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HAND DELIVERED

October 5, 2018

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: 2019/2020 General Rate Application

Please find enclosed the original and 9 copies of Newfoundland Power's Requests for Information numbered:

- (1) NP-CA-001 to NP-CA-059 with respect to the pre-filed evidence of Dr. Laurence Booth, and
- (2) NP-CA-060 to NP-CA-096 with respect to the pre-filed evidence of Dr. Sean Cleary.

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 the parties listed below.

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

Yours very truly,

A handwritten signature in blue ink, appearing to read "Kelly Hopkins".

Kelly Hopkins
Corporate Counsel

Enclosures

Newfoundland Power Inc.

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6
PHONE (709) 737-5364 • FAX (709) 737-2974 • khopkins@newfoundlandpower.com

Board of Commissioners
of Public Utilities
October 5, 2018
Page 2 of 2

c. Dennis Browne, QC
Consumer Advocate

Mark Murray
IBEW, Local 1620

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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 2019 and 2020.

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

To: Dr. Laurence Booth

NP-CA-001 to NP-CA-059

October 5, 2018

Requests for Information
Evidence of Dr. Laurence Booth – 2019/2020 General Rate Application

NP-CA-001 Reference: Dr. Booth Evidence, Page 3, Lines 14-17

“I regard a 7.5% ROE for NP on 40% common equity as satisfying the fair return standard. However, since the Board heard full business risk and capital structure evidence in 2016 and fixed NP’s common equity ratio at 45% I have not entered full evidence on the common equity ratio again.”

What impact does Dr. Booth believe a 7.5% ROE and a 40% common equity ratio will have on Newfoundland Power’s credit ratings from Moody’s and DBRS?

NP-CA-002 Reference: Dr. Booth Evidence, Page 6, Lines 1-6

“...I continue to judge NP as warranting the same 40% common equity ratio as other Canadian electric distribution utilities with similar low business risk. However, I generally recommend that common equity ratios only be changed in the face of significant changes in business risk or when they are clearly out of line. Since the Board heard full evidence on NP’s common equity ratio in 2016 and decided to maintain it at 45% I have not revisited this topic in detail.”

Is Dr. Booth recommending that Newfoundland Power’s capital structure not be changed at this time? If so, please explain.

NP-CA-003 Reference: Dr. Booth Evidence, Page 20, Lines 21-23

What are the implications for the financial models used to estimate the cost of equity based on Dr. Booth’s observation that LTC bond yields are being set by global policy makers rather than by private investors in the financial market?

NP-CA-004 Reference: Dr. Booth Evidence, Page 20, Lines 21-23

Please explain what adjustments may be required to the CAPM and DCF models to account for the fact that LTC bond yields are not being set at an equilibrium level by private investors in financial markets.

NP-CA-005 Reference: Dr. Booth’s Evidence, Page 22, Lines 8-11

Does Dr. Booth believe that investors rely on interest rate forecasts, such as those from Consensus Economics or Blue Chip Financial Forecasts? If not, why not?

NP-CA-006 Reference: Dr. Booth’s Evidence, Page 22, Lines 8-11

Please provide any evidence to support Dr. Booth’s assertion that interest rate forecasts, such as those from Consensus Economics or Blue Chip

Financial Forecasts, have “been consistently wrong since the financial crisis”. In particular, please focus your response on forecasts in 2017 and 2018.

NP-CA-007 Reference: Dr. Booth’s Evidence, Page 27, Lines 4-5

How does the fact that A-rated corporate bond yields in Canada are lower than in 2016 support Dr. Booth’s conclusion that the corporate debt market is “even more accessible” than in 2016?

NP-CA-008 Reference: Dr. Booth’s Evidence, Page 31, line 1

Please provide data for the Chart on Page 31 of Dr. Booth’s evidence in electronic, executable format with all formulas and links intact.

