

1 **Volume 3, Section 1 – McShane, Cost of Capital**
23 **Q. (pages 43-44, and Statistical Exhibit, Schedules 13 and 25)**
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- 5 **a. Please confirm that the individual-firm beta values shown in Schedules 13**
6 **and 25 are “price betas” and have excluded the dividend component of the**
7 **monthly returns in their calculation.**
- 8 **b. In calculating the raw beta values shown in Schedules 13 and 25, has the**
9 **TSX/S&P market return value used in the calculation been one that includes**
10 **the dividend and cash distribution component of the TSX/S&P return (i.e.,**
11 **the total return index) or not? If not, what index or data series has been used**
12 **to proxy the market “return” or “price level change”?**
- 13 **c. Please confirm that, because they ignore the stable dividend portion of the**
14 **investment return from owning utility shares, “price betas” will tend to**
15 **overstate the true “rate-of-returnbased” beta values for individual utility**
16 **shares. If Ms. McShane cannot confirm this, please provide a table**
17 **comparing, on a year-by-year basis, over the 1993-2006 period, the “raw**
18 **price betas” and the “raw rate-of-return betas” for the 7 individual, publicly-**
19 **traded utilities listed in Schedule 13.**

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- 21 **A. (a) The betas in Schedule 13 are price betas calculated by Foster Associates; those in**
22 **Schedule 25 are total return betas provided by Research Insight.**
- 23
- 24 **(b) The betas in Schedule 13 are calculated against the S&P/TSX price index. The**
25 **betas in Schedule 25, as provided by Research Insight, utilize the S&P/TSX price**
26 **index to which dividends are added.**
- 27
- 28 **(c) Work by Sharpe and Cooper suggests that beta is quite insensitive to the dividend**
29 **exclusion. (“Risk-Return Classes of New York Stock Exchange Common Stocks,**
30 **1931-1967”, *Financial Analysts Journal* (March-April 1972). Please see**
31 **Attachment A for the price betas and betas inclusive of dividends for the 7 Canadian**
32 **utilities over the period 1997 to 2006. Ms. McShane does not have the Research**
33 **Insight betas prior to 1997. For the 70 comparisons between price betas and total**
34 **return betas, the average difference is -.01.**

**Price Betas and Betas Inclusive of Dividends
for the 7 Canadian Utilities over the Period 1997 to 2006**

