Q. 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?

A. a. Newfoundland Power's common equity ratio is higher than that of Maritime Electric and Nova Scotia Power. Newfoundland Power cannot accept the statement set out in b) because the statement appears confusing.

b. This question lacks sufficient clarity to permit the Company to respond to it in a meaningful way.

c. The debt ratings of Canadian utilities can be found at Schedule 4 of the Expert Evidence of Ms. Kathleen McShane. (*Volume 3, Expert Evidence and Studies, Tab1).*

d. No, Newfoundland Power does not have restrictions on its bond indenture that require a particular interest coverage before it can issue new debt. Newfoundland Power does have an earnings test in its bond indenture that requires a certain level of earnings to be available before new debt can be issued. The earnings test operates in a similar way to an interest coverage restriction.

e. Not confirmed. Footnote 121 at page 3-38 of the Company Evidence refers to Canadian investor owned *electric* utilities. FortisBC, an investor owned electric utility in British Columbia, is allowed a return on equity of 9.9% by the BCUC.

f. Please refer to footnote 121, page 3-38 of the Company evidence in relation to the BCUC. In Decision 2011-474 (December 8, 2011) the AUC determined (i) a generic return on equity of 8.75% and to (ii) not reinstate a formula.

g. This is indicated in footnotes 120 and 121 at page 3-38 of the Company's evidence.

h. Since the financial crisis of 2008 and the subsequent regulatory decisions in 2009, most allowed returns on equity have remained relatively stable. For example, the AUC lowered the allowed return on equity by 0.25% from 9.0% for 2009 and 2010 to 8.75% for 2011 and 2012.

Returns on equity in the few jurisdictions which still have formulas have declined since 2009. This, however, was not the direct result of any regulatory assessment of the adequacy of returns on equity. It was merely a reflection of declining long Canada bond yields.