O'DEA EARLE

January 18, 2016

Ms. G. Cheryl Blundon
Board of Commissioners of Public Utilities
120 Torbay Road, P.O. Box 12040
St. John's, NL A1A 5B2

Dear Ms. Blundon:

Re: Newfoundland Power 2016-2017 General Rate Application
Requests for Information

In relation to the above noted application please find enclosed the Consumer Advocate's Requests for Information numbered CA-NP-244 to CA-NP-344.

A copy of this correspondence, together with the enclosures, has been forwarded directly to the parties listed below.

We trust the foregoing is found to be in order.

Yours very truly,

O'DEA, EARLE

THOMAS JOHNSON, Q.C.

TJ/cel
Encl.

cc: Newfoundland & Labrador Hydro
Attention: Geoffrey P. Young, Senior Legal Counsel

Newfoundland Power
Attention: Peter Alteen, Q.C.

Curtis, Dawe
Attention: Ian F. Kelly, Q.C.

IN THE MATTER OF
the *Public Utilities Act*, R.S.N.L. 1990,
Chapter P-47 (the "*Act*"), as amended;

AND

IN THE MATTER OF
A General Rate Application (the "Application")
by Newfoundland Power Inc. ("Newfoundland Power")
to establish customer electricity rates for 2016 and 2017.

CONSUMER ADVOCATE
REQUESTS FOR INFORMATION
CA-NP-244 to CA-NP-344

Issued: January 18, 2016

CA-NP-244 Reference: CA-NP-212

Please confirm that the business risk associated with long-term cost recovery due to the identified factors (forecast demographic trends, service territory economics, power supply operating conditions and cost flexibility) corresponds to the risk that the regulatory regime will not permit rates to be set at the level necessary to recover costs fully.

CA-NP-245 Reference: CA-NP-212

Please explain the legal basis on which NP may not be permitted to recover costs referred to in the response, assuming they have been prudently incurred, in the long run (i.e., when identified in the context of a GRA).

CA-NP-246 Reference: CA-NP-212

Please explain the reasons that NP views the risk that it will not be permitted to recover costs referred to in the response, assuming they have been prudently incurred, in the long run (i.e., when identified in the context of a GRA) to be significant.

CA-NP-247 Reference: CA-NP-213

Please confirm that the analysis provided in the response demonstrates that the marginal cost of supply for a proportional increase in peak demand and energy is essentially equal to the marginal sales revenue associated with the increase in peak demand and energy. If not, please explain.

CA-NP-248 Reference: CA-NP-215

Please explain the factors other than the balance and aging of customer accounts that are considered in referring customer accounts to a collections agency.

CA-NP-249 Reference: CA-NP-215

Please provide the "actual account write-offs through July 2015 in comparison to 2013 and 2014" and explain why NP expects write-off in 2015, 2016 and 2017 to be much closer to the experience in 2014 than the experience in 2013.

CA-NP-250 Reference: CA-NP-216

Please prepare a list of any new requirements that result in increased costs that offset identified productivity gains, quantifying each new requirement, for each year from 2011 through 2017.

CA-NP-251 Reference: CA-NP-219

Please provide the cost incurred to restructure and enhance the website as described in the response, providing a breakdown of software costs, contractors, internal staff and other related costs, separating out costs that related specifically to takeCHARGE, other conservation related website costs and non-conservation related website costs.

CA-NP-252 Reference: CA-NP-225

Please confirm that the AVL system operates using pre-existing hardware in the line trucks and did not involve any additional hardware costs.

CA-NP-253 Reference: CA-NP-221 and CA-NP-226

Please reconcile the response to CA-NP-221 which states that "The high incidence of extreme wind incidents in 2014 did not materially impact the operating cost associated with restoration of service" with the comments at lines 26-29 of the response to CA-NP-226.

CA-NP- 254 Reference: CA-NP-226

Please explain when NP "Identifies and trains additional employees from staff functions such as human resources, finance, conservation, regulatory, information services and audit to serve in the Customer Contact Centre during major electrical system events" given that the necessary training would normally be required on an on-going basis so that staff are prepared to respond immediately during emergency situations.

CA-NP-255 Reference: CA-NP-233

Please provide the annual native peak demand and energy data used to derive the 15-year average normalized load factor and the derivation of the annual normalized load factors from the actual annual data.

CA-NP-256 Reference: CA-NP-233 and CA-NP-234

Please explain the methodology used to incorporate the peak demand reductions associated with the programs listed in CA-NP-234 into the load factor and native peak demand forecast discussed in CA-NP-233.

CA-NP-257 Reference: CA-NP-234

Please provide the ratio of the reduction in peak demand the reduction in average demand for each of the programs listed in CA-NP-234 and for the programs in total.

CA-NP-258 Reference: CA-NP-233 and CA-NP-235

Please identify for the years 2016 and 2017, the aggregate impact of the conservation programs included in the Five-Year Conversation Plan 2016 – 2020 on peak and average demand, explain the methodology used to incorporate the impact on NP's load factor into the peak demand forecast, and provide an adjusted peak demand forecast if the impact has not already been incorporated.

CA-NP-259 Please file a copy of Newfoundland Power's Draft Customer RSP Refund Plan dated January 8, 2016.

