

Q. Opinion on Capital Structure and Return on Equity
Kathleen McShane – Volume 3

Pg. 56, Section C - How was the difference in the economic risk profile of each country considered in the selection of comparable companies?

- A. In addition to assessing the characteristics of the utility sectors in the U.S. and Canada and the specific utilities selected, Ms. McShane considered relative levels of growth, inflation, interest rates, and equity market volatility in the two countries. These factors indicated that the cost of capital environment in the two countries is similar. Current levels of real GDP growth and inflation are similar. Real GDP and inflation are expected to be virtually identical in the two countries in 2012 and 2013. With respect to interest rates, as indicated in the table below, except for the 30-year Government bond yield, which has been higher in the U.S. than Canada, the levels of interest rates across various categories of long-term interest rates have been similar.

Interest Rate Differences: Canada vs. U.S.					
	10-Year Government	30-Year Government	Long-term Corporate AAA/AA	Long-term Corporate A	Long-term Corporate BBB
1/2011-8/2012	0.04	-0.54	-0.05	-0.04	0.01
9/2011-8/2012	0.09	-0.39	0.03	0.04	0.03
3/2012-8/2012	0.09	-0.44	-0.18	0.01	-0.06
8/2012	0.20	-0.34	-0.11	0.20	0.09

Ms. McShane's testimony at page 69-70 shows that equity market volatility in the two countries has been similar. Volatility of equity market returns in the utility sector has also been similar.