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August 10, 2007

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Ladies and Gentlemen:

Re: 2008 General Rate Application

Please find enclosed the original and eight copies of Newfoundland Power's Requests for Information numbered NP-CA-1 to NP-CA-79 with respect to the prefiled evidence of Dr. William T. Cannon and Mr. C. Douglas Bowman.

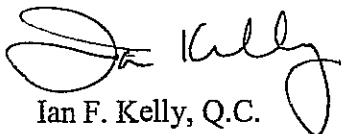
For convenience, the Requests for Information are provided on three-hole punched paper.

A copy of this letter, together with enclosures, has been forwarded directly to Geoffrey Young, of Newfoundland & Labrador Hydro and Thomas Johnson, Consumer Advocate.

Electronic copies of these Requests for Information will be forwarded in due course.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,



Ian F. Kelly, Q.C.
Counsel for Newfoundland Power Inc.

Enclosures

c. Geoffrey Young (2 copies)
Newfoundland and Labrador Hydro

Thomas Johnson (3 copies)
Consumer Advocate

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 2008.

**Requests for Information by
Newfoundland Power Inc.**

August 10, 2007

Requests for Information
C. Douglas Bowman - 2008 General Rate Application

- NP-CA-1 (Page 15, Table 1) Please restate Table 1 including the Rural Basic Customer Charges for each province (as provided in CA-NP-259).
- NP-CA-2 In CA-NP-65 the Consumer Advocate introduced Delaware's *Electric Service Reliability and Quality Standards*. In footnote 16 on page 39 of Mr. Bowman's evidence he introduces the *Service Quality and Reliability Plan* for Green Mountain Power Corporation. Similar plans are required for the 20 electric utilities in the State of Vermont.
- For the purpose of providing regulatory context please describe the regulatory regimes in both the Delaware and Vermont jurisdictions. In particular, please advise if the utilities require annual capital budget approval and provide the frequency of General Rate Applications for all utilities regulated by the respective state regulatory body over the past ten years. Please comment on the progress of deregulation or re-regulation in the two states.
- NP-CA-3 (Page 30, Lines 11 - 14) In the two regulatory jurisdictions discussed by Mr. Bowman in his evidence, Delaware and Vermont, please provide specific examples where the establishment of formal distribution reliability and service standards has established that "reliability and service-related expenditures are prudently incurred" resulting in "fair and consistent treatment" of customers.
- NP-CA-4 Does Mr. Bowman propose that the reliability standard recommended be applied to Newfoundland Power's entire service territory as a whole, to particular areas of Newfoundland Power's service territory, or to individual distribution feeders within Newfoundland Power's service territory? Explain in detail the basis for Mr. Bowman's opinion.
- NP-CA-5 If Mr. Bowman does not propose that the reliability standard be applied to individual distribution feeders, please explain how the reliability standard would be used or applied in relation to individual distribution feeder performance and decisions with respect to upgrade or replacement of distribution feeders.
- NP-CA-6 Does Mr. Bowman agree that the process of identifying the worst performing feeders and completing detailed engineering assessments to determine if capital expenditures are necessary to improve reliability is a reasonable approach to improving overall reliability performance?

