Q. Evidence of Dr. Vander Weide: Experienced "risk premia" Pages 19-23: Would Dr. Vander Weide provide the long Canada bond yield at the start of 1956 and 1983, his two periods in Table 1 and accept that there is less "interest rate" effect in the 1956-2010 than 1983-2010? If not, please explain why not.

A. The yield on long Canada bond was 3.30 percent in January 1956 and 12.28 percent in January 1983; the average yield on long Canada bonds in 1956 was 3.63 percent and the average yield in 1983 was 11.79 percent, as shown in Exhibit 1. Dr. Vander Weide does not accept that there is an "interest rate effect" for utility stocks because the expected return on utility stocks depends on both the expected cash flows from investing in utility stocks and the rate at which these cash flows are discounted to present value. Since the cash flows generated by utility stocks depend on the utility's allowed rate of return, and allowed ROEs generally move in the same direction as the discount rate, the impact of a change in interest rates on the utility's cash flows should roughly off-set the impact of the change in interest rates investors use to discount cash flows to present value. These off-setting effects of changes in interest rates should therefore cause potential "interest rate effects" to be negligible.