

1 **Q. Further to PUB-CA-017:**

- 2 (a) **In Dr. Booth's opinion are there any other appropriate ways to make**
3 **adjustments for the current market conditions in determining a fair return**
4 **on equity for Newfoundland Power using CAPM?**
5 (b) **In Dr. Booth's opinion can the application of judgment to select the overall**
6 **magnitude of the adjustment required also be an appropriate way to adjust**
7 **for abnormal market conditions?**
8

- 9 A. a) Yes to both. Conceptually there are a number of possible values to condition
10 the CAPM estimate on to make it more accurate. Possibilities are the
11 volatility index (VIX) and the Kansas City Fed Financial Stress Index. The
12 problem is that neither are expressed in percentages for ease of adjustment
13 nor are they directly related to typical utility borrowing costs. The usefulness
14 of the credit adjustment is that it reflects the same phenomena but is
15 automatic in terms of percentages and reflects the borrowing cost of a typical
16 utility.
17
18 b) Dr. Booth believes that judgment is required of any adjustment, but that the
19 judgment has to be constrained by objective criteria such as the historic
20 evidence of the market risk premium and the overall expected return on the
21 market. Dr. Booth is a believer in the famous quotation below attributed to
22 Immanuel Kant
23

24 *"Experience without theory is blind, but theory without experience is*
25 *mere intellectual play"*