**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-NP-170 to CA-NP-387

## October 17, 2012

CA-NP-170 Vander Weide Evidence – Please confirm that when Dr. Vander Weide prepares evidence for U.S. utilities he usually discusses the Business and Financial Risks of Demand Uncertainty, Operating Expenses Uncertainty, Investment Cost Uncertainty, High Operating Leverage, High Degree of Financial Leverage and Regulatory Uncertainty.

CA-NP-171 Vander Weide Evidence – Please provide extracts of Dr. Vander Weide's evidence pertaining to Demand Certainty, Operating Expense Uncertainty, Investment Cost Uncertainty as filed, High Operating Leverage, High Degree of Financial Leverage and Regulatory Uncertainty in his testimonies since May 1, 2012 as listed at "Summary of Export Testimony" p. 116 of 124.

CA-NP-172 Vander Weide Evidence – Please detail any and all methodological change(s) that Dr. Vander Weide has made in evidence filed in this GRA compared to his evidence for Newfoundland Power Inc. in March of 2012.

CA-NP-173 Vander Weide Evidence (page13, line 28) - Dr. Vander Weide states, "The fair standard only requires that comparable risk investments have comparable total risk. Thus, an investment with greater business risk can be risk comparable to an investment with lower business risk as long as the first investment's greater business risk is offset by its lower financial risk."

How does Dr. Vander Weide make the determination that investments have comparable total risk?

CA-NP-174 Vander Weide Evidence (page 14) - Dr. Vander Weide states that he analyzed Newfoundland Power's cost of equity by identifying several groups of utilities that are "broadly comparable" in risk to Newfoundland Power's risk. What does Dr. Vander Weide mean by "broadly comparable"?

CA-NP-175 Vander Weide Evidence (page 14, lines 8-11) - Dr. Vander Weide states that he adjusted the cost of equity results for his comparable groups to reflect the possible differences between the risk of the comparable group and the risk of Newfoundland Power. Please fully explain what specific adjustments were made and how these adjustments impacted Dr. Vander Weide's conclusion on Newfoundland Power's cost of equity.

CA-NP-176 Vander Weide Evidence (page 15) - Dr. Vander Weide states,

"Recognizing that risk cannot be measured precisely, the use of several groups of comparable risk utilities provides insight on the impact of alternative definitions of risk comparability on cost of equity results."

Please fully explain what alternative definitions of risk comparability are considered in Dr. Vander Weide's report and the insights provided.

CA-NP-177 Vander Weide Evidence (page 15) - Dr. Vander Weide asks himself what criteria he uses to select groups of comparable risk companies. Dr. Vander Weide starts his answer by stating, "I use the criteria that similar risk companies must be broadly similar in risk. . ." How did Dr. Vander Weide decide whether or not a company was broadly similar in risk to Newfoundland Power.

CA-NP-178 Vander Weide Evidence – What other companies were considered but excluded on the basis that they were not broadly similar to Newfoundland Power and explain why they were not considered as being broadly similar to Newfoundland Power.

CA-NP-179 Vander Weide Evidence (page 15, lines 19-22) - Dr. Vander Weide states,

"In this proceeding, I also refine the criterion that comparable risk companies must have regulated electric and/or natural gas utility operations to specify that a company must have at least 80 percent of total assets dedicated to regulated utility service and must have a bond rating of BBB or above."

Please confirm that Dr. Vander Weide in providing evidence in the U.S. does not refine his criterion in this fashion. If the same cannot be confirmed, provide extracts of evidence from all cases in the last 2 years where Dr. Vander Weide refined the criterion as noted.

CA-NP-180 Vander Weide Evidence – Further to the previous question, why does Dr. Vander Weide refine his criterion in this case as indicated?

CA-NP-181 Vander Weide Evidence – In its reason for decision in Order No. P.U. 43 (2009) the Board stated,

"The Board believes that, in this type of analysis, it is not enough that the chosen comparables are the best available. If the data is to be relied on it must be shown to be a reasonable proxy or that reasonable adjustments can be made to account for differences."

Does Dr. Vander Weide agree with this statement?

CA-NP-182 Vander Weide Evidence – Did Dr. Vander Weide take any measures in preparing his evidence to ensure that his chosen comparables addressed the Board's concerns in P.U. 43 (2009) as regards the need for the comparables to be a reasonable proxy or that reasonable adjustments be made to account for the differences? If so, please detail all measures taken. If not, why not?

CA-NP-183 Vander Weide Evidence (page 20) - Dr. Vander Weide asks himself, "What two groups of U.S. Utilities do you consider?" In response, Dr. Vander Weide states,

"I consider a large utility company group that includes all publically-traded electric and natural gas utilities with sufficient data to reasonably estimate Newfoundland Power's cost of equity and a smaller group of electric and natural gas utilities that includes only utilities that have at least 80 percent of total assets devoted to regulated utility operations and S&P bond ratings equal to or greater than BBB."

Does this approach differ from the manner in which Dr. Vander Weide constructed his U.S. groups for Newfoundland Power's Cost of Capital Application in March 2012? If so, how and why the change?

CA-NP-184 Vander Weide Evidence (page 20) - Please confirm that the only two qualifications for inclusion in Dr. Vander Weide's larger utility group is one, to be in the electric or natural gas utility business in the U.S. and two, to be the subject of sufficient data to allow analysis?

CA-NP-185 Vander Weide Evidence (page 20) - Is Dr. Vander Weide's larger group of U.S. companies those set out at Exhibit 3? Is Dr. Vander Weide's smaller group of electric and natural gas utilities those set out at Exhibit 4?

CA-NP-186 Vander Weide Evidence (page 20) - Which of Dr. Vander Weide's methods to estimate cost of equity depend upon the results of analysis:

a. Dr. Vander Weide's larger group of U.S. companies; and
b. Dr. Vander Weide's smaller group of electric and gas utilities?

CA-NP-187 Vander Weide Evidence (page 20, lines 27-8) - Dr. Vander Weide asks himself, "Is there a significant difference in the business risk of Canadian and U.S. utilities?" Dr. Vander Weide states that, "Generally speaking, the business risk of electric and natural gas utilities is approximately the same in the U.S. as it is in Canada." Moody's credit opinion of 19 July 2011 found at Exhibit 4 states:

"All of NPI's operations are located in Canada whose regulatory and business environments we consider to be supportive relative to these in other jurisdictions."

While Moody's make this statement in the context of a credit opinion, not a cost of equity analysis, does its underlying conclusion – namely, that Canada's regulatory and business environments are supportive relative to other jurisdictions – conflict with the opinion of Dr. Vander Weide? If it does, please explain why Dr. Vander Weide disagrees with the validity of the underlying conclusion expressed by Moody's.

CA-NP-188 Vander Weide Evidence – Does Dr. Vander Weide consider himself to be better positioned than Moody's to make conclusions as to the relative differences between Canada and other jurisdictions as regards the supportiveness of the regulatory and business environments? If so, why?

CA-NP-189 Vander Weide Evidence – Does Dr. Vander Weide agree that a utility's risk of cost disallowances is a risk to an equity investor in a regulated utility? If so, how? If not, why not?

CA-NP-190 Vander Weide Evidence – Does Dr. Vander Weide agree that a utility's inability to fully recover costs on a timely basis is a risk to an equity investor in a utility? If so, how?

CA-NP-191 Vander Weide Evidence – Does Dr. Vander Weide agree with Moody's statement in its 19 July 2011 opinion, "that the PUB's review and approval of NPI's capital spending plans and long term debt issuances significantly reduces the risk of cost disallowances or the inability to fully recover costs on a timely basis." If not, why not?

CA-NP-192 Vander Weide Evidence – Does Dr. Vander Weide know which of the U.S. utilities, if any, in his samples of U.S. utilities submit a proposed capital plan for its regulator's approval on an annual basis? If so, please provide the name of the utility(ies) and the source of Dr. Vander Weide's information in this regard.

CA-NP-193 Vander Weide Evidence – Does Dr. Vander Weide know which of the U.S. utilities, if any, in his sample of U.S. utilities is required to seek pre-approval for the issuance of any bonds or the issuance of any credit facilities? If so, please provide the name of the utility(ies) and the source of Dr. Vander Weide's information in this regard.

CA-NP-194 Vander Weide Evidence – Does Dr. Vander Weide know of any cases in the U.S. where a utility was granted an application such as Newfoundland Power was following its application of March of 2012 to change its allowed return on equity in a year outside of a GRA?

CA-NP-195 Vander Weide Evidence – In Dr. Vander Weide March 2012 evidence for Newfoundland Power, he stated at p. 12 of 106 as follows:

"Q. 31 Does regulation create uncertainty for electric utilities?

A. 31 Yes. Investors' perceptions of the business and financial risks of electric utilities are strongly influenced by their views of the quality of regulation. Investors are painfully aware that regulators in some jurisdictions have been unwilling at times to set rates that allow companies an opportunity to recover their cost of service in a timely manner and earn a fair and reasonable return on investment. As a result of the perceived increase in regulatory risk, investors will demand a higher rate of return for electric utilities operating in those jurisdictions. On the other hand, if investors perceive that regulators will provide a reasonable opportunity for the company to maintain its financial integrity and earn a fair rate of return on its investment, investors will view regulatory risk as minimal."

Please confirm how long either this exact answer or comment (or one practically identical) has been made by Dr. Vander Weide in each case he has provided cost of capital evidence elsewhere.

CA-NP-196 Vander Weide Evidence – Please confirm that Dr. Vander Weide still believes that the quote cited above is true.

CA-NP-197 Vander Weide Evidence – In Dr. Vander Weide's March 2012 evidence, he uses the term "quality of regulation". Does Dr. Vander Weide believe that quality of regulation extends beyond the availability of cost adjustment and revenue stabilization mechanisms? If so, please explain. If not, please explain.

CA-NP-198 Vander Weide Evidence – In Dr. Vander Weide's March, 2012 evidence, he stated that investors were "painfully aware" that regulators in some jurisdictions have been unwilling at times to set rates that allow companies an opportunity to recover their cost of service in a timely manner and earn a fair and reasonable return on investment. Dr. Vander Weide further stated, "As a result of the perceived increase in regulatory risk, investors will demand a higher rate of return for electric utility operating in those jurisdictions. On the other hand, if investors perceive that regulators will provide a reasonable opportunity for the company to maintain its financial integrity and earn a fair rate of return on its investment, investors will view regulatory risk as minimal."

If, in jurisdictions where there is perceived to be increased regulatory risk, investors will demand a higher rate of return, please confirm that it is it also true that all else equal, investors in utilities in jurisdictions where such risk is minimal will not demand a higher return?

CA-NP-199 Vander Weide Evidence – Would Dr. Vander Weide agree that Newfoundland Power faces minimal regulatory risk? If not, why not?

CA-NP-200 Vander Weide Evidence – What source(s) of information/publication does Dr. Vander Weide consider as reliable in order to assist the equity investor in determining the quality of regulation and relative ranking of jurisdictions as to the same in:
(a) the U.S.;
(b) Canada.

CA-NP-201 Vander Weide Evidence – Please provide the ranking of U.S. and Canadian jurisdictions as regards regulatory supportiveness and/or quality by those considered by Dr. Vander Weide to be reliable.

CA-NP-202 Vander Weide Evidence – What are the five least supportive regulatory jurisdictions in the U.S. and what are the current allowed returns on equity for electric utilities in these jurisdictions?

CA-NP-203 Vander Weide Evidence – What are the five most supportive regulatory jurisdictions in the U.S. and what are the current allowed returns on equity for electric utilities in these jurisdictions?

CA-NP-204 Vander Weide Evidence (page 22) - Dr. Vander Weide states that, "If a utility's allowed ROE is less than its required ROE, the utility may have high regulatory risk, even if it is able to earn its allowed ROE." Please state all instances when Newfoundland Power has been unable to earn its allowed ROE.

