

1 **Reference: Volume 3, Cost of Capital Report by James Coyne**
2

3 **Q. Volume 3, Cost of Capital Report by James Coyne, page 42, Figure 22. In Order No.**
4 **P.U. 18(2016) the Board accepted a forecast risk free rate based on the two test**
5 **years. Provide Figures 22 and 23 based on a two-year, not a three-year forecast.**
6

7 **A.** The requested figures using a 2 year forecast are provided below. Mr. Coyne has
8 consistently used a 3 year forecast of government bond yields in Canada (he uses a 5 year
9 forecast in his U.S. ROE analysis), and he continues to believe that a 3 year forecast is an
10 appropriate period to use for the risk free rate in the Capital Asset Pricing Model.

**Revised Figure 22:
Forecast 10-year Govt. Bond Yields**

	2022	2023	Average
Canada	1.7%	2.1%	1.90%
U.S.	2.0%	2.3%	2.15%

**Revised Figure 23:
Projected Risk Free Rate**

30-Year Risk Free Yield	Canada	U.S.
April 2021 Consensus Forecast Average 2022-2023 Forecasts	1.90%	2.15%
Average Daily Spread between 10-year and 30-year government bonds (March 2021)	0.44%	0.73%
Sum	2.34%	2.88%