

1 **Volume 3, Section 1 – McShane, Cost of Capital**
23 **Q. (pages 42-43, and Statistical Exhibit, Schedules 13, 18, and 25)**
4

- 5 **a. Please confirm that the “standard deviation of market returns” (line 1151),**
6 **whether for an individual company/stock or portfolio of stocks, incorporates**
7 **dividends and/or cash distributions (e.g., from income trusts) as part o the**
8 **“return” calculation.**
- 9 **b. Please provide the standard deviations of market returns, based on 5 years of**
10 **monthly data, for the 5-year periods ending 1993 through 2006 (similar to the**
11 **Schedule 13 presentation) for all of the publicly-traded Canadian utilities**
12 **listed in Schedule 13 and all 17 of the low-risk Canadian industrials listed in**
13 **Schedule 25. If Ms. McShane does not have or use the data requested here,**
14 **please explain why she does not have or use it, particularly in the light of the**
15 **fact that she uses individual-firm beta values for characterizing her**
16 **Canadian utility and industrial samples, in Schedules 13 and 25 respectively?**
- 17 **c. For the TSX/S&P Composite Index, what are the mean and median standard**
18 **deviations of market returns from among the approximately 277**
19 **companies/stocks that comprise the Composite Index, over the most recent 5-**
20 **year period for which data is available?**
- 21 **d. While Ms. McShane believes that individual company beta values gravitate**
22 **over time toward the average stock beta -justifying the use of “adjusted**
23 **betas” instead of “raw historical betas” - why does Ms. McShane not make a**
24 **similar adjustment from “raw” to “adjusted” standard deviations for market**
25 **returns for, in particular, utility and low-risk industrial companies?**
- 26 **e. Is Ms. McShane aware of how the standard deviations for the stock returns**
27 **for the companies in her utility and/or low-risk industrial samples have**
28 **trended over the past 5 years in comparison to the standard deviation of**
29 **market return for the typical or median firm in the TSX/S&P Composite**
30 **Index? If so, please describe the trend and provide all supporting data,**
31 **including the individual TSX/S&P Composite Index component-company**
32 **standarddeviation-of-market-return data used to find the medianfirm value.**
- 33 **f. Please provide the most recent 5-year annual standard deviation of market**
34 **return values for each of the 13 U.S. electric and gas utilities set out in**
35 **Schedule 18, as well as the sample mean and median values, in a format**
36 **similar to that in Schedule 18.**

37
38 **A. (a) It is confirmed.**39
40 **(b) Please see Attacment A. Ms. McShane does not use the standard deviations for**
41 **individual companies because they give equal weight to each company regardless**
42 **of market size, while the sector standard deviations take account of relative**
43 **market capitalization.**44
45 **(c) Please see Attachment B.**

- 1 (d) Please see response to CA-NP-277 (d) and (e) for Ms. McShane's rationale for
2 adjusting the beta. Ms. McShane has no basis for making a similar adjustment to
3 the market standard deviation.
4
- 5 (e) Ms. McShane did not look at the standard deviations of the individual companies
6 in the S&P/TSX index.
7
- 8 (f) Please see Attachment C.

**Standard Deviations of Market Returns,
60 Months Ending December 31, 1993-2006**

Standard Deviations of Market Returns, 60 Months Ending:

