Q. Reference: the fair return standard on page 6: Can Mr. MacDonald confirm that this definition arose out of changed conditions in the money market and specifically refers to a risk adjusted return available on other securities, that is, it is an opportunity cost based on market rates? If not please explain why not.

A. Mr. MacDonald confirms. Mr. MacDonald believes the allowed ROE must be based on an estimate of the risk adjusted opportunity cost of equity capital. Opportunity cost can be defined as the return on equity that a utility investor is foregoing by having his/her equity invested in a utility rather than in other investments of similar risk in the market.