Q. Pg. 64 – As your DCF and comparable earnings result in higher ROEs than your CAPM conclusion, should your CAPM results be considered too low and/or not reliable?

A. The Comparable earnings return is clearly labelled the market return, not a utility return.

The DCF 9.30% is also clearly labelled an equity market return and is not a utility return, while in Appendix C where Dr. Booth derives these results Dr. Booth clearly rejects the DCF estimate from the US and points out that he regards these as at least 100 bps higher than for a Canadian utility.

Plus it is not logical thinking to throw out something simply because it is higher or lower than you think. Otherwise all the estimates are simply judgment. Dr. Booth agrees with the OEB when it stated (RP-2002-0158, paragraphs 133 and 134)

"As a result of the above, we reiterate the Board's conclusions reached when it developed the existing ROE Guidelines that the results from the CE and DCF tests should be given little or no weight for purposes of these applications.

We do not accept the suggestions by certain parties to use the approach of averaging the recommendations or to embark on tests that do not have theoretical foundation. Therefore for the purposes of this proceeding we will rely primarily on the results of the ERP test. Other than Mr. Case, all expert witnesses used this test."

Note here as is normal when the OEB refers to ERP it means the CAPM.