

Q. McShane Evidence - Flotation cost allowance, pages 98-100

- a. Please confirm that most boards allow a 0.50% flotation cost allowance, but the Régie allows only 0.30%.**
- b. Please indicate any board that has allowed a 1.50% flotation cost allowance in Canada.**
- c. If the cost of equity capital is 10%, but a 1.50% flotation cost is allowed so the allowed ROE is 11.5% please indicate what a \$100 book value investment would sell at if this was assumed to be a perpetuity.**

- A.
 - a. Confirmed except for the statement regarding the Régie. It is true that in Décision D-2009-156 for Gaz Métro, the Régie established the allowance for issuance costs at 30 to 40 basis points after a review of Gaz Métro's actual equity issuance costs since 1993. However, in Décision D-2010-147 for Gazifère, the Régie noted that it did not have data on actual issuance costs for the company, as unlike Gaz Métro, Gazifère does not directly issue equity in the capital market and approved a theoretical flotation cost allowance of 50 basis points.
 - b. None. Please note that Ms. McShane is not recommending an adjustment for financing flexibility of 150 basis points. Her recommendation, assuming reliance solely on the market-based tests, is 100 basis points.
 - c. Theoretically, at an earnings retention rate of 30% to 40%, approximately \$125.