



NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
120 Torbay Road, P.O. Box 21040, St. John's, Newfoundland and Labrador, Canada, A1A 5B2

E-mail: dbrowne@bfma-law.com

2018-10-04

Mr. Dennis Browne, Q.C.
Browne Fitzgerald Morgan & Avis
Terrace on the Square, Level 2
P.O. Box 23135
St. John's, NL A1B 4J9

Dear Mr. Browne:

**Re: Newfoundland Power Inc. - 2019-2020 General Rate Application
Requests for Information**

Enclosed are Information Requests PUB-CA-001 to PUB-CA-023 regarding the above-noted application.

If you have any questions, please do not hesitate to contact the Board's Legal Counsel, Ms. Jacqui Glynn, by email, jglynn@pub.nl.ca or telephone (709) 726-6781.

Yours truly,

Sara Kean
Assistant Board Secretary

SK/cj
Enclosure

ecc Newfoundland Power Inc.
Kelly Hopkins, khopkins@newfoundlandpower.com
Liam O'Brien, E-mail: lobrien@curtisdawe.com
NP Regulatory, E-mail: regulatory@newfoundlandpower.com
Consumer Advocate
Stephen Fitzgerald, E-mail: sfitzgerald@bfma-law.com
Sarah Fitzgerald, E-mail: sarahfitzgerald@bfma-law.com
Bernice Bailey, E-mail: bbailey@bfma-law.com
International Brotherhood of Electrical Workers, Local 1620
Donald Murphy, E-mail: don@ibew1620.com
Mark Murray, E-mail: mmurray@mwhslaw.com
Matthew Gough, E-mail: mgough@mwhslaw.com

1 **IN THE MATTER OF**
2 the *Electrical Power Control Act, 1994*,
3 SNL 1994, Chapter E-5.1 (the “*EPCA*”)
4 and the *Public Utilities Act*, RSNL 1990,
5 Chapter P-47 (the “*Act*”), as amended; and
6
7 **IN THE MATTER OF** a general rate
8 application filed by Newfoundland Power Inc.
9 to establish customer electricity rates for 2019
10 and 2020.

**PUBLIC UTILITIES BOARD
REQUESTS FOR INFORMATION**

PUB-CA-001 to PUB-CA-023

Issued: October 4, 2018

- 1 **Evidence of Laurence Booth dated September 25, 2018**
2
- 3 **PUB-CA-001** Page 2, lines 32-35: Please explain what Dr. Booth’s “misgivings” are
4 concerning the recommended ROE of 7.5% and how they influenced his
5 recommendations for ROE.
6
- 7 **PUB-CA-002** Page 3, lines 7-13: Dr. Booth states here that the province “will in all
8 likelihood reallocate some of those costs to other entities to reduce rate shock”.
9 A similar opinion is expressed at page 5, lines 16-20 and pages 74-75.
10 Assuming that the province will take action as Dr. Booth believes and that is
11 known or assumed by capital and financial markets, there is at this time, still no
12 certainty with respect to the extent of any action by the Government of
13 Newfoundland and Labrador to “reduce rate shock” including the magnitude of
14 any reduction in electricity price increases. Explain how and to what degree
15 this existing uncertainty affects the assessment of business risks.
16
- 17 **PUB-CA-003** Page 3, footnote 1: Explain why and how the impact of the ROE on electricity
18 prices for customers is a factor to be considered in determining a fair and
19 reasonable ROE.
20
- 21 **PUB-CA-004** Page 5, lines 11-12: Please explain in detail the basis for the 3.8% trigger for
22 the forecast long Canada bond yield.
23
- 24 **PUB-CA-005** Page 45, lines 19-24: Dr. Booth states that he makes an adjustment to his
25 “simple” CAPM estimate and adds a 50% adjustment for credit spreads of
26 0.18% for current market conditions. Is Dr. Booth aware of any Canadian
27 regulator that has applied or considered the application of a credit spread
28 adjustment in their allowed ROE conclusions since the Board’s last decision in
29 2016 on a fair return for Newfoundland Power? If yes, please provide details of
30 such decision.
31
- 32 **PUB-CA-006** Page 43: Dr. Booth uses the consensus forecast of 3.0% for the average long
33 term Canadian bond yield for 2019 in his “simple” CAPM fair return estimate
34 for 2019. Is Dr. Booth of the opinion that a forecast for the average long term
35 bond yield over the period 2019 to 2020, which is the period rates are expected
36 to be in effect, is an appropriate adjustment that can be made to the “simple”
37 CAPM estimate to adjust for the current market conditions?
38
- 39 **PUB-CA-007** Page 47, lines 8-16: Please explain in more detail the basis for Dr. Booth’s
40 Operation Twist adjustment of .80% to the forecast LTC yield and why he
41 selected the forecast difference between US and Canadian LTC yields as the
42 appropriate adjustment.
43
- 44 **PUB-CA-008** Page 47: Dr. Booth makes a second adjustment to his CAPM estimate which
45 adds a .80% spread. Is Dr. Booth aware of any Canadian regulator that has

1 applied or considered applying such an adjustment in their ROE conclusions?
 2 If yes, provide details of such decision.

3
 4 **PUB-CA-009** Pages 63-64: The mid-point of the range of the CAPM estimate, after
 5 adjustments for credit spreads and Operations Twist is 7.26%, however, Dr.
 6 Booth recommends an ROE of 7.5%. Please explain in further detail why Dr.
 7 Booth believes it is appropriate to increase the recommended ROE to 7.5%.

