Q: Reference: Page 11, Line 19 and Page 48, Lines 30-31

Please explain why the riskless long-term asset yield is expected to be lower than the forecast T-bill yield.

A: There are many reasons why the riskless long-term asset yield is expected to be lower than the T-bill yield during the test year. First, and probably most importantly, is the fact that the riskless long-term asset yield is determined partly by investors' expectations for the level of inflation over the long-term horizon, while the T-bill rate reflects inflation expectations over a 3-month horizon, and inflation over the long run is expected to be lower (at 2.0%) than that prevailing during the test year on average (2.24%). Second, the T-bill rate is significantly impacted by the Bank of Canada's monetary policy actions, while the riskless long-term asset yield is not. Third, the riskless long-term asset yield will be lower than the T-bill rate if investors expect interest rates in general to be lower after the test year than they are during the test year – which is not an unreasonable expectation.