CA-NP-260 Newfoundland Power's Draft Customer RSP Refund Plan dated January 8, 2016, section 3.2 states:

> "The Company will be entitled to credit a Refund to which a Customer is entitled under the Plan against an existing outstanding balance owed by that Customer to the Company."

If this approach is approved by the Board, what would the impact be on NP's Uncollectible Bills expense in the 2016 and 2017 Test Years?

CA-NP-261 Newfoundland Power's Draft Customer RSP Refund Plan dated January 8, 2016, Synopsis page 2 states:

> "Newfoundland Power's cost to administer the Customer Refund Plan is estimated to be approximately $2.5 million."

Does NP plan to use staff and resources currently forecast in its Test Year expenditures for the administration of the RSP Refund? Please explain.

CA-NP-262 Newfoundland Power's Draft Customer RSP Refund Plan dated January 8, 2016, Synopsis page 2 states:

> "Newfoundland Power's cost to administer the Customer Refund Plan is estimated to be approximately $2.5 million."

Will recovery of this $2.5 million result in NP's forecast Test Year expenses being overstated? If so, please illustrate this impact. If not, why not?

CA-NP-263 Volume 3, Appendix A, Page 24, lines 15 to 16 of NP's application state:

> "Concentric concludes that Newfoundland Power has above average business risk compared to other Canadian electric utilities"

First, please confirm that the table below is currently accurate. If this cannot be confirmed, please explain.

	(a) ATCO Electric	(b) Nova Scotia Power	(c) Fortis Alberta	(d) Fortis BC Electric	(e) Maritime Electric	(g) Average of columns (a) through (e) Comparator Group Average	(h) NP Proposed
Common Equity	38.00%	37.50%	40.00%	40.00%	41.90%	39.48%	45.00%
Return on Equity	8.30%	9.00%	9.00%	9.15%	9.75%	9.04%	9.50%
Weighted Average Return on Equity	3.15%	3.38%	3.60%	3.66%	4.09%	3.57%	4.28%

Second, please reconcile the statement by Concentric with the level of return requested by NP relative to the returns of these above Canadian Utilities.

CA-NP-264 Further to Figure 9 found in Volume 3, Appendix A of the Application (i.e. "Figure 9: Operating Cost Recovery Mechanisms), please complete a similar table identifying all approved regulatory deferral mechanisms for the same Canadian comparator group.

CA-NP-265 Reference: CA-NP-07

NP was asked to provide monthly yields on its outstanding debt which it could not do since they are not traded. Instead it provided a "monthly expression of its embedded debt cost"

a) Please confirm if this is its monthly interest cost divided by the average monthly book value of its debt, if not provide an example calculation.

b) Please indicate for how long NP has estimated a fair value calculation for its outstanding debt and report all estimates of this value with the book value and the associated implied debt cost (interest cost used to value the debt) calculated since 2005.

c) Please report the yield on each long term debt issue with the associated equivalent maturity long Canada yield for each issue since 2005.

CA-NP-266 Reference: CA-NP-08

NP was asked to graph the yield on its debt relative to its allowed ROE for each year since 2005. Instead it used the embedded debt cost.

a) Please indicate whether this is the embedded debt yield as provided in answer to CA-NP-16.

b) Does NP ascribe any information to the observation that the spread between the allowed ROE and the embedded debt cost (if that is what it is) has increased dramatically over the last several years?

CA-NP-267 Reference: CA-NP-09

NP was asked whether its actual borrowing cost met the fair return standard and did not answer. Please answer yes or no.

CA-NP-268 Reference: CA-NP-11

NP was asked about shareholder exposure to assets that are no longer judged to be used and useful. The answer was not directed at this question. To rephrase the question does NP have any opinion on the application and relevance of the Supreme Court of Canada's Stores Block decision (2006 SCC 4 1SCR 140) to assets currently in its rate base? Alternatively, does NP judge its risk exposure to have materially changed as a result of the SCC's decision on stranded assets?

CA-NP-269 Reference: CA-NP-014

NP was asked to provide detail on its defined benefit pension plan and the Actuary's assumptions. A report was provided from Mercer. Please provide the latest copy of Mercer's Capital Market Outlook and the equivalent report of AON -Hewitt used within the Fortis group of companies.

CA-NP-270 Reference: CA-NP-25

NP was asked to provide a new version of Table 4-12 using the financial metrics of Alberta and Quebec electric transmission and distribution companies. In footnote 2 NP indicates it uses a debt cost of 6.14% which seems significantly higher than current debt costs and looks like the existing embedded debt cost. Please re-do the analysis using 4% and 5% to reflect current market yields.

CA-NP-271 Reference: CA-NP-35

NP declined to answer the question as the assumed values of 15% and 3% for the embedded debt cost were unreasonable for the test years. However, the question was a general one. To rephrase does NP judge that the embedded debt cost affects the risk borne by the shareholder and that a higher embedded debt cost requires a higher ROE and vice versa?

CA-NP-272 Reference: CA-NP-50

NP was asked about the preferred share market and indicated that current perpetual issues with a fixed coupon were not marketable. Can NP provide the latest copy of BMO's Preferred Share Statistics or failing that confirm the following data from their November 30, 2015 issue? Either way can NP confirm that there have been several recent issues of perpetual preferred shares including one by Canadian Utilities at a 5.25% coupon in August 2015?

