salaires sont relativement fixes. C'est sûr, il y a une certaine évolution qui se fait au niveau, par exemple, des taux d'augmentation salariale, il y a l'inflation, des choses comme ça. Mais ce n'est quand même pas des données qui sont complètement déconnectées.

Et si jamais il y a des coûts qui sont très importants, qui rentrent dans les dossiers de Gazifère, on se retrouve à ce moment-là avec des éléments qui sont repris en compte par les facteurs exogènes.

Donc, on parle de variation du taux de rendement qui est pris en compte. On parle d'investissements de plus de 450 000 $ qui seraient également pris en compte par des facteurs exogènes. Donc, tous ces éléments-là viennent limiter les possibilités d'un dérapage.

Puis, à tout événement, bien, il y a toujours une demande possible de la part du distributeur de revenir à un coût de service, si jamais il y avait des événements qui venaient menacer la viabilité financière de l'entreprise.

Donc, tout ça pris en compte, nous, on ne voit pas nécessairement de risques additionnels.

Ce qui vient aider tout ça, bien, bien entendu, c'est la position, la portion importante de la clientèle, qui est une clientèle type chauffage ou type commercial, qui ne peuvent pas passer aisément à une autre source d'énergie.

Souvent, on dit qu'un des éléments les plus risqués d'un distributeur, c'est une clientèle grande entreprise, interruptible, qui peut switcher rapidement à une autre source d'énergie. Ce n'est pas le cas avec une clientèle de la nature que possède maintenant Gazifère.

La situation actuelle concernant les écarts reliés aux prévisions des ventes pourrait être un autre élément, mais ça équivaut à ce qui existait auparavant. D'ailleurs, c'est quelque chose que la Régie a déjà tablé dans le passé, elle a déjà rendu une décision à cet égard-là.

Ce qui fait que tout ça pris en compte, nous, on ne voit pas de risques additionnels à court terme, bien au contraire. Si on compare, on pourrait même dire que le PBR a été bénéfique comparativement aux coûts de service, si on fait un élément statique, historique. Chose certaine, il n'y a pas de risques additionnels.

Au niveau du long terme. Au niveau du long terme, là, à ce moment-là, on tombe en mode prospectif. En mode prospectif, ici, ce qu'on doit s'assurer, c'est est-ce que l'entreprise sera capable d'aller recouvrir ses capitaux investis. Alors, ce qui est important à ce moment-là, c'est de déterminer est-ce qu'on est capable dans une période, on investit, c'est pour au moins une quarantaine d'années d'amortissement, est-ce qu'on est capable d'aller récupérer nos tuyaux.

Alors, il y a un élément changeant important qui s'est passé en 1999 et 2009, c'est les volumes qui étaient industriels, qui étaient de l'ordre de 48% en 1999, qui aujourd'hui est de 28%.

Madame Vandal-Parent criait un petit peu en disant, bon, c'est une mauvaise nouvelle, mais là, ça semble que c'est une bonne nouvelle. Mais en réalité, c'est sûr que quand ça se fait, ce n'est pas nécessairement intéressant. Mais à partir d'aujourd'hui, nous, ce qu'on va regarder, c'est le futur. Et à partir d'aujourd'hui, on ne doit pas dire est-ce que ce qui s'est passé avant, ça fait que Gazifère est plus risquée, c'est plutôt notre situation d'aujourd'hui, est-ce qu'elle fait que Gazifère est plus risquée qu'auparavant.

Et ce qui est intéressant de noter par rapport au passé, c'est que Gazifère a réussi à perdre ces clients-là, a réussi à perdre ces clients-là, a réussi à perdre ces volumes-là, sans casser. Il n'y a pas eu de problème en tant que tel chez Gazifère par rapport à ça.

Ce n'est pas intéressant, est-ce que ce serait préférable qu'ils soient là, est-ce que ce serait meilleur pour la franchise, certainement, mais ça n'a pas fait casser la franchise. C'est ça qu'il est important de retenir.

Entre 1999 et 2010, Gazifère a augmenté sa clientèle de 12 938 clients, ce qui est énorme pour la grandeur du distributeur, soit une croissance de 62% pour le résidentiel et 25% pour le commercial.

Un autre élément qui est important, c'est la qualité de la clientèle qu'on retrouve. La perte de clients se situe entre 68 et 104 pour la période 2006 et 2010. Donc, quand on parle de 68 et 104, c'est par année. Donc, on parle grosso modo une centaine de clients qui quittent Gazifère la franchise.

A ce rythme-là, supposons qu'il n'y

a plus d'addition de clients, parce que c'est un peu ce qu'on nous dit, on dit ça se peut qu'on perde, qu'on ne soit plus capable d'aller en chercher plus, à ce rythme, ça prendrait plus de 350 ans avant qu'il ne reste plus un seul client dans la franchise de Gazifère.

Bon, ça veut dire quoi en réalité? Bien, si on prend Gaz Métro, Gaz Métro, c'est une soixantaine d'années avant qu'ils n'aient plus de clients dans la franchise.

Donc, pour vous donner un petit guide, il y a ici un élément de la qualité de la clientèle de Gazifère qui est plus intéressante. Pourquoi? Par la nature de la clientèle simplement. On se souviendra que dans le dossier de Gaz Métro, on parlait beaucoup des clientèles qui étaient ronds de poêle, des clientèles qui étaient auparavant dans des quatre-plex, des six-plex montréalais, puis que finalement on perd de cette clientèle-là.

C'est sûr que c'est un proxy un peu facile parce que Gaz Métro ne peut pas perdre dans 60 ans tous ces clients-là parce que ce n'est pas tous des ronds de poêle. Donc, à un moment donné, ça va finir par se tarir ce rythme-là. N'empêche que ça donne une idée de la clientèle, c'est-à-dire que Gazifère n'a pas l'ampleur des ronds de poêle que Gaz Métro possède à l'heure actuelle.

Au niveau des revenus, parce que c'est bien beau parler des volumes, mais c'est également ce que je vous disais dans le temps de Gaz Métro, ce qu'il faut regarder, c'est plutôt les volumes, pas les volumes, mais les revenus c'est-à-dire. Les volumes, c'est une chose, mais ce qui est important, c'est nos revenus, d'où proviennent-ils.

Alors, il y a seulement 6% des revenus de distribution qui proviennent du secteur industriel, dont 4,5% de l'industrie des pâtes et papiers. Donc, lorsque madame McShane dit dans son document que Gazifère est très, très tributaire de la clientèle pâtes et papiers, un secteur très à risque, on parle de 4.5% des revenus de Gazifère qui sont très tributaires de ce secteur-là. Donc, il faut quand même là dégonfler un peu le ballon à cet égard.

Donc, pour nous, lorsqu'on regarde de manière prospective, l'avenir de Gazifère ne serait pas axé sur une dépendance envers le secteur industriel, mais dépendra plutôt des secteurs résidentiel et commercial. Et ça, je vais vous revenir plus tard, c'est important d'avoir ça en tête.

Au niveau de la situation concurrentielle, il y a un changement important entre 1999 et 2010, c'est le positionnement stratégique de Hydro-Québec. Hydro-Québec était là auparavant, il était également, on connaît un peu le goût de l'électricité des Québécois. C'était là dans le temps, ça l'est encore aujourd'hui.

Le changement, c'est l'arrivée de la Régie et les hausses tarifaires suite à un gel tarifaire qui a duré quand même plusieurs années. Donc, de mémoire, c'est de 1996 à 2004, donc une dizaine d'années. Donc, on tombe dans un modèle maintenant où il y a une variation des tarifs d'électricité. On le sait, il y a une presse qui se fait maintenant à chaque année, à chaque fois qu'il y a une décision sur les tarifs d'Hydro-Québec, ça se discute. Alors que pendant les années 1996-2004, bien c'était une stabilité tarifaire qui faisait que les gens se disaient que l'électricité, ça restait toujours pas cher.

Il y a un changement également dans l'approche commerciale d'Hydro-Québec. C'est très, très important; on est passé d'une approche agressive à une approche disparue. C'est carrément ce qui est noté dans notre preuve, qui vient des gens de la SCHL.

Et ça, ça découle également d'une évolution de la culture d'Hydro-Québec. Hydro-Québec maintenant s'enligne vers l'exportation, s'enligne pour offrir d'autres services que uniquement desservir le Québec, ce qui n'était pas le cas auparavant, ce qui vient changer son attitude dans le marché.

Est-ce que ça veut dire que les clients ne se brancheront pas électrique pour leur chauffage, par exemple? Non. Mais ça veut dire que Hydro-Québec ne fera pas de publicité monstre, ne fera pas de démarches pour aller chercher cette clientèle-là.

Changement du paradigme également au niveau du prix du gaz naturel par l'arrivée commerciale du gaz de schiste. Entre 1999 et 2010, on pourrait dire il ne s'est rien passé. Parce que quand on regarde les prix du gaz, si on met un niveau d'inflation là, on n'est pas bien, bien, bien loin des prix du gaz qu'on retrouve.

Hier, je faisais l'exercice rapidement, de 3,35 à 4,08, si je ne me trompe pas, de 1999 à 2010. Puis, ce matin, je lisais autour de 4 $ en Alberta.

Donc, on n'est pas tellement loin du taux d'inflation entre 1999 et 2010. Ce qui est venu vraiment changer les choses, ça a été l'évolution du prix entre 2001 et 2008. Mais cette portion-là est disparue, parce que le paradigme a changé complètement avec l'arrivée du gaz de schiste.

Quand on parle du gaz de schiste, on ne parle pas du gaz de schiste au Québec, avec tous les débats qu'on retrouve, mais c'est vraiment à l'aire continentale. Et à ce niveau-là, on retrouve des prix qui ne devraient pas normalement se retrouver dans des situations telles qu'on a prévues auparavant.

Ça se peut qu'il y ait des éléments majeurs climatiques qui viennent affecter radicalement le prix de manière très temporaire, mais pas de manière à avoir une hausse de prix importante, telle qu'on l'a vécue auparavant, dans la période 2001-2010, par un manque d'offre, il faut se rendre compte de la raison, il y avait vraiment un manque d'offre. Ce qui n'est plus le cas aujourd'hui.

Donc, le gaz naturel devrait demeurer concurrentiel dans les marchés de croissance de Gazifère au cours des prochaines années. Puis ce qui est à noter également, parce que dans cette période-là 2001 à 2008, ça a été intéressant parce que la croissance de Gazifère s'est quand même faite sans aucun problème au niveau de la clientèle résidentielle. Donc, on se rend compte que ce n'est pas juste l'élément compétitif qui est l'élément déclencheur, parce que sinon, il y aurait eu un trou d'une dizaine d'années de croissance de la clientèle. Au contraire, ça a été de très, très belles années pour Gazifère. Donc, il y a d'autres éléments là qui viennent aider le gaz naturel dans cette région-là.

Maintenant, un autre élément qui est amené par madame McShane, puis qui a été amené également dans l'autre dossier avec Gaz Métro, puis je vous répète grosso modo les mêmes conclusions que j'avais à ce moment-là, c'est la réduction des volumes par client.

La réduction des volumes par client

est en grande partie expliquée par des mesures en efficacité énergétique. Et ça, c'est une bonne nouvelle. Ce qui est une mauvaise nouvelle, c'est lorsque les clients utilisent une autre source d'énergie pour se substituer au gaz naturel.

Donc, cette baisse de consommation a pour effet de réduire la facture totale du client et permet également une amélioration importante de l'aspect compétitif envers l'électricité. Des machines de 60% d'efficacité au gaz naturel, passées à 90%, l'électricité, on est déjà à 100, on est toppé là. Donc, il n'y a pas d'amélioration possible de ce côté-là. Donc, grosso modo, la seule amélioration au niveau de l'électricité, c'est l'enveloppe du bâtiment, les fenêtres, des choses de cette nature-là. Donc, alors qu'au gaz naturel, juste changer la machine te permet d'aller chercher un avantage compétitif important par rapport à l'électricité.

L'augmentation de clients sans hausse

de volume procure également un avantage tarifaire. Une grosse partie des coûts sont des coûts fixes chez Gaz Métro. Et il y a une portion importante, on entendait hier parler justement de possiblement une troisième traversée. Ces traversées-là sont importantes. Plus il y a de clients par traversée, moins ça coût cher par client d'être branché à Gazifère.

Donc, au total, sa facture par mètres cubes peut être plus importante, mais au total de l'année, sa facture est inférieure à ce qu'elle aurait été autrement.

Donc, la thèse du volume par client ne peut être un élément négatif au point de vue compétitif pour Gazifère et serait plutôt un gain au point de vue de la compétitivité avec les autres sources d'énergie.

Maintenant, le risque de la taille de la franchise. On a démontré que la clientèle industrielle représente environ 6% des revenus totaux de Gazifère. Et

Gazifère n'est pas dans une situation qui est hors normes. Bien au contraire, à ce niveau-là, elle se compare très avantageusement à la situation de Gaz Métro et peut se comparer également avec d'autres distributeurs canadiens.

Ce que je crois, moi, quant au risque de Gazifère n'est pas le risque de perdre la clientèle industrielle, ce serait beaucoup plus un risque de perdre sa clientèle de masse qui est sa clientèle résidentielle et commerciale.

C'est là qu'est son véritable risque. Parce qu'on parle ici de risque à long terme. Si demain matin, Gazifère perd 4,5 ou 6% de ses revenus, elle ne fera pas faillite là. Les tarifs vont augmenter un petit peu, puis normalement business as usual, ça va continuer.

Le problème, c'est si elle perd sa masse critique qui est sa clientèle résidentielle et commerciale. Et pour que ça, ça arrive, bien, il va falloir un changement technologique. Les clients ne vont pas changer pour le plaisir de changer. Donc, ce que ça prendrait, ce serait vraiment une fuite de masse. Et si jamais ça arrive chez Gazifère, ça va arriver également chez les autres distributeurs. Et pour que ça, ça arrive, ça va être un changement technologique du type géothermie accessible, facilement accessible. C'est le genre d'affaire qui peut vraiment venir changer la donne.

