Q. Laurence D. Booth Report, page 2, lines 21-24. Dr. Booth states that his recommendation is a 7.70% ROE which is slightly higher than previous recommendations.

(i) Please confirm that the reason for the increase in the recommended ROE is that Dr. Booth views the current economic environment as more favorable than when he previously provided his opinion as set out on pages 35-36 of the Evidence.

(ii) If the Board believes that the ROE of 8.5% was reasonable when approved in the 2022/2023 General Rate Application and that Dr. Booth is correct that economic conditions are more favorable now, should the Board approve a slightly higher ROE in this proceeding because of changed market conditions?

A. (i) Not entirely. Normally more favourable economic conditions mean lower risk, and, therefore, lower required or fair rates of return. Further, Dr. Booth has been using a floor forecast long term Canada (LTC) bond yield of 3.8% since 2011, so increasing interest rates is not a significant factor. What is a factor is that Dr. Booth increased his market risk premium estimate from a range of 5.0-6.0% to 5.5-6.0% in 2022 largely due to the use of more recent data and Fernandez's survey results.

(ii) No. Since 2012, Dr. Booth has used a trigger value for the LTC bond yield of 3.8%, and that trigger has still not been met while the break-even inflation rate and long-term growth prospects are very similar. So long term economic conditions have not changed substantially; it is simply that we are at a different stage in the business cycle.