

- Q. If the results of the Utilities Group of the TSE index were substituted for those of the TSE index as a whole for the period of 1981 to 2001 in Dr. Kalymon's calculation of the Risk Premium Method, confirm that the achieved risk premium of the Utilities Group over the 10-year Canada Bonds for the same period would be 5.44 % ($18.34 - 12.90 = 5.44$) and the resulting indicated cost of equity would be 10.48% ($5.04 + 5.44 = 10.48$). If Dr. Kalymon cannot confirm, please explain why.
- A. **The measurement of the cost of equity by means of the risk premium test requires the assessment of the returns achieved by investors in a broad portfolio of investments as reflected by the TSX index. The use of the Utilities Group sub-index would be pure regulatory circularity. Given that the returns for the Utilities sub-index are highly dependent on the regulatory allowed returns on equity, the use of the achieved results for this sub-index does not provide any evidence on the "cost of equity" as suggested by the mechanical calculation shown. Thus, Dr. Kalymon cannot confirm the indicated result as representing a measurement of the cost of capital.**