Q. Evidence of Ms. McShane Page 29

(a) Would Ms. McShane agree that when market interest rates go down old equivalent maturity bonds with higher interest rates sell on higher prices so their yields to maturity based on current market prices are approximately the same? If not why not?

(b) In accessing the debt markets does Ms. McShane believe that an entity has to issue debt at the old higher interest rate in order to compete with those higher interest rate bonds or that bonds can be issued at the new lower market interest rate? Please explain in detail.

(c) If bonds can be issued at the new lower market interest rate would Ms. McShane accept that a firm can raise capital even when there are bonds with higher coupon rates in the market? Would Ms. McShane agree that such a situation does not compromise the fair return standard? If she disagrees please explain in detail.

(d) If a utility in another jurisdiction has a higher allowed ROE due to regulatory lag would Ms. McShane argue that this compromises the fair return standard based on the arguments on page 29?

A. (a) Yes.

(b) The entity would issue bonds at the market rate.

(c) Ms. McShane accepts both propositions.

(d) Ms. McShane does not understand the premise of the question. At page 29, Ms. McShane indicates that the fair return standard requires that the returns be comparable to the returns of comparable risk companies. Although not explicitly stated at page 29, it would not be reasonable to consider returns that might have been adopted under materially different economic and capital market conditions as a reasonable benchmark or indicator of comparable returns.