

1 **Volume 3, Section 1 – McShane, Cost of Capital**

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3 **Q. (pages 45-46, and Statistical Exhibit, Schedules 18 and 27)**

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5 **a. Are Research Insight betas constructed as “price betas” or “rate-of-return-**  
6 **based” betas? Please describe exactly how the beta values in Schedules 18**  
7 **and 27 are calculated.**
- 8 **b. How does Research Insight define “beta”?**
- 9 **c. Does Research Insight take a view as to whether it is more appropriate or**  
10 **accurate to use historical “rate-of-return betas” or “price betas” to predict**  
11 **future individual-company systematic riskiness? If so, what is Research**  
12 **Insight’s position?**
- 13 **d. In Ms. McShane’s view, are “adjusted” beta values intended to be forward-**  
14 **looking estimates of what actual company true (“rate-of-return-based”) beta**  
15 **values in the future are expected to be? If not, what are they intended to**  
16 **represent?**
- 17 **e. Please provide copies of any evidence that Ms. McShane is aware of, or has**  
18 **prepared herself, which indicates that published “adjusted” betas from any**  
19 **source have indeed been unbiased estimates of subsequently-observed, actual**  
20 **utility company rate-of-return betas for either Canadian or U.S. regulated**  
21 **utilities.**

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23 **A. (a) See response to CA-NP-277 (b).**

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25 (b) Research Insight betas are calculated using month-end closing prices inclusive of  
26 dividends for both the individual stock and the market index. Research Insight  
27 provides betas calculated using monthly data for a 5-year (60-month) time period.  
28 If fewer than 60 months of data are available, the beta is calculated for as few as  
29 24 months.

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31 (c) Research Insight is a data base, which includes both raw data and pre-defined  
32 constructs, and does not have a position.

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34 (d) By making the adjustment, Ms. McShane is not suggesting that the forward-  
35 looking estimates of the true beta will be closer to the adjusted beta, but rather that  
36 the adjusted beta is a better predictor of the return.

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38 (e) Ms. McShane is not aware of any such studies. However, as noted in 277d, in  
39 Ms. McShane’s opinion, the key consideration is not whether the adjusted beta is  
40 a good predictor of a subsequent “raw” beta. Rather, the beta utilized in a CAPM  
41 or “risk-adjusted market risk premium” study should reflect a reasonable  
42 approximation of the empirical risk/return relationship.