PUBLIC INTEREST ADVOCACY CENTRE

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VIA E-Mail and Mail

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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2011-0354 Enbridge Gas Distribution Inc. 2013 Rates
Intervenor Responses of CME et al

On behalf of the Canadian Manufacturers and Exporters (CME), the Consumers Council of Canada (CCC), the Schools Energy Coalition (SEC) and the Vulnerable Energy Consumers Coalition (VECC), we have enclosed the responses to the interrogatories posed by EGDI with respect to the evidence of Dr Laurence Booth offered on behalf of CME et al.

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC

Cc: EGDI – via email
All interested parties – via email

EGDI INTERROGATORY

Interrogatory #1

Please refer to the Evidence of Lawrence D. Booth, p. 1, lines 4-9

a. Please indicate how many proceedings Dr. Booth has provided cost of capital testimony in since 2006 (either Direct or Rebuttal).

b. Please indicate whether in any of those cases the Board or commission has adopted Dr. Booth's recommended ROE or Common Equity ratio, and if so, the case, decision date and number, and the recommended and ordered ROE and Equity ratio.

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a) Since 2006, Dr. Booth has provided Cost of Capital evidence in regulatory proceedings before the National Energy Board and regulatory boards in the Provinces of British Columbia, Alberta, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland. The total number of proceedings in which testimony has been filed is estimated to be about 14. His evidence in this proceeding is confined to EGDI's request to increase its common equity ratio from 36% to 42%.

b) Generally speaking, the regulatory tribunals have made findings that fall within the range of recommendations provided by the Cost of Capital witnesses. The major capital structure recommendation made by Dr. Booth since EGDI's 2006 hearing when EGDI requested 38%, Dr. Booth 35% and the Board allowed 36%, is the 35% Dr. Booth recommended for Alberta Pipelines in 2011. In this hearing the AUC (Decision December 8, 2011) reduced the allowed common equity ratio from 45% to 38% and the utilities recommended 47% for 2011 and 44% for 2012. In Enbridge Gas New Brunswick in 2010 Dr. Booth recommended that EGNB's common equity ratio be moved forward from the 40% the company planned for 2016 to 2011. In its decision (November 30, 2010) the Board moved it from 50% to 45% with immediate effect.

EGDI INTERROGATORY

Interrogatory #2

Refer to the Evidence of Lawrence D. Booth, Executive Summary, p. 2:

Preamble: "The Board's draft guidelines assume that the base capital structure will remain relatively constant over time and that a full reassessment of a gas utility's capital structure will only be undertaken in the event of significant changes in the company's business and/or financial risk." EGDI's business risk has marginally decreased since the last time the Board reviewed it in 2006, while the financial risk imposed by debt financing has declined markedly since 2009, when the Board last reviewed capital market changes. There are therefore no grounds for increasing EGDI's common equity ratio based on Board policy. Further, it is my understanding that changing Board policy was not an issue for this hearing.

a. Is it Dr. Booth's contention that Board policy should be static?
b. Does Dr. Booth believe that Equity Thickness can be set, and the Fair Return Standard can be met by only reviewing a utility's risk relative to its own past?

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a) The Board's policy is not static. It sets out the circumstances under which the Board will consider a change, namely when an existing gas utility such as EGDI provides evidence that its business and financial risk have changed materially.

b) Dr. Booth agrees with existing OEB policy, as well as that of other Boards, that capital structure should be changed in response to significant changes in business risk and capital markets. The allowed ROE can then be changed on a more frequent basis in response to the normal changes in capital markets. This is discussed fully in Dr. Booth's pre-filed testimony at pages 5-23.

EGDI INTERROGATORY

Interrogatory #3

Please refer to the Evidence of Lawrence D. Booth, p. 2, lines 8-9.

a. Please indicate whether Dr. Booth has reviewed Concentric's evidence, and specifically Appendix B on the regulatory risks of Enbridge in relation to a comparator group of three Canadian and seven U.S. utilities?

b. If yes, has Dr. Booth conducted a comparable analysis?

c. Please confirm that regulatory risk is considered by credit rating analysts as the most significant business risk for utilities. If not, please explain.

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a) Yes.

b) Yes.

c) Yes, regulatory risk is a matter of significance to analysts. Dr. Booth's section 5 pages 72-83 examines the issue of comparables and US versus Canadian regulation and points out the general reasons why both the rating agencies and most Canadian regulators have not used US utilities, for example, as comparables without considering adjustments.

EGDI INTERROGATORY

Interrogatory #4

Please refer to the Evidence of Lawrence D. Booth, p. 3 (note, the first of two page 3's), lines 3-12, p.4, line 10, and Appendix A.

a. Please indicate whether Dr. Booth considers himself an expert on the regulatory and business risk of U.S. utilities.

b. If yes, please provided the basis of those qualifications, and any studies he has produced on this topic.

c. Has Dr. Booth ever appeared as an expert witness before a US regulatory tribunal?

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a) Dr. Booth has not yet been asked to testify as an expert Cost of Capital witness before a US regulatory tribunal.

b) His academic CV, extensive publications, the presentation of expert financial evidence before civil tribunals in other countries (including the U.S.) and his record as an expert witness before Canadian regulatory tribunals should be more than adequate to warrant his acceptance by U.S. regulatory tribunals as a person qualified to provide opinion evidence on the regulatory and business risks faced by U.S. utilities.

c) Dr. Booth has presented evidence in a civil case in the US that was settled.

EGDI INTERROGATORY

Interrogatory #5

Request DR-6: Refer to the Evidence of Lawrence D. Booth, p. 5, lines 8-9.

Please indicate why Company witnesses are or are not qualified to address business risk.

Dr. Booth is advised by counsel that EGDI employees would not qualify as experts.

EGDI INTERROGATORY

Interrogatory #6

Please refer to the Evidence of Lawrence D. Booth, p. 6, line 15.

Please confirm that the Board also refreshed the starting point for the ROE, to 9.75%, in addition to changing the adjustment mechanism while holding electrics distributors' equity thickness at 40%.

The outcome of the Board's Consultative Process with respect to its policies pertaining to the Cost of Capital, including capital structure changes, are set out in its Report. The Report describes the threshold considerations to be satisfied by EGDI and the other gas utilities that the Board regulates to justify a change in capital structure.

EGDI INTERROGATORY

Interrogatory #7

Please refer to the Evidence of Lawrence D. Booth, p. 7, lines 1-4

Does Dr. Booth believe that the Board's decision with regard to ROE was wrong?

Dr. Booth's sponsors are not challenging the formula based ROE that EGDI asks the Board to approve in this case. The opinions of Dr. Booth and others with respect to the appropriateness of the ROE that the Board's formula produces will be addressed when matters pertaining to the Board's current Cost of Capital policy, including capital structure changes, are reviewed within the ambit of the review proceeding contemplated by the Board's Report.

