IN THE MATTER OF the
Public Utilities Act, RSNL 1990,
Chapter P-47 (the *Act*) as amended; and

IN THE MATTER OF a general rate
Application (the "Application")
by Newfoundland Power Inc.
("Newfoundland Power") to establish
Customer electricity rates for 2013 and 2014.

Requests for Information by The Consumer Advocate

CA-PUB-01 to CA-PUB-61

December 5, 2012

CA-PUB-01 Reference Return on Equity, page 2 the paragraph is prefaced by the statement "based on our research" and further on pages 43-44 "in completing this assignment we reviewed and relied upon the following information, documents and data.": Since the documents relied on include expert reports prepared by Dr. Booth, Dr. Vander Weide and Ms. McShane is it correct to say that the Grant Thornton (GT) report is not an expert report itself but a synthesis and interpretation of the original expert reports? If not please explain in detail why not.

CA-PUB-02 Reference Return on Equity, page 2 the paragraph is prefaced by the statement "based on our research" and further on pages 43-44 "in completing this assignment we reviewed and relied upon the following information, documents and data.": Please indicate what original research GT undertook in this assignment, since the references on pages 43-44 list no primary sources.

CA-PUB-03 Reference Return on Equity, page 2 the paragraph is prefaced by the statement "based on our research" and further on pages 43-44 "in completing this assignment we reviewed and relied upon the following information, documents and data.": Please indicate whether Mr. MacDonald has undertaken any academic study beyond the B.Comm and whether he has ever been qualified as an expert financial witness in terms of cost of capital and if so indicated where, on what basis and provide copies of that testimony.

CA-PUB-04 Reference: the fair return standard on page 6: Can Mr. MacDonald confirm that the legal standard for a fair return in Canada as defined by Mr. Justice Lamont and adopted by the Supreme Court of Canada is as follows:

> "that the company will be allowed as large a return on the capital invested in the enterprise as it would receive if it were investing the same amount in other securities possessing an attractiveness, stability and certainty equal to that of the company's enterprise."

CA-PUB-05 Reference: the fair return standard on page 6: Can Mr. MacDonald confirm that this definition arose out of changed conditions in the money market and specifically refers to a risk adjusted return available on other securities, that is, it is an opportunity cost based on market rates? If not please explain why not.

CA-PUB-06 Reference: the fair return standard on page 6: In terms of the impact of debt on the cost of equity, would Mr. MacDonald agree that if through the use of deferral accounts there is minimal variability in the earned ROE then by definition the use of debt is not magnifying equity returns? If not please explain why not?

CA-PUB-07 Reference: the fair return standard on page 6: Did Mr. MacDonald review the ability of NP to earn its allowed ROE as a factor in determining whether debt magnified returns to the common shareholder in NP?

CA-PUB-08 Reference Allowed ROEs and common equity ratios, pages 9 and 10: Please provide the allowed ROEs for Enbridge Gas Distribution Inc., and Union Gas for 2010, 2011 and 2012.

CA-PUB-09 Reference Allowed ROEs and common equity ratios, pages 9 and 10: Please provide the <u>benchmark</u> ROE as calculated by the New Brunswick Public Utilities Board (November 30, 2010).

CA-PUB-10 Reference Allowed ROEs and common equity ratios, pages 9 and 10: Please confirm that the Regie regards Gaz Metro as above average risk and indicate the <u>benchmark</u> ROE as calculated by the Regie for 2010, 2011 and 2012 by subtracting out the Gaz Metro additional risk premium.

CA-PUB-11 Reference Allowed ROEs and common equity ratios, pages 9 and 10: Please confirm that Maritime Electric is legislated to maintain a 40% common equity ratio, which is why IRAC does not deem one.

CA-PUB-12 Reference Allowed ROEs and common equity ratios, pages 9 and 10: Pease confirm that although the NEB allowed TQM an ATWACC it also indicated it was equivalent to a 9.7% ROE on 40% common equity and subsequently all the mainline gas pipelines have negotiated the same 9.7% ROE on 40% common equity, for example Westcoast Transmission, Foothills, NGTL etc.

CA-PUB-13 Reference Allowed ROEs and common equity ratios, pages 9 and 10: Please confirm that Hydro One, although 100% owned by the Province of Ontario is now an OBCA company.

