

- 1 **Q.** **Reference: *Fair Return for Newfoundland Power (NP)*, Evidence of**  
2 **Laurence D. Booth, September 28, 2021, page 24, lines 9-11.**  
3  
4 ***“The main risk is political, since neither short nor long term interest rates***  
5 ***are currently being determined by private sector investors. Instead, and since***  
6 ***the financial crisis, they have been determined by the actions of central***  
7 ***banks supporting their government’s active fiscal policy.”***  
8  
9 **What are the implications for the financial models used to estimate the**  
10 **cost of equity based on Dr. Booth’s observation that interest rates are not**  
11 **being determined by private sector investors?**  
12  
13  
14 **A.** It is why Dr. Booth does not use the actual forecast long Canada bond yield in  
15 his CAPM estimate; a practise which has been adopted by several equity  
16 cost/return forecasters, where the risk free rate has been expressed as a long run  
17 forecast or “equilibrium” rate. Only very rarely has the consensus forecast been  
18 used for the long Canada yield where it was the basis for most ROE adjustment  
19 formulae.