EGDI INTERROGATORY

Interrogatory #8

Please refer to the Evidence of Lawrence D. Booth, p. 7, lines 11-17

a. Please indicate where the Board's policy indicates that changes in business risk must be assessed from the most recent case.

b. Is it unreasonable to review business risk over a longer period of time, and in relation to peer companies?

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a) Board policy specifically refers to "significant changes," which by definition involves a comparison across two points in time. EGDI either gave direction to Dr. Carpenter, or supported him, in 2006 when he interpreted board policy as changes since the last time the OEB considered EGDI's business risk. Dr. Booth considers EGDI's evidence in 2006 as supporting a consideration of significant changes in business risk since the last time the Board considered it.

b) No. It is possible that over a long span of time small incremental changes in risk could add up to a significant change in risk. This is why Dr. Booth focussed on absolute levels of business risk, as well as what Dr. Carpenter considered as significant changes in 2006 from those in 1993. It is also why Dr. Booth looked at the deviations of EGDI's actual from allowed ROE back to 1990, that is, a period that predates both the last two occasions when the Board considered EGDI's business risk.

EGDI INTERROGATORY

Interrogatory #9

Please refer to the Evidence of Lawrence D. Booth. p. 9, lines 2-3

> Please indicate where, if ever, in Canadian history, a regulatory board has removed income risk for a utility investor.

The full cost of service pipelines regulated by the National Energy Board had no income risk whatsoever, that is, their actual ROEs always equalled their allowed ROEs because they had true ups involving actual versus forecast expenses. The two major utilities were Foothills and Alberta Natural Gas, now the Foothills BC system. In its annual surveillance reports Foothills reported the allowed and actual ROEs as one number, since they were always the same. Both these pipelines were allowed a 30% common equity ratio, when evaluated by the NEB in 1994 (RH-2-94).

EGDI INTERROGATORY

Interrogatory #10

Please refer to the Evidence of Lawrence D. Booth, p. 9, lines 10-12, and p. 26, line 19.

a. Please indicate Dr. Booth's understanding of how deferral accounts work for utilities in general, and if he has knowledge, for EDGI specifically. In doing so, please indicate the timing of such accounts with regard to cash flows to the utility, and any risks that deferrals may not be fully recovered.

b. Has Dr. Booth conducted any comparative analyses of the use of deferrals in Canada or the U.S.? If so, please provide such studies.

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a) Deferral accounts generally involve amounts over which the utility has no control, such that the difference between actual and forecast amounts are captured in a deferral account, and the difference disposed of in the subsequent test year. As such most of them involve up to a one year lag in collecting or disposing of the difference. If it is collecting additional revenue then the amounts can be significant. This has happened to EGDI occasionally if the weather is unusually cold, and the cost of gas high. This is why EGDI is allowed a quarterly recalibration of gas costs. In a similar fashion for in all expenditures, the Board has to verify that the costs were prudently incurred before they are passed on to ratepayers. There have been cases in Canada where a Board did not allow the pass through of costs that were deemed imprudent.

b) Dr. Booth's understanding is that deferral accounts are uncommon in the US, where they are called balancing accounts. Dr. Booth has not done a study of balancing accounts in the US, but there has to be a Board determination and many US utilities have not had a GRA for years as can be verified by looking at data produced, for example, by AUS Utility Reports. Note that Dr. Booth would prefer to look at the output of regulation, which is the stability of earned ROEs in Canada and the history of over earning by companies like EGDI.

EGDI INTERROGATORY

Interrogatory #11

Refer to the Evidence of Lawrence D. Booth, p. 9, lines 22 - 25.

a. What is the basis for Dr. Booth's opinion that: "[a]llowing firms to choose their capital structure and then adjusting ROE to a fair return runs the risk that the overall utility income and thus rates are too high." Please provide any studies or analysis conducted by Dr. Booth or others to support this position.

b. Is Dr. Booth aware of the NEB's decision to allow TQM to manage its own capital structure within certain reasonable parameters?

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a) Most utilities in Canada are regulated such that their rates are fair (just) and reasonable, not just the return to the shareholder. This is what allows Canadian regulators to be so protective and examine everything that goes into determining the rates. So it is not a question of providing a study, it is a question of recognising the regulations under which Canadian utilities operate. If the requirement were simply that the ROE be fair and reasonable, a utility could operate with 100% equity and be allowed a low ROE that reflected the absence of financial risk, say for example 6.5%. However, while satisfying Mr. Justice Lamont's definition of a fair return to the shareholders such a capital structure does not result in the lowest cost of capital, since it ignores the tax shield from debt financing. As a result, rates are unfair and unreasonable and the legal standard in Canada is not met.

b) Dr. Booth is aware of the NEB decision and the fact that the NEB regarded it as equivalent to a 9.7% ROE on 40% common equity. Further TransCanada has maintained a 40% common equity ratio, since that is the target for TransCanada Corporation. He is also aware that no other regulator has accepted the ATWACC approach partially adopted by the NEB and that the AEUB explicitly rejected it stating (Decision U99099),

> *"The Board would be derelict in its statutory responsibilities to recognize market capitalization ratios that are derived from a market value capitalization that deviates from the intrinsic long-run value of the regulated firm."*

Dr. Booth is also aware that in a settlement before this Board in 2006 Union Gas explicitly agreed not to use the ATWACC approach either to justify its allowed ROE or common equity ratio.

EGDI INTERROGATORY

Interrogatory #12

Refer to the Evidence of Lawrence D. Booth, p. 6, Footnote 5.

a. Does Dr. Booth consider the Province of Ontario to be more or less risky than EGD?

b. Please provide the credit ratings for the Province of Ontario since 1993.

a) Currently the Province of Ontario would be regarded as less risky, since it has a higher bond rating. However, its debt is increasing and is targeted to peak at 40% of provincial GDP, which, without offsetting tax and spending changes, may imperil its bond rating.

b) Dr. Booth does not have access to the historic credit ratings of the Province of Ontario.

EGDI INTERROGATORY

Interrogatory #13

Refer to the Evidence of Lawrence D. Booth. Please refer to p. 10, lines 23-28, and page 80, lines 21 – 28, and page 81, lines 20 - 23 regarding ring-fencing.

a. Has Dr. Booth specifically conducted an analysis of ring-fencing provisions of U.S. energy distribution utilities in a utility holding company corporate structure? If so, please provide copies of all such studies and analyses he has conducted on this topic.

b. Has Dr. Booth specifically conducted an analysis of ring-fencing provisions of Canadian energy distribution utilities in a utility holding company corporate structure? If so, please provide copies of all such studies and analyses he has conducted on this topic.

c. Has Dr. Booth specifically conducted an analysis of ring-fencing provisions of EGDI? If so, has he compared these provisions to other utilities operating under holding companies?

d. Has he analyzed the impact of holding company leverage on the utility's credit rating? If so, please provide such studies.

