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

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

Requests for Information by
Newfoundland Power Inc.

To: Dr. Lawrence Booth

NP-CA-1 to NP-CA-29

December 5, 2012

<u>Request for Information</u>
<u>Evidence of Laurence Booth – 2013/2014 General Rate Application</u>

NP-CA-1 Reference: NP 2010 GRA, Booth's Testimony, October 21, 2009, Page 144, Lines 15-25 and Page 145, Line 1

Dr. Booth stated "The long Canada Rate will pick up. There is absolutely no question." In addition, Dr. Booth stated "…we can expect the long Canada rate to fluctuate between three and a half and, say, five and half or six percent over the business cycle."

Please provide the actual long Canada rate over the referenced business cycle and provide an explanation of why the actual rates differ from the forecast rates as expected by Dr. Booth.

NP-CA-2 Reference: NP 2010 GRA, Booth's Testimony, October 21, 2009, Page 145, Lines 7-11

Dr. Booth stated "We're out of recession. We're in recovery and the bank and forecasters are forecasting the Canadian economy will be back on a growth path in a serious way in 2010."

In Dr. Booth's opinion did the economic recovery occur as expected in 2010?

NP-CA-3 Reference: Page 4 Lines, 10-12

With reference to CA-NP-004A Dr. Booth states "I would accept that NP has average business risk, an assessment that NP seems to accept and also that it has lower financial risk, which NP also seems to accept."

Please indicate specifically where in the response to Request for Information CA-NP-004A Newfoundland Power indicates it has lower than average financial risk.

NP-CA-4 Reference: 2012 Cost of Capital, Booth's Evidence, May 2012, Page 8, Lines 1-5

"However, we are still living with the aftermath of the financial crisis and while Canada has recovered, much of the developed world (Europe) is still locked either in recession or is struggling with financial constraints (US). Consequently, I do not recommend a change in NP's common equity ratio just yet ***unless*** the Board decides to significantly increase NP's ROE, since both a higher ROE and lower financial risk are incompatible with NP's average risk profile."

Reference: Page 46, Lines 20-22

“These are not average market conditions…”

Given current market conditions are not yet normal, please explain why Dr. Booth recommends a reduction in Newfoundland Power’s common equity ratio?

NP-CA-5 Reference: Page 48, Lines 16-17 and Page 49, Lines 1-4

"The BCUC's 2009 decision is a bit of an outlier. For their direct risk premium estimate they stated (Decision, Dec 16, 2009 page 60)

The Commission Panel establishes a CAPM estimate by using the Consensus estimate of 4.30 percent for the risk free rate, establishing an equity market premium in the range of the consensus estimate of Canadian professors of finance of 5 percent to 6 percent, and using an adjusted beta in the range of 0.60 to 0.66. This produces a "bare-bones" CAPM estimate in the range of 7.30 percent to 8.30 percent before an allowance for financing flexibility. This produces a "bare-bones" CAPM estimate in the range of 7.30 percent to 8.30 percent before an allowance for financing flexibility.

To all intents and purposes this is very similar to that of the AUC, Regie, and the Board of Commissioners of Newfoundland and Labrador except for the relatively high risk assessment (beta) placed on Terasen Gas Inc (TGI) of 0.60-0.66.”

Please confirm that in arriving at its 9.5% ROE for TGI it gave "most weight to the DCF approach, lesser weight to the ERP and CAPM approaches and a very small amount of weight to the CE approach."

NP-CA-6 Reference: page 52, lines 15-16

“At the current point in time "A" spreads are at 180 bps or 80bps more than normal or average for the business cycle.”

Please explain what A spreads Dr. Booth is referring to, specifically what index is being referenced, and what are the underlying A bond and Government of Canada bond yields?

NP-CA-7 Reference: page 52, lines 15-16

“At the current point in time "A" spreads are at 180 bps or 80bps more than normal or average for the business cycle.”

Please confirm that Dr. Booth is recommending that, for purposes of an automatic adjustment mechanism, the PUB use a spread of 1.8% as a point of departure. If this cannot be confirmed, please identify and provide support for the starting spread that Dr. Booth is recommending.

NP-CA-8 Reference: page 52, lines 15-16

"At the current point in time "A" spreads are at 180 bps or 80bps more than normal or average for the business cycle."

Please confirm that Dr. Booth is recommending that the PUB use the Bloomberg A rated utility series C29530Y in the operation of his recommended formula. If not, please explain what Dr. Booth is recommending to track "A" spreads in his formula.

NP-CA-9 Reference: page 52, lines 15-16

"At the current point in time "A" spreads are at 180 bps or 80bps more than normal or average for the business cycle."

