

1 **Q. Evidence of Ms. McShane Pages 63: Please indicate how the well accepted analyst**
2 **optimism bias is removed even if they are accepted and fully incorporated into**
3 **equity prices given that analysts disagree? That is, which analyst forecasts are fully**
4 **incorporated into equity prices and why would it be the median or average, when a**
5 **new analyst has an incentive to give a radical forecast to distinguish them from the**
6 **crowd?**

7
8 A. The preamble is premised on a questionable assumption, particularly in the case of
9 utilities, where the business model is relatively well understood. The release of “radical”
10 growth forecasts for a utility (which Ms. McShane interprets to mean outside of a range
11 that is reasonably supportable by the company’s earnings prospects) would be
12 counterproductive for analysts, who are likely to be concerned with building reputation
13 and an upward career path. As such, the median or average forecast represents the best
14 estimate of the forecast that is built into share prices.