- NP-CA-7 In relation to the performance of individual distribution feeders, does Mr. Bowman propose that the reliability standard be a target for each distribution feeder or would the reliability standard be a mandatory requirement that the distribution feeder be upgraded or replaced if its performance fell below the reliability standard?
- NP-CA-8 Assuming the reliability standard applies to distribution feeders, would the same reliability standard apply to each distribution feeder within Newfoundland Power's service territory? If not, on what basis does Mr. Bowman propose to establish different reliability standards for different distribution feeders?
- NP-CA-9 Would the reliability standard be a range from minimum to maximum for acceptable performance to be achieved for each performance standard? What does Mr. Bowman intend the consequences to be if performance fell outside the acceptable performance range or target?
- NP-CA-10 The State of Vermont has approximately 340,000 customers serviced by 20 electric utilities each requiring *Service Quality and Reliability Plans*. Have all electric utilities filed their plans with the Vermont Public Service Board for final approval? Are the plans for all utilities in the State of Vermont identical, or are there differences? If there are differences between utilities please list these differences and what factors were used in determining the uniqueness of each utility's plan?
- NP-CA-11 (Page 34 footnote 12) Is the Consumer Advocate aware of other jurisdictions where the CELID₈ and CEMI₈ reliability indices are used? What customer research was completed to determine that the 8 hour and 9 interruption thresholds have significance with all customer classes?
- NP-CA-12 On page 38 Lines 4 to 5, Mr. Bowman recommends that a "distribution reliability and service standard be developed with reporting initiated under the standard during 2008." For the purpose of putting some context around the time line recommended, please provide information on the regulatory process involved in establishing the distribution reliability and service standards in both Delaware and Vermont. Provide the start date, completion date, the dates of all intermediate releases of the standards, and the cost involved in establishing the distribution reliability and service standards. If this is not known, please provide time and cost estimates for undertaking the process recommended by Mr. Bowman.

NP-CA-13 Table 3, page 40 shows sample performance standards for inclusion in a distribution reliability and service standard to be developed with reporting initiated under the standard during 2008. The standards in Table 3 are identical to those included in the *Successor Service Quality and Reliability Plan* established for Green Mountain Power, as indicated in footnote 17.

In 2005, Green Mountain power exceeded all performance benchmarks identified in the *Successor Service Quality and Reliability Plan*.

With respect to the reference from *A Compendium of Electric Reliability Frameworks Across Canada* at line 19 of page 31 and the assertion that increased reliability comes at a cost: How is Green Mountain's performance in excess of established benchmarks treated by the regulator? Does Mr. Bowman consider Green Mountain's performance as imprudent incurring unnecessary cost or an example of good performance?

Requests for Information
Dr. William T. Cannon - 2008 General Rate Application

- NP-CA-14 Please provide a copy of Dr. Cannon's paper entitled "Cost of Capital" – QSB monograph (2005).
- NP-CA-15 Please provide a copy of Dr. Cannon's paper entitled "The Capital Asset Pricing Model Approach to Estimating the Cost of Equity Capital" – QSB monograph (2003).
- NP-CA-16 Please provide a copy of Dr. Cannon's paper entitled "Cyclically-Normalized, Real Economic Earnings" – QSB monograph (2003).
- NP-CA-17 Reference: Page 7, Lines 13 and 14
- Please provide the Conference Board of Canada report "*Canadian Outlook – Summer 2007*" and the Bank of Canada July 2007 report "*Monetary Policy Report Update*."
- NP-CA-18 Reference: Page 7, Lines 20 and 21
- "Overall, the second half growth rate in the Canadian GDP is expected to pull back to about 2.6% on an annualized basis."
- Please provide the supporting calculation for the 2.6% growth rate.
- NP-CA-19 Reference: Page 7, Lines 25 and 26
- "Recent forecasts from the six major banks peg 2008 real GDP growth in the range of 2.5% to 2.9%."
- Please provide the supporting documents.

NP-CA-20 Reference: Page 8, Lines 23-26

“...Newfoundland and Labrador’s real GDP growth rate is expected to pull back to somewhere between 0.5% to 1.2% for 2008, according to a number of recent bank provincial forecast reports, and be the slowest among all provinces.”

Please provide a table, with supporting documents, showing the expected range of real GDP growth for each province in 2008.

NP-CA-21 Reference: Page 9, Lines 14-17

Please provide the supporting documents for the indicated 2008 forecast CPI inflation rates.

NP-CA-22 Reference: Page 10, Lines 2 and 3

“...some modest further increase in the overnight rate may be required to bring inflation back to the target over the medium term.”

