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<p>1 (9:08 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. So I don't think there are any preliminary</p> <p>4 matters, are there?</p> <p>5 MS. GLYNN:</p> <p>6 Q. Newfoundland Power has filed the remainder</p> <p>7 of the undertakings and they have been</p> <p>8 circulated. I don't think there were any</p> <p>9 comments to make on the undertakings? No,</p> <p>10 so that would be it, Mr. Chair.</p> <p>11 CHAIRMAN:</p> <p>12 Q. So Mr. Johnson I believe now proceed to your</p> <p>13 witness.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Yes, that's right. Good morning, Mr.</p> <p>16 Chairman, Commissioners. Seated in the</p> <p>17 witness stand is my next witness, Sean</p> <p>18 Cleary. Mr. Cleary is prepared to take an</p> <p>19 oath on the Bible, Mr. Chairman.</p> <p>20 DR. SEAN CLEARY (SWORN) EXAMINATION-IN-CHIEF BY THOMAS</p> <p>21 JOHNSON, Q.C.</p> <p>22 CHAIRMAN:</p> <p>23 Q. You are now sworn, sir. Mr. Johnson?</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. Thank you. Dr. Cleary, I guess the Board</p>	<p>1 you were from 2008 to 2014 the founder and</p> <p>2 director of the Master's in Finance Program</p> <p>3 at Queen's University?</p> <p>4 DR. CLEARY:</p> <p>5 A. That's also correct.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Following the completion of your Ph.D. in</p> <p>8 1998, you were an assistant professor in</p> <p>9 Finance at St. Mary's University?</p> <p>10 DR. CLEARY:</p> <p>11 A. Yes.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. And following that, you were an associate</p> <p>14 professor in Finance and then a full</p> <p>15 professor in Finance at St. Mary's between</p> <p>16 2002 and 2007, correct?</p> <p>17 DR. CLEARY:</p> <p>18 A. That's correct, almost ten years in total</p> <p>19 there.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. Okay. Then you went on as I understand it</p> <p>22 to become an associate dean of the Business</p> <p>23 School at St. Mary's University?</p> <p>24 DR. CLEARY:</p> <p>25 A. Yes.</p>
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<p>1 doesn't know you because you haven't</p> <p>2 appeared here before. So I'm going to ask</p> <p>3 you some questions in relation to your</p> <p>4 background. Dr. Cleary, you are the Bank of</p> <p>5 Montreal professor of Finance at the Smith</p> <p>6 School of Business at Queen's University,</p> <p>7 correct?</p> <p>8 DR. CLEARY:</p> <p>9 A. That's correct.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. And you have a Ph.D. in Finance from the</p> <p>12 University of Toronto which you received in</p> <p>13 1998?</p> <p>14 DR. CLEARY:</p> <p>15 A. That's correct.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. And before completing your Ph.D., you earned</p> <p>18 an MBA from St. Mary's University and a</p> <p>19 Bachelor of Arts in Economics from Acadia</p> <p>20 University?</p> <p>21 DR. CLEARY:</p> <p>22 A. Also correct.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. And in addition to your current position as</p> <p>25 professor of Finance at Queen's University,</p>	<p>1 JOHNSON, Q.C.:</p> <p>2 Q. And then that brings us up to 2008 when you</p> <p>3 joined Queen's University as the BMO</p> <p>4 professor of Finance and director of the</p> <p>5 Master Finance Program, is that right?</p> <p>6 DR. CLEARY:</p> <p>7 A. Yes, that's correct.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. And what did the—being the founder and</p> <p>10 director of the Master's of Finance Program</p> <p>11 at Queen's University entail?</p> <p>12 DR. CLEARY:</p> <p>13 A. It was part of the deal when I went there.</p> <p>14 They wanted to set up a Master of Finance</p> <p>15 Program, and they brought me in to help them</p> <p>16 set it up. So basically structuring the</p> <p>17 whole program, designing the curriculum,</p> <p>18 setting it up in Toronto to, which was a</p> <p>19 strategic decision which we ended up</p> <p>20 competing directly with Dr. Booth's program</p> <p>21 that he had to fly off to teach in, but</p> <p>22 anyways, both programs seem to be running</p> <p>23 along side by side and happily (phonetic).</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. And Dr. Cleary, we—I also note from your CV,</p>

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<p>1 which just for the record is appended to</p> <p>2 your main evidence, that you hold a</p> <p>3 designation of CFA. Can you tell us what</p> <p>4 that designation is, please?</p> <p>5 DR. CLEARY:</p> <p>6 A. Okay, well I've got, since I've been here a</p> <p>7 couple of times, "come from away" which I</p> <p>8 understand is similar to what I hear in Nova</p> <p>9 Scotia growing up, but it's actually a</p> <p>10 charter financial analyst, and it sounds</p> <p>11 little bit like the professional accounting</p> <p>12 designation, the CFA or previous to that we</p> <p>13 had CA and CMA. So it's a global</p> <p>14 organization close to 150,000 members. It's</p> <p>15 actually conceived by Ben Graham who is</p> <p>16 Warren Buffet's mentor. It's a designation</p> <p>17 that's held by a wide number of finance</p> <p>18 professionals, investment bankers, portfolio</p> <p>19 managers, analysts and the like. And I've</p> <p>20 been involved in that program since I got my</p> <p>21 designation in 2001 in various capacities,</p> <p>22 teaching the curriculum, preparing readings</p> <p>23 for the curriculum. I also served in the</p> <p>24 Atlantic Canada CFA Society for about seven</p> <p>25 or eight years, my last year as president</p>	<p>1 number of books and book chapters as well as</p> <p>2 developed a number of online courses and</p> <p>3 educational modules in the finance area,</p> <p>4 would that be correct?</p> <p>5 DR. CLEARY:</p> <p>6 A. That's correct. Fourteen textbooks the last</p> <p>7 I counted, and then a number of chapters and</p> <p>8 so on as you mentioned.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. And you have been the recipient of several</p> <p>11 awards for papers you have presented at</p> <p>12 finance conferences around the world?</p> <p>13 DR. CLEARY:</p> <p>14 A. Yes, I've received a few.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. And by my count you have presented on</p> <p>17 finance-related issues at more than 40</p> <p>18 finance conferences since the late 1990s?</p> <p>19 DR. CLEARY:</p> <p>20 A. Yes, at least.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. And you are the editor of the finance area</p> <p>23 of the Canadian Journal of Administrative</p> <p>24 Sciences?</p> <p>25 DR. CLEARY:</p>
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<p>1 before I moved to Queen's University where I</p> <p>2 then joined the Toronto CFA Society and</p> <p>3 served on their board for three years. And</p> <p>4 again, that's - the curriculum is updated on</p> <p>5 a regular basis by finance professionals.</p> <p>6 So it's—the economists at one time called it</p> <p>7 the "gold standard of financial</p> <p>8 designations."</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. And I understand that you also worked in</p> <p>11 commercial lending?</p> <p>12 DR. CLEARY:</p> <p>13 A. That's correct. After I finished my MBA, I</p> <p>14 spent some time with the Royal Bank of</p> <p>15 Canada in the commercial lending.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. And Dr. Cleary, I note from your detailed CV</p> <p>18 that you have approximately 30 peer-reviewed</p> <p>19 publications in finance and business</p> <p>20 academic journals both in Canada and</p> <p>21 internationally, is that correct?</p> <p>22 DR. CLEARY:</p> <p>23 A. That is correct.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. And you have authored or co-authored a</p>	<p>1 A. That's correct.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. And you are the associate editor for the</p> <p>4 European Journal of Finance?</p> <p>5 DR. CLEARY:</p> <p>6 A. Yes.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. Dr. Cleary, although this is your first time</p> <p>9 presenting evidence before this Board, you</p> <p>10 have provided expert evidence before and in</p> <p>11 particular you've provided testimony before</p> <p>12 the Board in Alberta, is that correct</p> <p>13 DR. CLEARY:</p> <p>14 A. That's correct, on two occasions, one in</p> <p>15 their generic cost of capital proceedings</p> <p>16 for the 2013 cost of capital hearings.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Right.</p> <p>19 DR. CLEARY:</p> <p>20 A. And then in 2014 for the regulated rate</p> <p>21 providers.</p> <p>22 (9:15 a.m.)</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Okay. Now you have also filed two reports</p> <p>25 with this Board in this proceeding; the</p>

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<p>1 first dated February 17th, and the second</p> <p>2 being Surrebuttal Evidence dated March 31st,</p> <p>3 and you have provided Replies to Requests</p> <p>4 for Information from both Board staff and</p> <p>5 Newfoundland Power. Is that correct?</p> <p>6 DR. CLEARY:</p> <p>7 A. That's correct.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Were these reports and answers prepared by</p> <p>10 you?</p> <p>11 DR. CLEARY:</p> <p>12 A. Yes, they were.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Are there any changes that you would like to</p> <p>15 make to those reports or to your RFI replies</p> <p>16 at this time?</p> <p>17 DR. CLEARY:</p> <p>18 A. No, there aren't.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. And do you adopt the reports as your</p> <p>21 testimony in this proceeding along with your</p> <p>22 RFI replies?</p> <p>23 DR. CLEARY:</p> <p>24 A. Yes, I do.</p> <p>25 JOHNSON, Q.C.:</p>	<p>1 DR. CLEARY:</p> <p>2 A. So as you can see on the slide - to me this</p> <p>3 is a new assertion, and from what I gathered</p> <p>4 from being at the proceedings last week it's</p> <p>5 a new assertion to everybody involved. And</p> <p>6 on reading the transcript that it was</p> <p>7 apparent that Ms. - Mr. Smith and Ms. Perry</p> <p>8 had relied primarily on the evidence of</p> <p>9 their expert, Mr. Coyne, to come to this</p> <p>10 conclusion or to go along with this</p> <p>11 conclusion I guess. It seems - well, I'll</p> <p>12 talk about what my evidence as we go along,</p> <p>13 but I thought it would be a good way to</p> <p>14 segue into my evidence by discussing two of</p> <p>15 the main reasons that Mr. Coyne stated that</p> <p>16 it was based primarily on two factors,</p> <p>17 Muskrat Falls and NL's weak economic</p> <p>18 forecast. My evidence suggests that these</p> <p>19 are overblown and that NP is an above-</p> <p>20 average (sic.) risk regulated utility at</p> <p>21 best. So with that in mind, maybe we could</p> <p>22 turn to -</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. I take it you meant to say it's an average</p> <p>25 risk regulated utility.</p>
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<p>1 Q. Okay. You have up on the screen, Dr.</p> <p>2 Cleary, provided basically a PowerPoint</p> <p>3 presentation that I'm going to ask you some</p> <p>4 questions about so that you can give an</p> <p>5 overview if you will in the areas that</p> <p>6 you've looked at for the purpose of</p> <p>7 Newfoundland Power's General Rate</p> <p>8 Application. And if we - I guess I'll start</p> <p>9 off, Dr. Cleary -</p> <p>10 MS. GLYNN:</p> <p>11 Q. Mr. Johnson, can we just mark this?</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Oh sorry. Yes, I'm -</p> <p>14 MS. GLYNN:</p> <p>15 Q. Mark this for the record.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Sorry.</p> <p>18 MS. GLYNN:</p> <p>19 Q. And it would be Information Number 34.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. You'd think I'd know that by now, wouldn't</p> <p>22 you? So Dr. Cleary, Newfoundland Power has</p> <p>23 stated in this proceeding that they are an</p> <p>24 above-average risk Canadian utility. What</p> <p>25 are your comments regarding this statement?</p>	<p>1 DR. CLEARY:</p> <p>2 A. Sorry. An average risk, sorry, an average</p> <p>3 risk utility at best.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. Okay. Okay, so -</p> <p>6 DR. CLEARY:</p> <p>7 A. Sorry, I can't read my own slides. I'm a</p> <p>8 little nervous up here, but -</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Okay, no problem. With respect to Mr.</p> <p>11 Coyne's first assertion regarding impact of</p> <p>12 the economic outlook, what does your</p> <p>13 evidence show, Dr. Cleary?</p> <p>14 DR. CLEARY:</p> <p>15 A. So firstly with respect to the economic</p> <p>16 outlook, I thought I'd keep it fairly brief,</p> <p>17 but just go through what - the evidence that</p> <p>18 I provided. And as we've heard, there - we</p> <p>19 have kind of diverse growth prospects going</p> <p>20 on, both globally and within Canada. We</p> <p>21 have of course the drop in oil prices and</p> <p>22 commodity prices which is helping some and</p> <p>23 hurting others. The U.S. economy is, you</p> <p>24 know, finally dug itself out of a mess that</p> <p>25 it dug itself into. It's starting to grow</p>

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<p>1 and of course that's a positive for Canada,  2 our major trading partner. On the other  3 hand we have the Euro that's still in – you  4 know, still cleaning up their mess in the  5 banking system and Japan that's basically  6 been in recession since 1990s. So they're  7 still chugging along very slowly. And also,  8 as we've heard through the trial, that  9 China's growth is slowing. It's interesting  10 that after the discussions last week there  11 was an interesting article in the Globe  12 talking just about that transition from an  13 industrial economy to a consumption economy,  14 and projected to grow at just over six  15 percent, and so a big – not the double-digit  16 growth we've seen before which of course has  17 taken its toll on commodity prices along  18 with the transition in their economy. So we  19 have some oil importing countries that are  20 doing well, some of the other Asian  21 countries, and then we have exporters such  22 as Brazil and, you know, Canada to a certain  23 extent not doing so well. And if we look at  24 the bottom line there which is in Table 2 of  25 my evidence, overall one would look at that</p>	<p>1 I actually had time to read the paper this  2 weekend, you know that the unemployment rate  3 had dropped from 7.3 percent back down to  4 7.1 percent. So and hopefully we'll start  5 to recover as oil prices are going up and so  6 on and so forth and the other sectors. Now  7 how does this translate into the  8 Newfoundland and Labrador economy? Well,  9 here's – if you look at Table 7 from my  10 evidence, these were the Conference Board of  11 Canada forecasts for – and I highlight in  12 red the 2016 2017 numbers because they are  13 the test period in question here. And we  14 can see that at that time they were  15 forecasting for just a slight decline during  16 2015 with also a decline, a bigger decline,  17 in 2016, and then a slight growth in 2017.  18 In their update that was presented and I  19 think Mr. Coyne discussed it in his  20 evidence, we saw the 2015 appear to turn out  21 much worse than expected, minus 5.4 percent.  22 So that's the bad news. The good news is  23 that maybe some, hopefully a lot of it, has  24 washed through the economy and they're  25 forecasting, you know at least slightly</p>
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<p>1 and say that that's not a bad consensus  2 forecast for growth for the world, around  3 three percent for both years. Improving for  4 the U.S. at 2 ½ percent and of course  5 there's that slow growth in the Euro zone  6 that was noted. So globally we could say  7 it's not terrible, but mixed. It depends on  8 where you're sitting, which country. Now if  9 we translate, what that looks like for  10 Canada or how that global scenario factors  11 and affects Canada, and here's some numbers  12 from the consensus forecast from IMF and  13 OECD. We see that basically we see solid,  14 but unspectacular real GDP growth in the two  15 percent area. Then again, we've got this  16 two-speed economy going on with the oil and  17 gas industries and the non-energy commodity  18 industries, you know, not doing so well at  19 the present time and haven't over the last  20 two - three years rather. And then we see  21 in the non-resource sector which is about 84  22 percent of the economy that seem to be  23 chugging along and in fact improving a  24 little bit as a result of the drop in the  25 Canadian dollar. And we saw that also, when</p>	<p>1 positive now in 2016, and then getting, well  2 not quite normal, but still improving to 1.1  3 percent for 2017. I also noted in my  4 evidence that – and it didn't update this in  5 the winter section, but the utility sector  6 you can see is positive all along, and  7 that's consistent with what I kind of argue  8 in my evidence and I'm going to talk about  9 it in the next couple of slides that  10 utilities are more resilient to economic  11 change because it's something that people  12 need. It's one of the last things that  13 they're going to cut back on. So and you  14 know to kind of sum up on this, of course  15 the economic outlook could be better. We'd  16 all be happier, but Newfoundland Power has  17 demonstrated resiliency to previous  18 downturns. And I discuss this in my  19 evidence, but also the 2015 annual  20 statements came up since I prepared my  21 evidence, and at the time we didn't really  22 have an idea of what the GDP growth would be  23 in 2015. It now appears that it wasn't as –  24 it was worse than expected, yet in  25 Newfoundland Power's revenues grew by 3.7</p>

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<p>1 percent, its operating earnings grew and it  2 earned an ROE of 18 basis points over the  3 allowed of 8.8 percent. So that's  4 consistent with some of the evidence  5 provided in Figures 5 and 6 as I'm just  6 going to show you in a second. So in – I'll  7 come back to that summation statement in a  8 second. So this is Figure 5 from my  9 evidence. And what I've charted here is  10 real GDP growth for Newfoundland and  11 Labrador versus the sales growth of  12 Newfoundland Power. And you can see there's  13 just one year where sales did not grow. So  14 the blue line again is the revenue growth  15 for it. So that's a percentage change in  16 revenue growth, and we can see that's it's  17 grown fairly consistently through it, in  18 fact I think the average was 3.4 percent  19 growth over the period. Now, real GDP for  20 Newfoundland and Labrador on the other hand  21 grew an average of 2.5 percent over the  22 period. So that's a couple of things to  23 note, but the main point I wanted to note is  24 there's six years during this period during  25 which real GDP growth was negative, and</p>	<p>1 steadily through the year and again the only  2 blip being 1998, and then after that, they  3 grew not spectacularly. You would not  4 expect that from a regulated utility in a  5 defined area, but they're operating in a  6 defined area, but steadily. So again, just  7 to conclude, with regards to the argument  8 that the economic decline has made  9 Newfoundland Power above-average business  10 risk, I would say that my evidence clearly  11 shows that that's not an appropriate  12 conclusion.  13 JOHNSON, Q.C.:  14 Q. Okay. How would you respond, Dr. Cleary, to  15 the other primary reason used for asserting  16 that Newfoundland Power is now above-average  17 risk, namely the Muskrat Falls Hydro  18 Electric development?  19 DR. CLEARY:  20 A. Okay, so the - there's a couple of issues  21 that have been mentioned in evidence on this  22 and one is with respect to the expected cost  23 increases that are going to materialize when  24 Muskrat Falls goes online if you will. And  25 from my understanding, 2018 would be</p>
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<p>1 during all six of those years, sales growth  2 was positive. So that indicates some  3 resiliency to economic downturns. And if we  4 want to add 2015 which wasn't part of my  5 original chart, then we have seven years  6 where that's happened. So that to me  7 indicates, as I would expect, that  8 Newfoundland Power would be resilient to  9 economic downturns. It's not good for them,  10 but they've been resilient in terms of  11 earning their profits and continuing to be a  12 profitable utility. One could say, well,  13 okay their sales increased, but how did that  14 work out in terms of – how did that work out  15 in terms of their operating earnings? Well  16 the next slide shows quite clearly, and I  17 didn't plot GDP against it, but it's the  18 same period and you can see that EBIT and  19 EBITDA - so just EBIT stands for earnings  20 before interest and taxes, and EBITDA stands  21 for earnings before interest, taxes and  22 depreciation amortization. So those are two  23 common measures of operating earnings. EBIT  24 would be more commonly used than EBITDA, but  25 by both accounts you can see that it grew</p>	<p>1 somewhat optimistic, so somewhere maybe late  2 in 2018. So first of all again I – there's  3 no evidence that Newfoundland Power would  4 not be able to pass these costs on to their  5 customers. It's a cost of service  6 arrangement. There's various pass-through  7 mechanisms in place. They have a very  8 supportive regulator, and this - you know I  9 don't think there's debate over that issue.  10 But the argument that they would lose  11 significant customer base, I don't find that  12 very compelling. Obviously with cost  13 increases it's a concern, and I'm not saying  14 it's nothing to be concerned about because  15 the one thing I learned, you know being in  16 St. John's last week and in around, is I  17 know there's significant concern about  18 Muskrat Falls. I knew it from reading the  19 materials and preparing, but when you're on  20 the street talking to people, it's certainly  21 very much in everybody's mind. But the  22 bottom line is we had this cod moratorium  23 crash during the 1990s and there was a small  24 loss in customer base, and that was when, I  25 think it was about 40 percent cost advantage</p>

