

1 **Q. Evidence of Ms. McShane Capital Structure principles Pages 9 – 11: Ms. McShane**
2 **makes the statement (page 11) that ROEs need to be comparable to a company's**
3 **peers, please provide all legal and economic support for this proposition. Would Ms.**
4 **McShane accept a comparable ROE, if that ROE were unfair and unreasonable**
5 **either because it is too high or too low?**
6

7 A. Ms. McShane states on page 11 of her testimony that "financial parameters - which
8 encompass both capital structure and ROE - need to be comparable to those of its peers",
9 not solely that ROEs need to be comparable to those of a company's peers. The legal
10 precedents for this statement are the same as those that form the foundation of the fair
11 return standard, which include giving a regulated utility the opportunity to earn a return
12 on investment commensurate with that of comparable risk enterprises, and which have
13 been articulated in numerous regulatory decisions across North America, including the
14 Board's Order No. P.U. 43 (2009). They are cited on page 5 of Ms. McShane's
15 testimony. The economic basis for this proposition is the concept of opportunity cost,
16 which is the return foregone by not investing in enterprises of similar risk. No single
17 value should be considered determinative of what constitutes comparable returns.