Q. Vander Weide Evidence - Canadian Risk premium estimates, pages 32-36.

a. Please recalculate the data in table 2 using total bond returns rather than yields.

b. Please provide references to any published academic studies not consulting reports by academics (ie., professors at a University) that calculate risk premia based on yields rather than returns. Please confirm that the use of yields biases risk premia estimates up (down) when interest rates are falling (rising) since it ignores the capital gain to holding bonds.

c. Please provide copies of any testimony filed by Dr. Vander Weide that used yields in the period prior to 1991 when interest rates were often rising.

d. Please indicate whether Dr. Vander Weide has ever filed testimony using risk premia based on bond returns rather than yields.

e. Please confirm that BCE has been a part of the utilities index, and when it was, it included its ownership of Nortel.

A. a. Dr. Vander Weide did not make this calculation in the preparation of his written evidence because his studies pertain to the risk premium on a particular stock portfolio compared to risk-free government securities. Dr. Vander Weide uses the yield on government securities because only the yield on these securities is risk free.

b. (b.1) The Ibbotson® SBBI® Annual Classic and Valuation Yearbooks are the most widely cited sources of risk premium data. The Ibbotson data on annual rates of return were originally compiled at the Center for Research in Security Prices, University of Chicago Graduate School of Business. Roger Ibbotson, now Professor at Yale, was instrumental in developing this database. With regard to the use of bond yields or bond returns to estimate the cost of capital, Ibbotson SBBI® states that the income return, that is, the return arising from the bond coupon payment, but not the capital gain or loss, is most appropriate for use in calculating the equity risk premium:

> *"Another point to keep in mind when calculating the equity risk premium is that the income return on the appropriate-horizon Treasury security, rather than the total return, is used in the calculation. The total return is comprised of three return components: the income return, the capital appreciation return, and the reinvestment return. The income return is defined as the portion of the total return that results from a periodic cash flow or, in this case, the bond coupon payment. The capital appreciation return results from the price change of a bond over a specific period. Bond prices generally change in reaction to unexpected fluctuations in yields. Reinvestment return is the return on a given month's investment income when reinvested into the same asset class in the subsequent months of the year. The income return is thus used in the estimation of the equity risk premium because it represents the truly riskless portion of the return." [2012 Ibbotson® SBBI® Valuation Yearbook, Chapter 5, "The Equity Risk Premium," p. 55]*

(b.2)Cannot confirm for the reasons stated in response to CA-NP 268 (b.1).

c. Dr. Vander Weide's current written evidence uses yields in the period prior to 1991.

d. When comparing the return on stocks to the return on risk-free government securities, Dr. Vander Weide has always used the yield or income return on government securities because only the yield or income return is risk free.

e. BCE has been part of the S&P/TSX Utilities Index. It has not been part of the BMO Capital Markets Utility Group.