Q: Reference: Page 33, Lines 1-4.

"I believe it must be allowed the opportunity to earn a rate of return high enough to enable it to meet all its debt service obligations, to achieve and maintain a sound credit rating in the financial markets of the world, and to attract new equity capital without impairing, under normal circumstances, its equity book value."

Would Dr. Cannon also agree that to be considered fair, the return must be commensurate with the return on investments of similar risk?

A: A "fair return" must be gauged with reference to the returns of other comparable firms possessing the equivalent degree of *equity investment* riskiness, but only where those returns are not the product of the companies' exploiting monopolistic positions in markets or exploiting some other failing within the competitive environment. Firms that achieve excessive returns relative to their costs of equity capital and, therefore, achieve greatly-elevated market-to-book-value ratios by exploiting various product or capital market "imperfections", are not standards against which "fair returns" for a rate-regulated utility should be judged. Consequently, the statement that Dr. Cannon is being asked to agree with needs to be qualified in a number of respects.