Mais tant que ce n'est pas cet élément-là qu'on a dans la lorgnette, le risque au niveau de la petitesse de Gazifère, quant à moi, n'existe pas.

Est-ce qu'il existe au niveau des emprunts et autres, là-dessus, je laisserai docteur Booth parler. Mais au niveau du risque d'affaires en tant que tel, il existe autant chez Gazifère que chez Enbridge que chez Gaz Métro au niveau de la masse, qui est la masse résidentielle et commerciale et qui est affectée par l'évolution technologique. Mais absolument pas, quant à moi, au niveau industriel.

En conclusion, Gazifère profite d'une

situation socio-économique supérieure à la moyenne canadienne et québécoise. Il ne nous semble pas qu'il y ait de risques additionnels comparativement à 1999 et nous croyons que le mécanisme incitatif n'est pas un élément de risque additionnel à court terme comparativement à la méthode aux coûts de service.

Nous sommes plutôt d'avis que Gazifère se compare avantageusement à Gaz Métro et qu'elle présente davantage de caractéristiques des autres grands distributeurs gaziers canadiens.

Voilà sur cette portion de présentation.

Me GUY SARAULT :

Alors, ceci complète votre présentation, monsieur Trahan. Nous en arrivons maintenant au docteur Booth.

Dr. LAURENCE BOOTH :

R. First of all, I would like to apologize for the length of my presentation but I can assure you that most of it is graphs and I hope to get through before lunch.

So, what's the basis of my evidence,

it's to answer three key questions before the Régie.

The first one is the basic question of the business risk involving Gazifère and whether anything of any substance has changed since the last hearing in 1998.

The second one is the adjustment formula, whether a 75% adjustment to forecast long Canada bond yields is still appropriate.

And finally, is there a need to rebase the ROE, which is to say what is a fair and reasonable ROE for Gazifère and what's a reasonable range for the estimate.

Because both Ms. McShane and I used judgement in forming our recommendations and there is a range of what a fair and reasonable ROE should be.

So, in terms of the business risk, I thought I would highlight where Ms. McShane and I agree because these hearings often end up being one against another, but we agree on a large number of issues. One of them is we agree that there's a short and a long-run dimension to risk.

In terms of the short run, this is what I refer to the return on capital, which is the profitability, the ability to earn the allowed ROE. Whereas Ms. McShane refers to it as the ability to earn a compensatory return.

So, the question there or the only difference is whether we accept the ROE that's allowed as being a fair ROE. I don't regard that as business risk, I regard that as an element of regulatory risk. Because the question is simply can the utility earn whatever rate of return the Régie has set down as the allowed ROE. And that's a quantitative assessment, we can actually look at the data for that.

The second one is the long-run return of capital, can you get back the investment you put into rate base. And this really depends upon the viability of natural gas as a competitive fuel source in Quebec. And that's more of a qualitative assessment.

So, these are the two issues that we

look at.

In terms of the ROE, as I said, this is simply a quantitative assessment. This is the data that Gazifère provided on the allowed ROE and the actual earned ROE going back to 1990. And the striking thing there is that when you look at that, something happened in 1998.

Prior to 1998, it was earning its allowed ROE for the previous eight, nine years, and then, since then, the last rate hearing, it has tended to over-earn its allowed ROE.

And in particular, we can see the last few years, 2007, 2008 and 2009, as it has been on a performance-based regulation, that over-earning has been 1.5% or so. There's been significant over- earning.

And this is where I would disagree with the company. I don't consider performance-based regulation as being a risk element. And I often give an example to my students: Which would you prefer, one dollar guaranty, risk free, or toss a coin, 50% chance of getting $2 and 50% chance of getting $1.50. Clearly, that second situation involves risk, but also, clearly, in either case, you're better off than getting $1.

And this is the situation I would describe Gazifère is in. It is in a slightly risky situation in the sense that it's got the ability to earn an incentive rate of return but it's not actually off than it would be without incentive regulation.

So, this is what I would do when I look at the short-run risk. There has been an update in the rate of return over the last few years because of incentive regulation.

Gazifère, when I asked them to comment on their ability to earn their allowed ROE said there had been no trend over the previous 10 years, which I would interpret as being no change in business risk.

And they also said Gazifère has not gone back to establish the drivers for deviations from the allowed return, which indicates to me that there's not a significant risk. If the ability to earn the ROE is deviated in some significant way, you would expect them to put in place an information system to work out: Why did we lose money or why did we make money in a particular year?

The only information I could find in response to my information request was 2005, deviation was due to bad debt expense for two industrial customers that Gazifère couldn't recover that bad debt expense. And that's clearly tied up with industrial customers, not the residential and commercial customers.

So, short-run risk, similar to just about every other utility in Canada, there is no material short-run risk for Gazifère. Its ability to earn its allowed ROE has been consistent over the last 10 years and I don't see any material change in there.

Now, as I said, in terms of PBR, performance-based regulation, this was a graph I put together last year for Gaz Métro and it just emphasizes this point, that PBR is not really a risk factor. Because starting in 2000, Gaz Métro got incentive regulation. It has failed to fully earn its incentive PBR in some years. But it has still beaten its allowed ROE in every year. So, I don't consider PBR as being a risk factor.

In terms of the long-run risk, this just repeats some things that Jean-Benoit has said. We've seen a significant increase in the rate base and the number of customers for Gazifère. So, the number of customers, residential and commercial, has gone up.

Industrials dropped off, particularly interruptible which account for large amount of volumes. But in terms of revenue, the revenue composition of Gazifère has gone from about 20% industrial down to 6%.

Obviously, everybody would like as many industrial customers to be vibrant and using gas and providing employment as we can possibly get. But the fact is, North American economy is moving more towards a service economy and we are losing manufacturing throughout North America. And this simply reflects the problems in the pulp and paper industry and that low-run trend.

So, when you look at this, I was struck yesterday by the phrase: Gazifère is a mini Enbridge Gas Distribution. And to some extent, in terms of the composition of residential and commercial and industrial, Gazifère does look a lot like Enbridge Gas in Ontario.

Natural gas competitiveness, ultimately, you have to have a competitive product in the market, you have to be able to compete with natural gas. Jean-Benoit said the big development in the last couple of years has been the development of shale gas, particularly the Barnett field in Texas, British Columbia, North British Columbia, East British Columbia, huge reserves of shale gas. And as we now know, Quebec sits on top of significant shale gas reserves.

So, in 1999, the price advantage of natural gas, 24% for residential, minus 8% of disadvantage for commercial. By 2009, that had increased. And that's because of this disconnect between the price of heating oil and natural gas. So, there's no question that natural gas has become more competitive relative to heating oil.

In terms of electricity, in Quebec, we do have a situation similar to British Columbia where there's low-cost Hydro power. And there are problems in capturing penetration of natural gas for new construction that's high rise because there's a preference for electricity. So, in that area, the price advantage in 1999 was 24%, sort of similar at the moment, but that has been quite variable over the last few years. Whereas for commercial, it has dropped from 57% down to 33%.

So, there's still a competitive advantage, a significant competitive advantage for electricity and a huge advantage of natural gas over electricity and a huge advantage of natural gas over oil.

So, when we look at this, demonstrated ability of Gazifère to earn its allowed ROE. A protective regulatory environment that has introduced performance-based regulation that has increased their earnings. A very large increase in customer base as natural gas continues to be competitive. Drop off in industrial customers. We may prefer as many industrial customers as possible but the fact is there is no forecasting problems for a natural gas company for its industrial customers.

So, there has been a minor reduction in terms of forecasting revenues and the possibility of bad debt losses due to industrial customers, interruptibles dropping off.

Overall, no sign of any increase in business risk. If I had to say has the risk changed? I would say there's been a minor reduction in business risk relative to 1998.

In terms of the fair ROE, my testimony this year is significantly different from what I did last year for Gaz Métro, primarily because last year the Régie spelled out in very clear terms how they determined their ROE.

So, this year, I focused instead on where the Régie... how the Régie came to its decision last year, which is when we look at this, it's a capital asset pricing model-based fair return. And when we talk about capital asset pricing model, we refer to a risk positioning model.

And as I will go on, I prefer a risk positioning model because you don't make the huge errors you can make with other forms of models.

The emphasis and the criticism of the CAPM is on the estimate of beta coefficient. But I don't rely totally upon betas, I use other methods for looking at risk. And it's simply a question of: Is this utility more or less risky than the market as a whole? But the CAPM starts with this overall benchmarking of what is the return on the market as a whole. And there's less range of error in that approach than there is using some of the other techniques.

So, last year, the Régie put the risk-free rate of 4.23 to 4.5. This year, in my testimony, I've got the similar 4.5%, because back in April, we were expecting a more robust recovery than we're getting at the moment. And we've seen long Canada yields drop off since then and we've seen the forecast drop off since then.

The market risk premium, the Régie is 5.5 to 5.75. The historic evidence in Canada is about 5%; in the U.S. it's about 6%. And the other errors, the people who use the CAPM, the typical person uses a range between 5 and 6%. So, I'll get to that in more detail.

The Régie used a beta of 0.5 to 0.55. I use 0.45 to 0.55.

Adjustment for Gaz Métro's risks, I regard Gaz Métro as pretty much a benchmark utility and I made no adjustment last year for Gaz Métro because this Commission, this Régie has allowed a very hefty common equity ratio for Gaz Métro.

And then, the other ones, adjustment for other models and an adjustment to take account of the effect of the financial crisis. And this is one area where Ms. McShane and I disagree.

So, this was how the Régie came to its Gaz Métro decision last year.

Now, most of what the Régie has to decide is basically financial, it's the state of the financial markets. The U.S. is emerging from a brutal recession. We in Canada have been very lucky, we had a mild recession, milder than the recession in the early 1980s.

The cause of this was the failure of the financial system in the United States. When they suffered very close to a market meltdown and lost pretty much all of their five investment banks as well as having to rescue some of their major commercial banks.

The catalyst was the failure of

Lehman Brothers, September the 14th, 2008. And very soon when Lehman Brothers went bankrupt, every other bank in the world suddenly started saying: Well, am I dealing with this other bank and is this other bank likely to go bankrupt?

And as soon as that happened, we saw banks hoarding cash, they're reluctant to make loans, and they started to sell off the securities in order to bolster their capital. This is what happened in terms of what we call principal trading.

Banks were reluctant to hold securities in order to make a market in trading. Instead, they would only do what we call agency trades, which if somebody wanted to buy some bonds, they would go to an investment bank and they would say: Okay, we will try and arrange for somebody else to buy those bonds. They wouldn't hold them in inventory to sell them themselves, because they were selling their securities in order to build up their cash.

So, as the financial system suffered

a huge loss in liquidity, as the banks started to fall, we saw this horrendous drop in the capital markets last year.

So, this is a week or so after the Lehman Brothers' bankruptcy, right the way across the board from the American perspective, 30 to 60% drops in market values around the world. And this is what triggered what I call the second stage of the crisis, it moved from the financial sector into the real sector.

And we had a severe credit crunch, the world economy stopped spending and the fourth quarter of 2008 we went into recession in Canada. And that's what we're just trying to pull our way out of.

In terms of the financial markets, we are always looking forward, but we look forward by looking back to understand how we got to the situation we're in at the moment. These are the credit spends in the money market. The money market is the basis of the financial system. If banks can't raise money, or big corporations can't raise money on 30-day promissory notes, it's a sign that there are severe risks in the system.

Two years ago, in a Gaz Métro hearing, we were talking about the spreads in the money market and in the capital market, because starting in the summer of 2007, we started to hear this word subprime and toxic waste in the financial system related to U.S. mortgages. And we suffered a severe crisis in our asset-backed commercial paper market where the market froze up.

We were just getting back because we could see the spreads were dropping until the spring of 2008 when Bear Stearns was rescued and all of a sudden we started realizing the big investment banks in the United States could fall.

And then, we were just recovering from that, that's the second spike, when Lehman Brothers filed September 2008. So, it was a succession of crises in the financial markets.

And then, we were here last year, basically July, August, we can see all those spreads coming down to almost back to normal. The last year spreads in the money market have been totally normal.

So, whereas last year before the Régie I was saying that I think things are normal, I think we're getting back to normal, the last year, things have been normal. The money market has no problems, the Canadian banks can raise capital.

We're also seeing the base rate in the financial system, it's the overnight rate. This is the Bank of Canada's target rate. And for some reason, that little arrow should be further over and it should be looking into that tiny little blip at the end of the chart.

That's the overnight rate that has just gone up in Canada the last couple of months. We've seen the overnight rate go from 25 to 75 basis points. We're expecting the strength of the economy that the Bank of Canada would keep pushing that up towards the end of the year. And we were expecting 1 to 1.25% overnight rate by the end of the year. And that possibly is off the table now simply because of the weakness in the U.S. economy.

But there's no question as well that we're into a situation in Canada where the Bank of Canada is beginning to take stimulus off the table, because we've basically recovered almost all of the jobs that were lost during the recession.

In terms of the Gaz Métro hearing last... I don't know why, that red line that's right at the top should be... in fact, it is on your copies... should be approximately where we were last year when we were looking at Gaz Métro. And the reason it's there is because we were just coming off last year this really, really bad situation in the financial markets and we can see that after Lehman Brothers filed, the light blue line indicating the long Canada bond yields went down. And all those others, which are the AA, A and BBB-rated debt, the yields went up. And that's what was causing all the problems in regulatory hearings last year.

People were saying: How can the long

Canada bond yields go down, and as a result, trigger lower ROEs for regulated utilities when corporate bond yields were going up. And that was something that was addressed in almost all of the regulatory hearings last year, including before the Régie for Gaz Métro.

