IN THE MATTER OF the Public Utilities Act, R.S.N.L. 1990, Chapter P.47, as amended (the "Act"); and

IN THE MATTER OF a General Rate Application by Newfoundland Power Inc. to establish customer rates for 2010

To: Board of Commissioners of Public Utilities

Suite E210, Prince Charles Building
120 Torbay Road
PO Box 12040
St. John's, NL A1A 5B2
Attention: Ms. G. Cheryl Blundon
Director of Corporate Services and Board Secretary

CA-PUB-1 Re: Qualifications page 2

Please indicate all rate of return testimony filed in Canada over the last ten years and indicate on whose behalf Mr. Cicchetti testified, what his recommendations were and the decision of the public utility board.

CA-PUB-2 Please indicate the source, for example courses, prior testimony etc, of Mr. Cicchetti's knowledge of the following:

a. Canadian tax policy
b. Canadian monetary policy
c. Canadian economic policy
d. Canadian regulatory policy
e. Canadian industrial policy

CA-PUB-3 Background preparation page 3

Mr. Cicchetti indicated that he reviewed a large amount of material prior to preparing his report, please

a. Indicate the set of documents he reviewed to indicate the current state of the economic and financial environment in Canada.

b. Please indicate what documents he reviewed to indicate the current state of power markets in Canada and the US and explain in detail their implications for Newfoundland Power.

c. Please indicate what documents he reviewed to understand the financial characteristics of Newfoundland Power and what is important for investors, both debt and equity.

d. Please indicate on what basis he understands his cost of equity estimation techniques to be "conventional."

e. Please indicate given the date on which his report was filed whether or not Mr. Cicchetti was aware that Moody's just upgraded Newfoundland Power by two notches. If he was, why is this not mentioned in his report; if he was not how does this alter his conclusion in terms of the need to dramatically increase the allowed ROE?

CA-PUB-4 Overall recommended ROE and the ROE allowed by the formula. Mr. Cicchetti's recommended ROE is in a range 9.0-9.60% and he recommends the top of the range based on current financial market turmoil and notes that the allowed ROE from the formula is 8.5%

(a) Please confirm that all three estimates of the fair ROE come from analyzing either a sample of US electric or natural gas utilities using a two-stage DCF estimate or a DCF based risk premium model.

(b) Please confirm that none of Mr. Cicchetti's recommendation is based directly either on Canadian firms or data from the Canadian capital market. If Mr. Cicchetti can not confirm please point explicitly to any part of his testimony where his recommendations have been altered as a result of reviewing Canadian capital market data or firms.

(c) Please indicate the courses/studies Mr. Cicchetti has taken in international finance.

(d) Please indicate whether Mr. Cicchetti is aware of the interest rate parity result and if so please explain it succinctly.

(e) Please indicate any theory or practice in international finance that indicates that you can take estimates of the fair "opportunity cost," that is equity cost or required rate of return from one country and apply it in another without doing any checks. Please indicate what checks are required and where in Mr. Cicchetti's evidence he has made these checks.

(f) Please provide the current Prime rate in the US and Canada and the current long term (30 year) government bond rates.

(g) Currently the difference between the two rates in (f.) above is 1.0% and 0.50% respectively please confirm that if the rate differentials are subtracted from his range of estimates the result is a range of either 8.0%-8.60% based on Prime or 8.50%-9.1% based on long government bond yields.

(h) Please confirm that the current allowed formula ROE of 8.50% is within the range indicated in (g.) above once basic differences between the US and Canada are accounted for.

CA-PUB-5 Re: Mr. Cicchetti cites the Board's three reasons for changing the formula ROE on page 4 and discounts two of them focusing on changes in financial market conditions.

(a) Mr. Cicchetti cites "particularly" low Canadian long term bond yields. Is he referring to the nominal bond or the real return bond? Did he consult both to understand why these rates have changed and the conditions in the long term Canada bond market?

(b) Can Mr. Cicchetti provide the yields on both the nominal and real 30 year Canada bond yield monthly for the last five years and discuss in detail whether either or both have been "particularly" low over the last year.

(c) Can Mr. Cicchetti explain what he understands by the break-even inflation rate (BEIR) and whether changes in inflationary expectations affect the real or the nominal bond yield?

(d) Mr. Cicchetti provides no data on Canadian utility shares. Please provide the data and supporting documentation to justify the statement that their "declines" in value have been unique relative to past business cycles or the Canadian capital market.

