Exhibit B2-9, 12.1 What generic methodology or process would Ms. Ahern recommend for each utility to determine its unique cost of capital in reference to the benchmark utility?

Response:

Ms. Ahern recommends that the size risk of each utility / project be measured by the measures presented in Exhibit B2-7 to the extent possible and in reference to the same measures for the benchmark utility. Then, using these measures, it can be determined in which Morningstar decile and in which Duff & Phelps portfolio ranking the utility / project and the benchmark utility fall. Next, the premium associated with each factor for the decile / portfolio ranking in which the benchmark utility fall would be subtracted from the premium associated with each factor for the decile / portfolio ranking in which the utility / project falls. All of these risk premium spreads should then be averaged and through the exercise of informed expert judgment, a determination of the appropriate risk premium to be added to the benchmark utility return on equity to reflect the size risk of the utility / project relative to the benchmark utility. (Emphasis added)

Exhibit B2-9, 13.1 Can Ms. Ahern confirm that a necessary assumption for this statement to be true is that any size premium for utilities under the BCUC's jurisdiction is the same as for all firms in the study used to estimate a size premium?

Response:

No. Determining a size premium from the Morningstar study would need to be conducted on a case by case basis for each of the utilities / projects under the BCUC's jurisdiction. The study assumes that the size premium per decile applies to the firms in each decile. Analysts relying on the study must use their informed expert judgment to determine whether the magnitude of the size premium based upon the study is appropriate for a given specific utility / project based upon in which decile each utility / project would fall. (Emphasis added)

Exhibit B2-9, 13.2.3 Assuming that FEI pre-amalgamation continues to be the benchmark utility in BC, what level of equity risk premium would Corix propose be added above the benchmark ROE for DES projects like the UniverCity NUS?

Response:

Using FEI's rate base of $2,717.1 (SM) as shown on page 7 of Appendix H: Evidence of FBCU Regarding Business Risk Facing FEI in this proceeding as a proxy for FEI's total capitalization and a common equity ratio of 40%, FEI would have book common equity of $1,082.84 ($M). Assuming a market-to-book ratio of 2.15X, the average of the 1.7X (U.S. Sample) and 2.6X (Canadian Sample) provided by Ms. McShane on line 1826 on page 71 of Appendix F: Evidence of Ms. Kathleen C. McShane, MBA (Exhibit B1-9-6), FEI would have an estimated market capitalization of $2,328.106 ($M). A market capitalization of $2,328.106 would place FEI in the 5th decile, which has an average market capitalization of $2,245.909 ($M) as can be derived

from the information provided in Table 7-1 on page 4 of Exhibit PMA-8 ($2,245.909M - $449,181.802M / 200 companies). As discussed in Exhibit B2-7, at page 16, lines 3 through 14, the size premium spread between the 1.74% size premium applicable to the 5th decile and the 6.10% applicable to the 10th decile is 4.36%. A size premium of 4.36% represents the upper limit of the size premium to be applied to the common equity cost rate based upon the benchmark utility after applying informed expert judgment. In addition, Ms. Ahern has not conducted a comprehensive evaluation of the relative risk of Corix or any of its specific projects and thus cannot provide an estimate of the appropriate risk premium at this time. Therefore, Corix currently is not in a position to propose an equity risk premium to be added above the benchmark ROE for DES projects like the UniverCity NUS. (Emphasis added)

Exhibit B2-9, 16.2 Given that the CAPM is only one among several estimation methods to arrive at a fair ROE, please discuss how much weight should be attributed to the Morningstar findings regarding size and returns based on CAPM?

Response:

Ms. Ahern would suggest applying the size premium to the results of all of the common equity models which are relied upon in developing the benchmark cost of common equity, i.e., the resulting benchmark ROE. It is Ms. Ahern's practice to use size premium studies as a guide to determining a business risk adjustment based upon size. She considers the results of comparing the size premium appropriate for the specific utility with that of a proxy group of companies or a benchmark utility to be the upper limit of the size premium to be applied to the common equity cost rate based upon the proxy group or the benchmark utility after applying informed expert judgment. (Emphasis added)

Exhibit B2-10, 42.3 In Ms. Ahern's view, when applying informed expert judgment, which additional criteria or factors should an analyst consider to determine whether the magnitude of the size premium based on the study is appropriate?

Response:

Generally, Ms. Ahern assesses current economic and capital market conditions and recently authorized returns on common equity cognizant of the need to mitigate rate shock on rate payers. Size premiums are typically derived based upon the Capital Asset Pricing Model (CAPM) and are intended to be added to a CAPM derived common equity cost rate. Because Ms. Ahern typically utilizes additional models to arrive at a non risk adjusted cost rate, it is not her opinion to apply the full size premium indicated by the Morningstar Study to an indicated return on common equity based upon those models in addition to the CAPM.

Exhibit B2-10, 42.9 Should the Commission continue to use this evaluation system? Why or why not?

Response:

It is certainly within the Commission purview to continue to use this evaluation system given the caveats provided in response to Questions 42.7 and 42.8. However, it is preferable to utilize a system which can provide empirically determined risk premiums relative to each risk factor to the greatest extent possible, such as those outlined in Exhibit B2 7, Ms. Ahern's direct testimony which recommends utilizing the Morningstar size study and the Duff & Phelps size and risk studies and then apply informed expert judgment. (Emphasis added)

Exhibit B2-10, 43.1 If, in the hypothetical scenario described in BCUC IR No.1, question 13.2, the upper limit of the size equity risk premium based on the Morningstar study is 4.36%, please explain the steps Ms. Ahern would recommend to calculate the lower limit of the size premium.

Response:

Ms. Ahern would evaluate to the extent possible the size and non size risk factors recommended by Duff & Phelps in their size and risk studies with Corix financial information and information on each of Corix projects, if possible. Ms. Ahern would also evaluate these factors relative to those of the benchmark utility, to the extent that data can be obtained. Then Ms. Ahern would apply her informed expert judgment based upon her nearly twenty five years of rate of return experience, her evaluation of current economic and capital market conditions and her awareness of the need to balance the interests of both the investor, i.e., Corix, and the ratepayers, while determining whether her recommendation of size premium, when added to the benchmark ROE would, in her opinion, provide Corix with an opportunity to earn a fair and reasonable return on its projects. (Emphasis added)