

SCHOOL ENERGY COALITION INTERROGATORIES

M1-SEC-4

Reference: Exhibit M1, Pages 59

Interrogatory:

Please explain the expert's rationale for using a Canadian utility price deflator rather than an Ontario-specific utility price deflator.

Response to SEC-4: The following response was provided by PEG.

The choice of an asset price deflator for statistical research on the performance of Ontario utilities has been a contentious issue in some recent OEB distribution IR proceedings. A replacement is needed for the Statistics Canada electric utility construction cost indexes ("EUCPIs") that PEG previously used in its research for the OEB. There has been a sizable difference in the recent growth trends of the Handy Whitman Index ("HWI") for North Atlantic power distribution construction costs (which has been favored by PSE) and Statistics Canada's implicit capital stock deflator for the Ontario utilities sector (which has been favored by PEG).

The potential controversy is lessened in this proceeding by the following considerations.

- The HWI for North Atlantic Power Transmission Construction has grown more slowly than the corresponding index for distribution construction. Transmission construction costs are less sensitive to fluctuations in copper prices.
- Transmission construction cost trends are apt to be more similar to those of other (e.g., the power generation, gas, and water) utility industries than distribution construction cost trends.
- The asset price is levelized in 2012, while the recent period of brisk transmission construction cost growth ended in 2008.

PEG has attempted to further defuse controversy by using Statistics Canada's implicit capital stock deflator ("ICSD") for the utility sector in Canada rather than Ontario. This has grown more rapidly than the corresponding deflator for Ontario. The Canadian deflator may also be more accurately calculated.