

1 **Q. Page 66: Explain in what manner Dr. Booth believes that U.S data should be**
2 **considered by the Board in evaluating results from the DCF method and in setting a**
3 **fair return generally.**

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5 A. Dr. Booth judges estimates from any jurisdiction to be valid, as long as they are
6 adjusted to reflect different capital market conditions and risk.

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8 For example the very basis of risk premium models is to use the market as a base and
9 then make risk adjustments. In the same way, US or UK estimates are useful as long as
10 they are adjusted for the different risk estimates. Dr. Booth accepts that there is a lot more
11 data in the US and he too is increasingly looking to the US for insights as the Canadian
12 sample gets smaller and less informative for a Canadian utility. TransCanada and
13 Enbridge, for example, are less useful than they were just a few years ago due to changes
14 in the oil market and political problems in the US. The same may affect Fortis as it
15 continues to expand outside Canada.

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17 In terms of capital markets, Canada has become more integrated with the US; partly this
18 reflects the impact of free trade, but the major driver has been the financial crisis and the
19 “hollowing out” of the Canadian capital market. Since the financial crisis all markets
20 around the world have reacted to the same global growth problems and the same central
21 bank bond buying programs. Dr. Booth doubts that there has ever been a period when
22 global markets have moved in unison so much. However, there is no reason to believe
23 that this will continue or that public policy will continue to emphasize free trade. The
24 current leader of the British Labour party (Jeremy Corbyn) and one of the two democratic
25 candidates for President (Bernie Sanders) both want to turn the clock back, while in
26 Canada we have a new Prime Minister following “99%” policies and no-one knows what

1 Donald Trump's policies are. There are long cycles to economic and political policy so
2 predicting that current ones will remain constant is dubious.

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4 Dr. Booth would recommend that the Board keep its options open and indicate that just as
5 all models are insightful, so too is evidence from other jurisdictions provided that
6 appropriate adjustments are made. In this Dr. Booth would point out there is objective
7 evidence that currently interest rates are lower in Canada than the US, that historically the
8 market risk premium has been lower in Canada and that Canadian utility betas are lower.

9 This Board stated (P.U. 13 (2013), page 31)

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11 *“The Board finds that the evidence demonstrates that Canadian utility data is*
12 *inadequate to complete a discounted cash flow analysis and that, in the particular*
13 *circumstances, it may be informative to look to data from the United States. As to*
14 *how this data is to be used the Board accepts the evidence of both Dr. Booth and*
15 *Mr, MacDonald that there are differences in the United States and Canadian*
16 *experience that justify an adjustment to the discounted cash flow results. Dr.*
17 *Booth suggests an adjustment of 100 basis points. Mr. MacDonald makes a 72*
18 *basis point adjustment, The British Columbia Utilities Commission has found that*
19 *the United States data should be adjusted by between 50 and 100 basis points.*
20 *The Board finds that an adjustment of 50 to 100 basis points is appropriate at this*
21 *time.”*

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23 Dr. Booth regards this as the right way to go at the moment: “accept and adjust.”