Q. Further to the response to PUB-NP-092, why in Mr. Coyne's opinion is the Ontario Energy Board's automatic adjustment formula not be appropriate for implementation for Newfoundland Power?

A. The Ontario Energy Board's ("OEB") automatic adjustment formula is based on changes in government and utility bond yields and does not fully capture all factors that are considered by equity investors. These other factors include, but are not limited to, volatility in stock and bond markets, credit spreads, the risk that inflation may be higher than currently expected, changes in Beta coefficients for utilities, changes in the market risk premium, changes in utility growth rates, and changes in utility valuation levels.

While the OEB's formula has continued to operate for many years since it was adopted in 2009, Mr. Coyne's concern is that the OEB's formula is not currently producing a reasonable ROE for regulated electric and gas utilities in the current low interest rate environment. The low yields on government and corporate bonds are due in large part to the aggressive monetary policy of central banks (i.e., reductions in short-term target rates, bond buying programs, etc.) in response to the prevailing economic weakness caused by COVID-19. This monetary policy was intended to stabilize financial markets, support the economy, provide liquidity, and reduce volatility. Because these low interest rates are being driven primarily by central bank policy rather than by investors' decisions, they do not reflect the actual risk of owning government and corporate bonds.

Intervenor witnesses, such as Dr. Laurence Booth, have also recommended that formulas tied to changes in government bond yields (such as the one in British Columbia) be suspended until interest rates normalize to levels of at least 3.80 percent on 10-year Government of Canada bonds.[1]

[1] See BCUC *Decision and Order G-129-16, August 10, 2016, page 88.*