Q. Has Dr. Booth recommended an allowed return on equity in any regulatory proceeding in the past three years that resulted in a lower pretax interest coverage than the one in the instant case? If so, please provide copies of those testimonies.

A. This is not a data point that Dr. Booth tracks or is relevant for awarding a fair and reasonable ROE.

The interest coverage or times interest earned (TIOE) ratio is simply defined as earnings before interest and tax divided by the level of interest payments. Algebraically, it is

$$TIE = \frac{ROE}{R(1-T)^{*}\ D/S}$$

So the TIE will increase with the tax rate and the earned ROE and will decrease with the embedded interest cost (R) and the debt-equity ratio.

Dr. Booth is not aware of any financial theory or practise that states that a particular TIE is fair and then keys the allowed ROE off that TIE and the other variables that jointly determine it. For example if the Board feels that a TIE of 2.5 is "needed" for some reason and the tax rate drops it is patently unfair to award a higher ROE to offset what would otherwise be a drop in the TIE. Similarly it is patently unfair to award a higher ROE for one utility with a higher embedded debt cost (R) compared to another utility that has managed its debt issues more efficiently and has a lower embedded debt cost.

The equity holders should be awarded a fair and reasonable ROE and that is independent of any particular TIE. The TIE is only relevant when it comes to debt market access and with NP recently upgraded by Moody's to A and still at A with DBRS it has just about the best debt market access of any Canadian utility.