BMO Capital Markets

Announced New Issues

Closing Date	Symbol	Company	Coupon	Fixed Coupon Floor	Series	Structure	Reset Date	Initial Spread (bp)	S&P / DBRS	Curr	Size $ Million
2015											
30-Jan-15	RY.PR.J	Royal Bank of Canada	3.60%		BD	Fixed Reset	24-May-20	274	P2 / P2	CAD	600
2-Mar-15	TRP.PR.G	Transcanada Corp	3.80%		11	Fixed Reset	30-Nov-20	296	P2 / P2L	CAD	250
3-Mar-15	FFH.PR.M	Fairfax Financial Holdings	4.75%		M	Fixed Reset	31-Mar-20	398	P3 / P3	CAD	230
10-Mar-15	TD.PF.D	The Toronto-Dominion Bank	3.60%		43	Fixed Reset	31-Jul-20	279	P2 / P2	CAD	350
11-Mar-15	CM.PR.Q	Canadian Imperial Bank	3.60%		0	Fixed Reset	31-Jul-20	279	P3H / P2	CAD	300
12-Mar-15	BIP.PR.A	Brookfield Infrastructure Partners	4.50%		5	Fixed Reset	30-Jun-20	356	P2L / NA	CAD	125
12-Mar-15	HSE.PR.E	Husky Energy Inc	4.50%		7	Fixed Reset	31-Mar-20	357	P2L / P2L	CAD	200
13-Mar-15	RY.PR.M	Royal Bank of Canada	3.60%		2	Fixed Reset	24-Nov-20	262	P2 / P2	CAD	300
1-Apr-15	VSN.PR.E	Veresen Inc	5.00%		BF	Fixed Reset	30-Jun-20	427	P3H / P3	CAD	200
10-Apr-15	PPL.PR.I	Pembina Pipeline Corp	4.75%		E	Fixed Reset	1-Dec-20	391	P3H / P3	CAD	225
24-Apr-15	TD.PF.E	The Toronto-Dominion Bank	3.70%		9	Fixed Reset	31-Oct-20	287	P2 / P2	CAD	200
29-May-15	EFN.PR.G	Element Financial Corp	6.50%		9	Fixed Reset	30-Sep-20	534	NA / NA	CAD	173
5-Jun-15	BMO.PR.Y	Bank of Montreal	3.80%		G	Fixed Reset	25-Aug-20	271	P3H / P2	CAD	200
5-Jun-15	RY.PR.N	Royal Bank of Canada	4.90%		33	Perpetual	n.a.	n.a.	P2 / P2	CAD	150
9-Jun-15	L.PR.B	Loblaw companies Ltd	5.30%		BH	Perpetual	n.a.	n.a.	P3H/P3	CAD	225
17-Jun-15	HSE.PR.G	Husky Energy Inc	4.60%		B	Fixed Reset	30-Jun-20	352	P2L/P2L	CAD	150
21-Jul-15	TD.PF.F	The Toronto-Dominion Bank	4.90%		7	Perpetual	n.a.	n.a.	P2 / P2	CAD	150
22-Jul-15	RY.PR.O	Royal Bank of Canada	4.90%		11	Perpetual	n.a.	n.a.	P2 / P2	CAD	150
29-Jul-15	BMO.PR.Z	Bank of Montreal	4.90%		BI	Perpetual	n.a.	n.a.	P3H / P2	CAD	150
7-Aug-15	CU.PR.H	Canadian Utilities Ltd	5.25%		35	Perpetual	n.a.	n.a.	P2H / P2H	CAD	125
24-Sep-15	CU.PR.I	Canadian Utilities Ltd	4.50%	Y	35	Fixed Reset	1-Dec-20	369	P2H / P2H	CAD	250
2-Oct-15	BAM.PF.H	Brookfield Asset Management Inc	5.00%	Y	44	Fixed Reset	31-Dec-20	417	P2 / P2L	CAD	250
2-Oct-15	RY.PR.P	Royal Bank of Canada	5.25%		BJ	Perpetual	n.a.	n.a.	P2 / P2	CAD	150
23-Nov-15	ALA.PR.I	AltaGas	5.25%	Y	I	Fixed Reset	31-Dec-20	419	P3H / P3	CAD	250
25-Nov-15	BEP.PR.G	Brookfield Renewable Energy Partners L.P.	5.50%	Y	7	Fixed Reset	31-Jan-21	447	P3H / P3H	CAD	175
15-Dec-15	W TBA	Westcoast Energy Inc	5.25%	Y	10	Fixed Reset	15-Jan-21	426	P3H / P2L	CAD	115
Total 2015 Year-to-Date Issuance											5,643

CA-NP-273 Can NP also confirm that if the preferred shares are issued by Fortis and mirrored down to NP in the same way as Canadian Utilities does for ATCO Electric that safe guards can be put in place to verify that the cost is reasonable as of the date of issue, If not why not.

CA-NP-274 Reference: CA-NP-51

Can NP answer this RFI given that there is a functioning Canadian preferred share market?

CA-NP-275 Reference: CA-NP-52

Can NP answer this RFI given that there is a functioning Canadian preferred share market?