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a), b) & c)

No, this is the job of the rating agencies where, in their due diligence assessments of the risk to the bond holders they have to assess whether or not an operating subsidiary is ring fenced. For example in S&P's December 15, 2011 report on EGDI it stated that the proposed competitive tolling settlement on Enbridge Pipelines exposes the parent company (as well as the pipeline operating company) to volume risk and variability in operating costs and

"Given the intercorporate links to the parent, the outlook on EGD also reflects that on EI."

If EGDI were effectively ring fenced, then S&P would not have had to alert investors to this linkage. Dr. Booth also notes a credit analysis report by ScotiaCapital on Terasen Gas Inc (TGI) dated May 2, 2008 by Stephen Defoe that states,

"none of TGI's peers debt instruments enjoy the extent of regulatory protection provided by the British Columbia Utilities Commission's regulatory ring fencing, which is unique and specific to TGI."

d) In terms of holding company (holdco) versus operating company (opco) debt Dr. Booth attaches a 1999 study by RBC-Dominion Securities (Booth-IR

13.pdf) that puts the differential at 4-25 bps depending on the maturity of the debt. This spread varies with the business cycle and the particular features of the holdco and opco sub debt. It can be analysed by looking at equivalent maturity debt yields for example between Enbridge Inc. and Enbridge Gas Distribution Inc. or Union Gas Ltd and Spectra Energy Inc.

EGDI INTERROGATORY

Interrogatory #14

Refer to the Evidence of Lawrence D. Booth, p. 8, lines 1-2

Please provide 10 years of history for the earned ROE and equity ratios for the Big 5 Canadian banks

The evidence cited refers to banks and regulated utilities as firms that tend to finance with more debt. The financial metric that is used for chartered banks as a surrogate for the extent to which they are debt leveraged is their capital ratios. Currently, the capital ratios for Canadian banks are in a range of 10-12% which indicates that they are highly leveraged. This is the financial metric that Dr. Booth has used to support the statement made in his evidence. The earned ROE and equity ratios for the big five (5) Canadian banks have not been relied upon by Dr. Booth to support his statement that banks, like regulated utilities, tend to finance with more debt.

EGDI INTERROGATORY

Interrogatory #15

Refer to the Evidence of Lawrence D. Booth, p. 9, line 5.

Please indicate the current ROE and equity ratio of the "low risk utility (Terasen Gas)."

TGI's current allowed ROE is the BCUC benchmark of 9.50% on 40% common equity, but this is currently the subject of a hearing before the BCUC since it has not changed since 2009.

EGDI INTERROGATORY

Interrogatory #16

Request DR-17: Refer to the Evidence of Lawrence D. Booth, p. 12, lines 30 – 34; and p. 18.

a. Does Dr. Booth acknowledge that financing flexibility promotes financial integrity and enables the utility to avoid financial distress? Please reconcile this answer to the discussion of financing flexibility on page 18 of your testimony.

b. Does Dr. Booth acknowledge that there are benefits that accrue to the ratepayer of having a utility that has adequate financing flexibility?

a) All entities have to have financial flexibility and integrity, including utilities. The problem is that utilities have a tendency to gold plate their financial policy, that is, the standard Averch-Johnson effect; and within a holding company transfer the tax shields from debt financing to their parent. As the The Alberta EUB stated (AEUB 2003-061, August 2003, page 103):

> *"The Board notes that since cost of capital recovery is provided for through its annual revenue requirements, a regulated utility, like AltaLink, would naturally wish to maintain low debt ratios. This allows the utility to minimize the financial risk imposed on equity investors, and to also maintain high debt ratings."*

b) As noted above financial flexibility is important and EGDI demonstrated this during the financial crisis when it was able to finance when non-regulated utilities where largely shut out of the capital market. As EGDI's ultimate "boss" Pat Daniels pointed out:

> "I think that speaks to the low risk, steady predictable nature of our business, ….***People don't really realize it until you get into tough times like this.***"[1]

Dr. Booth judges EGDI to have very significant financial flexibility at the current point in time and that this will increase as its allowed ROE increases by the use of the Board ROE formula. Increasing the common equity ratio is overkill in terms of financial flexibility and comes at a very significant cost, given that the before tax cost of equity is much greater than that of debt.

[1] Shaun Polczer, "Pipeline companies weather darkest hour; Executives say crisis worst in oil patch history" Calgary Herald, December 9, 2008.

EGDI INTERROGATORY

Interrogatory #17

Refer to the Evidence of Lawrence D. Booth, p. 10, line 15

Is it Dr. Booth's opinion that links to the parent have had positive impacts for EGD's ratepayers over time?

No. EGDI has not materially benefited from EGDI's links to its parent compared to the situation that would have prevailed had EGDI remained a publicly owned stand alone utility. Dr. Booth would prefer that EGDI maintain a public float of 15% similar to that agreed for Consumers Gas in the past. This would require that the Board of Directors satisfy the CBCA and put in place policies that benefit all shareholders and would likely lead to EGDI managing its own cash flow and effectively ring fencing the subsidiary.

EGDI INTERROGATORY

Interrogatory #18

Request DR-19: Refer to the Evidence of Lawrence D. Booth, p. 13, lines 23-26

Please provide the Equity ratio for any Canadian or US utilities not owned by a parent company

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Dr. Booth is not aware of any Canadian utilities that are publicly owned.

The last significant rate of return regulated Canadian utility that was publicly owned was Pacific Northern Gas, but this was taken over in December 2011. Over the last 20 years or so, we have lost Consumers Gas, PNG, Maritime Electric, Island Telephone, Newfoundland Telephone, Maritime T&T, BC. Telephone. Each of these utilities became part of a holding company largely in Dr. Booth's judgment for two reasons:

1) Allowed ROEs were seen to be excessive
2) The stable cash flows could be used as a base for a corporate conglomerate.

EGDI INTERROGATORY

Interrogatory #19

Refer to the Evidence of Lawrence D. Booth, Please refer to p. 13, line 20

Please indicate any credit rating agency report or commentary that indicates that EGDI's rating would be higher without its ownership by EI.

The DBRS report indicates this, since it rates EGDI as A whereas it rates EI as A (low). The only other agency rating EGDI is S&P which has very explicitly put EGDI on watch with negative implications due to actions by Enbridge Pipeline, that is, factors unrelated to EGDI. The implication is that EGDI would not have been put on watch but for its ownership by EI.

