**Q. Reference: CA-NP-157**

**Attachment C (page 3) of the RFI response provides evidence that the 2015 yield for Canadian A-rated utilities of 3.50% was lower than the 3.67% yield on U.S. A-rated utilities. It also shows that Canadian A-rated utility yields were below those for U.S. utilities in both 2014 and 2013. Consistent with Mr. Coyne's argument that financial markets are integrated, doesn't the higher yield required for U.S. utility bonds indicate that investors believe U.S. utilities are riskier than Canadian utilities? If so, why not?**

A. No. The nominally higher yield on the Moody's A-rated Utility Bond Index of 17 bps as compared to the Bloomberg Canadian A-rated 30-year fair value utility bond yield cannot credibly be interpreted to mean that investors view U.S. utilities as riskier than Canadian utilities. Although default risk does factor into bond yields, it is unlikely with the extremely high credit quality of the proxy group companies, that there is any measureable difference in default risk expectations. Differences, however, could be attributable to differing bond terms and overall expected inflation levels.

First with respect to differing bond terms, the Bloomberg 30-year Fair Value Curve extrapolates current Canadian utility bond yields of varying maturities to equate to a 30-year maturity, by finding the point on the fair value curve where maturity equals 30 years. Accordingly, the bond term for the Bloomberg fair value 30-year bond is always exactly 30-years. In comparison, the Moody's A-rated index reports U.S. seasoned utility bond yields with maturities as close as possible to 30 years but could be longer or shorter. So, it is possible that the difference between the Moody's and Bloomberg reported A-rated utility bond yields is at least partially due to the terms of the bonds themselves.

Secondly, corporate bond yields are subject to national inflation expectations that differ from country to country. As Mr. Coyne explained in his response to Request for Information CA-NP-308, higher interest rates in the U.S. are likely attributable to higher inflation expectations in the wake of continued U.S. economic expansion. This is in contrast to Canada where recession still threatens the economy. For these reasons, Mr. Coyne does not believe the noted 17 bps difference in utility bond yields can credibly be attributed to the higher risk of the U.S. utilities. Please also see Mr. Coyne's response to Request for Information CA-NP-308.