

1 **Q. Laurence D. Booth Report, page 45, lines 15-28. Dr. Booth states at line 15 that there**  
2 **is no evidence of any Blume adjustment for either U.S. or Canadian utilities and**  
3 **recommends a beta range of 0.50 - 0.60. Mr. Coyne in his Evidence at page 44 does**  
4 **use a Blume adjustment for utilities and recommends a higher beta in his CAPM**  
5 **analysis. Have Canadian regulators accepted Dr. Booth's approach to determining**  
6 **the beta for a utility? Have any accepted Mr. Coyne's approach?**  
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8 **A.** Dr. Booth is aware that regulatory panels arrive at their decisions based on the expert  
9 evidence put before them, and they rarely totally dismiss the judgment of expert  
10 witnesses. Moreover, as these witnesses give evidence before regulatory panels over time,  
11 the evidentiary support for certain past decisions also changes. In the case of the  
12 behaviour of betas, there are two landmark decisions.

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14 In its 2009 decision, the Alberta Energy and Utilities Board in a generic decision at  
15 paragraph 252 concluded:

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17 *The Commission is persuaded by the empirical analysis of Drs. Kryzanowski and Roberts*  
18 *that there is insufficient evidence to support the use of adjusted betas for Canadian*  
19 *utilities if the purpose of the adjustment is to adjust the beta towards one and therefore,*  
20 *beta should not be adjusted towards one. Therefore, the Commission rejects Mr. Coyne's*  
21 *beta results as unreasonably high, because he adjusted his beta estimates on the*  
22 *assumption that they would revert to 1.00. In other words, his analysis assumes that, in*  
23 *time, utilities would be as risky as the market as a whole.*  
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25 Similarly, in 2011 the Regie also dismissed the use of Blume adjusted betas, stating:  
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[224] With respect to the use of adjusted betas, the Régie maintains the position it has  
taken in previous decisions.<sup>86</sup> The explanation commonly used in financial research to  
support an adjustment to raw beta, namely the empirically observable tendency of betas  
in general to converge in the long term towards the market mean of 1, does not apply in  
the case of regulated companies. Given the existence of exclusive distribution rights, it is  
difficult to see how the risk associated with the operation could increase significantly and  
converge towards the market risk over the years.

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29 Note that the Regie stated that it had concluded this in previous decisions; that is, it has  
30 been consistent. In 2022, a different witness put forward by Energir based her evidence  
31 on three models all of which the Regie had explicitly rejected, and one of which was

1 Blume adjusted betas! Dr. Booth's conclusion from this is that the repeated presentation  
2 of work based on models that have been explicitly rejected in the past without any  
3 explanation as to why a Board should change its judgement is made on the assumption  
4 that it might slip though with a "new" panel.