Please confirm that the OEB used a starting spread of 1.415% based on series C29530Y when it revamped its automatic adjustment formula in 2009.

NP-CA-10 Reference: page 52, lines 15-16

"At the current point in time "A" spreads are at 180 bps or 80bps more than normal or average for the business cycle."

Please confirm that the Regie used a starting spread of 1.5% when it adopted its revised formula for Gazifère and Gaz Métro in 2010 and 2011 respectively.

NP-CA-11 Reference: Page 70, lines 6-11

"Taking 7.50% as a starting fair ROE the formula would be as follows:

ROE = 7.50 + 0.50*(Spread-1.80%) + 0.75*(max(Forecast LTC Yield, 3 30%) - 3.80%)

In words the ROE is 7.50% and will change by 50% of the change in credit spread from 1.80% and increase by 75% of the change in the forecast LTC yield above 3.80%. However, my enhanced formula is not tied to my own recommended ROE; the Board can use it with its own starting fair ROE".

Newfoundland Power has observed that the credit spread between the Bloomberg A rated utility bonds (Series C29530Y) and the long Canada Bond (Series 4.0%, June 2041) for the months of October and November 2012 have been 1.448 and 1.479 respectively.

Based on these observed results, please provide support for the base credit spread of 1.80% suggested for use in the formula by Dr. Booth?

NP-CA-12 Dr. Booth Evidence, Page 70, lines 6-11

"Taking 7.50% as a starting fair ROE the formula would be as follows:

ROE = 7.50 + 0.50*(Spread-1.80%) + 0.75*(max(Forecast LTC Yield, 3 30%) - 3.80%)

In words the ROE is 7.50% and will change by 50% of the change in credit spread from 1.80% and increase by 75% of the change in the forecast LTC yield above 3.80%. However, my enhanced formula is not tied to my own recommended ROE; the Board can use it with its own starting fair ROE".

Dr. Booth is recommending a formula for Newfoundland Power which incorporates a starting point for the risk free rate based on a long Canada bond yield of 3.80%. Please provide the average of the daily yields on the long Canada bond for November 2012 and a copy of the relevant assumptions and/or forecasts supporting the 3.80%.

NP-CA-13 Reference: page 70, lines 13 to 16

"Apart from the Regie which adopted my recommended formula, the OEB adopted a similar formula with a 50% adjustment to changes in the forecast long term Canada yield instead of 75%. The OEB also tied the credit spread to the Bloomberg utility yield and not the generic A spread."

Please confirm that the OEB rebased its benchmark ROE at 9.75% at a long-term Canada bond yield of 4.25% and a spread of 1.415%.

NP-CA-14 Reference: page 70, lines 13 to 16

"Apart from the Regie which adopted my recommended formula, the OEB adopted a similar formula with a 50% adjustment to changes in the forecast long term Canada yield instead of 75%. The OEB also tied the credit spread to the Bloomberg utility yield and not the generic A spread."

Please confirm that the OEB's ROE formula would produce an ROE of 9.92% at an equilibrium long-term Canada bond yield of 5.0% and a spread of 1.0%.

NP-CA-15 Reference: page 70, lines 13 to 16

"Apart from the Regie which adopted my recommended formula, the OEB adopted a similar formula with a 50% adjustment to changes in the forecast long term Canada yield instead of 75%. The OEB also tied the credit spread to the Bloomberg utility yield and not the generic A spread."

Please confirm that when the OEB reviewed its ROE formula in 2009, it concluded the following in its *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (Decision EB-2009-0084) at page 36:

> **"the use of multiple tests to directly and indirectly estimate the ERP is a superior approach to informing its judgment than reliance on a single methodology."** (emphasis in original)

NP-CA-16 Reference: page 70, lines 13 to 16

"Apart from the Regie which adopted my recommended formula, the OEB adopted a similar formula with a 50% adjustment to changes in the forecast long term Canada yield instead of 75%. The OEB also tied the credit spread to the Bloomberg utility yield and not the generic A spread."

Please confirm that on page 36-37 of Decision EB-2009-0084, the OEB stated "In particular, the Board is concerned that CAPM, as applied by Dr. Booth, does not adequately capture the inverse relationship between the ERP and the long Canada bond yield. As such, the Board does not accept the recommendation that it place overwhelming weight on a CAPM estimate in the determination of the initial ERP."

NP-CA-17 Reference: Page 74, lines 2-5

"I would regard an equilibrium long Canada bond yield of about 5.00% as being reasonable. On this basis and without the need for an Operation Twist or credit market adjustment I would judge a benchmark fixed rate ROE to be approximately 8.25%."