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<p>1 to oil. The other part about it is during 2 the test period, we're looking at 2016, 3 2017, well first of all those costs haven't 4 come through yet. So I don't understand the 5 rationale of increasing the cost now because 6 they're going to increase in two years. 7 That's number 1. Number 2, if you look at 8 the forecast period, it's not a period of 9 strong economic growth, and when we're 10 looking at switching costs of 10 to 20 11 thousand dollars, I don't see people going 12 out and that's the time to convert to 13 something and spending 10 and 20 thousand 14 dollars on it. At least I know I have five 15 kids and it certainly wouldn't be foremost 16 on my mind. I'd be trying to get through 17 the next five months. So I don't see any 18 evidence that the costs are not going to be 19 able to be passed on. Is the cost increase 20 you know a good thing? Of course not. Can 21 it be dealt with? I believe it can be dealt 22 with, so I don't see that as a major risk.</p>	<p>1 hearings and decisions, it was quite clear 2 that both sides agreed that Nova Scotia – or 3 sorry, Newfoundland Power was an average- 4 risk regulated utility. That seems a 5 logical statement to me. They operate a 6 virtual monopoly; they're in electricity 7 distribution. They're not in generation. 8 They're well protected through various 9 procedures and mechanisms and they operate 10 under extremely supportive regulatory 11 regime. So for example, the DBRS August 12 21st, 2015 Rating Report states that, "The 13 procedures and mechanisms in place allows 14 Newfoundland Power to recover all prudently 15 spent operating expenses and earn a 16 reasonable return." So I don't think that 17 there's – that the rating agency seemed to 18 think that all of a sudden Newfoundland 19 Power is going to be able to recover 20 prudently-spent expenses, and similar with 21 capital expenditures by having preapproval 22 for the capital expenditures that take away 23 the risk of those not being recovered. So 24 my general conclusions there, I call them my 25 qualitative conclusions based on, you know,</p>
<p>23 (9:30 a.m.) 24 A. I also notice that supply reliability came 25 up in the evidence presented by Mr. Coyne,</p>	
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<p>1 but that it - you know, on several occasions 2 it's been acknowledged that nobody really 3 can conclude on this. There's a detailed 4 study underway and I'm kind of the same as 5 anybody else. I don't know exactly how this 6 thing is going to turn out. And to me just 7 because it's – I understand that there's, 8 you know, a large distance involved, 1100 9 kilometres or whatever it is, but I still 10 don't – can't conclude that a new plant 1100 11 kilometres away is going to be less reliable 12 than one that's close to the hub, but 13 anyways, as I said, I don't speculate on 14 that. I think that's something probably for 15 the next hearing.</p>	<p>1 analyzing the facts as they were, that's 2 pretty consistent with what the debt rating 3 agencies are saying. So as noted in the 4 response to one of my RFIs I said, Moody's – 5 the first two points under "Rating Drivers" 6 were "low-risk regulated electric utility; 7 "supportive regulatory and business 8 environment." The DBRS in the report noted 9 previously, "The confirmations reflect the 10 stable nature of the Company's regulated 11 electricity distribution business and its 12 solid financial risk profile." So none of 13 this to me looking at it suggests that they 14 have above-average risk by any definition, 15 and my quantitative analysis of the business 16 risk below confirms the conclusions by just 17 examining the facts as I have.</p>
<p>16 JOHNSON, Q.C.:</p>	<p>16 JOHNSON, Q.C.:</p>
<p>17 Q. Dr. Cleary, how does the above-average risk 18 assessment for Newfoundland Power compare 19 with your conclusions?</p>	<p>17 Q. Dr. Cleary, we note that this slide that we 20 have before us refers to your quantitative 21 analysis of business risk. Can you tell the 22 Board why you undertook a quantitative 23 analysis of business risk? And can you also 24 provide the Board with the main conclusions 25 of your quantitative analysis of</p>
<p>20 DR. CLEARY:</p>	
<p>21 A. Coming into it I found that very surprising 22 to assert that given what I had read, you 23 know read about the situation and what I 24 know about Canadian regulated utilities. 25 And when I went through the previous</p>	

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<p>1 Newfoundland Power's business risk?</p> <p>2 DR. CLEARY:</p> <p>3 A. Yes. Thank you. The reason I undertook a</p> <p>4 quantitative analysis is because most people</p> <p>5 would agree that business risk is reflected</p> <p>6 in operating earnings as I'm going to get to</p> <p>7 in a second. And being a finance guy, if</p> <p>8 there's a way that you can quantify things</p> <p>9 instead of just waving your hands and</p> <p>10 saying, "This is more risk," and "This is</p> <p>11 less risk," it's always nice if you can go</p> <p>12 jump to punch line to you will, because all</p> <p>13 of those factors that have been discussed</p> <p>14 here that affect the business risk, a large</p> <p>15 number of factors, but you put them all</p> <p>16 together and the impact should be on</p> <p>17 business risk or the operating earnings. So</p> <p>18 with that in mind, I said okay, let's see if</p> <p>19 what I believe to be so, that Newfoundland</p> <p>20 Power is low business risk, that these U.S.</p> <p>21 utilities, because they're holding companies</p> <p>22 and for a variety of other reasons I'll</p> <p>23 discuss I think they're a much higher</p> <p>24 business risk. When I look at the numbers,</p> <p>25 is that what it's telling me? So first of</p>	<p>1 variability in operating profits and also</p> <p>2 the variability in bottom-line profits</p> <p>3 caused by financial leverage. And that's</p> <p>4 the financial risk component which I'll get</p> <p>5 to in a few moments. So with this in mind,</p> <p>6 I know from looking at textbooks and the CFA</p> <p>7 curriculum and actually looking at analyst</p> <p>8 reports and whatnot, that one common measure</p> <p>9 is of operating income volatility or</p> <p>10 business risk is the coefficient of</p> <p>11 variation of EBIT. And why the coefficient</p> <p>12 of variation of EBIT is because, as I</p> <p>13 mentioned earlier, EBIT are earnings before</p> <p>14 interest and taxes is probably the most</p> <p>15 commonly employed measure of operating</p> <p>16 income. Why do – what's does coefficient of</p> <p>17 variation mean? It means you divide the</p> <p>18 standard deviation by the average rather</p> <p>19 than just use the standard deviation. Why</p> <p>20 do you divide the standard deviation by the</p> <p>21 average? Because you do so to account for</p> <p>22 differences in size. So for example, if we</p> <p>23 took one company that had an EBIT of 50</p> <p>24 million, and took the standard deviation of</p> <p>25 it, it might be say 15 million. If we took</p>
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<p>1 all I thought I'd just start out by just a</p> <p>2 couple of definitions of business risk. So</p> <p>3 CFA curriculum and I discussed the CFA</p> <p>4 curriculum earlier. Business risk is the</p> <p>5 risk associated with operating earnings.</p> <p>6 They're risky because total revenues are</p> <p>7 risky as well as the cost of producing those</p> <p>8 revenues. Dr. Roger Morin, who presented in</p> <p>9 the 2003 hearings here and I believe</p> <p>10 probably before that as well, refers to,</p> <p>11 "The relative variability of operating</p> <p>12 profits induced by the external forces of</p> <p>13 demand, foreign supply of the firm's</p> <p>14 products, by the presence of fixed costs the</p> <p>15 extent of diversification or lack thereof of</p> <p>16 services and by the character of</p> <p>17 regulation." Okay? So again talking about</p> <p>18 operating profits and in fact Mr. Coyne</p> <p>19 agreed with the presence that operating risk</p> <p>20 shows up in earnings when he was on the</p> <p>21 stand. So I don't think that there's a</p> <p>22 great debate that when we talk about</p> <p>23 business risk, we're generally talking about</p> <p>24 variability in operating profits. When we</p> <p>25 talk about total risk, we're talking about</p>	<p>1 another one, and it had an EBIT of 500</p> <p>2 million, and it was the same volatility, it</p> <p>3 might have a standard deviation of 150</p> <p>4 million, but they have the same volatility,</p> <p>5 but the scale makes the conclusions using</p> <p>6 the standard deviation way of. When you</p> <p>7 divide by the average, it accounts for this</p> <p>8 difference in the size. You divide by the</p> <p>9 50 million or the 500 million, and so you</p> <p>10 get a relative scale that makes sense. So I</p> <p>11 use three different variations of this</p> <p>12 coefficient of variation of EBIT. So from</p> <p>13 now on I'll just refer to it as CV of EBIT.</p> <p>14 So the first one is the standard deviation</p> <p>15 of EBIT over the entire 20-year period that</p> <p>16 I looked at, divided by the expected EBIT.</p> <p>17 I determined the expected EBIT by taking the</p> <p>18 2014 EBIT and multiplying it by one plus the</p> <p>19 median growth rate in EBIT over the entire</p> <p>20 period. So it gives you an indication of</p> <p>21 how big it would be next year. I also used</p> <p>22 another one which I call five-year rolling</p> <p>23 estimate of the coefficient variation of</p> <p>24 EBIT where I take the standard deviation of</p> <p>25 EBIT over the previous five years and divide</p>

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<p>1 it by the average of EBIT over the previous  2 five years. And then I – that gives me 15  3 five-year estimates, and I take the average  4 of those 5 estimates. Finally and probably  5 more simply, I just take the coefficient  6 variation of the EBIT over sales ratio which  7 is kind of like the EBIT margin or operating  8 profit margin that people would often refer  9 to. This is generally close to it or  10 actually it, depending on people's  11 definitions of operating profits. So this  12 one works very simple, and I just take the  13 standard deviation of that ratio over time  14 and divide by the average of EBIT, the sales  15 over that time. I would note that the third  16 measure, the EBIT to sales is not subject to  17 growth in EBIT or due to rate base or  18 whatever because it's just a ratio through  19 time and the fact that a company has little  20 - is able to earn an allowed operating  21 profit margin if you will, through time with  22 little variability in that profit margin  23 suggests that there's not much variation in  24 their EBIT, that they're not very high one  25 year and negative another year. Okay, so</p>	<p>1 don't think you – this kind of to me is a  2 very definitive word on the discussions that  3 we had in terms of, you know, we talked  4 about the U.S. utilities and the fact that  5 they were holding companies, the fact that  6 they had more generation risks than  7 Newfoundland Power, that there was  8 regulatory differences and there was  9 historic test year versus forward test year.  10 And all of these, you know, different issues  11 that we were discussed and probably some  12 more non-regulated competition for those  13 U.S. utilities, all of the things that I  14 would, you know, conclusions I would come to  15 qualitatively show up very clearly in the  16 analysis. And one of the comments in the  17 rebuttal was that this was inappropriate  18 because I'm using holding companies for the  19 U.S. sample and I'm using operating  20 companies for the Canadian companies and  21 I'm, like, of course it's inappropriate to  22 compare holding companies to operating  23 companies and that's exactly what I was  24 trying to show here, that you can't—I  25 wouldn't say quite apples and oranges, but</p>
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<p>1 this is - these are the main results from  2 that analysis, and hopefully I think it  3 shows up fairly clear, at least it does in  4 mind, but the main points show up very  5 clear. If you see the two high bars on the  6 left, in the middle and on the third thing,  7 those are the coefficient variation of EBIT  8 or the five-year CV of EBIT or the CV of  9 EBIT to sales for the U.S. firms. And  10 they're all well over .20, close to .30 in  11 some cases. In fact, for the CV EBIT over  12 sales there over .30. Now that - they look  13 very high in relationship to the - the red  14 and the purple bars are for the Canadian  15 proxy group that I use which are Canadian  16 operating utilities or close to I guess with  17 Gaz Metro. It's not quite, but it closer  18 than a holding company. And the other two  19 Nova Scotia Power and Enbridge Gas are  20 operating companies, and then of course on  21 the last there we see Newfoundland Power  22 which is a little bit below the Canadian  23 proxy group and we see that less than half  24 of the U.S. or in some cases less than a  25 third. So they're much, much smaller. I</p>	<p>1 they're apples and crab apples, if you will.  2 So, they're a different beast. So, the U.S.  3 ones are clearly riskier. So taking them at  4 face value and comparing them to the  5 Canadian utilities is not a valid comparison  6 which is, in fact, why I don't use the U.S.  7 ones in my future analysis. The other point  8 I did want to make, sorry, before I rush off  9 this slide, if you look at the last column  10 over there, that's the EBIT to sales ratio  11 and you can see that all of the are in the  12 15 to 20 percent range. So, if you look at  13 that from an investor point of view, maybe a  14 private equity investor, you want to buy the  15 business, if you wanted to buy a business  16 and you could get the same operating profit  17 margin and less volatility in that profit  18 margin, then you would say that's a much  19 better purchase. If you're risk adverse,  20 you'd say well, okay, Newfoundland Power is  21 17.6 percent average EBIT. The U.S.  22 utilities are 18.6 percent. So, fairly  23 close, but the volatility in those operating  24 profit margins are much lower for  25 Newfoundland Power.</p>



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<p>1 Okay, so with that all being said and I</p> <p>2 think I've pretty much mentioned these as we</p> <p>3 go along that this evidence shows clearly</p> <p>4 that Newfoundland Power possesses much lower</p> <p>5 business risk than the U.S. proxy group, not</p> <p>6 surprisingly, as discussed, slightly lower</p> <p>7 business risk than the other Canadian</p> <p>8 operating utilities. Although I don't focus</p> <p>9 on the difference here because my general</p> <p>10 impression and what I know is most regulated</p> <p>11 Canadian utilities that aren't heavily in</p> <p>12 generation are very low risk anyways. So,</p> <p>13 the other thing that I did want to mention</p> <p>14 is there's a lot of discussion about betas</p> <p>15 last week and I did discuss betas in my</p> <p>16 evidence. It's also consistent if you look</p> <p>17 at—I don't think there was any debate that</p> <p>18 the U.S. utilities had higher betas. It was</p> <p>19 whether it be .5 or .6 was the discussion</p> <p>20 and whether U.S. was .6 and Canada was .5,</p> <p>21 for example. Well, let's just say that's</p> <p>22 the truth. I think Mr. Coyne's evidence is</p> <p>23 .67 and .6, but if you looked at it and you</p> <p>24 said, okay, if they have the same business</p> <p>25 risk, then they should both have a beta of</p>	<p>1 A. Okay, so again, business risk, very low,</p> <p>2 certain much lower than the U.S. proxy group</p> <p>3 using in these proceedings. Financial</p> <p>4 risks, well, there's generally two ways</p> <p>5 you'd look at the financial risk. You'd</p> <p>6 look at the allowable ROEs and the equity</p> <p>7 ratios or ERs. And if we look and I just</p> <p>8 summarize the data and tables, 9 and 10 of</p> <p>9 my evidence. And as mentioned, Newfoundland</p> <p>10 Power has slightly above average allowed ROE</p> <p>11 and well above average equity ratio. I</p> <p>12 don't think this point has been—no one has</p> <p>13 disputed this factor in the proceeding. So,</p> <p>14 that's just a given fact. Turning to the</p> <p>15 other way of looking at this is to look at</p> <p>16 credit metrics as another measure of</p> <p>17 financial risk. And when we start doing</p> <p>18 that, the primary concern—well, I shouldn't</p> <p>19 say the primary—one of the concerns is with</p> <p>20 the debt rating agency. Now, Mr. Coyne's</p> <p>21 evidence suggests that the debt rating in—I</p> <p>22 was accused—I shouldn't say accused, but it</p> <p>23 was alluded to in the rebuttal evidence that</p> <p>24 I was conducting my analysis on the mistaken</p> <p>25 belief that Newfoundland Power was A rated</p>
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<p>1 .5. Let's say .5 is the number you start</p> <p>2 with. Now, if one utility has more</p> <p>3 financial risk than the other, ie. Higher</p> <p>4 leverage, then we would expect its beta to</p> <p>5 be .6. I'm just pulling these numbers out</p> <p>6 for illustrative purposes and the other one</p> <p>7 would stay at .5, it has lower financial</p> <p>8 risk. But on the other hand we know that</p> <p>9 the U.S. utilities have less leverage, yet</p> <p>10 their betas are .7 versus .6 or .6 versus</p> <p>11 .5. It clearly shows that the U.S.</p> <p>12 utilities in this sample have higher</p> <p>13 business risk because they have lower</p> <p>14 financial risk, yet they have higher betas.</p> <p>15 So, that's consistent with my analysis. And</p> <p>16 it's consistent with all the discussions</p> <p>17 that have been going on about the comparison</p> <p>18 of these two.</p> <p>19 So, in short this quantitative analysis</p> <p>20 supports very strongly the assertions I made</p> <p>21 earlier.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. Dr. Cleary, what about Newfoundland Power's</p> <p>24 financial risk profile?</p> <p>25 DR. CLEARY:</p>	<p>1 when, in fact, they BAA rated by Moodys.</p> <p>2 So, Mr. Coyne's argument suggests that it's</p> <p>3 one notch—Newfoundland Power's debt rating</p> <p>4 is one notch below the Canadian proxy group</p> <p>5 of A-. I take exception to this statement</p> <p>6 because this ignores the issue—sorry, this</p> <p>7 ignores that the issue rating on the first</p> <p>8 mortgage bonds is actually A2 by Moodys.</p> <p>9 And that's noted in the Moody's report.</p> <p>10 It's also noted in the Fortis Investor</p> <p>11 presentation that Dr. Booth provided in his</p> <p>12 evidence. It also ignores the fact that</p> <p>13 Newfoundland Power is rated A by DBRS. And</p> <p>14 all of the ratings that Mr. Coyne uses are</p> <p>15 S&amp;P ratings and there's no reason to suggest</p> <p>16 that an S&amp;P rating and a Moody's rating will</p> <p>17 fall in the same line. In fact, I would</p> <p>18 argue that it's more likely that it would be</p> <p>19 closer to the DBRS, although I can't say for</p> <p>20 sure because they all do their own thing.</p> <p>21 So just for example, FortisAlberta</p> <p>22 Inc., they're A low by DBRS, A-, which is</p> <p>23 the equivalent of A low by S &amp; P, and B-AAA1</p> <p>24 stable, the sample as Newfoundland Power by</p> <p>25 Moody's. My belief, if there was an S &amp; P</p>

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<p>1 rating for Newfoundland Power, it would  2 probably be A- or probably A, somewhere in  3 there, but I cannot say that's the case, but  4 it seems to me more likely just looking at  5 the evidence. So let's take a look at what  6 my – when I did a metric comparison in Table  7 11 of my evidence, rather than prepare – try  8 to go out and gather all the data and  9 prepare all these metrics myself, I said,  10 well, let's just look at somebody who's  11 doing this on a consistent basis, and so I  12 chose the DBRS because they tend to have  13 ratings for all the Canadian utilities, and  14 then you need two ratings, so some go with S  15 &amp; P and less go with Moody's. If you look  16 at these numbers based on the most recent  17 debt rating reports that were available to  18 me at the time I did my analysis, which was  19 February, I believe, you can see that on all  20 three metrics Newfoundland Power is better  21 than all of these others Canadian regulated  22 utilities, and perhaps I'll just point out a  23 couple of things here. CU Inc., that you  24 see on the top, is different than CU  25 Limited, which Mr. Coyne used. CU Inc., is</p>	<p>1 is also extremely high at 17.7 percent, well  2 above the average, and, in fact, above any  3 of the numbers for any of the other  4 utilities. The same can be said about the  5 EBIT interest coverage ratio at 3.06, which  6 is also well above the numbers for the  7 industry average. The 2.16, I would kind of  8 note, is an average. Yet all of these  9 utilities are A or A low rated, or A high,  10 right. So there's that interest coverage  11 and there's the 2.2, and I notice there's  12 been a lot of discussion about that, and I  13 will come back to this point later, but  14 there it is under 2.2, and all of those are  15 A rated and they have lower equity ratios  16 too, I might add. So, in fact, out of all  17 of those six companies, there's not one of  18 them that has any of those three metrics  19 that's better than Newfoundland Power. So  20 clearly, according to the credit metrics,  21 and according to the allowed ROE and ERs,  22 that Newfoundland Power has lower financial  23 risk these comparable companies.  24 JOHNSON, Q.C.:  25 Q. Dr. Cleary, what conclusions do you have</p>
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<p>1 actually a holding company, but it's a  2 holding company of the operating companies.  3 Where CU Limited is above it, it's very  4 confusing if you see the charts for them,  5 but they own CU Inc., and they also own some  6 other businesses. So it's not an operating  7 company, but it's close to an operating  8 company that's comprised of operating  9 companies. Enbridge Gas, FortisAlberta,  10 FortisBC Inc., and Nova Scotia Power, we  11 know are all operating companies, and Gaz  12 Metro Limited Partnership is a holding  13 company primarily of three operating  14 companies which is distribution of gas in  15 Quebec and in Vermont, New Hampshire. So  16 they're not quite operating companies, but  17 they're further down the line than a holding  18 company. Anyway, along these lines we can  19 see that Newfoundland Power is A rated,  20 which is – you know, these are ranging from  21 A high to A low. They clearly are much  22 better on total debt to capital, which is  23 consistent with the fact that they have the  24 higher allowed equity ratio than other  25 Canadian utilities. Their cash flow to debt</p>	<p>1 regarding Newfoundland Power's total risk  2 profile?  3 DR. CLEARY:  4 A. If we combine the discussion above, clearly  5 Newfoundland Power is low business risk and  6 they have lower financial risk than similar  7 Canadian operating utilities; why, because  8 they have slightly above average ROEs and  9 much higher than average allowed ERs, or  10 equity ratios, and they have better metrics.  11 Combining low business risk and low  12 financial risk tells me they have low total  13 risk, which is, you know, what I would  14 expect from a regulated utility. Earning an  15 ROE above the allowed ROE for 19 of the last  16 20 years confirms this, because I would look  17 at ROE as a measure of total risk because it  18 reflects business risk. It's reflected in  19 operating income, financial risk is the  20 transition from operating income to net  21 income, and ROE captures both of those  22 impacts; business risk and financial risk.  23 In fact, it's 20 of 21, if we want to  24 include 2015 where they also earned above  25 their allowed ROE. So there's no evidence</p>

