Q. Reference Evidence of Laurence Booth dated September 25, 2018

Page 64: Dr. Booth's recommendation of an ROE of 7.5% is lower than the current allowed ROE's of Canadian investor-owned utilities as provided in the Evidence of Mr. Coyne at page 41 and in Dr. Cleary's at pages 25-26. Please explain whether this is an indication that Dr. Booth's recommended ROE is not reflective of regulators' assessment of the fair return or ROE for Canadian utilities in the current market conditions. In the response explain why the ROE for Newfoundland Power should be the lowest in Canada.

A. Dr. Booth's was asked to estimate a fair ROE for NP, not report on currently allowed ROE's. Dr. Booth's experience has been that regulators are usually faced with evidence on behalf of both the utility and interveners and he has never seen either recommendation accepted. Often Dr. Booth has considered that regulators split the difference, which inevitably increases the allowed ROE above a fair return, which we can see in the observed premiums paid for regulated utilities over their book value.[1] A strategy to ensure a fair ROE results from a rate hearing would then be for Dr. Booth to estimate a lower "fair" ROE. This would be easy to do. However, such an approach is unethical and not one that Dr. Booth has ever followed. What Dr. Booth estimates in utility rate hearings he also publishes in peer reviewed journals.

[1] Fair regulation would mean that a utility's market value should be at small premium over their book value or a market to book ratio of about 1.05-1.15. Observed purchases of utility assets are at significant premiums over these market to book ratios indicating that allowed ROEs are above a fair return.