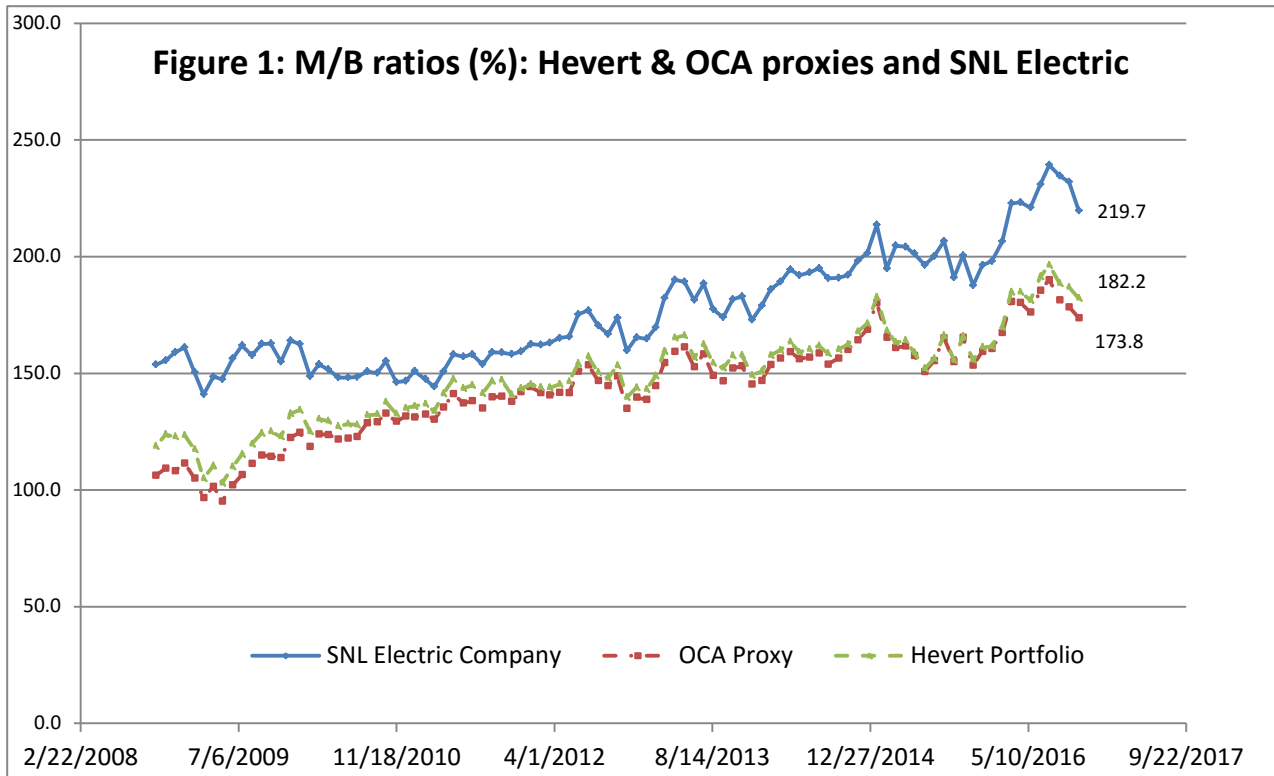


1 the last six years have been 1.84 and 1.57, respectively.⁷ As for the OCA's proxy, the
2 average market-to-book ratio for the corresponding period has been 1.53.

3 More importantly, as for the current market-to-book ratios, they are 2.20, 1.82 and 1.74
4 for SNL electric, Hevert's proxy and the OCA's proxy, respectively. This indicates that
5 the true cost of equity currently is comfortably less than the return on equity expected
6 by investors in electric utilities. In view of that, if the cost of equity is plainly estimated
7 based on existing expected return on common equity, the resulting return would
8 unreasonably benefit shareholders at the expense of ratepayers.



9 **Q. In view of the observed market-to-book ratio being considerably higher than**
10 **one, do you have any recommendation on your preferred approach on estimating the**
11 **cost of equity?**

⁷ Data downloaded from SNL on October 20th, 2016.