CA-PUB-14 Reference page 12: automatic ROE adjustment formula and the statement that Newfoundland has the “highest” adjustment coefficient: Please confirm that when the Manitoba PUB introduced one of the first AAM for Centra Manitoba it also used a 0.80 adjustment coefficient to forecast changes in long Canada yields.

CA-PUB-15 Reference page 12: automatic ROE adjustment formula and the statement that Newfoundland has the "highest" adjustment coefficient: Please confirm that when the BCUC first introduced its AAM in 1994 it used a 100% adjustment to forecast changes in long Canada yields.

CA-PUB-16 Reference pages 13-21: Risk profile and capital structure: Mr. MacDonald concludes (page 21) that NP is an average risk Canadian utility. Please indicate the basis for this conclusion given that there is no discussion of other "comparable" Canadian utilities.

CA-PUB-17 Reference pages 13-21: Risk profile and capital structure: Please confirm that although NP is regarded as an average risk utility, it has the highest common equity ratio of any electric utility in Canada and if this lowers its risk, it should have the lowest allowed ROE. If not why not.

CA-PUB-18 Reference pages 13-21: Risk profile and capital structure: Please indicate how much the extra 5% common equity in NP's capital structure is worth in terms of a lower ROE should the Board agree that NP is an average risk Canadian utility.

CA-PUB-19 Reference pages 13-21: Risk profile and capital structure: Please confirm that for 2012 Newfoundland has the 3rd highest forecast economic growth rate after Alberta and Saskatchewan.

CA-PUB-20 Reference pages 13-21: Risk profile and capital structure: Please indicate why a stable or slow growing utility is risky? Wouldn't the absence of any changes indicate lower risk, that is, isn't change itself a source of risk?

CA-PUB-21 Reference pages 18-21: credit metrics: Mr. MacDonald references comparisons with Canadian utilities but actually makes none. Please provide the DBRS bond ratings for Maritime Electric, Nova Scotia Power and FortisBC Inc.

CA-PUB-22	Reference pages 18-21: credit metrics: Please provide a copy of the DBRS document referred to on page 18.
CA-PUB-23	Reference pages 18-21: credit metrics: Please confirm that no rating agencies puts the majority of its weight on financial metrics such as those discussed on these pages, where Moody's specifically places only 40% weight on them.
CA-PUB-24	Reference pages 22-25: financial and capital market conditions: Why did Mr. MacDonald start the discussion in 2010 when that was the first recovery year from the financial crisis and recession?
CA-PUB-25	Reference pages 22-25: financial and capital market conditions: Is Mr. Macdonald aware of the state of capital inflows into Canada as one of the few AAA rated countries left now that both France and the US have been downgraded by S&P? Would Mr. MacDonald agree that higher bond prices and lower yields can be a function of the decreased supply of AAA government debt as well as increased demand?
CA-PUB-26	Reference pages 22-25: financial and capital market conditions: Can Mr. MacDonald indicate a period when the Canadian economy has not faced relatively high risk?
CA-PUB-27	Reference pages 26-33: Risk Premiums: Please indicate the date of the Black, Jensen and Scholes paper referenced in footnote 54 and the time period over which they estimated the CAPM to come up with their results.
CA-PUB-28	Reference pages 26-33: Risk Premiums: Please confirm that the BJS research used a short term treasury bill yield as the risk free rate and used the actual beta coefficient.
CA-PUB-29	Reference pages 26-33: Risk Premiums: Please confirm that Mr. MacDonald's views on the CAPM are based on one (US based) paper that is now exactly 40 years old.

CA-PUB-30 Reference pages 26-33: Risk Premiums: Please confirm that Mr. MacDonald is using Blume adjusted betas in his CAPM estimates and whether he is aware that these have been rejected by almost every board in Canada. If not please provide citations to boards that have explicitly accepted a beta adjustment toward 1.0.

CA-PUB-31 Reference pages 26-33: Risk Premiums: Is Mr. MacDonald aware of the paper by Gombola and Kahl, "Time series properties of utility Betas," Financial Management, 1990 that indicates that utility betas revert to their grand mean and not the grand mean of the market, ie., 1.0. If he is so aware why would he use a general adjustment like Blume's instead of a specific adjustment relevant for utilities? If he was not so aware, it is referenced in footnote 6 to Dr. Booth's Appendix C to his evidence that Mr. MacDonald references as material he has relied on.