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<p>1 to suggest they're above average risk. If</p> <p>2 anything, it's might be slightly below</p> <p>3 average, but I don't think it's necessary to</p> <p>4 make that judgment relative to other</p> <p>5 Canadian utilities. They're low risk, and</p> <p>6 if I look at the rating reports for them and</p> <p>7 for other Canadian utilities, the strength</p> <p>8 it always low business risk and they always</p> <p>9 rate excellent on it, so I don't see</p> <p>10 anything in my analysis that suggests</p> <p>11 otherwise.</p>	<p>1 criteria for Moody's are, I would say, U.S.</p> <p>2 centric, and all we have to do is look at</p> <p>3 the last one there, the debt to</p> <p>4 capitalization ratio, their criteria for the</p> <p>5 debt to capitalization ratio is that it</p> <p>6 would be less than 50 percent. Of course,</p> <p>7 there's no Canadian utility that I can think</p> <p>8 of that has more than a 50 percent equity</p> <p>9 ratio, so they're never going to get A on</p> <p>10 that criteria. Again as we know, the allowed</p> <p>11 ROEs and equity ratios in the U.S. are</p>
<p>12 JOHNSON, Q.C.:</p>	<p>12 higher, probably offsets their higher</p>
<p>13 Q. Dr. Booth, could you please next discuss</p> <p>14 your credit metric – I'm sorry, Dr. Cleary,</p> <p>15 could you please discuss your credit metric</p> <p>16 analyses for Newfoundland Power?</p>	<p>13 business risk, but the criteria that Moody's</p> <p>14 makes, they haven't really tailored it to</p> <p>15 Canadian utilities as much. So if we then</p> <p>16 look at the DBRS metrics, we see that along</p>
<p>17 DR. CLEARY:</p>	<p>17 the cash flow to debt, the debt to capital,</p>
<p>18 A. Yes, thank you. So what I've done here is</p> <p>19 I've got three tables related to credit</p> <p>20 metric analysis, and if we look at the first</p> <p>21 table, it's Table 13, and this is under</p> <p>22 existing rates and all of the data here for</p> <p>23 2015, 2016, 2017, were taken from Exhibit 3,</p> <p>24 I believe, of Newfoundland Power's evidence,</p> <p>25 and if we look at these numbers, what I did</p>	<p>18 and the EBIT to interest which is another</p> <p>19 name for the interest coverage ratio, that</p> <p>20 they're in the A high to AA low category, so</p> <p>21 very strong. Even under existing rates, they</p> <p>22 would remain in that category. So the next</p> <p>23 thing I thought that I would do that would</p> <p>24 help the Board in their decision was to look</p> <p>25 at what would happen under various ROE and</p>
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<p>1 was I took the numbers as indicated in an</p> <p>2 RFI response, and I provided the Excel sheet</p> <p>3 exactly where the numbers came from and how</p> <p>4 I came about them, and I calculated these</p> <p>5 metrics according to the standard guidelines</p> <p>6 provided by Moody's in one of their</p> <p>7 documents and also for DBRS provided in one</p> <p>8 of their documents I went through, and if we</p> <p>9 look at these numbers, we can see – first of</p> <p>10 all, it's probably useful to spend a moment</p> <p>11 to look at the difference between the</p> <p>12 Moody's rating criteria, where they fall in</p> <p>13 terms of B-AA to A, so on and so forth. If</p> <p>14 we look at the Moody's metrics for the cash</p> <p>15 flow, pre-working capital, plus interest</p> <p>16 over interest, so that's like a cash flow</p> <p>17 interest coverage ratio, and a cash flow to</p> <p>18 debt ratio and cash flow minus dividends to</p> <p>19 debt ratio, and then finally the debt to</p> <p>20 capitalization ratio, we see that</p> <p>21 Newfoundland Power, these ratios remain</p> <p>22 strong and they remain in the B-AA mid to</p> <p>23 high range, or even touch upon the A low.</p> <p>24 Now one might say, okay, well, where does</p> <p>25 this A rating come from. The metric</p>	<p>1 equity ratio scenarios. I'm going to skip</p> <p>2 over Table 14 because that's using the 45</p> <p>3 percent equity ratio. We'll look at Table</p> <p>4 15, what happens if you vary the allowed ROE</p> <p>5 and vary the equity ratio. So when we get</p> <p>6 to this point, we can see that the ratios</p> <p>7 are still well within the Moody's B-AA</p> <p>8 category, and the DBRS metrics remain well</p> <p>9 in the A range, and that's for 2016 on this</p> <p>10 slide, and then on the next slide for 2017.</p> <p>11 Again the metrics are not all the debt</p> <p>12 rating agencies look at. In fact, they're</p> <p>13 going to look at business risk and it's</p> <p>14 pretty much a stamp that it's excellent for</p> <p>15 business risk, you know, unless something</p> <p>16 unforeseen happens, but these Canadian</p> <p>17 utilities are going to rate very high in</p> <p>18 business risk, and if their metrics, you</p> <p>19 know, remain within the range that they have</p> <p>20 been, they're going to maintain that rating.</p> <p>21 I would note that even under some of the</p> <p>22 scenarios presented, of course, the metrics</p> <p>23 weaken if we reduce the equity ratio and the</p> <p>24 ROE, but they would still be stronger than</p> <p>25 some of those utilities listed in the</p>

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<p>1 previous table because they were well above</p> <p>2 average. So even if they do weaken, it</p> <p>3 doesn't mean that they're falling off a</p> <p>4 cliff, it just means that they're coming</p> <p>5 back to the average from well above average.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Dr. Cleary, do you have any comments</p> <p>8 regarding the credit metrics provided by</p> <p>9 Newfoundland Power both for previous years</p> <p>10 and pro forma metrics based on future</p> <p>11 estimates?</p> <p>12 (10:00 a.m.)</p> <p>13 DR. CLEARY:</p> <p>14 A. Yes, I do. First of all, this came up in my</p> <p>15 rebuttal evidence, and there's a difference</p> <p>16 in the interest coverage ratios that are</p> <p>17 being reported using the same financial</p> <p>18 statement information, or at least I can</p> <p>19 honestly say I was never provided the exact</p> <p>20 details of all of the information used in</p> <p>21 the calculations of these interest coverage</p> <p>22 ratios, which is kind of a – I'll come back</p> <p>23 to that in a second, but that's the only one</p> <p>24 where we seem to disagree on. So as noted</p> <p>25 in my evidence, rather than go forecast, if</p>	<p>1 "not surprisingly", but if you look at this</p> <p>2 next table, and it's almost useful to look</p> <p>3 in segments of two to compare Newfoundland</p> <p>4 Power 2016, for example. In the rebuttal</p> <p>5 evidence 7.5 percent ROE and the 40 percent</p> <p>6 equity ratio, and in my Table 15, you can</p> <p>7 see the cash flow to debt coverage are</p> <p>8 fairly similar. We're off a little bit</p> <p>9 there, 15.9 versus – they actually have a</p> <p>10 higher ratio than me. The same for the cash</p> <p>11 flow to interest coverage, they actually</p> <p>12 have a higher number than me, but then the</p> <p>13 interest coverage again, they're about that</p> <p>14 10 percent lower than my estimate. If we go</p> <p>15 over to the next two columns and we look at</p> <p>16 it, we see very close for cash flow to debt</p> <p>17 coverage, and this is again for 2017 and the</p> <p>18 7.5 percent and 40 percent equity ratio.</p> <p>19 It's 14.5 versus 14.78; 3.5 versus 3.5, so</p> <p>20 exactly the same, and again 10 percent lower</p> <p>21 in the interest coverage ratio. Then</p> <p>22 finally in Undertaking 4, I believe, that</p> <p>23 was discussed two weeks ago, I guess now, we</p> <p>24 see that for 8.3 percent ROE and a 40</p> <p>25 percent equity ratio, Newfoundland Power had</p>
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<p>1 I go back and look at 2013/2014, two years</p> <p>2 that are already in the books, so to speak,</p> <p>3 we had slight – well, enough of a</p> <p>4 difference, maybe almost a 10 percent</p> <p>5 difference, where I got 2.48 and 2.52 using</p> <p>6 the numbers from Exhibit 3 and the revised</p> <p>7 version of Exhibit 3. Oddly, DBRS has even</p> <p>8 higher numbers than me. So it's a little</p> <p>9 bit of a puzzle as to what's going on here,</p> <p>10 but I would note that even at the 2.3, which</p> <p>11 one would have to consider at the lower end</p> <p>12 of what this ratio actually is, that they're</p> <p>13 still in good shape and still above average.</p> <p>14 Now the funny thing is when we go to the</p> <p>15 cash flow related measures, that we get</p> <p>16 almost the same ratios, both in the pro</p> <p>17 formas and the other. There's an old</p> <p>18 finance saying that earnings can vary with</p> <p>19 various assumptions, so on and so forth, but</p> <p>20 at the end of the day a company, their cash</p> <p>21 flows in and their cash flows out, it</p> <p>22 doesn't matter what you call them, earnings,</p> <p>23 losses, or whatever, they should all be the</p> <p>24 same because cash flow in should equal cash</p> <p>25 flow out. I guess, maybe I'm going to say</p>	<p>1 15 percent, I had 15.3 percent, and we had</p> <p>2 virtually the same for cash flow interest</p> <p>3 coverage, and then there's about that 10</p> <p>4 percent difference on the interest coverage</p> <p>5 ratio. So this led me to scratch my head</p> <p>6 and try to figure out what's going on here.</p> <p>7 So I thought maybe I'd just take a moment to</p> <p>8 go through how this interest coverage ratio</p> <p>9 is calculated. There's two different ways</p> <p>10 you can do it, okay, and I just brought up</p> <p>11 some simple numbers here. You can start -</p> <p>12 do a top down, and start with revenues, take</p> <p>13 off your operating costs. That leaves your</p> <p>14 EBITDA, your earnings before interest,</p> <p>15 taxes, and depreciation. If you then take</p> <p>16 off your depreciation and amortization, that</p> <p>17 gives you EBIT, or earnings before interest</p> <p>18 and taxes, the 22 in this example. If I</p> <p>19 then take off the 6 in interest, we get 16</p> <p>20 for earnings before taxes, and if we</p> <p>21 applied, say, a 25 percent tax rate, then we</p> <p>22 get the net income of 12. So the top down,</p> <p>23 I could start at 100, and when I get to 22,</p> <p>24 I'd be done. The bottom up, I'd start at 12,</p> <p>25 I'd add back 4, as you can see in the bullet</p>

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<p>1 above there, I'd add back the 4 in taxes,  2 I'd add back the 6 in interest, and I'd get  3 22. So you should get the same number no  4 matter which way you come from. Of course,  5 you'll always get the same number if you  6 provided all the information. In the  7 evidence, this is what was pulling my hair  8 out, I was either given the top down  9 information or the bottom up information, so  10 I couldn't confirm the whole picture. So  11 just to carry on with this point without  12 belabouring it too much, but if I do look at  13 Table 1 in U7 where Newfoundland Power  14 provided calculations used to figure out  15 their earnings test ratio, which is actually  16 the interest coverage ratio, except with the  17 new interest on the bond issue added onto  18 that interest amount, so the existing  19 interest plus the extra interest on the  20 bond. Also I would add, the other reason  21 that number is lower than the interest  22 coverage ratio is because they use, from  23 what I understand from reading the  24 transcript, they use the EBIT from the  25 trailing 12 month period as opposed to the</p>	<p>1 that they had forecast for 2017, subtracted  2 the 55 million that they're going to pay for  3 the dividends, that should give me about 440  4 million. If I use that number and take  5 27,455 and divide by it, I get an ROE of  6 6.24 percent, which that's why I've got the  7 question marks there because this is  8 supposed to be a scenario where you're  9 evaluating an 8.3 percent ROE. The numbers  10 don't add up to me. Am I using the wrong  11 common equity – it would be nice if I had  12 all the data so I could tell you exactly  13 what's going on, but I had to work  14 backwards. Did it work out; sure, because  15 implied debt figure was 674 using –  16 basically, they had 600 million and 75  17 million debt issue. That implies 675, and  18 again I'm guesstimating 440. Does that work  19 out; yeah, it's close to a 40 percent equity  20 ratio. It's 39.5 percent. So it seems they  21 got the 40 percent equity ratio going on,  22 but these numbers do not give an 8.3 percent  23 ROE. If I assume that they got the ROE  24 correct at 8.3 percent, I could also back  25 out that the equity figure would have to be</p>
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<p>1 future EBIT. Now if you think of that, EBIT  2 has been growing steadily from my chart, so  3 that's going to leave that number – it's  4 going to be lower than the interest coverage  5 ratio used by Moody's, for example, but it's  6 in their bond indenture, so it is what it  7 is, but I'm just explaining why those two  8 ratios might be different. So if we look at  9 it, the number that they constructed by  10 going by revenues and operating expenses and  11 so on, they got \$80,199,000.00. They didn't  12 give the net income or earnings before taxes  13 data, but if we subtracted the interest  14 figure that they did provide, which is  15 41,454, that's the new interest after the  16 issue, we get an earnings before taxes  17 figure of 38,745. If we then apply 29.14  18 percent tax rate, which is pretty consistent  19 with what they paid through the years and  20 was provided by them in Exhibit 3, that  21 gives me a net income figure of 27,455. Now  22 the common equity figure, again they didn't  23 provide it, but I worked backwards and  24 figured out that it's probably going to be  25 about 440 million, because I took the 495</p>	<p>1 330,780, which would imply an equity ratio  2 of 33 percent. So again this confusion may  3 be if all the data was provided could be  4 avoided, as I mentioned. My data is out  5 there, it's an Excel spreadsheet, I used all  6 the company data. Everyone can see my  7 calculations, so it's easy to figure out  8 what I did in terms of estimating this  9 metric. There's a discrepancy, and I'm not  10 quite sure why, so I just thought it would  11 be useful to the Board to point this out.  12 JOHNSON, Q.C.:  13 Q. And I take it, you have a separate table –  14 DR. CLEARY:  15 A. Oh, sorry.  16 JOHNSON, Q.C.:  17 Q. Yeah.  18 DR. CLEARY:  19 A. Yes, so in contrast, I do go through and I  20 start with an 8.3 percent ROE – sorry, just  21 by contrast, here's what I do. It's an 8.3  22 percent ROE and the 40 percent. There's lots  23 of ways you can get to a 40 percent equity  24 ratio. I chose a very simple way, issue 102  25 million in debt, and you don't have to do</p>

<p style="text-align: right;">Page 53</p> <p>1 the liquidating dividend, it doesn't really</p> <p>2 matter how – you know, obviously that's a</p> <p>3 decision Newfoundland Power would make,</p> <p>4 whatever makes the most sense for them.</p> <p>5 Based on that, I then figured out what the</p> <p>6 interest on that would be. I used the 4.45</p> <p>7 percent that Newfoundland Power issued bonds</p> <p>8 at in September of 2015. I see no reason</p> <p>9 why it would increase 1 percent. If</p> <p>10 government rates go up 1 percent, the yield</p> <p>11 spread is going to narrow, so the two are</p> <p>12 going to offset to a certain extent.</p> <p>13 Anyway, it didn't really make – the interest</p> <p>14 calculation was not the difference, it was</p> <p>15 the EBIT. So then I started with the net</p> <p>16 income to earn 8.3 percent, added back the</p> <p>17 29 percent taxes, added back the interest as</p> <p>18 calculated, and that's how I got these</p> <p>19 numbers.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. Dr. Cleary, based on your analysis, what</p> <p>22 conclusions have you reached and what</p> <p>23 recommendation do you have for the Board</p> <p>24 regarding Newfoundland Power's capital</p> <p>25 structure?</p>	<p style="text-align: right;">Page 55</p> <p>1 I don't think the 45 percent is necessary.</p> <p>2 My credit metric – I mean, my risk</p> <p>3 conclusion suggests this is the case,</p> <p>4 they're not riskier on either business risk</p> <p>5 or financial risk level than comparables,</p> <p>6 and my credit metrics scenario analysis</p> <p>7 confirms that they'd remain within the same</p> <p>8 rating areas that they are now, and they'd</p> <p>9 still probably be slightly above average on</p> <p>10 the credit metrics. I would also note that</p> <p>11 if we're going to change – if you were going</p> <p>12 to change it, it's a particularly good time</p> <p>13 to issue debt because they're in historic</p> <p>14 lows for utilities. With low interest</p> <p>15 rates, even though the spreads have gone up</p> <p>16 since 2013, it's been offset by the decline</p> <p>17 in the base rates, so it's all time low or</p> <p>18 pretty close to it.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Does that conclude your direct, Dr. Cleary?</p> <p>21 DR. CLEARY:</p> <p>22 A. That does. Thank you.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Thank you very much.</p> <p>25 CHAIRMAN:</p>
<p style="text-align: right;">Page 54</p> <p>1 DR. CLEARY:</p> <p>2 A. So as mentioned, I think they're low</p> <p>3 business risk, they're a virtual monopoly,</p> <p>4 low risk distribution area, strong</p> <p>5 regulatory support, resiliency in revenue,</p> <p>6 EBITDA through time, low volatility in</p> <p>7 operating income. I would add also</p> <p>8 operating income margins that are comparable</p> <p>9 to average with less volatility in them, low</p> <p>10 financial risk because they have about</p> <p>11 average ROE and well above average equity</p> <p>12 ratio, the credit metrics are above average,</p> <p>13 and they've earned an ROE – you know, as I</p> <p>14 said at the bottom of the business and</p> <p>15 financial risk gets reflected in the ROE and</p> <p>16 their ability to earn their allowed ROE.</p> <p>17 The fact they've been able to do so for the</p> <p>18 last 21 years confirms their low total risk.</p> <p>19 I would not agree with the assertion that</p> <p>20 they're above average risk, and I would say</p> <p>21 they're average, if not a little bit below.</p> <p>22 Therefore, I would suggest that the 40</p> <p>23 percent equity, I recommend decreasing</p> <p>24 equity ratio to 40 percent, and that would</p> <p>25 bring it in line with their Canadian peers.</p>	<p style="text-align: right;">Page 56</p> <p>1 Q. You're finished, Mr. Johnson?</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. I am, sir.</p> <p>4 CHAIRMAN:</p> <p>5 Q. Mr. Kelly.</p> <p>6 DR. SEAN CLEARY – CROSS-EXAMINATION BY KELLY, Q.C.:</p> <p>7 Q. Dr. Cleary, welcome to Newfoundland and</p> <p>8 Labrador. I understand, if I take you over</p> <p>9 to page 1 of your evidence that you filed,</p> <p>10 original evidence, that in terms of your</p> <p>11 experience in giving cost of capital</p> <p>12 evidence in relation to utilities, you're</p> <p>13 fairly new at this, correct?</p> <p>14 DR. CLEARY:</p> <p>15 A. Yeah, this would be my third hearing. It's</p> <p>16 rare to be called new at my age, but</p> <p>17 refreshing, I would say.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. We all have to start somewhere.</p> <p>20 DR. CLEARY:</p> <p>21 A. Yes.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. As you told Mr. Johnson, you testified in</p> <p>24 Alberta and wrote a report there?</p> <p>25 DR. CLEARY:</p>

