

1 **Q. Evidence of Ms. McShane Appendix E: Please confirm that Ms. McShane normally**
2 **recommends a financial flexibility adjustment of 0.50% and explain why she has**
3 **now moved to 0.50-1.50%.**
4

5 A. Ms. McShane has recommended a financing flexibility adjustment of 0.50% to be
6 applied to the market-based tests when the comparable earnings test is an integral part of
7 her recommendation for a fair ROE. In the absence of the comparable earnings test, she
8 is recommending the mid-point of a range of 0.50% to 1.5%. The basis for the range of
9 0.50% to 1.50% is explained fully at pages 81-83 and in Appendix E. With the
10 comparable earnings test as an integral part of the recommended ROE, Ms. McShane's
11 recommended financing flexibility adjustment would still be 0.50%, as shown at lines
12 2208 to 2215 of her testimony.