

1 **Q. Vander Weide Evidence (page 39) – Further to the previous question, what beta**
2 **average is derived if the smaller group is used and what impact would that have on**
3 **Dr. Vander Weide’s CAPM estimate? Please also show how the answer was**
4 **derived.**

5
6 A. The average Value Line beta for the smaller group of electric and gas utilities is 0.71. The
7 CAPM estimated cost of equity using this beta value is 7.92 percent. The derivation of
8 this estimate is shown below.
9

Factor	Value	Description
Risk-free Rate	2.73%	Long-term Canada Forecast Yield
Beta	0.71	Average Beta Smaller Utility Group
Risk Premium	6.6%	Long-horizon SBBI risk premium
Beta x Risk Premium	4.69%	
Flotation	0.50%	
CAPM cost of equity	7.92%	