Consumers Council of Canada and the Vulnerable Energy Consumers Coalition (CCC) and (VECC) INTERROGATORY #19 List 1

Interrogatory

Ref: B1/T3/S1 p. 47

Issue 4.0
Issue: Cost of Capital/Capital Structure

Topic: Beta Adjustment

Request:

a) Is Ms McShane aware of any research that indicates that utility betas do not regress towards 1.0 as she assumes in her footnote 45 adjustment model, but instead they regress towards their grand mean.

b) What is Ms. McShane's estimate of the grand or overall mean of the utilities in her Table 11.

c) Can Ms. McShane "update" her table by assuming instead a 50% adjustment towards the utility mean she estimates in b) above.

Response

a) Yes, there was a study by Michael J. Gombola and Douglas R. Kahl entitled "Time Series Processes of Utility Betas: Implications for Forecasting Systematic Risk" (Journal of Financial Management, Autumn 1990). It covered the period 1970-1984.

b) Ms. McShane does not have an estimate of the grand mean in the context of the study referenced in a).

c) See response to b).