Q. Vander Weide Evidence - Fair Return Standard, page 6

a. Given the closeness in the definition of fair return and cost of capital, in Dr. Vander Weide's judgement does comparable earnings testimony satisfy the fair return standard?

b. Has Dr. Vander Weide ever presented comparable earnings testimony as developed by Ms. McShane?

c. Can Dr. Vander Weide agree that the cost of capital is only an expected return "in equilibrium"? Otherwise when you expect more than you want you buy and vice versa?

A.

a. Dr. Vander Weide's statement, "The economic definition of the cost of capital is similar to the definition of a fair return," implies that regulators can satisfy the fair return standard by equating the regulated company's allowed return on total capital (debt plus equity) to an estimate of the company's economic weighted average cost of capital. As Dr. Vander Weide notes in his written evidence, the economic definition of the weighted average cost of capital is based on the market costs of debt and equity and the market value percentages of debt and equity in a company's capital structure, whereas regulators have traditionally measured the weighted average cost of capital using the embedded cost of debt and the book values of debt and equity in a company's capital structure. Given that regulators do not typically equate the fair return on total capital to the economic weighted average cost of capital, depending on the value of the comparable earnings result, comparable earnings may or may not satisfy the fair return standard in practice.

b. No.

c. Dr. Vander Weide agrees that the cost of capital is the expected return on capital that equates the supply and demand for capital subject to a specific degree of risk.