Q. With reference to capital structure and ROE (page 7) please confirm that if the capital structures of two utilities are set at different levels to equalise risk then they can both be allowed the same ROE, even though their capital structures are different. For example, the National Energy Board in 1994 set gas pipelines at a 30% common equity ratio and oil pipelines at 45% so both could be allowed the same ROE. If not, why not.

A. Confirmed. As discussed on page 7-8 of Concentric's *Cost of Capital* report, the authorized ROE and capital structure for regulated utilities are interdependent. The equity ratio and the authorized ROE must therefore be considered together to determine whether the Fair Return Standard has been met.