As I said last year when we were here, that had already started to rectify but we weren't sure what was going to happen. Over the last year, what's happened is those long-term corporate bond yields have continued to go down. And if you accept Ms. McShane's evidence that you should adjust by 50% of the corporate bond yields... I'll just point out, the corporate bond yields now are back to where they were in 2008. In fact, they're back to where they were in 2006.

So, if you regard the allowed return for Gazifère in 2006 and 2008 as being fair, then, if you had adopted Ms. McShane's adjustment mechanism at that time, basically, there would be a small change since then but not a very big change. Because corporate bond yields are a little bit lower than they were two, three years ago.

So, that's where we are in terms of the financial markets, it doesn't mean to say that we're back to normal. I was hopeful this time last year that the spreads were continuing to drop and we were getting back to a normal stage in the business cycle.

Spreads have remained steadily high. We would expect, on average, A spreads to be about 95 to 100 basis points and they got up to 130, 140, possibly 150 at the worst stage of the business cycle.

If you look at the last years' worth of data, spreads were getting down and then they backed up a little bit over the last three, four months. Maybe because of the problems in Europe and the fact that people are beginning to think the recovery is not as strong as we thought it was three, four months ago.

But what is striking is the fact that if you look at those spreads, during the financial crisis, the green, the purple and the dark blue, all of them went down, which means that the A spreads... A issuers were facing the same sort of borrowing costs during the financial crisis as BBB issuers, which was a sign of the depths of the problems that we were in two years ago.

But right now, spreads are still about 40, 50 basis points higher than they should be, which is either saying that the spreads are too high and long Canadas currently are too low.

So, in conclusion, when we look at the capital markets, long term Canada yield is the only fair estimate of the long term expected rate of return on the capital market. It's the only one where we can pick up the newspaper and we can read what the markets expect as a fair return over a long period of time.

Right now - at the time of my testimony, I said long term Canada yields are expected to be 4.5%. At that time, long term Canada yields were 3.93. When

I put these together a week or so ago, they dropped to 3.53. Right now, if you read the newspaper, they are at 3.4, something around that.

What's happening is that investors are beginning to think that the recovery is going to take a lot longer than anticipated and, as a result, long Canada bond yields and U.S. yields and yields right around the world are dropping off.

Corporate yields and long Canada yields stand over the last five months unlike during the financial crisis. So, this reflects not an increase in risk but just a perception that the recovery is taking longer than we anticipated.

So, the overall result is that the economy is not quite as good as it was... what I was anticipating a year ago. The markets are still jittery.

Now, what does this mean in terms of the risk premium models? As I said, the CAPM is an explicit risk premium model but the CAPM is just one variation of risk positioning models and the key, as I've said many times, is that in finance we look at the time value of money, the risk value of money and the tax value of money. The risk position models pick up two out of those three things.

So, we start out with a risk free rate, we then look at the market risk premium and then we say: How risky is this company relative to a typical stock in a capital market?

When we look at what is used, the CAPM is overwhelmingly the model used by most corporations that make investment decisions. Average historical rights of return, which is the one which I estimate the market risk premium is also used.

Multibeta CAPM which is like my two factor models, just basically saying there are other sources of risk.

And then down there is the dividend discount model and investor expectations which is what Ms. McShane bases part of her testimony on those models.

But they're only used by 10%, 12% of chief financial officers. The capital asset pricing model, 70%, the fact is, it's the premium model for adjusting for risk because it's intuitive, it makes sense and it reflects the way in which the capital markets work.

In terms of long-run risk premiums, there is the objective evidence as to what the capital markets, the equity holders have earned over long bonds, over very long periods of time. And here there is very little dispute between Ms. McShane and I.

She goes back to 1947 in her estimate of the risk premium in Canada. Because she goes to 47 whereas I go to 26, her estimate is a few basis points higher than mine. I'm 4.96, I seem to remember she's 5.2 or thereabouts.

Again, the U.S. evidence is that the U.S. excess return is higher. The reason for that, if you look at the returns, it's one third the equity market. Equity markets have been about 40 basis points lower in Canada over long periods of time but the big one is the U.S. Treasury.

So, long Canadas are about 70 basis points higher over long periods of time than the U.S. because for long periods of time we've had more inflation, we've had more risk in the Canadian market and we went through periods of time when the government of Canada had huge financial problems.

And the U.S. Treasury market is the biggest market in the world. It's where almost all countries keep their foreign exchange reserves. So, the difference between the U.S. and Canada is simply the bond market and the fact that a U.S. high risk premium reflects the role of the U.S. dollar as a reserve currency.

When we look at what people actually do, so, I've used the historic estimates and the question is: What do people actually use? What do people use when they make the money decisions? Well, this is what I presented last year, it's finance professors like me.

And I focused on the median, which is the middle guy, the typical guy, the typical finance professor in the U.S. estimates the market risk premium as 6%. The typical person in Canada at 5.1%. The typical person in the U.K. or Europe, 5%. So, that's the median, the middle person, the typical person.

So, if you just randomly picked up a professor of finance and said: What's the market risk premium? In the U.S. he would probably say 6%; in Canada 5.1; and elsewhere in the world 5%.

What's the distribution of that? Well, there are some of my colleagues that think the market risk premium is 8%. And some of my colleagues who think that the market risk premium is 2%.

So, they had good arguments for why they think it's 2% or 8% but they do not reflect the overwhelming number of people amongst academic professors of finance. Most of them are like me, they think the market risk premium is 5% to 6%.

One of the nice things about Fernandez, is he updated his survey, he did a similar survey just a short while ago and he included people who make the money decisions in terms of financial analysts, evaluating companies and corporate executives in terms of determining their cost of capital making investment decisions. So, this is what they're actually using.

Again, if I focus on 2010 and we look at the medians, the median professor of finance in the U.S. says 6%; the median financial analyst and the median corporate executive chief financial officer uses 5%.

So, academics tend in the U.S. to be a little bit higher in their estimates in the market rate risk premium than people actually making investment decisions.

When we look across to Europe, the U.K., you're looking at similar numbers, 5%, 4.5%, 5.5%. So, regardless of whether you look at financial analysts, professors of finance or chief financial officers making investment decisions, the typical person who makes a decision, 5%, 5½%, 6%. And this is not just a few people, this is 462 U.S. professors, 104 U.S. financial analysts, 205 U.S. companies, 194 European professors, 197 European financial analysts, 543 European companies, 30 companies in the U.K.; 31 financial analysts, 49 professors of finance. So, that's a huge number of people in the Fernandez survey to get back these results.

In terms of the risk, I tell every regulatory body: if you want a statistics, get a statistician. My numbers aren't statistics. My estimates, my recommendations are not based upon statistics. They are based upon my judgement in interpreting those statistics.

This is the average utility beta this statistical estimate. The standard way of estimating this is by looking at five years of historic data.

What matters then is that whatever happened in that five year estimation period affects your estimate. If nothing happened in that five-year estimation period, it doesn't affect your estimate.

So, we had betas for Canadian utilities at about .5, .45 to .55 up until 2000. And then in 2000, we had the tech tech boom and the tech bust and Nortel and JDS Uniphase accounted for about 35% of the Canadian market. They dropped the Canadian market. They didn't drop Canadian utilities.

So, for the next five years, as long as you had that internet bubble crash, you had stock market betas for utilities coming down to negative numbers.

Does that mean to say that I think that a negative beta in 2004 was a reasonable estimate? Of course, not. It reflects the fact that the Canadian market went down whereas utilities barely moved and, as a result, that's what we estimated.

Going forward, as that data dropped out of the estimation window, the betas for utilities reverted to their long terms average. So, we see them popping up to the point 4 range until the current market crashed.

So, what that means, is that the market crashed, the estimates are heavily influenced by what happened when the stock market crashed to utilities. And this is not just statistics. This is common sense.

When I look at all these estimates I look to say, well, do they make any sense? And you can look at this by looking at the stock price charts of some of the purest utilities that we've got in Canada, so this is Emera.

Is Emera as risky as the Canadian market? Well, if you've invested $1 in Emera two years ago, you would have suffered during the stock market crash, you can see it dropped by about 4%, 5% when the stock market in Canada was off 42%.

By the end of the two-year period when I put this together in May, in Emera you were up 10%, 12% whereas the Canadian market, you were still off 20%. So, clearly this reflects the fact that Emera, Nova Scotia Power, is a low risk utility that's got defensive properties.

When we look at Fortis, Fortis is another big Canadian utility; it owns Fortis B.C., it owns Newfoundland Power, it owns Fortis Alberta. So again we can see there is market risk. When investors sold securities, they sold Fortis the same as they sold Tech and Imperial Oil and all the other big Canadian companies but it dropped about 20% when the Canadian market dropped over 40%. So, it dropped, at the worst, less than half the Canadian market.

And finally, something dear to our Gaz Métro. So how risky is Gaz Métro? Well, Gaz Métro got sold off in 2008 but right now, two years after the last two years, Gaz Métro if you had invested in Gaz Métro limited partnership units, you basically got the big yield from Gaz Métro and you were back to where you started in terms of prices.

So, it's difficult to see that any of these sort of purest utilities in Canada are anywhere close to the risk of the Canadian market. At most, if you look at

Fortis, they're about 40% to 50% as risky as the market which I would say is a high estimate.

So, when I put my testimony together, the long Canada yield was forecast to be 4.5%. I used the 5% to 6% market risk premium because that's the median, therefore it comes out from financial analysts, from companies, from professors of finance.

Beta, .45 to .55, I do not rely upon point estimates because I like to see what goes into the economic data that drives those estimates. And I still think that the typical utility, .45 to .55 in terms of risk.

I always add 50 basis points for issue costs. The reason for that, as I said two years ago, was that there was sort of a consensus amongst a lot of people to avoid fighting over or trying to work out whether it was 15, 20 or 25 and are some of these costs are tax deductible. So, that was the consensus that I thought that had emerged.

My recommended benchmark ROE 7.75%. I think that the financial crisis hasn't resolved itself yet. We've still got long Canada bond yields... we've still got spreads on corporate bond yields that are about 40 to 50 basis points higher than they should be at this stage in the business cycle.

Last year, the Régie awarded Gaz Métro a bonus or a crisis premium for two years and so I'm basically adding 50 basis points consistent with what the Régie did last year for the upcoming test year for Gazifère.

Does Gazifère deserve a risk premium? In terms of its underlying business risk, I see very little difference between Gazifère and Enbridge Gas Distribution. If it was part of EGDI, it would look no different from any other regional component of EGDI.

I've added 25 basis points because Gazifère basically is a small utility relative to what we see.

So, my recommendation 8.5%, since I

put my testimony together, long Canada bond yields have dropped, but corporate spreads have widened which is another way of simply saying corporate bond yields haven't changed over the last four months. So, I'm quite happy with my recommendation.

A big din between Ms. McShane and I is what has caused all of these changes in the lab returns over the last year in Canada. I do not see any significant problems with the ROE adjustment mechanisms prior to the financial crisis. And this is the Alberta Utility Commission, their decision:

> « *Notwithstanding the issues and economic developments discussed above, the Commission observes that since the issuance of the decision 2004-052 in July of 2004 and before the onset of the economic crisis,*

*there have been few indications that the adjustment formula was not producing an appropriate annual ROE.* »

So, that was the Alberta Utility Commission's decision.

The OEB has substantially changed its formula. However, in August, 2009 when it wrote to intervenors explaining why it was having a technical conference, it said specifically:

« *The Board's consultation is prompted by the state of the financial markets. As indicated in the Board's June 18, 2009 letter, the Board is satisfied that further examination as policy regarding the cost of capital is* *warranted.* »

So, it prompted...

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

LA GREFFIÈRE :

Veuillez prendre place, s'il vous plaît.

LA PRÉSIDENTE :

Vous avez eu le temps de bien manger, Maître Sarault.

Me GUY SARAULT :

Oui, parfait.

LA PRÉSIDENTE :

Excellent.

Me GUY SARAULT :

Vous êtes bien gentille. Merci encore.

Q.105 When we left before the pause for lunch, Doctor Booth, I believe we were at the page, which is page 29, because I've numbered my pages, of your presentation dealing with the 2009 reviews of the formula. That's right.

A. Okay. Well, I hope anyone hasn't had too big a lunch so that everyone can stay awake.

What I was talking about before the

power went out was simply that, prior to the financial crisis, there was a general consensus that the ROE adjustment formula were working. And that's why I put up these two references, the Alberta Utility Commission that said that, and the Ontario Energy Board that specifically indicated that the OEB technical conference that looked at their formula was prompted by the state of the financial markets.

And also, I was on a panel that addressed CAMPUT May of 2008. I was talking about equity ROE and on that panel was Matt Aikman from McQuarrie and this is what he said about the ROE formula which basically was four, five months before the financial crisis really gathered steam. And the conclusion, subject to some caveats, was the ROE formula appears to be working.

So, I feel that the formula was... the ROE formula was working fine. They had been reviewed in a number of cases, the Ontario Energy Board imposed its guidelines in 1997 and then reviewed them in 2003 with the decision in 2004.

The Alberta Utilities Commission, it was then the Alberta Energies and Utilities Board, had a hearing in 2003 and brought in that formula for 2004.

The BCUC had a hearing in 2007 and the major change there was that they used to change their ROE 100% with the change in the forecast long Canada bond yields and they changed that to 75% consistent with everybody else.

The National Energy Board confirmed its formula in 2001 in the Trans-Canada Pipeline Mainline hearing and they refused to hear all of the evidence in 2004.

And the Régie in 2007 in a Gaz Métro hearing confirmed the 75% adjustment.

And as late as 2007, Ms. McShane in an Ontario Power Generation hearing before the Ontario Energy Board supported the 75% adjustment for the ROE.

So, in my judgement, as late as 2007 into 2008, there is pretty much consensus that the ROE formula was working correctly.

Why this is important is a question of, if you look at the formula how far back do you go to sort of work out what would have happened under an alternative formula.

