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

Page 77, lines 2-28: Dr. Booth states that in his judgement there is "no material increase in NP business risk since 2016" and that any potential "rate shock" from higher electricity costs will not impact the two test years 2019 and 2020. In Dr. Booth's opinion is it ever appropriate in setting the ROE to consider an imminent material increase in business risk which happens to fall just outside the test year time period?

A. It depends on whether or not the increase in risk is real and whether it can reasonably be expected to be borne by the shareholders rather than the rate-payers. For example, if the Board suddenly decided on a change of policy and that all deferral accounts would be cancelled starting immediately beyond the current test years. Dr. Booth would regard this as an increase in earnings volatility even though it is beyond the current test years. This would be an increase in NP's current risk profile requiring an adjustment in either its capital structure, fair ROE or both.

However, there is uncertainty about both the amount of electricity costs that will be passed through to NP's ratepayers beyond the current test years and whether they will be material enough to affect NP's ability to earn its allowed ROE. At a minimum rather than simply saying there is increased risk, NP should be required to file demand studies for different rate classes and an assessment of the loss of revenue from these different classes as consumers drop off the system *and* how NP would propose to rebalance rates. Without both these requirements, any assessment of increased risk is speculative. The fact is there is no evidence before the Board of the impact of higher electricity prices on NP's ability to earn its allowed ROE or recover its investment in rate base. As far as Dr. Booth can see if these electricity prices are passed on in higher rates, residential users in St. Johns will face similar bills to those in Halifax. However, no-one has claimed there is significantly higher risk for Nova Scotia Power since it is allowed a common equity ratio of 37.5% not NP's 45%.

Dr. Booth would note the most recent DBRS report (October 4, 2018) confirming NP's A bond rating where they state

> *"Newfoundland Power's business risk assessment has remained stable since the last rating review."*

DBRS goes on to state correctly

> *"DBRS continues to consider the uncertainty with the Muskrat Falls project, an 824-megawatt (MW) hydroelectric generating facility being developed by Nalcor Energy (Nalcor; 100% owned by the Province of Newfoundland and Labrador (the Province)), as the most significant challenge facing Newfoundland Power. Nalcor estimates that by 2021, electricity rates would increase to 22.9 cents per kilowatt hour (kWh), a substantial increase from current rates of 12.4 cents/kWh. DBRS*

> *remains concerned about the potential rate shock to ratepayers, which could severely reduce electricity volumes as well as their ability to afford their bills, in turn negatively affecting the Company's earnings and cash flows. In September 2018, the Province announced that the PUB will examine the Muskrat Falls project, including options on reducing its impact on rates. Should the upward pressure on rates affect Newfoundland Power's ability to fully pass on costs, this could result in a negative rating action."*

Dr. Booth regards DBRS' assessment to be correct. DBRS is essentially saying "we are watching this to see whether higher electricity prices could affect NP's ability to fully pass on costs, which means ability to earn its allowed ROE."

Currently, DBRS is doing what I would urge the Board to do which is nothing, since any implications are currently speculative and not evidentiary based