NP-CA-009 Reference: Dr. Booth’s Evidence, Page 34, Line 1 to Page 35, Line 1

Please explain whether Dr. Booth believes that Newfoundland Power’s business risk is more closely associated with the economy in the province of Newfoundland and Labrador or the economy of Canada.

NP-CA-010 Reference: Dr. Booth’s Evidence, Page 34, Line 1 to Page 35, Line 1

What weight does Dr. Booth give to the Newfoundland and Labrador economy versus the Canadian economy in developing his recommended return on equity?

NP-CA-011 Reference: Dr. Booth’s Evidence, Page 34, Line 1 to Page 35, Line 1

Given Dr. Booth’s acknowledgement that economic conditions in Newfoundland and Labrador are generally weaker than the remainder of Canada, please explain how his ROE recommendation has taken into consideration the relative economic weakness of the Province, its small size, and its lack of economic diversification.

NP-CA-012 Reference: Dr. Booth Evidence, Page 34, Lines 9-10

Please provide the Royal Bank of Canada’s provincial forecast (September 12, 2018) referenced in Dr. Booth’s evidence.

NP-CA-013 Reference: Dr. Booth Evidence, Page 34, Lines 21-22

Dr. Booth indicates that, according to RBC, personal disposable income per capita in Newfoundland and Labrador is above the Canadian average. Did Dr. Booth review key economic indicators relating to the Province’s labour force, population, employment, discomfort index, retail sales, and housing starts? If so, what were his observations and conclusions? If not, why not?

NP-CA-014 Reference: Dr. Booth's Evidence, Page 36, line 1 to Page 38, Line 8

Please provide any more recent studies or surveys than those mentioned on Pages 36-38 of Dr. Booth's evidence that support his assertion that the CAPM remains the most common way of estimating the fair rate of return.

NP-CA-015 Reference: Dr. Booth's Evidence, Page 36, Line 1 to Page 38, Line 8

Please reconcile the above referenced testimony on pages 36-38 of Dr. Booth's evidence regarding the CAPM with Dr. Booth's statement on page 4, lines 25-26 of Appendix D to his evidence that the DCF estimate is particularly appropriate for use in determining the fair rate of return for a regulated utility. Which model does Dr. Booth believe is more appropriate for a regulated utility?

NP-CA-016 Reference: Dr. Booth Evidence, Page 36, Lines 2-12

Since Dr. Booth believes that yields on long-term Canadian bonds are well below any normal equilibrium level, would he agree that one of the underlying assumptions of the CAPM is not being met under current market conditions, thereby rendering the results of the CAPM less reliable than other models? If not, why not?

NP-CA-017 Reference: Dr. Booth Evidence, Page 36, Lines 18-20

Does Dr. Booth agree that changes in risk imply changes in beta coefficients?

NP-CA-018 Reference: Dr. Booth Evidence, Page 36, Lines 18-20

If Dr. Booth believes that risk is constantly changing and so too are beta coefficients, please explain why Dr. Booth holds beta coefficients constant for Canadian utilities at 0.45-0.55 in his application of the CAPM.

NP-CA-019 Reference: Dr. Booth Evidence, Page 36, Lines 18-20

Has Dr. Booth ever utilized a different beta coefficient in any evidence he has submitted in the past ten years for a regulated gas or electric utility company? If so, please specify the jurisdiction and docket number.

NP-CA-020 Reference: Dr. Booth's Evidence, Page 40, Lines 4-5

What is the average Canadian market return and the average LTC yield used to compute the historical market risk premium of 5.0% to 6.0% in Canada?

NP-CA-021 Reference: Dr. Booth's Evidence, Page 40, Lines 4-5

Does Dr. Booth believe that the market risk premium varies with the level of interest rates, or is it static regardless of the LTC yield? Please provide any evidence or rationale used to support your response.