EGDI INTERROGATORY

Interrogatory #20

Refer to the Evidence of Lawrence D. Booth, Please refer to p. 16, lines 16 - 19.

Please provide all sources relied upon by Dr. Booth to conclude that demand is typically insensitive to rate increases.

Insensitive means inelastic. If demand were elastic there would be no justification for regulation as by definition the market is competitive.

EGDI INTERROGATORY

Interrogatory #21

Refer to the Evidence of Lawrence D. Booth. Please refer to p. 16, line 30.

> Dr. Booth states that "it is impossible to conceive of most utilities ripping up their assets to sell them for scrap." Can Dr. Booth conceive that utilities can take on too much debt to the detriment of both shareholders and customers?

No. Dr. Booth cannot conceive of a Canadian regulator allowing this to happen. Further the rating agencies would downgrade the debt prior to such an event and the Canadian market would not provide the funds, forcing the utility to the US non-investment grade debt market. Dr. Booth is not aware of any Canadian utility being made non-investment grade and forced into the US market as a result of financial decisions sanctioned by the regulator.

Note that Dr. Booth is aware that many US utilities are rated non-investment grade, but this reflects the different degree of regulatory protection in Canada versus the US.

EGDI INTERROGATORY

Interrogatory #22

Refer to the Evidence of Lawrence D. Booth, Please refer to p. 14, line 16.

a. Please confirm that 62% should read 42%.

b. Please indicate Dr. Booth's quantification of the "dramatic impact".

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a) Confirmed. EGDI is asking for a 42% and not a 62%common equity ratio.

b) If the pre-tax cost differential is approximately 8.46%, a 6% increase in the common equity ratio has a cost of 0.06*8.46 or 0.5076% times the average rate base. With the current 36% common equity rate this is equivalent in cost to a 1.41% increase in the ROE. Dr. Booth would regard an equivalent 1.41% increase in the ROE as unjustified, particularly when the request is neither properly supported nor consistent with Board policy.

EGDI INTERROGATORY

Interrogatory #23

Refer to the Evidence of Lawrence D. Booth. Please refer to p 16, line 9.

Please provide the debt and equity ratios for firms listed on the TSX.

Dr. Booth's evidence does not refer to the debt and equity ratios of all firms listed on the TSX. The point that Dr. Booth is attempting to make in the referenced testimony is that, as the lowest risk group of companies on the TSX, it is to be expected that utilities and pipelines have the lowest common equity ratios. The only other group that comes close would be the highly leveraged Canadian Banks referenced in the response to Interrogatory #14.

EGDI INTERROGATORY

Interrogatory #24

Refer to the Evidence of Lawrence D. Booth. Please refer to p. 16, lines 16-23.

a. Please provide any examples of retroactive rate making in EGD's history.

b. What is the OEB's stance on retroactive rate making in Dr. Booth's opinion?

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a) & b) Dr. Booth has not prepared an historic study of examples of retroactive ratemaking that benefited EGDI. Deferral accounts operate to allow for an after the fact recovery of costs. In this context, EGDI has successfully transferred to ratepayers the cost consequences of late payment penalties determined to have been illegal, as well as the cost consequences of claims relating to manufactured gas produced many years ago by EGDI's predecessor. The OEB deals with requests made by EGDI for relief of this nature on a case-by-case basis.

EGDI INTERROGATORY

Interrogatory #25

Please refer to the Evidence of Lawrence D. Booth, p. 22, lines 4-5.

a. Please confirm that Hope decision sites three standards for a fair return, and not the single criteria included in the partial quote cited, and that the full quote is as follows:

"By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."

b. Please indicate whether Dr. Booth believes that all three standards must be met to determine a fair return for a regulated utility?

c. Please indicate whether Dr. Booth believes that the setting of the equity ratio for a regulated utility must be accounted for in determining a fair return. If not, please explain why not.

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a) Correct, Dr. Booth cited it in general terms to justify looking at financial integrity.

b) All three standards are automatically met by considering the cost of equity or fair ROE as an opportunity cost.

c) Dr. Booth judges the financial risk of a utility to be best set as an offset to the business risk so that the overall risk faced by the equity holder is identical across all the utilities that the regulator is responsible for. In this way they can all be allowed the same ROE as is the practise of the AUC and other regulatory boards in Canada. However, he also agrees that instead of varying the common equity ratio, a regulator can give the same common equity ratio and then adjust in the ROE as the OEB has traditionally done by allowing Union a 0.15% ROE premium over EGDI. It is also possible to do a combination as long as there is no double counting. This is fully discussed in Dr. Booth's report at pages 5-24.

EGDI INTERROGATORY

Interrogatory #26

Refer to the Evidence of Lawrence D. Booth, p. 73, line 4, p. 74, line 12.

a. Does Dr. Booth believe that electric utilities have more business risk, less business risk, or the same business risk as gas distributors?

b. Please provide the basis for Dr. Booth's opinion.

c. Please provide any testimony (direct or rebuttal) that Dr. Booth has authored on the relative business risks of electric and gas distributors in the past 5 years.

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a) There is no clear ranking as the question does not distinguish between integrated electric utilities and transmission and distribution utilities.

b) In terms of integrated utilities it depends on the form of generation and how protective the regulations are, that is, the extent of deferral accounts. For example, Dr. Booth would place hydro generation as extremely low risk and nuclear as high risk with coal lower risk and gas co-generation in between. Alternative energy Dr. Booth would place as very high risk since it would not exist without regulatory pass on of its high costs and thus is almost totally dependent on regulatory protection. How this intrinsic risk works out then depends on the protection and the extent of deferral accounts. Similarly the risk of distribution very much depends on commodity pass through and the sensitivity of the utility demand to factors like industrial load. With these qualifications Dr. Booth would unambiguously place transmission as the lowest risk regulatory class in Canada, since the electricity market cannot exist without it and its cost are generally covered by a fixed monthly charge on local distribution companies.

c) The last time Dr. Booth completed an analysis of the relative risk was before the Alberta EUB in 2003 and that analysis was predicated on the degree of regulatory protection afforded by the AEUB at that point in time.

EGDI INTERROGATORY

Interrogatory #27

Refer to the Evidence of Lawrence D. Booth. Please refer to p. 38, lines 21-22.

Please provide any studies, report or analysis relied upon or performed by Dr. Booth that allows Dr. Booth to conclude that "invariably when costs arise, utilities approach the regulator to have ratepayers, and not shareholders, bear the costs."