Please provide the supporting document(s) for this statement.

NP-CA-23 Reference: Page 10, line 30, to Page 11, line 2

Please provide the supporting documents for each of the referenced 3-month treasury bill rates.

NP-CA-24 Reference: Page 11, Table at Line 7

Please provide the documentation to support the forecasts presented in the table.

NP-CA-25 Reference: Page 11, Line 19 and Page 48, Lines 30-31

“This puts the prospective rate on the riskless long-term asset in the range of 3.85% to 4.2% for the 2008 test year.”

Please confirm that Dr. Cannon’s forecast for the riskless long-term asset is 30-65 basis points lower than his forecast T-bill yield shown on page 11.

NP-CA-26 Reference: Page 11, Line 19 and Page 48, Lines 30-31

Please explain why the riskless long-term asset yield is expected to be lower than the forecast T-bill yield.

NP-CA-27 Reference: Page 11, Lines 18-21

Please provide the detailed calculations that support the 2008 forecast T-bill and banker's acceptance rates of 4.5% to 4.7% and the 2008 forecast 30-year bond yields between 4.75% and 5.0%.

NP-CA-28 Reference: Page 13, Lines 16-19

Please provide evidence of Newfoundland Power's under-forecasting of revenues and under-forecasting of cost efficiencies during each of the past eleven years.

NP-CA-29 Reference: Page 13, Lines 16-19.

Given that Newfoundland Power's earnings are regulated within a range of rate of return on rate base and not rate of return on common equity, please provide legislative or other regulatory evidence that Newfoundland Power has over-earned during each of the past eleven years.

NP-CA-30 Reference: Table, Page 15.

Please provide source documents for the table on page 15.

NP-CA-31 Reference: Table, Page 15.

Please provide the gross margin contributed by the industrial customers of each of the companies listed on the table on page 15.

In Dr. Cannon's opinion are volumes or gross margin more representative of the reliance of the utility on industrial customers?

NP-CA-32 Reference: Page 16, Lines 20-23 and Page 17, Lines 8-11

“This can be illustrated by comparing NP’s achieved equity returns, over time and in comparison with its allowed ROCEs, with the similar return histories for Enbridge Gas Distribution Inc. and Union Gas – two major utilities with diversified customer bases but that do not have the benefit of weather normalization reserves.”

“Indeed, the extent of the negative impact of weather risk (that NP does not face) on Ontario gas and electricity distributors was noted by the Ontario Energy Board (OEB) in its 2007 Enbridge Gas Distribution Rates Decision...”

All other things equal, how much is weather risk worth in terms of either allowed common equity return or common equity ratio for Enbridge Gas Distribution and Union Gas?

NP-CA-33 Reference: Page 16, Lines 20-23 and Page 17, Lines 8-11

Please discuss whether or not, in the context of the CAPM, weather risk is a diversifiable risk and thus equity investors would not require a premium to accept weather risk.

NP-CA-34 Reference: Page 16, Lines 25-27 and Page 17, Table at Line 6 and Schedule 4; Page 61, Lines 7-9

“...NP’s achieved equity returns have been less than 40% as volatile as those of the major Ontario gas distribution utilities over the past 11 years...”

“...how has the riskiness of the typical firm in your industrial sample changed, if at all, relative to the typical S&P/TSX firm, over the period from the end of 1996 to today?”

Please explain why Dr. Cannon chose the period 1996-2006 rather than his full business cycle of 1990-2006 for these analyses.

NP-CA-35 Reference: Page 16, Lines 16-33.

With respect to the comparison of Newfoundland Power’s ROCEs with those of Enbridge Gas and Union Gas to assess the impact of the Company’s weather normalization reserves on its risk profile, why did Dr. Cannon not compare Newfoundland Power to other *electricity* distribution utilities or to distribution utilities outside of Ontario?

