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2 **Q. Page 70: Dr. Booth does not recommend that the Automatic Adjustment**  
3 **Formula be re-instituted at this time. Does he believe that there are other**  
4 **appropriate considerations for the fair return that could be implemented that would**  
5 **trigger a hearing to review the return?**

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7 A. Dr. Booth has become increasingly pessimistic about the pace of interest rate  
8 increases. Most of the forecasters are relying on macro-economic models estimated over  
9 data that does not reflect the impact of massive central bank bond buying programs.  
10 Further their forecasts are at odds with what the bond market is saying. As a result, Dr.  
11 Booth would not object if the Board decides to fix the allowed ROE for an indefinite  
12 period.

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14 However, this creates a bit of an asymmetry, since the company will monitor events  
15 carefully and call for a hearing if the allowed ROE is judged to be unfair, whereas  
16 interveners might not. In this event an interest rate trigger, such as that included in the  
17 BCUC formula, alleviates the problem. Dr. Booth would suggest that whatever actual  
18 long Canada bond yield the Board accepts they set a band of +/- 1.5% for consultations  
19 with interested parties about a new hearing.

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21 For example, if the Board accepts Dr. Booth's use of the Consensus forecast of an actual  
22 long Canada bond yield of 2.81% for the test year, the trigger would be 1.31% or 4.31%.  
23 The latter forecast would be consistent with AON Hewitt's target yield and trigger a  
24 hearing into a return to an ROE automatic adjustment formula; whereas the former would  
25 indicate that negative interest rates from Europe and Japan have cascaded around the  
26 global financial system and the allowed ROE needs to be reviewed.

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28 Dr. Booth does not judge that there are any other meaningful macro-economic targets that

1 might trigger a review, except possibly the level of the TSX Composite level. A normal  
2 compound increase for the TSX is about 7% meaning that the TSX should be at about  
3 16,000 in three years. If it is greater than that or still below 13,000 it would also indicate  
4 the need for a review since either any current problems have passed or they have not.  
5 However, Dr. Booth judges that forecast interest rates are more meaningful for the  
6 allowed ROE.