CA-NP-276 Reference: CA-NP-61

Mr. Coyne indicates that leverage increases risk. Can he confirm that if there is no risk then leverage cannot magnify the absence of risk? Further can Mr. Coyne indicate in his professional judgment how many years of earning in excess of the allowed ROE by a Canadian utility would it take to convince him that in fact there is no underlying risk to magnify?

CA-NP-277 Reference: CA-NP-94

Can Mr. Coyne answer the question, which was can he provide any empirical research that utility betas revert to 1.0? Note the 1975 Blume study he references includes all companies, where by definition the average beta is 1.0.

CA-NP-278 Reference: CA-NP-96

Can Mr. Coyne answer the question and indicate when the average beta for a Canadian utility was last equal to 1.0.

CA-NP-279 Reference: CA-NP-103/4

Mr. Coyne provided the risk premium data. Can he provide, as requested, the actual underlying data, that is, the rate of return series for debt and equity each year with the debt return series, the actual return, as well as the yield at the start of the year?

CA-NP-280 Reference: CA-NP-120

Mr. Coyne states that he was provided with the Company's business risk assessment beforehand, but that he does not believe there are any substantive differences between his assessment and that of the Company.

a) Does this mean that Mr. Coyne confirmed NP's assessment or that any differences were discussed and resolved?

b) Is Mr. Coyne aware of any changes in NP's assessment of its business risk as a result of his interaction with them and the production of his own draft evidence? If so can he point to areas of disagreement between himself and NP that were resolved?

CA-NP-281 Reference: PUB-NP-051

The discussion in the last paragraph on page 1 discusses the "erosion" of NP's credit metrics by focusing on a comparison of the estimated credit metrics in 2017 to the 2013 figures. Why were the 2015-2017 figures not compared to the most recent historical 2014 statistics that were available?

CA-NP-282 Reference: PUB-NP-051

The discussion in the last paragraph on page 1 discusses the "erosion" of NP's credit metrics by focusing on a comparison of the estimated credit metrics in 2017 to the 2013 figures. Please confirm that the estimated Cash Flow Interest Coverage ratio (which is not mentioned in the paragraph) is higher in 2015, 2016 and 2017 than in 2014, and that this implies this credit metric is estimated to improve, rather than deteriorate.

CA-NP-283 Reference: PUB-NP-051

Please confirm that the reported metrics are estimated to be overall stronger in 2015 than in 2014, since two of the ratios remain unchanged, while the other improves.

CA-NP-284 Reference: PUB-NP-051

Please confirm that the 2016 estimated metrics are as strong, or stronger, than those in 2014, with Cash Flow Interest Coverage of 3.9 versus 3.6, even though Pre-tax interest coverage fell slightly to 2.2 versus 2.3, while the other metric remained unchanged.

CA-NP-285 Reference: PUB-NP-056

Mr. Coyne argues that analyst bias has been reduced, based primarily on the results of a 2010 study in the Financial Analysts Journal. Please confirm that the conclusions in the paper are based on "two-year ahead" earnings forecasts for U.S. companies.

CA-NP-286 Reference: PUB-NP-056

Mr. Coyne argues that analyst bias has been reduced, based primarily on the results of a 2010 study in the Financial Analysts Journal. Is Mr. Coyne aware of any available Canadian evidence documenting such an improvement?

CA-NP-287 Reference: PUB-NP-056

Mr. Coyne argues that analyst bias has been reduced, based primarily on the results of a 2010 study in the Financial Analysts Journal. Please elaborate as to whether the earnings rate forecasts used by Mr. Coyne (for each source) is based on two-year ahead forecasts? If not, please provide the appropriate earnings forecast horizons for all sources of estimates.

CA-NP-288 Reference: PUB-NP-056

Mr. Coyne argues that analyst bias has been reduced, based primarily on the results of a 2010 study in the Financial Analysts Journal. Please confirm that the conclusions of this study are based primarily on a comparison of forecast errors during 2003-2006 (a period with all positive stock returns in the U.S.) versus 1996-2002.

CA-NP-289 Reference: PUB-NP-056

Mr. Coyne argues that analyst bias has been reduced, based primarily on the results of a 2010 study in the Financial Analysts Journal. The total returns on the S&P 500 Index in the U.S. for the study's sample period are given below:

S&P Total Return (%)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
22.96	33.36	28.58	21.04	-9.10	-11.89	-22.10	28.58	10.88	4.91	13.79

Would Mr. Coyne agree that optimistic earnings projections are more likely to be closer to actual earnings achieved when market conditions are favorable, and that such optimistic projections are less likely to be achieved under more adverse market conditions?

CA-NP-290 Reference: PUB-NP-056

Mr. Coyne argues that analyst bias has been reduced, based primarily on the results of a 2010 study in the Financial Analysts Journal. Please confirm that by far the largest mean forecast bias and the largest median forecast bias in this study occurred during 2001, in the middle of the high-tech meltdown.

CA-NP-291 Reference: PUB-NP-056

The conclusions of this study focus on a reduction in bias to the "median" forecast bias. Yet, Exhibit JMC-3 relies entirely on the use of mean forecast bias, both at the company level, and for the proxy groups. Please explain the reason for Mr. Coyne's decision to use mean forecasts rather than median forecasts, given that the study that Mr. Coyne relies upon to justify his approach itself suggests there is less bias in median forecasts.