8
 9 **PUB-CA-010** Page 64: Dr. Booth's recommendation of an ROE of 7.5% is lower than the
 10 current allowed ROE's of Canadian investor-owned utilities as provided in the
 11 Evidence of Mr. Coyne at page 41 and in Dr. Cleary's at pages 25-26. Please
 12 explain whether this is an indication that Dr. Booth's recommended ROE is not
 13 reflective of regulators' assessment of the fair return or ROE for Canadian
 14 utilities in the current market conditions. In the response explain why the ROE
 15 for Newfoundland Power should be the lowest in Canada.

16
 17 **PUB-CA-011** Pages 51-52 and pages 63-64: Explain in what manner Dr. Booth believes that
 18 the DCF method and DCF estimates should be considered by the Board in
 19 establishing the fair return for Newfoundland Power, for example should it be
 20 given equal weight with an adjusted CAPM result or simply used as a factor or
 21 a check when considering the fair ROE?

22
 23 **PUB-CA-012** Page 77, lines 2-28: Dr. Booth states that in his judgement there is "no material
 24 increase in NP business risk since 2016" and that any potential "rate shock"
 25 from higher electricity costs will not impact the two test years 2019 and 2020.
 26 In Dr. Booth's opinion is it ever appropriate in setting the ROE to consider an
 27 imminent material increase in business risk which happens to fall just outside
 28 the test year time period?

29
 30 **PUB-CA-013** Page 80, lines 16-18: Dr. Booth states that Newfoundland Power is a "low
 31 risk" utility with an "excessively conservative common equity ratio". If the
 32 Board concludes Newfoundland Power is an average risk Canadian utility as it
 33 has in the past, how would this affect Dr. Booth's opinion on what a fair ROE
 34 is?

35
 36 **PUB-CA-014** Page 80, lines 16-18: Please clarify whether Dr. Booth's recommendation on
 37 ROE is based on the current capital structure and what the recommendation for
 38 ROE would be if the capital structure were changed to 60% debt.

39
 40
 41 **Evidence of Dr. Sean Cleary dated September 25, 2018**

42
 43 **PUB-CA-015** Page 2, lines 6-11 and page 24, lines 6-12: Dr. Cleary concludes that
 44 Newfoundland Power is a "very low business risk firm". In Order No. P.U. 18
 45 (2016) the Board concluded at page 19, lines 26-29 that Newfoundland
 46 Power's business risk had not increased at that time to above average from

- 1 average and at lines 31-32 that it was an average risk utility. What
2 circumstance or factors have changed since the Board's Order that would cause
3 the Board to now conclude that Newfoundland Power has a very low business
4 risk?
5
- 6 **PUB-CA-016** Pages 16, line 27 to page 19: In Dr. Cleary's discussion of operating
7 environment there is no reference to the business risks outlined in
8 Newfoundland Power's evidence at page 1-7 and in Mr. Coyne's at pages 2
9 and 54-57 of the increased risks since 2016 of the declining provincial
10 economy and the anticipated significant rate increases due to the Muskrat Falls
11 Project. Please provide Dr. Cleary's opinion as to how these factors were taken
12 into account in his consideration of Newfoundland Power's business risk and
13 his conclusion that Newfoundland Power has very low business risk.
14
- 15 **PUB-CA-017** Pages 21-24: Dr. Cleary uses two measures of operating income volatility (CV
16 (EBIT) and CV (EBIT) / Sales) to quantify Newfoundland Power's level of
17 business risk. Have these measure ever been accepted by a regulatory board in
18 establishing the fair ROE and capital structure for a utility? If yes, please
19 provide references to the decisions.
20
- 21 **PUB-CA-018** Page 27, Table 10: The Canadian regulated utilities listed in Table 10 include
22 crown corporations. Explain whether credit rating agencies view credit metrics
23 for crown corporations differently than investor owned utilities and whether
24 crown corporations are appropriate comparators for investor owned utilities.
25
- 26 **PUB-CA-019** Pages 22-25: Dr. Cleary includes data on US utilities and at page 22, line 26
27 states that US utilities have much higher business risks and on page 25, line 9
28 states that the US holding companies included in Mr. Coyne's proxy groups are
29 poor comparators for Newfoundland Power. In Dr. Cleary's opinion what
30 degree of reliance should the Board place on US data when considering the fair
31 ROE and capital structure for Newfoundland Power?
32
- 33 **PUB-CA-020** Page 26-28: Dr. Cleary compared Newfoundland Power's credit metrics for
34 2017-2018 to those of other utilities. The response to PUB-NP-034 includes
35 pro forma credit metrics for 2019 and 2020 at various capital structures and
36 ROEs. In Dr. Cleary's opinion would any of the metrics in the response to
37 PUB-NP-034 be of concern for Newfoundland Power's credit rating?
38
- 39 **PUB-CA-021** Further to PUB-CA-020 has Dr. Cleary considered the impact of a capital
40 structure for Newfoundland Power at 40% equity and an ROE of 7.5 % on its
41 credit metrics and credit rating?
42
- 43 **PUB-CA-022** Page 34: Dr. Cleary has provided an estimate of the cost for rate payers using
44 2017 data associated with an ROE at 8.5% and 8.93% and the capital structure
45 at 40% equity rather than 45%. What is the estimate of cost if the ROE were
46 7.5%?

1 **PUB-CA-023** Page 36, lines 11-14: Dr. Cleary recommends that the Board reduce
2 Newfoundland Power's equity ratio to 40%. Please state the ROE that this
3 recommendation has taken into consideration and whether an ROE of 7.5%
4 with this recommended capital structure is fair and reasonable.

DATED at St. John's, Newfoundland this 4th day of October, 2018.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Per 
Sara Kean
Assistant Board Secretary