Please clarify if the 8.25% fixed ROE is intended to represent Dr. Booth's recommended ROE at a 5.0% long-term Canada bond yield and a normal utility long-term debt credit spread. If no, please specify what the underlying assumptions are for the long-term Canada bond yield and the spread.

NP-CA-18 Reference: page 74, lines 6-11

"The discussion of the yield curve in Section II indicates that interest rates are expected to increase in Canada, so I expect the formula produced ROE to increase with these interest rates and average out to the fixed rate of 8.25% over the full business cycle. Consequently, I regard 8.25% as being a reasonable fixed rate ROE for a benchmark utility. Should the Board wish to remove the need for repetitive rate hearings into the fair ROE, I would suggest either reverting to an ROE adjustment formula or fixing it indefinitely at 8.25%."

How many years would the fixed ROE need to be in place for Dr. Booth to regard it as "indefinitely"?

NP-CA-19 Reference: Page 79, Lines 5-7

Dr. Booth states, "Currently, The TransCanada Mainline is facing significant long run risk involved in capital recovery, that is, the possibility of stranded assts. However, NP is not facing any risks of this kind."

Would Dr. Booth agree that Newfoundland Power's continuing obligation to serve in rural areas that have fewer customers and declining sales increase the risk of stranded assets? If not, why not?

NP-CA-20 Reference: page 80, lines 1-2

"I would compare NP with the following Canadian electric utilities, which vary in size but have similar common equity ratios." Dr. Booth then compares Newfoundland Power to ATCO Electric, FortisBC Inc., Maritime Electric and Nova Scotia Power.

Please confirm that Dr. Booth has previously recommended that ATCO Electric should have a 35% common equity ratio and that the actual allowed common equity ratio is four percentage points higher than Dr. Booth recommended.

NP-CA-21 Reference: page 80, lines 1-2

"I would compare NP with the following Canadian electric utilities, which vary in size but have similar common equity ratios." Dr. Booth then compares Newfoundland Power to ATCO Electric, FortisBC Inc., Maritime Electric and Nova Scotia Power.

Please confirm that FortisBC Inc. has been allowed an equity risk premium 0.40% higher than the benchmark BC utility at its allowed 40% equity ratio.

NP-CA-22 Reference: page 80, lines 1-2

"I would compare NP with the following Canadian electric utilities, which vary in size but have similar common equity ratios." Dr. Booth then compares Newfoundland Power to ATCO Electric, FortisBC Inc., Maritime Electric and Nova Scotia Power.

Please confirm that Maritime Electric has a target range for its common equity ratio of 40% to 45% and that Maritime Electric's allowed equity ratio is equal to its forecast actual ratio for the test period.

NP-CA-23 Reference: page 80, lines 1-2

"I would compare NP with the following Canadian electric utilities, which vary in size but have similar common equity ratios." Dr. Booth then compares Newfoundland Power to ATCO Electric, FortisBC Inc., Maritime Electric and Nova Scotia Power.

Please confirm that Maritime Electric's most recently approved ROE was 9.75% for test year 2011.

NP-CA-24 Reference: page 80, lines 10-17

Dr. Booth recommends that 5% in common equity be replaced with preferred shares and states that "At the end of September 2012 BMO estimated the yield on retractable preferred at about 3.41%. These preferreds generally have a retraction feature where the investor can retract or demand payment every five years so they sell on yields relative to mid-term Canada bonds. However, unlike bonds these are similar to equity and paid out of after tax income so they therefore support the credit rating, as they do not add fixed interest."

Please confirm that DBRS attributes 0% equity credit to retractable preferred shares, i.e., DBRS considers "Any hybrid where holders hold a retraction call to be paid in cash" as debt and that 0% equity treatment "reflects debt where there are no equity features considered to be of any meaningful value" (*DBRS Criteria: Preferred Share and Hybrid Criteria for Corporate Issuers,* November 2012).

NP-CA-25 Reference: page 80, lines 10-17

Dr. Booth recommends that 5% in common equity be replaced with preferred shares and states that "At the end of September 2012 BMO estimated the yield on retractable preferred at about 3.41%. These preferreds generally have a retraction feature where the investor can retract or demand payment every five years so they sell on yields relative to mid-term Canada bonds. However, unlike bonds these are similar to equity and paid out of after tax income so they therefore support the credit rating, as they do not add fixed interest."

Please provide Dr. Booth's estimate of what Newfoundland Power's Moody's preferred share rating would be if the Company were required to replace 5% of its common shares with preferred shares, along with all support for that conclusion.

