Q. Page 42: Dr. Booth uses the consensus forecast of 2.81% for the average long term Canadian bond yield for 2016 in his "simple" CAPM fair return estimate for 2016. Mr. Coyne, in his evidence, page 27, states that his CAPM analysis relies on the 2016 to 2018 average Consensus Economics forecast and, at page 35, stated that this forecasted Canadian risk free rate is one of the adjustments he makes to compensate for concerns on the ability of CAPM to produce reasonable results without adjustment in the current market environment. Is Dr. Booth of the opinion that a forecast for the average long term bond yield over the period 2016 to 2018 is one of the appropriate adjustments that can be made to the "simple" CAPM estimate to adjust for the current market conditions?

A. No.

While Dr. Booth judges current long-term bond yields to not reflect a private investor trading off risk versus expected return and suggests a floor long Canada bond yield of 3.8%, he does not think it appropriate to use an average long term bond yield forecast for a nearer term test year. Dr. Booth does agree that currently risk premium models are estimating fair rates of return lower than DCF estimates for the market as he discusses on pages 54-57. The reason for this is the current very low real rates of return on Government bonds, where a similar situation prevailed in the 1970's. However, he judges it a bad regulatory precedent to simply use a forecast beyond the test year for an earlier test year. Instead Dr. Booth tries as explained in answer to PUB-CA-001 to determine the impact of central bank bond buying programs on Canadian interest rates,