Company Name	Dec 1993	Dec 1994	Dec 1995	Dec 1996	Dec 1997	Dec 1998	Dec 1999	Dec 2000	Dec 2001	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006
7 Regulated Canadian Utilities														
CANADIAN UTILITIES -CL A	0.0361	0.0364	0.0337	0.0375	0.0381	0.0454	0.0476	0.0556	0.0543	0.0531	0.0487	0.0478	0.0398	0.0458
EMERA INC	NA	NA	NA	NA	0.0311	0.0427	0.0454	0.0481	0.0496	0.0493	0.0425	0.0411	0.0383	0.0376
ENBRIDGE INC	NA	NA	NA	0.0367	0.0484	0.0511	0.0515	0.0603	0.0674	0.0569	0.0551	0.0551	0.0446	0.0351
FORTIS INC	0.0289	0.0326	0.0321	0.0327	0.0307	0.0379	0.0373	0.0391	0.0429	0.0436	0.0409	0.0411	0.0480	0.0515
PACIFIC NORTHERN GAS LTD	0.0456	0.0464	0.0390	0.0405	0.0460	0.0499	0.0515	0.0835	0.1087	0.1168	0.1172	0.1164	0.0983	0.0704
TERASEN INC	0.0335	0.0369	0.0353	0.0358	0.0358	0.0403	0.0472	0.0551	0.0581	0.0585	0.0562	0.0479	NA	NA
TRANSCANADA CORP	0.0405	0.0414	0.0339	0.0345	0.0402	0.0553	0.0637	0.0785	0.0807	0.0782	0.0692	0.0575	0.0374	0.0350
Average	0.0369	0.0387	0.0348	0.0363	0.0386	0.0461	0.0492	0.0600	0.0659	0.0652	0.0614	0.0581	0.0511	0.0459
Median	0.0361	0.0369	0.0339	0.0363	0.0381	0.0454	0.0476	0.0556	0.0581	0.0569	0.0551	0.0479	0.0422	0.0417
17 Low Risk Canadian Industrials														
ALGOMA CENTRAL CORP	0.0895	0.0916	0.0780	0.0734	0.0783	0.0873	0.0914	0.0937	0.0928	0.0897	0.0808	0.0734	0.0649	0.0643
ARBOR MEMORIAL SERVICES-CL B	0.0665	0.0606	0.0566	0.0603	0.0639	0.0657	0.0631	0.1161	0.1273	0.1294	0.1281	0.1269	0.0780	0.0546
ASTRAL MEDIA INC -CL A	0.0685	0.0610	0.0747	0.0760	0.0858	0.0993	0.0912	0.1053	0.1057	0.1035	0.0894	0.0877	0.0520	0.0505
CANADA BREAD CO LTD	0.0707	0.0708	0.0699	0.0633	0.0700	0.0726	0.0798	0.0914	0.0979	0.1033	0.0948	0.0936	0.0854	0.0845
CANADIAN TIRE CORP -CL A	0.0656	0.0756	0.0779	0.0799	0.0829	0.0797	0.0707	0.0857	0.0848	0.0882	0.0854	0.0835	0.0669	0.0643
EMPIRE CO LTD -CL A	0.0860	0.0857	0.0840	0.0615	0.0636	0.0721	0.0770	0.0770	0.0834	0.0840	0.0743	0.0703	0.0677	0.0593
FINNING INTERNATIONAL INC	0.0749	0.0766	0.0696	0.0714	0.0663	0.0636	0.0738	0.0786	0.0847	0.0883	0.0859	0.0718	0.0628	0.0526
LEON'S FURNITURE LTD	NA	NA	NA	NA	0.0663	0.0711	0.0719	0.0722	0.0769	0.0716	0.0650	0.0573	0.0545	0.0493
LOBLAW COMPANIES LTD	0.0524	0.0521	0.0486	0.0482	0.0587	0.0660	0.0661	0.0728	0.0731	0.0656	0.0564	0.0559	0.0493	0.0476
MAPLE LEAF FOODS INC	0.0706	0.0553	0.0616	0.0637	0.0710	0.0951	0.0976	0.0981	0.1033	0.1077	0.0881	0.0861	0.0758	0.0672
REITMANS (CANADA) -CL A	0.0694	0.0753	0.0676	0.0638	0.0565	0.0585	0.0554	0.0574	0.0611	0.0742	0.0753	0.0887	0.0901	0.0914
THOMSON CORP	0.0561	0.0557	0.0456	0.0520	0.0507	0.0578	0.0598	0.0781	0.0750	0.0756	0.0713	0.0691	0.0444	0.0446
TORSTAR CORP -CL B	0.0504	0.0527	0.0493	0.0525	0.0550	0.0629	0.0636	0.0725	0.0803	0.0790	0.0729	0.0730	0.0629	0.0512
TRANSCONTINENTAL INC -CL A	0.0919	0.0862	0.0822	0.0795	0.0747	0.0824	0.0767	0.0709	0.0737	0.0741	0.0653	0.0663	0.0690	0.0671
TVA GROUP INC -CL B	NA	NA	NA	NA	0.0985	0.1001	0.0947	0.1187	0.1227	0.1241	0.1196	0.1158	0.0804	0.0705
UNI-SELECT INC	0.0962	0.0959	0.0943	0.0930	0.0929	0.0760	0.0778	0.0873	0.0925	0.0894	0.0774	0.0724	0.0547	0.0469
WESTON (GEORGE) LTD	0.0480	0.0470	0.0457	0.0483	0.0615	0.0680	0.0723	0.0790	0.0792	0.0730	0.0642	0.0596	0.0495	0.0483
Average	0.0704	0.0695	0.0670	0.0658	0.0704	0.0752	0.0755	0.0856	0.0891	0.0895	0.0820	0.0795	0.0652	0.0597
Median	0.0694	0.0708	0.0696	0.0637	0.0663	0.0721	0.0738	0.0790	0.0847	0.0882	0.0774	0.0730	0.0649	0.0546