(e) Mr. Cicchetti claims that Canada has experienced "relatively high" corporate bond yields and yet provides no data except for the last two years to support the claim that they have been unique. Please provide the supporting documentation and all data relied on for the claim that the latest corporate bond yield on June 2009 of 5.98% is in any way unique or is relatively high or anything out of the ordinary in view of the current stage in the business cycle.

CA-PUB-6 Re: Modern portfolio theory and efficient markets page 7

(a) Please indicate in view of Mr. Cicchetti's support of modern portfolio theory, efficient markets and beta why he has not presented a cost of equity estimate based on the CAPM or any of its variants?

(b) Mr. Cicchetti refers to betas many "documented drawbacks." Please provide citations and references in the literature to these "documented drawbacks" and why nothing specific is mentioned in his testimony.

(c) Has Mr. Cicchetti reviewed the basis for allowing fair ROEs in Canada, if so is he aware that in almost all cases they are based on estimated fair rates of return from a CAPM or its variants?

(d) Is Mr. Cicchetti aware of RH-1-2008 the most recent decision of the National Energy Board that based its recommended award exclusively on the CAPM with estimates of approximately 7.4-9.0%.

(e) If Mr. Cicchetti has not reviewed Canadian board decisions in terms of estimating the fair rate of return, please explain why the Board should place any weight on his evidence.

CA-PUB-7 Re: The Newfoundland Economy discussion on page 11

(a) Mr. Cicchetti seems to review the basic information in the Conference Board of Canada's forecast for the Newfoundland and Labrador economies. Please explain in full how this has affected his recommendations since they are based exclusively on US sample of firms.

(b) Please indicate how Mr. Cicchetti's recommended ROE would change if the Newfoundland and Labrador economies were stronger than the discussion on page 10-11 indicates.

CA-PUB-8 Re: Discussion of capital markets on page 11

(a) Please provide all documentation and citations to the literature to support the assertion that changes in the yields on utility debt and their share prices have increased utilities required returns, given that no such documentary support is in Mr. Cicchetti's evidence.

(b) Please confirm that the Board of Commissioner's is tasked with awarding a fair return for the forward test year and that what matters is future capital market conditions not what has happened over the past year.

(c) Given (b) above is it Mr Cicchetti's judgment that US Treasury Secretary Geithner will repeat the policy mistakes of his predecessor and throw the world into another serious recession in the upcoming test year? If so please provide the evidentiary support for such a proposition.

(d) Please provide the current volatility estimate from the VIX and MVIX and provide a graph showing how this volatility has changed over the last two years.

(e) Mr. Cicchetti refers to utility yields and yet in his evidence he only documents "A" yields. Please provide a chart and table of "A" bond yields and Newfoundland Power (or another Canadian A rated utility) bond yields monthly for the last five years.

(f) Mr Cicchetti expects Canadian yields to increase. Please confirm that this also means Newfoundland Power's allowed ROE will increase according to the ROE formula. Please provide his estimate of the allowed formula ROE consistent with his bond yield forecast.

CA-PUB-9 Re: Industry Overview

Mr. Cicchetti makes a number of statements without any supporting documentation, please:

a. Provide an analysis of the price behavior of Canadian utility stocks relative to the stock market in general over the last two years and indicate whether he regards anything as anomalous;

b. Please indicate whether he believes that Newfoundland Power is affected by volatile fuel prices and if so how. In particular please graph Newfoundland Power's fuel prices on a monthly basis for the last five years against the AECO price for natural gas and comment on which he regards as riskier.

c. Please indicate Newfoundland Power's increasing infrastructure and environmental requirements, the documentary support for his conclusion and how they have affected his recommendations since they stem from US utilities.

d. Mr. Cicchetti claims that Newfoundland Power has suffered declining sales. Please provide the company's sales on an annual basis for the last ten years. Also please confirm that Newfoundland Power is regulated on a cost of service basis and its revenue requirement is determined by the Board of Commissioners.

e. Further to d) if Newfoundland Power is a stable utility experiencing no growth, since many of its costs are fixed in nominal dollars can Mr. Cicchetti confirm that its sales growth rate will be less than the rate of inflation and may in fact decline?