CA-NP-292 Reference: PUB-NP-056

Please recalculate the results for all three proxy groups in JMC-3, using "median" forecasts for each company, and providing both the median and mean of those forecasts.

CA-NP-293 Reference: PUB-NP-056

Mr. Coyne suggests that the "objectivity" of analyst estimates can be assessed by comparing them to "an independent source." He then proceeds to compare three analyst estimates with Value Line estimates. What is gained by this exercise, since Mr. Coyne is merely comparing the Value Line "analyst" beliefs with those of three other analysts. Please clarify as to why Mr. Coyne believes this exercise reveals something about analyst objectivity?

CA-NP-294 Reference: PUB-NP-056 and PUB-NP-057

Mr. Coyne obtains DCF growth estimates in JMC-3 for the U.S., Canadian and North American proxy groups of 5.32%, 8.03% and 5.28% respectively.

a) Please verify that these growth estimates refer to analyst estimates of earnings growth in the "short-term" (i.e., less than 5 years ahead).

b) Please explain why Mr. Coyne believes it is reasonable to use these short-term forecasts in the constant-growth DCF model, which is based upon the assumption that growth will remain at the estimated growth rate "to infinity."

CA-NP-295 Reference: PUB-NP-056 and PUB-NP-057

Mr. Coyne obtains DCF growth estimates in JMC-3 for the U.S., Canadian and North American proxy groups of 5.32%, 8.03% and 5.28% respectively. Please verify that it is common practice among analysts that use the constant-growth DCF, or that use a multi-stage growth DCF model (which also requires the use of a "long-term" growth estimate), to employ a long-term growth rate estimate that is close to the expected nominal GDP growth rate.

CA-NP-296 Reference: PUB-NP-056 and PUB-NP-057

Mr. Coyne obtains DCF growth estimates in JMC-3 for the U.S., Canadian and North American proxy groups of 5.32%, 8.03% and 5.28% respectively. Please verify that the growth estimates for the proxy groups all far exceed the expected nominal GDP growth estimates provided by Mr. Coyne for Canada and the U.S. of 3.94% and 4.55% respectively.

CA-NP-297 Reference: PUB-NP-056 and PUB-NP-057

Mr. Coyne obtains DCF growth estimates in JMC-3 for the U.S., Canadian and North American proxy groups of 5.32%, 8.03% and 5.28%

respectively. Please explain why Mr. Coyne believes that regulated utilities, which are generally operating in mature markets, without any obvious abnormally high growth opportunities, would grow at a pace in the long run that is far greater than the rate of growth in the economy itself? For example, in the case of the Canadian proxy group, the estimated growth rate of 8.03% is more than twice the estimated growth rate in the economy.

CA-NP-298 Reference: PUB-NP-057

The multi-stage DCF ROE estimates provided by Mr. Coyne in Exhibit JMC-4 are lower than those determined using the constant-growth DCF model in Exhibit JMC-3. Please confirm that this is because the multi-stage approach reduces the impact of the high growth estimates obtained using analyst estimates, since this model assumes that these abnormally high growth rates only last 5 years, and not to infinity. If this cannot be confirmed, please explain why not?

CA-NP-299 Reference: PUB-NP-057

The multi-stage DCF ROE estimates provided by Mr. Coyne in Exhibit JMC-4 are lower than those determined using the constant-growth DCF model in Exhibit JMC-3.

a) Please explain why Mr. Coyne believes it is reasonable that the earnings and dividends of mature utilities would grow at rates well above GDP growth for at least five years?

b) Please explain why Mr. Coyne believes that after five years of abnormally high growth, it would then take another five years until utility earnings and dividend growth would eventually decline to a rate equal to overall economic growth?

CA-NP-300 Reference: PUB-NP-060

Could Mr. Coyne please use the government bond yield forecasts provided in his response to CA-NP-060 to update the resulting estimates in Figure 14 (CAPM results) on page 31 of his evidence. Please also provide an update of the new ROE estimates in Figure 16 (Summary of Results) on page 34 that would result by using the new CAPM results in Figure 14.

CA-NP-301 Reference: PUB-NP-063

Please restate the figure provided in the response to PUB-NP-063 using the updated CAPM results provided in the response to CA-NP-037 above.

CA-NP-302 Reference: PUB-NP-066

Please confirm, according to the S&P evidence provided by Mr. Coyne in Exhibit JMC-1 and the evidence provided in the response to CA-NP-066, that:

a) Newfoundland Power, Canadian Utilities Ltd., and Enbridge Inc. all are rated as Excellent with respect to Business Risk.

b) Canadian Utilities Ltd. is rated A (stable), while Enbridge Inc. is rated A- (stable), despite both companies having far inferior credit metrics to NP, according to the ratios provided in the response to CA-NP-066.

CA-NP-303 Reference: CA-NP-004

As requested in CA-NP-004, please provide estimates for 2013-2015 "assuming that the Board had continued to use the ROE adjustment methodology," notwithstanding the comments made in footnote 4 of the response to the original RFI.