Standard Deviations of Market Returns
277 Companies in the TSX/S&P Composite Index
60 Months Ending December 31, 2006

Standard Deviations of Market Returns, 60 Months Ending:

Company Name	Dec 2006
277 Companies in the TSX/S&P Composite Index	
AASTRA TECHNOLOGIES LTD	0.1110
ABER DIAMOND CORP	0.0891
ABITIBI CONSOLIDATED INC	0.0987
ACE AVIATION HOLDINGS INC	NA
ADDAX PETROLEUM CORP	NA
ADVANTAGE ENERGY INCOME FUND	0.0724
AEROPLAN INCOME FUND	NA
AGF MANAGEMENT LTD -CL B	0.0720
AGNICO EAGLE MINES LTD	0.1340
AGRIUM INC	0.0719
ALAMOS GOLD INC	NA
ALCAN INC	0.0854
ALGOMA STEEL INC	NA
ALGONQUIN POWER INCOME FUND	0.0410
ALIMENTN COUCHE-TARD -CL B	0.0782
ALLIANCE ATLANTIS COMM -CL B	0.0930
ALTAGAS INCOME TRUST	NA
ANGIOTECH PHARMACEUTICALS	0.1087
ANVIL MINING LTD	NA
ARC ENERGY TRUST	0.0526
ASTRAL MEDIA INC -CL A	0.0505
ATCO LTD -CL I	0.0548
ATS AUTOMATION TOOLING SYS	0.1059
AUR RESOURCES INC	0.1165
AXCAN PHARMA INC	0.1023
BALLARD POWER SYSTEMS INC	0.1568
BANK OF MONTREAL	0.0385
BANK OF NOVA SCOTIA	0.0357
BARRICK GOLD CORP	0.0737
BAYTEX ENERGY TRUST	0.0806
BCE INC	0.0497
BELL ALIANT REGIONAL COMM FD	NA
BFI CANADA INCOME FUND	NA
BIOVAIL CORP	0.1427
BOARDWALK REAL ESTATE TRUST	0.0496
BOMBARDIER INC -CL B	0.1382
BONAVISTA ENERGY TRUST	0.0706
BROOKFIELD ASSET MANAGEMENT	0.0552
BROOKFIELD PROPERTIES CORP	0.0519
CAE INC	0.1246
CALFRAC WELL SERVICES LTD	0.1785
CALLOWAY REAL ESTATE INVT TR	0.3686
CAMECO CORP	0.1045
CANADIAN APT PPTYS REIT	0.0389
CANADIAN IMPERIAL BANK	0.0488
CANADIAN NATIONAL RAILWAY CO	0.0613
CANADIAN NATURAL RESOURCES	0.0922
CANADIAN OIL SANDS TRUST	0.0758
CANADIAN PACIFIC RAILWAY LTD	0.0623
CANADIAN REAL ESTATE INVT TR	0.0480
CANADIAN TIRE CORP -CL A	0.0643
CANADIAN UTILITIES -CL A	0.0458
CANADIAN WESTERN BANK	0.0557
CANETIC RESOURCES TRUST	NA
CANFOR CORP	0.0831
CANWEST GLOBAL COM -NVTG	0.1311
CARDIOME PHARMA CORP	0.1923
CASCADES INC	0.0683
CATALYST PAPER CORP	0.1009
CCL INDUSTRIES -CL B	0.0747
CCS INCOME TRUST	NA
CELESTICA INC	0.1270
CENTERRA GOLD INC	NA
CGI GROUP INC -CL A	0.0730
CHARTWELL SENIOR HSG REIT	NA
CHC HELICOPTER CORP -CL A	0.0867
CI FINANCIAL INCOME FUND	0.0617
CINRAM INTL INCOME FUND	0.1427
CML HEALTHCARE INCOME FUND	0.0819
COGECO CABLE INC	0.1133
COGNOS INC	0.0858
COMINAR REAL ESTATE INVT TR	0.0313
COMPTON PETROLEUM CORP	0.0996