- NP-CA-022 Reference: Dr. Booth's Evidence, Page 40, Line 17 to Page 41, Line 9
- Does Dr. Fernandez, whose survey Dr. Booth relies on for his market risk premium, support the use of the CAPM to estimate the return on equity? If not, what concerns has Dr. Fernandez expressed with the CAPM?
- NP-CA-023 Reference: Dr. Booth's Evidence, Page 40, Line 17 to Page 41, Line 9
- Does Dr. Fernandez express concern regarding the ability to estimate betas?
- NP-CA-024 Reference: Dr. Booth's Evidence, Page 42, Line 11-16
- Please describe the specific parameters used by each of these six sources listed on Page 42 to calculate the beta coefficients that Dr. Booth has relied upon in his CAPM analysis. Also, are these betas adjusted or raw?
- NP-CA-025 Reference: Dr. Booth's Evidence, Page 43, Lines 1-2
- Please provide the referenced 2013 article from Michelfelder and Theodossiou.
- NP-CA-026 Reference: Dr. Booth's Evidence, Page 43, Line 27 to Page 44, Line 5
- Please explain the theoretical basis for the Conditional CAPM. Please provide any academic literature that supports the use of the Conditional CAPM to adjust for the artificially low interest rate environment that has been created by monetary policy.
- NP-CA-027 Reference: Dr. Booth Evidence, Page 46, Lines 25-27
- Given Dr. Booth's testimony that current bond yields are not being determined by ordinary investors trading off risk versus return, as assumed in standard risk premium models, would Dr. Booth agree that the CAPM is not producing reliable results under current market conditions and is essentially "broken"? Please explain.
- NP-CA-028 Reference: Dr. Booth's Evidence, Page 52, Lines 7-9
- What adjustments has Dr. Booth made to the mechanical application of the DCF model to correct for the abnormally low LTC bond yield?
- NP-CA-029 Reference: Dr. Booth's Evidence, Page 59, Line 26 to Page 60, Line 2
- In Ontario, does Dr. Booth agree that the authorized ROE for utilities regulated by the Ontario Energy Board under the automatic adjustment formula increased from 8.78 percent in 2017 to 9.00 percent in 2018?

NP-CA-030 Reference: Dr. Booth's Evidence, Page 59, Line 26 to Page 60, Line 2

In Alberta, does Dr. Booth agree that the authorized ROE in the 2016 Generic Cost of Capital decision increased by 20 basis points from 8.30 percent to 8.50 percent?

NP-CA-031 Reference: Dr. Booth's Evidence, Page 60, Line 3-6

Please identify any authorized equity returns for investor owned utilities in Canada as low as Dr. Booth's ROE recommendation of 7.50 percent.

If there are no returns in Canada as low as Dr. Booth's recommendation, please explain how his ROE recommendation of 7.50 percent meets the comparable return requirements of the Fair Return Standard.

NP-CA-032 Reference: Dr. Booth's Evidence, Page 64, Lines 16-19

Please provide the source of the earned ROE data for U.S. electric utilities in the Chart on Page 64 of Dr. Booth's evidence and confirm whether the earned ROEs for U.S. electric utilities in the Chart are calculated at the holding company or operating company level.

NP-CA-033 Reference: Dr. Booth Evidence, Page 64, Line 19

Please provide the source data for the Chart on Page 64 in electronic, executable format with all formulas and links intact.

NP-CA-034 Reference: Dr. Booth's Evidence, Page 65, Lines 7-10

Given Dr. Booth's concern with the comparability of U.S. holding companies, please explain why he has not calculated the earned ROE for the U.S. electric utilities at the operating company level.

NP-CA-035 Reference: Dr. Booth's Evidence, Page 66, Line 4

Please provide the source data for the Chart on Page 66 in electronic, executable format with all formulas and links intact.

NP-CA-036 Reference: Dr. Booth's Evidence, Page 67, Lines 1-5

Please confirm that Dr. Booth understands that Mr. Coyne's U.S. electric proxy group is selected based on the same screening criteria in 2018 as Mr. Coyne used in Newfoundland Power's 2016/2017 General Rate Application.

