Q. Page 43: Dr. Booth states that he makes two adjustments to his "simple" CAPM estimate to adjust for current market conditions. The first is to add a 50% adjustment for credit spreads. Is Dr. Booth aware of any Canadian regulator that has applied or considered the application of a credit spread adjustment in their allowed ROE conclusions? If yes, please provide details of such decision.

A. The Ontario Energy Board in its December 11, 2009 decision (EB-2009-0084) amended its ROE adjustment formula to include a .50% credit spread adjustment based on regulated utility A rated bonds.

The BCUC in its generic cost of capital Decision (G-20-12 May 2013) also included the same .50% credit spread adjustment when they amended their ROE formula to include a 3.8% forecast long Canada bond yield as a floor.

The Regie in its decision (D-2010-147) for Gazifere also approved the same 50% adjustment to credit spreads.

Others have considered capital market conditions to make ROE adjustments and looked to credit spreads for guidance. For example, the AUC stated in its generic decision (Decision 2009-216, November 12, 2009)

> 325. Based on the Commission's findings with respect to CAPM, the Commission found a reasonable range of CAPM results of 7.13 percent to 8.62 percent. However, given the Commission's observations with respect to the impacts of the financial crisis on the traditional relationships in the financial market, the Commission considers that these CAPM may be unreasonably low.
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> 326. The Commission's analysis of the performance of high grade bonds relative to the risk free rate during the financial crisis, as explained in Section 5.7, reveals that the traditional spread between the long Canada bond yield and the yield on high grade bonds had increased to well above the traditional spread of one percent and by the close of the record in the proceeding had moved back to a spread of approximately 1.5 percent. As a result, the Commission concludes that the CAPM results likely underestimate the required market equity return by at least 50 basis points. Accordingly, the Commission has adjusted its CAPM results to arrive at a range of 7.63 percent to 9.12 percent.