

- 1 **Q. Laurence D. Booth Report, page 46, lines 1-8. Dr. Booth says that a conventional or**
2 **generic CAPM estimate for a benchmark utility at the present would be within a**
3 **range of 7.05% - 7.90% and a mid-point of 7.45% if the method as applied prior to**
4 **the financial crisis in 2008 was used. At page 48, line 19 to page 49, line 2, Dr. Booth**
5 **says “with the slight slowdown I warrant the CAPM estimate as being marginally**
6 **low and would add the credit risk adjustment for a conditional CAPM (CCAPM)**
7 **rounded estimate of 7.70 % which is slightly lower than that produced by the**
8 **modified NEB formula.”**
9
- 10 (i) **Please explain if there are other potential adjustments and if Dr. Booth**
11 **considered other adjustments, other than a credit risk adjustment, that could**
12 **be used to reflect the current market conditions so that the CAPM analysis**
13 **would not produce an ROE that was too low and not fair? In the response,**
14 **please explain the role that informed judgment plays in determining an**
15 **appropriate adjustment to adjust for the current capital market.**
16
- 17 (ii) **Please explain if the credit risk adjustment has been accepted by Canadian**
18 **regulators in setting the fair return for a Canadian electrical utility.**
19
- 20 **A. (i) Other potential adjustments to make the CAPM conditional on the state of the**
21 **economy include the Montreal VIX, or volatility index, and a financial stress index**
22 **similar to that of the Kansas City Federal Reserve. However, they all need a spread**
23 **adjustment to convert the index to a %, similar to the ROE. The advantage of the**
24 **credit spread adjustment is that it is already expressed in terms of a % and is**
25 **directly relevant to a utility’s borrowing cost.**
26
- 27 (ii) **Almost all the Canadian regulators that used an automatic ROE adjustment**
28 **formula adopted a credit spread adjustment after the US financial crisis, including**
29 **the OEB, the AUC, the Regie and the BCUC. Please see Dr. Booth’s Appendix E**
30 **for a fuller discussion.**