

1 **Q. Pages 80-83: Dr. Booth considers the long run risks of higher electricity costs**  
2 **for Newfoundland and Labrador Hydro (a risk factor raised by Mr. Coyne and**  
3 **Newfoundland Power) and concludes on page 84 that there is no material change in**  
4 **business risk, however, Dr. Booth does not discuss the power supply risk which is**  
5 **highlighted by Mr. Coyne (pages 15-16 of Appendix A of his evidence) and**  
6 **Newfoundland Power (Application pages 4-29 to 4-30). How does the uncertainty in**  
7 **power supply from Newfoundland and Labrador Hydro raised by Mr. Coyne and**  
8 **Newfoundland Power affect Dr. Booth's assessment of Newfoundland Power's**  
9 **business risk?**

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11 **A. Dr. Booth does not judge that it does.**

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13 Dr. Booth has heard company witnesses raise similar issues since 1986, but the only way  
14 “risk” can seriously affect a utility is if the commodity it distributes is no long valuable  
15 and customers drop off the system. As customers drop off the system, the fixed costs are  
16 reallocated and charges increased causing other customers to drop off the system,  
17 resulting in the fabled “death spiral.” Other risks are short run income variations, which  
18 by and large are removed for Canadian utilities through the extensive use of deferral  
19 accounts.

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21 The death spiral is real for some utilities. Pacific Northern Gas, a small utility in North  
22 west BC, faced these issues as major industrial customers closed their doors and  
23 significant costs were reallocated to the residual residential users. The result was that  
24 PNG’s bonds were downgraded to almost junk status and it had problems earning its  
25 allowed ROE. Similarly, the TransCanada Mainline, as a point to point pipeline, faced a  
26 significant drop in load due to the development of shale gas in fields much closer to its  
27 main markets in Ontario and Quebec. In both cases the regulator did not sit idly by, but

1 instead there were hearings into how to protect the utility and allow it to continue to earn  
2 its allowed ROE.

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4 I am fully aware that there may be significant increases in the commodity charge for  
5 electricity from Hydro, but the questions the Board has to ask itself are:

- 6 1) Will this cause a more serious situation than in the 1990s, when similarly  
7 electricity was not competitive with fossil fuels for space heating?
- 8 2) Will the Province sit idly by and allow greater use of greenhouse gas  
9 intensive fuels for space heating and in the process strand Hydro's more  
10 environmentally acceptable assets?
- 11 3) What measures are available to both it and NP to alleviate rate shock and  
12 keep a critical number of people on system to allow NP to earn its allowed  
13 return?

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15 If the Board judges that no-one will react to higher commodity costs from Hydro and that  
16 NP's shareholder will bear that risk then an adjustment in NP's financial metrics may be  
17 necessary, but I judge there to be little basis for such an assessment. In this I agree with  
18 the Ontario Energy Board when it stated in a hearing into Enbridge Gas Distribution Inc.,  
19 capital structure and business risk (EB-2011-0354, page 7):

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21 *“Regarding the risk of future events, the Board agrees with CCC that the relevant*  
22 *future risks are those that are likely to affect Enbridge in the near term. Any risks*  
23 *that may materialize over the longer term can be taken into account in subsequent*  
24 *proceedings. In considering the risk of future events, the Board will take into*  
25 *account the fact that, generally, the more distant the potential event, the more*  
26 *speculative is any conclusion on the likelihood that the risk will materialize.”*