Standard Deviations of Market Returns, 60 Months Ending:

Company Name	Dec 2006
277 Companies in the TSX/S&P Composite Index	
CONNACHER OIL & GAS LTD	0.2909
CONNORS BROS INCOME FUND	0.0660
CONSUMERS WATERHEATER INCOME	NA
CORUS ENTERTAINMENT INC	0.0742
COTT CORP QUE	0.0938
CRESCENT POINT ENERGY TRUST	0.1167
CRYSTALLEX INTERNATIONAL CP	0.2171
CYRIES ENERGY INC	NA
DAVIS HENDERSON INCOME FD	0.0673
DAYLIGHT RESOURCES TRUST	0.1345
DENISON MINES CORP	0.2715
DOREL INDUSTRIES INC	0.0746
DUNDEE REAL ESTATE INV TRUST	0.0634
DUNDEE WEALTH MGMT INC	0.0925
DUVERNAY OIL CORP	NA
DYNATEC CORP	0.1598
EASTERN PLATINUM LTD	0.2808
ELDORADO GOLD CORP	0.1825
EMERA INC	0.0376
EMERGIS INC	0.1418
EMPIRE CO LTD -CL A	0.0593
ENBRIDGE INC	0.0351
ENCANA CORP	0.0769
ENERFLEX SYSTEMS INCOME FUND	0.0994
ENERGY SAVINGS INCOME FUND	NA
ENERPLUS RESOURCES FUND	0.0581
ENSIGN ENERGY SERVICES INC	NA
EPCOR POWER LP	0.0465
EQUINOX MINERALS LTD	NA
EXTENDICARE REIT	0.1345
FAIRBORNE ENERGY TRUST	NA
FAIRFAX FINANCIAL HOLDINGS	0.1582
FINNING INTERNATIONAL INC	0.0526
FIRST CALGARY PETROLEUMS LTD	0.1714
FIRST QUANTUM MINERALS LTD	0.1341
FIRSTSERVICE CORP -SVTG	0.0889
FNX MINING CO INC	0.1743
FOCUS ENERGY TRUST	NA
FORDING CANADIAN COAL TRUST	0.1122
FORT CHICAGO ENRGY PTNR -LP	0.0412
FORTIS INC	0.0515
FORZANI GROUP LTD -CL A	0.0985
FREEHOLD ROYALTY TRUST	0.0647
FRONTEER DEVELOPMENT GRP INC	0.2924
GABRIEL RESOURCES LTD	0.1779
GALLEON ENERGY INC	NA
GAMMON LAKE RESOURCES INC	0.2046
GERDAU AMERISTEEL CORP	0.1743
GILDAN ACTIVEWEAR INC	0.0811
GMP CAPITAL TRUST	NA
GOLDCORP INC	0.1102
GOLDEN STAR RESOURCES LTD	0.2683
GREAT CANADIAN GAMING CORP	0.1065
GREAT-WEST LIFECO INC	0.0381
H&R REAL ESTATE INVT TR	0.0410
HARVEST ENERGY TRUST	NA
HIGHPINE OIL & GAS LTD	NA
HOME CAPITAL GROUP INC -CL B	0.0832
HUDBAY MINERALS INC	0.3266
HUSKY ENERGY INC	0.0657
IAMGOLD CORP	0.1295
IGM FINANCIAL INC	0.0527
IMPERIAL OIL LTD	0.0683
INDUSTRIAL ALLIANCE INS &FIN	0.0395
ING CANADA INC	NA
INMET MINING CORP	0.1308
INNVEST REAL ESTATE INVT TR	NA
INTER PIPELINE FUND	0.0504
INTEROIL CORP	NA
IPSCO INC	0.1180
IVANHOE MINES LTD	0.1800
JEAN COUTU GROUP	0.0793
KEYERA FACILITIES INCM TRUST	NA

