

1 **Q. Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*,
2 Evidence of Laurence D. Booth, April 2024, page 37, lines 25-26.**

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4 ***“Where the CAPM gets controversial is in the beta coefficient since risk is constantly
5 changing, as are beta coefficients.”***

6
7 **a) Is Dr. Booth aware that beta coefficients for electric and gas utilities have
8 increased substantially since January 2020 as reported by Bloomberg and Value
9 Line, both of which are well-regarded sources of financial data used by investors?**

10
11 **b) If Dr. Booth believes that risk is constantly changing, please explain why he does
12 not rely on current market data on beta coefficients for a group of companies
13 comparable to NP in terms of risk?**

14
15 **c) Why is it more reasonable to rely on historical beta coefficients for utilities over
16 the past 60 years than on current market data, if the Northwestern decision
17 requires the use of data that reflects change in the money market (i.e., the capital
18 market)?**

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20 **A. a) The question is referring to Mr. Coyne’s evidence, which uses adjusted betas and
21 not actual estimated betas. Please see Dr. Booth’s Appendix C where he indicates:**

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23 a. The only published academic research shows that the Blume adjustment
24 does not hold for utilities.

25
26 b. The betas estimated by RBC, the Globe and Mail, Yahoo Finance using S&P
27 data, Reuters and CFRA, an independent research firm that makes their
28 reports available to Scotia I Trade.

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30 c. That both Morningstar and the Financial Post define beta as normal
31 estimates and not Blume adjusted betas.

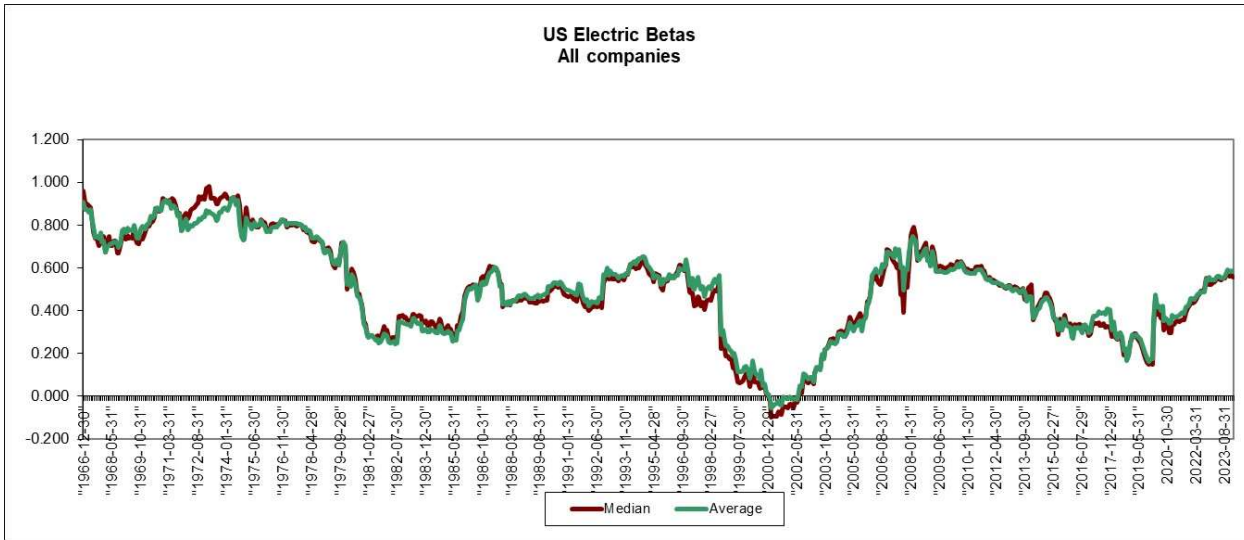
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33 d. Value Line is a private subscription-based US service that does not follow
34 most Canadian companies and is not publicly available, and it is doubtful it
35 is relied on by institutional investors.

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37 e. Bloomberg is a data provider, and to get Blume adjusted betas you click a
38 radio button, so it is up to the analyst to get regular betas or Blume adjusted
39 betas.