CA-NP-205 Vander Weide Evidence (page 22) - Dr. Vander Weide states that, "If a utility's allowed ROE is less than its required ROE, the utility may have high regulatory risk, even if it is able to earn its allowed ROE." Please state all instances where Newfoundland Power's allowed reurn was less than its required return.

CA-NP-206 Vander Weide Evidence (page 22) - Please state how it is determined that a utility's allowed return is less than its required ROE.

CA-NP-207 Vander Weide Evidence (page 22) - To the extent that Dr. Vander Weide believes that there have been instances when Newfoundland Power's allowed return was less than its "required ROE", does Dr. Vander Weide believe that Newfoundland Power has "high regulatory risk"?

CA-NP-208 Vander Weide Evidence (page 22) Dr. Vander Weide states, "Canadian Utilities generally have greater financial risk than U.S. Utilities, because as shown below they rely more heavily on debt financing then U.S. Utilities." Despite the fact that U.S. Utilities generally have greater financial risk than Canadian Utilities, what is the average bond rating for a U.S. Utility; and what is the average bond rating for a Canadian Utility?

CA-NP-209 Vander Weide Evidence (page 22) - Dr. Vander Weide states that the average bond rating for the companies in his comprehensive utility group is BBB+, and that the average bond rating for the companies in his smaller U.S. sample is BBB+ to A-. Can Dr. Vander Weide explain how he arrives at these expressed averages from the data at Exhibit 5?

CA-NP-210 Vander Weide Evidence – How does the bond rating of Newfoundland Power compare to the average bond rating of Dr. Vander Weide's two U.S. samples?

CA-NP-211 Vander Weide Evidence – In reply to CA-NP-270 from the March 2012 Newfoundland Power Cost of Capital matter, there is an extract taken from the Alberta Utilities Commission 2009 Generic Cost of Capital decision of November 12, 2009. At page 53 of the decision of the AUC there is an exchange between Commission Counsel and Dr. Vander Weide:

> Q: Thank you sir. Sir, if Canadian [and] U.S. utilities have similar business risk but different financial risk, wouldn't you have Canadian utilities to have lower credit ratings than comparable utilities in the United States?
>
> A: I'm looking at the question again. I'm not a credit rating expert, so it's difficult for me to comment on what credit ratings I would expect

them to have, with the same degree of understanding as say a Susan Abbott would who has a lot of years of experience working for credit rating agencies.

Based on the financial metrics alone, I would. . . I am surprised that the Canadian utilities have slightly higher credit ratings than the U.S. utilities because the financial metrics are quite a bit lower even for what I consider similar businesses. I don't know how to explain it, I'm just surprised at it, but I don't know how to explain it."

Is Dr. Vander Weide able to explain the question posed to him in the AUC proceeding at this time?

CA-NP-212 Vander Weide Evidence – Does Dr. Vander Weide agree that Canadian utilities having higher credit ratings than U.S. utilities is consistent with the bond rating agencies' assessment that the business and regulatory risks in Canada are lower than in the U.S.? If no, please explain.

CA-NP-213 Vander Weide Evidence (page 23) - Dr. Vander Weide states that, "the risk of investing in a company's stock is best measured by the expected variability in the return on the stock investment." How is the expected variability in the return on the stock investment determined?

CA-NP-214 Vander Weide Evidence (page 23) - Where in Dr. Vander Weide's report does he address the expected variability in the return on the stock investment in his samples versus that of Newfoundland Power?

CA-NP-215 Vander Weide Evidence (page 24) – Dr. Vander Weide asks himself whether "Other Canadian utility commissions expressed an opinion on the use of U.S. utility data for the purpose of estimating the cost of equity for Canadian utilities." He then cites the NEB's quote in Decision RH-1 2008 relating to the determination of the cost of equity for Trans Quebec & Maritimes Pipeline Inc. (TQM) at 71:

"In light of the Board's views expressed above on the integration of U.S. and Canadian financial markets, the problems with comparisons to either Canadian negotiated or litigated returns, and the Board's view that risk differences between Canada and the U.S. can be understood and accounted for, the Board is of the view that U.S. comparisons are very informative for determining a fair return for TQM in 2007 and 2008." (emphasis added)

What risk differences between Canada and the U.S. was the NEB referring to and how has Dr. Vander Weide understood and accounted for these in his evidence in this proceeding?

CA-NP-216 Vander Weide Evidence – Further to the previous question, please provide a copy of the NEB's decision in RH1-2008.

CA-NP-217 Vander Weide Evidence – Dr. Vander Weide also cites a quote from the OEB's decision of December 11, 2009,

"Second, there was a general presumption held by participants representing ratepayer groups in the consultation that Canadian and U.S. utilities are not comparators, due to differences in the "time value of money, the risk value of money and the tax value of money." In other words, because of these differences, Canadian and U.S. utilities cannot be comparators. The Board disagrees and is of the view that they are indeed comparable, and that only an analytical framework in which to apply judgment and a system of weighting are needed.

The Board is of the view that the U.S. is a relevant source for comparable data. The Board often looks to the regulatory policies of State and Federal agencies in the United States for guidance on regulatory issues in the province of Ontario. For example, in recent consultations, the Board has been informed by U.S. regulatory policies relating to low income customer concerns, transmission cost connection responsibility for renewable generation, and productivity factors for 3rd generation incentive ratemaking. [2009 Cost of Capital Report at 21 – 23]" (emphasis added)

Please indicate whether Dr. Vander Weide has proposed an "analytical framework and a system of weighting" as said was needed by the O.E.B.?

CA-NP-218 Vander Weide Evidence – Please provide a copy of the OEB Decision EB 2009 – 0084 of December 11, 2009 referenced by Dr. Vander Weide.

CA-NP-219 Vander Weide Evidence (page 25) – Dr. Vander Weide refers to a passage from the BCUC's Terasen Gas Decision on December 16, 2009. What use did the BCUC make of the data of U.S. utilities in that case?

CA-NP-220 Vander Weide Evidence (page 25) – Further to the previous question, please provide a copy of the BCUC's decision in that decision.

CA-NP-221 Vander Weide Evidence – Did Dr. Vander Weide testify in the NEB, OEB or BCUC matters he refers to at pages 24-25 of his report?

CA-NP-222 Vander Weide Evidence - Please confirm that Dr. Vander Weide provided evidence to the Alberta Board (AUC) in the proceeding leading to Decision 2009 – 216.

CA-NP-223 Vander Weide Evidence – Further to the previous question, please confirm that the Alberta Board at p. 54 found, "that the regulatory risk faced by these U.S. utilities in general remain materially higher than the regulatory risk of Alberta utilities. As a consequence, the returns awarded by regulators for U.S. LDCs would be expected to reflect this materially higher level of risk leading the Commission to conclude that U.S. allowed return should not be used."

Why didn't Dr. Vander Weide cite and quote from this decision when he asked himself, "Have other Canadian utility commissions expressed an opinion on the use of U.S. utility data for the purpose of estimating the cost of equity for Canadian utilities?"

Please file a copy of Dr. Vander Weide's evidence before the Alberta proceeding referred to in the previous question.

CA-NP-224 Vander Weide Evidence (page 30) – At lines 9 to 14, Dr. Vander Weide addresses the selection of the companies in his, "larger comparable group of U.S. utilities." Dr. Vander Weide states that he inter alia selected companies with a Value Line Safety Rank of 1, 2 or 3. Please provide a copy of Value Lines methodology for its Safety Rankings.

CA-NP-225 Vander Weide Evidence – Of the Comprehensive U.S. Utility Group at Exhibit 5, please confirm that five firms have the "1" ranking, 18 firms have the "2" ranking and 9 firms have the "3" ranking.

CA-NP-226 Vander Weide Evidence – Exhibit 5 also has a column showing "S&P Bond Rating (numerical)". Please explain this Rating System and provide a copy.

CA-NP-227 Vander Weide Evidence – Please restate Dr. Vander Weide's results of his tests if only Safety Rank 1 and 2 companies are used.

CA-NP-228 Vander Weide Evidence (page 31) – Dr. Vander Weide explains that his smaller utility group only retains companies that have equal to or greater than 80% of total assets devoted to regulated utility operations and bond ratings equal to or greater than BBB. Is the smaller group of less risk than his larger group of companies?

CA-NP-229 Vander Weide Evidence – Is it also relevant to consider what proportion of a utility's earnings is derived from regulated vs. non-regulated operations?

CA-NP-230 Vander Weide Evidence – Over the past 3 years, which proportion of earnings of each of the companies in the U.S. samples of Dr. Vander Weide come from non-regulated operations? Please show the actual earnings attributable to both sides of the operations – regulated and non-regulated.

CA-NP-231 Vander Weide Evidence (page 35) – Dr. Vander Weide indicates that his Ex Post risk premium studies provide evidence that "investors require an equity return that is at least 6.7 percentage points above the interest rate on long-term Canadian bonds." Dr. Vander Weide then states that adding a 6.7 percentage point risk premium to an expected yield of 2.73 percent on long term Canadian bonds and including a conservative 50 basis point allowance for flotation costs and financial flexibility produces an expected return on equity equal to 9.9%. In No. P.U. 43 (2009), the Board utilized 4.50% as the forecast of the risk-free rate to be applied in the 2010 test year. If the period of study in Table 2 at p. 35 was truncated at the end of 2009, what would be the indicated risk premium?

CA-NP-232 Vander Weide Evidence (page 37) – In connection with Dr. Vander Weide's discussion of his Ex Ante Risk Premium Estimate, Dr. Vander Weide states that he used two sets of comparable U.S. utilities, a natural gas utilities company group and an electric utilities company group. For the natural gas group, Dr. Vander Weide indicates that he selected all the utilities in Standards & Poors natural gas company group that met certain criteria set out at page 37. Where is the list of the companies that forms Dr. Vander Weide's gas utilities group? In relation to both the companies in the gas utilities group and the electric utilities company group consisting of 24 companies, which are listed at Table 1 at page 108, please provide:

(a) % Regulated;
(b) Safety Rank;
(c) S&P Bond Rating;
(d) S&P Bond Rating (numerical).

CA-NP-233 Vander Weide Evidence (page 37) – Of the 24 companies listed in Table 1, please confirm that 12 are included within Dr. Vander Weide's comprehensive U.S. Utility Group and 12 are not. Please confirm which are included and which are not.

CA-NP-234 Vander Weide Evidence (page 37) – Of the 24 companies listed in Table 1, page 108, please confirm that 5 are included in Dr. Vander Weide's "smaller group of electric and natural gas utilities that includes only utilities that have at least 80 percent of total assets devoted to regulated utility operations and S&P bond ratings equal to or greater than BBB" referenced to at page 20. Please also confirm which companies are included and which are not.

CA-NP-235 Vander Weide Evidence (page 37) – Of the 19 companies not included in the smaller group referred to in the previous question, please confirm how many are companies that Ms. McShane eliminated from her 2012 Sample as compared to her 2010 NP GRA testimony.

CA-NP-236 Vander Weide Evidence (page 37) – Of the 19 companies not included, please state which of the 19 meet the standard of having at least 80% of total amounts devoted to regulated utility operation and S&P bond ratings equal to or greater than BBB".

CA-NP-237 Vander Weide Evidence – Why didn't Dr. Vander Weide use his 2 U.S. utility groups described at page 20 of his Evidence in order to carry out his Ex Ante Risk Premium Estimate in light of the fact that as Dr. Vander Weide states at page 37 his ex ante risk premium studies rely on the DCF model, for which model he utilized the other 2 U.S. utility groups?

CA-NP-238 Vander Weide Evidence – As regards Dr. Vander Weide's Ex Ante Risk Premium Analysis, Dr. Vander Weide explains his selection method of his natural gas proxy group of companies at Appendix 2, page 106 of 124. Why didn't Dr. Vander Weide screen his company for regulated assets by percentage or by credit rating?

