

1 **Q. Reference Evidence of Laurence Booth dated September 25, 2018**  
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3 **Page 43: Dr. Booth uses the consensus forecast of 3.0% for the average long**  
4 **term Canadian bond yield for 2019 in his “simple” CAPM fair return estimate**  
5 **for 2019. Is Dr. Booth of the opinion that a forecast for the average long term**  
6 **bond yield over the period 2019 to 2020, which is the period rates are expected**  
7 **to be in effect, is an appropriate adjustment that can be made to the “simple”**  
8 **CAPM estimate to adjust for the current market conditions?**  
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10 **A.** Based on the evidence filed before the financial crisis, this would have been enough  
11 since most boards used an automatic ROE adjustment mechanism that simply  
12 adjusted the allowed ROE for 75% of the change in the forecast LTC yield. This is  
13 why this estimate is referred to as “simple.” Essentially, it ignores the structural  
14 change that has occurred in the bond market caused by massive central bank bond  
15 buying programs, and the desire expressed by boards to make the ROE more  
16 sensitive to broader capital market conditions than just the yield on the LTC bond.  
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18 Post 2009 most boards suspended or changed their ROE adjustment mechanisms.  
19 Initially, circa 2010/11 the credit market adjustment alone seemed enough, but the  
20 very low level of LTC yields since then has prompted further adjustments.