CA-NP-304 Reference: CA-NP-008

According to Graph 1 provided in response to CA-NP-008, as well as the evidence provided in Table 4-9 on page 4-12 of Company evidence, NP's cost of debt has declined steadily from over 8.5% in 2005 to an expected level of just slightly over 6% by 2017. Over this period, the equity ratio has remained steady, while the cost of equity (as proxied by the allowed ROE) has remained stable between 8.5% and 9.0%. Does the Company agree that this decline in the cost of debt, combined with no change in either the cost of equity or the financing weights, implies that NP's cost of capital has declined significantly since 2005? If not, explain how this is possible?

CA-NP-305 Reference: CA-NP-008

NP is arguing that the allowed ROE should be increased, despite the fact that the firm's cost of debt has been steadily declining due to declining bond yields. This implies that there is no direct relationship between the returns required by a firm's bondholders and its equity holders. Does the firm believe this to be the case? In other words, does the Company believe that there is no relationship between the return required by a firm's debt holders and that required by its equity investors?

CA-NP-306 Reference: CA-NP-019

The response shows that NP has earned an ROE above the allowed ROE in 19 straight years, averaging 49.5 basis points above the allowed ROE. In light of such historical evidence, please explain why the Company expects to earn an ROE below the allowed figures in the upcoming years.

CA-NP-307 Reference: CA-NP-041

The response suggests conversion costs of $10,000 to forced air, and $20,000 to oil fired hot water radiation (an average of the $15,000-$25,000 range provided), and that domestic customer costs as a result of conversion could be reduced by 10 percent. The hypothetical average monthly bill for NP customers is $121.43 according to Figure 6 on page Figure 20 of Mr. Coyne's evidence, which implies an annual bill of $1,457.16. Using the figures supplied above suggests that it would take 68.5 years of annual savings of $146 (i.e., 10% of $1,457.16) to recover the $10,000 conversion cost, and 137 years to recover the $20,000 conversion cost. Would the Company agree that, based on these figures, it seems unlikely that a significant number of customers would be inclined to convert?

CA-NP-308 Reference: CA-NP-076

The response states that "Mr. Coyne does not view the higher government bond yields in the U.S. as a sign that the U.S. market is more risky than Canada." He then goes on to attribute the comparatively lower Canadian bond yields to factors that are contributing to existing weakness in the Canadian economy, which also seem to suggest greater risk for Canada relative to the U.S. Is it Mr. Coyne's contention that bond investors do NOT require higher yields on bonds with higher risk, and in fact they require higher yields on lower risk bonds? Please elaborate.

CA-NP-309 Reference: CA-NP-078

Could Mr. Coyne please repeat the following analyses for the Canadian proxy groups, after removing Valener from the Canadian proxy group:

a) ROE using constant-growth DCF (on page 2 of Exhibit JMC-3)
b) ROE using multi-stage-growth DCF (on page 2 of Exhibit JMC-4)
c) Allowable ROE and Equity Ratio comparisons – Appendix A, Exhibit JMC-1
d) Credit metric comparisons – Appendix A, Exhibit JMC-2

CA-NP-310 Reference: CA-NP-087

Please provide the CAGR figures for both U.S. and Canada nominal GDP growth for the figures provided on page 1 in Attachment A of the response.

CA-NP-311 Reference: CA-NP-100

Please confirm that the Canadian MRP estimate of 9.8% provided by Mr.

Coyne on page 29 of his evidence, when combined with the risk-free rate of 3.68% that is estimated by Mr. Coyne on page 27 of his evidence, results in an estimate for the long-term return on the Canadian stock market of 13.48%.

CA-NP-312 Reference: CA-NP-100

Company evidence suggests that the actuarial assumptions for NP's pension plan assumes an 8.1% expected return on equities for plan assets, which is consistent with current views of Canadian market expectations by finance professionals, etc. This 8% expectation is also consistent with the historical long-term real rate of return on Canadian stocks (approximately 6%), combined with current long-term inflation expectations of 2% (i.e., the Bank of Canada's target rate). Can Mr. Coyne reconcile the huge discrepancy between his estimate of 13.5% with the more commonly used estimates in the 8% range that are based on the expectations of market professionals, and on historical observations?

CA-NP-313 Reference: CA-NP-157

Attachment C (page 3) of the RFI response provides evidence that the 2015 yield for Canadian A-rated utilities of 3.50% was lower than the 3.67% yield on U.S. A-rated utilities. It also shows that Canadian A-rated utility yields were below those for U.S. utilities in both 2014 and 2013. Consistent with Mr. Coyne's argument that financial markets are integrated, doesn't the higher yield required for U.S. utility bonds indicate that investors believe U.S. utilities are riskier than Canadian utilities? If so, why not?