NP-CA-037 Reference: Dr. Booth Evidence, Page 67, Lines 17-18 and Page 69, Lines 11-13

Dr. Booth states at page 67:

“There is no question that markets have normalized and that NP should by now be back on an AAM.”

and at page 69;

“These concerns should be clarified by the time there is a hearing for the test years 2021 and beyond and I would recommend that the Board defer considering a new AAM until the GRA for years 2021 and beyond.”

Please reconcile Dr. Booth’s comments on pages 67 and 69.

NP-CA-038 Reference: Dr. Booth Evidence, Page 70, Lines 2-5

Does Dr. Booth believe the business risk of Newfoundland Power is different from the business risk of other Canadian utilities? If so, please explain in detail how Newfoundland Power’s business risk is different from other Canadian utilities.

NP-CA-039 Reference: Dr. Booth Evidence, Page 70, Lines 1-10

What does Dr. Booth believe to be the most important factor considered by Moody’s and DBRS in determining Newfoundland Power’s credit rating?

NP-CA-040 Reference: Dr. Booth Evidence, Page 71, Lines 2-3

“In a dictionary sense risk is the probability of incurring harm. On the basis of its demonstrated ability at earning its allowed ROE, NP has not suffered any risk whatsoever.”

Is it Dr. Booth’s opinion that Newfoundland Power has no risk whatsoever because of its demonstrated ability at earning its allowed ROE?

NP-CA-041 Reference: Dr. Booth Evidence, Page 71, Lines 2-3

“In a dictionary sense risk is the probability of incurring harm. On the basis of its demonstrated ability at earning its allowed ROE, NP has not suffered any risk whatsoever.”

In Dr. Booth’s opinion, what role, if any, does sound financial management play in his assessment of utility business risk?

NP-CA-042 Reference: Dr. Booth Evidence, Page 74, Lines 15-17

What concerns have Moody's Investors Services and DBRS expressed regarding the effect of higher electricity prices due to the Muskrat Falls hydroelectric project on Newfoundland Power's future ability to fully recover costs and earn returns?

NP-CA-043 Reference: Dr. Booth Evidence, Page 74, Lines 15-17

Does Dr. Booth agree with the credit rating agencies (Moody's and DBRS) that investors are also concerned that higher electricity supply costs in Newfoundland could increase the likelihood that the Board will be more likely to look for ways to reduce customer rates, such as reducing the allowed ROE or deemed equity ratio, or disallowing certain operating costs, or challenging the prudence of capital costs? If not, why not?

NP-CA-044 Reference: Dr. Booth Evidence, Page 75, Lines 11-17

What analysis has Dr. Booth conducted to determine whether similar actions taken to mitigate electricity prices in Ontario are possible in Newfoundland and Labrador to address the costs of the Muskrat Falls project?

NP-CA-045 Reference: Dr. Booth Evidence, Page 76, Lines 14 to Page 77, Line 8

Is it Dr. Booth's understanding that the referenced 17¢/kwh relates to power supply costs and not customer rates?

NP-CA-046 Reference: Dr. Booth Evidence, Page 76, Lines 14 to Page 77, Line 8

Please confirm that customer rates of 17¢/kwh would be higher than any other rates listed in the table on page 76 of his evidence.

NP-CA-047 Reference: Dr. Booth Evidence, Page 77, Lines 27-28

Does Dr. Booth agree that investors look at both the short term and long term investment risks? If so, please explain.

NP-CA-048 Reference: Dr. Booth's Evidence, Appendix C, Page 2, Lines 12-13

Given Dr. Booth's position that "the risk of a firm or industry changes much more than the overall risk of the market," how does he support his consistent use of a beta coefficient from 0.45 to 0.55 for regulated utilities?

