

Return on Equity
Summary of Ms. McShane's Recommendations

	McShane (2010)	McShane (2013-2014)
Recommended Return on Equity	11.0%	10.5% (p. 104)
Test Results		
1. Equity Risk Premium		
Risk-Free Rate	4.25%	3.50%
Market Risk Premium	6.75%	8.00% (p. 71)
Beta	0.65-0.70	.65-.70 (p. 82)
Utility Equity Risk Premium	-	-
Risk-Adjusted Equity Market	4.5%	5.4 (5.2-5.6) (P. 93)
DCF-Based	5.35%	6.0 (p. 93)
Historical Utility	6.25%	6.75 (p. 93)
Indicated Cost of Equity	8.75-10.5%	8.9%-10.25% (p. 104)
Allowance for Financing Flexibility	0.50%	1.00% (p. 104)
Other Adjustments	-	-
Indicated Fair Return on Equity	10.25%	10.475%
2. Discounted Cash Flow		
Indicated Cost of Equity	10.5%-11.0%	9.4% (p. 104)
Financing Flexibility	0.50%	1.00%
Indicated Fair Return on Equity	11.0-11.5%	10.4%
3. Comparable Earnings		
	11.50%-11.75%	11.00%-12.00%
Equity Ratio	45%	45%

2010 Column extracted from p. 14 of Reasons for Decision: Order No. P.U 43 (2009)

2013-2014 Column – derived from Ms. McShane's report of September, 2012