

Q. Written Evidence of James H. Vander Weide – Volume 3

Pg. 36, A102 - Please provide support and rationale for your selection of 50 bps allowance for flotation costs and financial flexibility.

A. Dr. Vander Weide supports the selection of a fifty-basis-point allowance for flotation costs and financial flexibility on the grounds that: (1) the Board has previously used a fifty-basis-point allowance for flotation costs and financial flexibility; (2) historical evidence on flotation costs alone justify a twenty to twenty-five basis point allowance for flotation costs; and (3) a thirty-basis-point allowance for financial flexibility provides a conservative allowance for the difference between the market and book values of the proxy companies equity. If the Board were to use a lower allowance for flotation costs and financial flexibility, the equity investor would be unlikely to have an opportunity to earn a return on the market value of their equity investment that is commensurate with returns on other investments of similar risk.