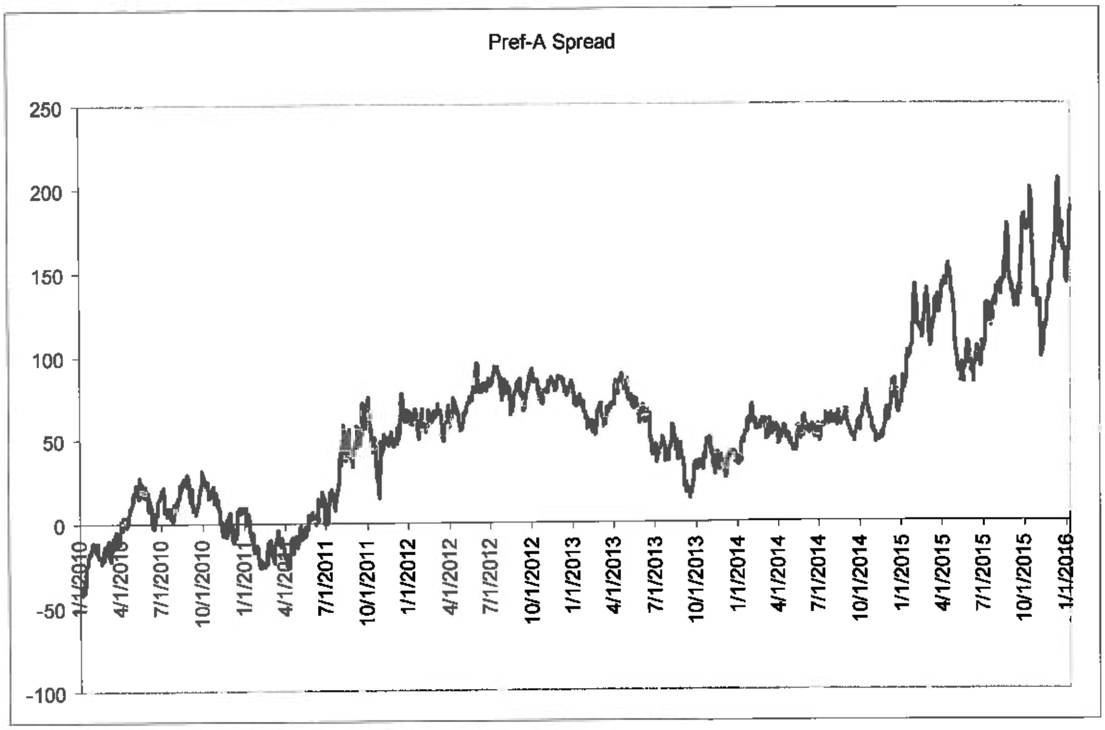
Q. Page 51 and page 65: The mid-point of the range of the CAPM estimate, after adjustments for credit spreads and Operations Twist is 7.83%, however, Dr. Booth recommends an ROE of 7.5%. Please explain in further detail why Dr. Booth believes it is appropriate to be "conservative" and reduce the recommended ROE to 7.5%.

A. In 2013 Dr. Booth estimated the "Operation Twist adjustment" at 0.80% and was quite confident in this value, since it was quite stable throughout 2012, although he did express reservations about the preferred share data at that time. However, through 2015 the preferred share spread has been extremely volatile as the graph on page 50 of his testimony reproduced below indicates. The expression of conservatism in the quote really refers to Dr. Booth's confidence in this adjustment.

Dr. Booth is confident that he would not base a recommendation on current long Canada bond yields until they return to a level that he would regard as consistent with the business cycle, which is his floor of 3.8%. The only qualification to this is that if all the bond buying programs ceased and the attendant liquidity removed, such that the level of government bond yields actually reflected true capital market conditions, then he would use those yields in a risk premium analysis. This qualification depends heavily on how central banks unwind the impact of their bond buying programs and their impact on other sectors of the Canadian capital market.


Pref-A Spread
250
200
150
100
50
0
-50
-100
1/1/2010
4/1/2010
7/1/2010
10/1/2010
1/1/2011
4/1/2011
7/1/2011
10/1/2011
1/1/2012
4/1/2012
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1/1/2015
4/1/2015
7/1/2015
10/1/2015
1/1/2016