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Q: Reference: Page 16, Lines 20-23 and Page 17, Lines 8-11

Please discuss whether or not, in the context of the CAPM, weather risk is a diversifiable risk and thus equity investors would not require a premium to accept weather risk.

A: Weather risk is, indeed, a largely diversifiable business risk that investors who hold widely diversified securities portfolios (an essential requirement for the applicability of the CAPM) do not have to be compensated for my means of an extra amount of “expected” return or a “premium” return.

In his evidence, Dr. Cannon assumed that some, but far from all, of the present and potential investors in Fortis’ shares (hence indirectly in NP’s shares) meet the CAPM requirement of holding well-diversified portfolios. Those that do not, however, will focus more on the SD(r), SD(ROCE), and SEE(ROCE) measures of risk, which *are* impacted by weather risk unless some regulatory protection against weather risk is in place.