Q. Page 52 and page 65: Explain in what manner Dr. Booth believes that the DCF method and DCF estimates should be considered by the Board in establishing the fair return for Newfoundland Power, for example should it be given equal weight with the adjusted CAPM result?

A. Since conceptually they both estimate the same thing, theoretically this indicates equal weight and the only question is empirically are there biases to using one versus the other at a point in time.

Dr. Booth with his late colleague Dr. Berkowitz used to put equal weight on both, but this became more dubious as individual DCF estimates for Canadian utilities became rarer and rarer. The fact is we lost all the "mainly" regional rate of return regulated Telcos, like Quebec Tel, BC Tel, Bruncor, Newtel, Maritime T&T and Bell Canada. Similarly, we also lost Union Gas, Consumers Gas, Maritime Electric, Pacific Northern Gas, and Inland Natural Gas (BC Gas, Terasen Gas). So it is not a theoretical, but an empirical question. Note that Dr. Booth has never used individual beta estimates as they are too dependent on recent data.

Dr. Booth's recommendation is that any recommendation can be couched in terms of a risk premium. Further these premiums are easily accessible to the Board from past allowed ROEs and their implications for financial ratios. This seems to be what the Regie does in Quebec: it frames its decision in terms of the CAPM and a risk premium, but also makes adjustments for other models, which basically means the DCF model.