CA-NP-239 Vander Weide Evidence – As regards Dr. Vander Weide's Ex ante Risk Premium Analysis, Dr. Vander Weide reports at page 38 that his forward-looking risk premium for his natural gas group was 8.1% and was 7.7% for his electric utility comparable group. This leads to estimates of cost of equity of 11.3% and 10.9% respectively (including the 2.73% risk free rate and a fifty basis point flotation adjustment). Is the business risk of a U.S. electric utility and a U.S. natural gas utility the same? Why or why not?

CA-NP-240 Vander Weide Evidence - Ms. McShane's evidence before the Board in 2002 was that the typical U.S. LDC would not have the same business profile score as a typical U.S. electric utility. (McShane, Evidence of 2002 at p. 56 of 67). Does Dr. Vander Weide agree that this is still the case?

CA-NP-241 Vander Weide Evidence – Does Dr. Vander Weide have any concern for the validity or reliability of his Ex Ante Risk Premium approach by reason of its estimating a higher risk premium for the natural gas group than the electric utility group given that as Dr. Vander Weide admitted in reply to CA-NP-288 in the March 2012 Newfoundland Power application:

> "The business risk of a U.S. natural gas utility is currently slightly less than the business risk of U.S. electric utilities because many electric utilities are increasing their capital expenditures to meet demand growth and satisfy environmental requirements. I note that in terms of authorized returns on equity in the United States, in 2011 I authorized ROEs have been approximately 20 basis points less for natural gas utilities than for electric utilities."

CA-NP-242 Vander Weide Evidence (page 39) – For Dr. Vander Weide's CAPM estimate, Dr. Vander Weide states that he uses the average value line beta of .73 "for his larger proxy utility group." When arriving at an average beta, why did Dr. Vander Weide select his larger group and not his smaller group of electric and natural gas utilities (described at p. 20) which included only utilities that have at least 80% of total assets devoted to regulated utility operations and S&P band ratings equal to or greater than BBB?

CA-NP-243 Vander Weide Evidence (page 39) – Further to the previous question, what beta average is derived if the smaller group is used and what impact would that have on Dr. Vander Weide's CAPM estimate? Please also show how the answer was derived.

CA-NP-244 Vander Weide Evidence (page 39) – Regarding the CAPM analysis of Dr. Vander Weide, he states (line 24, page 39) that he uses the Ibbotson

SBBI 6.6 percent risk premium on the market portfolio which is measured from the difference between the arithmetic mean return on the S&P 500 and the income return on twenty-year Treasury bonds. Please a copy of the Ibbotson SBBI source document to which Dr. Vander Weide refers.

CA-NP-245 Vander Weide Evidence – Further to the previous question, please confirm that the Ibbotson SBBI 6.6 percent risk premium is derived from U.S. market data and please indicate whether Ibbotson SBBI publishes a risk premium derived from Canadian market data and please state what that Canadian risk premium is.

CA-NP-246 Vander Weide Evidence (page 39) – For his CAPM analysis, Dr. Vander Weide refers to an Ibbotson SBBI 6.6 percent risk premiuim on the market portfolio, which is stated to be measured from the difference between the return on the S&P 500 and the income on 20 year treasury bonds. Why would the risk premium derived from the general group of firms in the S&P 500 (6.6%) be less than the required equity risk premium on an equity investment in much safer utility stocks as derived by Dr. Vander Weide's Ex Post Premium Method – 6.7% (p. 35) and his Ex Ante Risk Premium Estimate – 7.7% for his electric utility group (p. 38) and 8.1% for his natural gas group?

CA-NP-247 Vander Weide Evidence (page 40) – Dr. Vander Weide recommends that the risk premium on the market portfolio be estimated using the income return on twenty year Treasury bonds rather than the total return on these bonds. Has this approach been accepted by a regulator in Canada? Please state the decision and provide the excerpt where the Board addressed the issue.

CA-NP-248 Vander Weide Evidence (page 43) – Dr. Vander Weide states that over the period 1937 to 2012, investors in the S&P utilities stock index have earned an average risk premium over the yield on long-term treasury bonds equal to 5.21%, while investors in the S&P 500 have earned an average risk premium over the yeld on long-term treasury bonds equal to

5.67%. He says that this analysis produces a beta of .92, higher than the .73 he uses in his study. What has been the beta accepted by Boards in the last 5 cases that Dr. Vander Weide testified:

(a) in Canada?

(b) in the U.S.?

CA-NP-249 Vander Weide Evidence (page 44) – Dr. Vander Weide states that his examination of average historical risk premiums on Canadian utility stocks over the periods 1956 to 2012 and 1983 to 2012 have exceeded the average historical risk premium on the S&P TSX composite over the same periods (see Exhibit 15). Dr. Vander Weide states that "in contrast" to the beta used by the Board in P.U. 43 (2009) of approximately .60, ". . . my results indicate that the beta for Canadian utilities could, in fact, be greater than 1.0." Does Dr. Vander Weide know of an another expert who believes that the beta for any utilities, Canadian or American, could be greater than 1.0 and, if so, in what cases the position was advanced?

CA-NP-250 Vander Weide Evidence (page 45) – Dr. Vander Weide refers to evidence on recent allowed rates of return on equity for U.S. utilities and refers to the returns allowed since January 2010 for electric and natural gas utilities (see Exhibit 16 and 17). Have the allowed rates been decreasing over time since January 2010?

CA-NP-251 Vander Weide Evidence – Further to the previous question, Dr. Vander Weide states that his Exhibits 16 and 17 were based on data from Regulatory Research Associates, SNL Financial, July 5, 2012. Has RRA published any studies, papers, reports on the trends in allowed ROE awards over the past 3 years? If so, please provide a copy.

CA-NP-252 Vander Weide Evidence – Exhibit 16 shows that Orange & Rockland Utilities of New York was allowed a ROE of 9.4% in September, 2010 (#41) and a ROE of 9.2% in June of 2012 (#123). Connecticut Light and Power (#50) shows an allowed rate of 9.4% as of December, 2010.

Please confirm that these utilities are predominantly engaged in Transmission and Distribution and are considered to be Baa1-rated peers of Newfoundland Power by Moody's in its credit opinion of 19 July, 2011 found at Exhibit 4. Please explain why these utilities' allowed returns are significantly less than the average of 10.5% return at Exhibit 16.

CA-NP-253 Vander Weide Evidence – As regards the electric utilities whose allowed returns are shown in Exhibit 16, please indicate which ones are purely or predominately T&D compares such as Newfoundland Power and Orange & Rockland and Connecticut Light and Power Company.

CA-NP-254 Vander Weide Evidence – Please confirm that in Dr. Vander Weide's U.S. company samples, he never attempted to differentiate companies based on their proportion of generation.

CA-NP-255 Vander Weide Evidence – Does Dr. Vander Weide accept Moody's comment from its July 19, 2011 Credit Opinion:

"The T&D segment is regarded as a relatively lower risk segment of the electric utility industry since it is typically not exposed to commodity price and volume risks or the operational, financial, and environmental risks associated with electricity generation."

If not, why not?

CA-NP-256 Vander Weide Evidence – Would Dr. Vander Weide agree that the fact that Newfoundland Power is a T&D company means that it is not to the same degree subject to all of the business and financial risks (such as Demand Uncertainty, Operating Expense Uncertainty, Investment Cost Uncertainty, High Operating Leverage, High Degree of Financial Leverage, and Regulatory Uncertainty – addressed by Dr. Vander Weide in his testimony for Gulf Power Florida before the Florida Public Service Commission Docket No. 1101 38 – EI dated July 11, 2011 and found at CA-NP-273 to the Newfoundland Power 2012 Cost of Capital proceeding?

CA-NP-257 Vander Weide Evidence (page 45) – Dr. Vander Weide states that he gives "no weight to the results of the CAPM." In Table 3 – Summary of Cost of Equity results he produces the following table:

Summary of Cost of Equity Results

| Method | Model Result |
|---|---|
| Discounted Cash Flow | 10.2 |
| Ex Post Risk Premium | 9.9 |
| Ex Ante Risk Premium | 11.1 |
| Average | 10.4 |

Please confirm that the CAPM estimate of 8.05% (based on a risk-free rate of 2.73 percent, a beta of .73, a market risk premium of 6.6 percent and a fifty basis point allowance for flotation costs and financial flexibility – as per Dr. Vander Weide's evidence at p. 40) reduces the average of cost of equity results to 9.8%.

CA-NP-258 Vander Weide Evidence – Does Dr. Vander Weide know of any Canadian regulators who have not given any weight to the results of the CAPM?

CA-NP-259 Vander Weide Evidence (page 45) Re Allowed ROEs and Equity Ratios for Comparable Risk Utilities – Dr. Vander Weide presents data on allowed rates of return on equity for U.S. utilities but not on Canadian utilities. Please provide the Canadian utilities allowed returns for the same period as he presents for the U.S. utilities.

CA-NP-260 Vander Weide Evidence (page 45) – Dr. Vander Weide sets out the Deemed Equity Ratios for Canadian Utilities. Removing Newfoundland Power's 45% from the equity ratios presented, please indicate the average approved equity ratio of the Canadian gas and electric distribution utilities set out in Table 4 and state how much higher the average approved equity ratio for U.S. utilities is than the average including Newfoundland Power's equity ratio.

CA-NP-261 Vander Weide Evidence - What is the Value Line Safety Ranking of Fortis Inc.?

CA-NP-262 Vander Weide Evidence - Would Dr. Vander Weide please indicate what the impacts would be to his results if:

a. only Value Line Safety Rank 1 and 2 companies were used, and
b. if only Safety Rank 2 companies were used and please provide a copy of the applicable Exhibit(s) as re-stated using these assumptions.

CA-NP-263 Vander Weide Evidence - Fair Return Standard, page 6

a. Given the closeness in the definition of fair return and cost of capital, in Dr. Vander Weide's judgement does comparable earnings testimony satisfy the fair return standard?
b. Has Dr. Vander Weide ever presented comparable earnings testimony as developed by Ms. McShane?
c. Can Dr. Vander Weide agree that the cost of capital is only an expected return "in equilibrium"? Otherwise when you expect more than you want you buy and vice versa?

CA-NP-264 Vander Weide Evidence - Comparable Risk Utilities, page 14

a. Please provide extracts from any rating agency reports that indicate that the regulatory risk of Dr. Vander Weide's US sample of firms is the same as that for the Canadian firms.
b. Please provide extracts from any regulatory decisions in Canada that indicate that US data can be used in Canada without any qualifications or adjustments, that is not being used as a check or a "weighting" or where differences can be accounted for. Failing that please indicate where in Dr. Wander Weide's testimony he has "accounted for" or weighted or used his US "comparables" as a check.

c. Would Dr. Vander Weide agree that a proxy is not necessarily the same as the firm under examination or imply that its allowed ROE or risk can be used without qualification?

CA-NP-265 Vander Weide Evidence - Comparable utilities, pages 14-25

a. Please indicate where in Dr. Vander Weide's testimony he has compared capital market conditions in the US versus Canada?

b. Please explain what Dr. Vander Weide understands by the term structure of interest rates or yield curves?

c. Does Dr. Vander Weide believe that the yield curves in the US and Canada are identical at the current point in time? If so please report the following interest rates for both the US and Canada: 3 month T. bills, 1 year treasury notes, 5 year treasury notes, over ten year bonds and 30 year bonds.

d. Please provide the annual deficits of the Federal Governments of both the US and Canada as a proportion of GDP since the introduction of the ROE formula in 1994 and comment on whether the trajectories are the same.

e. Please provide the annual average foreign exchange rate of US dollars per Canadian since 1994 and would Dr. Vander Weide agree that the Canadian $ has appreciated in value since the early 2000's?

f. Would Dr. Vander Weide agree that investors take currency appreciation and depreciation into account when make foreign investment decisions?

g. Please explain what the concept of interest rate parity means and whether this affects the ability to compare US with Canadian interest rates.

