

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

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3 **Q. (Appendix E, page 6, lines 5-6) Please specify the amount of the downward return**
4 **adjustment for relative industrial-versus-utility risk and justify the magnitude of**
5 **the amount.**

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7 A. The adjustment was to the lower end of the range of returns for the sample of 12.5 –
8 12.75%. The adjustment represents Ms. McShane’s judgment as applied to the relative
9 risk measures discussed in pages 3-4 of Appendix E. The end result was also judged to
10 be reasonable by reference to the returns of the low risk U.S. industrials.