Q. Written Evidence of James H. Vander Weide – Volume 3

Pg. 38, A110 - Why is the ex ante risk premium calculated with US Treasury Bonds, while the overall cost of equity for this methodology is built up utilizing long-term Government of Canada bond yields?

A. The ex ante risk premium approach requires an estimate of the ex ante risk premium and the risk-free rate. Dr. Vander Weide uses U.S. Treasury bond yields to estimate the ex ante risk premium because he is estimating the ex ante risk premium for U.S. utilities. To estimate the risk-free rate component of the ex ante risk premium approach, Dr. Vander Weide could use either a Canadian or a U.S. risk-free rate. Dr. Vander Weide chose to use a Canadian risk-free rate because Newfoundland Power is a Canadian utility. Dr. Vander Weide notes that long-term Canadian and U.S. government yields are approximately equal.