

1 **Q. Page 51: Dr. Booth recommends an ROE of 7.5% for a benchmark utility.**
2 **Please explain what is meant by a benchmark utility and whether it is an overall**
3 **average risk utility.**

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5 A. Unfortunately we no longer have data allowing a direct estimate of the fair rate of
6 return for an individual Canadian utility: they have all been taken over and are now part
7 of diversified holding companies. The closest remaining companies would be Canadian
8 Utilities, Emera and Fortis. However, there is too much estimation error to use Fortis data
9 for NP for example, since it also owns Canadian gas distribution companies and
10 increasingly so US operations. The result is that what Dr. Booth estimates from samples
11 of firms that are closest to a regulated utility is an average or benchmark that is
12 appropriate for a Canadian natural gas utility, pipeline or electric utility. The business
13 risk analysis then allows an assessment of the appropriate capital structure and the need
14 for any adjustments. In Dr. Booth's judgement NP is an average risk Canadian utility
15 and with a 40% common equity ratio would deserve a benchmark allowed ROE, similar
16 to other Canadian utilities.