Ms. McShane starts assuming that the NEB got it correct in 1994 and adjusts by 50% of the change in the long Canada bond yield to 50% of the change in the A bond yield spread.  And that's basically 50% of change in the A bond yield because 50% of both of them just collapsed as to 50% of the A bond yield.

So, she starts out in 1994 with the NEB Multi Pipeline hearing result and at that point the ROE was 12.25%.  The long Canada forecast was 9.25 and the spread, the A spread was 71 basis points.

In contrast, I believe that the ROE formula were working correctly until as late as 2007, if not in 2008, before the financial crisis.

I looked at it from the point of view of the NEB in 2000.  And at that point, I said, well, if that formula was correct in

2000, because they said it was correct in 2001, let's see what happens if you change the allowed ROE by 75% a change in the long Canada bond yield forecast because I provide evidence in my Appendix B to indicate that that makes sense. And I'm willing to accept that some of the changes last year were due to changes in the A bond yields because there is no doubt that the corporate bond yield suffered problems during the financial crisis.

So, I provided evidence as to what the Bank of Canadas research has indicated causes changes and spreads. They indicate that about 38% of the spread change for A bond, investment in A bonds is caused by default or fears of default. The rest is caused by liquidity changes, the fact that there is not a change in the underlying risk of the bond, but the people sell the bonds because they want more liquid investments.

So, if you start adding the 2000, 9.9%, then you say: Well, what happens to the allowed ROE if you use these two different formulas?

And the critical thing here is, apart from the fact that Ms. McShane assumes the NEB got it right for 199F, that should be 1994, so I apologize for that, I've seen this many times but sometimes I see mistakes for the first time.

So Ms. McShane assumes that the NEB got it right in 1994, given her formula that she believes is correct, the assumption is they got it wrong every year after 1994. And not only did the NEB get it wrong but the OEB got it wrong, the Alberta Utilities Commission got it wrong, the B.C. Utilities Commission got it wrong. Basically all regulators got it wrong after 1994.

In contrast, if you assume that the NEB got it right in 2000, 2001 or the second formula I used is 2004, all my suggested adjustment is doing is picking up the fact that the A bond yield spread increases during recessions and gets smaller during booms.

So, relative to the NEB formula, the

dark blue line, adjusted the A spreads would have meant a slightly lower ROE during those good years when the economy was strong, and then a higher ROE in the early 2000 when we were in recession and A spreads went up. And more significantly, the last two years when the A spreads indicated all of these problems in the bond market, it indicates about a 50, 60 basis points increase in the ROE because of the problems in the bond market.

And that would have been peaking in 2009 and then it has been coming down since the conditions in the bond market are improving.

Over the whole of the business cycle I would expect this adjustment to bond yields spread basically to even out but it makes for a slightly better formula if you believe that conditions in the bond market are affecting conditions in the equity market.

For Gazifère, if you assume that the Régie got it right in 1998 and then nothing else has changed and you accept 75% to long-term Canada bond yield changes, 50% change as to the spreads, then the formula would basically be 10% plus 75% of the change in the long Canada yields from the yield forecast at that time which was 5.7% plus 50% of the change in the spread from the 1999 basis points where it was at that point in time.

Which means for 2011, I was using the forecast long-Canada yield of 4.5%, so that would mean a drop of 1.2% in the forecast long Canada bond yield, multiplied by .75 means a 90 basis points drop in the allowed ROE because of the changes in long Canada bond yields.

At the same time, when I put my testimony together, the utility spread was 1.3% which means an increase of about 30 basis points and half of that would mean about a 15 basis points increase in the allowed ROE.

So, assuming that everything was correct in 1998, it would mean that the allowed ROE would drop by 90 basis points because of the drop in long Canada bond yields and increase by about 15 basis points because of the increase in spreads.

Or overall, it would mean about a 9.25% ROE.

And as I've indicated, they're updating for the changes since then. Long Canada forecast yields were about 30 basis points, sorry, about 20 basis points lower that would drop by 15 basis points and the spreads were actually widen by 20 basis points which would mean an increase of about 10 basis points. But overall, something of the order of 9.2 to 9.25%, assuming that 75% adjustment to long Canada bond yields forecasts and adding this 50% adjustment to changes in corporate spreads.

Second issue I wanted to address, is U.S. data. Moody's rates U.S. utilities based upon 25% regulation, 25% ability to earn the allowed ROE, 10% diversification and 40% financials.

And I've put this in simply because U.S. utilities are regarded as being riskier than Canadian utilities. There is absolutely no question about that. Moody states very, very clearly:

> « *Moody's views the regulatory risk of US utilities as being higher in most cases than that of utilities located in some other developed countries, including Japan, Australia and Canada. The difference in risk reflects our view that individual state regulation is less predictible than national regulation; a highly fragmented market in the US results in stronger competition in wholesale power markets; US fuel and power markets are more*

*volatile; there is low likelihood of extraordinary political action to support a failing company in the US; holding company structures limit regulatory oversight; and overlapping and unclear regulatory jurisdictions characterize the US market. As a result, no US utilities, except for transmission companies subject to federal regulations, score higher than a single A in this factor.* »

And as they go on to say:

« *as is characteristic of the US, the ability to recover costs and* *earn returns is less certain and subject to public and sometimes political scrutiny.* »

And that's symptomatic of the United States. The United States tends to give their institutions a lot of leeway and then, if anything significant happens, they tend to clamp down in a serious way. We saw this after the tech crisis and we saw it in the reaction to Sarbanes-Oxley and the enforcement of taking people to court, including Conrad Black, but also including the people at Worldcom and Enron and what we're seeing at this time is the Americans trying to find scapegoats for the crisis in the financial sector and taking Goldman Sachs to task.

So, the Americans tend to react when something happens. Until then, they gave a lot of leeway to their institutions and that results in more risk.

In Canada, in contrast, we tend to regulate everything a lot more carefully and that's the same with our banks and the same with our utilities.

This is reflected in utility bond ratings. US utilities typically have a BBB bond rating. And Ms. McShane makes a lot of the excellent business risk framework by S&P but the fact is even some utilities with BB and BB+ bond ratings have got excellent profile in terms of their business risk.

And why that is is because for regulated utilities, the underlying business model, the operations are basically the same as in Canada. What matters is regulation, oversight and the way in which bondholders are protected.

And we see in the United States that they do not have the level of regulatory protection that they have in Canada.

So, this was also the decision of the Newfoundland Board of Commission in Newfoundland and Labrador where Ms. McShane and I presented testimony last year. And the Board very, very clearly said:

« *The Board believes*

*that, in this type of analysis, it's not enough that the chosen comparables are the best available. If this data is to be relied on, it must be shown to be a reasonable proxy or that reasonable adjustments can be made to account for differences. The evidence showed significant differences in virtually all of the comparables including significant levels of non-regulated and non-utility business as well as riskier generation projects, earnings volatility, more competition and* *less regulatory support. While it was argued that, on balance, the U.S. comparables are reasonable proxies, the Board notes the overwhelming evidence of a lack of balance as it was clear that on almost every measure Newfoundland Power would have to be considered less risky than the U.S. comparables. The Board heard evidence that the rating agencies consider U.S. companies to be peers for Newfoundland Power but the Board does not conclude from this that they are the same. Moody's* *comments acknowledge the differences in operations in the U.S. and in Canada.*

*NPI's - Newfoundland Power's - Baaa1 issuer rating reflects the fact that the company's operations are exclusively based in Canada, a jurisdiction were regulatory and business environments in general are relatively more supportive than those of other international jurisdictions, such as the United States, in Moody's view.* »

So, it's quite clear that if you take estimates from the United States, it's not enough that these are the only comparables, you have to show that they are exactly the same, otherwise, they're not relevant.

The BCUC came to the same decision.

« *The Commission Panel agrees with Dr. Booth that "significant risk adjustments" to US utility data are required in this instance to recognize the fact that TGI possesses a full array of deferral mechanisms which give it more certainty that it will, in the short-term, earn its allowed return and the Value Line US natural gas LDCs enjoy. The Commission Panel notes Dr. Booth's suggestion that the risk premium required by US utilities is between*

> *90 and 100 basis points more than the utilities in Canada require may set an upper limit on the necessary adjustment. Accordingly, the Commission Panel will reduce its DCF estimate by between 50 and 100 basis points to a range of 9.0 percent to 10.0 percent, before allowance for financing flexibility.* »

In terms of the estimates, Ms. McShane's estimates from the United States are very heavily based upon growth forecasts that either come from analysts or what she terms sustainable growth.

Unfortunately, it is well recognized that analysts are biased. They have what we call an optimism bias. They persistently overestimate expected earnings and expected dividends.

The key here is this little graph in the middle of the page where the black dot represents the ultimate earnings per share and then it shows how those earnings per share forecasts are upgraded or changed as you get closer to the actual numbers. And as you get closer to the numbers, they generally get guidance from corporations.

So, they start out almost always over optimistic and eventually they zero in on the right number. This is not academic research. There is a huge academic research out there. This is by McKinsey. They say that analysts' forecasts are routinely 100% too optimistic. This graph just shows how they start out being optimistic and then as they get closer to the actual number, they get more accurate.

« *Wall St."s woeful forecasting not getting better.* »

This optimism bias are quite a few academic papers. Analysts are over-optimistic and gradually zero in on the right numbers.

McKinsey says their analysts in the US are routinely 100% too optimistic.

In terms of Ms. McShane's sample of US utilities, over the period when she got her estimates, the historic GDP growth rate was 5%. She's now forecasting 5% GDP growth. So, this is the same period from 1990 to now and then in the future the GDP growth rate is exactly the same.

But historic dividend growth rate for her sample of utilities was 2.5%. The historic earnings growth rate for her US utilities was 4%. And the analysts for these same utilities are forecasting 5.9% growth.

So, reasonably we can ask if these analysts look backwards from the previous 20 years when these US utilities have not come close to matching the growth rate in GDP, why is it that they now assume that these utilities will grow faster than the the US growth rate?

And one answer is they're going to

get better. The other answer is simply that analysts are over-optimistic and this data reflects that over-optimism.

So, if you look at this data, it indicates the optimism bias in Ms. McShane's DCF forecast significantly over-estimate the fair rate return in the United States for these utilities.

Finally, in terms of Ms. McShane's risk assessment, I look at Gazifère and I see a mini Enbridge, Enbridge Gas Distribution. Enbridge Gas Distribution in Ontario has 36% common equity. It's on a settlement that allows it to earn 8.39% for its ROE. And its borrowing cost as Enbridge Gas Distribution is significantly less than Enbridge Inc.'s borrowing cost.

For Gazifère, Ms. McShane says it's going to be a BBB utility if it was borrowing money on its owns account but I see Gazifère as being part of the Enbridge Gas Distribution system and it's basically separated by the river between Quebec and Ontario.

So, I don't think it's fair to assess

it as a BBB stand-alone since it would not be a stand-alone utility on its own.

Ms. McShane instead looks at the sample of U.S. utilities that are rated BBB and here we have a profound difference, Gazifère, if it was a BBB would only be a BBB because of its small size, not because of its risk.

On the other hand, these US utilities are not small utilities. They are some of the biggest companies in North America. When we look at Pacific Gas and Electric which went bankrupt 10 years or so ago, you're looking at a company with operating revenues of 13 billion dollars. When you're looking at Constellation Energy, you're looking at 15 billion dollars. These are huge companies and these are huge companies that are rated BBB because they're risky, not because they are a small company like Gazifère that just happens to be a low-risk small company and possibly penalized because of its size.

So, I don't think Ms. McShane's risk assessment is accurate.

To summarize, I would look at all of this and I would assess a fair ROE for Gazifère 8.5%, essentially, the same calculus that the Régie went through last year for Gaz Métro with what I regard is slightly different estimates.

If you believe that the ROE formula was correct, that the ROE awarded was fair in 1998, then using that my new suggested formula, the new ROE would result in 9.25%, 75 basis points more than what I regard as fair because I tend to believe that all of the ROE adjustments since the NEB formula have been generous towards utilities which is why they trade at significant multiples to their book value and why every dollar invested at rate base for a Canadian utility is immediately worth more than $1.

Q.106 Does this complete your presentation?

A. Yes.

Q.107 Thank you.

LA PRÉSIDENTE :

Maître Tremblay?

CONTRE-INTERROGÉS PAR Me LOUISE TREMBLAY:

Q.108 Alors, bonjour, Monsieur Trahan. Bonjour, Monsieur Booth.

Dr. LAURENCE D. BOOTH:

R. Bonjour.

M. JEAN-BENOÎT TRAHAN :

R. Bonjour.

Q.109 Monsieur Trahan, tant dans votre preuve qui a été déposée sous la cote, si je ne me trompe pas, C-2-24, votre preuve écrite, que dans votre présentation de ce matin, C-2-25, vous référez, et si je vous réfère à votre présentation, malheureusement il n'y a pas de numéro de page. Allons à la page 19 dans ce cas-là de votre preuve écrite.

Alors, au dernier paragraphe complètement, vous précisez que:

> « *Gazifère branche à son réseau 95% des maisons neuves dans la région de Gatineau.* »

C'est exact?

R. Oui, c'est un élément qui est cité d'un article auquel les gens de Gazifère avaient participé. C'est donc l'information de Gazifère reliée à cet article-là.

Q.110 Est-ce que vous étiez présent hier lors de l'interrogatoire des gens de Gazifère?

R. Oui, j'ai entendu 77% de la part de madame Vandal-Parent.

Q.111 Et vous n'avez pas rectifié votre preuve ce matin. Est-ce que je dois comprendre que vous contestez ce pourcentage-là qui a été donné par Gazifère?

R. Non. Bien, je ne conteste pas, c'est, en réalité, ce que je ne sais pas c'est si les deux données sont sur la même base. Alors, est-ce que c'est 77% dans la franchise de Gazifère ou si c'est 95%, par exemple, dans la ville de Gatineau? Moi, je ne sais pas.

Mais entre 95 et 77, ça reste dans le très haut niveau. Mais il y a là une information que je n'ai pas pour compléter la chose.

