

1 Q. Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*,
2 Evidence of Laurence D. Booth, April 2024, Appendix C, page 12, lines 23-26.

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4 *“However, it is well known that betas are biased when estimated over high frequencies*
5 *such as using weekly data. The reason for this is that many stocks do not trade that*
6 *actively, so their prices are a bit ‘stale’ and do not reflect recent events.”*

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8 **Please provide evidence that the companies in Concentric’s North American Electric**
9 **proxy group, U.S. Electric proxy group, and Canadian proxy group do not trade**
10 **actively.**

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12 A. Dr. Booth has not checked the trading frequency of Concentric’s sample of firms since
13 they are not the question of concern. To explain, all betas add up to the market average
14 of 1.0, but if a firm does not trade then its price is stale so that the return shows no
15 variation. As a result, its beta is lower than it would be if it were traded like thickly traded
16 firms. If we have a large number of biased low estimates for thinly traded firms, then ipso
17 facto the betas for thickly traded firms are over-estimated. Utilities tend to be thickly
18 traded as they are heavy capitalisation stocks, so the implication is that their betas
19 estimated over actively traded periods are over-estimated. This tendency will then be
20 worse as the estimation period gets smaller as the thin trading problem increases, so
21 moving to weekly from monthly data will bias the betas for actively traded firms.

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23 This is the logic discussed in Dr. Booth’s Appendix C based on the published research of
24 Hawawini in the Financial Analyst Journal (May 1993), where Hawawini concluded:

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26 *“This suggests that betas measured over return intervals of arbitrary length will tend to*
27 *be biased. In particular, securities with relatively small market values may appear to be*
28 *less risky than they truly are, whereas securities with relatively large market values may*
29 *appear to be more risky than they truly are.”*