1 2 3	Q.	Reference: Pages 86-97
4 5 6		Dr. Booth discusses the relationship between the utility cost of equity and long-term Canada bond yields.
7 8 9 10		Could Dr. Booth confirm that his conclusion regarding the implausibility of an adjustment coefficient of 0.50 for utilities is dependent on the relevant utility beta being 0.50? If this cannot be confirmed, please explain why not.
11 12 13	A.	Yes this is why the phrase is italicized.
14 15 16 17 18 19 20 21		In the example if the utility, consistent with recent experience, had a beta of say 0.25 then with a 1.0% drop in the LTC yield an adjustment of 0.50 implies a 0.50% increase in the utility risk premium. In turn this then implies a 2.0% increase in the market risk premium, that is, 0.50/0.25. In this case the 0.50 adjustment implies that the market risk premium increases when the long Canada bond yield falls, which is what company witnesses, like Ms. McShane, are arguing for at the current point in time. However, it relies on a beta coefficient less than 0.50 and much less than Ms. McShane is currently using.
22 23 24 25 26 27		In contrast a beta of 0.75 implies a change in the market risk premium of 0.50/0.75 or 66.7 bps so that the market risk premium increases by 66.7% of the drop in LTC yields. In this case the overall market return drops with LTC bond yields. However, whereas Ms. McShane uses a higher beta coefficient than 0.50 she does not seem to accept the result that the market return drops as LTC yields drop since this would imply that the formula is not broken.
28 29 30 31		Unfortunately the 0.50 ROE adjustment to changes in the forecast LTC yield produces results that seem to be internally inconsistent with other areas of Ms. McShane's testimony.