This is Dr. Booth's judgment from observing the behaviour of regulated utilities in Canada since 1986. The most obvious example is the current TransCanada Mainline hearing before the National Energy Board, where there are major changes in regulation being proposed by TransCanada to protect the Mainline. Another example is Pacific Northern Gas and the measures taken by the BCUC to protect it after it lost almost 70% of its load. Since 1986 Dr. Booth has appeared before many boards and listened to experts put forward by utilities claiming how risky the utility is only to see the utility go on to substantially earn its allowed ROE. Dr. Booth's analysis on pages 30-33 of his report demonstrates this.

EGDI INTERROGATORY

Interrogatory #28

Refer to the Evidence of Lawrence D. Booth, Please refer p. 43, line 21 – p. 44, line 14.

Has Dr. Booth conducted any specific studies to compare the business risks and regulatory treatment at EGDI of those risks to those of other utilities? If so, please provide.

No. Dr. Booth relies on the objective analysis of the output measure, which is the difference between the allowed versus the actual ROE, since this is where any risk should show up. Dr. Booth regards this, plus external assessments for example by rating agencies and analysts, as being more useful.

EGDI INTERROGATORY

Interrogatory #29

Request DR-31: Refer to the Evidence of Lawrence D. Booth, p. 26, line 17.

a. Please indicate whether Teresan continues to have such an account.

b. Please provide the annual balances recovered historically through these accounts for both Terasen and Gaz Metro.

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a) & b) Dr. Booth can not confirm TGI's deferral accounts at this point in time, since he has not analysed TGI since 2009. Further he does not have, nor has he relied on any balances, in either TGI or Gaz Metro's deferral accounts in his report. As indicated in answer to IR 29 he relies on the objective analysis of the output measure, which is the difference between the allowed versus the actual ROE, since this is where any risk should show up. Dr. Booth regards this, plus external assessments for example by rating agencies and analysts, as being more useful.

EGDI INTERROGATORY

Interrogatory #30

Refer to the Evidence of Lawrence D. Booth, p. 31, lines 10 - 14.

a. Has Dr. Booth analyzed the earned versus allowed ROE for EGDI on a non-weather normalized basis? If so, please provide a similar analysis to the chart provided on p. 31 of his testimony.

b. Please explain why Dr. Booth has chosen to only report Earned vs. Actual ROE data that is weather normalized?

c. Does Dr. Booth acknowledge that the chart he has provided on p. 31 does not capture the actual variability in year over year earnings for EGDI, due to weather?

d. Would Dr. Booth acknowledge that exposure to fluctuations in weather is one of EGDI's primary business risk exposures?

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a) No, since as indicated in his testimony and agreed to by Dr. Carpenter, EGDI's business risk expert in 2006, investors do not factor random disturbances caused by weather into their risk assessments.

b) Weather normalised actual ROEs remove the effect of random weather and allow an analysis of the underlying over earning of the utility. It would be incorrect to assess EGDI as over earning if we just happened to have 5 years of unusually cold weather in Ontario.

c) Yes, that was deliberate for the reasons given in a) and b) above.

d) No. Although DBRS mentions this, it is simply because there are so few real risk factors affecting EGDI. The only direct impact of weather is on EGDI's interest coverage ratio and ability to issue MTNs and even here when it actually happened 6 years ago DBRS did not regard it as material. Further if it ever did affect EGDI in a serious way EGDI could approach the Board and ask for a weather normalisation account, which so far it has never done, so it is a risk that EGDI willingly bears. Note that in 2006 in answer to VECC 48 EGDI stated:

Enbridge Gas Distribution has considered requesting a weather deferral account in the past but did not believe that there was sufficient need or support to bring forward such a request to the Board.

EGDI INTERROGATORY

Interrogatory #31

Refer to the Evidence of Lawrence D. Booth, the charts on pp. 32 and 33.

Please provide sources and data used to create these charts.

EGDI's data was provided in answer to an information request as were the other data sets contained in Booth IR- 31.xls

EGDI INTERROGATORY

Interrogatory #32

Please refer to the Evidence of Lawrence D. Booth, p. 33, lines 4-6.

a. Is Dr. Booth aware of the DBRS Report, *Assessing Regulatory Risk in the Utilities Sector*, May 2012?

b. Is Dr. Booth aware that both DBRS and S&P rank utilities with incentive regulation mechanisms as higher risk than those with cost of service regulation?

c. In Dr. Booth's opinion, could a utility earn less if the incentive regulation plan did not accurately account for input prices? Or productivity?

---

a) Yes

b) Yes. On this point, Dr. Booth finds that the objective evidence pertaining to EGDI, Union Gas, and others suggests that DBRS and S&P are incorrect. Both EGDI and Union Gas, for example, significantly over earned for the period during which it was under settlement and the objective data for Gaz Metro confirms this for a utility that has been under settlement longer than almost any other

c) This depends on the form of incentive regulation and what is covered. For example, if it is based on price cap regulation with an inflation minus a productivity factor then there are serious problems due to the embedded interest cost and the rate of depreciation and depends on the utility's growth rate.

EGDI INTERROGATORY

Interrogatory #33

Please refer to the Evidence of Lawrence D. Booth, p. 32, lines 6-7.

In Dr. Booth's opinion, was the EGDI settlement also good for ratepayers?

See Response to Interrogatory #37 pertaining to what conclusions, if any, can be drawn from historical over earnings by utilities. Dr. Booth has not been asked to investigate whether the EGDI settlement was good for ratepayers and is not in a position to express an opinion on this question.

EGDI INTERROGATORY

Interrogatory #34

Refer to the Evidence of Lawrence D. Booth, Please refer to p. 36, lines 5 - 7.

Would Dr. Booth acknowledge that declining use per customer may be a long-term risk for a gas distribution utility? If not, why not.

EGDI's declining use by customer is a risk that is currently the subject matter of Demand Side Management ("DSM") Deferral Accounts. Moreover, EGDI minimizes this risk by reflecting declining use per customer in the regular volume and revenue forecasts that it uses in rate setting. Declining use per customer is not causing EGDI to earn less than its allowed return.

EGDI INTERROGATORY

Interrogatory #35

Please refer to the Evidence of Lawrence D. Booth, p. 36, lines 12 - 14.

a. Please define "crying wolf".

b. Assuming Dr. Booth's definition of crying wolf is the exaggeration or misrepresentation of risks, how does this characterization apply to TransCanada when Dr. Booth himself admits that the Mainline is becoming uneconomic, resulting in further toll increases that will further reduce its ability to compete – the proverbial death spiral?

c. Would Dr. Booth agree that TransCanada's situation is an example of a long-term risk that has become a short term risk? If not, why not? Please reconcile this answer with the statement on lines 9 – 11, that "none of the longer term risks put forward by experts on behalf of the utilities in various hearings have actually materialized as short term risks so far."?