NP-CA-049 Reference: Dr. Booth's Evidence, Appendix C, Page 6, Line 1-5

Given Dr. Booth's position that "betas vary inversely with interest sensitivity" and his statement that "as interest rates increase back to normal levels, I would expect their betas to increase as they trade less on their bond values and more as regular equities," why has Dr. Booth continued to support the use of a beta coefficient from 0.45 to 0.55 for regulated utilities, which is the same beta he has been recommending during the entire period after the financial crisis when LTC yields have been near historically low levels?

NP-CA-050 Reference: Dr. Booth's Evidence, Appendix D, Page 4, Lines 26-27

Please explain in detail why Dr. Booth believes that for non-regulated firms and utility holding companies, the underlying assumptions of the DCF model are frequently violated.

NP-CA-051 Reference: Dr. Booth's Evidence, Appendix D, Page 7, Lines 22-24

Please provide the average projected earnings per share growth rates for the companies in the TSX index for the next five years.

NP-CA-052 Reference: Dr. Booth's Evidence, Appendix D, Page 7, Lines 22-24

How would Dr. Booth's DCF analysis of the market for Canada change if he used average projected EPS growth rates for the TSX companies rather than historic growth in dividends and after-tax profits since 1961?

NP-CA-053 Reference: Dr. Booth Evidence, Appendix D, Page 12, Lines 20-21

Please provide the average annual return for the TSX Index and the TSX Utilities Index since 2000. Do these average annual returns suggest to Dr. Booth that investors in utility stocks in Canada have earned significantly lower returns than investors in the broad Canadian market?

NP-CA-054 Reference: Dr. Booth's Evidence, Appendix D, Page 13, Lines 9-10

Please reconcile Dr. Booth's statement that "it is inconceivable that low risk U.S. utilities can consistently grow faster than the US economy that supports them", with Dr. Cleary's Evidence on pages 17-18 that Newfoundland Power's sales have grown faster than the Newfoundland and Labrador GDP over the past several decades.

NP-CA-055 Reference: Dr. Booth's Evidence, Appendix D, Page 15, Lines 18-22

Please confirm that the Constant Growth DCF model assumes a constant payout ratio and that EPS, DPS, and BVPS all grow at the same constant rate.

NP-CA-056 Reference: Dr. Booth's Evidence, Appendix D, Page 17, lines 1-13

Please provide the data in electronic format used to support Dr. Booth's assertion that EPS growth and DPS growth have tracked GDP growth over the last 51 years.

NP-CA-057 Reference: Dr. Booth's Evidence, Appendix D, Schedule 17

Please provide the source data for Schedule 17 of Appendix D in electronic, executable format with all formulas and links intact. Also, please confirm that the data is at the holding company level.

NP-CA-058 Can Dr. Booth please confirm that bond rating agencies use *actual* financial results in the assessment of a company's credit metrics?

NP-CA-059 Reference: Past Evidence of Dr. Booth

The following table summarizes Dr. Booth's recommended Benchmark ROEs and their component parts as set forth in his evidence as filed with various Canadian regulatory boards over the period August 2009 to September 2018.

