1 **Q. Evidence, page 2, lines 6-9. Reference is made to the forecast net income for**
2 **Newfoundland Power as a % of the future average rate base and a comparison**
3 **is provided for the same metric for other Fortis' Canadian regulated utilities.**
4
5 **(a) Explain why and how this metric should be considered by the Board in**
6 **determining the equity and fair return on equity for Newfoundland**
7 **Power.**
8 **(b) Has any Canadian regulator explicitly taken this metric into account in**
9 **its decision?**
10 **(c) Has Dr. Booth calculated this metric for other Canadian electric utilities,**
11 **other than Fortis ones? If yes, provide the results.**
12
13 **A.** Most Canadian Boards set both the common equity ratio and the allowed ROE to
14 allow a fair utility cost of capital and ensure fair and reasonable access to credit.
15 Consequently, it is implicit in most regulatory decisions. For example, in Schedule
16 12 to my testimony I repeated a table from a decision of the AUC. In this Decision
17 the Board used average parameters for a benchmark utility, that is average
18 depreciation and tax rates and combined these with its allowed ROE and an
19 increasing common equity ratio. The purpose of this exercise was to see what credit
20 parameters came from an increasing common equity ratio. At a 30% common equity
21 ratio the EBIT interest coverage, for example, was 1.9 increasing to 2.8 at a 45%
22 common equity ratio. The column headed "Equity Ratio" could then equally have
23 been titled the "equity return" since with an allowed ROE of 8.5% and a 30%
24 common equity ratio the equity return is 2.55% (8.5*0.30) increasing to 3.825% at
25 a 45% common equity ratio (8.5*0.45). The table is then correctly indicating that as
26 the forecast net income in the test period increases there is more support for the
27 interest payments so the EBIT coverage ratio, cash flow (FF)) coverage ratio and
28 cash flow to debt ratio all increase.
29
30 The AUC is probably the Canadian Board that has most frequently revised both the
31 allowed ROE and common equity ratio at the same time by relying on an equivalent
32 table to that in my Schedule 12. In this sense they are *implicitly* using the equity
33 return. Other boards like the Ontario Energy Board, for example, adjust the common
34 equity ratio infrequently based on changes in the underlying business risk of the
35 utility, but even here when they do so there is always a discussion of the financial
36 parameters that result and the implications for financial market access.
37
38 I have not seen any Board decision that *explicitly* calculated the equity return. In
39 contrast, I have seen it explicitly presented in evidence by the former Enbridge Gas

1 New Brunswick before the New Brunswick Energy and Utilities Board this past
2 Summer and in evidence presented before the BC Utilities Commission by Mr.
3 Coyne of Concentric Energy.
4
5 To emphasise: all the equity return does is combine both the allowed ROE and
6 common equity ratio into one number as a % of the forecast rate base, which is
7 automatically done by the utility when it forecasts its test year income statement.
8 The advantage is it focusses the attention on both the allowed ROE and common
9 equity ratio rather than focusing on them separately.
10
11 In pages 97-98 Dr. Booth implicitly includes the equity return for utilities regulated
12 in other jurisdictions. For example, the AUC currently allows Fortis Alberta 8.5%
13 on a 37% common equity ratio for an equity return of **3.15%.** The BCUC allows
14 Fortis BC Energy (Gas) 8.75% on 38.5% common equity for an equity return of
15 **3.37**%. Both of these are "benchmark" values. Currently the Ontario Energy Board
16 allows Enbridge/Union Gas 8.34% on 36% common equity for an equity return of
17 **3.00%,** which is about the lowest in Canada. The OEB determines the fair ROE for
18 its electric T&D companies at a slightly different time of year but uses a 40%
19 common equity. Consistent with an 8.34% ROE a 40% common equity means an
20 equity return of **3.36%.** Maritime Electric was recently allowed an ROE of 9.35%
21 on a 40% Common equity ratio for an equity return of **3.74%.** Nova Scotia Power
22 in an old decision reached a settlement allowed ROE of 9.2% (9.1-9.3% over the
23 test years) on 37.5% common equity for an equity return of **3.45%.**