

1 **Q. Reference pages 26-33: Risk Premiums: Please confirm that Mr. MacDonald is**  
2 **using Blume adjusted betas in his CAPM estimates and whether he is aware that**  
3 **these have been rejected by almost every board in Canada. If not please provide**  
4 **citations to boards that have explicitly accepted a beta adjustment toward 1.0.**  
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6 A. Mr. MacDonald confirms the use of the Blume adjustment. Mr. MacDonald is not aware  
7 of a Canadian regulatory board which has accepted Blume adjusted betas. The argument  
8 against a Blume adjustment is that utilities have lower risk; therefore utility betas  
9 converge towards the average beta for their group and not towards 1, which is the average  
10 beta for all companies on the market.  
11

12 In his analysis Mr. MacDonald used adjusted betas since the raw beta is a spot estimate  
13 based on particular period of observations and may not be indicative of the average beta.  
14 For example, currently betas include the fallout from the financial crisis. The adjustments  
15 try to normalize the betas to what is believed to be a long-run average.