**Q.** **Vander Weide Evidence (page 35) – Dr. Vander Weide indicates that his Ex Post risk premium studies provide evidence that "investors require an equity return that is at least 6.7 percentage points above the interest rate on long-term Canadian bonds." Dr. Vander Weide then states that adding a 6.7 percentage point risk premium to an expected yield of 2.73 percent on long term Canadian bonds and including a conservative 50 basis point allowance for flotation costs and financial flexibility produces an expected return on equity equal to 9.9%. In No. P.U. 43 (2009), the Board utilized 4.50% as the forecast of the risk-free rate to be applied in the 2010 test year. If the period of study in Table 2 at p. 35 was truncated at the end of 2009, what would be the indicated risk premium?**

A. The indicated risk premium would be 6.5 percent. However, Dr. Vander Weide does not believe that it would be reasonable to truncate his data sets at 2009 when he is estimating the cost of equity in 2012.