Consumers Council of Canada and the Vulnerable Energy Consumers Coalition (CCC) and (VECC) INTERROGATORY #28 List 1

Interrogatory

Ref: B1/T3/S1 p. B-3

Issue 4.0
Issue: Cost of Capital/Capital Structure

Topic: Risk premium regression

Request:

a) In view of Ms McShane's view on the lock in premium attached to the long Canada bond has Ms. McShane ever used a risk free rate that strips out this risk premium as a basis for her risk premium tests?

b) What would Ms. McShane's estimate of this lock-in or interest rate risk premium be?

Response

a) Ms. McShane has not, to her recollection, adjusted the risk-free rate for a lock-in premium.

b) The estimate would be time-specific. There is no evidence of a lock-in premium at the present time, since the difference between the yield on conventional 30-year Canada bonds exceeds the yield on long-term Government of Canada real return bonds by approximately the long-term expected rate of inflation.