- NP-CA-36 Reference: Page 16, Lines 27-30:
- “..the deviations of NP’s actual returns from the mid-point of its Board-allowed ROCEs have been only a little over half as great as those experienced by Enbridge Gas and Union Gas, despite the latters’ economically stronger and more diverse service territories.”
- Does Dr. Cannon agree that over the longer term the fact that Newfoundland Power is subject to an Excess Earnings Account, as explained in CA-NP-21, reduces the variability of the actual ROCEs for Newfoundland Power? If not, why not?
- NP-CA-37 Reference: Page 16, Lines 27-30:
- Provide a list of other electric or gas distribution utilities in Canada that have an excess earnings account.
- NP-CA-38 Reference: Page 17, Lines 10-11
- On Page 17, Dr. Cannon refers to an Enbridge Gas decision. Is it Dr. Cannon’s testimony that electricity distributors in Ontario face material weather risk? If yes, please provide any support for that conclusion.
- NP-CA-39 Reference: Pages 18-19, Lines 24-13
- At pages 18 and 19, Dr. Cannon discusses the proposed Demand Management Incentive Account and the Energy Supply Cost Variance component of the RSA. Dr. Cannon concludes that the proposed treatment would lower the risk as compared to the status quo. Neither of these mechanisms existed at the time of Newfoundland Power’s 2003 GRA. Does Dr. Cannon therefore agree that these mechanisms do not affect Newfoundland Power’s business risk as determined in the 2003 GRA?
- NP-CA-40 Reference: Page 24, Lines 27-29, Schedules 5 and 6
- “Clearly, as Schedules 5 and 6 show, NP’s exposure to financial leverage risk is lower than that of all other significant Canadian gas and electricity distribution utilities.”
- Please justify the exclusion of the Ontario electricity distribution utilities from “all other significant” Canadian gas and electricity distribution utilities.

NP-CA-41 Reference: Page 24, Lines 27-29, Schedules 5 and 6

Please provide the actual 2006 capital structures for the following Ontario electricity distributors: Hydro One, Hydro Ottawa, Toronto Hydro, Veridian and Enersource.

NP-CA-42 Reference: Table on page 28 and Schedule 27

Please provide a detailed explanation of how Dr. Cannon calculated the return on common equity including any adjustments that were made to 1) the reported earnings available to common equity and 2) the common equity balance.

NP-CA-43 Reference: Table on page 28 and Schedule 27

As an illustration, please explain in detail how the return on common equity for 1999 for TransCanada PipeLines was calculated as 0.0.

NP-CA-44 Reference: Page 29, Lines 5-13 and Schedule 24

Would Dr. Cannon please confirm that in his evidence in RP-2002-0158, at page 11, he stated,

“I believe that Union Gas is an *average-risk* Canadian energy utility and may appropriately be seen as the risk equivalent of the *benchmark* utility in the context of the Board’s ROE-setting methodology. EGDI, on the other hand, is somewhat less risky, overall, than Union Gas and, hence, less risky than the benchmark utility.”

NP-CA-45 Reference: Page 29, Lines 5-13 and Schedule 24

With reference to NP-CA-44, please confirm that in this proceeding, Dr. Cannon places Union Gas in the higher than average risk utilities and Enbridge Gas in the Average Risk (Benchmark) Utilities as per Schedule 24.

NP-CA-46 Reference: Page 29, Lines 5-13 and Schedule 24

With reference to NP-CA-44, please explain what has caused Dr. Cannon to change his views on the relative risk of the two utilities.

NP-CA-47 Reference: Page 29, Lines 4-5, Page 31, Lines 12-14 and Page 53, Lines 14-15

“Weighting the results of each ERP test equally results in an estimate of the test-year cost of capital for the benchmark utility in the range of 6.1% to 6.6%”

Please confirm that, based on the 12-15 basis point downward adjustment recommended by Dr. Cannon for Newfoundland Power, the indicated cost of equity based on the ERP tests (prior to flotation costs) would be in the range of 5.95% to 6.48%. If Dr. Cannon cannot confirm, then please explain why not.

