



NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

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2007 08 31

O'Dea, Earle Law Offices
P. O. Box 5955
323 Duckworth Street
St. John's, NL
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Attention: Thomas Johnson
Consumer Advocate

Dear Sir:

RE: Newfoundland Power Inc. 2008 General Rate Application
Requests for Information PUB-CA-1 to PUB-CA-17 (2nd Issue)

Please be advised that Information Requests PUB-CA-1 to PUB-CA-17 issued on August 28, 2007 contain a number of typographical errors, which mostly refer to page and RFI references contained within RFI's: PUB-CA-3; PUB-CA-4; PUB-CA-13; PUB-CA-14 and PUB-CA17.

To correct these errors we have re-issued Information Requests PUB-CA-1 to PUB-CA-17 with today's date. For ease of reference the corrections are highlighted in bold. Please disregard the previous correspondence and RFI's issued on August 28th and replace with the RFI's issued today.

If you have any questions, please do not hesitate to contact Doreen Dray at 726-3037 or at ddray@pub.nl.ca or myself at 726-8600.

Yours truly,

Original signed by
Cheryl Blundon
Board Secretary

Attachment

c.c. **Newfoundland and Labrador Hydro**, Geoffrey P. Young, E-mail: gyoung@nlh.nl.ca
Newfoundland Power Inc., Ian F. Kelly, Q.C. and Gerard Hayes, E-mail: ghayes@newfoundlandpower.com

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IN THE MATTER OF the *Electrical Power Control Act*, RSNL 1994, Chapter E-5.1 (the “*EPCA*”) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the “*Act*”) as amended, and their Subordinate regulations;

AND IN THE MATTER OF a General Rate Application (the “Application”) by Newfoundland Power Inc. (“*NP*”) to establish Customer electricity rates for 2008.

**PUBLIC UTILITIES BOARD
REQUESTS FOR INFORMATION**

PUB-CA-1 to PUB-CA-17 (2nd Issue)

Directed To Consumer Advocate Witness Dr. William Cannon

Re-issued August 31, 2007

PUB-CA-1

On electronic spreadsheet with all formula intact, please provide a copy of all analyses and work papers used in support of Dr. Cannon's direct testimony, appendices and statistical exhibits.

PUB-CA-2

At page 16 of his direct testimony, Dr. Cannon states that according to the credit agencies, the Weather Normalization Reserve and the Rate Stabilization Account (RSA) strengthen NP's creditworthiness. Please provide a copy of all credit agency reports in support of this testimony.

PUB-CA-3

Referring to page **39-40** of Dr. Cannon's direct testimony, please provide the academic article "Best Practices in Estimating the Cost of Capital."

PUB-CA-4

Referring to page **40** of Dr. Cannon's direct testimony, please provide the "Canadian Survey of Economic Expectations 2007."

PUB-CA-5

At page 41 of his direct testimony, Dr. Cannon derives his market risk premium range of 3.65-3.85% and 4.0-4.85%, relative to Long-Term Canada's and Long-Term assets, respectively. For each range explain how Dr. Cannon arrived at this range and provide copies of all supporting work papers.

PUB-CA-6

Referring to page 41 of his direct testimony, please state how the market risk premium ranges of 3.65-3.8% and 4.0-4.85% will change if Dr. Cannon has relied on arithmetic estimates only.

PUB-CA-7

At page 46 of his direct testimony, Dr. Cannon derives his market risk premium range of 3.8-4.2% and 4.75-5.15%, relative to Long-Term U.S. Treasury Bonds and Long-Term assets, respectively. Please explain how Dr. Cannon arrived at these ranges and provide copies of all supporting work papers.

PUB-CA-8

Referring to page 41 of his direct testimony, please state how the market risk premium ranges of 3.8-4.2% and 4.75-5.15% will change if Dr. Cannon has relied on arithmetic estimates only.

PUB-CA-9

At page 53 of his direct testimony, Dr. Cannon adds 45 basis points to his Equity Risk Premium (ERP) cost of equity range of 6.1% to 6.6% in order to account for flotation cost and financial flexibility. Please provide all work papers used to derive this adjustment.

PUB-CA-10

At page 56 of his direct testimony, Dr. Cannon adds 45 basis points to his ERP cost of equity range of 6.85% to 8.05% in order to account for flotation cost and financial flexibility. Please provide all work papers used to derive this adjustment.

PUB-CA-11

Concerning Dr. Cannon's flotation cost and financing flexibility adjustment described at pages 53 and 56 of his direct testimony, please identify all Canadian jurisdictions where he proposed such an adjustment to the return on equity estimate and include: jurisdiction, utility, docket number and date of commission order. Please state explicitly whether the commissions have approved such an adjustment to the return on equity as proposed by Dr. Cannon.

PUB-CA-12

Please estimate Newfoundland Power's Standard & Poor's credit metrics using its cost of service in this proceeding and Dr. Cannon's proposed return on equity.

PUB-CA-13

How do the credit metrics provided in **PUB-CA-12** above compare to Standard & Poor's benchmark financial ratios for a utility with an A and BBB bond rating and a business profile score of 3.

PUB-CA-14

Referring to page 71 and 72 of his direct testimony, Dr. Cannon offers financial ratios in support of his contention that his proposed return on equity for Newfoundland Power will maintain the utilities financial integrity. With respect to these financial ratios, please provide the following:

- (i) An electronic spreadsheet with all formula intact used to develop these financial ratios.
- (ii) Published benchmarks for these financial ratios by credit return agencies that support Dr. Cannon's conclusion that the ratios will support NP's financial integrity.
- (iii) A discussion of how these ratios were calculated and state whether they were calculated in a manner consistent with the credit rating agency methodology for **published** ratio guidelines.
- (iv) Has Dr. Cannon compared the financial ratios for NP he offers on page 72 of his direct testimony to the same financial ratios of other Canadian utility companies? If yes, please provide a copy of this comparison.

PUB-CA-15

Please recalculate the financial ratios offered on page 72 of Dr. Cannon's testimony but reflect an authorized return on equity at 9% rather than Dr. Cannon's proposed return on equity in this proceeding.

PUB-CA-16

On page 72 of Dr. Cannon's testimony, please identify the amount of additional first mortgage bonds that NP could issue at Dr. Cannon's proposed return on equity and keep the earnings interest coverage ratio above the 2.0 times minimum threshold.

PUB-CA-17

Concerning the earnings interest coverage ratio from **PUB-CA-16** above, please also describe how the maximum amount of additional first mortgage bonds that can be issued compares to the amount of additional funding NP needs for its five year capital expenditure budget.

DATED at St. John's, Newfoundland this 31st day of August 2007.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Per Original signed by _____
Cheryl Blundon
Board Secretary