NP-CA-26 Reference: page 80, lines 10-17

Dr. Booth recommends that 5% in common equity be replaced with preferred shares and states that "At the end of September 2012 BMO estimated the yield on retractable preferred at about 3.41%. These preferreds generally have a retraction feature where the investor can retract or demand payment every five years so they sell on yields relative to mid-term Canada bonds. However, unlike bonds these are similar to equity and paid out of after tax income so they therefore support the credit rating, as they do not add fixed interest."

Please provide a copy of the BMO document which provides the referenced retractable preferred yield.

NP-CA-27 Reference: page 80, lines 25 to 27

"For 2011, the loss of EBIT of $3 million would have reduced the EBIT interest coverage ratio from 2.88X to 2.80X and the cash flow to debt from 18.1% to 17.5%. I do not regard either of these changes as significant enough to cause any problems with NP preserving it's A bond rating."

What level of loss of EBIT (and related EBIT interest coverage rate and cash flow to debt) would Dr. Booth consider significant enough to cause problems with NP preserving it's A bond rating?

NP-CA-28 Reference: page 90, lines 12-17

"All of NPI's operations are located in Canada whose regulatory and business environment we consider to be supportive relative to those in other jurisdictions. Furthermore, we consider the PUB to be one of the most supportive regulators in Canada. Notwithstanding that NPI's 2011 allowed ROE of 8.38% is currently one of the lowest in Canada in Canada, its 45% common equity is one of the highest in Canada and the PUB's decisions are timely and balanced."

Please discuss the likely impact on Moody's view of the supportiveness of regulation in Newfoundland and Labrador if the PUB reduced Newfoundland Power's common equity ratio to 40% and adopted Dr. Booth's recommended ROE for 2013 of 7.50%.

NP-CA-29 Reference: Past Evidence of Dr. Booth

The following table summarizes Dr. Booth's recommended Benchmark ROEs and their component parts as set forth in his evidence as filed with various Canadian regulatory boards over the period August 2009 to November 2012.

Date Filed	Board/ Client/ Company	Dr. Booth's Forecast Long Canada	Market Risk Premium/ Benchmark Utility Beta	Base Risk Premium (Midpoint) Over Long Canada	Flotation Cost	Adjustments to Base ROE and Reasons for Adjustments	Dr. Booth's Benchmark ROE
Aug-09	NL PUB/ Consumer Advocate/ Newfoundland Power	2010: 4.5%	5.00% 0.45-0.55	2.50%	0.50%	0.25% Margin of Error	7.75%
Jun-10	Régie/ IGUA/ Gazifère	2011: 4.5%	5.00-6.00% 0.45-0.55	2.775%	0.50%	0.5% Crisis Premium	8.25%
Jul-11	Régie/ IGUA/ Gaz Métro	2012: 4.5%	5.00-6.00% 0.45-0.55	2.775%	0.50%	0.325% Spread Adjustment (midpoint 25-40bp)	8.10%
Sep-11	NSUARB/ NSUARB/ Heritage Gas	2012: 4%	5.00-6.00% 0.45-0.55	2.775%	0.50%	0.5% Financial Crisis Premium	7.75%
Mar-12	NEB/ CAPP/ TCPL Restructuring	Restructuring: 2012: 3.3% 2013: 3.8%	5.00-6.00% 0.45-0.55	2.775%	0.50%	1.2% Credit Adjustment (.4%) Operation Twist (.8%)	2012: 7.80% 2013: 8.30%
May-12	NL PUB/ Consumer Advocate / Newfoundland Power	2012: 4.5% 2013: 3.5%	5.00-6.00% 0.45-0.55	2.775%	0.50%	0.40% financial crisis/spread in 2012 0.40% plus 0.80% Operation Twist in 2013	2012: 8.15% 2013: 7.95% Fixed Rate for 2 years: 8.15%
Aug-12	NSUARB/ NSUARB/ NSPI	2013: 3.0% 2014: 4.0%	5.00-6.00% 0.45-0.55	2.775%	0.50%	1.2% Credit Spread Adjust. (.41%) Operation Twist (.8%)	2012: 7.5% 2013: 8.5%
Nov-12	NL PUB/ Consumer Advocate / Newfoundland Power	2013: 3.0%	5.00-6.00% 0.45-0.55	2.775%	0.50%	1.2% Credit Spread Adjust. (.4%) Operation Twist (.8%)	7.50%

Please confirm that the information in the above table is accurate, or revise as required.

RESPECTFULLY SUBMITTED at St. John's, Newfoundland and Labrador, this 5th day of December, 2012

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