CA-PUB-32 Reference pages 26-33: Risk Premiums: On page 33 Mr. MacDonald indicates that the CAPM estimate of 6.84% is "below what we believe is a fair ROE for the company." Does this mean that he entered into the research with a preconceived notion of what the fair ROE for NP is? If not what does this mean?

CA-PUB-33 Reference pages 26-33: Risk Premiums: Mr. MacDonald references Damadoran's web site, is he aware that Damadoran's estimates (cost of capital by sector, January 2012) for US electric equity costs are:

a. Electric utility (Central): 6.41%,
b. Electric utility (east): 6.08%,
c. Electric utility (West): 6.40%?

CA-PUB-34 Reference pages 26-33: Risk Premiums: Is Mr. MacDonald aware that Damadoran's risk premium estimate for Canada, like those for all countries, is from a US perspective where he simply adds a risk premium on top of his US market risk premium. Does Mr. MacDonald believe this makes sense from a Canadian rather than a US perspective?

CA-PUB-35 Reference pages 34-37: DCF Estimates: Mr. MacDonald indicates that given the strong degree of integration between the US and Canada looking at US DCF evidence is informative, However, since he makes no adjustments to his estimates would be confirm that he judges the US and Canada to be identical? If not, why not?

CA-PUB-36 Reference pages 34-37: DCF Estimates: Would Mr. McDonald confirm that in order for estimates from one country to be used in another the "law of one price" has to hold and that the markets be perfectly integrated with identical fundamentals? If not, why not?

CA-PUB-37 Reference pages 34-37: DCF Estimates: Can Mr. MacDonald confirm that currently that yield curves in the US and Canada are completely different? In particular, that long US treasuries are yielding 0.40% more than long Canada and that this is forecast to increase even more to 1.0% by the end of 2013?

CA-PUB-38 Reference pages 34-37: DCF Estimates: Would Mr. MacDonald regard a 1.0% difference in government borrowing costs as support for identical fundamentals in the U.S. and Canada? If the answer is yes, please explain in detail.

CA-PUB-39 Reference pages 34-37: Use of U.S. Estimates in Canada: Can Mr. Macdonald confirm that Canadian regulators have found US data to be informative but have also indicated that a framework of adjustment has to be used, where the BCUC for example reduced US DCF estimates by 0.50-1.0%.

CA-PUB-40 Reference pages 34-37: Use of U.S. Estimates in Canada: Please indicate the extent to which Mr. MacDonald has reduced his US estimates in line with the decision of the BCUC.

CA-PUB-41 Reference pages 34-37: Use of U.S. Estimates in Canada: In terms of Mr. MacDonald's US "comparables" please indicate which ones are electric companies and examine Dr. Booth's schedule 6 where he has actual ROEs for 14 US electric companies. In Mr. MacDonald's view is the variability of the ROEs as similar between these 14 US electrics and NP?

CA-PUB-42 Reference pages 34-37: Use of U.S. Estimates in Canada: Please provide the annual EPS and DPS data for the six US electrics since 1990 and indicate whether there is any support for the assumption that their long run growth rate is the same as that of nominal GDP (page 36).

CA-PUB-43 Reference pages 34-37: Use of U.S. Estimates in Canada: Please indicate where Mr. MacDonald has downwardly adjusted the analyst forecasts for their well-known optimism bias? If he has not adjusted them please cite all papers he has relied on for assuming that such forecasts are unbiased.

CA-PUB-44 Reference pages 34-37: Use of U.S. Estimates in Canada: Please confirm that the assumed long run inflation forecast for the US of 2.40% (page 36) is 0.40% higher than the middle of the Bank of Canada's operating range.

CA-PUB-45 Reference pages 29-30: ERP Estimates: Please provide the return on the TSX Composite matching that of the utilities in Table 15.

CA-PUB-46 Reference pages 29-30: ERP Estimates: Please provide the return on the long Canada bond matching that of the yield in Table 15.

CA-PUB-47 Reference pages 29-30: ERP Estimates: Please indicate the basis for using a risk premium of actual equity returns over a bond yield, rather than a bond return. Please provide citations to published research in peer refereed academic journals (not consulting reports) that would support a mismatching of returns with yields as is indicated in Table 15.

