Q. 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?

A. In September 2009 when the OEB calculated the credit spreads at 1.415% this was based on the Bloomberg utility series over the benchmark long Canada bond yield (V39056). At that time the generic spread using the Scotia Capital indexes was 1.78% for a difference of 0.365%. If NP calculates the current spreads using the Bloomberg series (unclear whether the Canada series is V39056) then the difference is 0.352% and 0.321% respectively from the generic spread of 1.80% that Dr. Booth's testimony is based on.

Note two features:

1) The credit spread adjustment recommended by Dr. Booth is based on 50% of the change in the credit spread so while there is a difference in these spreads the changes are very similar.

2) The spread differences flow from the fact that the Scotia base indexes are generic for both the A series and the government of Canada series. The latter is an over ten year index, since at the start of the series there were no 30 year benchmark bonds. The V39056 series is of the benchmark long Canada bond which only starts in 1995, so it is not useful for long time series comparisons. Further as a long dated bond, the yield on V39056 is generally higher than on the over ten year causing the credit spread to be lower (See Schedule 2 to Dr. Booth's main testimony).