Q. Reference: Dr. Booth Evidence, Page 65, Lines 20-22: Please provide the calculation that supports Dr. Booth's statement that "a DCF analysis of the electric utilities in the S&P 500 Index leads to an average risk premium of about 3.4% over the 10 year US Treasury bond."

A. The explanation is given in Appendix D in the following section:

> *"The above calculation is a mechanical exercise and obviously includes estimation error in both the earned ROE which affects both the forecast ROE and the retention rate. To reduce individual estimation errors the exercise is repeated for each year from 1993 until 2014. This gives the average and median electric utility risk premium of 3.42% and 3.43% with 2.75% and 3.09% for the gas utilities. However, the br growth rate is sensitive to the actual earnings which affect the retention rate and may not capture the full amount of growth expectations. To check for this the last two columns estimate the utility risk premium with two alternative growth expectations. URP2 assumes that the expected ROE is the median ROE for the whole period 1993-2014 which avoids the problem of fluctuating earned returns. URP3 also assumes that the retention rate is the constant median growth rates for the whole period. This avoids the problem of declining retention rates as earnings are squeezed and the dividend maintained. The average and median URP2 is 3.32% and 3.70% for the electrics and 1.75% and 3.09% for the gas utilities and for URP3 the values are 3.35% and 2.98% for the electrics and then 2.25% and 2.09% for the gas utilities. "*