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<p>1 A. That's correct.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. You haven't written a report or testified in</p> <p>4 any other jurisdiction other than the report</p> <p>5 that you note for the chicken farmers of</p> <p>6 Ontario in line 12 on the screen. Am I</p> <p>7 correct in that?</p> <p>8 DR. CLEARY:</p> <p>9 A. With the exception that I have prepared a</p> <p>10 report for the ongoing Alberta hearings.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. Yes, that's what I'm saying.</p> <p>13 DR. CLEARY:</p> <p>14 A. Yes, the ones that are occurring right now.</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. You filed a report and testified in Alberta?</p> <p>17 DR. CLEARY:</p> <p>18 A. Yes.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. And there's one report in relation to the</p> <p>21 chicken farmers of Ontario in Ontario?</p> <p>22 DR. CLEARY:</p> <p>23 A. Right, and just to clarify because I am</p> <p>24 under oath, I have filed a report for the</p> <p>25 Alberta hearings that are currently</p>	<p>1 (10:15 a.m.)</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Right, over 12 years. Then you come over to</p> <p>4 page 12 at the bottom and you say, "The</p> <p>5 January 2016 consensus forecast for 10 year</p> <p>6 Canada bond yields were 1.7 percent for the</p> <p>7 end of April 2016, 2.1 percent for the end</p> <p>8 of January, up from a 2015 year end value of</p> <p>9 1.4 percent. If we assume the increases</p> <p>10 occurred", and I'll skip through the next</p> <p>11 sentence, and then you say, "Assuming that</p> <p>12 the long term average 50 basis point spread</p> <p>13 of 30 year yields over the 10 year yields</p> <p>14 persists throughout 2016 and 2017, this</p> <p>15 implies long term rates would increase from</p> <p>16 their 2015 year end level of 2.16, for an</p> <p>17 average of 2.25 through 2016 and would like</p> <p>18 around 2.16 by January, 2017". So you -</p> <p>19 DR. CLEARY:</p> <p>20 A. Excuse me, sorry, it's 2.6 percent by</p> <p>21 January 2017.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. 2.6 percent. So you take the interest rate</p> <p>24 forecast for 2016 and you combine it with a</p> <p>25 12 year average of what the spread will be,</p>
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<p>1 underway.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Then the next thing I want to take you to is</p> <p>4 – well, before I move on to that, I take it</p> <p>5 that you don't purport to have any expertise</p> <p>6 in terms of utilities operation or utilities</p> <p>7 regulation per se?</p> <p>8 DR. CLEARY:</p> <p>9 A. No, that's not my background.</p> <p>10 KELLY, Q.C.:</p> <p>11 Q. Can I take you next to page 11 of your</p> <p>12 report, and this deals with your interest</p> <p>13 rate forecast, and if I can flip over to</p> <p>14 page 12 first at the bottom of the page,</p> <p>15 Samantha, down around line 17 or so, you</p> <p>16 come up with an interest rate forecast of</p> <p>17 about 2.6 percent, and you do that by</p> <p>18 looking at the 10 year rate and then looking</p> <p>19 at the spread between 10 and 30 years rates,</p> <p>20 if I take you back to page 11, correct?</p> <p>21 DR. CLEARY:</p> <p>22 A. I'm not – I can see on page 11 where I</p> <p>23 mentioned that the average spread between</p> <p>24 the 10 year rate and the 30 year rate is</p> <p>25 about 50 basis points.</p>	<p>1 correct?</p> <p>2 DR. CLEARY:</p> <p>3 A. Yes.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. And –</p> <p>6 DR. CLEARY:</p> <p>7 A. Sorry, I would note that that 2.25 percent</p> <p>8 would be somewhere during 2016, and clearly</p> <p>9 2.6 percent would be at January of 2017.</p> <p>10 KELLY, Q.C.:</p> <p>11 Q. Understood.</p> <p>12 DR. CLEARY:</p> <p>13 A. Okay.</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. My question to you is, the spreads which</p> <p>16 were in 2015, as you noted on the previous</p> <p>17 page, were about 76 basis points, correct?</p> <p>18 DR. CLEARY:</p> <p>19 A. Right.</p> <p>20 KELLY, Q.C.:</p> <p>21 Q. They still are 76 basis points?</p> <p>22 DR. CLEARY:</p> <p>23 A. Probably somewhere in that vicinity.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. Right, and they are forecast to remain at</p>

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<p>1 about 75/76 basis points to the end of 2016?</p> <p>2 DR. CLEARY:</p> <p>3 A. They could be.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. Could be? Well, let's put up Dr. Booth's</p> <p>6 surrebuttal at page 3.</p> <p>7 DR. CLEARY:</p> <p>8 A. I can honestly say that forecasting the</p> <p>9 spread between 10 and 30 years was nothing</p> <p>10 that I looked at for this particular hearing</p> <p>11 because it wasn't central to my evidence,</p> <p>12 but I seem to recall that number.</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. But since you dealt with it, I want to deal</p> <p>15 with it.</p> <p>16 DR. CLEARY:</p> <p>17 A. I understand, yes.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. And if we look at the Canada lines and we</p> <p>20 look in 2016, and you can pick whichever</p> <p>21 2016 one you want, if we take the third</p> <p>22 quarter, it's 165 and 240, at the end of the</p> <p>23 2016 there's 70 basis points, the spreads</p> <p>24 are 75 basis points throughout 2016.</p> <p>25 DR. CLEARY:</p>	<p>1 bonds and either way you're well into the 3s</p> <p>2 throughout 2017, correct, because even the</p> <p>3 10 year spread, as you go out – 10 year bond</p> <p>4 yield by the end of 2017 is 3.05 percent?</p> <p>5 DR. CLEARY:</p> <p>6 A. Well, that's what this table is suggesting.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. Okay.</p> <p>9 DR. CLEARY:</p> <p>10 A. It's not my evidence, nor would I say that I</p> <p>11 necessarily share that belief. I do believe</p> <p>12 they're going up. I think it's going to</p> <p>13 take a while.</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. Now the next thing I want to turn to is page</p> <p>16 13 of your evidence, and at page 13 you</p> <p>17 start talking about the Newfoundland</p> <p>18 economy.</p> <p>19 DR. CLEARY:</p> <p>20 A. Uh-hm.</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. Come down to the bottom, Samantha, and the</p> <p>23 discussion runs over to the top of the next</p> <p>24 page, page 14. Keep going a bit, Samantha,</p> <p>25 please, and bring up the table. There you</p>
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<p>1 A. Sorry, my eyes are not very good despite</p> <p>2 being new, I guess. It looks like 65 basis</p> <p>3 – again this is RBC, so it's one source, but</p> <p>4 it's probably – the bank economists all tend</p> <p>5 to be fairly close, so I would accept that</p> <p>6 it's quite possible.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. And then you have to look out through 2017</p> <p>9 to see what the interest rates are going to</p> <p>10 be because we have a 2017 test year, agreed?</p> <p>11 DR. CLEARY:</p> <p>12 A. Agreed, but if you look at the same data</p> <p>13 that you're looking at during 2017, you see</p> <p>14 that spread narrowing to 60 basis points in</p> <p>15 quarter one, you see it narrowing to 45</p> <p>16 basis points in quarter two, to 40 basis</p> <p>17 points in quarter three, and 30 basis points</p> <p>18 in quarter four, which makes my .5 not all</p> <p>19 that bad off because it's .3 one year and .7</p> <p>20 the other year.</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. But the spread is still forecast to be 75 to</p> <p>23 the end. So if you're going to look at 10</p> <p>24 year bonds, you have to look at the forecast</p> <p>25 spread, otherwise you look at the 30 year</p>	<p>1 go. Now if you – at the top of the page at</p> <p>2 line 2, you say, "So there is general</p> <p>3 agreement that the economic growth will be</p> <p>4 slow for Newfoundland in the short term",</p> <p>5 and then if you look at the Table 6 data</p> <p>6 you've got, the Table 6 data actually shows</p> <p>7 not that the growth will be slow, but that</p> <p>8 the growth will be negative, agreed?</p> <p>9 DR. CLEARY:</p> <p>10 A. Agreed.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. So calling the growth slow is a little bit</p> <p>13 of a rosy perspective?</p> <p>14 DR. CLEARY:</p> <p>15 A. It was not meant to be misleading, but I</p> <p>16 would agree in hindsight, negative is fine.</p> <p>17 KELLY, Q.C.:</p> <p>18 Q. Then we know that, in fact, the growth has</p> <p>19 turned out to be much worse in 2015. It was</p> <p>20 actually –5.4 percent, correct?</p> <p>21 DR. CLEARY:</p> <p>22 A. According to the Conference Board estimates,</p> <p>23 yes.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. Using the Conference Board estimates.</p>



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<p>1 DR. CLEARY:</p> <p>2 A. Yes.</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. And that 5.4 percent followed on the heels</p> <p>5 of a 2.9 percent drop in 2014, correct?</p> <p>6 We'll look at that later on.</p> <p>7 DR. CLEARY:</p> <p>8 A. I will take that subject to check.</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Okay, so we've had a couple of pretty bad</p> <p>11 years of real GDP growth – real GDP decline,</p> <p>12 correct?</p> <p>13 DR. CLEARY:</p> <p>14 A. Yes.</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. Come over then to page 15 where you begin</p> <p>17 the discussion on line 8, and you then –</p> <p>18 I'll give you an opportunity to read the</p> <p>19 whole paragraph. I'm going to pick it up</p> <p>20 about half way down when you're ready.</p> <p>21 DR. CLEARY:</p> <p>22 A. If you could just give me a second.</p> <p>23 KELLY, Q.C.:</p> <p>24 Q. Sure.</p> <p>25 DR. CLEARY:</p>	<p>1 DR. CLEARY:</p> <p>2 A. That's correct.</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. Now the first thing we have to do with this</p> <p>5 table is to correct the two errors in the</p> <p>6 real GDP line for 2019 and 2020?</p> <p>7 DR. CLEARY:</p> <p>8 A. Yes, I did that –</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. In an RFI.</p> <p>11 DR. CLEARY:</p> <p>12 A. In an RFI. I quoted the nominal numbers</p> <p>13 there instead of the real ones, which I was</p> <p>14 referring to in the passage above.</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. That's NP-CA-002, and you actually have the</p> <p>17 correct numbers up above, so it's just a</p> <p>18 transcribing error?</p> <p>19 DR. CLEARY:</p> <p>20 A. Yes.</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. The 9.2 should be 7.0, correct?</p> <p>23 DR. CLEARY:</p> <p>24 A. That's correct.</p> <p>25 KELLY, Q.C.:</p>
Page 66	Page 68
<p>1 A. Thank you. Okay.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Okay, about half way down you say, "Beyond</p> <p>4 2017, the Conference Board predicts that the</p> <p>5 unemployment rate will fall below 12 percent</p> <p>6 and decline steadily to around 11 percent by</p> <p>7 2020 on the back of 2018-20 real GDP growth</p> <p>8 rates of +1.4 percent, +7 percent, and -1.6</p> <p>9 percent respectively. Finally, it is</p> <p>10 interesting to note that the Conference</p> <p>11 Board expects the contribution to NL GDP</p> <p>12 from the utility sector to remain positive</p> <p>13 in 2016 and 2017, 0.4 percent and 0.6</p> <p>14 percent respectively, and also in the</p> <p>15 ensuing three years, 0.8 percent, +1.3, and</p> <p>16 +5.9 respectively". Then you say, "This is</p> <p>17 consistent with the low risk nature of</p> <p>18 utilities such as Newfoundland Power whose</p> <p>19 demand is less cyclical than most</p> <p>20 industries". That's what you say. Now I</p> <p>21 want to explore those premises in a bit more</p> <p>22 detail, and can we scroll up your table a</p> <p>23 bit there, so we put the table up, and some</p> <p>24 of this table you had in Slide 5 earlier</p> <p>25 this morning?</p>	<p>1 Q. And the +.4 for 2020 should be -1.6 percent?</p> <p>2 DR. CLEARY:</p> <p>3 A. That's correct.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. Now real GDP growth is the goods and</p> <p>6 services being produced into the economy at</p> <p>7 a constant rate back in – I think they used</p> <p>8 2007 dollars, don't they?</p> <p>9 DR. CLEARY:</p> <p>10 A. I believe it's 2007, but some fixed year.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. I think it's 2007. So that doesn't – the</p> <p>13 change in GDP per se doesn't capture the</p> <p>14 price effects of the fall in the value of</p> <p>15 oil and the effect of the declining prices</p> <p>16 on the Newfoundland economy. This is just</p> <p>17 measuring the total of goods and services</p> <p>18 produced in real terms?</p> <p>19 DR. CLEARY:</p> <p>20 A. Conceptually, yes. After you take out the</p> <p>21 influence of inflation, the bundle of goods</p> <p>22 and services actually increase.</p> <p>23 KELLY, Q.C.:</p> <p>24 Q. Exactly. So if, for example, we look at</p> <p>25 this and we say that there is a -0.2 to take</p>

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<p>1 the 2015 number by way of example, that's</p> <p>2 the percentage change from the previous</p> <p>3 year?</p> <p>4 DR. CLEARY:</p> <p>5 A. That's correct.</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. Right. We'll come back to this. If we</p> <p>8 could put up Slide 5 for a second, so on</p> <p>9 Slide 5, when we look at the top line and</p> <p>10 you've got -0.2 and then -0.8, that's a -.8</p> <p>11 reduction from what your GDP would have been</p> <p>12 in 2015, correct, or was in 2015?</p> <p>13 DR. CLEARY:</p> <p>14 A. That's correct, so if it was, like, 100,</p> <p>15 it's 99.2.</p> <p>16 KELLY, Q.C.:</p> <p>17 Q. Good example. So if you come down to the</p> <p>18 next line and you have a drop of 5.4 percent</p> <p>19 and a growth of .1 percent, that is</p> <p>20 materially worse than what is reported for</p> <p>21 2015 and 2016 on the top line because you've</p> <p>22 had a big reduction of 5.4 percent, correct?</p> <p>23 DR. CLEARY:</p> <p>24 A. That's correct.</p> <p>25 KELLY, Q.C.:</p>	<p>1 forecast.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Can I help you? About that point in time,</p> <p>4 Hebron, which the construction is now</p> <p>5 winding down, is going to get towed out and</p> <p>6 it will start pumping oil in the offshore</p> <p>7 which will go down to Texas. So it's oil</p> <p>8 coming out of the ground and Hebron long</p> <p>9 before that will have moved from</p> <p>10 construction and development into production</p> <p>11 with less employment, agreed?</p> <p>12 DR. CLEARY:</p> <p>13 A. That makes sense. I knew it had to do with</p> <p>14 some of the major projects going on.</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. So seeing 7 percent in 2019 doesn't tell us</p> <p>17 anything about employment, does it, because</p> <p>18 it's oil being pumped out of the ground?</p> <p>19 DR. CLEARY:</p> <p>20 A. To say it would tell us nothing about</p> <p>21 employment, I would not agree with that. It</p> <p>22 will definitely have an influence. There's</p> <p>23 trickle through influence as in economies.</p> <p>24 As to what that precise – it's not as direct</p> <p>25 an influence as if it was, you know, a</p>
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<p>1 Q. Right, and that's true as you go forward</p> <p>2 looking at the numbers, et cetera?</p> <p>3 DR. CLEARY:</p> <p>4 A. It's true, but I just would like to qualify</p> <p>5 that. The fact is we're looking forward to</p> <p>6 2016 and 2017. I understand what you're</p> <p>7 saying is that even though it's positive,</p> <p>8 it's negative, but the fact is 2015, while</p> <p>9 it was a rough year and you mentioned 2014</p> <p>10 was also a rough year, they're behind us now</p> <p>11 and, you know, the fact that we expect to</p> <p>12 grow is a good thing, and also – what I</p> <p>13 should have mentioned earlier is again we're</p> <p>14 talking about 2014 and 2015, and</p> <p>15 Newfoundland Power sales grew in both years,</p> <p>16 they earned their ROE – above their ROE in</p> <p>17 both years.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. Dr. Cleary, if you look at that – we'll look</p> <p>20 at the line that you got on the top one</p> <p>21 there, and you see 7 percent in 2019. What</p> <p>22 would account for that?</p> <p>23 DR. CLEARY:</p> <p>24 A. Honestly, I can't remember. It was quite a</p> <p>25 while ago when I read the Conference Board</p>	<p>1 mining project or something that was going</p> <p>2 to gainfully employ Newfoundland and</p> <p>3 Labrador people, but definitely will have a</p> <p>4 positive influence on the economy.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. But in the oil sector, once the project goes</p> <p>7 into production, the production employment</p> <p>8 is less than the construction and</p> <p>9 development employment, is that not the</p> <p>10 case, or are you not familiar with the oil</p> <p>11 industry?</p> <p>12 DR. CLEARY:</p> <p>13 A. I'm pretty familiar with it. I grew up in</p> <p>14 Nova Scotia, and I would agree with -</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. You agree with me?</p> <p>17 DR. CLEARY:</p> <p>18 A. To a certain extent.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. Okay.</p> <p>21 DR. CLEARY:</p> <p>22 A. It does also create employment for locals,</p> <p>23 but I would agree that not 100 percent.</p> <p>24 KELLY, Q.C.:</p> <p>25</p>

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<p>1 Q. Now, we're talking about employment, let's</p> <p>2 have a look at what the Conference Board of</p> <p>3 Canada actually says about employment and</p> <p>4 the best place to find that is if we go back</p> <p>5 to Newfoundland Power's original filing and</p> <p>6 we look at the Conference Board report</p> <p>7 that's contained in that and Samantha, if</p> <p>8 you could go to the Newfoundland and</p> <p>9 Labrador section of it at page 1, go through</p> <p>10 the initial bit until you get to the part</p> <p>11 that deals with Newfoundland and Labrador.</p> <p>12 There you go. Now, Dr. Cleary, if you look</p> <p>13 over on the left-hand column where it says</p> <p>14 "real GDP growth for 2014", there's your</p> <p>15 negative 2.9 percent, do you see that?</p> <p>16 DR. CLEARY:</p> <p>17 A. Yes, I do.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. That's 2014, so we lost 2.9 percent in 2014</p> <p>20 –</p> <p>21 DR. CLEARY:</p> <p>22 A. Sorry, can I just clarify?</p> <p>23 KELLY, Q.C.:</p> <p>24 Q. Sure.</p> <p>25 DR. CLEARY:</p>	<p>1 number.</p> <p>2 DR. CLEARY:</p> <p>3 A. Yeah, I know, sometimes it takes a while for</p> <p>4 the estimates to become real, I was trying</p> <p>5 to confirm –</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. In fact, if you look at it, you'll see the</p> <p>8 Fs after 2015 and 2016?</p> <p>9 DR. CLEARY:</p> <p>10 A. Yeah, I know, I'm just trying to verify it,</p> <p>11 okay. So 2.9 percent, the 5.4 percent has</p> <p>12 not been verified, it's still an estimate,</p> <p>13 but presumably it's –</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. Right, but we now have the 5.4 percent from</p> <p>16 the most recent 2015 numbers as a final, so</p> <p>17 we've lost over 8 percent in total, are we</p> <p>18 agreed?</p> <p>19 DR. CLEARY:</p> <p>20 A. Yes, I would have to agree with those</p> <p>21 numbers and I would also note that</p> <p>22 Newfoundland Power's sales and their profits</p> <p>23 went up during both years, so it comes back,</p> <p>24 it strengthens my argument I was making</p> <p>25 earlier that they're very resilient to</p>
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<p>1 A. Because I think we have three Conference</p> <p>2 Board publications –</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. We do indeed.</p> <p>5 DR. CLEARY:</p> <p>6 A. This is the summer of 2015, right?</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. Right, because it's got the best discussion</p> <p>9 of employment, okay, so we lost 2.9 percent</p> <p>10 in 2014 and another 5.4 percent in 2015 for</p> <p>11 an aggregate loss of over 8 percent,</p> <p>12 correct?</p> <p>13 DR. CLEARY:</p> <p>14 A. Sorry, can you repeat that?</p> <p>15 (10:30 a.m.)</p> <p>16 KELLY, Q.C.:</p> <p>17 Q. We saw from the, previously, from the most</p> <p>18 recent data that in 2015 the economy shrank</p> <p>19 5.4 percent and we now know that in 2014 it</p> <p>20 also shrank 2.9 percent.</p> <p>21 DR. CLEARY:</p> <p>22 A. So that 2.9 percent has been confirmed,</p> <p>23 that's not an estimate?</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. This is the summer 2015 data, that's a final</p>	<p>1 downturns.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Follow along with me now. Let's go to the</p> <p>4 bottom of the next column over where they</p> <p>5 discuss labour market and I'm going to pick</p> <p>6 you up about three lines from the bottom.</p> <p>7 "Overall the unemployment rate will drop</p> <p>8 from 12.7 percent in the first half of this</p> <p>9 year to an average of 12.1 percent in 2016</p> <p>10 as the number of Newfoundlanders looking for</p> <p>11 work shrinks. With slack in the labour</p> <p>12 market, household consumption will be anemic</p> <p>13 over the next two years and the government</p> <p>14 tax collection from households will be</p> <p>15 lower." And to give you the rest of it, let</p> <p>16 me take you over to page 3 at the bottom,</p> <p>17 under "Domestic Demands Remains Weak", "The</p> <p>18 next five years are going to be belt</p> <p>19 tightening for the Newfoundland and Labrador</p> <p>20 consumers. The labour market has been</p> <p>21 hemorrhaging jobs since last year and we</p> <p>22 expect the losses to continue over the</p> <p>23 median term. Investment in most of the</p> <p>24 province's mega projects has peaked and</p> <p>25 workers are losing their jobs. On average</p>

