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2 **Q. Reference: Page 24, Lines 25-26:**
3

4 **“This “flight to quality” is a regular part of the business cycle.”**
5

6 **If the allowed return on equity tracks the yield on long-term government bonds, please**
7 **explain why, over a business cycle, the allowed return rises when the cost of equity falls**
8 **and falls when the cost of equity increases?**
9

10
11 **A.** For utilities Dr. Booth does not believe that it does. Further, quantifying any such changes
12 is extremely difficult and unlikely to result in material changes to the average ROE allowed
13 a utility over the full business cycle at the expense of introducing un-needed volatility in the
14 annual ROE and rates.
15
16