

Lettre de Concentric Energy Advisors



November 1, 2012

Gilles Gaudreau
Advisor Financing and Money Market
and Assistant Treasurer
Hydro-Québec
75, boul. René-Lévesque Ouest
Montréal, Québec, H2Z 1A4
Canada

Dear Mr. Gaudreau:

Concentric Energy Advisors ("Concentric") was retained to provide services in relation to cost of capital, sharing mechanisms and variance accounts. As such, Concentric has compiled market information, conducted preliminary analyses, and determined a preliminary range of Return on Equity ("ROE") results for Hydro-Québec's electric transmission activities ("HQT"). Concentric has conducted a set of capital market analyses and calculations to determine a reasonable range of ROE results. Based on that analysis utilizing current market data and projections, and a combination of analytical approaches with both Canadian and U.S. proxy companies, we currently estimate that the appropriate ROE range for HQT is between 8.08% and 10.29%. Concentric is prepared to provide expertise regarding a specific ROE recommendation and specific elaboration of the derivation of that ROE and the range around it, which Concentric considers fair and reasonable.

As background on Concentric's experience on cost of capital, our expert witnesses bring a variety of experience to the ROE assignments, including: the current financial market perspective, an understanding of how regulators view ROE and capital structure issues in the context of rate proceedings, and the academic perspective which supports the various methods and techniques used to estimate a fair and reasonable ROE. Concentric's experts have filed testimony on cost of capital matters before numerous state and provincial regulatory commissions as well as before the Federal Energy Regulatory Commission and the National Energy Board. Our experts have provided testimony in more than 100 cost of capital cases in 23 jurisdictions across North America and have significant experience in cost of capital for electric utilities, electric transmission companies, natural gas utilities, and natural gas pipelines in the United States and in Canada.

Sincerely,

A handwritten signature in black ink, appearing to read "James M. Coyne", is written over a horizontal line.

James M. Coyne
Senior Vice President