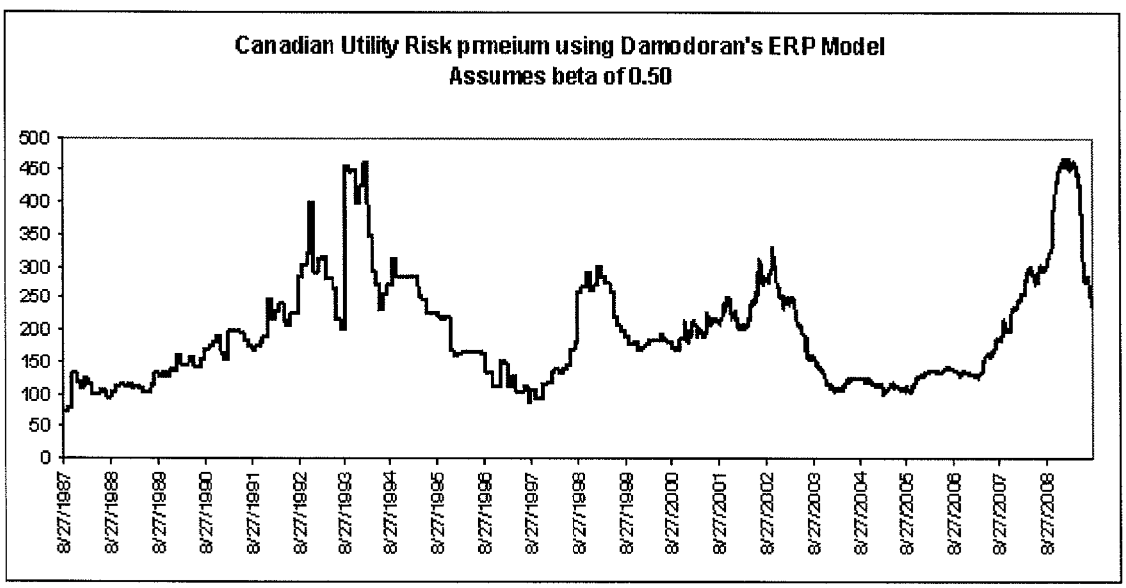
Q. Is it Dr. Booth's opinion that investors in current markets who are contemplating investment in Canadian common equities perceive the same or smaller risk premium over A - rated utility bonds than investors one year ago? If the answer is yes, please provide copies of all studies of risk premiums and empirical studies showing this risk premium relationship.

A. Dr. Booth does not judge investors as looking at "risk premiums" over "A bond yields. The bond market is almost entirely institutional, whereas the equity market is not. Dr. Booth has never seen any equity report that looked at the company's bond yield as a reference point for whether the stock was a buy, hold or sell. Moreover the security analysts doing the equity research on company "Z" frequently don't even talk with their credit analyst peers doing a bond or credit analysis on the same company. Bond and equity investors in many cases come to diametrically opposite views on the same company so Dr. Booth believes the intuition behind the question is not correct.

Dr. Booth is aware of very little research that connects bond spreads with the equity market risk premium. One such paper is that by Damadoran provided in answer to NP-CA-37. He estimates the market risk premium separately and then examines its relationship to the BBB spread in the US and estimates that the market risk premium is 2.02 times the BBB spread. If this is correct then the following graph shows the utility risk premium.



Clearly at the height of the crisis there may have been a significant increase in the utility risk premium according to Damadoran's model. However, the collapse in spreads that has occurred since then has reversed this and the utility risk premium is now approaching the levels that existed before the crisis. It is unlikely to get back to those very low levels soon, since they were boom period levels when risk premia are always significantly reduced. Right now we have utility risk premia consistent with the initial recovery stages of the economy and they will narrow as the recovery gets under way.

However, Dr. Booth would make two points:

- Even if the Damadoran model is correct he sees no value to bringing all this utility risk premium uncertainty through the allowed ROE and rates since over the business cycle it evens out. He would recommend the consistent award of an average risk premium since these estimates are more accurate than a business cycle conditional estimate.

- Dr. Booth's main testimony indicates that there is no evidence that investors have significantly sold off Canadian utility stocks more than you would expect from their traditional beta coefficients. Pages 42-45 clearly confirm that Canadian utility stocks have maintained their low risk status and not gone down significantly with the market which is why their beta coefficients dropped once the 2008 data is included.

In short there is no evidence that the equity market has re-priced the risk involved with Canadian utilities.