Q.112 Et si je vous suggère que 77% c'est où est le réseau de Gazifère?

R. Où est le réseau ou est-ce que c'est la ville de Gatineau?

Q.113 Si je vous suggère que c'est où est le réseau?

R. C'est très différent parce que le réseau s'en va à Masson, puis à Masson là, tu es long, puis il n'y a pas grand monde là-bas, puis le développement n'est pas nécessairement aussi évident. Alors que dans la ville de Gatineau, c'est probablement différent.

Donc, moi, je ne sais pas, mais de mémoire, ce que ça disait c'était de Gatineau. Gatineau, pour moi, c'était la ville de Gatineau. Donc, je pense que le 95% c'était pour la portion du réseau de Gazifère qui est dans Gatineau. Alors, peut-être que le 77% c'est pour la franchise où est-ce qu'il est... donc là, tu sais, on tombe dans des petits jeux entre guillemets, mais quant à moi, ça reste dans le très haut niveau.

Si on compare, ne serait-ce que, par exemple, avec Gaz Métro, Gaz Métro c'est 25% région de Montréal, c'est 10% dans le Québec où est-ce qui est sa franchise. Donc, c'est peut-être un peu ce genre de même jeu de chiffres.

Q.114 Alors, ce que je comprends finalement c'est que vous ne contestez pas nécessairement cette information-là mais vous n'étiez pas certain que c'était sur la même base?

R. Tout à fait.

Q.115 Merci.

Dr. Booth, good afternoon. I refer you to your pre-filed evidence C-2-13. At the bottom of page 7, you refer to an OEB letter to intervenors and you state the following:

« *That it was the impact of the financial crisis that caused the OEB to review its ROE formula. It is also clear, from an OEB letter to intervenors of August 20, 2009, which stated: The Board's consultation is prompted by the* *state of the financial markets. As indicated in the Board's June 18, 2009 letter, the Board is satisfied that further examination of its policy regarding the cost of capital is warranted to ensure that on a going-forward basis changing economic and financial conditions are accommodated if required.* »

Isn't it true that this letter refers clearly to the need to accommodate changing economic and financial conditions on a going-forward basis?

R. That's correct. The cost of capital and a fair return is always on a going-forward basis.

Q.116 If I were to suggest to you that there is a specific reference to the financial crisis in the OEB decision that was rendered on December 11, 2009, and that the Board indicated that its decision to reset and refine its formula is independent of the financial crisis; what would you have to say about that?

R. I would have to look at the exact context. But it's quite clear that it was the state of the financial markets that prompted the OEB to review its formula.

Q.117 That prompted the OEB?

R. That's right. Once you start looking at things, then, you examine a whole series of other things as well.

Q.118 Thank you. Do you recall filing evidence in the application by Enbridge Pipelines Inc.? It's in June 2010.

R. For Line 9, yes.

Q.119 I will show you a copy of your evidence. First of all, do you recognize this document?

R. I do.

Q.120 As being in your testimony in this hearing?

R. Well, it certainly looks familiar. I

haven't examined every page but I assume that is correct.

Q.121 So, I refer you more particularly to page 18 of your evidence.

LA PRÉSIDENTE :

Maître Tremblay, est-ce que vous avez une copie pour nous?

Me LOUISE TREMBLAY :

Q.122 So, at page 18 of your evidence, and I will have to read it in order for us all to have the context. So your answer to the question:

> « *What are your conclusions from reviewing these decisions?* »
>
> « *I would judge 2008 to be the last year where there was a general consensus that the results of the ROE formula were fair and reasonable. At the time, the fair ROE was for a benchmark*

*Canadian utility range from 8.39 allowed by the OEB, 8.57 allowed by the NEB, and 8.47 allowed by the BCUC with the Régie, allowing 8.76 for an above-average risk utility. As a result, my 2008 first principles, fair ROE estimate of 7.75 is marginally less than the benchmark average of 8.48. For 2009 and 2010, the Board of Commissioners of Newfoundland and Labrador and the AUC both judged the fair ROE for a benchmark utility to be 9, while the Régie judged 9.2 to be fair for Gaz Métro, which they* *judged to be of above-average risk. The BCUC judged Terasen Gas' risk to have increased significantly and allowed it 9.50% while the OEB implemented a new ROE formula and rebased it to 9.75%. These awarded ROEs are premised on a crisis premium in the range of 50 to 75 basis points. I would regard the OEB award to be at the very top of a fair and reasonable ROE for a benchmark utility and its new formula to be seriously flawed for reasons I will discuss later.* »

My point is, your sentence, when you say

I would regard the OEB award to be at the very top of a fair and reasonable ROE for a benchmark utility, this report is dated June... this evidence is dated June 2010.

R. I swore it when I wrote that as well.

Q.123 So, am I to understand that, in your opinion, a fair ROE for a Canadian benchmark utility could range somewhere between 7.75%, from first principles, without crisis adjustment and no premium for Gazifère's risk, so it could range between 7.75 to 9.75%?

R. Well, the 9.75 was with a crisis premium. That was heard during the... in June last year. And also, the OEB, their guidelines, they're not actually implemented, they have to have a rate hearing in order to be implemented.

So, I would regard, as I said, the OEB formula to be deeply flawed for reasons I discussed in my testimony here. And I would say it's at the very top of a fair and reasonable range, which is basically saying I'm stretching it, so that's right at the possible top of what

I can imagine.
Q.124 But you agree with me that you said that the top of the range could go, in your opinion, up to 9.75%?
R. The very top of the range.
Q.125 Well, yes, that's what's said but you still said it.
R. Oh, that's true, yes, I would say that's stretching it. Obviously, the OEB decided that was fair and reasonable. I think the decision was seriously flawed and I think that's very top of what could be regarded as fair and reasonable.
Q.126 Okay, thank you. I now refer you to the answers you have given to Gazifère's information requests. I believe it's exhibit C-2-19. And I'm sorry, it's not the answer to Gazifère, it's the answer to the Régie. More particularly, the answer to question 1.5 from the Régie. So, I will read the question, so the Régie was asking you:

« *Is the Régie to understand from the underlined passages* *and the quotes from documents 3 and 4 above...* »

So, these are extracts of your report, your written report.

« ... *that the current ROE should be reduced and replaced by the result of your formula in document 4? Please clarify.* »

I then go to your answer, and I quote:

« *There are many definitions of fairness. In fulfilling Dr. Booth's mandate, he has derived an estimate of the fair ROE for Gazifère from first principles which is his recommendation of 8.50% for 2011. This estimate includes a 0.50% premium to* *reflect the impact of the financial crisis. However, fairness also is with respect to what other similar utilities have been allowed in Canada. Consequently, Dr. Booth extended the NEB formula, which has been in operation since 1995, by adding a 50% adjustment to A-spread changes. This adjustment would have alleviated the need for many of the changes made in 2009 to adjust to the financial crisis. When a similar process is applied to Gazifère, it results in a 9.25% fair return on equity. Dr. Booth* *would regard this as at the very top of a fair and reasonable range of 75 basis points higher than his first principals' recommendation of 8.50% and above a fair and reasonable ROE if the 0.5% crisis premium is removed from Dr. Booth's recommendation.* »

To be honest with you, I don't follow. Because the way, and you'll have to help me here, but the way I...

R. I will.

Q.127 The way I understand this is you seem to say that 9.25% would be a fair ROE only if you compare it to 8.50, but if you compare it to 8, it's not a fair return on equity. Is that it?

R. That's correct.

Q.128 Okay, well, can you explain to me why?

R. Because, as I said in the first overhead, the estimates of the ROE are within a range. So, the question is when you look at what's allowed, what's a reasonable estimation range, what is outside of a range and what is within a range, I would regard... well, put it this way. Up until two years ago, I felt that the allowed ROEs coming out of the ROE adjustment mechanisms were above what I would regard as a fair ROE but within a reasonable range. When you get up to 1.25%, then, I think... or 1% or 1.25%, I have a tough time saying that those allowed ROEs are fair.

The ROE that comes out of the Ontario Energy Board formula, 9.75%, as I said, very top. 9.25 over 8% is another 125 basis points over what I would regard as a fair ROE, when you take out the crisis adjustment. That's about where I have problems saying whether or not that allowed ROE is fair or whether it's above a fair ROE.

So, somewhere around about 1%, 1.25%, I think you get out of being a fair and reasonable ROE.

Q.129 I will suggest to you that it's still not very clear to me.

R. Well, look, I think an ROE benchmark utility is 7.75%. Do I think the Enbridge Gas distribution at 9.75%, 2% more than what I would regard as fair and reasonable, is within a reasonable bound of estimates, I would say no. I would say 2% higher than 7.75%, it definitely would have come up with estimation procedures where you can move the parameters enough to justify that as being fair and reasonable.

So I tend to believe the regulators have been generous in Canada and I've consistently said they're generous. Which means I think they're above what I would regard as fair and reasonable.

When the generosity gets to a certain level, I start thinking: well, is that at the very top of a reasonable range or is that outside of a reasonable range?

And I would suggest 9.75 I would regard for somebody like Enbridge Gas

Distribution or Ontario Hydro, perhaps I should have just said I think it's unreasonable.

Q.130 Perhaps.

R. What I did say is it was at the very top of a fairly reasonable range.

Q.131 Yes, that's what...

R. It's stretching my definition...

Q.132 That's what you said.

R. ... of being fair and reasonable. I'd have to admit I don't like to tell Regulatory Boards that they are being unfair and unreasonable. I would tell the OEB that when I see them next time again because I think that decision has changed the game plan throughout Canada.

Two years ago, we had a reasonable consensus. We were within 25, 30 basis points right across Canada.

Now, we have not 25, 30 basis points of difference, we have the Alberta Utilities Commission 9% and we have the OEB at 9.75. And both for benchmark utilities.

And I can't see why a wires

transmission network in Ontario gets 75 basis points more than the same wires transmission network in Alberta.

I would say that's beginning to cause problems across Canada in comparability returns in different jurisdictions for basically the same assets.

Q.133 Thank you. Me donnez-vous juste deux petites secondes, Madame la Présidente? Je n'ai pas d'autres questions. Merci.

LA PRÉSIDENTE :

Merci, Maître Tremblay. Est-ce qu'il y a des intervenants qui désirent contre-interroger? Maître Lussier?

CONTRE-INTERROGÉS PAR Me STÉPHANIE LUSSIER :

Bonjour, Madame la Présidente, Madame et Monsieur les régisseurs. Stéphanie Lussier pour l'ACEF de l'Outaouais. Bonjour, membres du panel. Bonjour, Monsieur Booth.

Q.134 J'aurai quelques questions de clarification pour vous et je les poserai en français.

J'aimerais que vous nous expliquiez davantage et que vous... en fait, que vous élaboriez sur la façon dont vous voyez

l'évolution du taux de rendement des obligations à long terme du Canada?
R. My forecast for long Canada bond yields?
Q.135 Pardon?
R. Do you want my forecast for long Canada bond yields or...
Q.136 Your full cost?
R. Forecast, where I think they're going to go.
Q.137 Oh! your forecast? Sorry. I understood full cost. Yes, sure, I would like... j'aimerais savoir comment... I would like to know how you... yes, what your forecast is concerning the evolution of those bonds, please.
R. The interest rates go down in recession and they go up in recoveries. So, as long as the Bank of Canada just sticks to 1 to 3% inflation range with a 2% forecast which it stuck to since 1991 when those guidelines were introduced, we will end up with a long Canada bond yield of somewhere between 5 and 5.5% as the normal long Canada bond yield.
At the moment, we're way below that

level because we're still in a very weak recovery. Four, five months ago, we were anticipating the long Canada bond yields would be 4.5 up to 5% for 2011. The weakness particularly in the United States and to a lesser extent in Europe, Europe is actually coming back a lot quicker than people anticipated, has led to money flowing out of the equity market into the bond market. And that's depressed long Canada bond yields by about 50 basis points in the last three months alone.

So, the perception in the financial markets is that recovery is not going to be as quick as the Bank of Canada forecast or the Bank of England or the Federal Reserve and as a result, they're putting money into long bonds at rates that would not have been anticipated just a few months ago.

So, right now, the long Canada bond yields are depressed. Rates in the U.S. are even more depressed and... but they will recover once the economy recovers. We basically put off the recovery by at least six months because of the economic performance over the last few months.

Q.138 A la page 67, à la page 67 de votre mémoire, il est question d'une formule. J'aimerais que vous confirmiez qu'il s'agit bien de l'alternative que vous proposez à la formule suggérée par madame McShane ou à celle qui existe actuellement.

R. It's an alternative to Ms. McShane's formula. The only substantiative difference is that I'm proposing that they maintain the 75% adjustment to long Canada bond yields. To be honest, I'm indifferent towards 50% changes in spreads because they even out over the business cycle. So, what happens is that you get minor improvements in the sense that during the recession when spreads go up, it's plausible that there is an increase in the risk premium, and as a result, the fair return should go up.

Similarly, in the boom period when spreads go down, it's plausible that the risk premium goes down and as a result the fair ROE should go down.

Over the whole of the business cycle this basically evens out as long as you set the ROE formulas that we start out at an average spread.

So, I don't regard, this is making a difference to rate payers, it means that they'll be paying a little bit more during recessions and they'll be paying a little bit less during the booms.

It actually makes the utility be a little less risky because their profits go up when everybody else is losing money and they earn less when everybody else is making money. But I don't regard that as really important.

The critical thing is the 75% adjustment to long Canada bond yields.

The big problem looking at adjustments to spreads is getting the data. I used to get a free thick document from Scotia Capital, the Bank of Nova Scotia, called the Handbook of Debt Market Indices. It would be 150 pages of interest rates going back forever and they would give that to people for free. That included all of their A, their AA, their AAA, their BBB bond indexes for long term bonds, medium term bonds, short term bonds. And then they discovered they could sell it. So, in 2005 I think it was, I asked for my copy and they said: Please give me $5,000. And they gave it... the year before they gave it to me for nothing and this is what's now being sold as PC Bond. So, that data is available as long as you pay to get it.