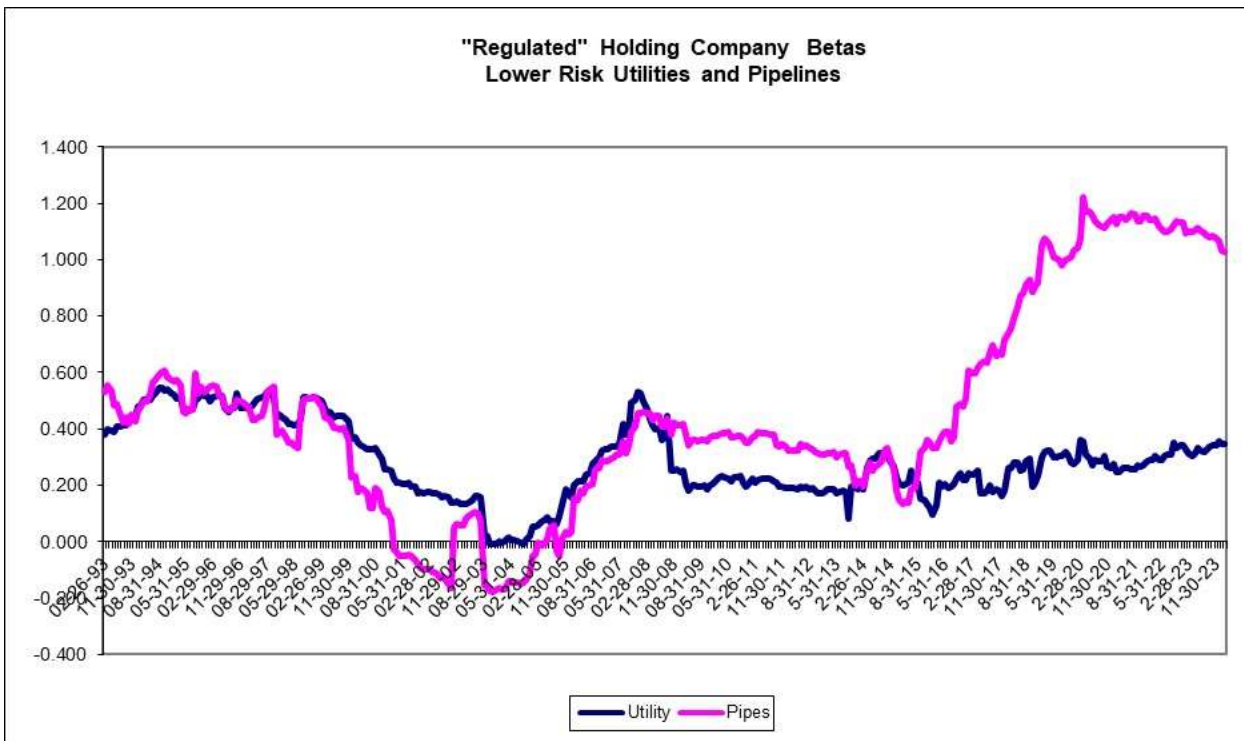
1 Dr. Booth has never seen publicly available Blume adjusted betas for utilities in
2 Canada, and even for the US electric utility holding companies, which are
3 undoubtedly riskier than NP, the average beta is about 0.60. This is an increase
4 from the time of Dr. Booth's 2001 report, and is the top end of Dr. Booth's current
5 beta range. The following is his table from Appendix C page 15.
6

	NWN	NJR	SR	ATO	SWX	OGS	Average	Median
MKT CAP	1.5	4.1	3.3	17.2	4.5	3.4	6.12	3.75
RBC	0.57	0.64	0.52	0.66	0.31	0.65	0.54	0.61
Yahoo	0.56	0.65	0.51	0.67	0.31	N/A	0.54	0.56
CFRA	0.56	0.65	0.52	0.66	0.31	0.66	0.54	0.61
Reuters	0.51	0.63	0.62	0.44	0.81	0.63	0.60	0.63
Booth	0.58	0.63	0.52	0.65	0.31	0.65	0.54	0.61
Average	0.56	0.64	0.54	0.62	0.41	0.65	0.55	0.59
Median	0.56	0.64	0.52	0.66	0.31	0.65	0.54	0.60
Globe and mail	0.28	0.63		0.67	0.31	0.66	0.47	0.63

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- 9 b) Dr. Booth does not rely 100% on current betas for individual companies since they
10 are affected by whatever happened during the five-year estimation window for both
11 the company and the overall stock market as he explains in Appendix C. The fact
12 is that the "current" betas are actually the past five-year betas and may not reflect
13 the future. For example, the most recent five-year period is only relevant if one
14 assumes that a Covid 19-like pandemic and massive central bank intervention are
15 likely to occur over the forward test years. Dr. Booth does not judge this to be
16 reasonable.
17
- 18 c) The Northwestern utilities decision did not rely on betas or the CAPM. It did
19 require that the Board make a decision based on current market conditions, and
20 that is what the CAPM and beta estimates do. Note that Dr. Booth's beta estimates
21 for individual Canadian utilities do not go back 60 years, and even the utility index
22 estimates only go back to 1987. The US electric UHC data does go back longer,
23 and these long-dated beta estimates are mentioned to discuss their strengths and
24 weaknesses and judge whether there is any trend over time, which might support a
25 Blume's adjustment, but which they clearly do not. Note what follows is a repeat
26 of the graph in Schedule 8 of Dr. Booth's Appendix C, where there is a recent
27 increase in US electric utility betas. However, this is well within normal bounds,
28 and the cyclical behaviour of the estimates. Note the same behaviour is evident in
29 US gas company betas, but in contrast there is no evidence of this for Canadian
30 utility holding companies as Schedule 4 of Dr. Booth's Appendix C, also repeated
31 below shows. So it looks like a US risk perception against the US stock market.



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