

1 Q. Re: Schedule IX: Provide the basis for the choice of the weights given to the
2 raw and market beta used to determine the “Adjusted Betas” in this schedule.

3

4 A. The adjustment is the same as those used by Merrill Lynch and Value Line
5 whose betas are widely available to investors. The adjustment gives two-
6 thirds weight to the “raw” calculated beta and one-third weight to the market
7 mean beta of 1.0. The adjusted betas provide a better reflection of the
8 observed risk/reward relationship for low beta firms; for utilities, the adjusted
9 beta more accurately captures the impact of interest rate sensitivity on the
10 equity return requirement (see pages 38-39 of Ms. McShane’s testimony).