Q. Evidence of Ms. McShane, Historic returns, Page 74-77: Please confirm that whereas the historic returns indicate a 4.2% premium of utility returns over long Canada bond returns, Ms. McShane's "historic" estimates are not based on this estimate, but on her assumed elasticity factors with respect to market interest rates. Please indicate when she started adjusting her historic experienced return estimates in this way.

A. The 4.2% achieved utility equity risk premium cited in the question and at line 1859 of Ms. McShane's testimony represents the calculated actual utility equity market returns less the total government bond returns in Canada over the post-World War II period (1956-2011) with materially higher interest rates and bond returns than are forecast for the test period and over the longer term. Ms. McShane's evidence explains in detail how her estimate of the utility equity risk premium was derived and why it is not simply based on the historic average of equity returns over bond total returns from a single period in Canada. Ms. McShane has consistently recognized that there is an inverse relationship between utility equity risk premiums and long-term government bond yields. She has explicitly accounted for that relationship in her estimation of the utility risk premium from historical utility return data since 2006. The first time that she utilized the elasticity factors to do so was in the Alberta generic cost of capital proceeding in 2011.