

1 Q. Reference: Newfoundland Power 2013/2014 General Rate Application,
2 Transcript, January 18, 2013, Page 59, Lines 15-25

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4 "As I've said repeatedly, the only thing we -problem we 've got in Canada at
5 the moment is in fact- and from the point of view of the estimate of the cost of
6 capital, is the low level of the long Canada bond yield, and that's why I'm
7 perfectly happy for this Board to fix the ROE based upon five percent long
8 Canada bond yield, which I would regard as a normal bond yield average for
9 the business cycle, and that's what my 8.25 percent fixed rate
10 recommendation is based upon. "

11
12 Does Dr. Booth continue to regard a five percent long Canada bond yield as "*a*
13 *normal bond yield average*" and be perfectly happy for the Board to fix
14 Newfoundland Power's ROE at 8.25%? If not, please describe in detail the change
15 in Dr. Booth's views on this matter.

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17 A. No. In 2013 Dr. Booth was still hopeful that interest rates would return to normal
18 at the end of the US government's bond buying program. Instead we have had both the
19 Bank of Japan and the European Central Bank engage in massive bond buying programs
20 of their own, while the US Fed has yet to sell of any its massive holding of US
21 government debt. Note, the European Central Bank did not start serious quantitative
22 easing until January 2015 and on March 10, 2016 surprised markets by:

- 23 • Cutting its target rate (equivalent to the overnight rate) to 0% from 0.05%;
24 • Lowering the bank deposit rate to -0.40% from -0.3%, that is, increasing the
25 charge for bank deposits with the ECB;
- Increasing its monthly bond buying to 80 billion euros from 60 billion euros as well as adding corporate bonds to its purchases;
 - Announcing plans for long-term bank loans at concessionary rates.