Date Filed	Board/ Client/ Company	Dr. Booth's Forecast Long Canada	Market Risk Premium/ Benchmark Utility Beta	Base Risk Premium (Midpoint) Over Long Canada	Flotation Cost	Adjustments to Base ROE and Reasons for Adjustments	Dr. Booth's Benchmark ROE
Aug-09	NL PUB/ Consumer Advocate/ Newfoundland Power	2010: 4.5%	5.00% 0.45-0.55	2.50%	0.50%	0.25% Margin of Error	7.75%
Jun-10	Régie/ IGUA/ Gazifère	2011: 4.5%	5.00-6.00% 0.45-0.55	2.775%	0.50%	0.5% Crisis Premium	8.25%
Jul-11	Régie/ IGUA/ Gaz Métro	2012: 4.5%	5.00-6.00% 0.45-0.55	2.775%	0.50%	0.325% Spread Adjustment (midpoint 25- 40bp)	8.10%
Sep-11	NSUARB/ NSUARB/ Heritage Gas	2012: 4%	5.00-6.00% 0.45-0.55	2.775%	0.50%	0.5% Financial Crisis Premium	7.75%
Mar-12	NEB/ CAPP/ TCPL Restructuring	Restructuring : 2012: 3.3% 2013: 3.8%	5.00-6.00% 0.45-0.55	2.775%	0.50%	1.2% Credit Adjustment (.4%) Operation Twist (.8%)	2012: 7.80% 2013: 8.30%
May-12	NL PUB/ Consumer Advocate / Newfoundland Power	2012: 4.5% 2013: 3.5%	5.00-6.00% 0.45-0.55	2.775%	0.50%	0.40% financial crisis/spread in 2012 0.40% plus 0.80% Operation Twist in 2013	2012: 8.15% 2013: 7.95% Fixed Rate for 2 years: 8.15%
Aug-12	NSUARB/ NSUARB/ NSPI	2013: 3.0% 2014: 4.0%	5.00-6.00% 0.45-0.55	2.775%	0.50%	1.2% Credit Spread Adjust. (.41%) Operation Twist (.8%)	2012: 7.5% 2013: 8.5%
Nov-12	NL PUB/ Consumer Advocate / Newfoundland Power	2013: 3.0%	5.00-6.00% 0.45-0.55	2.775%	0.50%	1.2% Credit Spread Adjust. (.4%) Operation Twist (.8%)	7.50%
Feb-13	BCUC/ AMPC/CEC/ FortisBC	2014: 3.00%	5.00%- 6.00% 0.45-0.55	2.775%	0.50%	1.2% Credit Spread Adjust (0.40%) Operation Twist (0.80%)	7.50%

Date Filed	Board/ Client/ Company	Dr. Booth's Forecast Long Canada	Market Risk Premium/ Benchmark Utility Beta	Base Risk Premium (Midpoint) Over Long Canada	Flotation Cost	Adjustments to Base ROE and Reasons for Adjustments	Dr. Booth's Benchmark ROE
Jul-14	AUC/CAPP/ GCOC	2014: 3.00%	5.00-6.00% 0.45-0.55	2.775%	0.50%	0.66% Credit Spread Adjust (0.26) Operation Twist (0.40%)	7.50%
Oct-15	NL PUB/ Consumer Advocate / Newfoundland Power	2016: 2.81%	5.00-6.00% 0.45-0.55	2.775%	0.50%	1.75% Credit Spread Adjust (0.45%) Operation Twist (1.3%)	7.50%
Jan-16	BCUC/ Utility Customers/ FortisBC Energy	2016: 3.00%	5.00-6.00% 0.45-0.55	2.775%	0.50%	1.75% Credit Spread Adjust (0.45%) Operation Twist (1.3%)	7.50%
Sep-18	NL PUB/ Consumer Advocate / Newfoundland Power	2019: 3.00%	5.00-6.00% 0.45-0.55	2.775%	0.50%	0.98% Credit Spread Adjust (0.18%) Operation Twist (0.80%)	7.50%

Please confirm that the information in the above table is accurate, or revise as required.

RESPECTFULLY SUBMITTED at St. John's, Newfoundland and Labrador, this 5th day of October, 2018.

NEWFOUNDLAND POWER INC.



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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 2019 and 2020.

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

To: Dr. Sean Cleary

NP-CA-060 to NP-CA-096

October 5, 2018

Requests for Information
Evidence of Dr. Sean Cleary – 2019/2020 General Rate Application

NP-CA-060 Reference: Dr. Cleary's Evidence, Page 10, Lines 13-15

In Dr. Cleary's opinion, what is the significance of the narrow spread currently between the 10-year and 30-year Canada bond? In particular, how does this affect the cost of capital for Newfoundland Power?

NP-CA-061 Reference: Dr. Cleary's Evidence, Page 11, Line 7 to Page 12, Line 2

Has Dr. Cleary analyzed the volatility of historical GDP growth in Newfoundland and Labrador as compared with the volatility of historical GDP growth in Canada? If yes, please provide a copy of that analysis.

