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Q. (page 45, lines 1210-1215, and page 48, Table 8, and lines 1295-1297) Given the sensitivity of utility share prices and returns to interest rates and the inverse relationship between these, please explain why future utility equity returns will not fall below their very-long-run averages if, as Ms. McShane expects, long-term Canada bond yields rise from their current levels in the future.

A. The long run average return for utilities has been 11.5% to 12.6% on a geometric and arithmetic average respectively in Canada, with corresponding ranges of 10.2% to 11.4% for electric utilities and 11.1% to 12.3% for gas utilities in the U.S., as per Schedule 15. Since the risk premium test based on historic averages indicates a risk premium of approximately 5.0% to 5.5%, at a long Canada bond yield of 5.0-5.5%, the indicated expected return of 10.0% to 11.0% is below the long-term average return.