NP-CA-48 Reference: Page 29, Lines 4-5, Page 31, Lines 12-14 and Page 53, Lines 14-15

Please confirm that at Dr. Cannon’s forecast long-term Canada bond yield of 4.75% to 5.0% for 2008 and the credit spread of 130 basis points, the cost of new 30-year debt for Newfoundland Power in 2008 would be 6.05% to 6.30%.

NP-CA-49 Reference: Page 31, Lines 11-12

Dr. Cannon states that Newfoundland Power’s 30-year bonds are currently being priced to yield about 130 bps over 30-year Canada’s. What is the corresponding spread for similar maturity Union Gas and Enbridge Gas bonds?

NP-CA-50 Reference: Page 33, Lines 1-4.

“I believe it must be allowed the opportunity to earn a rate of return high enough to enable it to meet all its debt service obligations, to achieve and maintain a sound credit rating in the financial markets of the world, and to attract new equity capital without impairing, under normal circumstances, its equity book value.”

Would Dr. Cannon also agree that to be considered fair, the return must be commensurate with the return on investments of similar risk?

NP-CA-51 Reference: Page 33, Lines 1-4.

Does Dr. Cannon agree that a utility must be allowed the opportunity to earn a rate of return high enough to achieve and maintain a sound credit rating in the financial markets of the world and attract new equity capital in both strong and poor capital market conditions?

NP-CA-52 Reference: Page 37, Lines 19-27 and Page 38, Lines 18-26, Schedule 7 and Schedule 10.

Please confirm that Dr. Cannon's updated (2001-2006) Government of Canada Long-Term Bond returns (Schedule 10) are identical to the Scotia Capital Long-Term Bond Value Index returns (Schedule 7).

NP-CA-53 Reference: Schedule 8 and Pages 37 and 38, Lines 29-2

How does the Ibbotson Associates' "Canadian Risk Premium over Time Report" used by Dr. Cannon define the equity risk premium?

NP-CA-54 Reference: Schedule 8 and Pages 37 and 38, Lines 29-2

Does Ibbotson Associates' "Canadian Risk Premium over Time Report" used by Dr. Cannon provide equity risk premia calculated from geometric averages? If yes, please provide the documentation.

NP-CA-55 Reference: Schedule 8 and Pages 37 and 38, Lines 29-2

Please confirm that Ibbotson Associates uses the income return on long Canada's to represent the riskless asset.

NP-CA-56 Reference: Schedule 8 and Pages 37 and 38, Lines 29-2

Please provide the income returns calculated by Dr. Cannon for 2003 to 2006.

NP-CA-57 Reference: Schedule 8 and Pages 37 and 38, Lines 29-2

Please discuss whether it is more appropriate to use the income return or the total return on bonds to calculate the historic equity risk premium.

NP-CA-58 Reference: Page 37, Lines 19-27 and Page 38, Lines 18-26, Schedule 7 and Schedule 10.

Please confirm that the Scotia Capital Long-Term Bond Value Index contains both provincial and corporate bonds as well as Canada bonds.

NP-CA-59 Reference: Page 42, Lines 4-10

“For the 1926-2006 period, Ibbotson Associates find the following average MRPs:”

Is it Dr. Cannon’s evidence that Ibbotson Associates calculates the MRPs found at lines 7-10 on page 42 or are those risk premiums calculated from Ibbotson Associates data? If the former, please provide supporting documentation.

NP-CA-60 Reference: Page 45, Lines 30-33

Please provide a copy of the Mercer Investment Consulting paper titled "Understanding the Equity Risk Premium" (May 2002).

NP-CA-61 Reference: Page 46, Lines 1-2

Please provide documentation from Mercer for the 3.2% U.S. ERP cited.