---

a) "crying wolf" is when a utility faces very little risk but presents itself to the regulator as if it were, while continuing to earn its allowed ROE.

b) The references in the evidence to instances of TransCanada crying wolf are to points in time long before the development of shale gas disrupted natural gas markets. If TransCanada had indicated that it was at risk due to the development of natural gas markets causing the price of gas to plummet, then it would not have been crying wolf, but accurately representing a risk. In actual fact in 1994 TransCanada's witnesses regarded it as risky due to "asymmetric risk" which was that the pipeline was running 100% full.

c) Yes, TransCanada like PNG is the classic example of a long term risk becoming a short term risk. However TransCanada has not yet suffered losses as a result of risk and what happens depends on the current hearing before the NEB. If TransCanada gets its way, these risks will be transferred to other parties, for example higher receipt charges paid by shippers on the Alberta System. This is an example of the regulatory dynamic discussed by Dr. Booth and the protective nature of Canadian regulation. It is also why Dr. Booth qualifies the statement with "so far since there are proposals by interveners, including EGDI, that may yet lead to the TransCanada Mainline suffering losses.

EGDI INTERROGATORY

Interrogatory #36

Please refer to the Evidence of Lawrence D. Booth, p. 33, line 16.

Is it Dr. Booth's contention that the risk derived from incentive regulation can only be validated once a utility in Canada has been hurt by PBR?

No, risk exists in an ex ante sense, that is, before the fact. However, if we never observe any losses a reasonable person concludes that the risk is immaterial or negligible. For example, if someone says that a coin is regular and then you observe 20 consecutive heads upon successive coin tosses, a sensible person begins to doubt that the coin is fair. However, it may be legitimate; it is simply that the odds of it being fair are very low.

EGDI INTERROGATORY

Interrogatory #37

Please refer to the Evidence of Lawrence D. Booth, p. 35, lines 2-4

Is the historical over-earnings by utilities an indication to Dr. Booth that incentive regulation has harmed ratepayers?

Harm has to be defined with respect to a basis. If it is defined with respect to actual rates, then it may have been good for ratepayers. However, the gains indicate inefficient prior operation of the utility, so if the gains are with respect to an efficient utility then the answer is no, since you shouldn't need incentive regulation if the management of the utility were doing its job efficiently in the first place.

EGDI INTERROGATORY

Interrogatory #38

Please refer to the Evidence of Lawrence D. Booth, p. 36, lines 7-10

a. Would Dr. Booth agree that even if there were no harm to utilities "so far" that this does not necessarily mean this will be the case in the future?

b. Is the past always a good predictor of the future?

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a) Yes, but see the answer to IR #36

b) No. The past is the only data set we have for evaluating the future.

EGDI INTERROGATORY

Interrogatory #39

Please refer to the Evidence of Lawrence D. Booth, p. 38, lines 21-23.

a. Is it Dr. Booth's contention that because a firm is a natural monopoly and has recourse through a regulator that it has an advantage over competitive firms?

b. Would it be more efficient in Dr. Booth's opinion to have competitive firms deliver the services of the natural monopoly?

c. If no, then how are the two concepts interwoven? (i.e. if a natural monopoly were not allowed to recover its costs, would competitive firms take up the cause and provide efficient service.)

==

a) Not necessarily, but a competitive firm can not go back and ask someone to pay extra for services that have already been consumed, whereas a utility can. If regulation is to act as a surrogate for competition we would not have deferral accounts. Instead the revenue requirement would be predicted and the utility would bear the cost of unforeseen expenditure or demand shifts.

b) No. We know that monopolists have deadweight costs and disrupt resource allocation. In that sense they are inefficient or need to be regulated or brought under state control.

c) Refer to a) above. It is protective Canadian regulation (which Dr. Booth agrees with) that allows for deferral accounts and lowers the risk of the utility below what it would be if it were regulated as a surrogate competitive firm. However, given the protective nature of Canadian regulation the utility then has to have financial metrics that reflects that regulation not that in the US. Under current technology it is impracticable for a new "competitive" firm to compete with existing regulated natural monopolies.

EGDI INTERROGATORY

Interrogatory #40

Please refer to the Evidence of Lawrence D. Booth, p. 42, lines 14-15.

a. What guarantees can Dr. Booth provide that all future volaitiy and relative price advantages of natural gas will remain?

b. Can Dr. Booth please provide forecasts for all conditions that may impact natural gas prices (such as hurricanes, oil prices, production of supply, North American demand), and competing energy prices for oil and electricity.

c. Please provide forecasts for natural gas NYMEX prices 1 year before each of the price spikes in the 2000's.

d. What are Dr. Booth's qualifications as an expert in the determination of gas and other energy prices?

---

a) No guarantees and Dr. Booth does not forecast natural gas prices, but the genie of shale gas can't be popped back into the bottle and published reports indicate that we have over 100 years of natural gas in North America. As TransCanada pointed out to the OEB eighteen months ago this is a game changer.

b) No.

c) Dr. Booth declines to provide the requested information since it was not relied upon to support his testimony and, as a result, does not constitute an explanation of the evidence excerpt cited in this Interrogatory.

d) Dr. Booth is not forecasting either natural gas or other energy prices, he is simply evaluating the impact of forecasts by experts on the business risk of EGDI for which he has been qualified as an expert.

EGDI INTERROGATORY

Interrogatory #41

Please refer to the Evidence of Lawrence D. Booth, Section V, Financial and Economic Outlook, pp. 45-72, and specifically regarding macroeconomic comparisons between Canada and the U.S.:

a. Please confirm: the United States is Canada's largest trading partner, and in 2011 73.7% of Canada's total exports went to the U.S., and imports from the U.S. accounted for 49.5% of Canada's total imports. (Trade Data Online – Canadian Trade by Industry, Industry Canada)

b. Please confirm: Ontario is by far the largest provincial exporter to the United States, and in 2010 the value of merchandise exports to the United States was $134.6 billion, $67.4 billion and $40.2 billion respectively for Ontario, Alberta and Quebec (Library of the Parliament of Canada, Canadian Trade and Investment Activity: Canada–United States).

c. Please confirm: the United States is Canada's largest source of, and most significant destination for, foreign direct investment. Canadian direct investment in the United States was valued at $249.9 billion in 2010 and accounted for 40% of Canada's total stock of direct investment abroad. With a value of $306.1 billion in that year, the United States' investment in Canada represented 54% of foreign direct investment in Canada. (Library of the Parliament of Canada, Canadian Trade and Investment Activity: Canada–United States).

d. Please confirm: The World Economic Forum which publishes its annual Global Competitiveness Report, ranks 142 countries on twelve economic factors, including institutions, infrastructure, the macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. According to the 2011-2012 report, Canada is ranked 12th and the U.S. is ranked 5th in competitiveness and productivity. The report describes the Global Competitiveness Index as "a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness." The

EGDI INTERROGATORY

report further explains: "We define competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country." (The Global Competitiveness Report: 2011-2012, World Economic Forum, Centre for Global Competitiveness and Performance).

e. Please confirm: the economic and business environments of Canada and the U.S. are highly integrated and exhibit strong correlation across a variety of metrics over time, including GDP growth, inflation, treasury yields, stock market returns, and unemployment rates. If Dr. Booth cannot confirm, please explain.

f. Please confirm that the province of Ontario, of all Canadian provinces, is the most highly integrated with the economy of the U.S. given its stature as the largest provincial exporter to the United States. If Dr. Booth cannot confirm, please explain.

