Q. Reference: Page 34, Lines 8-11

"To the extent that long Canada bonds earn a maturity premium of at least 1.0% over the average Treasury bill yield, this classic CAPM automatically increases the risk free rate and lowers the slope of the CAPM in the same way as the ECAPM. In this way, it adjusts for the bias noted in these early tests of the CAPM."

Please provide all empirical evidence that reliance on a long-term bond yield, rather than a short-term rate, fully adjusts for the bias referenced in the preamble.

A. Dr. Booth does not state that it fully adjusts for the bias, he states that it adjusts. Whether the adjustment he uses over or under adjusts is impossible to determine since the CAPM tests were carried out decades ago and as far as Dr. Booth is aware there are no CAPM tests that use either LTC bond yields as the risk free rate or adjust betas in the way that he does. However, it is standard in utility rate hearings to use the LTC bond yield as the risk free rate and not place primary reliance on the immediately observed beta coefficient. In this way Dr. Booth is being consistent with best regulatory practise in Canada.