

1 **Q. Vander Weide Evidence - US forward looking Risk premia, pages 36-38**

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- 3 **a. Please provide the estimates without the quarterly compounding of**
- 4 **dividends.**
- 5 **b. Please confirm that these estimates rely on the contemporaneous rather than**
- 6 **forecast long Treasury bond yield.**
- 7 **c. Please confirm that the last estimate is simply the DCF estimate and indicate**
- 8 **what it would be for both gas and electric companies without the quarterly**
- 9 **dividend compounding and using a one year forecast long treasury Yield.**

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- 11 **A.**
- 12 **a.** Please refer to the response to CA-NP 266. As shown in the comparison provided
- 13 in that response, the quarterly compounding of dividends does not have a
- 14 significant impact on the DCF results compared to the use of the annual model.
- 15 Dr. Vander Weide uses the quarterly DCF model because it is theoretically
- 16 correct.
- 17 **b.** Cannot confirm. To develop the ex ante risk premium cost of equity, Dr. Vander
- 18 Weide uses the Canadian forecast interest rate on long-term Canada bonds at the
- 19 time of his studies, 2.73 percent.
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- 21 **c.** Cannot confirm. The last line of Exhibit 10 or the last line of Exhibit 11 shows the
- 22 DCF-based risk premium using data for June 2012. The ex ante risk premium
- 23 model develops an estimate of the forward looking risk premium by regressing
- 24 the risk premium results in the last columns of Exhibit 10 and Exhibit 11 against
- 25 the bond yields shown in the third columns of these exhibits. The forecast risk
- 26 premium is then obtained from the regression equation using the forecast bond
- 27 yield. In addition, as discussed in response to sub-part (a.), quarterly dividend
- 28 compounding does not have a significant impact on the DCF result. With respect
- 29 to the request to re-do the ex ante studies using a one-year forecast long Treasury
- 30 bond yield in every period, Dr. Vander Weide does not have the data required to
- 31 perform such a study.