Q. Reference: Dr. Cleary's Evidence, Page 36, Lines 11-14

In Dr. Cleary's opinion, does his recommended common equity ratio of 40.0 percent in combination with Dr. Booth's ROE recommendation of 7.50 percent, meet the three requirements of the Fair Return Standard? If so, please explain how it meets each requirement.

A. Page 11 (lines 18-20) of Order No. P.U. 43 (2009) states:

> "To be considered fair the return must be commensurate with the return on investments of similar risk and sufficient to assure financial integrity and to attract necessary capital."

This statement refers to the three legs of the well-known Fair Return Standard: financial integrity; capital attraction; and, comparable investments. Dr. Cleary believes a 40% equity ratio in combination with a 7.5% allowed ROE satisfies the fair return standard for the reasons provided below.

Financial Integrity:
The analysis provided in response to PUB-CA-021 indicates that at a 40% equity ratio and an allowed ROE of 7.5%, NP's credit metrics would be healthy and well within metric ranges consistent with their existing DBRS and Moody's ratings. The pro forma metrics would also be average or above average relative to the DBRS credit metrics provided in Table 10 for comparable Canadian utilities.

Capital Attraction:
As mentioned above, PUB-CA-021 indicates that at a 40% equity ratio and an allowed ROE of 7.5%, NP's credit metrics would be healthy and well within metric ranges consistent with their existing DBRS and Moody's ratings. The pro forma metrics would also be average or above average relative to the DBRS credit metrics provided in Table 10 for comparable Canadian utilities. As a result, Dr. Cleary Dr. Cleary believes its credit ratings, which are strong (and well into investment grade territory) would remain at existing levels under this scenario, as discussed in the responses to NP-CA-089 and PUB-CA-021. Hence for such a strong rated, low risk company, capital attraction is not an issue.

Comparable Investments:
Dr. Cleary has not been asked to provide ROE evidence during these proceedings, but he would consider an allowed ROE of 7.5% to be a fair return based on existing market conditions and based on well-accepted models and principles of finance. Without going into all of the details, Dr. Cleary believes that a reasonable expectation of future long-term stock market returns is 7.5% based on an extensive review of the expectations of capital market participants. Given the low risk profile of NP and other regulated distribution utilities, it is clear that 7.5% is a more than adequate return on equity relative to other investments available to investors.