Q: Reference: Page 73, Lines 24-33.

Does Dr. Cannon agree that the Consensus Forecast method that is used by the BCUC, EUB, NEB and OEB is also a reasonable approach for establishing the risk-free rate for use in a formulaic approach to determine the rate of return on equity? If not, why not?

A: No, Dr. Cannon does not agree. While employing the *Consensus Forecast* figures *was* reasonable when the use of automatic adjustment mechanisms was first introduced in the mid-1990s, it is no longer a reasonable source for interest rate forecasts to be used to establish the riskfree rate component in regulatory automatic rate adjustment mechanisms, at the present time, because of the relatively poor quality of these consensus forecasts and their persistent bias toward over-estimating future 10-year Canada bond yield levels, as discussed in my evidence on pages 74-76 and in line 8-18 on page 77.

Dr. Cannon's views in this regard are not new. He expressed the same reservations with respect to the use of the *Consensus Forecasts* predictions in his June 2003 prefiled testimony before the Ontario Energy Board in RP-2002-0158 and EB-2002-0484, which was the OEB's "Review of the Board's Guidelines For Setting ROE." Since that time, the absolute and relative interest rate forecasting record of the collective set of analysts supplying predictions to *Consensus Forecasts* has only gotten worse.