Bloomberg has a utility index. Previously Canadian Bond Rating Service, CBRS had a utility index but when S&P took them over, they discontinued it.

Bloomberg has a number of indexes. These are all fitted indexes to the data and as long as you've got a Bloomberg which costs a lot of money, you can get Bloomberg's A-rated utility cost. So, you can get the data but the Alberta Utilities Commission in 2004, in their decision, they said: We're not going with any yield spread adjustments, we're not going to use corporate bond yields because the data isn't publicly available.

That's less of a problem as long as the Régie has got a Bloomberg or that they talk to Scotia Capital or RBC Capital Markets to get either the Bloomberg or the PC Bond data every September, October so they can use it just like the Ontario Energy Board.

But I don't regard those adjustments to spreads as really being significant. They make minor changes to the allowed ROE over the business cycle but overall they'll average out.

So, I'm suggesting an alternative because Mrs. McShane suggested an alternative. Personally, I prefer that the Régie stays with a tried and true of a 75% adjustment to forecast long Canada bond yields.

Q.139 Donc, vous êtes à l'aise avec le fait qu'on garde la formule actuelle. Est-ce que je comprends bien?

R. The current formula worked fine since 1994. There were problems in 2008 and

2009 which was the worst financial crisis since 1937. Provided the Americans don't shoot themselves in the foot again and have all five of their major investment banks cease to be investment banks and almost all of their major commercial banks seek the protection of the Federal Treasury through the Top Funding, providing that doesn't happen again, I don't see any reason to change the formula on the basis of an event that has been the first such event for 70 plus years.

We're in danger of passing laws on the basis of things that happen highly, highly infrequently and I don't think that that sophistication is really worth the effort.

Q.140 Si la formule actuelle fonctionnait bien avant la crise économique, maintenant que l'économie se porte mieux, ne devrait-elle pas justement encore bien fonctionner cette formule-là?

R. That's what I just said. I think it worked fine. And from the point of view of the utility, right now we've got long

Canada bond yields, I would expect long Canada bond yields to increase. So, a 50% adjustment to those long Canada bond yields forecast would mean that the ROE doesn't go up as quickly as long Canada bond yields go up. And I think that there should be some asymmetry, that ROEs went down with the loan Canada bond yields going up and they should go up to the same amount when long Canada bond yields go up.

Q.141 Je fais référence à un passage qui se trouve à la page 64 de votre rapport et j'ai compris qu'il a été fait un peu allusion à cela dans l'une de vos réponses mais j'aimerais que vous élaboriez sur ce que vous entendez par la phrase qu'on retrouve à la ligne 9 de la page 64:

> « *Consequently, although I judge 50% to be marginally excessive, I can accept this as it evens out over the business cycle.* »

R. The bond yields change for two major

reasons, corporate bond yields. Any default risky bond yields changes for two reasons. One is an increase in default risk. People look at those bonds and they say: There is a chance that I'm not going to get my money back or that it's going to be rescheduled and some way I'm going to lose money.

That risk could be tied in with equity risk premiums. So, there is a relationship between what happens to corporate bond yields and the equity market.

However, corporate bond yields also change because of a lack of liquidity. Nothing to do with default risk. They just... they don't trade as much and that lack of liquidity affects investors' attitudes.

Last year, when we talked about this for Gaz Métro, I put a table up to look to provincial bond spreads over Canada spreads and they behave exactly the same as corporate spreads so that, during recessions, provincial spreads widen. And it has nothing to do with the probability of Quebec or Ontario going bankrupt or re-scheduling, it's to do with the lack of liquidity in the provincial bond market.

The Bank of Canada researchers when they looked at this said that when we look at these default spreads, 38% of the spreads - and don't ask me how they got that accurate but, I mean, they did some econometric work - but 38% was tied in with default risk, 62% was tied in with liquidity.

If you accept that sort of analysis, it means why do you change the allowed ROE for corporate bond yield spreads when 62% of it has to do with liquidity, that's got nothing to do with equity markets.

So, you can legitimately change it, if you believe that 38% of those spreads is tied in with default risk or business risk that's tied in with the equity market but clearly you shouldn't change it over the corporate bond yield spread.

38% versus 50%, as I said, as far as I'm concerned, over the full business cycle, all of this will average out so I'm comfortable with Ms. McShane's recommendation of 50%. It slightly over-estimates what the Bank of Canada researchers estimated it to be but all of those estimates are highly judgemental and not particularly accurate anyway. So, I'm happy with 50%.

So, and that's really what I've got here. It's slightly excessive 50% relative to the 38% the Bank of Canada researchers estimated.

Q.142 Et à part... à part le fait qu'il soit inscrit... en fait, vous indiquez dans votre rapport, toujours à la page 64, à la ligne 9, que même si vous jugez que ce 50% est excessif vous l'acceptez puisque it evens out over the business cycle.

Est-ce que c'est vraiment l'unique raison pour laquelle vous l'acceptez ce 50%-là malgré le fait que vous le jugiez excessif?

Q.143 I think there's no question that last year when regulatory tribunals looked at the fair ROE, that what drove them were the conditions in the bond market. And that, as I said, added 50, 75 and sometimes slightly more than that in terms of an extra addition to the ROE. That was an extreme situation. As I said, I don't think we've had a situation like that since 1937, so that's 73 years. But that was the reaction of regulatory tribunals last year, including this one.

And if you wanted to capture those extreme events, hopefully it doesn't happen for another 73 years, but if the formula is in place for another 73 years, we might capture a similar event, in which case this adjustment to bond spreads, corporate bond spreads, will pick up what the regulatory tribunals did last year

As I said, I think that that adjustment of 50% is slightly excessive; 38% is the better estimate. But as I said, I'm not really that concerned about it because over the full business cycle, that will basically average out to zero.

Q.144 Maintenant, une dernière interrogation. Concernant la conjoncture économique des

États-Unis et du Canada en rapport avec l'écart entre les rendements du capital-actions. Si la conjoncture économique américaine et canadienne s'améliore, alors, l'écart entre les rendements du capital-actions des utilités canadiennes et américaines s'en verra réduit. Est-ce que c'est exact?

R. The Americans have got a higher ROE for their American utilities than Canadian because, first of all, they're lower risk; secondly, they're regulated less frequently.

A lot of them have got ROEs that were allowed years ago and they just haven't come in with rate reviews because the utility hasn't been under an incentive to have a rate review.

Because the U.S. capital markets are riskier, as evidenced by the consistently higher risk premiums earned in the United States.

And because now the risk-free rate is coming down in Canada. And Canada, about five years ago, emerged from a capital importer to a capital exporter. It's why the federal government got rid of the 30% foreign property rule, which has had no impact on the foreign exchange rate and with everything that's happened, because we generate huge amounts of savings in Canada.

The United States on the other hand has got very, very serious problems. Their deficit percentage of EDP is over 11%. They rely heavily upon the Chinese to reinvest the trade surplus back into the U.S., primarily U.S. treasuries but also U.S. agency debt.

So, there's debate within the United States, it actually was discussed in the Globe and Mail today, the last policy statement of the Federal Reserve system. There's a significant fear in the U.S. of inflation, because that's the only way the U.S. can get out of some of its problems. We don't have any of those problems in Canada.

My prediction will be that the Bank of Canada will stick to 1 to 3%, will stick to 2% inflation. Long Canada is not going to be higher than 5.5%. But I could see U.S. treasuries being 6, 7% in a few years time. And I think there's significantly more risk in the U.S. market.

And as a result, I can see higher returns in the U.S. and in Canada, because those returns come from the risk of the underlying enterprise plus capital market conditions. And the fact is, for utilities, running a piece of wire in Canada or a pipe in Canada is pretty much the same as in the United States.

What makes the allowed returns different is the regulator environment, which is the risk that regulators expose the utility to. And the capital market conditions.

And the capital markets in the U.S. is gung-ho capitalism, they're a lot more aggressive than we are in Canada. Which is another way of saying Canadians are a lot more risk averse, a lot more protective, and we don't see quite as many financial disasters as they do in the United States.

It's part of their commitment to capitalism. That's why the U.S. will recover, there's absolutely no question about that. They've got a very vibrant culture. If vibrant means risk.

Q.145 Merci pour ces détails. Pour clarifier, à la page 8 de votre rapport, je vais lire la phrase à laquelle je fais référence à la ligne 16, on indique:

« *As a result, the gap between U.S. and Canadian allowed utility ROEs cannot be attributed to the mechanical use of an ROE formula. Instead, I judge it to be due to more fundamental financial and economic factors.* »

En conséquence, si la conjoncture économique américaine et canadienne s'améliore, notre raisonnement est à l'effet que l'écart entre le taux de rendement du capital-actions des utilités canadiennes et américaines s'en verra réduit, l'écart sera réduit.

Est-ce que vous adhérez à ce raisonnement, oui ou non, s'il vous plaît?

R. Depends whether you believe what Tom Hoenig at the Federal Reserve Board, he's the Adam and Hawk, all the information... the U.S. is revealing everything about all the discussions in the Federal Reserve Board, they're split all the way down the middle.

He believes there's significant inflation in the United States and that you're going to get rampant inflation in a couple of years, which means higher interest rates, which means serious financial problems. And as a result, he recommends that they should reduce the stimulus.

We don't have any of those problems in Canada. As I said, I see interest rates in Canada going back to 5, 5.50%. I don't think the fed is as irresponsible as Tom Hoenig, who is the chair of... I think it's the Kansas City branch of the Federal Reserve Bank.

I don't think that will happen in the U.S. but a lot of people believe it will happen in the U.S. and they're going to get significant inflation. If that happens, allowed rates of return in the U.S. are going to go up. Bond yields are going to go up, inflation is going to go up.

Q.146 D'accord. Je vous remercie pour les réponses à mes questions. Merci.

Merci, Madame la Présidente. Merci aux membres du banc.

LA PRÉSIDENTE :

Merci, Maître Lussier. Est-ce qu'il y a d'autres intervenants qui désirent contre-interroger le présent panel? Je ne t'oublierai pas, Louis Legault. Maître Legault.

CONTRE-INTERROGÉS PAR Me LOUIS LEGAULT :

Thank you, Madame la Présidente.

Q.147 Just a few questions. You'll excuse me for revisiting this but it's still not clear to me. I'll refer you to the same paragraph that my colleague, maître Tremblay, referred you to earlier that was in an answer to the Régie's request for information, IGUA document 3, page 7.

Now, correct me if I'm wrong, I'm just trying to understand here. Your principal recommendation is in... and great, we still have that slide showing that your recommended ROE is 8.5%.

Now, am I understanding it right that this is based on the actual, the present formula taking into account different spreads and mostly a 50 basis point add-on to take into account the financial crisis?

Am I getting that right?

R. That's correct. 8.5% is my bottom-up basic recommendation, looking at what the long-term Canada bond yield is at the moment, the market risk premium, the beta, the issue costs, and the fact that spreads are still significantly higher than I would expect them to be at this stage in the business cycle.

So, 8.5% is what I think is fair and reasonable for Gazifère. And what I did in addition was say, well, suppose the Régie decided to go with an ROE formula, and suppose you wanted to account for the extreme volatility of the markets two years ago, you would then adjust for 50% of the spread changes.

If you then take what was allowed for Gazifère in 1998 hearing for 1999 and say let's go from there, assume that that was correct, assume there's been no change, this formula works, 75% change in the long Canada bond yield with 50% change in the spreads, what would that result in?

And that would result in 9.25% at the moment. About a 90 basis points because of the drop in long Canada bond yields and an extra 10, 15 basis points because spreads are higher now than they were 12 years ago.

So, that new ROE formula is to show what that new ROE formula would give to Gazifère now, if in fact, with the benefit of hindsight, the Régie, 12 years ago, had said: Fair rate of return is 10%, and instead of a 75% adjustment, we're going to put a 75% adjustment to the long Canada bond yield and a 50% adjustment to spreads. So, that's not what I think... it's not my recommendation. I mean I hate to say it's at the top of a reasonable range for now, Louis.

Q.148 The very top?

R. The very top. It's consistent simply with a new formula given what the Régie decided 12 years ago.

Q.149 Now, if we go back to last year's case in Gaz Métro...

R. Yes?

Q.150 ... and I understand that the Régie decided... it gave Gaz Métro a 50 basis points to take into account the spreads, and in fact, the impacts of the financial crisis.

R. That's correct, 25 to 55.

Q.151 If I remember well your testimony last year, you didn't agree with that, you: Been there, done that, got the t-shirt, when you were talking about risk. And I'll remember that phrase forever when you cited your son. Your position was that in a very near future, the effect of this crisis would be long gone and we shouldn't be taking into consideration any adjustments in regard to this financial crisis.

What I want to know today is what is your opinion on this, what should the Régie do?

R. My opinion and why I quoted this was because what's happened now compared to this time last year, and this time last year I said that the bulk of the spread changes that were left were liquidity changes and not related to default risk. And so, I've cited an extra couple of papers by the Bank of Canada that basically confirm that. So, I think that's accepted.

But what's happened since then is we've had five other decisions by regulators. We've had the BCUC decision; we've had the Régie decision itself; we've had Newfoundland Board of Commissioners in Newfoundland; we've had the Ontario Energy Board; Alberta. We've had a number of decisions and every one of those decisions has allowed a crisis premium.

So, as I said, in answer to one of these questions, there are different definitions of fairness. I don't like the fact that the same utility assets in Ontario earn 75 basis points more than they do in Alberta.

So, I would hope very much that they'll be some consensus emerging amongst regulators in the near-term future because this doesn't make any sense that the same assets are earning such disparate rates of return in Canada. So, last year, I didn't have 50 basis points.

Unfortunately, those crisis premiums or those extra returns are now embedded in rates of return right away across Canada.

