***Consumers Council of Canada and the Vulnerable Energy Consumers Coalition (CCC) and (VECC) INTERROGATORY #24 List 1***

***Interrogatory***

Ref: B1/T3/S1 p. 52

Issue 4.0
Issue: Cost of Capital/Capital Structure

Topic: Cost of Equity Estimates

Request:

How would Ms. McShane's estimates change if

a) She used the current long Canada yield of 4.0%

b) She used the current consensus long Canada yield forecast?

***Response***

a) & b) The January 2007 consensus forecast is for a 10-year Canada bond yield of 4.0% three-months forward and 4.2% 12-months forward, for an average of 4.1%. The current spread between 10- year and 30-year Canada bond yields is approximately 5 basis points for a forecast of 4.15%.

At a 4.0% 30-year Canada bond yield, the estimates would be as follows:

| **Risk Premium Test** | **Risk Premium** |
|---|---|
| Risk-Adjusted Equity Market | 4.50% |
| Historic Utility | 5.50% |
| DCF-Based | 4.75-5.0% |

The estimates would be similar at a 4.15% 30-year Canada bond yield.