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a) Confirmed. Although the Federal government wants Canada to diversify away from the US, proximity is still the best predictor for trade relations (gravity models).

b) Confirmed. Ontario is Canada's largest province so we would expect, ceteris paribus, for Ontario to have the largest trade with the US.

c) Confirmed, but also note the share of investment with the US has been consistently declining, that, is the US is not as important as it was ten or twenty years ago.

d) Not confirmed as Dr. Booth does not have access to the World Competitiveness Report as it is a fee based publication. Accordingly, the information does no

e) t help explain any portion of the evidence that Dr. Booth has provided.

f) Dr. Booth will confirm that the global economy is becoming more integrated and that as a result this correlation is increasing. Currently the correlation is being driven the Euro crisis which is affecting both the US and Canada. Further correlation does not necessarily mean causation, while the correlation of equity markets was quite low until the period prior to the financial crisis, particularly if we take FX changes into account.

EGDI INTERROGATORY

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g) Dr. Booth would confirm that Ontario is more directly affected by the US than any other province mainly due to the integration of the car industries between the US and Canada. However a qualification to a)-f) above is that none of this has anything to do with Dr. Booth's testimony and further that contrary to the assumption preceding the questions, pages 45-72 do not represent a macro-economic comparison of Canada with the US, that is only a very minor part of the discussion. The main part of that section is the state of the financial markets in Canada, the stage in the business cycle and the financial problems of the respective national governments. As the Governor of the Bank of Canada, Mark Carney, recently noted, Canada's financial markets are "firing on all cylinders" Dr. Booth wishes we could say the same for the US, but we can't. Otherwise the US wouldn't be bracing for a third round of quantitative easing.

EGDI INTERROGATORY

Interrogatory #42

Please refer to the Evidence of Lawrence D. Booth, p. 43, lines 1-2.

a. How is the potential for lost growth opportunities not a risk?

b. Could bypass occur with other forms of substitution besides physical bypass (i.e fuel switching or technological advancements)?

a) Risk is relative to the existing investment and value, that is, the shareholder is allowed a rate of return on the existing rate base. There is no basis in regulation or financial theory to compensate an investor for investments not made.

b) Yes. Bypass of landline telephones has occurred through cable networks and wireless which is the reason the CRTC has practised forbearance in telephone regulation. However, Dr. Booth is not aware of any technological advances or fuel-switching that are available at current energy prices. Otherwise we would be made aware of it by the intervention of the Unitel equivalents in natural gas.

EGDI INTERROGATORY

Interrogatory #43

Please refer to the Evidence of Lawrence D. Booth, p. 43, lines 12-13

a. In Dr. Booth's knowledge have gas plants ever been started and halted prior to completion with EGD's franchise area?

b. Does Dr. Booth consider the inability to predict future electricity load growth and infrastructure a business risk? If not, why not?

a) Yes. Dr Booth is aware of the possibility that plant development might be halted prior to completion for reasons including health, environmental or planning or NIMBY factors,

b) Yes, it is reflected in the ability of EGDI to forecast aggregate demand and its revenue requirement. If serious it would show up in the volatility of EGDI's weather adjusted ROE relative to its allowed ROE. The fact there is no trend in this measure indicates that there has been no material change in EGDI's forecasting ability.

EGDI INTERROGATORY

Interrogatory #44

Please refer to the Evidence of Lawrence D. Booth, p. 43, lines 15-17

a. Please provide Dr. Booth's forecast for all future incentive regulation parameters for any possible future incentive regulation program.

b. If not available, please indicate why uncertainty related to any future incentive regulation plan design and parameter values that govern the agreement is not a risk.

c. If it is expected that the utility would simply over-earn in incentive regulation, why would ratepayers entertain the idea.

d. In Dr. Booth's opinion would ratepayers be better off if the Company remained in Cost of Service?

---

a) Dr. Booth has no forecast for future incentive regulation. However, the fact that EGDI did so well under incentive regulation indicates that it is highly unlikely to suffer under any form of incentive regulation. Further if it were a serious risk EGDI should have flagged it as an increased risk factor either in this hearing or its security filings.

b) See a) above. Under prevailing Canadian securities regulation Dr. Booth's understanding is that EGDI is required to divulge either though a press release or material change form any factor that investors could be expected to rely on when buying the company's securities. In Dr. Booth's review of EGDI's filings he could find no material reference to this risk, except the standard boiler plate in terms of regulation.

c) Unfortunately tolerating over earning, particularly when under settlement or incentive regulation, seems to be the only way to get the utility to operate efficiently and half an apple is better than none. Dr. Booth remembers being questioned by an OEB Board member in 2004 as to why they should have to give the utility an incentive to operate efficiently. Unfortunately the empirical evidence is that without it, the utility does not operate efficiently.

d) If the company operated efficiently, the obvious answer is yes.

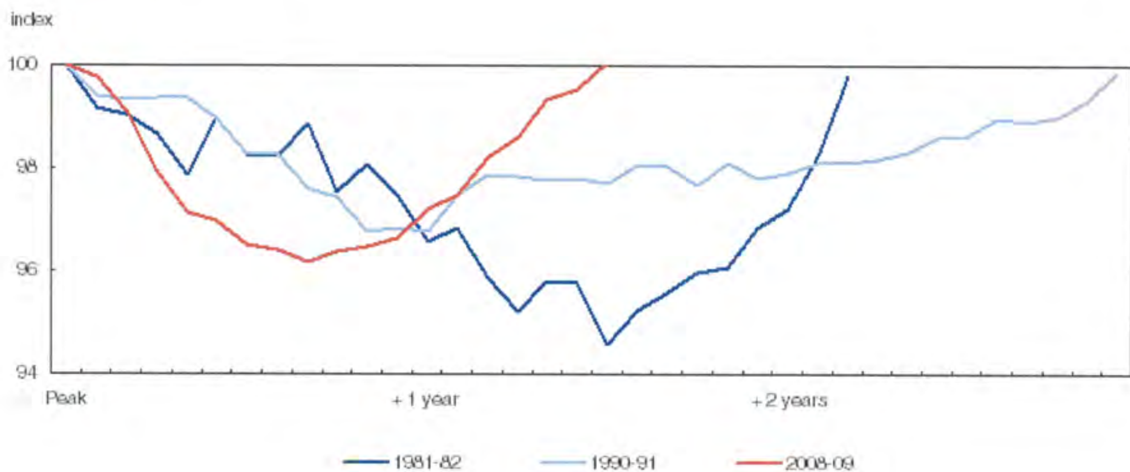
EGDI INTERROGATORY

Interrogatory #45

Refer to the Evidence of Lawrence D. Booth, Please refer to p. 52, line 9.