So, I think that the markets are going to get back to normal. And I don't know whether last year I said daylight follows nighttime, night follows day, recoveries follow recessions, and in these things, we will recover, there's absolutely no question, I mean... but the fact is, where about five months ago, we were in V-shaped recovery in Canada, we had 6.1% economic growth in the first quarter. And the Bank of Canada was increasing interest rates.

And if that had continued, there wouldn't be a need for a crisis premium because we were in for a V-shaped recovery and it was all under the water and gone. Under the bridge and gone.

Now, we've got a definite slow down. The fact is Canada, the growth came out, I don't know if it was yesterday, 2% for the second quarter, dropped from 5.8% in the first quarter. We're being hit because of what's happening in the United States.

So, that's a long answer but financial markets are still not as settled now as I was hoping they were going to be last year.

Q.152 I refer you now to C-2-13 IGUA, pages 89 and 90, which are answers to requests for information. And this deals with the stand-alone concept.

R. So, what's the number?

Q.153 Sorry, pages 89 and 90, I'm going to read the question to you:

« *Isn't the 40% justified by Gazifère's small size?* »

That was the question which you were answering at page 89.

Excusez-moi, ce n'est pas des réponses, c'est la façon dont vous faites vos rapports *question* et *answer*. C'est la question qui dit, excusez-moi, c'est la question qui dit:

« *Isn't the 40% justified by Gazifère's small size.* »

R. Yes, it's my main testimony.

Q.154 Yes, your main testimony. Now, answer, the second line:

« *However, the stand-alone principle does not justify passing on these higher costs to* *consumers. Regulation of public utilities is designed to reap the benefits of competition without the exercise of monopoly power from decreasing long-run costs.* »

And further on, a few lines below, six or seven lines:

« *To allow the higher costs of a smaller utility be passed on to consumers is then to pass on costs that are not justified in a competitive market.* »

Now, my question is, firstly, can you explain your position - and at page 90 also, at page 90 also, just to be clear, you mention:

« *As I discussed above in my judgement, Gazifère is not* *significantly riskier than any other Canadian gas distribution company. And while it may be a BBB credit due to size... »*

You referred to that a little earlier on.

« ... *this cost should not be passed on to customers. However, of more importance is that Gazifère is not comparable to BBB rated U.S. utilities in Ms. McShane's sample.* »

Firstly, can you explain your position as regards the application of the stand-alone concept and what the Régie should do regarding the cost of equity considering this evidence?

R. I was thinking this morning, when we were listening to testimony, and I was thinking, well, suppose we didn't have a provincial boundary, who would own Gazifère? And I would suspect it would just be integrated totally into Enbridge Gas Distribution, but it's not. It's a separate company.

But if it were integrated into Enbridge Gas Distribution in Ontario, it wouldn't look very much different from the Gas assets in Toronto or elsewhere in Ontario and it would get a 36% equity ratio. It would be under settlement earning 8.39% ROE and it would be borrowing money at Enbridge Gas Distribution's borrowing cost.

And here I should point out and emphazise what I've got here, Enbridge Gas Distribution has lower borrowing cost than Enbridge Inc. Enbridge Inc. is their holding company for all of Enbridge's assets. And typically holding company debt costs about 25 basis points more than the debt of the operating subsidiaries.

And during the financial crisis, that spread widened because in the financial crisis you start worrying where the holding company relies upon dividends from the operating subs in order to make its interest payments.

So, we saw the Enbridge Inc.'s debt cost widen significantly over Enbridge Gas Distribution's costs during the financial crisis.

So, you look at that and you say: Well, what should somebody on the eastern side of the river pay relative to somebody on the western side of the river, given the fact that it's all part of Canada, they're the same distribution assets, why should somebody on the Quebec side pay for 40% common equity, a higher ROE and borrowing costs that are premium over Enbridge Inc.'s borrowing costs which themselves are premium over Enbridge Gas Distribution's borrowing cost.

So, that's what I mean by if this were a competitive market, what would happen? Well, Gazifère would be integrated I think into Enbridge Gas Distribution and it wouldn't exist as a separate company.

So looking at it as being a separate company and saying the rate payers in Quebec have to pay for more equity, a higher ROE and higher borrowing cost because of this legal separation, it doesn't seem to make much sense in terms of basic economics.

The basic economics, we regulate public utilities because they've got declining long run costs, you only end up with one institution in the market and if you don't regulate them, they charge abusive rights.

And it strikes me that we shouldn't then protect small utilities that only exist because of regulatory protection. And that's where I cite the decision of the Ontario Energy Board because the OEB or 10 years ago the province decided that all of the municipal electric distribution companies should be private companies. So, they were no more municipally owned, they became separately incorporated, subject to the Ontario Energy Board.

And as a part of that, the OEB

imputes the same capital structure and the same debt costs regardless of what their capital structure and what their debt costs are. Because a lot of them are basically 100% financed as a result of contributions by the electricity users.

So, that, as far as I can see, is a precedent that says you should be charging rates based upon what would be the true cost of capital for that utility, if it were not what it actually is but what it would be in a competitive market and you let market forces prevail.

So, I'm having trouble sort of coming up with the specific recommendation for Gazifère because to a great extent I see it as being a mini Enbridge, Enbridge Gas Distribution in which case it should have the same capital structure, same ROE and the same debt costs as EGDI.

And I'm willing to go with 40% common equity versus 36%. I think its debt costs should be keyed off Enbridge Gas Distribution's debt costs not off Enbridge Inc.'s costs. And I think its ROE should be similar to that of EGDI.

Otherwise, I don't see why those same gas distribution assets, just because someone is on the other side of the river should get higher cost of capital.

Q.155 My question related to...

R. Sorry.

Q.156 ... cost of equity which is okay but from your answer I deduct that if I would ask the same question regarding cost of debt, I'd be getting the same answer?

R. Absolutely. As I said, Enbridge Inc.'s cost of debt is higher, sometimes much higher than that of Enbridge Gas Distribution and the people in Quebec should be paying the same cost of debt as an operating subsidiary with the same business risk operating in Ontario.

Q.157 Thank you, Dr. Booth. No further questions.

LA PRÉSIDENTE :

Thank you, Maitre Legault. Maitre Duquette.

CONTRE-INTERROGÉS PAR LA FORMATION

Me LISE DUQUETTE:

Q.158 Yes. Really a small one, a small

question. And just everybody keeps using different names and I have a hard time keeping up. And I was... I must admit, I was quite baffled by the fact that Ms. McShane dropped the fact that there was a financial crisis and you brought it up.

So, well, she said that the financial crisis was basically over and you're bringing the financial crisis adjustment.

So, I was wondering if your adjustment is quite the same thing or as defined the same flexibility allowance of Ms. McShane because to me it's just for her, as I understood it, it's kind of a question too, you know, if there are more risks and this is what the financial crisis adjustment is about.

I just want to know, maybe there is a difference I don't catch, if you can explain that to me, I would be grateful.

R. Well, I don't know why Ms. McShane thinks the financial crisis is passed. Perhaps she hasn't lost as much money in the stock market over the last four months as I have but I mean it's clear to me that the markets have yet to recover. It is clear to me that corporate spreads are still higher than they should be at this stage in the business cycle. So, I think we're not completely out of the woods yet in terms of the financial crisis.

Last year, the Régie awarded Gaz Métro a crisis premium for two years, including next year. So, in part, I was adding the financial crisis premium to be consistent with what was awarded Gaz Métro. I do think that crisis will go away.

In terms of the issue costs, as I think as I've said in my opening remarks, we used to have long hours talking about issue costs and you would go through how much was the investment banking fee, how much did the stock price drop, how much of this is tax deductible? Do we include the printing costs? And it was just... it would just sort of mind-numbing in terms of the amount of discussion over relatively small amounts and I used to say 25 to 30 basis points for issue costs because that's a narrowly defined issue cost in terms of what utility actually has to pay to raise debt capital... sorry, equity capital once you take into account the tax.

Ms. McShane has got a broader view which is that those costs plus it's the fact that the stock price has to be sufficiently above book value, such that when in the worst case, when you send a stock, the stock doesn't drop below book value.

Now, the only problem with that, apart from Pacific Northern Gas, I haven't seen a Canadian utility anywhere close to selling at book value. Even in the worst of the financial crisis they have been at about 1.3, 1.4.

So a lot of the justification for her 75 basis points issue costs is relying upon the idea that the stock price could drop to book value or below book value. And I think when you look at the market prices of utility stock, the chances of that happening is remote because generally the new issue pressure is at most 5%. They discount the stock 5% to sell it in a seasoned equity issue.

So, we have a different view of the issue costs. I moved to 50 basis points basically because that was seen as not controversial and it reduced a lot of discussion over a relatively small item. I think 75 basis points is excessive. It's above, at the very top of a reasonable range. Actually, it exceeds a reasonable range.

Q.159 Thank you.

LA PRÉSIDENTE :

Monsieur Carrier.

M. RICHARD CARRIER :

Q.160 Richard Carrier pour la formation de la Régie. Mes questions seront pour le docteur Booth.

Dans votre recommandation, vous basez votre recommandation d'un taux raisonnable sur un taux sans risque de 4.50 % pour les obligations long terme du gouvernement canadien.

Vous avez mentionné dans votre

témoignage et ce matin qu'actuellement les taux sont aux alentours de 3.53% dû à la faiblesse de la reprise économique et de la faiblesse de la reprise principalement aux États-Unis.

Ma question porte, si cette faiblesse de la reprise devait persister pour les prochaines années, disons pour les deux prochaines années ou plus et nous allons rendre une décision dans le cadre du mécanisme incitatif de Gazifère qui possiblement a une durée de cinq ans, si les taux obligataires devaient rester aussi faibles, quel serait votre conseil à la Régie sur comment tenir compte d'une situation économique de cette nature?

R. The fact is that the only objective estimate in the capital market over a long run expected rate of return is the yield on the long Canada bond. That's the only one. Everyone agrees, that's the long run expected rate of return. Everything else is an estimate.

The yield on a corporate bond includes - it's what we call a promised rate of return - which means you accept the risk of default, so that exaggerates the expected rate of return. So, yields and corporate bonds are not expected rates of return.

The only expected rate of return is long Canada bond yield. We are seeing low rates return now on long Canada bonds because people are thinking that we are in a very slow recovery in both the United States and in Europe and that's going to spill over into Canada and, as a result, 3.5, 4% looks pretty good if, in fact, we're going to be in a period of long run, low inflation and there is this huge amount of capital looking for a home.

So, if you're going to go into a PBR, the fact is that of all this evidence out there, the only place which is objective is that long Canada bond yield. The market risk premium, we can talk to at least 1,000 people, financial analysts and corporate executives and professors of finance but that's still an estimate.

The beta, we know that the beta

estimates, statistically, they depend upon what happened over the past period. So, that's still a judgement call.

The issue costs, well, that's a judgement call. Everything there is a judgement call really to some extent except the long Canada bond yield. So, that's why I've always believed in building the ROE off the long Canada bond yield forecast, because that's an objective adjustment.

I think if you go into some sort of settlement agreement or earnings incentive regulation for Gazifère, I still think the basis of that should be the long Canada bond yield. And if I was Gazifère, I would argue for that because I'm an optimist, perhaps that's why I've lost so much money in the stock market but I mean, but I am an optimist. I do see a recovery. I think we will have a recovery, we will have a strong recovery in Canada than in the United States because the public finances are so much better in Canada and we will see high interest rates in Canada and we will see significant capital exports from Canada as Canadians invest around the world.

So, if I were Gazifère, I would be wanting a 100% link to long Canada bond yields and, to be honest, I can't understand why they want a 50% adjustment because long Canada bond yields will be going up.

Q.161 Ma seconde question portera sur, selon la pratique standard, quand les formations doivent établir un taux de rendement, doivent le faire sur la base de la preuve devant eux, devant l'ensemble des preuves sur les tests financiers présentés, l'ensemble des données et porter jugement et l'approche veut également que les Boards regardent comme point de référence ce que d'autres boards ont pu décider, soit au Canada, soit aux États-Unis, un checke un peu sur le résultat de l'appréciation par rapport à ce qui se donne ailleurs. Quel poids vous conseilleriez de donner au check sur ce qui se fait ailleurs par rapport à l'examen pur des données examinées dans une audience?

R. First of all, fairness does relate to what's happening elsewhere in the Canadian economy because it's essentially the same evidence, the same interest rates, the same risk premiums and we've got one monetary system. So, as I said, I'm unhappy there's being such a spread in allowed rate of return for benchmark utilities.

I think that has to be resolved over the next couple of years. Hopefully, it will be resolved towards going back to where we were before this financial crisis.

In terms of looking specifically at other decisions, this Board last year rejected ATWACC when the National Energy Board had just implemented ATWACC. So, you clearly looked at that and you had exactly the same witnesses before you last year as the NEB had before them in Trans-Quebec and Maritimes Pipeline and you looked into that evidence and you said you so no advantage to it and you rejected basically the precedents set by the National Energy Board.

So, ultimately, you can look at what other people do but you have to come down and look at the body of the evidence and decide what is fair and what is reasonable.

And before you you had the Alberta Utilities Commission at 9%, you had your decision last year in Gaz Métro at 9.2 where you said Gaz Métro was riskier than a benchmark utility and given the extra beta that you allowed, that was about 20 basis points.

So, right now, your decision of last year is consistent with the decisions of the Alberta Utilities Commission and the Board of Commissioners of Newfoundland and Labrador. It's not consistent with the B.C. Utilities Commission. They allowed 9.5%. And right now, they are a little bit of a maverick, they chose to put weight on discounted cash flow and they're going to hear evidence, supposedly they need a plan from Terasen Gas by December of this year for a new ROE adjustment mechanism.

And if Ms. McShane has got anything to do with it, I guess it will be very similar to the adjustment formula she has put forward in this hearing which is again the formula that the OEB introduced this time last year.