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<p>1 we expect about 1300 positions to be 2 eliminated each year from now until 2019. 3 Along with weaker demand for labour, workers 4 will see their wages slashed this year as 5 employers try to keep costs down as they 6 face weaker commodity prices. Wages and 7 salaries, the industrial composite, are 8 forecast to drop by 2 percent this year, the 9 first such decline in a decade after 10 expanding at the breakneck pace of 5.6 11 percent per year over 2015 and 2014. 12 Looking ahead, wage growth will be modest 13 beyond next year as labour demand pressures 14 wain.” Next page, Samantha. “The job 15 losses have pushed the unemployment rate up 16 to 12.7 percent for the first half of this 17 year; however, it will not remain there for 18 long as the shrinking of the province’s 19 labour force will put the rate down to 20 around 12.1 percent for next year. The 21 slide in the unemployment rate will then 22 continue through to 2019. The job losses, 23 combined with lower wages, will dampen 24 consumer spending over the next two years.” 25 And I’ll stop the discussion there. Now,</p>	<p>1 2019. Do you see that, Dr. Cleary? 2 DR. CLEARY: 3 A. Yes. 4 KELLY, Q.C.: 5 Q. Okay, come back to the labour force 6 participation rate on the previous column, 7 you’ll see in 2014 the labour force 8 participation rate is 61 percent, do you see 9 that? 10 DR. CLEARY: 11 A. Yes, I do. 12 KELLY, Q.C.: 13 Q. Do you see it drops to 60.8 in 2015, 60.1 in 14 2016? If we go to the next page, it goes to 15 59.9; 59.4; and 59. So the Conference Board 16 is saying we have a 2 percent drop in the 17 labour force participate rate, correct? 18 DR. CLEARY: 19 A. That’s what the numbers suggest, yes. 20 KELLY, Q.C.: 21 Q. That’s what the numbers say. In fact, I’m 22 going to give you one more. If you come 23 down to “Housing Starts” and look at 2014, 24 you’ll see it’s -26 percent in 2014, -26 25 percent in 2014; -23 percent in 2015; -18.6</p>
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<p>1 that’s what the Conference Board is saying 2 is the cost. Before I get you to comment, I 3 want you show you some of the Conference 4 Board key economic indicators on the next 5 page. If you can pull that up, Samantha? 6 And we’re on the right-hand columns, I don’t 7 know if you can make it so you can get it 8 all on the screen, Samantha, or will make 9 numbers too small? There we go. Now, three 10 lines down we have the GDP at basic prices, 11 that’s the real GDP and if we go over to the 12 far-right side, 2014, ’15 and ’16, there’s 13 are real GDP numbers, -2.9 et cetera that we 14 saw on the first page, correct? 15 DR. CLEARY: 16 A. That’s correct. 17 KELLY, Q.C.: 18 Q. Right, now come down to “Employment” which 19 is about, there we go, thank you Samantha. 20 If you could come across, you’ll see in 2014 21 employment dropped 1.9 percent; in 2015, 1.3 22 percent; in 2016, .7 percent and while we’re 23 on unemployment, can you go over to the next 24 page, Samantha? Employment continues to 25 drop in 2017, -.3, -.5 and finally 0 in</p>	<p>1 percent in 2016. Come over to the next 2 page, -7.8 percent in 2017; -7.7 percent in 3 2018; and -7.7 percent in 2019, agreed? 4 DR. CLEARY: 5 A. Yes, that’s what the numbers say. 6 KELLY, Q.C.: 7 Q. Right. Now, what the Conference Board says 8 quite unequivocally is the drop in 9 unemployment is due to the fact of people 10 losing their jobs and people moving out of 11 the labour force, agreed? 12 DR. CLEARY: 13 A. I’d have to see the quote. 14 KELLY, Q.C.: 15 Q. That’s the quote we just took you through 16 and those are the numbers behind it. 17 DR. CLEARY: 18 A. Okay. 19 KELLY, Q.C.: 20 Q. Can I take you back now to page 15 of your 21 evidence and can we scroll, bring it down a 22 little bit so we get the top bit, Samantha? 23 There we go. So the sentence at line 13 24 where you say “Beyond 2017, the Conference 25 Board predicts that the unemployment rate</p>

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<p>1 will fall below 20 percent and decline</p> <p>2 steadily to around 11 percent by 2020 on the</p> <p>3 back of 2018, 2020 real GDP growths, et</p> <p>4 cetera. That's not what the Conference</p> <p>5 Board is saying at all. The Conference</p> <p>6 Board is in fact saying that despite those</p> <p>7 numbers in GDP growth, unemployment will go</p> <p>8 down, but because people have lost their</p> <p>9 jobs and people have withdrawn from the</p> <p>10 labour market, the labour force</p> <p>11 participation rates goes down.</p> <p>12 DR. CLEARY:</p> <p>13 A. Well hold on, what I'm saying is correct. I</p> <p>14 said that the unemployment rate will be</p> <p>15 declining and secondly, this is the</p> <p>16 Conference Board forecast from the fall and</p> <p>17 you're reading to me from one from the</p> <p>18 summer, upon which my evidence was not</p> <p>19 based, right, so –</p> <p>20 KELLY, Q.C.:</p> <p>21 Q. In fact, I went and looked at the fall one</p> <p>22 and the Conference Board says the same thing</p> <p>23 about unemployment and employment rates and</p> <p>24 labour participation rates in the fall one.</p> <p>25 DR. CLEARY:</p>	<p>1 A. It appears that way.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. It appears that way. Okay, now the next</p> <p>4 thing I want to talk to you about is your</p> <p>5 last line which is "The utility sector GDP</p> <p>6 contribution." And what we're seeing there,</p> <p>7 just so we're clear, those numbers, just</p> <p>8 like we looked at for real GDP changes,</p> <p>9 that's the change in the utility sector</p> <p>10 contribution to GDP year over year. So in</p> <p>11 this one, 2015 was up 9.9 percent, but it's</p> <p>12 9.9 percent of a much smaller number than</p> <p>13 the total GDP, correct?</p> <p>14 DR. CLEARY:</p> <p>15 A. I would actually say a smaller number</p> <p>16 because that 9.9 percent would have been</p> <p>17 based on a shrinkage of -0.2 percent.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. True, but the utility sector of total GDP is</p> <p>20 a very small fraction of total GDP for the</p> <p>21 province, we have construction,</p> <p>22 manufacturing, government sector, et cetera,</p> <p>23 utilities' GDP, so when you're looking at</p> <p>24 those numbers, percentage changes on the</p> <p>25 bottom, they might be bigger percentage</p>
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<p>1 A. But my statement has nothing to do with</p> <p>2 labour participation. I mean, my statement</p> <p>3 is true, the unemployment rate is forecast</p> <p>4 to decline. You're trying to qualify what</p> <p>5 the unemployment rate falling means by</p> <p>6 looking at other factors, that the</p> <p>7 participation rate –</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. You say on the back of GDP growth, implying</p> <p>10 that the GDP growth is going to bring down</p> <p>11 the unemployment rate. That's not what's</p> <p>12 bringing down the unemployment rate. In</p> <p>13 fact, we have declining employment in the</p> <p>14 province consistently six years out into the</p> <p>15 future. In fact, scroll up the screen</p> <p>16 again, Samantha. Bring up his Table 7 on</p> <p>17 page 15. In fact, if you look at the</p> <p>18 employment line from the fall data, you'll</p> <p>19 see it's negative in 2015, negative in 2016,</p> <p>20 negative in 2017, negative in 2018, a small</p> <p>21 +1, .1 in 2019 and negative again in 2020,</p> <p>22 consistent with the data we looked at from</p> <p>23 the summer forecast. Employment continues</p> <p>24 to fall, Dr. Cleary, agreed?</p> <p>25 DR. CLEARY:</p>	<p>1 changes, but they are percentage changes of</p> <p>2 a number much small than the total GDP,</p> <p>3 agreed?</p> <p>4 DR. CLEARY:</p> <p>5 A. Well, of course, they're a fraction of GDP</p> <p>6 but the point of this, presenting it, is the</p> <p>7 fact that they are more stable than the</p> <p>8 overall economy which is also consistent</p> <p>9 with the argument that utilities, as a part</p> <p>10 of the TSX composite index, for example, are</p> <p>11 a small part of it and they would represent</p> <p>12 the stable part and the mining and the oil</p> <p>13 and gas industries and the real estate would</p> <p>14 be the more volatile components of those</p> <p>15 GDP, of that market.</p> <p>16 KELLY, Q.C.:</p> <p>17 Q. Dr. Cleary, what's in the Conference Board's</p> <p>18 utility sector other than electricity?</p> <p>19 DR. CLEARY:</p> <p>20 A. Primarily electricity.</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. It's water and sewer projects, amongst other</p> <p>23 things.</p> <p>24 DR. CLEARY:</p> <p>25 A. And hydro—well, not hydro, Labrador –</p>

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<p>1 KELLY, Q.C.:</p> <p>2 Q. And Newfoundland Hydro.</p> <p>3 DR. CLEARY:</p> <p>4 A. Yes.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. Now let's just think about this for a</p> <p>7 second. It's clear from the evidence that</p> <p>8 Newfoundland Power is not selling more</p> <p>9 kilowatt hours of energy to customers, so</p> <p>10 9.9 percent in 2015, that's year over year</p> <p>11 growth in the utility sector, do you have</p> <p>12 any idea what that is, what the drivers</p> <p>13 were?</p> <p>14 DR. CLEARY:</p> <p>15 A. Well first of all you said that they're not</p> <p>16 selling any more kilowatt hours, but I heard</p> <p>17 testimony here that in fact they are. It's</p> <p>18 growing slower, but I thought the number I</p> <p>19 heard was about 1 percent rate, so –</p> <p>20 KELLY, Q.C.:</p> <p>21 Q. That's a historic.</p> <p>22 DR. CLEARY:</p> <p>23 A. Right, but I think that that was the number</p> <p>24 that was acknowledged over the test period</p> <p>25 that it ever expected –</p>	<p>1 itself doesn't fall in this column, but the</p> <p>2 additional planning and expenditures that go</p> <p>3 with it, do. So those are the big drivers</p> <p>4 for about 2015, does that sound right to</p> <p>5 you?</p> <p>6 DR. CLEARY:</p> <p>7 A. That sounds consistent.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. Right, and if we look out across 2016, '17,</p> <p>10 '18, we get out to '18, '19 and '20 and the</p> <p>11 numbers go up. Do you know why those</p> <p>12 numbers would go up?</p> <p>13 DR. CLEARY:</p> <p>14 A. I would say that it's a slight increase in</p> <p>15 2018 and '19 and then 2020 is a big</p> <p>16 increase. I guess part of it may have to do</p> <p>17 with Muskrat Falls and I'm not quite sure.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. What does that mean?</p> <p>20 DR. CLEARY:</p> <p>21 A. The increase in rates or the increase in</p> <p>22 supply costs, I guess.</p> <p>23 KELLY, Q.C.:</p> <p>24 Q. No, Dr. Cleary with respect it's not. This</p> <p>25 is the utility sector contribution to GDP,</p>
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<p>1 KELLY, Q.C.:</p> <p>2 Q. No, no, no, you've misunderstood the</p> <p>3 evidence. Is that what you took out of it?</p> <p>4 Then you've misunderstood the evidence. But</p> <p>5 I just want to stay with my question.</p> <p>6 DR. CLEARY:</p> <p>7 A. Sure.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. Do you know what would drive the utility</p> <p>10 section 9.9 percent growth in 2015?</p> <p>11 DR. CLEARY:</p> <p>12 A. Sorry, I can't recall right now.</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. You don't know?</p> <p>15 DR. CLEARY:</p> <p>16 A. I did know when I prepared the report and I</p> <p>17 apologize.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. I'm going to help you with a couple of</p> <p>20 things. The City of St. John's brought on a</p> <p>21 new water treatment plant. The City of</p> <p>22 Corner Brook brought on a new water</p> <p>23 treatment plant. Newfoundland and Labrador</p> <p>24 Hydro spent a great deal of money, including</p> <p>25 a new gas turbine. Turbine construction</p>	<p>1 so it's measuring real things, isn't it?</p> <p>2 What it is is quite simple. It's more</p> <p>3 kilowatt hours of energy being produced at</p> <p>4 Muskrat Falls, sold out of the province to</p> <p>5 Nova Scotia. It's not the rising price,</p> <p>6 it's the kilowatt hours going out, correct?</p> <p>7 DR. CLEARY:</p> <p>8 A. Well that makes sense because I do know that</p> <p>9 it's a substantial increase in generation,</p> <p>10 yes.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. But it's sales outside the province. So</p> <p>13 when you look at it, this line is driven by</p> <p>14 a whole bunch of factors, but not by</p> <p>15 Newfoundland Power's sales, agreed? And in</p> <p>16 order to put that in perspective, let me</p> <p>17 take you to the current forecast. Samantha,</p> <p>18 if we could go to document 4 in the</p> <p>19 Newfoundland Power material? Sorry, to the</p> <p>20 Newfoundland Power forecast, which is before</p> <p>21 that. It's in the same—there you go, go to</p> <p>22 page 5 at the second paragraph from the top</p> <p>23 and you will see there, Dr. Cleary, it says,</p> <p>24 "Energy sales under"—this is three lines</p> <p>25 from the bottom, second paragraph, "Energy</p>

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<p>1 sales under proposed rates, which include</p> <p>2 the elasticity effects of the proposed 2.5</p> <p>3 percent increase are forecast to increase by</p> <p>4 .6 percent in 2016 and 0.1 percent in 2017.”</p> <p>5 Virtually flat, do you see that?</p> <p>6 (10:45 a.m.)</p> <p>7 DR. CLEARY:</p> <p>8 A. Yes, I do.</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Right, and that’s—let’s turn back one page</p> <p>11 now to page 3 in the last paragraph. The</p> <p>12 last paragraph says, “Overall growth in key</p> <p>13 economic indicators, such as service sector</p> <p>14 gross domestic product, employment levels,</p> <p>15 household disposable income and housing</p> <p>16 starts will be significantly lower during</p> <p>17 the forecast, as compared to recent history.</p> <p>18 Given Newfoundland Power’s customer base,</p> <p>19 energy sales’ growth is primarily influenced</p> <p>20 by the domestic economy and these key</p> <p>21 economic indicators.” So it’s the ones we</p> <p>22 looked at about the employment effects, the</p> <p>23 lower—people losing their jobs, people being</p> <p>24 out of work and the housing starts which we</p> <p>25 saw were consistently down, which drives</p>	<p>1 DR. CLEARY:</p> <p>2 A. That is correct.</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. Now, let’s go to your report next at page 17</p> <p>5 and if we look the quote there, that’s a</p> <p>6 quote from the Consumer Advocate, not from</p> <p>7 the Board, isn’t it?</p> <p>8 DR. CLEARY:</p> <p>9 A. That’s correct and I acknowledged that in</p> <p>10 response to a RFI.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. Right, in fact, NP-CA-004?</p> <p>13 DR. CLEARY:</p> <p>14 A. It could be.</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. Put it up Samantha? So you confirm that?</p> <p>17 DR. CLEARY:</p> <p>18 A. Yes, because I do, you know, I describe it</p> <p>19 as such, right above there I say “according</p> <p>20 to the Consumer Advocate”, so it’s not</p> <p>21 suggesting it was a Board</p> <p>22 DR. CLEARY:</p> <p>23 A. - vision, I just thought that was a very</p> <p>24 good synopsis of Newfoundland Power.</p> <p>25 KELLY, Q.C.:</p>
Page 90	Page 92
<p>1 Newfoundland Power’s position, agreed?</p> <p>2 DR. CLEARY:</p> <p>3 A. That’s what this report is suggesting.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. Right, and this report is the forecast</p> <p>6 report for the test year, agreed?</p> <p>7 DR. CLEARY:</p> <p>8 A. Agreed.</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Now, I want to turn next, Dr. Cleary, to</p> <p>11 talk a little bit about business risks and</p> <p>12 maybe the place to start with is if we go to</p> <p>13 NP-CA-018 and Samantha, if you could go over</p> <p>14 to, I think down the next page—sorry, just</p> <p>15 go back for a second, another bit back.</p> <p>16 Next page, there we go. Now, this is how</p> <p>17 the ratings are set out by Moody’s, correct,</p> <p>18 for their qualitative and quantitative</p> <p>19 factors?</p> <p>20 DR. CLEARY:</p> <p>21 A. Yes, that’s correct.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. Right, so the qualitative factors are</p> <p>24 essentially 60 percent and the quantitative</p> <p>25 factors are 40 percent?</p>	<p>1 Q. So, you took the Consumer Advocate’s</p> <p>2 description of Newfoundland Power –</p> <p>3 DR. CLEARY:</p> <p>4 A. I didn’t take it. When I was writing up my</p> <p>5 report, I remembered reading it and said,</p> <p>6 oh, that’s a very good synopsis of the</p> <p>7 things that I’ve concluded. So, that’s why</p> <p>8 I used it.</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Now, can we put that back on the screen,</p> <p>11 Samantha, page 17. There we go. And in</p> <p>12 that quote, it talks about “yet fairly</p> <p>13 steady customer growth three lines down”.</p> <p>14 An as we just saw that’s not there anymore,</p> <p>15 is it? We looked at 2017 with 0.1 percent</p> <p>16 for the next year. Agreed?</p> <p>17 DR. CLEARY:</p> <p>18 A. Yes, I would have to, in retrospect, that’s</p> <p>19 one statement that’s maybe not as consistent</p> <p>20 with today.</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. Right, that’s a change that has occurred as</p> <p>23 we look forward out over the test year.</p> <p>24 Agreed?</p> <p>25 DR. CLEARY:</p>