CA-NP-266 Vander Weide Evidence - Quarterly DCF Model, page 28

a. Please provide abstracts of any regulatory decisions in Canada that have explicitly accepted the quarterly DCF model.

b. Please provide the quarterly dividend per share data for each Canadian and US utilities used in Dr. Vander Weide's analysis and a discussion of whether in his judgement dividends are increased annually or quarterly.

c. Please confirm that if the dividend is paid quarterly then the investor can reinvest the dividend to buy more shares and thus earn a higher rate of return, whereas Dr. Vander Weide is assuming that the utility reinvests the money to earn a higher rate of return and is therefore double counting.

d. Please provide the DCF fair return estimates without the quarterly compounding of dividends.

CA-NP-267 Vander Weide Evidence - US DCF Estimates, pages 30-32

a. Please indicate whether in Dr. Vander Weide's judgement utilities are dividend intensive stocks and affected by the relative taxation of dividends versus capital gains.

b. Please indicate the source of the data on the % of regulated operations in Exhibits 3-5.

c. For each firm in Exhibit 6 please provide the past five year growth experience and compare it to the forecast 5 year growth forecast.

d. Please provide the annual dividend and earnings per share for each firm in Exhibit 6 from 1990 or the latest period available.

e. Please indicate any academic research that indicates that analyst forecasts are biased low estimates of future growth rates?

f. Please indicate that what is of interest for the DCF model is the future dividend growth rate and not the earnings growth rate, and provide any support for the assumption that dividend growth rates over short horizon periods equal dividend growth rates.

CA-NP-268 Vander Weide Evidence - Canadian Risk premium estimates, pages 32-36.

a. Please recalculate the data in table 2 using total bond returns rather than yields.

b. Please provide references to any published academic studies not consulting reports by academics (ie., professors at a University) that calculate risk premia based on yields rather than returns.

Please confirm that the use of yields biases risk premia estimates up (down) when interest rates are falling (rising) since it ignores the capital gain to holding bonds.

c. Please provide copies of any testimony filed by Dr. Vander Weide that used yields in the period prior to 1991 when interest rates were often rising.

d. Please indicate whether Dr. Vander Weide has ever filed testimony using risk premia based on bond returns rather than yields.

e. Please confirm that BCE has been a part of the utilities index, and when it was, it included its ownership of Nortel.

CA-NP-269 Vander Weide Evidence - US forward looking Risk premia, pages 36-38

a. Please provide the estimates without the quarterly compounding of dividends.

b. Please confirm that these estimates rely on the contemporaneous rather than forecast long Treasury bond yield.

c. Please confirm that the last estimate is simply the DCF estimate and indicate what it would be for both gas and electric companies without the quarterly dividend compounding and using a one year forecast long treasury Yield.

CA-NP-270 Vander Weide Evidence - CAPM Estimates

a. Please confirm that the Value Line beta estimates are adjusted toward 1.0 using the Blume adjustment.

b. Please indicate whether Dr. Vander Weide is aware of any published academic research that indicates that utility betas "regress" toward their grand mean rather than 1.0 as assumed by the Blume adjustment.

c. Please provide a graph of the utility betas in Dr. Vander Weide's sample of US firms since 1990 and indicate whether they have regressed or moved toward 1.0.

d. Please indicate why Dr. Vander Weide has used a US market risk premium estimate rather than a Canadian one since the fair return estimate is for a Canadian company.

e. Please provide a copy of the 2011 Year book.

f. Please confirm that the CAPM studies referenced by Dr. Vander Weide to justify the graph on page 42 used short term Treasury Bill yield as the risk free rate and did not adjust betas the way that Value Line does.

g. Please provide the CAPM estimates similar to those on page 43 using Treasury bill yields and actual betas.

CA-NP-271 Vander Weide Evidence - Reference Evidence of Dr. Vander Weide Allowed ROE and Common Equity Ratios, page 43-51

a. Please provide the value for the latest book equity for the Canadian utilities in Table 4.

b. Does Dr. Vander Weide judge it to be meaningful to compare NP with PNG, Heritage Gas, and Alta Gas since they are much smaller utilities?

c. Please confirm the common equity ratio for NSPI

d. Please provide a separate table that only includes Canadian electric companies.

e. Please indicate whether US regulatory bodies regulate common equity ratios in the same way as do Canadian boards.

f. If the board decides that NP should have a 40% common equity ratio since it judges it to be an average risk Canadian utility, would this change Dr. Vander Weide's recommended ROE and if so how?

CA-NP-272 Vander Weide Evidence - ROE Adjustment model

a. If the Board decided to continue with a variation of its ROE adjustment model how would Dr. Vander Weide recommend they adjust the existing ROE model?

b. Can Dr. Vander Weide review his answers to the information requests provided to the Consumer Advocate in May this year and indicate whether he would change any of his answers and if so provide the changed response.

c. Can Dr. Vander Weide provide a concordance between his current testimony and that filed for the 2012 Cost of Capital Application, that is, provide a table showing in each case how the recommended ROE was determined and the values used and the basic macroeconomic and financial factors used to derive the estimates. At a minimum this should include:

   a) The forecast long Canada bond yield
   b) A forecast of an A bond yield cost.
   c) Key macroeconomic factors, such as GDP growth etc
   d) The financial parameters such as relative risk (beta) coefficients, market risk premium, flotation cost allowance etc

d. The values used for each of the estimates.

CA-NP-273 McShane Evidence – At p. 104, Ms. McShane provides her conclusions as to the Fair Return on Equity for Newfoundland Power. Please explicitly state the weighting (by percentage) Ms. McShane gives to the tests she utilizes in arriving at her 10.5% recommendation for Newfoundland Power?

CA-NP-274 McShane Evidence – How, if at all, does Ms. McShane's weighting system differ from her Newfoundland Power 2010 GRA weighting system at p. 70 of her May, 2009 evidence?

CA-NP-275 McShane Evidence – Ms. McShane, at p. 15 of the October 20, 2009 Newfoundland Power General Rate Application transcript, stated that she gave approximately 25% weight to her comparable earnings test. What weight does she give to that test in this proceeding?

CA-NP-276 McShane Evidence (p. 104) – Ms. McShane states that, "adding an allowance for financing flexibility of 1.0%, reflecting the approximate mid-point of a range of .50% to 1.60%, results in a recommended ROE for Newfoundland Power of 10.5%." Please confirm that in the 2011 Generic Cost of Capital proceeding before the AUC Ms. McShane recommended a flotation allowance of 100 basis points and further confirm that the Board in Decision 2011-474 rejected Ms. McShane's recommendation and stated at paragraphs 75 and 76 as follows:

> "75. The Commission does not agree with Ms. McShane's argument for increasing the flotation allowance above the historically allowed 0.50 per cent. Arguments that a market return should be applied to a market value based rate base, rather than a book value rate base, are circular since the market value is clearly dependent on the awarded return.
>
> 76. Accordingly, the Commission finds that the usual regulatory convention of awarding a flotation allowance of 0.50 per cent continues to be reasonable."

CA-NP-277 McShane Evidence – Please confirm that each of Ms. McShane's three Risk Premium Tests (Risk – Adjusted Equity Market, DCF-Based and Historic Utility) as well as her DCF test are based on US companies' data?

CA-NP-278 McShane Evidence (p. 71) – In her section, "Equity Market Risk Premium" she states that "with preponderant weight given to the Canadian data, the indicated equity market risk premium at the forecast 3.5% 30-year Government of Canada bond yield is no less than 8.0%." Please explicitly state the weight given to the Canadian and US data respectively in arriving at this indicated equity market risk premium.

CA-NP-279 McShane Evidence - In Newfoundland Power's 2010 GRA, Ms. McShane was asked where is the business risk for the investor in Newfoundland Power. Ms. McShane replied:

> "Well, I mean, just because the utility has not experienced a risk doesn't mean that the risks aren't there."

Please specifically state what risks Newfoundland Power has actually experienced since that statement was made by Ms. McShane on October 21. 2009.

CA-NP-280 McShane Evidence – Appendix B – "Selection of U.S. Low Risk Utility Sample" – Please confirm that 7 of the 13 utilities in Ms. McShane's current sample were included in Ms. McShane's sample that she utilized in her 2009 testimony for Newfoundland Power, and that those 7 are as follows:

AGL Resources
Consolidated Edison Inc.
Northwest Natural Gas
Piedmont Natural Gas
Southern Co.
Vectren Corporation
WGL Holdings

CA-NP-281 McShane Evidence – Appendix B – "Selection of U.S. Low risk Utility Sample" – Please confirm that in addition to the 7 companies referred to in the previous question, Ms. McShane has added 6 new U.S. companies and she has dropped 6 companies from her 2009 sample and that the "added" and "dropped" companies are as follows:

| <u>Added</u> | <u>Dropped</u> |
|---|---|
| Allete | Dominion Resources |
| Alliant Energy | Duke Energy |
| Atmos Energy | FPL/Next ERA |
| Integrys Energy | New Jersey Resources |
| Wisconsin Energy | N Star |
| Xcel Energy | Scana |

CA-NP-282 McShane Evidence – Appendix B – "Selection of U.S. Low risk Utility Sample" – Further to the previous questions, which companies in Ms.

McShane's current Sample were also utilized by Mr. Cichetti in his 2009 evidence before the Board.

CA-NP-283 McShane Evidence – Appendix B – "Selection of U.S. Low Risk Utility Sample – With regard to the U.S. companies dropped by Ms. McShane, please state the specific reasons why each company was dropped from her sample.

CA-NP-284 McShane Evidence – In light of the Board's statements in P.U. 43 (2009) at p. 17, please fully explain the basis for Ms. McShane's opinion that her newly constructed sample should be considered by the Board to be comparable to Newfoundland Power.

CA-NP-285 McShane Evidence – In P.U. 43 (2009), p. 17 (lines 11-25) the Board stated:

"The Board heard evidence that the rating agencies consider U.S. companies to be peers for Newfoundland Power but the Board does not conclude from this that they are the same. Moody's comments acknowledge the differences in operations in the U.S. and Canada:

'NPI's Baaa1 issuer rating reflects the fact that the company's operations are exclusively based in Canada, a jurisdiction wehre regulatory and business environments in general are relatively more supportive than those of other international jurisdictions such as the United States, in Moody's view.' (Application, 1st Revision, Exhibit 4 – Moody's Credit Opinion, August 3, 2009)

The Board notes that the rating agencies make their own "adjustments" in these comparisons by considering the lower credit metrics to be "offsetting" factors. The Board notes that neigher Ms. McShane nor Mr. Cicchetti made any adjustments to reflect differences between the U.S. and Canadian market."

Please confirm that as was the case in 2009, Ms. McShane is still not making any adjustments to reflect differences between the U.S. and Canadian markets in her evidence in this proceeding? Why not?

CA-NP-286 McShane Evidence - In the Régie decision D-2011-182/File R-3752-2011 English Version rendered November 5, 2011, the Régie stated from paragraphs 268 to 272 as follows:

"COMPARISON WITH US DISTRIBUTORS

[268] the authorized ROEs of regulated Canadian companies and their US counterparts were compared at the hearing. Both GAZ Métro and IGUA officials and experts testified on the related issues.

[269] In the Régie's view, the evidence on this point filed in this case is not materially different from the evidence submitted to the Régie in 2009. The Régie does not believe that the evidence supports a different determination than the one it reached in 2009.

[270] The Régie believes that while it is clear that the ROEs authorized in the US are higher, on average, than those granted in Canada, the evidence in support of the proposition that the rates authorized in the US should be used as the yardstick for rate-setting in Québec is unconvincing. The evidence with respect to recent data on US decisions and with respect to analysis of US regulatory and institutional systems is indeed very weak. Among other things, the distributor has not demonstrated that the opportunities available on the US market are comparable in terms of risk.