I regard that, I'll say it again, at the very top of a fair and reasonable range. I mean, when I say very top, I'm saying here that's stretching as far as I think it can go. I can't see the OEB reversing its decision in a short period of time even though there has been personnel changes of the OEB that may lead to the conclusion that it could be changed.

But that decision has to be implemented through a formal rate hearing for each utility involved, so it's a guideline of the moment that is yet to be implemented and I guess at the moment it is being implemented for Hydro-1, the network.

So, it's a long answer but you have to decide on what's fair. You showed a lot of authority last year when you rejected the NEB which I think was the absolute correct decision.

I would prefer very much that you reject the OEB's decision and you go with a similar decision that you yourselves made last year, what the Newfoundland Board of Commissioners decided and what the Alberta Utilities Commission decided.

Q.162 Je vous remercie. Ça complète mes questions.

LA PRÉSIDENTE :

La formation n'aura pas d'autres questions. Maître Sarault.

RÉINTERROGÉS PAR Me GUY SARAULT :

Q.163 Yes. I just want to ask you a question, Dr. Booth, to clarify something, the 9.25% that we see here on the screen, I'd like to go back to your answer to the Régie's question 1.5.

And you say in your answer: This adjustment, speaking about the 50%

adjustment spreads, correct, would have alleviated the need for many of the changes made in 2009 to adjust to the financial crisis.

And in the last sentence, you say that:

« *When a similar process is applied to Gazifère, it results in a 9.25% fair ROE. Dr. Booth would regard this at the very top of a fair and reasonable range at 75% higher than his first principals' recommendation of 8.50 and above fair reasonable ROE, if the 50 basis points crisis premium is removed from Dr. Booth's recommendation.*

My question is the following: Is it your position that, if the Régie is to go with the 50% adjustment in spreads as proposed by Ms. McShane and to which you are relatively indifferent as you've explained, does that replace the financial crisis adjustment?

R. Yes. As I look at the yield changes, at the peak of the financial crisis, the bond yields were about 116 basis points higher than they should have been. I think I was looking at the average during the six month period from September 2008 through to March, April 2009. And half of that is about 59, 60 basis points.

So, last year, given the elevated level of corporate bond yields and corporate spreads, the different regulatory bodies added in about half the change in the yield spreads which is about, a little bit around 50 basis points, 60, I mean, it depends upon the time at which they actually made the decision.

So, the 50 basis points crisis premium was an adjustment to reflect this 50% change in the yield spreads at the

peak of the crisis.
Q.164 So you have one or the other. You can't have both?
R. You can't have both of them, yes.
Q.165 Okay, good. And to further clarify the calculation of your 9.25 and this answer to the Régie, is it the same calculation that we find at the thirty-fourth page of your presentation today which starts with Gazifère assume Régie got it right in 1998?
R. That's correct. Assuming... yes, that calculation makes the same 50% change to the yield spreads since 1998.
Q.166 Okay. So, the starting point...
R. 9.25.
Q.167 So, the starting point of this calculation that we find on the thirty-fourth page which says "assume Régie got it right in 1998 for Gazifère", the 10% that we see at the beginning of the calculation is the 1998 approved ROE. Correct?
R. That's right. All that was adjusted since then is for 75% change in the long Canada bond yield and 50% change in the spreads.

Q.168 So, to avoid any misunderstanding, the starting point of the calculation leading to the 9.25 in your answer to the Régie is not your 8.50 but rather the 1998 duly approved return on equity of 10%?
R. That's correct. I thought that was clear.
Q.169 No, in case some people would believe that there could be a mix anywhere in that department, I just wanted that to be very clear. Thank you.

LA PRÉSIDENTE :

Thank you. Merci, Monsieur Trahan. Vous êtes maintenant libérés.

ET LES TÉMOINS NE DISENT RIEN DE PLUS.

LA PRÉSIDENTE :

Alors, il nous reste seulement une présentation de la preuve de la FCEI. Je ne sais pas si vous comptez faire une présentation?

Me ANDRÉ TURMEL :

Aucunement. Nous avions indiqué, dans mon intervention, que nous nous regroupions avec l'ACIG aux fins de la preuve.

Nous avions seulement réservé cinq minutes pour interroger notre témoin, étant le panel qui quitte, mais comme nous n'avons aucune question, on n'a rien à dire. Et bien sûr on n'a pas de preuve à présenter puisqu'on s'en remet à la preuve de l'ACIG.

LA PRÉSIDENTE :

Merci beaucoup, Maître Turmel.

Donc, cela va terminer la preuve des intervenants. Maître Tremblay.

Me LOUISE TREMBLAY :

Oui, je m'excuse, Madame la Présidente. Je ne voulais pas d'aucune façon vous interrompre. Je pensais que vous étiez pour dire que ça terminait le tout.

Je voulais juste vous aviser que Gazifère aura une contre-preuve. Je voulais juste pas que vous pensiez que nous n'en avions pas.

LA PRÉSIDENTE :

J'allais vous poser la question. Vous comptez présenter cette contre-preuve demain matin ou...

Me LOUISE TREMBLAY :

Je vous suggère à l'heure où on est rendu, trois heures moins dix, si c'était possible de la présenter demain matin, j'apprécierais, en fait, nous apprécierions tous. Et ce ne sera pas une contre-preuve qui va durer... ce ne sera pas excessivement long. J'évalue probablement au maximum une demi-heure, gros maximum.

LA PRÉSIDENTE :

Environ 30 minutes.

Me LOUISE TREMBLAY :

Naturellement, ça dépend de la longueur des réponses, là, mais j'imagine que ce ne sera pas très long.

LA PRÉSIDENTE :

Au niveau des engagements, je crois que...

Me LOUISE TREMBLAY :

Les engagements, si je me souviens bien, je pense qu'il y en a deux en ce moment en suspens. Madame la Présidente, ce qu'on me dit, c'est que ce n'est pas évident qu'on va pouvoir avoir ces informations-là pour demain. Naturellement, comme à l'habitude, on va déployer tous les efforts. Mes clients vont déployer tous les efforts possibles pour avoir cette information-là demain matin. On va tenter d'obtenir l'information.

Si je ne m'abuse, je ne crois pas que ce soit de l'information... c'était sur les primes, si je me souviens bien, les primes de risque. Je ne veux pas m'avancer mais je ne crois pas que ce soit de l'information majeure pour les fins de... nécessairement pour les argumentations.

A tout événement, on va faire ce qu'on peut pour l'obtenir le plus vite possible.

LA PRÉSIDENTE :

Parfait, Maître Tremblay. Alors, nous allons suspendre les audiences pour débuter demain matin à compter de 9 h avec la contre-preuve de Gazifère et, par la suite, nous allons débuter les argumentations et la réplique et notre grand souhait serait de terminer demain la présente audience.

Me GUY SARAULT :

Oui, justement, moi, je n'ai aucun problème. Une contre-preuve d'une demi-heure ça ne devrait pas bouffer beaucoup de temps mais ce que j'apprécierais personnellement, je vais apporter mes documents, je vais écrire... mais j'aime ça écrire quelques notes personnelles, ne serait-ce que sur un bout de papier avant de plaider, alors d'arriver cold, faire la contre-preuve puis partir tout de suie dans les argumentations, c'est peut-être un peu "rapido".

Je ne sais pas s'il y a moyen de nous laisser peut-être un petit deux heures avant de commencer les plaidoiries. On pourrait les faire en fin de matinée ou début d'après-midi parce que ça ne prendra pas une éternité les plaidoiries. C'est juste un sujet.

C'est ma seule préoccupation pour être capable de vous donner un produit de qualité puis, en plus de ça, c'est toujours agréable de pouvoir consulter les transcriptions incluant celle d'aujourd'hui.

Me LOUISE TREMBLAY :

Je prends note vos commentaires, Maître Sarault. Sachez que même pour moi, si je pouvais plaider, en fait, une autre journée que demain, j'apprécierais encore plus.

J'ai un peu de difficulté à comprendre. C'est que moi mes gens sont ici, on voudrait essayer de finir le plus vite possible. Si on prend, si on s'arrête pour deux heures dans le fond, à mon avis, on retarde tout le processus. En réalité, depuis le début on sait que les plaidoiries c'est demain. Ma contre-preuve ce ne sera pas excessivement long. Je ne pense pas que ça va changer votre plaidoirie.

Me GUY SARAULT :

Mais il faut que je sois ici. Je ne serai pas en train de préparer, je vais être en train d'écouter votre contre-preuve.

Me LOUISE TREMBLAY :

Oui, bien moi, la préparation, qu'est-ce que vous voulez, la préparation est commencée depuis un bon bout de temps puis il faut la finir. Je suis dans la même situation que vous. C'est parce que je... si on s'arrête pendant deux heures puis on commence les... ça voudrait dire qu'on commencerait les plaidoiries à quelle heure ça?

Me GUY SARAULT :

Écoutez, prenant pour acquis qu'on est ici à 9 h 00 demain matin puis votre contre-preuve, incluant les contre-interrogatoires ça finit à 10 h 00, on peut revenir ici pour 1 h 00 de l'après-midi puis c'est clair qu'on a fini pour 4 h 00, 5 h 00. Alors, moi, je ne vois pas de grand bouleversement.

C'est simplement pour me donner le temps un petit peu de se revirer de bord, préparer des notes. Je vais faire ça dans une salle ici, là. Ce n'est pas plus compliqué que ça.

Me LOUISE TREMBLAY :

Tout ce que je vous dis, c'est que j'ai la même réalité dans le fond quand il faut que je réplique après, cinq minutes après. Je veux dire, j'ai toujours cette réalité-là. Je la vis constamment dans chaque audition.

Alors, écoutez, c'était supposé de finir à 3 h 00 demain. Si la Régie est prête à continuer jusqu'à plus tard dans l'après-midi, combien de temps vont durer les plaidoiries.

Me GUY SARAULT :

Avez-vous une longue plaidoirie?

Me LOUISE TREMBLAY :

Bien, quand même, où je suis rendue, elle est assez... j'ai quand même des choses à dire.

LA PRÉSIDENTE :

Écoutez, on a préparé pour nous à la Régie un calendrier tenant compte du temps que chacun des intervenants compte prendre pour faire leur plaidoirie et, en débutant à 9 h 00 avec les argumentations, on s'enlignait pour terminer à 14 h 45.

Me GUY SARAULT :

Ah! oui?

LA PRÉSIDENTE :

Donc, c'est certain que je crois qu'il serait vraiment difficile d'accorder un délai aussi long pour préparer les plaidoiries. Il faut aussi comprendre que les sténographes ont besoin de terminer aussi leur journée. Donc, on aimerait le plus possible terminer autour de 15 h 00 demain.

Alors, on peut peut-être prendre une pause de 30 minutes après avoir terminé la contre-preuve mais je pense qu'on va être en mesure de procéder, je suis certaine, Maître Sarault, que vous allez être en mesure de nous faire une présentation de haute qualité malgré tout.

Me GUY SARAULT :

Il n'y aura pas beaucoup de références aux transcriptions sténographiques.

Me LOUISE TREMBLAY :

Bien, il n'y en aura pas beaucoup plus pour moi, Maître Sarault. Non, mais c'est parce que c'est la même réalité que nous vivons. En réalité, c'est que moi je n'ai pas d'objection à plaider la semaine prochaine ou à plaider une autre fois. Ce n'est pas ça, au contraire, ça me donnerait beaucoup plus de temps à moi aussi. C'est juste qu'il y a une réalité. On fait face tous à la même réalité. On va plaider avec les outils qu'on a puis le temps dont on dispose dans les circonstances. J'imagine que la Régie est consciente de ça qu'on ne dispose pas de... on aimerait ça avoir plus de temps disons.

Me GUY SARAULT :

Écoutez, la semaine prochaine, je ne sais pas moi, est-ce que vos gens ont absolument besoin d'être là pour votre plaidoirie?

Me LOUISE TREMBLAY :

Dans le fond, Maître Sarault, là...

Me LOUIS LEGAULT :
Moi, je suis en audience dans le dossier de Gaz Métro la semaine prochaine. Alors, tu sais, c'est... vous n'êtes pas là vous, Maître Sarault, dans le dossier de Gaz Métro?
Me GUY SARAULT :
Oui bien...
Me LOUISE TREMBLAY :
Moi, tout ce que je sais, Madame la Présidente, c'est que moi je ne veux pas faire de plaidoirie écrite, là, il n'en est pas question.
Me GUY SARAULT :
Moi non plus.
LA PRÉSIDENTE :
Non.
Me LOUISE TREMBLAY :
Non, je fais juste le préciser, je ne veux pas faire de plaidoirie écrite parce qu'on s'embarque dans une toute autre histoire. Alors, moi, je préférerais plaider oralement. C'est sûr que je préférerais que mes clients soient là, ça, je pense que c'est normal.

Alors, tout ça pour dire qu'on va tenter d'être prêts pour demain et puis si... à moins que la Régie décide qu'il y ait une autre journée, je ne sais pas, moi, où elle pourrait nous entendre.

LA PRÉSIDENTE :

Écoutez, on va être souple. On va vous accorder une heure après la fin de la contre-preuve puis pour se donner vraiment le maximum de chances d'être en mesure de terminer à une heure raisonnable demain.

Et vous comprendrez que la Régie a un calendrier aussi très chargé dans les autres dossiers alors d'essayer de trouver une date qui va convenir à tout le monde, ça va être quelque chose d'extrêmement difficile.

Donc, je crois qu'il faut vraiment tenter de procéder demain et de terminer. Donc, on va débuter à 9 h 00 avec la contre-preuve et on va tenter de vous accorder un délai d'une heure pour être en mesure de préparer les plaidoiries.

Me LOUISE TREMBLAY :

C'est bien. Merci, Madame la Présidence.

LA PRÉSIDENTE :

Ça fait plaisir. Alors, à demain. Bonne soirée. Bonne préparation.

CAUSE CONTINUÉE LE 2 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.