Please provide the missing chart on page 52.

Apologies. It appears that when pdfs were made of Dr. Booth's testimony the graphs were lost. The graph is below.



EGDI INTERROGATORY

Interrogatory #46

Refer to the Evidence of Lawrence D. Booth, Please refer to p. 53, line 10.

Please provide the missing graphs on page 53.

Apologies. It appears that when pdfs were made of Dr. Booth's testimony the graphs were lost. The graph is below.

EGDI INTERROGATORY

Interrogatory #47

Please refer to the Evidence of Lawrence D. Booth, p. 53, lines 12-13

a. Is it Dr. Booth's position that the US and Canadian economies have become more integrated or less integrated since the 1970's.

b. What bearing does this have on utility financing in Canada in Dr. Booth's opinion?

---

a) Dr. Booth believes that there is no question that the global economy is more integrated than in the 1970s due to the collapse of Bretton Woods and the fixed exchange rate system. In terms of the US and Canada, the critical date is the signing of the Free trade Agreement and the significant restructuring that occurred in Canada in the 1990s.

b) None. Utilities are generally not interlisted in the US and do not raise US equity capital to fund Canadian infrastructure assets. Emera, Fortis and Canadian Utilities, for example, are listed in Canada but not the US. Further the dramatic increase in the terms of trade for Canada and the desperate situation in the US means there is little incentive to raise debt in the US, unless the utility is non-investment grade. Note 20+ years ago the Bank of Canada used to encourage the provinces to raise debt in the US, but this is no longer needed: the world now comes to Canada.

EGDI INTERROGATORY

Interrogatory #48

Please refer to the Evidence of Lawrence D. Booth, p. 77, lines 18 – 27

> According to the Moody's quote Dr. Booth has cited in his testimony, Canadian regulation is on par with that of Australia and Japan. Could Mr. Booth provide recently awarded ROEs and equity thicknesses by Australian and Japanese regulators?

No.

EGDI INTERROGATORY

Interrogatory #49

Please refer to the Evidence of Lawrence D. Booth, p. 78, lines 19 – 21 and page 79, line 1.

Dr. Booth cited a 2010 Study by Ms. McShane showing a histogram of utility bond ratings and respective risk scores, and states, "the typical (modal or median) bond rating in the US is "BBB", whereas for Canadian utilities where the mode and median is "A" and all would be A except for considerations of size and poorly rated parent holding companies.

a. Please explain why Dr. Booth relied on Ms. McShane's 2010 Study, when a more current Study was provided in IR E2 21.4.

b. Would Dr. Booth confirm that the current median credit rating for US electric utilities is BBB+ and for natural gas utilities is A- according to the S&P Reports attached to the response to IR E2 21.4?

c. Please confirm that the histogram on p. 79 is sourced to Ms. McShane's previous 2010 Study.

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a) The time period between the IR answers provided by EGDI and the filing of testimony by Dr. Booth was too short to incorporate data from all the IR answers.

b) Confirmed.

c) Confirmed.

EGDI INTERROGATORY

Interrogatory #50

Please refer to the Evidence of Lawrence D. Booth, p. 79, lines 2 – 6.

a. Would Dr. Booth agree that it is possible to form samples of low-risk U.S. utilities that are equivalent to low-risk Canadian utilities?
b. If not, why not?

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a) Yes solely on the basis of the criteria used to form the samples, but the comparisons are not, in and of themselves, determinative of anything.

b) See above.

EGDI INTERROGATORY

Interrogatory #51

Please refer to the Evidence of Lawrence D. Booth, p. 84, line 7.

a. Is Dr. Booth aware of the DBRS Report, *Assessing Regulatory Risk in the Utilities Sector*, May 2012?

b. Is Dr. Booth aware that DBRS ranks utilities with common equity ratios at the 35% level recommended by Dr. Booth as 4th, on a scale from 1-5, and below 35% would be ranked 5th (please see page 6)?

a) Yes.

b) That is the ranking yes, but Dr. Booth is very much aware that a change from 36% to 35% for DBRS would not be significant, particularly when a change from 36% to 40 - 42% is unlikely to cause either a rating or yield change.

EGDI INTERROGATORY

Interrogatory #52

Please refer to the Evidence of Lawrence D. Booth, p. 74, line 14.

Please cite any study Dr. Booth has relied upon that concludes "US financial markets exhibit more risk than Canadian markets" from an investor's standpoint.

This is contained in Dr. Booth's market risk premium appendix that he files in standard cost of capital testimony where the observed variability (standard deviation) of US returns since 1956 (20.29%) exceeds that in Canada (18.89%).[2] Ms. McShane, who has prepared testimony for EGDI in the past, has also noted this and indicated that it means a difference in the rate of return of about 0.15%. The critical table is provided below. Also note that both the Great Depression and the current financial crisis started in the US and not Canada. In both cases we were simply bystanders wondering how the US could make such serious policy mistakes. As our prime minister noted at the G20

> *"Unregulated financial markets do not work. Canada has known that for a long time. I thought frankly, we all knew that from events of many decades ago – but obviously the United States went on a different path."*

The ironic fact is that US financial markets have the same regulations as in Canada, particularly bank regulation in terms of the BIS rules. It is just that the US interprets its regulations in a different manner than us.

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[2] This observation was published in both the Canadian Investment Review papers on Dr. Booth's CV.

EGDI INTERROGATORY

Annual Rate of Return Estimates 1926-2011						
	U.S.			CANADA		
	S&P Equities	Long US Treasury	Excess Return	TSE Equities	Long Canadas	Excess Return
AM	11.77	6.06	5.70	11.22	6.67	4.55
GM	9.89	5.74	4.15	9.65	6.39	3.26
OLS	11.02	5.23	5.79	10.38	5.92	4.46
Volatility[1]	20.29	9.38		18.89	8.94	