CA-PUB-48	Reference pages 29-30: ERP Estimates: Please confirm that the utilities index data included the Telcos since they were part of the utilities group at the time.
CA-PUB-49	Reference pages 29-30: ERP Estimates: Please confirm that the index implicitly includes Northern Telecom (Nortel) through its indirect ownership by Bell Canada Inc.
CA-PUB-50	Reference pages 29-30: ERP Estimates: Please indicate why Mr. MacDonald would base a return for NP at least in part by an index that reflected the internet boom and bust and the price behaviour of Nortel?
CA-PUB-51	Reference pages 29-30: ERP Estimates: Please confirm that Mr. MacDonald has read the Moody's reports that indicate the greater regulatory risks in the US than Canada, that 50% of Moody's weight is placed on this risk and that Mr. MacDonald has chosen to ignore this. If not please indicate where he has assessed the regulatory risk of his sample of U.S. utilities as comparables to ensure that their regulation and overall risk is identical to that of NP.
CA-PUB-52	Reference pages 38-41: AAM: Mr. MacDonald notes that in 2011 NP's allowed ROE of 8.38% was the lowest in Canada, please confirm that statement with respect to the generic ROE decided by the NBPUB in 2010 and the actual ROEs allowed both Union Gas and EGDI.
CA-PUB-53	Reference pages 38-41: AAM: Does Mr. MacDonald judge the opportunity cost of investing in a public utility to be unrelated to the interest rate on the long government bond? If so please indicate all research he has undertaken into securities that are regarded as close substitutes to utility common shares.

CA-PUB-54 Reference pages 38-41: AAM: Please indicate the current yield on conventional utility preferred shares and whether Mr. MacDonald views utility preferred shares as close substitutes to utility common shares.

CA-PUB-55 Reference pages 38-41: AAM: Is Mr. MacDonald aware that investment dealers routinely repackage utility common shares into preferred shares and capital gains strips, since they are so dividend rich?

CA-PUB-56 At p. 2 of the Report, Mr. McDonald states that in forming the conclusion that the Company's forecast common equity ratio of 45% for 2013 and 2014 is reasonable, "we also considered the stable trend in the equity ratios of its investor-owned Canadian utility peers for the period of 2010 – 2012. Explain how the stability of other utilities consistently lower equity ratios support the continued need for the Company to have the highest equity ratio in Canada?

CA-PUB-57 At p. 21, Mr. McDonald states that, "If the common equity ratio were lowered, credit returns could weaken." Dr. Booth's report, at p. 80, recommends that 5% in common equity be replaced with preferred shares. Dr. Booth makes the following statement at line 15: "However, unlike bonds these [i.e. preferreds] are similar to equity and paid out of after tax income so they therefore support the credit rating, as they do not add fixed interest." Does Mr. McDonald agree with this statement? Why or why not?

CA-PUB-58 Does Mr. McDonald agree with Dr. Booth's statement at p. 80 for 2011 that the loss of EBIT of $3 million would have reduced the EBIT interest coverage rate from 2.88X to 2.80X and the cash flow to debt from 18.1% to 17.5%?

CA-PUB-59 Does Mr. McDonald agree with Dr. Booth that the changes described in the previous question are not to be regarded as significant enough to cause any problems with Newfoundland Power Inc. preserving it's A bond rating?

CA-PUB-60 At p. 37, Mr. McDonald states, "We considered the debt ratings to be an objective indication of total risk. Since we did not find significant differences in total risk between our proxy group and the Company, we did not make any further adjustments to our results." Please reconcile this statement with the statement at p. 6, lines 319 – 320 under the heading "credit ratings" – ". . . However we caution that bond ratings are not necessarily a good indication of the risks face (sic) by a company's equity holders."

CA-PUB-61 At p. 37, Mr. McDonald states, "We consider the debt rating to be an objective indicator of total risk. Since we did not find significant differences in total risk between our proxy group and the Company, we did not make any further adjustments to our results." Given that Mr. McDonald considers debt ratings to be an objective indicator of total risk, would it not follow that in order for Mr. McDonald to find 'significant differences in total risk' that would require that the companies in the proxy group have a different credit rating than Moody's Baa 1? Please explain.

Dated at St. John's in the Province of Newfoundland and Labrador, this 5th day of December, 2012.

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