

1 **Q. Evidence of Ms. McShane, Fair ROE conceptual foundations, page 36-44: Please**
2 **confirm that any fair ROE can always be broken out into a risk free return plus a**
3 **risk premium and her comments on the CAPM are mainly directed at using a**
4 **constant, “average,” historic market risk premium, rather than attempting to**
5 **estimate a current market risk premium?**
6

7 A. With respect to the former, it is confirmed that one can always subtract a risk-free rate
8 from the fair ROE to derive a differential or risk premium. With respect to the latter, Ms.
9 McShane is unable to confirm. Her comments on the CAPM contained in the pages cited
10 in the question relate in part to the issue cited, but cover a broader range of concerns with
11 the CAPM.