Q. Reference: Dr. Cleary's Evidence, Page 10, Lines 13-15

In Dr. Cleary's opinion, what is the significance of the narrow spread currently between the 10-year and 30-year Canada bond? In particular, how does this affect the cost of capital for Newfoundland Power?

A. The current narrow spread indicates that long term bond investors (i.e., 30-year bond investors) beliefs regarding future yield increases are subdued. In other words, 30-year yields are not increasing as fast as 10-year yields have been. The bottom line impact for NP's cost of capital is reflected in the 30-year government bond yields (i.e., for example it is used as the risk-free rate (RF) in the CAPM, or as a benchmark for yields on long-term debt that might be issued by NP). Therefore, the low spread has mitigated recent increases in 10-year yields, thereby contributing to a lower cost of capital for NP.