1 **Q. Reference: Dr. Booth Evidence, Page 8, Lines 6-7: Please explain why Dr.**
2 **Booth believes it is reasonable to compare the business and financial risk of a**
3 **government owned electric distribution or transmission company such as Hydro**
4 **Quebec Distribution and Hydro Quebec Transmission to an investor owned utility**
5 **such as Newfoundland Power for purposes of determining the appropriate capital**
6 **structure for the investor owned utility.**
7
8 A. That is a very good question and should be directed at Mr. Coyne, who based his
9 testimony on exactly that basis for both HQT and HQD as noted in answer to NP-CA-
10 032. Note that Mr. Coyne also did not propose any adjustment for differences in common
11 equity ratios between his sample and HQT and HQD, but did propose a reduction based
12 on his sample's generation risk as the following section indicates (Coyne testimony page
13 52):

> 3 **Q. How does this adjustment for the difference in equity ratios between HQD**
> 4 **and HQT and the U.S. proxy group compare to the effect on the cost of**
> 5 **equity related to the U.S. proxy group companies' ownership of regulated**
> 6 **generation?**
> 7 A. As discussed in the following section of this testimony, the incremental ROE
> 8 required to offset the increased operating risk of regulated generation is
> 9 approximately 41 basis points. Although Concentric does not propose an
> 10 adjustment in this proceeding for the difference in capital structure between HQD
> 11 and HQT and the U.S. electric utility proxy group, Concentric views the financial
> 12 risk of a more highly-leveraged capital structure as more than offsetting any potential
> 13 difference in the required ROE of the U.S. electric utility proxy group companies
> 14 that own regulated generation.
> 15

14

1 Dr. Booth's standard recommendation for transmission is 30% common equity and for
2 distribution 35%, which is also what the Regie uses. He would also note that the mainline
3 gas pipelines were allowed a 30% common equity ratio when the National Energy Board
4 first established its ROE automatic adjustment methodology in 1994. Subsequently the
5 NEB has increased them in response to changes in business risk in a series of decisions
6 starting in 2001.