Q. Evidence of Ms. McShane, Two factor model, Pages 60-67: Please confirm that sing returns means that the intercept is equal to the risk free rate times one minus the beta coefficient and is not "unexplained" as she claims.

A. Not confirmed. That would only be the case theoretically in a one variable model where the one variable is the equity market, a pure risk-free rate (rather than the long-term Canada bond) is used and the stock return is fully explained by the risk free rate and the equity market return. Ms. McShane was attempting to estimate how much of the historic utility return could be explained by volatility in the long-term Canada bonds and how much by volatility in the equity market, which is what the analysis accomplished. By "unexplained", Ms. McShane meant unattributed to either volatility in the equity market or to volatility in the long-term government bond market. Further, when the analysis was performed using excess returns, as explained at lines 1561-1597 of Ms. McShane's testimony, there remains a significant persistent component of the utility return which is not attributable to the risk-free rate (as proxied by the short-term Treasury bill rate), the long-term Canada bond market, or the equity market.