[271] The Régie observes that Dr. Morin's evidence included realized returns calculated on the basis of consolidated data. Dr. Morin did not calculate realized returns limited to regulated operations of the companies in his sample, since he did not have that information. The Régie deems that information to be relevant. It also considers a comparison between the authorized and realized returns of the natural gas distribution operations of regulated US companies with comparable risk, over a long period, to be relevant for the purposes of this assessment.

[272] Therefore, the Régie has not seen sufficient evidence to support a finding that the two countries' regulatory, institutional, economic and financial environments, and their impact on the resulting opportunities for investors and for the regulated-rate companies, are comparable."

Does Ms. McShane agree that, like the Régie found, this Board should consider whether on the record of this proceeding there is sufficient evidence to support a finding that Canada's and the US's regulatory, institutional, economic and financial environments, and their impact on the resulting opportunities from investors and for the regulated-rate companies, are comparable?

| | | |
|---|---|
| CA-NP-287 | McShane Evidence – Selection of U.S. Low Risk Utility Sample – Considering that Ms. McShane has dropped several companies from her 2009 NP GRA sample, does she consider her present sample to be of lower risk on an overall basis than her 2009 sample at the time it was selected? If not, why not? |
| CA-NP-288 | McShane Evidence – How does Ms. McShane's present and 2009 samples compare as regards S&P and Moody's debt ratings and please explain the reason for any change(s) in these ratings. |
| CA-NP-289 | McShane Evidence – Appendix B – Ms. McShane refers to RRA Regulatory Climate. Please provide a copy of RRA's (Regulatory Research Associates) complete methodology and rating system for utility regulatory climates. (Please note that the full document is requested, not only pages 3 to 6 as filed in reply to CA-NP-229 during the 2012 Cost of Capital proceeding) |
| CA-NP-290 | McShane Evidence – Please confirm that RRA provides "State Regulatory Reviews/Community Profiles" for each jurisdiction in the US. Please provide a copy for each state in the US. |
| CA-NP-291 | McShane Evidence – Please confirm that RRA's Explanation of the RRA ratings process refers to RRA's Major Rate Case Decisions Quarterly Updates. Please provide the quarterly updates of RRA from the beginning of 2009 to present. |
| CA-NP-292 | McShane Evidence - At page 4 of the RRA's Appendix: Explanation of RRA ratings process it states at p. 3 and 4 as follows:<br><br>"With regard to the second consideration, in the context of a rate case, a utility may be authorized a relatively high ROE, but factors, e.g., capital structure changes, the age or "staleness" of the test period, rate base and expense disallowances, the manner in which the commission chooses to calculate test year revenue, and other adjustments, may render it unlikely that the company will earn the authorized return on a financial basis. |

Hence, the overall decision may be negative from an investor viewpoint, even though the authorized ROE is equal to or above the average. (RRA's Rate Case Final reports provide a detailed analysis of each fully-litigated commission decision.)" (emphasis added)

Please provide a copy of RRA's Rate Case Final Reports for each of the latest cases involving the utilities in Ms. McShane's sample.

CA-NP-293 McShane Evidence – Please provide RRA's rating for each utility regulatory regime in the US.

CA-NP-294 McShane Evidence – Please confirm that the RRA does not rate regulatory regimes in Canada.

CA-NP-295 McShane Evidence – Please provide a copy of Moody's Rating Methodology dated March 2005 entitled "Rating Methodology: Global Regulated Electric Utilities".

CA-NP-296 McShane Evidence – Please provide a copy of Moody's August 2009 Rating Methodology for Regulated Election and Gas Utilities".

CA-NP-297 McShane Evidence – Please confirm that W. Larry Hess who is listed as the Team Managing Director on the 2009 Moody's Global Rating Methodology is also listed as an Analyst on Moody's Credit Opinion on Newfoundland Power Inc. dated 19 July 2011 found at Exhibit 4 to the Application of Newfoundland Power Inc.

CA-NP-298 McShane Evidence – Please confirm that in the 2009 Moody's Rating Methodology it states at p. 6:

"Moody's views the regulatory risk of U.S. utilities as being higher in most cases than that of utilities located in some other developed countries, including Japan, Australia, and Canada. The difference in risk reflects our view that individual state regulation is less predictable than national regulation; a highly fragmented market in the U.S. results in stronger competition in wholesale power markets; U.S. fuel and power markets are more volatile; there is a low likelihood of extraordinary political action to support a failing company in the U.S.; holding company structures limit regulatory oversight; and overlapping or unclear regulatory jurisdictions characterize the U.S. market. As a result, no U.S. utilities, except for transmission companies subject to federal regulation, score higher than a single A in this factor."

CA-NP-299 McShane Evidence – For each of Ms. McShane's U.S. companies in her "U.S. Low Risk Utility Sample" she provides a block called S&P's Regulatory Comment and then Ms. McShane reports a quotation in the adjacent box from S&P. For each of the U.S. companies in Ms. McShane's U.S. Low Risk Utility Sample please provide a copy of the S&P report from which Ms. McShane quotes in her chart.

CA-NP-300 McShane Evidence – Please provide S&P's criteria and ranking for all U.S. regulatory jurisdictions that it ranks.

CA-NP-301 McShane Evidence – Please provide S&P's criteria and ranking for all Canadian jurisdictions that it ranks.

CA-NP-302 McShane Evidence – In Moody's 2009 credit opinion on Newfoundland Power of August 3, 2009 (2009 GRA 1st Revision, Exhibit 4) stated:

"NP's Baa 1 issuers rating reflects the fact that the company's operations are exclusively based in Canada, a jurisdiction where regulatory and business environments in general are relatively more supportive than those of other international jurisdictions such as the United States, in Moody's view."

In Moody's 19 July 2011 NP Credit Opinion (Exhibit 4) states:

"All of NPI's operations are located in Canada whose regulatory and business environments we consider to be supportive relative to those in other jurisdictions."

Does Ms. McShane agree with Moody's assessments? If she does not, please explain why she does not.

CA-NP-303 McShane Evidence – Please file a copy of all credit opinions filed in respect of Newfoundland Power Inc. in its 2010 GRA.

CA-NP-304 McShane Evidence - In Ms. McShane's reply to CA-NP-237 in the 2012 Cost of Capital Application, Ms. McShane stated that, "In Canada, the typical regulatory model has taken a form that has provided somewhat greater assurance that regulated companies will earn the allowed return from year to year than in the U.S." Please explain in detail Ms. McShane's basis for this conclusion.

CA-NP-305 McShane Evidence – Does Ms. McShane agree that a utility's risk of cost disallowances is a risk to an equity investor in a regulated utility?

CA-NP-306 McShane Evidence – Does Ms. McShane agree that a utility's inability to fully recover costs on a timely basis is a risk to an equity investor in a utility? If so, how?

CA-NP-307 McShane Evidence – Low Risk Sample – Has Ms. McShane ever provided expert evidence for any of the utilities in her U.S. Low Risk Utility Sample? Please state the utility and date of evidence.

CA-NP-308 McShane Evidence – At p. B-1 of Appendix B, Ms. McShane states that her sample of U.S. electric and natural gas utilities had to satisfy inter alia the criterion of its utility assets being equal to or greater than 80% of total assets. Please confirm why this criterion was employed in the construction of the sample.

CA-NP-309 McShane Evidence – Please fully explain why unregulated operations can expose a company to greater business risk than regulated operations.

CA-NP-310 McShane Evidence – Over the past 3 years what proportion of earnings of each of the companies in the U.S. sample of Ms. McShane were derived from non-regulated operations? In providing an answer, please show the actual earnings attributable to regulated operations and non-regulated.

CA-NP-311 McShane Evidence – For each of the companies in her sample, Ms. McShane provides a box labelled as "Customers by Type". Please provide in the case of each company in her sample, a copy of the source document/page for the data she reports as to Customers by Type.

CA-NP-312 McShane Evidence – Please confirm that utilities with a significant industrial base of customers face higher business risk on that criterion than those less dependent upon industrial customers and please explain why that is the case.

CA-NP-313 McShane Evidence – Which of the companies in Ms. McShane's sample does Ms. McShane consider as deriving a significant portion of their margins from industrial customers?

CA-NP-314 McShane Evidence – Moody's credit opinion of 19 July 2011 on Newfoundland Power Inc. stated that:

"Moody's considers NPI's business risk profile to be more like that of a T&D utility than a vertically integrated utility. The T&D segment is regarded as a relatively lower risk segment of the electric utility industry since it is typically not exposed to commodity price and volume risks or the operational, financial and environmental risks associated with electricity generation."

Does Ms. McShane agree with the statement of Moody's that the T&D segment is regarded as a relatively lower risk segment of the electric utility industry? If not, fully explain.

CA-NP-315 McShane Evidence – Please indicate which of the companies in the sample of Ms. McShane are considered by Moody's to have a business risk profile more like that of T&D utility than a vertically integrated utility. Please provide the back-up documentation from Moody's in that regard.

CA-NP-316 McShane Evidence – Further to the previous question, please indicate which of the companies in the sample of Ms. McShane are considered by

(i) S&P and (ii) RRA to have a business risk profile more like that of a T&D utility than a vertically integrated utility. Please provide the back-up documentation in that regard.

CA-NP-317 McShane Evidence – Which of the companies in her sample does Ms. McShane consider to be transmission and distribution utilities? For each, state the amount of generation assets that each has.

CA-NP-318 McShane Evidence – Which of the companies in Ms. McShane's sample does she consider to be a vertically integrated utility?

CA-NP-319 McShane Evidence – Why doesn't Ms. McShane include an explicit market capitalization criteria in constructing her sample and does Ms. McShane believe that it is a relevant consideration?

CA-NP-320 McShane Evidence – Which of Ms. McShane's companies are considered by her to be small, mid and large-cap?

CA-NP-321 McShane Evidence – Would Ms. McShane please specifically identify which of the companies in her sample she would consider to be:

(a) less risky than Newfoundland Power Inc.
(b) more risky than Newfoundland Power Inc.
(c) equally as risky as Newfoundland Power Inc.

Please note that this question is requesting a company-by-company reply.

CA-NP-322 McShane Evidence – Please explain the role that credit ratings play in Ms. McShane's opinion as to comparing the risk of Newfoundland Power Inc. to that of the companies in her sample.

CA-NP-323 McShane Evidence – Can Ms. McShane confirm that Ms. McShane's basis for comparing the risk of the companies in her sample to Newfoundland Power Inc. is their respective credit/debt rating rating?

| | |
|---|---|
| CA-NP-324 | McShane Evidence – Are each of the companies in Ms. McShane's sample all of equal risk to the equity investor? Please explain why or why not, as applicable. |
| CA-NP-325 | McShane Evidence – Please confirm that Ms. McShane knows of no instance where a U.S. utility has applied for and has been granted a determination of its cost of equity without the necessity of filing a general rate application in the manner proposed by Newfoundland Power Inc. in its March 2012 Cost of Capital Application. |
| CA-NP-326 | McShane Evidence – Can Ms. McShane name any utility(ies) in her sample that has either equal or less unregulated assets than Newfoundland Power Inc.? If so, please provide the names. |
| CA-NP-327 | McShane Evidence – Newfoundland Power Inc.'s DBRS Rating Report of September 10, 2012 (Exhibit 4) states at p. 2 that:<br><br>"Newfoundland Power has a stable customer base, with power sales comprised solely of residential and commercial customers."<br><br>Can Ms. McShane name any utility(ies) in her sample that has power sales comprised solely of residential and commercial customers? |
| CA-NP-328 | McShane Evidence – In the utilities in Ms. McShane's sample, what is the definition of a commercial vs. industrial customer/user? |
| CA-NP-329 | McShane Evidence – Please name any utility(ies) in Ms. McShane's sample whose regulated subsidiaries are all only subject to a completely forecast test year. |
| CA-NP-330 | McShane Evidence – Please confirm that the forecast test year is the least risky test year for a utility and rank the riskiness of other types of test years in comparison to the forecast test year and please explain the |

circumstances under which the differences among test year types may impact upon a utility's ability to earn its allowed rate of return.