CA-NP-314 Reference: CA-NP-157

It has been noted several times throughout Mr. Coyne's evidence that U.S. utilities have higher allowed equity ratios and ROEs than Canadian utilities. For example, page 2 of the document referred to in CA-NP-313 above (i.e., Attachment C) reports 2015 averages for the allowed ROEs and equity ratios for Canadian Electric Distributors of 8.72% and 38.53%, versus corresponding figures of 9.66% and 51.81% respectively for U.S. Electric Distributors. Combining this with higher credit metrics for the U.S.-based utilities suggests that U.S. utilities possess lower financial risk, on average. Further, the response to CA-NP-123 suggests that Mr. Coyne believes that "the average U.S. utility has lower regulatory risk than the average Canadian utility." Would Mr. Coyne agree that the discussion above implies that one of the main reasons for the higher yield on U.S. utilities must then be that U.S. utilities possess greater business risk (excluding regulatory risk) than do their Canadian counterparts? If not, please explain what is causing the additional risk premium that is reflected in the higher yields required by bond investors for U.S. utility bonds relative to Canadian utility bonds.

CA-NP-315 Reference: CA-NP-090 and Page 27 of Coyne Evidence

Mr. Coyne uses 2.97% as the risk-free rate in his CAPM analysis, which is determined by taking the three-year average of the "expected" Canadian government bond yields for 2016, 2017 and 2018 respectively.

a) Does Mr. Coyne agree that in the CAPM, the risk-free rate is used in the model to measure the return that an investor could earn by investing in an asset with no risk (i.e., a beta of zero)?

b) Can Mr. Coyne find one example during the fall of 2015 or the first two weeks of January, 2016, of a Canadian federal government bond that would have been available that would have provided investors with a 2.97% return?

c) Assuming the answer to part b) is no, please justify the logic of using the average of future expected rates (that may never materialize as expected) in the CAPM to measure an investment return that is "available" to investors today.

CA-NP-316 Reference: CA-NP-078, and Page 8 and Exhibit JMC2 of Appendix A of Coyne Evidence

a) Could Mr. Coyne please confirm that if Valener was excluded (as it is from the North American proxy group), then the Canadian proxy group averages (that were originally calculated in JMC-2 for Debt to Capital, EBITDA to Interest Coverage, FFO to Interest Coverage, FFO/Debt and Debt to EBITDA would be, respectively: 64%; 4.12, 4.06, 13.7%, and 5.54?

b) The corresponding numbers for NP, to those reported in a) for the Canadian proxy group excluding Valener, are provided in JMC-2 as: 55%, 4.52, 3.62, 17.5%, and 3.30. Therefore, if Valener was not included in the Canadian proxy group, would the following statement not be more appropriate to say on page 8 of the evidence? "Relative to the Canadian proxy group, NP has much lower debt to capital and Debt/EBITDA ratios, stronger EBITDA/interest coverage, and a stronger (not weaker) FFO/Debt ratio, while its FFO/interest coverage is below the Canadian proxy group average."

CA-NP-317 Reference: Page 24 of Appendix A of Coyne Evidence

Which of the other firms listed in Figure 9 have Weather Normalization Reserves similar to that for NP? Please provide details for those that do have such reserves.

CA-NP-318 Reference: Page 3-27 of Company Evidence

Please explain why the discussion focuses entirely on the increase in electricity supply costs in 2017 relative to 2013, with no discussion of the fact that these costs are forecast to decrease in 2015, 2016 and 2017 relative to the actual costs reported in 2014?

CA-NP-319 Reference: Page 4-33 of Company Evidence

Please provide the actual yields (i.e., not just the yield spreads) for the First Mortgage bonds provided in Table 4-14 when they were issued.

CA-NP-320 Further to CA-NP-133, please complete the table as requested.

CA-NP-321 Further to CA-NP-144, is Mr. Coyne aware of any other Canadian utilities that have a "True-Up Provision" of the sort described by the Company in this reply?

CA-NP-322 At footnote 63 of page 4-29 of the Financial Evidence of the Company stated that. . . "Nor is it certain how export sales from Muskrat Falls will be treated from a cost of service perspective." Please confirm that the Premier's mandate latter to the Minister of Natural Resources dated December 14, 2015 directs the Minister to "direct Nalcor to sell surplus power generated from the Muskrat Falls Project and use revenue to mitigate potential increases in electricity rates and ratepayers' bills."

CA-NP-323 In Mr. Coyne's article at CA-NP-149, Attachment A, p. 1 of 4, it states:

> "In order to estimate the cost of common equity, financial analysts typically develop a proxy group of companies with similar operating characteristics and risk profiles to the company under review, and apply the various financial methods outlined above to that proxy group. The results are used to establish a range of reasonableness, <u>and adjustments are made to reflect differences between the proxy group and the company under review</u>". (emphasis added)

Can Mr. Coyne provide instances where in providing cost of capital evidence in Canada, he made adjustments to reflect differences between the proxy group and the company under review?

CA-NP-324 In Concentric's article of May 1, 2015, "Authorized Return on Equity for

Canadian and U.S. Gas and Electric Utilities" (reproduced at CA-NP-157, Attachment C, p. 1 of 4), it is stated:

> "While authorized ROEs have converged between the two counties, the authorized common equity ratios have not. In 2014, the median common equity rates for Canadian gas distributors was 39.3% while the U.S. median was 51.9%, comparable t the differences for electric distributors which was 40% and 50.1% respectively. Allowed equity ratios for Canadian electric transmission companies are 4.0% lower than their electric distribution counterparts, and 14.0% below U.S. electric distributors."

To what does Mr. Coyne attribute the significantly higher allowed equity ratios in the U.S.?

