

Q. NLH-130 CA (Re: Page 22, line 16)

Dr. Kalymon states, “....expect a risk premium in the range of 2.00% to 2.50%”. Considering Dr Kalymon proposed a 2.5% to 3.0% risk premium over 10-year Canadas in NLH’s last case, does he believe the spread between 10- and 30-year Canadas is normally 50 basis points?

A. **The choice of risk premium in both cases is a factor of the observed conditions in the market at the time of preparation. The use of 30 year bonds was introduced in the current testimony to be more consistent with Board practice of considering the 30 year Canada bond yield as a suitable base for the equity cost adjustment formula and has no other significance. Generally, one would expect the risk premiums arising from measurements based on 30 year bonds to be lower than those arising from studies with shorter duration.**