CA-NP-331 McShane Evidence – Please confirm that in her November 8, 2004 evidence before the PUB filed on behalf of the Insurance Bureau of Canada, Ms. McShane stated at p. 15:

"Key differences in the U.S., which point to somewhat higher business risks for the U.S. utilities, include the use of historic test year costs for setting future rates and less reliance on deferred accounts to mitigate the utilities' cost recovery risks."

Please confirm that in her November 8, 2004 evidence, Ms. McShane stated at p. 15:

"To the extent that U.S. gas utilities face higher business risks than their Canadian counterparts, these risks have been reflected in higher approved equity ratios (lower financial risk)."

CA-NP-332 McShane Evidence – Please provide a copy of the November 8, 2004 testimony to the PUB referred to in the previous two questions.

CA-NP-333 McShane Evidence – In Moody's 19 July 2011 credit opinion on Newfoundland Power Inc., Moody's refers to the capital budget process and states:

"We believe that the PUB's review and approval of NPI's capital spending plans and long term debt issuances significantly reduces the risk of cost disallowances or the inability to fully recover costs on a timely basis. NPI submits a proposed capital plan for PUB approval annually."

First, please name the utility(ies) in Ms. McShane's sample whose regulated subsidiaries are all subject to the same type of pre-approval as Newfoundland Power Inc. is, as described above. Second, please name any subsidiary(ies) of the parent companies in Ms. McShane's sample who have such pre-approval.

CA-NP-334 McShane Evidence – Further to the previous question, If there are utilities that do not use the same process, please describe the capital budget process that is used and explain how it may impact on the ability of a utility to recover costs and earn returns.

CA-NP-335 McShane Evidence - Newfoundland Power has the Weather Normalization Reserve, Rate Stabilization Account, Demand Management Incentive Account, Pension Expense Variance Deferral Account, and Other Post-Employments costs deferral account. Please name all companies in the U.S. sample of low risk utilities that Ms. McShane considers to have more deferral/recovery mechanism protection than Newfoundland Power does, less deferral/recovery mechanisms protection than Newfoundland Power does and equal deferral/recovery mechanism protection as does Newfoundland Power. The question requests a company-by-company reply.

CA-NP-336 McShane Evidence – Please confirm that Newfoundland Power Inc. had a PEVDA (Pension Expense Variance Deferral Account) approved effective January 1, 2010. Please confirm that prior to January 1, 2010, Newfoundland Power Inc. was at risk for any degree of variability and/or unpredictability that was associated with forecasting pension expense and that after January 1, 2010 the company is not at risk for any degree of such variability or unpredictability by reason of the PEVDA.

CA-NP-337 McShane Evidence – Please detail the amount of risk Newfoundland Power Inc. was exposed to for each of the 5 years prior to the PEVDA.

CA-NP-338 McShane Evidence – Please confirm that Newfoundland Power Inc. had a OPEVDA (OPEBs Cost Variance Deferral Account) approved effective January 1, 2011 and confirm that prior to its adoption Newfoundland Power Inc. was at risk for any degree of variability and unpredictability associated with forecasting OPEBs cost and that after January 1, 2011 the company is not at risk for any degree of such variability or unpredictability by reason of the OPEVDA.

CA-NP-339 McShane Evidence – Please detail the amount of risk Newfoundland Power Inc. was exposed to for each of the 5 years prior to the OPEVDA (i.e. January 1, 2011).

CA-NP-340 McShane Evidence – Of the 13 parent companies, can Ms. McShane provide the most recent Moody's credit report from the subsidiaries.

CA-NP-341 McShane Evidence – First, please confirm that Moody's scores Newfoundland Power Inc. as "A" on Factor 1 – Regulatory Framework. Second, of the 13 parent companies in Ms. McShane's sample, how many score lower than Newfoundland Power Inc. on Regulatory Framework and how many score higher? Please list the companies which fall into each category.

CA-NP-342 McShane Evidence – First, please confirm that Factor 2, Moody's score Newfoundland Power Inc. as "A" for Ability to Recover Costs and Earn Returns. Second, of the 13 parent companies in Ms. McShane's sample, how many score lower than Newfoundland Power Inc. and how many score higher? Please list the companies which fall into each category.

CA-NP-343 McShane Evidence – Please confirm that Alliant Energy Corporation and its regulated utilities, Wisconsin Power and Light Company and Interstate Power and Light Company have a negative rating outlook from Moody's.

CA-NP-344 McShane Evidence – Please confirm that the Moody's credit report for Alliant Energy Corporation of 30 September 2011 refers to Moody's having concerns about the last rate cases in Iowa and Minnesota and state, "For more detail about the recent rate case outcomes refer to the utilities' credit opinions." Please provide a copy of the 30 September 2011 report. Please also provide a copy of these utilities' credit opinions referred to.

CA-NP-345 McShane Evidence - In Ms. McShane's 2007 evidence before the Board filed in support of Newfoundland Power's GRA, Ms. McShane stated at p. 9:

> "The regulatory framework in which a utility operates is frequently viewed as the most significant aspect of risk to which investors in the utility are exposed. The financial community is very conscious of the regulatory environment. . ."

Is this statement as true today as it was in 2007?

CA-NP-346 McShane Evidence - Ms. McShane, in her pre-filed evidence before the Board in 2002 (p. 56 of 67) stated that for her proxy utilities she selected a sample of relatively "pure play" U.S. local gas distribution companies that serve as proxy for Newfoundland Power. Ms. McShane explained:

> "Further, I relied on LDCs rather than electric utilities for three reasons. First, Newfoundland Power is primarily an electric distribution utility. There are a very limited number of U.S. electric utilities whose operations are primarily distribution and/or transmission. Second, the operations of electric and gas distribution utilities have significant parallels, and are frequently considered to be proxies for one another. Third, as noted in Section II, a business profile score of "3" which is likely to be assigned to Newfoundland Power is the same as that of the typical U.S. LDC (Schedule 8). In contrast, the typical business score of the U.S. electric utilities is "4" (Schedule 8)."

Why does a typical U.S. LDC have less business risk than a typical U.S. electricity utility? Does Ms. McShane still believe that Newfoundland Power would likely be assigned a business profile score of that of the typical LDC?

CA-NP-347 McShane Evidence – Please provide S&P's Business Risk Ranking System.

CA-NP-348 McShane Evidence – Please provide S&P's Business Risk Rank for the companies in Ms. McShane's sample.

| | |
|---|---|
| CA-NP-349 | McShane Evidence – Please provide S&P's Business Risk Rank of the average U.S. electricity utility. |
| CA-NP-350 | McShane Evidence – Please provide S&P's Business Risk Rank of the average Canadian electricity utility. |
| CA-NP-351 | McShane Evidence – At Schedule 13 of Ms. McShane's Evidence, Ms. McShane footnotes Standard and Poor's, Issuer Ranking: U.S. Regulated utilities, Strongest to Weakest (April 20, 2012). Please provide a copy of this publication. |
| CA-NP-352 | McShane Evidence – At Schedule 13 of Ms. McShane's Evidence, Ms. McShane footnotes Standard and Poor's Research Insight. Please provide a copy of this publication. |
| CA-NP-353 | McShane Evidence – At Schedule 13 of Ms. McShane's Evidence, Ms. McShane footnotes Value Line Index, August 3, 2012. Please provide a copy of this publication. |
| CA-NP-354 | McShane Evidence – At Schedule13 to Ms. McShane's Evidence, Ms. McShane inter alia provides the Safety Ranking of each of the 13 companies, 1 or 2. If Ms. McShane were to use only the 6 companies with the "1" ranking for Safety, please indicate how her cost of equity calculations used in the case would be impacted. |
| CA-NP-355 | McShane Evidence - Please provide a copy of all documents, reports, articles, etc. cited by Ms. McShane in her testimony including those listed on p. G-2. |
| CA-NP-356 | McShane Evidence – Please confirm that in the Standard & Poor's report on Allete Inc. of October 24, 2011, it refers at p. 2 to its "Criteria Methodology: Business Risk Financial Risk Matrix Expanded" published on May 27, 2009. Please also provide a copy of the same. |

CA-NP-357 McShane Evidence – Please confirm that in the Standard & Poor's report on Alliant Energy Corporation of August 10, 2011, at p. 2 it states, "(For more on regulatory jurisdictions, see assessing U.S. utility Regulatory Environment, published November 7, 2007)". Please also provide a copy of the same.

CA-NP-358 McShane Evidence – Please confirm that under Moody's 2005 Methodology, Newfoundland and Labrador would be considered as SRE1 jurisdiction and that no state in the U.S. is given that rate by Moody's.

CA-NP-359 McShane Evidence - Please confirm that under the August 2009 Moody's Rating Methodology, Moody's states that,

"Generally speaking, an SRE1 score from our previous methodology would roughly equate to Aaa or Aa ratings in this methodology; an SRE2 score to A or high Baa; an SRE3 score to low Baa or Ba, and an SRE4 sore to a B."

CA-NP-360 McShane Evidence - Please confirm that only 4 out of the 13 companies in Ms. McShane's sample has utilities that operate in states that were classified as SRE2 by Moody's and please name those companies.

CA-NP-361 McShane Evidence - Please confirm that 9 out of the 13 companies in Ms. McShane's sample have a lower rating than Newfoundland Power for regulatory framework and please name those companies.

CA-NP-362 McShane Evidence - Would Ms. McShane please confirm that in the 2009 General Cost of Capital hearing (Decision 2009 – 216) the Alberta Board found (p. 54) "that the regulatory risk faced by these U.S. utilities in general remain materially higher than the regulatory risk of Alberta utilities. As a consequence, the returns awarded by regulators for U.S. LDCs would be expected to reflect this materially higher level of risk leading the Commission to conclude that U.S. allowed return should not be used in determining a fair return for Alberta utilities."

CA-NP-363 McShane Evidence - Would Ms. McShane please file a copy of her evidence before the AUC in the 2009 General Cost of Capital proceeding which led to Decision 2009 – 216.

CA-NP-364 McShane Evidence, Appendix G - At p. G-4, it indicates that Ms. McShane has provided Expert Testimony on Rate of Return and Capital Structure for Maritime Electric in 2010. Please provide a copy of that testimony/evidence, and if Ms. McShane has provided evidence more recently, please provide a copy of that testimony/evidence as well.

CA-NP-365 Mcshane Evidence –

a. Can Ms. McShane review her answers to the information requests she provided to the Consumer Advocate in May this year and indicate whether she would change any of her answers and if so provide the changed response

b. Can Ms. McShane provide a concordance between her current testimony and that filed for the 2012 Cost of Capital Application, that is, provide a table showing in each case how her recommended ROE was determined and the values used and the basic macroeconomic and financial factors used to derive her estimates. A t a minimum this should include:

   a) Ms. McShane's use of a forecast long Canada bond yield
   b) A forecast of an A bond yield cost.
   c) Key macroeconomic factors, such as GDP growth etc.
   d) Her financial parameters such as relative risk (beta) coefficients, market risk premium, flotation cost allowance etc.
   e) The values used for her DCF risk premium and direct DCF estimates etc.

c. If the Board decided to continue with a variation of its ROE adjustment model how would Ms. McShane recommend they adjust the existing ROE model?

