

- 1 **Q. Evidence, page 67, lines 11-13. Confirm that Dr. Booth does not recommend**
2 **the implementation of an Automatic Adjustment Formula at this time.**
3
- 4 **A.** Dr Booth has recommended automatic ROE adjustment formula repeatedly in the
5 past as a regulatory convenience. However, all existing mechanisms have been
6 based on the forecast long Canada bond yield, which has been artificially depressed
7 by rampant central bank bond buying. For this reason, he has recommended that if
8 a formula is adopted it would only operate when the forecast long Canada bond
9 yield exceeds at least 3.8%. At the current point in time he judges such an event
10 during the forecast test years as being highly unlikely. Consequently, adopting one
11 at the moment has no advantages.
12
- 13 In the future Dr. Booth would recommend that the Board ask for evidence on an
14 automatic ROE adjustment formula if interest rates increase from their current level
15 to close to the 4% level. In this respect he notes a recent forecast by Derek Holt of
16 Scotiabank (Financial Post October 20, 2021) that the Bank of Canada will raise its
17 policy rate to 2.25% by the end of 2023. If this happens the Prime rate will probably
18 be 4.45% and Long Canada bond yields close to Dr. Booth's 3.8% long Canada
19 yield trigger.