



4550 Montgomery Avenue, Suite 350N  
Bethesda, Maryland 20814  
(301) 664-7852 • Fax (301) 664-7810

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KATHLEEN C. McSHANE

EXECUTIVE VICE PRESIDENT

July 27, 2006

Mr. Scott Roberts  
Northwestel Inc.  
P.O. Bag 2727  
301 Lambert Street  
Whitehorse, Yukon  
Canada Y1A 4Y4

Dear Mr. Roberts:

This letter is in response to the statement by Telus Inc. at page 4 of its argument in PN2006-1, claiming,

“The company’s request for approval of an RoE of 10.5% may therefore appear modest; but it is to be noted that Ms. McShane’s observations about the business and financial risk faced by the company make no reference to the company’s assumption that it will increase its draw from public funds from 6% to 25% of revenues, or the impact such a scenario would have on the company’s risk profile.<sup>20</sup> Her evidence on RoE is therefore of limited value in determining a reasonable rate of return for the company under the subsidy scenario.”

<sup>20</sup>When asked on cross-examination whether the company’s business risk would be reduced in a scenario where the subsidy proposal was approved, Mr. Flaherty and Mr. Hamelin testified that risk would be unchanged: see T/S, vol. 3, lines 4554-4573. Their evidence on this point is counter-intuitive and should be received by the Commission with skepticism.

My risk and equity return analyses were made with full recognition of the explicit subsidy requirements related to residential service, toll connection and SIP of Northwestel (which are set forth in Appendix IV Revised of Northwestel’s evidence).

FOSTER ASSOCIATES, INC.

The proposed explicit subsidies were taken into account in estimating the relative risk of Northwestel, and thus a reasonable return on equity.

Sincerely,

A handwritten signature in cursive script, reading "Kathleen C. McShane".

Kathleen C. McShane

KCMcS:psg