CA-NP-366 McShane Evidence - page 2

a. Ms. McShane refers to the comparable returns standard, please confirm that in Canada the legal requirement is a return on comparable securities as explained in Newfoundland Power's testimony (3-15)

b. Please explain how an investor can purchase the returns of another company without paying the market price to either buy the company or its shares?

c. Please confirm that in the past Ms. McShane has justified "comparable earnings" (that is, the accounting ROEs of other companies) on broad fairness grounds and agreed that it is not an opportunity cost because of b) above.

d. Please explain in detail how a firm that is awarded its opportunity cost cannot attract financing on fair and reasonable terms, when the opportunity cost is by definition fair and reasonable?

e. Please indicate whether Ms. McShane agrees that investors in dividend paying shares, like utilities, do consider fixed income securities as an alternative.

f. Further to (e) above is it Ms. McShane's view that the decline in yields on fixed income securities is an irrelevance for investors in dividend rich utilities. If so please indicate what the closest substitute security to a utility share would be if not a fixed income security.

g. In Ms. McShane's judgment was the 8.80% settlement ROE within the range of fair and reasonable ROEs for 2012?

h. Would it be fair to adjust the 2012 settlement ROE for the difference in Ms. McShane's recommended ROE for 2012 and 2013 on the basis that her recommendation was excessive in 2012 and is similarly so now? If not why?

CA-NP-367 McShane Evidence - Analytic framework, pages 11-16

a. Does Ms. McShane accept the company's judgment that its risk has not changed materially and the Board's judgement that NP is an average risk utility? If not please explain why not.

b. Ms. McShane mentions the need for an A bond rating, would this criterion be satisfied with an A- bond rating similar to other Canadian utilities?

c. Can Ms. McShane please provide the bond ratings for all US integrated electric utilities.

d. Ms. McShane mentions the need to attract capital and in footnote 13 the spread between BBB and A rated debt, please provide the underlying data referenced in the spread differentials.

e. In footnote 14 Ms. McShane notes that BBB bonds represented only 20% of the new issues, please indicate the overall composition of the Canadian bond market in terms of ratings and whether or not this 20% was significantly different from what one would expect.

f. Ms. McShane states that comparability of the regulated utility's overall return to its peers is a legal requirement. Please provide all citations to Canadian jurisprudence that would support this assertion. In particular is she aware that the AUC in 2009 said precisely the opposite viz:

> "194. The record does not support a finding by the Commission that allowed returns on U.S. utilities should be considered as evidence of comparable returns on investment, returns necessary to attract capital or returns required to maintain the financial integrity of Alberta utilities."

CA-NP-368 McShane Evidence - Business Risk; pages 16-22

a. Ms. McShane references short and long run risks, has she looked at the short run ability of NP to earn its allowed ROE and if so what is her assessment. If not why has she not considered this objective evidence of NP's short run risk.

b. What long run risks would Ms. McShane judge NP to face, that is, what competitive fuels could displace the use of electricity in street lighting, heating and industrial use.

c. Would Ms. McShane agree that Canadian gas pipelines now face increased long term risk as a result of new gas supply areas disrupting the viability of pipelines connecting uncompetitive basins? Can she conceive of an equivalent risk facing NP?

CA-NP-369 McShane Evidence - Credit Metrics, pages 22-27

a. Ms. McShane discusses NP's credit upgrade by Moody's, regardless of the motivation would she accept that a Moody's A2 rating is one of the highest ratings awarded by Moody's to a Canadian regulated utility. Please provide the names of companies with higher ratings.

b. Would Ms. McShane accept that by securing its debt, this effectively ring fences NP and reduces its financial risk relative to that of many US companies.

c. Please indicate whether Moody's has issued any general utility risk assessment reports after the 2009 report and provide copies of both any updates and the 2009 report.

d. Please confirm that NP's credit metrics should improve as a result of the low interest environment and the rollover of higher cost debt.

CA-NP-370 McShane Evidence - Capital Structure Changes, pages 27-31

a. In terms of the gas pipelines that have increased their common equity ratios please indicate whether or not these were the result of black box settlements or litigated hearings.

b. Please confirm that all the gas pipelines are export pipelines and face the same supply risks that promoted the NEB to award TQM an ATWACC equivalent to 9.7% ROE on 40% common equity, which is the common negotiated settlement for these pipelines.

c. Please comment on whether Ms. McShane judges NP to face the long run supply and competitive risks that caused the NEB to increase the ROE and common equity ratio of TQM.

d. Please confirm that the BCUC increased BC Gas (FortisEnergyBC) common equity ratio to 40% due to increased competitive pressure from BC Hydro, as the cost of electricity was in many cases less than the cost of natural gas in 2009; the reduced penetration of natural gas as the lower mainland moved more to condominium developments and provincial pressure for a carbon tax that would have been borne by natural gas but not electricity.

e. Please indicate whether any of the factors in d) above are relevant to NP given its assessment that its own risks have not changed.

f. Please confirm that Ms. McShane's view that capital structure is a management decision (page 29) reflects US practise that does not generally deem common equity ratios unless management decisions are felt to be egregious.

g. Ms. McShane judges NP to be an average risk utility, whereas the Board and the company have not restricted this assessment to the overall position of the company but its business risk. If the board accepts that NP's business risk is average and a 40% common equity ratio was appropriate would this change Ms. McShane's recommended ROE?

CA-NP-371 McShane Evidence - Trends in capital markets, pages 27-49

a. Is Ms. McShane aware of the recent comments of the Governor of the Bank of Canada that "the Canadian financial system is firing on all cylinders"?

b. Can Ms. McShane provide any referenced data to indicate that the Canadian financial system was firing on all cylinders at any time in 2009?

c. Can Ms. McShane confirm that the Government has had to introduce three successive rounds of tightening in the mortgage market as consumer borrowing remains very strong in Canada?

d. Can Ms. McShane confirm that the Canadian banks recently reported record profits and no Canadian banks had to be bailed out by OSFI?

e. Can Ms. McShane agree that if the Board agrees with her that the situation is similar to 2009 then the then ROE of 9.0% is fair and reasonable and not her recommended 10.50%?

CA-NP-372 McShane Evidence - Use of market versus Book values, page 54-56

a. Ms. McShane specifically states (page 55) that the allowed ROE should be converted from a market value to a higher book value such that the stream of earnings is maintained. Please confirm that this means that if the allowed ROE is not reduced due to regulatory lag and the stock price rises to reflect that, then she would not reduce the allowed ROE to a fair and reasonable level. If not why not.

b. Please confirm that Boards have rejected Ms. McShane's assumptions in a) since they amount to "rubberstamping unrealistic expectations" that is if the stock price is bid up due to unrealistic expectations it is not the job of the regulator to support that higher price.

c. Please confirm the following quotes from the Alberta EUB in its TransAlta decision (U99099, page 303)

"In essence, a regulated company's earnings are driven by the portion of the original cost rate base deemed to be financed by common equity. This fact results in a fundamental disconnect to the theory that market capitalization ratios, which have deviated significantly from book capitalization ratios, reflect the appropriate financial risk necessary to determine a fair composite return to be applied to the original cost rate base of a pure play regulated utility. This is because the earnings of a pure play regulated utility are governed by and driven by the regulated return allowed on book equity. In other words, it is the book equity that reflects the appropriate financial risk necessary to determine a fair composite return for a pure play regulated utility."

"The Board would be derelict in its statutory responsibilities to recognize market capitalization ratios that are derived from a market value capitalization that deviates from the intrinsic long-run value of the regulated firm."

Please indicate whether Ms. McShane agrees with the AEUB that market values have no place in regulation and that the Board of Commissioners would be similarly derelict in exercising its responsibilities and following her advice by making the suggested conversion from market to book values.

d. Please provide any references to published academic journals or books that indicate that market to book ratios above 1.0 for a 100% rate of return regulated utility on historic cost regulation does not indicate the allowed ROE is too high.

e. Please confirm that if regulation mimics competition and the utility is allowed to increase its rate base to replacement cost or to a price level adjustment, due to inflationary and other increases, then the correct rate of return to apply to the rate base is not the nominal rate but the real rate. Otherwise the shareholder is compensated for inflation through both the return and the base it is applied to. If not please explain in detail why not and provide references to the literature that addressed this question in the 1970's when inflation was a serious problem.

CA-NP-373 McShane Evidence - Use of US comparables, page 57

a. Please confirm that where the Boards cited on page 58 indicate that US companies can be informative and results are similar, Ms. McShane is taking them to be identical.

b. Please report the decisions of the AUC, the Regie and this Board that rejected the use of US firms as comparables and the reasons why.

CA-NP-374 McShane Evidence - Equity Market Risk Premium, page 63-71

a. Please indicate whether Ms. McShane judges equity markets to be affected by interest rate changes.

b. Please confirm that any interest rate changes are included in the return from equities, but not in the bond "income" returns.

c. Please provide the market risk premium estimates in Table 10 where the bond income return is subtracted from the equity income return, so that the risk premium estimates are consistently estimated.

d. Please provide any academic references in published journal articles or books that would estimate the equity market risk premium by only looking at part of the return from holding bonds but all of the return from holding equities. In this sense academic means published by a professor at a university in an academic journal not a consulting report.

e. Please indicate the first testimony filed by Ms. McShane that estimated the market risk premium using bond income returns, rather than actual returns.

f. Please confirm (page 84) that when inflation was high required equity returns were high, that is positively related, but the higher discount rate caused equity prices to be lower than they otherwise would have been resulting in a negative ex post (after the fact) relationship between inflation and equity returns. As a result, there was a positive relationship between expected inflation and expected equity returns. If Ms. McShane disagrees please explain why this orthodox explanation is invalid.

g. Please explain why Ms. McShane makes no use of current survey evidence of the market risk premium.

CA-NP-375 McShane Evidence - Relative Risk Adjustment, pages 72-80

a. Please indicate the institutional ownership of Fortis and generally the share of NYSE and TSX stocks owned by ordinary retail investors versus institutions.

b. Please indicate the share of trading by retail versus institutional investors in Fortis and stocks on the TSX and NYSE respectively.

c. Please indicate whether Ms. McShane agrees that institutional investors generally hold large diversified portfolios and that beta measures the risk of adding a stock to a large diversified portfolio.

d. Please indicate whether Ms. McShane is aware of any academic research that indicates that own price or idiosyncratic risk is priced in either the Canadian or US stock markets.

e. Please indicate if Ms. McShane is aware of any expert witnesses that use observed beta estimates without adjustment to ensure that they are good forecast beta estimates, whereas the academic tests used actual beta estimates.

f. Please confirm that the basis of risk management is the use of negative beta securities to hedge a security in question and that the derivative business is based on this.

g. Please confirm that in practise it is extremely rare to find a negative beta equity security, but if one were to exist then it would be valuable in hedging the risk of an equity portfolio and reducing risk.

h. Please confirm that we are estimating the cost of equity capital or the fair return for an investor in utilities and that indirectly all companies are owned by actual investors and that this is what matters, not the indirect owner such as another utility.

i. Please provide any citations to any academic literature that supports the use of relative standard deviations of portfolios of securities as a risk measure when risk (standard deviation) always declines when you randomly increase the size of a portfolio.

j. Please provide in machine readable form (Excel) the data used to generate the betas in Table 15.

CA-NP-376 McShane Evidence - Risk Premiums, pages 79-82

a. Please explain why Ms. McShane uses a "normalised treasury Bill return of 2.25% when the US Federal Reserve is committed to keeping the Federal Funds rate at 0.-0.25% through 2014 and she is using a three year time horizon. Please explain why this normalised T Bill return has changed from the 2.75% she used in the summer?

b. Please provide the current Treasury Bill yields in the US and Canada and Ms. McShane's forecasts for both through 2015.

c. Please provide citations to any current literature that uses a market risk premium over treasury bill yields of 9.25% (page 79)

d. Please indicate whether Ms. McShane is aware of any literature that indicates that the correct adjustment for utility betas is towards their grand mean of about 0.55, rather than 1.0 or alternatively any literature that supports the Blume adjustment towards 1.0 for utilities.

e. Please provide the actual not adjusted betas for the Canadian utilities in the Table on page 81.

f. Please indicate the last time a Canadian utility sample had a beta of 0.64 (without BCE/Nortel).

