

1 **Q. Reference: Dr. Booth Evidence, Page 46, Lines 25-27**
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3 **Given Dr. Booth's testimony that current bond yields are not being determined**
4 **by ordinary investors trading off risk versus return, as assumed in standard**
5 **risk premium models, would Dr. Booth agree that the CAPM is not producing**
6 **reliable results under current market conditions and is essentially "broken"?**
7 **Please explain.**
8

9 **A.** Dr. Booth would agree that a simple CAPM that uses historic market risk premium
10 estimates produces results that he regards as unfairly low to base an allowed ROE.
11 This is why he currently does not use the simple CAPM estimates. Instead, he uses
12 a conditional CAPM, makes adjustments for the low level of long Canada bond
13 yields and uses insights from DCF models for the overall market.