Q. Page 65: Dr. Booth adjusts the DCF equity cost down for "the known optimism of analyst forecasts". Explain how Dr. Booth determined what the appropriate adjustment should be to account for this optimism.

A. Dr. Booth took the recent RBC analysis in Appendix D Schedule 18, reproduced below, as an approximation. As far as Dr. Booth is aware this is the latest guestimate of the bias, estimated as the average of the actual versus the predicted growth rate. For example in 2011 the actual was 6 and estimated 11 or only 6/11 of predicted, so the downward adjustment was 5/11 for 2011. As an approximation Dr. Booth uses the average prediction error of the last four years.