NP-CA-62 Reference: Page 46, Lines 3-5

Please provide a copy of a White Paper titled "The Equity Risk Premium, Part II: Capital Market Expectations," Wellington Management Company, LLP, dated October 2002.

NP-CA-63 Reference: Page 48, Lines 1-12

Please provide the data used to calculate the averages presented in the table at the top of page 48 and explain how the averages were calculated.

NP-CA-64 Reference: Page 53, Lines 17-18

“To this bare-bones cost of equity range, I would add 45 bps to recognize flotation cost and financing flexibility considerations.”

Please explain how Dr. Cannon arrived at the precise 45 basis point estimate for flotation costs and financing flexibility.

NP-CA-65 Reference: Page 55, Line 26 and Schedule 15

“...EPS growth rate forecasts provided by I/B/E/S.”

Please provide the number of analysts providing forecasts to I/B/E/S underlying the EPS growth rate forecasts presented on Schedule 15.

NP-CA-66 Reference: Page 58, Lines 4-6

“The Canadian economy has not experienced a recession since the 1990-1992 period...”

Please provide Dr. Cannon’s definition of what constitutes a recession.

NP-CA-67 Reference: Page 58, Lines 4-6

With reference to NP-CA-66, please comment on the likelihood of Canada experiencing a recession of the depth and length of the recession experienced in the early 1990s in the foreseeable future. Please provide independent support for any conclusion.

NP-CA-68 Reference: Page 72, Lines 1-14

Other than the *pro forma* credit metrics provided, please provide all evidence to support the statement that an allowed return on equity of 7.4% to 7.8% will not affect Newfoundland Power’s credit rating.

NP-CA-69 Reference: Page 72, Lines 5-14

Please provide supporting calculations for the credit metrics presented in Lines 5 to 14.

NP-CA-70 Reference: Page 73, Lines 24-33.

Does Dr. Cannon agree that the Consensus Forecast method that is used by the BCUC, EUB, NEB and OEB is also a reasonable approach for establishing the risk-free rate for use in a formulaic approach to determine the rate of return on equity? If not, why not?

NP-CA-71 Reference: Page 75

In a table, please identify all regulated Canadian utilities that use an annual ROE adjustment mechanism or formula and indicate for each utility whether a Consensus Forecast approach is used versus using the actual bond yields for a selected observation period.

NP-CA-72 Reference: Appendix A:

In reference to the prefiled evidence of Dr. Cannon, for each Canadian regulatory proceeding in which Dr. Cannon made recommendations with regard to the cost of capital in the past 10 years, please provide the rate of return on common equity recommended by Dr. Cannon and the rate of return on common equity allowed by the board decision.

NP-CA-73 Reference: Appendix A:

With respect to NP-CA-72, please provide in respect of each of the board decisions referenced, the relevant extracts wherein the Board commented upon the evidence and recommendations of Dr. Cannon.

NP-CA-74 Reference: Appendix A:

Please provide a copy of all documents listed under “Regulatory Consulting Publications” in Appendix A since 1990.

NP-CA-75 Reference: Schedule 23, Page 1 of 2, Industrial Companies Equity Return Data

Please indicate for each company all years in which an adjustment was made to the ROCE data presented in Schedule 23 and the nature of the adjustment made.

NP-CA-76 Reference: Schedule 23, Page 1 of 2, Industrial Companies Equity Return Data

Please provide all documentation to support the adjustment made.

NP-CA-77 Reference: Schedule 23, Page 1 of 2, Industrial Companies Equity Return Data

Please provide the unadjusted ROCE data for each company for the same years and in the same format as Schedule 23.

NP-CA-78 Reference: Schedule 25

For the observation period 1993 to 2006, please indicate the total number of times and the overall percentage in which the absolute observed forecast error reported for the Consensus forecast approach was higher than the absolute forecast error for the October/November approach.

NP-CA-79 Reference: Schedule 26

Please provide all backup data and information used to produce Schedule 26.