Q. Evidence of Ms. McShane Appendix E: Ms. McShane's financing flexibility adjustment on page E-3 is explicitly based on targeting a market to book ratio of 1.05-1.1 so that the utility can issue stock at above book value. In her judgment is such an adjustment still needed if the market to book is say 2.0 such that there is no chance of selling stock below book value even before a financing flexibility adjustment. Please explain in full.

A. Yes. The actual market to book ratio reflects, among other things, expected earnings, not the "bare-bones" cost of equity. As explained in Appendix E, "An adjustment to the equity risk premium and discounted cash flow test results for financing flexibility is required because the measurement of the return requirement based on market data results in a "bare-bones" cost of equity. It is a "bare-bones" cost in the sense that, theoretically, if this return is applied to (and earned on) the book equity of the rate base (assuming the expected return corresponds to the approved return), the market value of the utility would be kept close to book value."