Q. Evidence, page 98, lines 10-11. Dr. Booth's personal recommendation is for a 7.5% allowed ROE on 40% common equity, which is significantly below the ROEs currently approved for Canadian electric utilities with similar allowed equity ratios to 40%. (ROEs for Canadian electric utilities are provided in Mr. Coyne's report in Figure 29 on page 50 and the allowed equity ratios are provided in Figure 30 on page 54) What impact would the implementation of this recommendation have, in Dr. Booth's opinion, on Newfoundland Power's credit ratings from Moody's and DBRS? In the response explain whether Dr. Booth agrees with Mr. Coyne's response in PUB-NP-090 and Newfoundland Power's response in PUB-NP-030 that credit metrics are not the only thing that credit rating agencies consider.

A. Dr. Booth understands that the job of an expert witness is to inform and assist the Board which means more than simply explaining what other allowed ROEs and common equity ratios are. However, Dr. Booth does present evidence on other allowed financial parameters and is aware that other electric companies in Canada *are* earning more than Dr. Booth's personal recommendations.

Maritime Electric is allowed 9.35% on a 40% common equity ratio, the Ontario T&Ds currently an equivalent 8.34% on 40% common equity, Fortis Alberta 8.5% on 37% common equity and Fortis BC Electric 9.15% on 40% common equity. The question is how to reconcile different common equity ratios with their different allowed ROEs. The equity return on rate base within certain parameters allows this so we get:

Maritime Electric 9.35% on 40% or	**3.74%**
Fortis BC Electric: 9.15% on 40% or	**3.66%**
Fortis Alberta: 8.5% on 37% or	**3.2375%**
Algoma Power: 8.52% on 40% or	**3.408%**
Niagara Distribution: 8.78% on 40% or	**3.512%**

I regard all of these allowances as marginaly generous, since my personal recommended allowed ROE is 7.5%. However, the top of my range for the CAPM is basically 8.0%, so I regard 8.50% as marginally generous but not unreasonably so. I am less concerned with the current allowed ROE of 8.5% as I am the 45% common equity ratio. The combination of the two gives an equity return of 3.825% the highest of any of the above electric companies, which belies the Board's assessment of NP as an average risk utility.

If the Board accepts my recommendation of lowering the common equity ratio to 40% and maintaining the allowed ROE at 8.5% then the equity return is 3.4% similar to all of these companies except Maritime Electric, which IRAC judges to have special risks. There would then be some pressure on NP's bond rating, but unlike some of the others NP's debt is through mortgage bonds, which lowers their risk. If the Board is concerned about the bond rating, which is currently the highest of any Canadian utility expect Hydro One, it can deem a 5% preferred share component at a 5% cost as I have previously recommended. In this way as a first step, the board can allow 40% common equity at 8.5% and 5% preferred shares at 5% for an overall equity cost of 8.11% on 45% combined shareholder's equity.