CA-PUB-10 Mr. Cicchetti claims that declining ROEs resulting from formula ROEs may challenge utility credit metrics and consequently access to capital. Please

a. Confirm that Newfoundland Power was just upgraded two notches by Moody's with no mention of any changes in either the ROE formula or deemed common equity ratio.

b. Confirm that US utilities have both higher allowed ROEs and greater deemed common equity ratios than their Canadian peers. If not please provide a table with both financial variables for the population of US utilities and Canadian ones.

c. Confirm that the median bond rating for a utility in Canada is A (Low) whereas in the US it is BBB and that Canadian utilities have better financial market access on weaker credit metrics than their US peers. If Mr. Cicchetti can not confirm, please provide the DBRS and S&P bond ratings for the utilities in b) above.

d. Explain why Canadian utilities have better market access than their US peers and why Moody's upgraded Newfoundland Power by two notches without requiring the significant boost in allowed ROE recommended by Mr. Cicchetti.

CA-PUB-11 Re: Newfoundland Power's company overview pages 13-15

a. Mr. Cicchetti provides a brief overview of the company. Can he please explain how this discussion was factored into his recommendations given that they are based solely on a sample of US utilities.

b. Can Mr Cicchetti explain in detail how he came to the conclusion that Newfoundland power is equivalent in risk to his US proxies, that is, what explicit checks did he conduct to validate his choice of proxies.

CA-PUB-12 Re: Mr. Cicchetti's estimation techniques page 16

a. Please confirm that Mr. Cicchetti uses two direct DCF estimates on samples of US electric and gas utilities and one risk premium test which in turn is based on monthly DCF estimates for an index of firms. If not please explain in detail how his estimation procedures do not rely on DCF estimates.

b. Please indicate any decision by a Canadian regulatory board that has awarded a fair ROE based entirely on DCF estimation procedures at any time over the last 20 years.

c. Please indicate any decisions by a Canadian regulatory board that has placed even partial weight on DCF based recommendations. In this case please indicate the decision and the weight placed on any DCF estimates.

d. Please provide all documentary support for the assertion that DCF models are the "most commonly used approach for estimating a utility investor's required return on common equity capital."

e. Please provide any documentary support to the notion that the DCF model is a commonly used technique for estimating the required rate of return for any type of firm, utility or otherwise.

f. At page 17 Mr. Cicchetti refers to the way in which a bond yield to maturity is calculated. Please confirm:

i. Given that the yield is the discount rate that's sets the present value of the contractual payments equal to the current market value, this yield is often referred to as a promised yield since it relies on the payers promise to make the contractual payments. If not why not.

ii. Please confirm that only in the case of the Government of Canada is such a promise default free which is why the only yield to maturity which is also an expected rate of return is the yield on a Government of Canada bond, if not why not and explain in detail.

iii. Further to (f.ii)., please confirm that default risky bonds have no limits on their yield, which as result exceeds the investors expected rate of return. For example, bonds issued by companies close to default like GM often have yields close to 100% but investors do not expect to earn that rate of return since default is likely. If not why not.

iv. Given (f.iii) please explain in detail and provide citations to the literature of the relevance of comparing an expected rate of return on a share (from the DCF model since the cash flows are expected not contractual) with a promised yield on a default risky bond.

CA-PUB-13 At page 12 Mr. Cicchetti asserts that "equity investors require a risk premium over the cost of debt," please:

(a) Confirm that Mr. Cicchetti is referring to government of Canada debt costs not corporate debt costs, since it is not conceptually correct to compare promised yields with expected rates of return. If not why not.

(b) Confirm that at several times in the past Canadian utility regulators have allowed fair ROEs less than the Government of Canada long term bond yield, since bond yields contain protection from inflation in the yield both in terms of the expected rate of inflation and any inflation risk premium.

(c) Please confirm that the Brigham, Shome and Vinson paper referred to looked at US risk premia and showed that they declined with significant inflation due to the factors mentioned in (13b) above, if not why not.

(d) Please confirm that the idea that equity requires a higher rate of return than Government bond yields is true on an after tax basis. However, with different tax treatment the before personal tax cost of debt can exceed the equity cost.

(e) Given 13(d) above has Mr. Cicchetti done any analysis of the differences in the tax code in Canada between different sources of investment income and whether the tax treatment is the same as in the US as is implicitly assumed by using estimates from the US capital market.

(f) Can Mr Cicchetti confirm that preferred shares in Canada routinely sell on lower yields than equivalent maturity government of Canada debt due to the differential tax treatment despite being unambiguously riskier? If not can he explain in detail why he feels this is not relevant to recommending a fair ROE for a dividend rich utility like Newfoundland Power?