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<p>1 A. Yes, agreed.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Now, you heard or I assume you've read Mr.</p> <p>4 Smith's evidence that a 1 percent drop in</p> <p>5 sales from the 1 percent to what we'll have</p> <p>6 next year is equivalent to about 2 million</p> <p>7 dollars in operating costs contribution, do</p> <p>8 you remember that?</p> <p>9 DR. CLEARY:</p> <p>10 A. I can't recall that specific figure.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. Okay. Will you take it, subject to checking</p> <p>13 the transcript, I can give you the</p> <p>14 transcript reference, March 31, page 96.</p> <p>15 DR. CLEARY:</p> <p>16 A. Could you repeat that again?</p> <p>17 KELLY, Q.C.:</p> <p>18 Q. A 1 percent drop in growth means you don't</p> <p>19 get contribution of—it's worth 2 million</p> <p>20 dollars at the operating level, after you—6</p> <p>21 ½ million in total revenue, got to take out</p> <p>22 the purchase power expense, 2 million</p> <p>23 dollars loss, at the operating level.</p> <p>24 DR. CLEARY:</p> <p>25 A. Well, I mean if he said it, that's fine. I</p>	<p>1 KELLY, Q.C.:</p> <p>2 Q. March 31, Mr. Smith, at page 96, I believe</p> <p>3 it is.</p> <p>4 DR. CLEARY:</p> <p>5 A. I prefer to do as subject to check if that's</p> <p>6 fine with you.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. We've got it on the screen now. Mr. Smith</p> <p>9 says, "I guess what I would say is when you</p> <p>10 have a 1 percent sales growth in terms of</p> <p>11 revenue into the company that looks like 6.5</p> <p>12 million dollars. And, of course,</p> <p>13 Newfoundland Power is about a third of the</p> <p>14 bill. So, we would get about 2 million</p> <p>15 dollars of that extra revenue coming in to</p> <p>16 the company. When you're down to .1</p> <p>17 percent, obviously the numbers are 10</p> <p>18 percent of that. So, instead of an</p> <p>19 additional 2 million dollars, you're down to</p> <p>20 something like two hundred thousand into the</p> <p>21 company as additional revenue when your</p> <p>22 sales decline". Accept it now?</p> <p>23 DR. CLEARY:</p> <p>24 A. Would you mind if I just read this for a</p> <p>25 second, if you could be patient with me.</p>
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<p>1 don't know without really, truly thinking</p> <p>2 about it if that number makes sense to me.</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. Okay, you haven't done that analysis?</p> <p>5 DR. CLEARY:</p> <p>6 A. Well, my analysis shows that if the sales</p> <p>7 increase and with a 20 percent or 19 percent</p> <p>8 operating profit margin, then if sales</p> <p>9 increase 1 percent, then EBIT would increase</p> <p>10 about .2 percent, right, sorry, it would be</p> <p>11 .2 percent of that 1 percent increase.</p> <p>12 KELLY, Q.C.:</p> <p>13 Q. The evidence on the record will indicate</p> <p>14 that it's worth—1 percent sales growth is</p> <p>15 about 2 million dollars at the contribution.</p> <p>16 DR. CLEARY:</p> <p>17 A. Well, sorry, again the 2 million dollars has</p> <p>18 to be put in context. I don't really—I'm</p> <p>19 not quite clear on the number of 2 million</p> <p>20 dollars.</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. Well, let's go to the transcript then if you</p> <p>23 want to see it.</p> <p>24 DR. CLEARY:</p> <p>25 A. Sure.</p>	<p>1 KELLY, Q.C.:</p> <p>2 Q. By all means.</p> <p>3 DR. CLEARY:</p> <p>4 A. Thank you. Again, you know, the numbers say</p> <p>5 what they say, but I would also note that a</p> <p>6 1 percent increase, you could flip it over</p> <p>7 the other way, too.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. Sure, but that would be a 1 percent increase</p> <p>10 in the circumstances that we just looked at</p> <p>11 with the Conference Board of Canada talking</p> <p>12 about falling employment levels, falling</p> <p>13 housing starts. There is no realistic</p> <p>14 possibility that that is going to incur out</p> <p>15 through the forecast period, is there?</p> <p>16 DR. CLEARY:</p> <p>17 A. It's not projected to be.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. It's not projected to be, right. And if you</p> <p>20 lose the additional contribution, Dr.</p> <p>21 Cleary, as a finance man, it has two</p> <p>22 problems associated with it. Number one,</p> <p>23 you don't have the ability to cover</p> <p>24 increases in costs between test year</p> <p>25 periods. And number two, you don't have the</p>



<p style="text-align: right;">Page 97</p> <p>1 additional revenue to cover the interest on</p> <p>2 capital programs until it gets incorporated</p> <p>3 in rate base at the next GRA. Agree with</p> <p>4 those two principles?</p> <p>5 DR. CLEARY:</p> <p>6 A. Not necessarily they would be to the next</p> <p>7 GRA.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. Sorry?</p> <p>10 DR. CLEARY:</p> <p>11 A. Not necessarily the next GRA. There would</p> <p>12 be a lag from the test year in terms of</p> <p>13 getting passed through the RSA or the</p> <p>14 capital expenditures. Did you—sorry, the</p> <p>15 interest on capital expenditures –</p> <p>16 KELLY, Q.C.:</p> <p>17 Q. Interest on capital expenditures because the</p> <p>18 company has to fund the capital</p> <p>19 expenditures, do the work, wait until the</p> <p>20 next GRA to get them incorporated into rate</p> <p>21 base. Somebody has got to carry that in the</p> <p>22 meantime. That's the company where the</p> <p>23 additional contribution from sales growth</p> <p>24 helps. If you don't have it, you don't have</p> <p>25 it, agreed?</p>	<p style="text-align: right;">Page 99</p> <p>1 Q. Okay.</p> <p>2 DR. CLEARY:</p> <p>3 A. That's always true that if your forecast for</p> <p>4 the test years and you exceed your cost for</p> <p>5 the test years, that you're going to have to</p> <p>6 carry it until it's redone.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. And now we don't have the growth to help</p> <p>9 with that. So, what goes with your package,</p> <p>10 you see, is okay, we're going to have to</p> <p>11 come back more often to address problems.</p> <p>12 DR. CLEARY:</p> <p>13 A. Sorry, I'm starting to get a little bit</p> <p>14 confused here that you're suggesting to me</p> <p>15 that now Newfoundland Power cannot forecast</p> <p>16 test years well during a projected decline</p> <p>17 in revenues or sales.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. You're not following how the regulatory</p> <p>20 process works. Let me try you again. You</p> <p>21 do a forecast.</p> <p>22 DR. CLEARY:</p> <p>23 A. Right.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. So we have –</p>
<p style="text-align: right;">Page 98</p> <p>1 DR. CLEARY:</p> <p>2 A. I would agree that positive sales growth is</p> <p>3 better than negative sales growth.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. Right and if you have negative sales growth</p> <p>6 or no sales growth, it presents challenges</p> <p>7 because you don't have the extra</p> <p>8 contribution to cover increased operating</p> <p>9 costs and interest costs on capital</p> <p>10 projects.</p> <p>11 DR. CLEARY:</p> <p>12 A. But those prudently, you know, incurred</p> <p>13 costs would be get passed on.</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. No, they don't, not between test years to</p> <p>16 the next GRA.</p> <p>17 DR. CLEARY:</p> <p>18 A. Right.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. So, the only way you could do it is have</p> <p>21 more frequent test years, more frequent</p> <p>22 GRAs, agreed?</p> <p>23 DR. CLEARY:</p> <p>24 A. Well, that's always true.</p> <p>25 KELLY, Q.C.:</p>	<p style="text-align: right;">Page 100</p> <p>1 DR. CLEARY:</p> <p>2 A. But doesn't that forecast not include a</p> <p>3 forecast for a decline in -</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. Right, for 2017.</p> <p>6 DR. CLEARY:</p> <p>7 A. - kilowatt hours.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. For 2017 the forecast is set.</p> <p>10 DR. CLEARY:</p> <p>11 A. Right.</p> <p>12 KELLY, Q.C.:</p> <p>13 Q. But out to the next one, any increase in</p> <p>14 operating costs before the next one—so, if</p> <p>15 you were trying to be out in 2018, any</p> <p>16 increase in operating costs in 2018 doesn't</p> <p>17 get picked up.</p> <p>18 DR. CLEARY:</p> <p>19 A. I understand what you're saying, but what</p> <p>20 you're suggesting is that they're not going</p> <p>21 to be as good at forecasting during this</p> <p>22 period although they've been very good at</p> <p>23 forecasting in the past.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. No, you're not getting the point because –</p>

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1 DR. CLEARY:  
2 A. Well, continue to explain to then -  
3 KELLY, Q.C.:  
4 Q. Okay, no, I –  
5 DR. CLEARY:  
6 A. - why what you're suggesting is not saying  
7 that there's extra risk because they're  
8 going to be able to forecast as well as they  
9 have in the past. That's what I'm taking  
10 from this.  
11 KELLY, Q.C.:  
12 Q. Okay. I'm going to leave –  
13 DR. CLEARY:  
14 A. I understand that there's forecast risk  
15 involved.  
16 KELLY, Q.C.:  
17 Q. Right.  
18 DR. CLEARY:  
19 A. We can both agree on that, but I don't see  
20 the logic why they do a worse job at  
21 forecasting than they have over the past 25  
22 years.  
23 KELLY, Q.C.:  
24 Q. It's not a matter of forecast risk.  
25 Forecast risk is another risk, it could be

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1 lower. But if you have a three year GRA  
2 period and it's 2016 and 2017 is the test  
3 year, then what happens in 2018, if you have  
4 no growth and operating expenses have gone  
5 up, the company has to swallow it or come in  
6 for GRA. Are you with me now?  
7 DR. CLEARY:  
8 A. I'm with you now, but the implication I was  
9 getting was you were suggesting that for  
10 2016 and 2017 –  
11 KELLY, Q.C.:  
12 Q. No, no, you misunderstood my question. So,  
13 you don't have it in 2018 and you don't have  
14 any addition to cover the interest on your  
15 capital programs going out through 2017,  
16 2018 until you come back again. Those are  
17 the financial risks which go with no growth.  
18 Do you follow me now?  
19 DR. CLEARY:  
20 A. Potential risks.  
21 KELLY, Q.C.:  
22 Q. Okay. Well, the potential is because of  
23 growth which is an agreed item in the  
24 forecast. So, I'll go on.  
25 DR. CLEARY:

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1 A. Sorry, but it's a forecast, right.  
2 KELLY, Q.C.:  
3 Q. Yes.  
4 DR. CLEARY:  
5 A. It's not laid in stone. These are economic  
6 forecasts. You can't say they're going to  
7 turn out exactly as planned.  
8 KELLY, Q.C.:  
9 Q. Absolutely agreed which is why the risk  
10 could turn out to be worse and it could be  
11 forecast as well.  
12 DR. CLEARY:  
13 A. And it could turn out to less, and it could  
14 turn out to be less.  
15 KELLY, Q.C.:  
16 Q. Well, the provincial economy would have to  
17 have marked improvement from what the  
18 Conference Board says it would be. Let me  
19 take you to another question now. We know,  
20 the Board knows because it has already  
21 approved substantial expenditures for  
22 Newfoundland and Labrador Hydro, 119 million  
23 for the gas turbine, 230 million for the 230  
24 kilovolt line, 77 million for the capital  
25 program for 2015 and 184 million for 2016

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1 capital expenditures; about 600 million in  
2 total.  
3 DR. CLEARY:  
4 A. That sounds about right, as I recall.  
5 KELLY, Q.C.:  
6 Q. And they're going to flow through to  
7 customers once Hydro's GRA is dealt with and  
8 these expenditures get dealt with, quite  
9 apart, from any event, Newfoundland Power's  
10 expenditures. Are you aware those effects?  
11 DR. CLEARY:  
12 A. Yes, I would actually like to make a comment  
13 on that .6 billion dollar figure that you  
14 mentioned. They're not all going to occur  
15 this year. They're going to be spread out  
16 through time.  
17 KELLY, Q.C.:  
18 Q. Agreed.  
19 DR. CLEARY:  
20 A. And when I look at the forecasts from the  
21 exhibits provided by Newfoundland Power,  
22 they're forecasting capital expenditures  
23 somewhere just over 100 million per year  
24 during the test period and that's fairly  
25 consistent with their historical capex, at

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<p>1 least the information I have available. So,</p> <p>2 lumping the whole 600 million in that one</p> <p>3 time suggests that this is abnormal, but</p> <p>4 it's not—you know, the bottom line is the</p> <p>5 annual capital expenditures seem to be in</p> <p>6 line with what they have been long term, at</p> <p>7 least using the company's forecast.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. That 100 million for Newfoundland Power is</p> <p>10 normal, but you're not suggesting, Dr.</p> <p>11 Cleary, that 600 million for Newfoundland</p> <p>12 Hydro is normal, are you?</p> <p>13 DR. CLEARY:</p> <p>14 A. No, I'm just saying that it's within—spread</p> <p>15 out—put in context, as spread out over a</p> <p>16 number of years. It's not an extreme</p> <p>17 outlier, put it that way.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. Those costs have to flow through to</p> <p>20 consumers before we get to Muskrat Falls, do</p> <p>21 we agreed on that much?</p> <p>22 DR. CLEARY:</p> <p>23 A. Yes.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. Okay. Mr. Chairman, we're at 11:00.</p>	<p>1 DR. CLEARY:</p> <p>2 A. No, I did not.</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. You did not, okay. And the Liberty Report,</p> <p>5 amongst other things, pointed out that</p> <p>6 despite the new combustion turbine which was</p> <p>7 installed and certain capacity agreements</p> <p>8 that were put in place, that generation</p> <p>9 reserves are very low and the risk of</p> <p>10 outages remain high for the 2015 through</p> <p>11 2017 winter seasons, are you aware of that?</p> <p>12 DR. CLEARY:</p> <p>13 A. I'm aware of the conclusions of said report,</p> <p>14 I didn't read the actual report.</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. So you know that there continue to be</p> <p>17 reliability issues even during this test</p> <p>18 year period?</p> <p>19 DR. CLEARY:</p> <p>20 A. Yes.</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. Okay, now the next thing I want to turn to</p> <p>23 is the Muskrat Falls' issues, which is you</p> <p>24 deal with in your report at page 22 and if</p> <p>25 you scroll down, Samantha, there you go, the</p>
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<p>1 CHAIR:</p> <p>2 Q. Okay.</p> <p>3 (11:00 a.m. – Recess)</p> <p>4 (Resume 11:33 A.M.)</p> <p>5 CHAIRMAN:</p> <p>6 Q. So, Mr. Kelly, we are back to you, sir.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. Thank you, Mr. Chairman. Dr. Cleary, I take</p> <p>9 it you are genuinely aware that since the</p> <p>10 last Newfoundland Power General Rate</p> <p>11 Application in 2013, that Newfoundland Hydro</p> <p>12 has had some very serious problems on their</p> <p>13 generating system causing reliability</p> <p>14 problems through 2013, '14, '15?</p> <p>15 DR. CLEARY:</p> <p>16 A. Yes, I'm aware there's been some reliability</p> <p>17 issues recently.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. Including the Dark NL experience in 2014.</p> <p>20 DR. CLEARY:</p> <p>21 A. Correct.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. Now out of that, the Board had Liberty</p> <p>24 Consulting do a report. Did you look at the</p> <p>25 Liberty Report at any time?</p>	<p>1 paragraph which begins at line 4 and you, at</p> <p>2 line 5, you point to Mr. Coyne's comment</p> <p>3 about potential weather related risks and</p> <p>4 you say at line 6, "This contradicts</p> <p>5 assertions made by Newfoundland and Labrador</p> <p>6 Hydro in response to CA-NLH-115 from the</p> <p>7 Board's Outage Inquiry where it states", et</p> <p>8 cetera. Obviously, I take it you read that</p> <p>9 RFI.</p> <p>10 DR. CLEARY:</p> <p>11 A. Yes.</p> <p>12 KELLY Q.C.:</p> <p>13 Q. Did you read others, other RFI responses on</p> <p>14 the reliability issues surrounding Muskrat</p> <p>15 Falls in the future?</p> <p>16 DR. CLEARY:</p> <p>17 A. I did not read the RFIs, more RFIs along</p> <p>18 those lines. The fact is that, and I think</p> <p>19 it's been acknowledged here at trial that</p> <p>20 the reliability issue is currently under</p> <p>21 study and that there's no definitive answer</p> <p>22 on it.</p> <p>23 KELLY, Q.C.:</p> <p>24 Q. So do I understand from this comment that</p> <p>25 you looked at one RFI out of the sum total</p>

<p style="text-align: right;">Page 109</p> <p>1 of the hundreds that have filed in relation</p> <p>2 to the outage inquiry?</p> <p>3 DR. CLEARY:</p> <p>4 A. Well, the conclusion is that it's currently</p> <p>5 under study and that no definitive answer</p> <p>6 has arisen, which has been acknowledged by</p> <p>7 Mr. Coyne and so what else can I go on. If</p> <p>8 it had been decided, then that would be a</p> <p>9 different matter, but if it's currently</p> <p>10 under study and there's no definitive</p> <p>11 answer, how can I comment as to whether it</p> <p>12 will be increased or decreased as that one</p> <p>13 RFI responds to.</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. I'm going to ask the question again which is</p> <p>16 did you look only at the one RFI?</p> <p>17 DR. CLEARY:</p> <p>18 A. With respect to this issue, yes.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. And I take it Mr. Johnson provided that to</p> <p>21 you?</p> <p>22 DR. CLEARY:</p> <p>23 A. I think it was brought into evidence and I</p> <p>24 read it when I read Mr. Coyne's response,</p> <p>25 right.</p>	<p style="text-align: right;">Page 111</p> <p>1 information as a regulatory board about the</p> <p>2 risks associated with system reliability</p> <p>3 than I take it you have, which is why you</p> <p>4 made the assumption of just nothing,</p> <p>5 correct?</p> <p>6 DR. CLEARY:</p> <p>7 A. The status quo.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. You assumed, not a status quo because we</p> <p>10 know that the current status quo has</p> <p>11 unreliability associated with the problems</p> <p>12 from 2013, '14, '15. You actually assumed a</p> <p>13 status quo back to 2012, 2013, didn't you?</p> <p>14 DR. CLEARY:</p> <p>15 A. Well actually let's back track a little bit</p> <p>16 here. I'm assuming that there's no</p> <p>17 reliability, no increase in reliability</p> <p>18 issues.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. Since the last GRA.</p> <p>21 DR. CLEARY:</p> <p>22 A. Yes.</p> <p>23 KELLY, Q.C.:</p> <p>24 Q. And that would be a time before Dark NL and</p> <p>25 all these other expenses, so you're</p>
<p style="text-align: right;">Page 110</p> <p>1 KELLY, Q.C.:</p> <p>2 Q. Okay, now can I take you next to NP-CA-10</p> <p>3 and this is the RFI that asks about Muskrat</p> <p>4 Falls and if I take you down to line 13, you</p> <p>5 say "Since the matter is currently under</p> <p>6 review, Dr. Cleary has no way of knowing</p> <p>7 whether supply risk has increased, decreased</p> <p>8 or stayed the same; therefore, Dr. Cleary</p> <p>9 assumes that supply risk has not increased,</p> <p>10 at least not in any material way." So I</p> <p>11 take it your report is predicated on an</p> <p>12 assumption which you've made that supply</p> <p>13 risk will not increase?</p> <p>14 DR. CLEARY:</p> <p>15 A. Based on the evidence given that the</p> <p>16 evidence, one side is arguing it will</p> <p>17 increase; then there's evidence to say it</p> <p>18 will decrease. Then I think the logical</p> <p>19 assumption is to assume it's the same until</p> <p>20 you get evidence to tell you to revise your</p> <p>21 beliefs.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. Right, which is why I asked you about the</p> <p>24 Liberty Report and the RFIs because the</p> <p>25 Board would have a whole lot more</p>	<p style="text-align: right;">Page 112</p> <p>1 assuming, not the existing status quo today,</p> <p>2 you're assuming the status quo back in 2012</p> <p>3 before the last GRA, correct?</p> <p>4 DR. CLEARY:</p> <p>5 A. Yeah, I guess you could say that.</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. Yeah, okay. Now, I take it you're aware of</p> <p>8 "Murphy's Law", what can go wrong will go</p> <p>9 wrong and its corollary that when it goes</p> <p>10 wrong, it will go wrong at the worst</p> <p>11 possible time?</p> <p>12 CHAIRMAN:</p> <p>13 Q. O'Brien's Law, Murphy was an optimist.</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. There you go. Now, that's always a problem</p> <p>16 in the electrical system and did you look at</p> <p>17 Mr. Smith's evidence of what will happen</p> <p>18 when Muskrat Falls comes on line if the</p> <p>19 Labrador Link goes down, from this hearing?</p> <p>20 DR. CLEARY:</p> <p>21 A. I read it and I can't remember exactly the</p> <p>22 passage. If you want to refer to the</p> <p>23 passage?</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. I'll give it to you in summary form. If you</p>