CA-NP-377 McShane Evidence - DCF Risk premiums, pages 82-90

a. Please confirm that the constant growth DCF model assumes that the growth rate goes on forever and that if this growth rate exceeds the normal GDP growth rate, then that utility eventually becomes the whole economy. If not why not.

b. Please indicate which growth rates Ms. McShane rejected as not satisfying the criterion that they are below the nominal growth rate in GDP.

c. Please indicate Ms. McShane's long run growth estimates for US and Canadian GDP and whether these are different for GNP?

d. Please indicate the government bond yields used to estimate the historic risk premiums on page 84 (indicate the maturity and series #).

e. Please provide any citations to the literature or elsewhere to support the assumption that utilities long run growth rate equals that of GDP and confirm that this assumption means they will continue their share of GDP and they are not a mature industry.

f. Please provide all the data underlying the regression results in Table 23 so that the estimates can be replicated.

CA-NP-378 McShane Evidence - Historic Equity Risk Premium tests, pages 90-

a. Please confirm that experienced utility risk premiums were lower in Canada than in the US, but that Ms. McShane judges that this does not mean Canadian utilities are lower risk than US utilities.

b. Please provide the data underlying Table 26 so that the results can be replicated (Excel format)

c. Please confirm that the data on utility risk premiums on page 92 (6.3%-7.2%) are greater than the experienced equity market risk premium in Canada and Ms. McShane judges Canadian utilities to have greater risk than the Canadian stock market as a whole.

d. Please provide any evidence that Ms. McShane is aware of that utility analyst growth forecasts are unbiased.

e. Please confirm that the analyst growth forecast are of earnings and not dividends as required in the constant growth DCF model? If not why not.

f. Please confirm that since earnings are more unstable than dividends (like the arithmetic versus geometric comparison) the expected growth rate in dividends would be less than that for earnings even if the earnings growth rates are unbiased.

CA-NP-379 McShane Evidence - Flotation cost allowance, pages 98-100

a. Please confirm that most boards allow a 0.50% flotation cost allowance, but the Regie allows only 0.30%.

b. Please indicate any board that has allowed a 1.50% flotation cost allowance in Canada.

c. If the cost of equity capital is 10%, but a 1.50% flotation cost is allowed so the allowed ROE is 11.5% please indicate what a $100 book value investment would sell at if this was assumed to be a perpetuity.

CA-NP-380 McShane Evidence - Comparable Earnings Evidence, pages 100-102

a. Please indicate any US jurisdiction that has applied any weight to comparable earnings evidence and any Canadian board that has given it any weight for the last ten years.

b. Please indicate whether this evidence was discussed with Professor Vander Weide and why he has not provided such evidence.

CA-NP-381 Reference Evidence of Newfoundland Power, pages 3.1-3.2

In the Company's overview it states that the central issue in the hearing is to determine a just and reasonable return. It goes on to propose that the ROE adjustment methodology be discontinued given current financial conditions.

a. Please provide the allowed ROE and actual ROE earned by NP since 1990.

b. Please indicate when NP judged its allowed ROE, as determined by the ROE formula, to be giving unfair and unreasonable ROEs.

c. Please indicate the factors that NP regards as contributing to the unfair allowed ROE, that is, is it simply the forecast long Canada bond yield, the utility risk premium or other factors

d. In the judgment of NP did the Board make a mistake in setting the level of the allowed ROE in 2010 or continuing with the ROE adjustment formula or both? That is does NP accept the board determined ROE in 2010 as being fair and reasonable?

CA-NP-382 Reference Evidence of Newfoundland Power, pages 3.8

In footnote 22 NP points to the increase in pension expense under the defined benefit pension plan and the reduction in the discount rate form 6.50% in 2010 to 5.75% in 2011.

a. In 2009 Mercer assumed a 6.0% discount rate, please explain how Mercer defined the discount rate in valuing a defined benefit pension plan.

b. Please explain in detail Mercer's reasons for reducing the discount rate from 6.5% in 2010 to 5.75% in 2011.

c. Please confirm that the discount rate is the expected rate of return on plan assets as adjusted by the actuary for individual factors.

d. Please provide the approximate breakdown of the pension plan assets into: long term bonds, equities (domestic, US and non-North America) and other assets and the expected rate of return attached to each.

e. Please indicate what would happen to the funded status of the pension plan if the actuary used NP's requested 10.5% ROE as the long run return on the equity market; would the plan move into surplus or would the deficit increase?

f. Please indicate in detail why the Board should not use Mercer's long run equity market return as a basis for determining the ROE for NP, that is, if NP thinks it is fair and reasonable to determine pension costs paid by ratepayers why is it not fair and reasonable to also use Mercer's estimates in determining NP's ROE?

g. In footnote 28 NP indicates it has reduced the discount rate for calculating the fair value of OPEBS from 5.75% to 5.25%, please indicate the basis for this reduction.

CA-NP-383 Reference Evidence of Newfoundland Power, pages 3.14 to 3.25 NP discusses its business risk.

a. The company states that "these risk elements" have not changed materially over the last five years. Please confirm that NP is referring to its business risk.

b. Please confirm that NP judges that its business risk has not changed materially since the introduction of the automatic adjustment formula in 1998. If it disagrees please indicate the major changes in business risk since then that supports the opposite conclusion.

c. Please indicate all deferral accounts that have either been introduced or materially expanded since NP was placed on an automatic adjustment ROE formula.

d. NP states that (3-16) relative to its peers the Board has assessed NP to be an average risk utility. Does NP agree with this assessment? If it disagrees please indicate what Canadian utility NP regards as a most appropriate benchmark for NP?

e. On pages 3-17 to 3-25, NP discusses it business risk, would NP accept Maritime Electric and Nova Scotia Power as comparable Canadian electric utilities? If not why not?

f. Would NP confirm that NP has a 45% common equity ratio, whereas Maritime Electric has 40% and NSPI 37.5%?

g. Would NP regard an award equivalent to that allowed NSPI, that is NSPI's allowed ROE and common equity ratio, as fair and reasonable?

CA-NP-384 Reference Evidence of Newfoundland Power, pages 3.14 and 3-25 to 3-31 - Cost of Capital

a. The company defines the cost of capital as the rate of return that investors could expect to earn if they invested in equally risky securities. Please confirm that this is essentially the definition provided by Mr. Justice Lamont in the Supreme Court of Canada's decision on Northwestern Utilities. If not, please explain why NP would disagree with this definition.

b. Please confirm that NP understands that the fair return applies to securities and not the accounting ROE of other companies, since investors cannot invest at the accounting ROE of other companies.

c. NP points out that the Public Utilities Act requires the Board to regulate NP so that it can achieve a sound credit rating. Would NP please define what it regards as a "sound" credit rating? In particular, would NP accept that many US utilities operate with BBB credit ratings and would NP regard such a rating as sound?

d. Please confirm that financial risk magnifies business risk such that many regulators offset business risk differences by changing the common equity ratio, if not please have one of its experts address this question.

e. Please confirm that NP with a 45% common equity ratio has less financial risk than average risk Canadian utilities, such that the overall risk to the shareholder is lowered. If not please explain in detail why not?

f. Please discuss how much lower NP's allowed ROE should be, as compared to a benchmark utility, to offset its reduced financial risk.

g. Please indicate whether NP ever approached the Board prior to 2009 indicating that the formula ROE was unfair and unreasonable.

CA-NP-385 Reference Evidence of Newfoundland Power, pages 3.31 to 3-37 Automatic ROE formula

a. Would NP accept that the ROE formula by adjusting the ROE for only 80% of the change in the long Canada bond yield automatically increases NP's risk premium by the residual 20%?

b. Please provide a table with the allowed ROE, the Long Canada bond yield used in the ROE formula, and the yield on NP's long term debt consistent with the long Canada bond yield for each year since the automatic ROE formula was introduced.

c. Please indicate who requested that NP be regulated by the use of an automatic ROE formula and if not NP did it object or file an alternative ROE formula?

d. Please indicate whether the ROE formula has ever been subject to off ramps in the sense that it is only applicable if forecast long Canada bond yields were within a particular range?

e. Would NP accept that the long Canada bond yield is the only objective expected rate of return on a long term security that is available in the market? If not please recommend an alternative given that corporate bond yields are promised yields and reflect maximum not expected rates of return.

f. Please provide NP's forecast yield consistent with the Consensus graph for the ten year bond yield on page 3-36.

g. With reference to the comments of the Governor of the Bank of Canada on page 3-37, is NP aware that the Governor went much further in August and indicated that the Canadian financial system is "firing on all cylinders"? Please indicate why NP judges current financial market conditions to pose a problem in terms of NP 's financial integrity if Canada's financial system is firing on all cylinders?

h) If the current forecast long Canada bond yield were 4.5% (page 3-33) instead of about 3.0% would NP regard the formula as giving a fair and reasonable ROE?

i) Would NP accept an ROE formula that bases its ROE on a fixed spread over its forecast bond yield for the test year so that it relies on NP specific data? If yes what would it recommend as a spread and if not why not?

CA-NP-386 Reference Evidence of Newfoundland Power, page 3.38
Credit Metrics

a. NP indicates that a forecast cost of equity of 7.53% is below current ROEs for Canadian electric utilities:

   a) Would NP confirm that its common equity ratio is higher than that of other Canadian electric utilities such as Maritime Electric and NSPI?

   b) Would NP accept that fairness is an absolute, not a relative concept, in that NP should not be allowed an ROE earned by other utilities if the Board decided they are excessive?

b. Would NP advance the position that whereas its ROE has to be comparable say to Maritime Electric and NSPI the Board should continue to allow it a more generous common equity ratio? If NP disagrees please explain in detail why ROE comparisons are valid, but not common equity ones?

c. Please indicate what Canadian utilities have a superior bond rating to NP.

d. Please indicate whether NP has any restrictions in its bond indenture that require a particular interest coverage ratio before it can issue debt?

e. In footnote 121 please confirm that the BCUC 8.75% is a benchmark ROE whereas the benchmark ROE for the BCUC was set at 9.50% and not the 9.9% referenced.

f. Please confirm that the BCUC has a hearing in progress to evaluate the 9.50% benchmark ROE since that was set in 2009, whereas the AUC's 8.75% was set in 2011.

g. Please confirm that the AUC's generic ROE in 2009 was set at 9.0% and this was reduced in 2011 to 8.75%.

h. Is NP aware of any Canadian regulator that has increased the allowed ROE since the financial crisis ended in 2009?

CA-NP-387 Reference Evidence of Newfoundland Power, pages 3.1

Cost of Capital

a. In May NP negotiated an 8.80% ROE for 2012, please confirm that this was the only item negotiated in that settlement and if not what other items were part of the settlement.

b. Please indicate the ROE formula result for 2012 and separate out the forecast long Canada bond yield and the implied utility risk premium.

c. Please indicate the difference in the forecast long Canada bond yield at the "current" point in time relative to that used in the ROE formula for 2012.

d. Please indicate the implicit NP risk premium involved in the 8.8% ROE for 2012 and what factors NP judges might persuade the Board to increase it for 2013.

e. If NP no longer wants to use an ROE formula, is it the company's judgment that the Board should revert to annual cost of capital hearings or that the Board set a fixed ROE for a fixed time period. If the latter please indicate how long the ROE should remain fixed and whether NP would impose any "off ramps" in the sense that it should remain fixed, for example, until long Canada bond yields and credit spreads revert to "normal"?

Dated at St. John's in the Province of Newfoundland and Labrador, this 17th day of October, 2012.

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