**Q. Evidence of Ms. McShane Page 9**

**(a) Ms. McShane refers to US regulators using a variety of cost of equity tests, please indicate for each of the US utilities in her US tests how their allowed ROE was last set and the weights that the regulator applied to each cost of equity test.**

**(b) Further to a) above please indicate (complete with citations) which US jurisdictions apply any material weight to either comparable earnings test as implemented by Ms. McShane or CAPM.**

**(c) Please indicate the "average" period between rate reviews for the US utilities included in Ms. McShane's sample and whether regulatory lag would tend to increase or decrease the sensitivity of a US utility's allowed ROE to interest rate changes.**

**(d) Further to c) above please confirm that Ms. McShane's 0.55 estimate comes from regressing the allowed ROE against actual and not forecast long term interest rates.**

A. (a) Ms. McShane does not maintain the requested information. The results of a review of recent decisions[1] in the jurisdictions within which the companies operate to determine the cost of equity tests presented is shown in the table below. While the use of multiple cost of equity tests is the norm, in almost all instances the commission does not specify explicit weights to be applied to the results of particular cost of equity tests.

[1] In many cases, the decisions relate to settlements and information on the cost of equity tests utilized is not presented.

| State & Year | Party Presenting Evidence and Number of Versions of Test Presented if Known | Comments |
|---|---|---|
| **Georgia (2008)** | **Staff:** DCF, Risk Premium and Comparable Earnings<br>**Company:** DCF, CAPM and Comparable Earnings | Decision "strikes a balance" between the Company and Staff witness recommendations |
| **Indiana (2004)** | **Staff:** No independent study, analyzed Company testimony<br>**Company:** DCF (6), CAPM, ECAPM, Risk Premium (6) | "Consistent with our analysis of the specific inputs and issues in dispute, we recognize that it is not necessary for us to agree or disagree with the specific inputs or overall cost of equity proposed by any single expert. Rather, our determination regarding the appropriate cost of equity in this matter should be a product of our evaluation of the entirety of the evidence presented on this issue by the various parties." |
| **Kentucky (2005)** | **Staff:** DCF, CAPM<br>**Company:** DCF (2), Risk Premium (4) and CAPM | "The Commission encourages the appropriate use of the DCF, the Risk Premium, and the CAPM methods." |
| **Maryland (2007)** | **Staff:** DCF, Risk Premium and CAPM<br>**Company:** DCF, CAPM, ECAPM, Risk Premium (2) and Comparable Earnings(2) | "..considered a broad range of credible return on equity analyses and methodologies…found Staff's cost of equity estimates to be 'most persuasive'" |
| **Massachusetts (2009)** | **Staff:** DCF, Risk Premium<br>**Company:** DCF, Risk Premium, CAPM, ECAPM & Comparable Earnings | "…we have considered both qualitative and quantitative aspects of the Company's various methods for determining its proposed rate of return on equity, as well as the arguments of the parties in this proceeding." |
| **New York (2009)** | **Staff:** DCF, CAPM, zero-beta CAPM<br>**Company:** DCF, CAPM, zero-beta CAPM and Risk Premium | "We conclude that the Company is correct to contend that all three methods presented in this case involve the use of some subjective judgment. On that basis, and given our recommendation that the Risk Premium Method not be employed, we recommend the DCF result and simple average of the two CAPM results be given equal weight." |
| **Ohio (2009)** | **Staff:** DCF, CAPM<br>**Company:** no detail on ROE methodology | Adopted Staff's proposed range |
| **Oregon (2007)** | **Staff:** DCF (3) and CAPM as 'check'<br>**Company:** DCF (1) and Risk Premium(3)<br>**ICNU/CUB:** DCF, CAPM and Risk Premium (2) | Results of ICNU/CUB framework provided "suitable starting point" for ROE discussion as the DCF results were 'cross-checked' against the results of several other methods |

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|---|---|---|
| **Pennsylvania (2007)** | **Staff:** DCF only<br>**Company:** DCF, CAPM, ECAPM | "We will also use the results of the CAPM and ECAPM methods as a check of the reasonableness of our DCF derived equity return calculation." |
| **Washington, D.C. (2008)** | **Staff:** DCF (2), CAPM<br>**Company:** DCF(2), Risk Premium(3) and CAPM | "… the Commission finds that, while substantial weight should be given to the DCF method, exclusive reliance on that method would not be appropriate. Accordingly, the Commission will give weight to the alternate approaches presented in this proceeding." |

(b) Ms. McShane has not done a detailed survey of all the regulatory jurisdictions.

(c) U.S. utilities do not have a prescribed schedule for rate reviews; except where they are subject to a rate freeze, utilities have the flexibility to apply for new rates as they deem warranted. The allowed ROEs utilized in the regression are only those determined by regulators in the specific year. The issue of regulatory lag is thus not relevant to the regression.

(d) Confirmed. However, the actual interest rates are entered into the regression with a six-month lag. As noted in footnote 3, page 9, the lag was introduced "to take account of the fact that the date of the decision lags the period covered by the market data on which the ROE decision was based."