Standard Deviations of Market Returns, 60 Months Ending:

Company Name	Dec 2006
277 Companies in the TSX/S&P Composite Index	
KINGSWAY FINANCIAL SVCS INC	0.0755
KINROSS GOLD CORP	0.1519
LABRADOR IRON ORE RYLTY INCM	0.0680
LAURENTIAN BANK OF CANADA	0.0503
LEGACY HOTELS REAL ESTATE	0.0446
LINAMAR CORP	0.0884
LIONORE MINING INTL LTD	0.1109
LOBLAW COMPANIES LTD	0.0476
LUNDIN MINING CORP	0.2190
MACDONALD DETTWILER & ASSOC	0.0617
MAGNA INTERNATIONAL -CL A	0.0600
MANITOBA TELECOM SVCS INC	0.0519
MANULIFE FINANCIAL CORP	0.0475
MAPLE LEAF FOODS INC	0.0672
MDS INC	0.0661
MEGA BRANDS INC	NA
MERIDIAN GOLD INC	0.1288
METHANEX CORP	0.0770
METRO INC -CL A	0.0691
MIRAMAR MINING CORP	0.2058
MULLEN GROUP INCOME FUND	0.0738
NAL OIL & GAS TRUST	0.0628
NATIONAL BANK CANADA	0.0406
NEUROCHEM INC	0.2027
NEWALTA INCOME FUND	0.0759
NEXEN INC	0.0810
NIKO RESOURCES LTD	0.1134
NORBORD INC	0.0772
NORTEL NETWORKS CORP	0.2902
NORTH WEST CO FUND	0.0552
NORTHBRIDGE FINANCIAL CORP	NA
NORTHERN ORION RESOURCES INC	0.1918
NORTHGATE MINERALS CORP	0.1468
NORTHLAND POWER INCOME FUND	0.0614
NOVA CHEMICALS CORP	0.0854
NOVAGOLD RESOURCES LTD	0.1664
NUVISTA ENERGY LTD	NA
OILEXCO INC	0.2721
ONEX CORP	0.0500
OPEN TEXT CORP	0.1301
OPTI CANADA INC	NA
PAN AMERICAN SILVER CORP	0.1453
PARAMOUNT ENERGY TRUST	NA
PARAMOUNT RESOURCES LTD	0.1323
PASON SYSTEMS INC	0.0864
PATHEON INC	0.1110
PEMBINA PIPELINE INCOME FUND	0.0430
PENGROWTH ENERGY TRUST	0.0629
PENN WEST ENERGY TRUST	0.0649
PETRO-CANADA	0.0648
PETROBANK ENERGY RES LTD	0.1552
PEYTO ENERGY TRUST	0.0888
PINETREE CAPITAL LTD	0.2909
POTASH CORP SASK INC	0.0726
POWER CORP CANADA	0.0436
POWER FINANCIAL CORP	0.0403
PRECISION DRILLING TRUST	0.0809
PRIMARIS RETAIL REIT	NA
PRIMEWEST ENERGY TRUST	0.0660
PROGRESS ENERGY TRUST	0.0841
PROVIDENT ENERGY TRUST	0.0484
QLT INC	0.1246
QUEBECOR INC -CL B	0.0971
QUEBECOR WORLD INC -SUB VTG	0.0963
REAL RESOURCES INC	0.1084
REITMANS (CANADA) -CL A	0.0914
RESEARCH IN MOTION LTD	0.1682
RIOCAN REIT	0.0373
ROGERS COMMUNICATIONS -CL B	0.0949
RONA INC	NA
ROTHMANS INC	0.0612
ROYAL BANK OF CANADA	0.0410
RUSSEL METALS INC	0.0671