<p style="text-align: right;">Page 113</p> <p>1 want to see the transcript, I'll take you</p> <p>2 there. We have currently, these are round</p> <p>3 numbers, approximately 2000 megawatts of</p> <p>4 capacity on the island now. 500 is Holyrood</p> <p>5 which will be replaced by Muskrat Falls. If</p> <p>6 the line goes down, we'll lose that 500 and</p> <p>7 we'll get, if it's available, 300 back from</p> <p>8 Nova Scotia, giving us 1800 megawatts which</p> <p>9 is the equivalent of the peak load on the</p> <p>10 island now, round figures.</p> <p>11 DR. CLEARY:</p> <p>12 A. Yes, I recall that conversation.</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. Do you remember that discussion?</p> <p>15 DR. CLEARY:</p> <p>16 A. Yes.</p> <p>17 KELLY, Q.C.:</p> <p>18 Q. Now there's a couple of problems with that.</p> <p>19 Number one is you cannot run an electrical</p> <p>20 system like that, you have to have a</p> <p>21 spinning reserve. Do you know anything</p> <p>22 about that?</p> <p>23 DR. CLEARY:</p> <p>24 A. I understand that that's why you would want</p> <p>25 to have some generation so you have a</p>	<p style="text-align: right;">Page 115</p> <p>1 A. Some from Nova Scotia, I would assume.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. No, no, but that's already built into it.</p> <p>4 Even with that, we're going to be several</p> <p>5 hundred megawatts short for a stable system</p> <p>6 and I expect the answer is you don't know</p> <p>7 because we don't know. My next question</p> <p>8 would be, okay, and who is going to pay to</p> <p>9 put that generating capacity in existence to</p> <p>10 have a stable system going forward?</p> <p>11 DR. CLEARY:</p> <p>12 A. And again, this is all based on Murphy's</p> <p>13 Law, right?</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. No, no, you have to have the spinning</p> <p>16 reserve, that's absolutely required and you</p> <p>17 can't assume every –</p> <p>18 DR. CLEARY:</p> <p>19 A. Right, but this whole scenario you're</p> <p>20 presenting to me is based on Murphy's Law</p> <p>21 basically, right?</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. No, sir, about half of it is based on</p> <p>24 Murphy's Law and half is based on the</p> <p>25 requirement of a spinning reserve which you</p>
<p style="text-align: right;">Page 114</p> <p>1 reserve.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. You have to have a reserve beyond that.</p> <p>4 DR. CLEARY:</p> <p>5 A. Right.</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. And right now, that's about 15, 16 percent</p> <p>8 requirement, but let's just keep the math</p> <p>9 simple and call it 200 megawatts and let's</p> <p>10 take our Dark NL experience. As Mr. Smith</p> <p>11 explained, those numbers assume every piece</p> <p>12 of generating equipment runs at its optimal</p> <p>13 performance and in Dark NL, we've got ice in</p> <p>14 the Exploit's River which dammed up a</p> <p>15 penstock, 50 megawatts gone. Stephenville</p> <p>16 gas turbine didn't work, 50 megawatts gone.</p> <p>17 An axial vibration on another generating</p> <p>18 plant took out another 32 megawatts, so 132</p> <p>19 megawatts gone just right there. So on any</p> <p>20 sort of analysis we are several hundred</p> <p>21 megawatts short of what you would need to</p> <p>22 keep the system stable if Muskrat Falls goes</p> <p>23 down. Now, do you have any idea where</p> <p>24 that's going to come from?</p> <p>25 DR. CLEARY:</p>	<p style="text-align: right;">Page 116</p> <p>1 need on the system. And so my first</p> <p>2 question was how is it going to happen? You</p> <p>3 don't have an answer and we don't have an</p> <p>4 answer. Who is going to pay for it? You</p> <p>5 don't have an answer, we don't have an</p> <p>6 answer but somebody is going to have to put</p> <p>7 it, there's more cost that has to come to</p> <p>8 deal with that reliability question, agreed?</p> <p>9 DR. CLEARY:</p> <p>10 A. But again this is based on the assumption of</p> <p>11 Murphy's Law that there is going to be such</p> <p>12 a—such an event would happen, right?</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. Oh, if you read all the RFIs, as Mr. Smith</p> <p>15 explained, Hydro says in essence that if</p> <p>16 they lose the line, it could take two weeks</p> <p>17 to restore it and lines go down, that's just</p> <p>18 one of the basic issues. So there's no</p> <p>19 determination as to who is going to provide</p> <p>20 that sort of emergency generation. One</p> <p>21 option is Hydro might have to provide it;</p> <p>22 another option is Newfoundland Power might</p> <p>23 have to provide it which would require a</p> <p>24 significant investment in the system,</p> <p>25 agreed?</p>

<p style="text-align: right;">Page 117</p> <p>1 DR. CLEARY:</p> <p>2 A. If that happened.</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. If the Board concluded that that is</p> <p>5 necessary to deal with the contingencies and</p> <p>6 the spinning reserve requirements, somebody</p> <p>7 would have to invest more money in the</p> <p>8 system?</p> <p>9 DR. CLEARY:</p> <p>10 A. If they do come to that conclusion.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. The Board would be in the best position to</p> <p>13 assess the risk and need for those</p> <p>14 expenditures, agreed?</p> <p>15 DR. CLEARY:</p> <p>16 A. I would agree.</p> <p>17 (11:45 a.m.)</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. Okay, now that problem that we just talked</p> <p>20 about doesn't include the risks associated</p> <p>21 with the fact that the load is here in St.</p> <p>22 John's and all of the lines coming into St.</p> <p>23 John's have to go through a really narrow</p> <p>24 corridor on the isthmus of Avalon which is</p> <p>25 subject to severe icing problems. Do you</p>	<p style="text-align: right;">Page 119</p> <p>1 get handled, don't we, we have to think</p> <p>2 about that problem. And if I take you, we</p> <p>3 still have the RFI up on the screen, if I</p> <p>4 take you over to page 2 of your answer to</p> <p>5 lines 4 to 10.</p> <p>6 DR. CLEARY:</p> <p>7 A. Yes.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. Where you say, "So in other words, if NP's</p> <p>10 supply cost increase, it can pass on these</p> <p>11 increased costs to consumers through rates</p> <p>12 charged, as is usual for cost of service</p> <p>13 arrangements and if the increase was not</p> <p>14 anticipated, i.e. in the test year</p> <p>15 estimates, NP would be able to pass on such</p> <p>16 unexpected cost increases to consumers</p> <p>17 through the RSA; therefore, it is not clear</p> <p>18 to Dr. Cleary what increased risk this poses</p> <p>19 to NP. In essence, the risk is to the</p> <p>20 consumer who would pay higher rates but not</p> <p>21 to NP since NP can pass these additional</p> <p>22 costs through to consumers." So that</p> <p>23 assumes that the consumers have the ability</p> <p>24 to pay, doesn't it?</p> <p>25 DR. CLEARY:</p>
<p style="text-align: right;">Page 118</p> <p>1 have any sense of the problem associated</p> <p>2 with lines on the isthmus?</p> <p>3 DR. CLEARY:</p> <p>4 A. Yes.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. Okay, and are you familiar enough with what</p> <p>7 would happen if one or more of the—if the DC</p> <p>8 line and the AC lines go down on the</p> <p>9 isthmus?</p> <p>10 DR. CLEARY:</p> <p>11 A. It would not be good.</p> <p>12 KELLY, Q.C.:</p> <p>13 Q. It would make Dark NL look like a comfort</p> <p>14 area because the amount of generation on the</p> <p>15 Avalon is very small, creating a rea</p> <p>16 problem. So the Board has to figure out how</p> <p>17 that's going to get addressed and who is</p> <p>18 going to spend money, potentially, to</p> <p>19 address that problem, agreed?</p> <p>20 DR. CLEARY:</p> <p>21 A. Agreed.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. Now, the next thing we have to think about</p> <p>24 is the 9-billion-dollar cost of the Muskrat</p> <p>25 Falls project itself and how that's going to</p>	<p style="text-align: right;">Page 120</p> <p>1 A. Yes, as I said, the risk is to the</p> <p>2 consumers.</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. Right, if the consumers—and these would be</p> <p>5 the consumers that we just looked at earlier</p> <p>6 in my discussion before the break in the</p> <p>7 Conference Board report where we have</p> <p>8 decreasing employment levels, decreasing</p> <p>9 labour participation rates, declining</p> <p>10 housing starts and negligible growth in</p> <p>11 household income. We went through all of</p> <p>12 that, those are the consumers we'd be</p> <p>13 talking about?</p> <p>14 DR. CLEARY:</p> <p>15 A. Yes, unfortunately, but again the risk is to</p> <p>16 them and Newfoundland Power would be able to</p> <p>17 pass legitimately incurred costs on.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. Assuming that they have the ability to pay.</p> <p>20 DR. CLEARY:</p> <p>21 A. Yes.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. In other words, do you understand how that</p> <p>24 process is going to work?</p> <p>25 DR. CLEARY:</p>

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<p>1 A. I do understand that one of the last things</p> <p>2 that you're going to stop paying is your</p> <p>3 power bill, even under tough times and I do</p> <p>4 agree with, obviously it's not a good</p> <p>5 outlook for the consumers if they face</p> <p>6 rising rates at a time when the economy is</p> <p>7 not growing strong.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. But do you understand how the purchase power</p> <p>10 agreements are going to flow costs through?</p> <p>11 Do you understand how that mechanism is</p> <p>12 going to work?</p> <p>13 DR. CLEARY:</p> <p>14 A. Not all the intricate details but I know</p> <p>15 that they get passed through.</p> <p>16 KELLY, Q.C.:</p> <p>17 Q. When in fact we don't know how it's all</p> <p>18 going to work, there's a lot that's got to</p> <p>19 get worked out in how this is going to work,</p> <p>20 which is what creates the uncertainty, so I</p> <p>21 don't expect you to know because we don't</p> <p>22 know.</p> <p>23 DR. CLEARY:</p> <p>24 A. But again, I would say that the evidence</p> <p>25 suggests that it has worked very well in the</p>	<p>1 Q. But we didn't have those increases in the</p> <p>2 cost of electricity back in the 1990s, this</p> <p>3 is a new problem that we are trying to deal</p> <p>4 with, isn't it?</p> <p>5 DR. CLEARY:</p> <p>6 A. I agree, but again as noted unfortunately</p> <p>7 you don't have a lot of alternatives and</p> <p>8 also if you look at, for example Dr. Booth's</p> <p>9 evidence which showed the average monthly</p> <p>10 electricity bill, the Newfoundland, you</p> <p>11 know, they're lower. It still doesn't mean</p> <p>12 that a 50 percent increase isn't a big event</p> <p>13 and obviously a negative event for the</p> <p>14 consumers, but it also doesn't suggest that</p> <p>15 they have a lot of options in terms of</p> <p>16 switching when your switching costs are 10</p> <p>17 to 20,000 to switch to alternate sources and</p> <p>18 you're going to need some electricity</p> <p>19 regardless.</p> <p>20 KELLY, Q.C.:</p> <p>21 Q. Let me take you to page 2 of the forecast</p> <p>22 document, which is the document at Tab 4</p> <p>23 again and if I take you over to, sorry, page</p> <p>24 4, top paragraph and you see about four</p> <p>25 lines down, five lines down—three lines</p>
Page 122	Page 124
<p>1 past, contrary to, you know, I'm sure that</p> <p>2 there's been tough times before and my</p> <p>3 evidence suggests there will be tough times</p> <p>4 again and that's just the nature of the</p> <p>5 economy, but the evidence shows that they</p> <p>6 have been able to do so in the past.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. Now these increase in electricity rates are</p> <p>9 forecast kind of at a minimum to be about 50</p> <p>10 percent. Some of the rates were currently,</p> <p>11 a little under 11 cents a kilowatt hour,</p> <p>12 some of the rates go out as high as 21 cents</p> <p>13 a kilowatt hour, some of the projections</p> <p>14 which would be like an 80 percent increase</p> <p>15 in rates, that's a huge increase in the cost</p> <p>16 of electricity, agreed?</p> <p>17 DR. CLEARY:</p> <p>18 A. It's a big increase.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. And we didn't have those kinds of increases</p> <p>21 back in the cod moratorium days, did we?</p> <p>22 DR. CLEARY:</p> <p>23 A. No, but at the time it was the oil prices,</p> <p>24 the relative cost, right.</p> <p>25 KELLY, Q.C.:</p>	<p>1 down, "a one percent change in the price of</p> <p>2 elasticity will result in a change in energy</p> <p>3 sales of less than one percent. Current</p> <p>4 analysis indicates that a one percent</p> <p>5 increase in the price of electricity will</p> <p>6 result in a .2 percent decrease in energy</p> <p>7 sales." That's the elasticity effect, do</p> <p>8 you remember that from Economics?</p> <p>9 DR. CLEARY:</p> <p>10 A. Yes, I do.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. Right, and that's the evidence on the</p> <p>13 elasticity effects. So if we had a 50</p> <p>14 percent increase, that would be a 10 percent</p> <p>15 decrease in sales, wouldn't it?</p> <p>16 DR. CLEARY:</p> <p>17 A. That's correct.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. Right. And that would be a huge drop in</p> <p>20 sales, wouldn't it?</p> <p>21 DR. CLEARY:</p> <p>22 A. If, again, this is an estimate. If this</p> <p>23 estimate is correct, that would in fact turn</p> <p>24 out to be a large drop in sales.</p> <p>25 KELLY, Q.C.:</p>

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<p>1 Q. And so one of the problems is that we're</p> <p>2 really in uncharted territory, because the</p> <p>3 potential price increase is so big that</p> <p>4 nobody knows how people are going to react</p> <p>5 to the circumstances, do they? Would you</p> <p>6 agree with that statement?</p> <p>7 DR. CLEARY:</p> <p>8 A. I would say that's a pretty broad statement</p> <p>9 to say "nobody knows how they are going to</p> <p>10 react". Of course, you never know exactly,</p> <p>11 but you can suggest that -</p> <p>12 KELLY, Q.C.:</p> <p>13 Q. Sales will go down?</p> <p>14 DR. CLEARY:</p> <p>15 A. Sales would go down. By how much is hard to</p> <p>16 predict.</p> <p>17 KELLY, Q.C.:</p> <p>18 Q. So on the one hand, you can't therefore</p> <p>19 assume that consumers will continue to buy</p> <p>20 all the electricity, which is the thesis</p> <p>21 that you stated in NP-CA-10, can you? In</p> <p>22 other words, you can't have it both ways.</p> <p>23 You can't say I'm going to ignore what we</p> <p>24 know about the elasticity effects now</p> <p>25 because it's uncertain, and at the same time</p>	<p>1 coming forward. Do you not agree with that</p> <p>2 proposition as a matter of both good</p> <p>3 financial management, first of all?</p> <p>4 DR. CLEARY:</p> <p>5 A. I would agree that you would want to have an</p> <p>6 appropriate capital structure that would put</p> <p>7 you in position to deal with that situation,</p> <p>8 and my recommendation is that 40 percent</p> <p>9 still puts you in a very good position to</p> <p>10 deal with that situation.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. Now when you say that, do you have any idea</p> <p>13 of what type of dollars would be needed to</p> <p>14 invest in the electrical system if</p> <p>15 Newfoundland Power was required to put up</p> <p>16 the money to deal with the generation issues</p> <p>17 that we just talked about?</p> <p>18 DR. CLEARY:</p> <p>19 A. I don't know the specific number, no.</p> <p>20 KELLY, Q.C.:</p> <p>21 Q. No, you wouldn't, so you can't therefore</p> <p>22 make the statement that 40 percent will be</p> <p>23 sufficient because you don't know how much</p> <p>24 would be required to invest to deal with the</p> <p>25 problems, sir?</p>
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<p>1 turn around and say, I can pass through all</p> <p>2 of these increases with complete impunity</p> <p>3 because rate payers have the ability to pay?</p> <p>4 You can't have it both ways, can you?</p> <p>5 DR. CLEARY:</p> <p>6 A. I don't think I was trying to have it both</p> <p>7 ways. I suggested that they can pass through</p> <p>8 these costs, and the other thing I would</p> <p>9 note is that those increases are not going</p> <p>10 to happen during the test period. So to</p> <p>11 argue that you need increased rates today to</p> <p>12 compensate for that situation and - that</p> <p>13 would not be good, but also you can't assume</p> <p>14 that sales are going to decrease by .2</p> <p>15 percent for each 1 percent increase in the</p> <p>16 rates.</p> <p>17 KELLY, Q.C.:</p> <p>18 Q. But all we're saying - you're addressing</p> <p>19 capital structure. All we're saying is</p> <p>20 given the uncertainties, given the fact that</p> <p>21 we know investments are going to be needed</p> <p>22 in the electrical system, we're saying you</p> <p>23 need to maintain the existing capital</p> <p>24 structure so that the utility is properly</p> <p>25 positioned to deal with these challenges</p>	<p>1 DR. CLEARY:</p> <p>2 A. I disagree with that, 40 percent would be in</p> <p>3 line with other Canadian regulated</p> <p>4 utilities. They also face risks, and that's</p> <p>5 more than a buffer when you consider that 38</p> <p>6 percent Quebec and Alberta, and they're fine</p> <p>7 and they have worse metrics and lower ROEs</p> <p>8 than Newfoundland Power. So I think that</p> <p>9 the conclusion that you need 45 percent to</p> <p>10 deal with this, it's not apparent to me that</p> <p>11 45 percent is "the" number. I think 40</p> <p>12 percent is an adequate, ample, slack to deal</p> <p>13 with situations like that.</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. Do you know of any utility in Canada or</p> <p>16 North America facing the kind of addition to</p> <p>17 the system rate base as will come from the</p> <p>18 Muskrat Falls addition?</p> <p>19 DR. CLEARY:</p> <p>20 A. Not relatively speaking.</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. No, okay. Now let me take you back to NP-</p> <p>23 CA-10 and to the end of page 2 and top of</p> <p>24 page 3, and this refers to the statement</p> <p>25 which is in Moody's Report, and at the top</p>



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<p>1 of page 3, you say, "In short, the statement</p> <p>2 by Moody's is in all likelihood based on</p> <p>3 their discussions with NP". Do you have any</p> <p>4 basis to conclude that Moody's didn't do</p> <p>5 their own independent assessment of the</p> <p>6 risks associated with Muskrat Falls?</p> <p>7 DR. CLEARY:</p> <p>8 A. I have no specific evidence to suggest that,</p> <p>9 but I do know how debt rating agencies work,</p> <p>10 and a lot of what they do is based on</p> <p>11 consultations with the companies who they</p> <p>12 pay for their ratings.</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. And do you not agree that a company like</p> <p>15 Moody's does its own independent assessment?</p> <p>16 DR. CLEARY:</p> <p>17 A. I would agree that they do some independent</p> <p>18 assessment, but they also do rely heavily on</p> <p>19 statements from the companies, and we saw</p> <p>20 that in Enron, which was discussed, for</p> <p>21 example.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. Now can I take you back to page 19 of your</p> <p>24 report for a minute, because you made the</p> <p>25 observation a couple of times about what</p>	<p>1 risk, will it not, the price impacts?</p> <p>2 DR. CLEARY:</p> <p>3 A. The price impacts will be permanent. If</p> <p>4 there's any other issues with respect to</p> <p>5 additional risk, we can't say for sure that</p> <p>6 there will be an increase in the additional</p> <p>7 risk.</p> <p>8 (12:00 p.m.)</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Dr. Cleary, Dr. Booth kind of said "the</p> <p>11 elephant in the room was interest rates, but</p> <p>12 the elephant in this room is really Muskrat</p> <p>13 Falls", isn't it, and we've had a very</p> <p>14 spirited debate in this province about the</p> <p>15 colour of the elephant. There are those who</p> <p>16 say we really need Muskrat Falls because</p> <p>17 Holyrood is falling down and worn out, and</p> <p>18 there are those who say, gee, the cost of it</p> <p>19 is going to be prohibitively expensive, but</p> <p>20 the one – there are two things that</p> <p>21 everybody agrees on. Number one is Muskrat</p> <p>22 Falls costs are coming, and number two, it's</p> <p>23 a big elephant. Do you agree with that?</p> <p>24 DR. CLEARY:</p> <p>25 A. I'd agree that the costs are coming.</p>
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<p>1 risk occurs in the test year period, et</p> <p>2 cetera, and at page 19, line 15, you make</p> <p>3 this observation, "Further, given its low</p> <p>4 risk business model, a company with strong</p> <p>5 regulatory support, there is no obvious</p> <p>6 reason that a weak economy represents a</p> <p>7 significant increase in permanent business</p> <p>8 risk for NP". Why do you use the word</p> <p>9 "permanent"?</p> <p>10 DR. CLEARY:</p> <p>11 A. Because the economic conditions are not</p> <p>12 permanent. It's definitely not a positive</p> <p>13 economic outlook, but -</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. As we saw, those deteriorated economic</p> <p>16 conditions will extend way out to 2020</p> <p>17 because we went through that earlier, but</p> <p>18 Muskrat Falls, which is a fixed cost which</p> <p>19 is going to come into the system, will go on</p> <p>20 far, far into the future, won't it?</p> <p>21 DR. CLEARY:</p> <p>22 A. Yes.</p> <p>23 KELLY, Q.C.:</p> <p>24 Q. So the risks associated with Muskrat Falls</p> <p>25 will, in fact, be a permanent change in</p>	<p>1 KELLY, Q.C.:</p> <p>2 Q. And they're big.</p> <p>3 DR. CLEARY:</p> <p>4 A. I don't know what you mean by "big</p> <p>5 elephant".</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. Well, 9 billion dollars is a big number</p> <p>8 relative to our systems?</p> <p>9 DR. CLEARY:</p> <p>10 A. It's a big number.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. And what we've got to be doing now is we've</p> <p>13 got to be focused on getting ready for those</p> <p>14 challenges. We got to have the operational</p> <p>15 things right, and we only got three years to</p> <p>16 do it, and we have to have the financial</p> <p>17 strength to deal with the challenges which</p> <p>18 are coming, and as a finance professor, do</p> <p>19 you not agree that we need to position now</p> <p>20 to be ready for those challenges?</p> <p>21 DR. CLEARY:</p> <p>22 A. As a finance professor, I think they're very</p> <p>23 well positioned now, and they would be very</p> <p>24 well positioned even with an equity ratio of</p> <p>25 40 percent.</p>