CA-PUB-14 Re: Canadian samples of firms

(a) Can Mr. Cicchetti confirm that he did not use estimates for any Canadian firms because "none of them were similar to Newfoundland Power and had long term analyst forecasts for growth, earnings return on equity or dividends."

(b) Please indicate what analysis Mr. Cicchetti did of the Canadian firms that lead him to believe that they were not similar to Newfoundland Power. In particular can he confirm whether or not he did the following and if he did provide the supporting documentation:

i. An analysis of their ability to earn their allowed ROE;
ii. An examination of their use of deferral accounts;
iii. An analysis of their deemed common equity ratios;
iv. An analysis of their stock market betas;
v. An analysis of equity or bond credit reports indicating that the companies were not used as comparables and the reasons for the decision;
vi. An analysis of recent regulatory decisions

c. Is Mr Cicchetti aware that both the Alberta Utilities Commission and the BC Utilities Commission adjust for differences in business risk by adjusting deemed common equity ratios and then allow a common ROE (with a premium by the BCUC) for different utilities under their jurisdiction including both gas distribution companies and electric transmission and distribution companies? If he is aware of this why does he believe there are no comparables to Newfoundland power in Canada when other regulatory bodies have in effect decided there are?

d. In terms of the analyst growth forecasts, can Mr. Cicchetti confirm that these forecasts are only needed for the DCF tests, and that you can still estimate a DCF equity cost without such forecasts. If not why not.

e. Further to 3) above if the analyst forecasts are only needed for the DCF test can Mr. Cicchetti confirm that he ruled out the Canadian firms simply because he couldn't do his one form of DCF test using them?

f. Can Mr Cicchetti provide copies of all testimony presented by him over the last two years and indicate the tests that he performed and the sample of firms that he used. It would be sufficient to indicate that all his evidence over the last two years is based on the same techniques and samples presented in this hearing if that is the case.

CA-PUB-15 Re: Comparability of US companies, page 19

a. Mr Cicchetti claims that US utilities are comparable because they have similar operating and regulatory environments. Would he agree that the same logic applies to US and Canadian banks in that they are all regulated under the same BIS guidelines and operate with the same technology?

b. Would Mr Cicchetti regard US and Canadian banks as equivalent in risk given that no Canadian banks have suffered any serious problems during the current recession whereas all 19 of the largest US banks have accepted TARP funding and many more have gone bankrupt requiring the biggest rescue operation on the part of the US government for 70 years? If not why not.

c. Can Mr. Cicchetti confirm that market integration simply means that capital can flow freely between two markets but that does not mean that the rate of inflation or risk is the same? If not please provide any supporting documentation and citations to the literature that indicates that nominal rates of return should be the same in two integrated markets that differ in terms of inflation, taxes and foreign exchange rate risk where there are with-holding taxes.

d. Please confirm that rating agencies simply predict the probability and consequences of default. They do not estimate fair rates of return or capital market conditions or even comment on nominal debt costs.

CA-PUB-16 Re: Discounted cash flow analysis on page 21

a. Mr. Cicchetti states that "in order to take advantage of specific dividend forecasts for the next five years provided by Value Line..." Please confirm that both Mr Cicchetti's analysis and choice of companies is driven by the availability of Value Line forecasts rather than finding the best comparables for Newfoundland Power. If not please explain this sentence.

b. Please provide the underlying data used for the DCF estimates and provide the estimates individually for each company in MAC 10-11.

c. Please confirm that the issue cost adjustment is based on US capital market experience. If not please provide all data relied on to estimate issue cost for Canadian companies. Is Mr. Cicchetti aware that Canadian investment banks operate under slightly different regulations, in particular bought deals are common in Canada and not allowed in the US, so that issue costs are generally lower?

d. Please confirm that the resulting DCF estimates of 9.53% for electric and 9.57% for gas utilities are US estimates reflecting US investor behavior, monetary policy, taxes and capital markets. If not why not.

e. Please indicate all analysis that Mr Cicchetti has done to indicate that risk premia are the same in the US as Canada. In particular is Mr. Cicchetti aware that Canadian risk premia have historically been regarded as 1.0% lower than in the US due to differences in monetary policy, taxes, regulations etc?

f. Can Mr Cicchetti confirm that the US betas in MAC 8 and 9 are adjusted betas in that the actual betas are adjusted with 1.0? If not why not.

   i. Can Mr Cicchetti provide references to any Canadian regulatory decision that has accepted the use of adjusted betas?

