



NEWFOUNDLAND AND LABRADOR

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

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2024-05-03

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Dear Sir:

**Re: Newfoundland Power Inc. - 2025-2026 General Rate Application –  
To CA - Requests for Information**

Enclosed are Requests for Information PUB-CA-001 to PUB-CA-015 regarding the above-noted application.

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

Sincerely,

Jo-Anne Galarneau  
Board Secretary

JG/cj

ecc **Newfoundland Power Inc.**  
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1 **IN THE MATTER OF** the **Public**  
2 **Utilities Act**, (the “**Act**”); and  
3  
4  
5 **IN THE MATTER OF** a general rate  
6 application by Newfoundland Power Inc.  
7 to establish customer electricity rates for  
8 2025 and 2026.

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**PUBLIC UTILITIES BOARD  
REQUESTS FOR INFORMATION**

**PUB-CA-001 to PUB-CA-015**

**Issued: May 3, 2024**

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1 **Laurence D. Booth Report, filed April 17, 2024**

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3 **PUB-CA-001** Dr. Booth has given evidence in several Canadian regulatory proceedings on the  
4 recommended ROE and capital structure for regulated utilities.

5 (i) Please provide a table that lists Dr. Booth's recommended ROEs and capital  
6 structure as filed in evidence with Canadian regulators, the date filed and the  
7 party (residential consumers, commercial/industrial customers, the utility or  
8 the regulator) in each proceeding for the period 2014 to the present.

9 (ii) List each decision by a regulator in the last ten years that accepted Dr. Booth's  
10 recommendations fully or partially, and if partially accepted, state what was  
11 accepted.

12

13 **PUB-CA-002** Laurence D. Booth Report, page 2, lines 3-11 and page 114, lines 9-24. Forecast  
14 net income is expressed as a % of future average rate base and a comparison is  
15 provided to the same metric for other Fortis Canadian regulated utilities.

16 (i) Please explain how this metric should be taken into account by the Board in  
17 determining the equity and fair return for Newfoundland Power.

18 (ii) Please explain whether any Canadian regulator has explicitly taken this  
19 metric into account in a decision.

20 (iii) Please provide the same metric for Canadian electric utilities, other than the  
21 Fortis associated companies for which the metric is provided in Dr. Booth's  
22 Evidence.

23

24 **PUB-CA-003** Laurence D. Booth Report, page 2, lines 21-24. Dr. Booth states that his  
25 recommendation is a 7.70% ROE which is slightly higher than previous  
26 recommendations.

27 (i) Please confirm that the reason for the increase in the recommended ROE is  
28 that Dr. Booth views the current economic environment as more favorable  
29 than when he previously provided his opinion as set out on pages 35-36 of  
30 the Evidence.

31 (ii) If the Board believes that the ROE of 8.5% was reasonable when approved in  
32 the 2022/2023 General Rate Application and that Dr. Booth is correct that  
33 economic conditions are more favorable now, should the Board approve a  
34 slightly higher ROE in this proceeding because of changed market  
35 conditions?

36

37 **PUB-CA-004** Laurence D. Booth Report, page 42, lines 1-5 and Appendix B. Dr. Booth estimates  
38 the market risk premium of common equities over long-term Canada bonds at  
39 4.87% and the equivalent in the U.S. at 6.58% based on capital market history from  
40 1926 until 2023. Mr. Coyne in his evidence at page 46 shows both a historical  
41 market risk premium and a forward-looking market risk premium. Mr. Coyne states  
42 that "to temper the results" of the CAPM analysis only the historical market risk  
43 premium is used for the recommendation in this proceeding.

- 1 (i) In Dr. Booth's opinion should a forward-looking market risk premium ever  
2 be considered in the CAPM analysis?
- 3 (ii) Mr. Coyne's historical market risk premium is 5.62% for Canada and 7.17%  
4 for the U.S. are both higher than Dr. Booth's estimates. Does Dr. Booth  
5 agree with Mr. Coyne's method to calculate the historic market risk  
6 premium?  
7
- 8 **PUB-CA-005** Laurence D. Booth Report, page 45, lines 15-28. Dr. Booth states at line 15 that  
9 there is no evidence of any Blume adjustment for either U.S. or Canadian utilities  
10 and recommends a beta range of 0.50 - 0.60. Mr. Coyne in his Evidence at page 44  
11 does use a Blume adjustment for utilities and recommends a higher beta in his  
12 CAPM analysis. Have Canadian regulators accepted Dr. Booth's approach to  
13 determining the beta for a utility? Have any accepted Mr. Coyne's approach?  
14
- 15 **PUB-CA-006** Laurence D. Booth Report, page 46, lines 1-8. Dr. Booth says that a conventional or  
16 generic CAPM estimate for a benchmark utility at the present would be within a  
17 range of 7.05% - 7.90% and a mid-point of 7.45% if the method as applied prior to  
18 the financial crisis in 2008 was used. At page 48, line 19 to page 49, line 2, Dr. Booth  
19 says "with the slight slowdown I warrant the CAPM estimate as being marginally  
20 low and would add the credit risk adjustment for a conditional CAPM (CCAPM)  
21 rounded estimate of 7.70 % which is slightly lower than that produced by the  
22 modified NEB formula."  
23 (i) Please explain if there are other potential adjustments and if Dr. Booth  
24 considered other adjustments, other than a credit risk adjustment, that  
25 could be used to reflect the current market conditions so that the CAPM  
26 analysis would not produce an ROE that was too low and not fair? In the  
27 response, please explain the role that informed judgment plays in  
28 determining an appropriate adjustment to adjust for the current capital  
29 market.  
30 (ii) Please explain if the credit risk adjustment has been accepted by Canadian  
31 regulators in setting the fair return for a Canadian electrical utility.  
32
- 33 **PUB-CA-007** Laurence D. Booth Report, pages 46-48, Automatic Adjustment Formula. Dr. Booth  
34 refers to the NEB's (now the Canada Energy Regulator) ROE Adjustment Formula  
35 and states on page 48, lines 13-15 that application of that Formula would result in  
36 a ROE of 8.4%.  
37 (i) In Dr. Booth's opinion is the result from application of this formula, which is  
38 a slightly higher ROE than the high end of his recommended range,  
39 appropriate or unreasonable for an ROE for Newfoundland Power at this  
40 time?  
41 (ii) On page 3, line 19 to page 4, line 6, Dr. Booth refers to the changing capital  
42 market conditions and says that, as we are getting closer to the 3.8% forecast  
43 LTC yield which he regards as the "normality trigger" for bond prices and  
44 yields to be determined on the basis of fair market value, "the validity of the