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<p>1 KELLY, Q.C.:</p> <p>2 Q. But you don't have any of the understanding</p> <p>3 of the numbers that justify that conclusion.</p> <p>4 We talked about that a few minutes ago. I</p> <p>5 want to shift gears a little bit now and</p> <p>6 talk about the quantitative assessment that</p> <p>7 you've done. First of all, on the fair</p> <p>8 return standard, credit metrics or</p> <p>9 creditworthiness is only one of the three</p> <p>10 factors. Do we agree on that?</p> <p>11 DR. CLEARY:</p> <p>12 A. Definitely.</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. We also need to have comparable returns and</p> <p>15 capital attraction, the ability to bring in</p> <p>16 capital?</p> <p>17 DR. CLEARY:</p> <p>18 A. Yes.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. Right, and capital attraction with the</p> <p>21 issues that we've just talked about will be</p> <p>22 an important factor because we may need</p> <p>23 money for various things, agreed?</p> <p>24 DR. CLEARY:</p> <p>25 A. Yes.</p>	<p>1 KELLY, Q.C.:</p> <p>2 Q. So it's based on the premise that the future</p> <p>3 will look like the past?</p> <p>4 DR. CLEARY:</p> <p>5 A. Not exactly, but that the past gives you</p> <p>6 some indication of what the future will look</p> <p>7 like, yes.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. Now can I take you to NP-CA-14, and the</p> <p>10 question that you were asked in this one is,</p> <p>11 "Were you aware of any Canadian or U.S.</p> <p>12 utility regulators that have used this</p> <p>13 measure of EBIT volatility to determine a</p> <p>14 utility's equity ratio", and your answer at</p> <p>15 line 6 is, "To the best of Dr. Cleary's</p> <p>16 knowledge, his measure of EBIT volatility</p> <p>17 have not been used in recent regulatory</p> <p>18 hearings in Canada, nor is he aware of any</p> <p>19 proceedings that rejected the use of such".</p> <p>20 So you're not aware of any regulator which</p> <p>21 has used this approach to determine</p> <p>22 creditworthiness or business risk?</p> <p>23 DR. CLEARY:</p> <p>24 A. And if you read down through the rest of the</p> <p>25 response, I find that surprising because the</p>
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<p>1 KELLY, Q.C.:</p> <p>2 Q. Now one of the things you did in your</p> <p>3 report, if I can take you to page 23, it</p> <p>4 begins at the bottom of page 23 when you</p> <p>5 talk about business risk, and you read over</p> <p>6 to the top of page 24 with the definition –</p> <p>7 scroll up a bit, Samantha, there we go, and</p> <p>8 then you look at operating income</p> <p>9 volatility?</p> <p>10 DR. CLEARY:</p> <p>11 A. Yes.</p> <p>12 KELLY, Q.C.:</p> <p>13 Q. And that's essentially looking back to see</p> <p>14 what's happened in the past, correct?</p> <p>15 DR. CLEARY:</p> <p>16 A. Correct.</p> <p>17 KELLY, Q.C.:</p> <p>18 Q. So it's looking historical, not forward? By</p> <p>19 definition, that's what you got -</p> <p>20 DR. CLEARY:</p> <p>21 A. You look at historical information based on</p> <p>22 the premise, and this is why people look at</p> <p>23 historical information for anything based on</p> <p>24 the premise that it will be a useful</p> <p>25 predictor of the future.</p>	<p>1 coefficient variation of EBIT volatility, or</p> <p>2 EBIT volatility, if you will, is a standard</p> <p>3 measure of business risk seen in finance</p> <p>4 textbooks, accounting textbooks, the CFA</p> <p>5 curriculum. It's very widely known, so when</p> <p>6 I'm reading through the evidence and I'm</p> <p>7 looking at debates such as we're having and</p> <p>8 such as have gone on here about qualitative</p> <p>9 issues, which are important because they</p> <p>10 should lead you to a direction, it struck me</p> <p>11 that while it seems that there's a good way</p> <p>12 to get to the bottom of all this, if you</p> <p>13 will, and look at the operating income and</p> <p>14 if there's a lot of volatility in operating</p> <p>15 income, that suggests that there's</p> <p>16 volatility in sales that could be causing</p> <p>17 that, that there's volatility in your</p> <p>18 operating costs that could be causing that,</p> <p>19 and that's why the coefficient variation in</p> <p>20 EBIT is used as a way of categorizing firms</p> <p>21 as low business risk to high business risk.</p> <p>22 I come at it from another perspective that</p> <p>23 also I spent, as a commercial lender, as a</p> <p>24 textbook writer, as someone who prepares</p> <p>25 cases for teaching finance, I look at</p>

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<p>1 companies not just in the utility industry, 2 but all different kinds of industries, and 3 that is a standard tool that I would use to 4 qualify, for example, that firms in the 5 manufacturing industry have much more 6 business risk than regulated utilities, and 7 that would show up in the coefficient of 8 variation of EBIT. So the fact that it 9 hasn't been in any Canadian hearings, it 10 doesn't mean that it's not a good approach 11 to use because it strikes me, reading from 12 the Canadian hearings, that it always ends 13 up into a "he said, she said" kind of debate 14 over some of these risks, which I think in 15 some cases the differences are minor. 16 Secondly, you know, I said, well, let's see 17 if the data bears this out, and clearly when 18 I did the analysis, all my qualitative 19 conclusions were very strongly verified that 20 holding companies from the U.S. with some 21 non-regulated competition, with historic 22 test years, infrequent hearings, more 23 generation, of course, they have more 24 business risk and then my measure verifies 25 that. Secondly, I would note that this idea</p>	<p>1 ratios, correct? 2 DR. CLEARY: 3 A. That would be correct, and also with respect 4 to the U.S., to go through all of the 5 hearings or whatever, but I have to do that 6 some time because I strongly suspect that 7 it's been used in a lot of U.S. hearings. 8 KELLY, Q.C.: 9 Q. But you can't tell this Board that any U.S. 10 regulator has used it either? 11 DR. CLARY: 12 A. I cannot tell you that, no, I agree. 13 KELLY, Q.C.: 14 Q. Can we go to the next one, NP-CA-015, and in 15 this one you were asked whether any debt 16 rating agency uses this measure of EBIT 17 volatility to determine the utility's 18 business or financial risk, and your answer 19 at line 6, "To the best of Dr. Cleary's 20 knowledge, his measure of EBIT volatility 21 have not been used in recent debt rating 22 reports". So the debt rating agencies don't 23 use it either? 24 DR. CLEARY: 25 A. I have not seen it in any debt rating</p>
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<p>1 of using the coefficient of variation, which 2 Mr. Coyne asked me a question about it, or 3 mentioned it in rebuttal, I notice that he 4 used the coefficient of variation ROE in 5 those Quebec hearings that were referred to 6 previously. So this idea that the 7 coefficient of variation is something new, 8 well, it's not really new, Mr. Coyne used it 9 with respect to ROE. The reason I don't – I 10 have no problem with using it with respect 11 to ROE, but that to me is – that's measuring 12 the variability in total earnings, which is 13 a function of both business risk and 14 financial risk, because ROE is net income. 15 When you want to look at the business risk 16 portion only, you look at the operating 17 income, and as you can see – as you can 18 recall from my presentation, there's not 19 really a big debate that business risk is 20 variability in operating income and that's 21 the standard definition of it. 22 KELLY, Q.C.: 23 Q. Now to come back to my question, you're not 24 aware of any regulator in Canada which has 25 used this methodology to determine equity</p>	<p>1 reports, but I will say that I have seen it 2 in equity analysts' reports. 3 KELLY, Q.C.: 4 Q. But not in debt ratings? 5 DR. CLEARY: 6 A. Not that I have seen. It doesn't mean 7 they're not out there because there's lots 8 of debt rating reports I haven't read. 9 KELLY, Q.C.: 10 Q. Sure, but you're not aware of any that you 11 can point to where debt rating agencies have 12 used it? 13 DR. CLEARY: 14 A. Not that I'm aware of. 15 KELLY, Q.C.: 16 Q. Now the next question I have – probably the 17 best thing is if I take you over to page 35. 18 DR. CLEARY: 19 A. Of my direct evidence? 20 KELLY, Q.C.: 21 Q. Yes, please. I don't want to spend very 22 much time on this, I think we can do this 23 fairly quickly. At lines 8 through 20, in 24 particular, I take you down to about line 10 25 to 11, you say, "I used the financial</p>

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<p>1 statement data provided in Exhibit 3 by NP</p> <p>2 to construct the estimates". So you did</p> <p>3 certain estimates based on certain factors</p> <p>4 to try to work out what you thought credit</p> <p>5 metrics would be, agreed?</p> <p>6 DR. CLEARY:</p> <p>7 A. Based on the numbers provided by</p> <p>8 Newfoundland Power, and based on their</p> <p>9 marginal tax rates they estimated for 2016</p> <p>10 and 2017, based on their depreciation</p> <p>11 estimate, right, based on their factors</p> <p>12 affecting the CFO pre-working capital or</p> <p>13 pre-WC, excluding the net income, and then</p> <p>14 what I did was it allowed net income to vary</p> <p>15 with the ROE and ER assumptions.</p> <p>16 KELLY, Q.C.:</p> <p>17 Q. So you made certain estimates, and what we</p> <p>18 then have to do is see, well, what would a</p> <p>19 rating agency do with all this, and I want</p> <p>20 to take you to NP-CA-020 where we have all</p> <p>21 of the other factors, and you were asked,</p> <p>22 "Moody's Investor Services weights</p> <p>23 regulatory framework 25 percent ability to</p> <p>24 recover cost, and earn returns at 25</p> <p>25 percent, diversification at 10, etc. Please</p>	<p>1 well as most regulated Canadian utilities.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Can I take you over to NP –</p> <p>4 DR. CLEARY;</p> <p>5 A. Sorry, and just to back up, this does make</p> <p>6 the point that 60 percent of this has not to</p> <p>7 do with the credit metrics, and, in fact, I</p> <p>8 fully believe that, and I do the credit</p> <p>9 metrics to show that because it's of</p> <p>10 interest to the Board, and I'm not hanging</p> <p>11 my hat on the metrics – if anything else,</p> <p>12 I'm just saying I'm pretty sure that on the</p> <p>13 other 60 percent they're going to rate</p> <p>14 excellent to very good, so let's make sure</p> <p>15 that they don't falter on the financial</p> <p>16 metrics, which is also part of it, and even</p> <p>17 if the metrics deteriorated a bit, I still</p> <p>18 believe that they would maintain their high</p> <p>19 rating based on that high business</p> <p>20 regulatory risk because that, as you pointed</p> <p>21 out, is 60 percent of the story, and because</p> <p>22 of that, sometimes the rating agencies are</p> <p>23 willing to overlook metrics that fall even</p> <p>24 out of the range, whereas in Newfoundland</p> <p>25 Power's case, I show that they stay clearly</p>
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<p>1 provide the values that Dr. Cleary believes</p> <p>2 Moody's Investor Services will attribute to</p> <p>3 each of the three factors, et cetera", and</p> <p>4 your answer was, "Dr. Cleary cannot predict</p> <p>5 precisely how an analyst at Moody's would</p> <p>6 evaluate NP relative to these criteria</p> <p>7 because there are too many factors involved</p> <p>8 and such a prediction is also based on</p> <p>9 individual judgment". Agree with that,</p> <p>10 that's your comment?</p> <p>11 DR. CLEARY:</p> <p>12 A. Yes.</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. And so that –</p> <p>15 DR. CLEARY:</p> <p>16 A. Sorry, I should qualify that. The one thing</p> <p>17 I can predict is that, as is the case for</p> <p>18 virtually all of the regulated Canadian</p> <p>19 utilities and Newfoundland Power, that they</p> <p>20 will be rated excellent or extremely high on</p> <p>21 business risk, and that has been the case</p> <p>22 and unless there's a significant change in</p> <p>23 the operating environment or the regulatory</p> <p>24 environment, I would expect that to continue</p> <p>25 to be the case for Newfoundland Power as</p>	<p>1 in the range, but I've seen reports where</p> <p>2 companies, Canadian utilities, are actually</p> <p>3 below the range, but they still got the</p> <p>4 rating anyways.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. Now can I take you to NP-CA-022, and it's</p> <p>7 the answer at line 7 and 8 that I was</p> <p>8 interested in. You say your analysis was</p> <p>9 based on the premise that NP would issue</p> <p>10 additional long term debt to reduce the</p> <p>11 common equity ratio. Its calculations</p> <p>12 suggest that a debt issue in the vicinity of</p> <p>13 125 million dollars would work. I'm a</p> <p>14 little bit puzzled as to how you got 125</p> <p>15 million dollars?</p> <p>16 DR. CLEARY:</p> <p>17 A. Okay. Do you mind if I open up my – I can</p> <p>18 tell you conceptually that I assumed that</p> <p>19 the equity ratio didn't change – sorry, the</p> <p>20 common equity component did not change going</p> <p>21 into 2016, what was based on Newfoundland</p> <p>22 Power's Exhibit 3, and that rather than pay</p> <p>23 out a special dividend, which my</p> <p>24 understanding was what they were thinking</p> <p>25 was to pay out 55 million and reissue 75</p>

<p style="text-align: right;">Page 145</p> <p>1 million in debt, I said, okay, what would it</p> <p>2 take to get this to a 40 percent equity</p> <p>3 ratio and with an extra 125 million, they</p> <p>4 would get to that 40 percent equity ratio</p> <p>5 because they would have then more debt on</p> <p>6 board.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. So what you're proposing is that</p> <p>9 Newfoundland Power should borrow 125 million</p> <p>10 dollars and kind of hold it in the treasury,</p> <p>11 is that kind of what I understand?</p> <p>12 DR. CLEARY:</p> <p>13 A. No, that's not what I'm proposing at all.</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. Okay.</p> <p>16 DR. CLEARY:</p> <p>17 A. I'm saying under this scenario which would</p> <p>18 bring the equity ratio and the ROE, this is</p> <p>19 a possibility, knowing full well that</p> <p>20 Newfoundland Power has at its discretion,</p> <p>21 and they have people who work in the finance</p> <p>22 department who would figure out what would</p> <p>23 make the most sense for them in terms of a</p> <p>24 combination of issuing debt and paying</p> <p>25 dividends.</p>	<p style="text-align: right;">Page 147</p> <p>1 utilities in Canada have been issuing debt</p> <p>2 over the past two to five years.</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. I've got one more question I wanted to ask you</p> <p>5 about, and that is in your evidence earlier, I</p> <p>6 think when Mr. Johnson was asking you</p> <p>7 questions, you made an observation that most</p> <p>8 Canadian utilities have an S &amp; P rating and a</p> <p>9 few utilities have a Moody's rating?</p> <p>10 (12:15 p.m.)</p> <p>11 DR. CLEARY:</p> <p>12 A. I wouldn't say most. I would say more have</p> <p>13 an S &amp; P rating than a Moody's rating.</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. Right.</p> <p>16 DR. CLEARY:</p> <p>17 A. And almost all of them that issue debt have</p> <p>18 a DBRS rating.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. S &amp; P in Canada eventually took over CBRS,</p> <p>21 agreed?</p> <p>22 DR. CLEARY:</p> <p>23 A. Exactly, Canadian Bond Rating Service.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. Do you know why Newfoundland Power doesn't</p>
<p style="text-align: right;">Page 146</p> <p>1 KELLY, Q.C.:</p> <p>2 Q. Okay.</p> <p>3 DR. CLEARY:</p> <p>4 A. So I'm not assuming that, but for</p> <p>5 illustrative purposes, I had to make some</p> <p>6 assumption. Having no way of knowing how</p> <p>7 they would do it, I chose that.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. That's helpful because I was trying to</p> <p>10 understand. So what that would mean is we'd</p> <p>11 issue 125 million dollars, whether we</p> <p>12 immediately need it or not, but, of course,</p> <p>13 that would have an interest cost to</p> <p>14 customers right away, wouldn't it?</p> <p>15 DR. CLEARY:</p> <p>16 A. Of course.</p> <p>17 KELLY, Q.C.:</p> <p>18 Q. Right.</p> <p>19 DR. CLEARY:</p> <p>20 A. As I said, I'm not recommending that,</p> <p>21 although I would say, and again as noted in</p> <p>22 my direct, that if you're going to change</p> <p>23 your capital structure and issue debt, this</p> <p>24 is a very good time to do it with the low</p> <p>25 rates, and that's why a fair number of</p>	<p style="text-align: right;">Page 148</p> <p>1 have an S &amp; P rating?</p> <p>2 DR. CLEARY:</p> <p>3 A. I understand there was an issue some years</p> <p>4 ago with potential downgrade or something</p> <p>5 along those lines.</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. Right, and so we lost our CBRS, then S &amp; P</p> <p>8 rating. It then took several years as part</p> <p>9 of the company's ring-fencing to get the</p> <p>10 Moody's rating to replace it, and as you</p> <p>11 indicated to the Board earlier, you need two</p> <p>12 in order to be able to issue the debt,</p> <p>13 right?</p> <p>14 DR. CLEARY:</p> <p>15 Q. Right, but as you mentioned, the ring-</p> <p>16 fencing has taken place, and as Dr. Booth</p> <p>17 mentioned, which I know to be the case, S &amp;</p> <p>18 P has a policy where they do not give the</p> <p>19 operating company – sorry, they do not give</p> <p>20 the holding company a higher rating than the</p> <p>21 operating company, right.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. Are there any other rating agencies</p> <p>24 operating in Canada other than those three?</p> <p>25 DR. CLEARY:</p>

<p style="text-align: right;">Page 149</p> <p>1 A. Those are the three that I note for</p> <p>2 utilities. I'm quite sure that some of the</p> <p>3 Canadian companies listed in the U.S. have</p> <p>4 Fitch ratings as well.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. Fitch is in the U.S., but those are the only</p> <p>7 three effectively in Canada?</p> <p>8 DR. CLEARY:</p> <p>9 A. Well, for the Canadian utilities, those are</p> <p>10 the three biggies.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. Thank you, Dr. Cleary, those are my</p> <p>13 questions.</p> <p>14 DR. CLEARY:</p> <p>15 A. Thank you.</p> <p>16 CHAIRMAN:</p> <p>17 Q. I guess I'm over to you, Madam?</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. Yes, thank you, Mr. Chair. I have no</p> <p>20 questions for Dr. Cleary.</p> <p>21 CHAIRMAN:</p> <p>22 Q. Okay, Mr. Johnson, do you have any re-</p> <p>23 direct?</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. No re-direct, Mr. Chairman.</p>	<p style="text-align: right;">Page 151</p> <p style="text-align: center;">CERTIFICATE</p> <p>I, Judy Moss, do hereby certify that the foregoing is a true and correct transcript of a hearing in the matter of a General Rate Application by Newfoundland Power Inc. to establish customer electricity rates for 2016 and 2017 heard on the 11th day of April, 2016 at the Public Utilities Commission office, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.</p> <p>Dated at St. John's, NL this 11th day of April, 2016</p> <p>Judy Moss Discoveries Unlimited Inc.</p>
<p style="text-align: right;">Page 150</p> <p>1 CHAIRMAN:</p> <p>2 Q. I guess we're finished, are we, for today,</p> <p>3 is that right?</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. Yes.</p> <p>6 CHAIRMAN:</p> <p>7 Q. Gee, what am I doing? Excuse me.</p> <p>8 VICE-CHAIR WHALEN:</p> <p>9 Q. I have no questions. Thank you, Dr. Cleary.</p> <p>10 CHAIRMAN:</p> <p>11 Q. No questions. Thank you, sir.</p> <p>12 DR. CLEARY:</p> <p>13 A. Thank you very much.</p> <p>14 CHAIRMAN:</p> <p>15 Q. So tomorrow morning at 9 o'clock again, is</p> <p>16 that correct, or 9:30?</p> <p>17 MS. GLYNN:</p> <p>18 A. No, no, 9 o'clock.</p> <p>19 CHAIRMAN:</p> <p>20 Q. Okay, thank you very much.</p> <p>21 (UPON CONCLUDING AT 12:18 P.M.)</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>	

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