CA-NP-325 Further to CA-NP-182, Attachment B, p. 2 of 2, it states that one of the "Unique Accountabilities" of the role of Director Revenue and Supply is "Establishing rate structures to optimize revenue requirement, stability & competitive position vs. impact on customer costs." Please explain how the Company's rate structures achieve these goals.

CA-NP-326 Further to CA-NP-182, Attachment B, p. 2 of 2, it states that one of the "Unique Accountabilities" of the Director Revenue and Supply is "Direction of the Company's short & long term pricing objectives." What are the Company's current short and long term pricing objectives? When were these last changed and describe the change(s) made at that time.

CA-NP-327 Further to CA-NP-183, Attachment B, p. 1 of 1, reference is made in footnote 4 to an increase in regulated Inter-Corporation Changes for Affiliates related to the transfer of unused vacation credits to Fortis Inc. for Earl Ludlow resulting from his accepting an Executive VP position at Fortis Inc. Please explain the basis and reasons why NP was charged in such manner and provide a copy of any policy that applies to the movement of executives from or to NP from other Fortis affiliates in relation to inter-corporate changes.

CA-NP-328 Further to CA-NP-190, assuming eBills participation increases by a further 10,000 customers per year in each of 2016 and 2017 (as appears to be the pattern), what would be the resultant test year savings?

CA-NP-329 Further to CA-NP-196, once prepared, please file a copy of the Company's audited financial statements.

CA-NP-330 Further to CA-NP-199, the Hay Group's letter to Mr. Gary Smith, President and C.E.O. dated February 16, 2015 (Attachment A, p. 24 of 36, at p. 24) proposes a number of changes to the Company's executive compensation practices including "key changes" to STI Targets, changes to the LTI program and changes to the Fortis share ownership policy. Please detail all changes made or intended to be made to the Company's executive compensation practices following this letter.

CA-NP-331 Further to CA-NP-204, please explain why the Company permits executive and director level salaries to exceed the median of the Canadian Commercial Industrial (executive and non-executive) market.

CA-NP-332 Further to CA-NP-204, the company states that (line 17) the forecast median of the Canadian Commercial Industrial (CCI) executive market establishes the Company's salary policy for executives and that (line 34) the forecast median of the CCI non-executive market establishes the Company's salary policy for directors. NP states that the typical salary range is 80% to 115% of salary policy for executives (line 18) and directors (line 35). Footnote 1 to the reply states, "The median of the market is that point at which 50% of salary observations are higher and

50% of salary observations are lower. It is also commonly referred to as the 50th percentile." Which executives and directors in 2015 and 2016 are paid in excess of salary policy (and by what percentage) and at what percentile is that salary point in the applicable market for each of these years?

CA-NP-333 Further to CA-NP-206, please provide Newfoundland Power's 2016 salary, salary policy and incentive targets for Director and Executive group members by position.

CA-NP-334 CA-NP-206 shows the Incentive Target for each Executive and Director for 2015, please explain whether and if so, how, the Incentive Target amount is also set or tied to a market median for Executives and Directors.

CA-NP-335 Further to CA-NP-207, footnote 1 states that, "Base salaries for the President and Vice President are established by Newfoundland Power's Board of Directors which has not yet considered 2016 and 2017 salaries." Has the Board of Directors yet considered the 2016 salaries and if so please provide the same, in addition to filing a revised Table 1 to CA-NP-207. If not, when will same be considered and filed in relation to 2016?

CA-NP-336 Taking all types of compensation paid to Executives and Directors into account, how does each position's compensation compare to the market median applicable for 2014, 2015 and 2016?

CA-NP-337 Further to CA-NP-237 (Attachment A), please provide a detailed breakdown of 2015 (f) and 2016 (f) consultant fees and include a breakdown of costs associated with Hydro's GRA, NP's GRA and the expected Hydro Cost of Service proceeding referred to in footnote 1.

CA-NP-338 Further to CA-NP-237 (Attachment A), please fully explain what the "accrual" referenced in footnote 3 is.

CA-NP-339 Further to CA-NP-237 (Attachment A), please provide a breakdown of "Other Professional Service Fee" for 2015 (f), 2016 (f) and 2017 (f).

CA-NP-340 Further to PUB-NP-007, it states (at lines 14-15), "Before any payout occurs, the Company's return on equity must reach a minimum threshold level." State the minimum level set for 2014, 2015 and 2016; and in respect of 2014 and 2015, state the level achieved.

CA-NP-341 Further to PUB-NP-007, please update Table 2 to show actual STI payouts for 2015.

CA-NP-342 Further to PUB-NP-007, please provide the corporate performance targets for each of NP's corporate performance measures (shown on p. 2 of 4) for each of 2015, 2015 and 2016 and provide the results achieved in 2014 and 2015.

CA-NP-343 Further to PUB-NP-007, please provide the individual performance targets for each Executive and Director for 2014, 2015 and 2016 and the results achieved in 2014 and 2015.

CA-NP-344 In PUB-NP-036, the Company states that between 1995 and 2014, Newfoundland Power has reduced its work force by approximately 23%. What impact did the associated labour cost reductions have on the Company's ability to earn its allowed return from 1995 on?

Dated at St. John's, in the Province of Newfoundland and Labrador, this 18th day of January, 2016.

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