   ii. Can Mr Cicchetti provide references to any literature that indicates that utility betas regress towards the overall market mean of 1.0 rather than the utility mean of about 0.50?

   iii. Can Mr Cicchetti please un-adjust the Value Line betas to provide the actual direct beta estimates for the firms in MAC 8&9.

   iv. Can Mr Cicchetti confirm that if the utility beta is 0.50 then he should reduce his US risk premium estimates by about 0.50%, which is the beta of 0.50 times the lower Canadian market risk premium. If not why not.

   v. Can Mr Cicchetti further confirm that if he reduces his US estimates for the 0.50% lower utility risk premium and 0.50% lower risk free rate in Canada his resulting estimated ROE range is 8.0%-8.60%, if not why not?

g. In terms of Mr. Cicchetti's risk premium model:

   i. Can he confirm that this is based in the same DCF model as his other two estimation techniques?

   ii. Can Mr Cicchetti confirm that if the risk premium is higher in the US then all these estimates would be higher than for similar firms in the Canadian capital market, if not why not?

   iii. Can Mr Cicchetti provide for each month the DCF equity cost estimate for the index broken out into its dividend yield and growth components and explain how this series differs from that in Ms. McShane's evidence?

   iv. Can Mr Cicchetti please run a simple OLS regression of the two components of the risk premium against the US treasury yield and report the results.

CA-PUB-17 Re: Critique of Ms. McShane's testimony page 30

A. Mr. Cicchetti points out that basic financial theory indicates that the market to book ratio increases if the allowed ROE exceeds that required on page 30, please:

   i. Provide the market to book ratios for his samples of US utilities for each year (annual basis) going back to 1990 and discuss whether he thinks their allowed ROE have been fair.

   ii. Please provide the allowed ROEs for each firm in his sample going back to 1990 and indicate when they were rate reviewed and their allowed ROE changed.

B. i. Given that Canadian utilities have their ROE changed annually and there is little regulatory lag, in Mr Cicchetti's judgment does this affect their risk relative to his US utility group? If not why not?

ii. Please provide the market to book ratios back to 1990 for the Canadian utilities that Mr. Cicchetti examines on page 18 and rejects since he can't use his DCF model to estimate their required rate of return.

iii. Would Mr Cicchetti agree given his statement about market to book ratios that even if he can't use his DCF model on the Canadian utilities he can make inferences about the fairness of their allowed ROEs by looking at their market to book ratios? If not why not, given the comments on page 30?

CA-PUB-18 Re: Appendices and supporting exhibits

(A) Please indicate why in MAC-4 there is a blue chip forecast of the US economy rather than Canada's.

(B) Please indicate where in any of the tables there is any mention of a Canadian company, either as comparable or as forecast?

(C) Please confirm that in his exhibits the only Canadian data used by Mr Cicchetti is the interest rate data provided in answer to PUB-NP-4 and the Conference Board forecast provided in the pre-field evidence by the company.

CA-PUB-19 Please provide copies of the rate of return and related articles which Mr. Cicchetti published (referred to at p. 2 of his report).

CA-PUB-20 Please indicate for whom Mr. Cicchetti provided testimony, before what boards, and upon what topics over the past fifteen (15) years.

CA-PUB-21 Please indicate the time over which Mr. Cicchetti held the positions he refers to over pages 1 and 2 of his report.

CA-PUB-22 Is Mr. Cicchetti being asked by the Board to file written commentary upon the evidence of Dr. Lawrence Booth in this hearing. If so, when does he expect to be filing the same?

CA-PUB-23 Has Mr. Cicchetti consulted any previous testimony submitted by cost of capital consultants on behalf of the Board in any prior hearings?

CA-PUB-24 Please indicate the weight placed by the Board's previous consultants in prior hearings on the following estimation techniques:

(a) Risk premium
(b) Discounted cash flow
(c) Adjusted comparable earnings

CA-PUB-25 Please explain in detail how Mr. Cicchetti's reliance on Discounted Cash Flow differs from how it was used by previous Board-called cost of capital experts.

CA-PUB-26 Please explain in detail why Mr. Cicchetti has not presented traditional risk premium evidence or adjusted comparable earnings evidence in this application.

DATED at St. John's, in the Province of Newfoundland and Labrador, this 21st day of August, 2009.

Thomas Johnson
Consumer Advocate
323 Duckworth Street
St. John's, NL A1C 5X4
Telephone: (709) 726-3524
Facsimile: (709) 726-9600
Email: tjohnson@odeaearle.nf.ca

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