Q. Reference: Dr. Booth's Evidence, Page 36, Line 1 to Page 38, Line 8

Please reconcile the above referenced testimony on pages 36-38 of Dr. Booth's evidence regarding the CAPM with Dr. Booth's statement on page 4, lines 25-26 of Appendix D to his evidence that the DCF estimate is particularly appropriate for use in determining the fair rate of return for a regulated utility. Which model does Dr. Booth believe is more appropriate for a regulated utility?

Dr. Booth agrees with the majority of academics and finance professionals that the CAPM is better than DCF models. This is clear from any introductory finance textbook, where the CAPM is extensive discussed. Appendix D simply states that in applying the constant growth DCF model the underlying assumptions are particularly appropriate for regulated utilities. In the 1980s into the 1990s Dr. Booth placed 50% of the weight in his ROE evidence on the results from a sample of Canadian regulated utilities. However, half of this sample; the regional Telcos have disappeared entirely, while most of the energy companies have either disappeared in takeovers or diversified away from their regulated operations. So if companies like Maritime Electric, AGT, BC Gas, PNG, Bruncor, Inland Gas, TransAlta etc., were still traded as predominantly regulated utilities Dr. Booth would probably weight DCF and risk premium models equally.