suspended ROE adjustment formulae begin to assert themselves”. Does Dr. Booth recommend the use of the automatic adjustment formula as described on page 22 of Appendix E, which includes first setting the starting value at 8.5%, or any other adjustment formula be implemented at this time to determine the ROE for Newfoundland Power or that use of an automatic adjustment formula be reviewed at the time of Newfoundland Power’s next general rate application to determine if capital market conditions have then fully returned to “normal”?

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10 **PUB-CA-008** Laurence D. Booth Report, Appendix E, page 22, lines 20-22. Please confirm that if  
11 the Board determines as in recent general rate applications for Newfoundland  
12 Power that a general rate application should be filed after three years that Dr.  
13 Booth would not recommend the re-introduction of an automatic adjustment  
14 formula at this time.

15  
16 **PUB-CA-009** Laurence D. Booth Report, page 53, lines 22-25. Please explain how in Dr. Booth’s  
17 opinion the DCF methodology should be considered by the Board in its  
18 determination of a fair return for Newfoundland Power. In the response, please  
19 state whether the CAPM, with adjustments to reflect current market conditions, is  
20 Dr. Booth’s preferred approach to assess the fair return for Newfoundland Power.

21  
22 **PUB-CA-010** Laurence D. Booth Report, page 117, lines 7-15. Dr. Booth recommends a 7.7%  
23 allowed ROE on a 40% common ratio, which is significantly below the ROEs  
24 currently approved for Canadian electric utilities with similar allowed equity ratios  
25 to 40% (ROEs and deemed equity ratios for Canadian electric utilities are provided  
26 in Mr. Coyne’s report in Figure 33 on page 55). Implementation of Dr. Booth’s  
27 recommendation would result in Newfoundland Power having the lowest  
28 approved ROE of any electrical utility in Canada.

29 (i) Why, in Dr. Booth’s opinion, should Newfoundland Power have a lower ROE  
30 than any other electrical utility in Canada or are the ROEs for the others  
31 higher than required for the fair return standard?

32 (ii) In Dr. Booth’s opinion does Newfoundland Power have the lowest business  
33 risk of regulated utilities in Canada so that the ROE should be significantly  
34 lower with a common equity ratio of (i) 45% and (ii) 40%?  
35

36 **PUB-CA-011** In Dr. Booth’s opinion how should Newfoundland Power’s credit ratings by  
37 Moody’s and DBRS be considered in setting the fair return and what impact would  
38 the implementation of Dr. Booth’s recommendations have, in Dr. Booth’s opinion  
39 on Newfoundland Power’s credit ratings?  
40

41 **PUB-CA-012** Laurence D. Booth Report, page 104, lines 5-13. Dr. Booth expresses the opinion  
42 that Newfoundland Power has lower risk than in the past for the reasons explained  
43 in his report and that it has as low, if not lower risk, than other electricity utilities  
44 in Canada. If the Board concludes, contrary to Dr. Booth’s opinion that

1 Newfoundland Power is an average risk utility, how would this affect Dr. Booth's  
2 opinion on the fair ROE for Newfoundland Power and its capital structure?  
3

4 **PUB-CA-013** Laurence D. Booth Report, page 117, lines 7-15, Dr. Booth states that an 8.5% ROE  
5 is fair and reasonable. Please explain whether it is his opinion that 8.5% ROE is fair  
6 if approved by the Board in this proceeding with an equity ratio of (i) 40% and (ii)  
7 45%.  
8

9 **PUB-CA-014** The responses to PUB-NLH-003 and PUB-NLH-004 in this proceeding demonstrate  
10 that an increase in the test year return on equity for Newfoundland Power will  
11 result in a material increase in supply costs from Newfoundland Hydro and  
12 contribute to increased customer rates, while an increase in the test year equity  
13 component of the capital structure for Newfoundland Power could provide  
14 increased return to Newfoundland Power without increasing supply costs from  
15 Hydro. Should this relationship be considered when determining the return (in  
16 dollars) when establishing the test year revenue requirement for Newfoundland  
17 Power? If not, why not?  
18

19 **PUB-CA-015** Further to PUB-CA-014, if the Board decides to increase the equity component in  
20 the capital structure for Newfoundland Power to higher than 45% to a % within  
21 the range of 46% - 50%, how would this increase influence the determination of  
22 the approved ROE and how, in Dr. Booth's opinion would such an approach be  
23 perceived by the financial markets?

**DATED** at St. John's, Newfoundland this 3<sup>rd</sup> day of May, 2024.

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

Per



Jo-Anne Galarneau  
Board Secretary