Standard Deviations of Market Returns, 60 Months Ending:

Company Name	Dec 2006
277 Companies in the TSX/S&P Composite Index	
SAPUTO INC	0.0536
SASKATCHEWAN WHEAT POOL INC	0.1963
SAVANNA ENERGY SVCS CORP	NA
SEARS CANADA INC	0.1075
SHAW COMMUNICATIONS INC-CL B	0.0882
SHAWCOR LTD -CL A	0.0803
SHERRITT INTL CORP RV	0.0805
SHININGBANK ENERGY INCOME FD	0.0736
SHOPPERS DRUG MART CORP	0.0491
SHORE GOLD INC	0.1680
SILVER STANDARD RES INC	0.2104
SILVER WHEATON CORP	1.0056
SILVERCORP METALS INC	0.4441
SINO-FOREST CORP	0.1923
SNC-LAVALIN GROUP INC	0.0687
SOBEYS INC	0.0573
ST LAWRENCE CEMENT GRP -CL A	0.0646
STANTEC INC	0.0704
SUN LIFE FINANCIAL INC	0.0466
SUNCOR ENERGY INC	0.0778
SUPERIOR PLUS INCOME FUND	0.0745
SXR URANIUM ONE INC	0.2448
SYNENCO ENERGY INC	NA
TALISMAN ENERGY INC	0.0646
TANZANIAN ROYALTY EXPLOR CP	0.2197
TECK COMINCO LTD -CL B	0.0972
TELUS CORP	0.1113
TENKE MINING CORP	0.1957
TESCO CORP	0.1041
THOMPSON CREEK METALS CO INC	NA
THOMSON CORP	0.0446
TIM HORTONS INC	NA
TIMBERWEST FOREST CORP	0.0491
TOROMONT INDUSTRIES LTD	0.0569
TORONTO DOMINION BANK	0.0556
TORSTAR CORP -CL B	0.0512
TRANSALTA CORP	0.0439
TRANSALTA POWER LP	0.0447
TRANSAT A T INC	0.1213
TRANSCANADA CORP	0.0350
TRANSCONTINENTAL INC -CL A	0.0671
TRANSFORCE INCOME FUND	NA
TRICAN WELL SERVICE LTD	0.0999
TRILOGY ENERGY TRUST	NA
TRINIDAD ENERGY SVCS INC TR	0.0956
TRUE ENERGY TRUST	0.1309
TSX GROUP INC	NA
UE WATERHEATER INCOME FUND	NA
UEX CORP	NA
UTS ENERGY CORP	0.2620
VERMILION ENERGY TRUST	0.0606
WEST FRASER TIMBER CO	0.0779
WESTERN OIL SANDS INC	0.0971
WESTJET AIRLINES LTD	0.1163
WESTON (GEORGE) LTD	0.0483
WESTSHORE TERMS INCOME FD	0.0681
YAMANA GOLD INC	0.1982
YELLOW PAGES INCOME FUND	NA
Mean	0.1076
Median	0.0810

**Standard Deviations of Market Returns
13 U.S. Electric and Gas Utilities
60 Months Ending December 31, 2006**

Standard Deviations of Market Returns, 60 Months Ending:

Company Name	Dec 2006
13 US Electric and Gas Utilities	
AGL RESOURCES INC	0.0353
CONSOLIDATED EDISON INC	0.0372
FPL GROUP INC	0.0443
NEW JERSEY RESOURCES CORP	0.0318
NICOR INC	0.0750
NORTHWEST NATURAL GAS CO	0.0400
NSTAR	0.0400
PIEDMONT NATURAL GAS CO	0.0372
SCANA CORP	0.0357
SOUTHERN CO	0.0362
VECTREN CORP	0.0377
WGL HOLDINGS INC	0.0347
WPS RESOURCES CORP	0.0396
Mean	0.0404
Median	0.0372