

1 **Q. Page 51: Dr. Booth's second adjustment for his CAPM estimate is to add a**
2 **1.3% spread as a current "Operations Twist" adjustment. Is Dr. Booth aware of**
3 **any Canadian regulator that has applied or considered applying such an adjustment**
4 **in their ROE conclusions? If yes, provide details of such decision.**

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6 A. The BCUC specifically adopted Dr. Booth's 3.8% floor based on his "Operation
7 Twist" adjustment to their ROE automatic adjustment formula in Decision G-20-12 May
8 2013.

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10 This Board in Decision P.U. 13 (2013) also adopted Dr. Booth's 3.8% long Canada bond
11 yield floor based on the same "Operation Twist" adjustment in their interest rate forecast
12 for NP in 2013.

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14 The Board summarizes Dr. Booth's judgment at that time (decision page 22) as

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16 *"Dr. Booth also forecasts the long-term Canada bond yield to be about 3.0% but*
17 *determines a base adjusted long-term Canada bond yield of 3.8%. He believes*
18 *that the forecast long-term Canada bond yield is well below any equilibrium yield*
19 *since it is only 1.0% above the forecast inflation rate and that it would result in a*
20 *negative real yield for a typical taxable investor. Dr. Booth states that he regards*
21 *any long-term Government of Canada bond yield below 3.8% as indicating*
22 *abnormal capital market conditions and not reflective of a risk verses return trade*
23 *off by ordinary investors. He explains that the forecast low long-term bond yield*
24 *reflects the actions of global policy makers and central banks and should not*
25 *directly influence the fair rate of return for Newfoundland Power. Dr. Booth*
26 *adjusts the long-term Canada bond yield upward by 80 basis points which he*
27 *estimates is the approximate impact of the United States Operation Twist on the*
28 *Canadian bond market."*

1 Dr. Booth's judgement has not changed since then, since Canada has largely been
2 "Waiting for Godot" that is, waiting for the rest of the world to sort out their economic
3 problems and get growth back on track.

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5 Note in 2012 when Dr. Booth first made adjustments for the US bond buying program he
6 termed it "Operation Twist" after a similar US Federal Reserve program in the 1960's.

7 However, currently bond buying programs have been, or are, in effect in the Eurozone,
8 Japan, the UK and the US or all the world's major capital markets.