If not, does Dr. Cleary agree that if historical GDP growth in Newfoundland and Labrador has been more volatile than in the remainder of Canada, it suggests that the business environment in the Province would be perceived by investors as more risky than Canada overall? Please explain.

NP-CA-062 Reference: Dr. Cleary's Evidence, Page 15, Lines 12-18

Please confirm that the excerpt quoted by Dr. Cleary is the Board's summary of the Consumer Advocate's position with respect to Newfoundland Power's business risk, and does not represent the Board's ultimate position on this issue in the 2009 Order.

NP-CA-063 Reference: Dr. Cleary's Evidence, Page 15, Lines 23-24

If Dr. Cleary's analysis leads him to conclude that there have been no material changes in the business risk of Newfoundland Power since 2016, please explain the basis for Dr. Cleary's recommended reduction in the common equity ratio from 45.0 percent to 40.0 percent.

NP-CA-064 Reference: Dr. Cleary's Evidence, Page 15, Lines 23-24

Does Dr. Cleary believe that the Board erred in its 2016 Order when it determined that it was appropriate to maintain Newfoundland Power's common equity ratio at 45.0 percent? If so, please elaborate on the reasons why Dr. Cleary disagrees with the Board's decision in 2016?

NP-CA-065 Reference: Dr. Cleary's Evidence, Page 16, Lines 5-11

Please list the challenges that Newfoundland Power faces to maintaining its current credit rating according to the September 5, 2017 DBRS report that Dr. Cleary cites.

NP-CA-066 Reference: Dr. Cleary's Evidence, Page 16, Lines 15-24

Please list the credit challenges that Newfoundland Power faces to maintaining its current credit rating according to the January 31, 2018 Moody's Investors Service report that Dr. Cleary cites.

NP-CA-067 Reference: Dr. Cleary's Evidence, Page 17, Line 9 to Page 18, Line 11

Dr. Cleary provides an assessment of Newfoundland Power's revenue growth to the Province of Newfoundland and Labrador's GDP growth. Did Dr. Cleary review key economic indicators relating to the Province's labour force, population, employment, household disposable income, retail sales, and housing starts? If so, what were his observations and conclusions? If not, why not?

NP-CA-068 Reference: Dr. Cleary's Evidence, Page 17, Line 9 to Page 18, Line 11

Dr. Cleary provides an assessment of Newfoundland Power's revenue growth to the Province of Newfoundland and Labrador's GDP growth. Please explain in detail why comparing Newfoundland Power's revenue growth to the provincial GDP growth is an appropriate way to assess Newfoundland Power's business risk? In the response, please comment on the impact of commodity prices on both Newfoundland Power's revenue and the provincial GDP.

NP-CA-069 Reference: Dr. Cleary's Evidence, Page 17, Line 9 to Page 18, Line 11

Dr. Cleary provides an assessment of Newfoundland Power's revenue growth. Has Dr. Cleary considered the relevance of declining energy sales, as opposed to revenue, in relation to the Newfoundland Power's business risk? If not, why not?

NP-CA-070 Reference: Dr. Cleary's Evidence, Page 17, Line 13-14

Please explain what Dr. Cleary considers to be an economic storm?

NP-CA-071 Reference: Dr. Cleary's Evidence, Page 19, Figure 5

Please provide the source data for Figure 5 in electronic, executable format with all formulas and links intact.

NP-CA-072 Reference: Dr. Cleary Evidence, Page 21, Lines 3-9

Dr. Cleary provides one of the definitions of Business Risk that the Board accepted in Order No. P.U. 19 (2003). Please provide the other definition of business risk that the Board was referring to in its Order.

NP-CA-073 Reference: Dr. Cleary's Evidence, Page 21, Lines 10-25

Have Dr. Cleary's CV (EBIT) and CV (EBIT/Sales) analyses been accepted by any regulatory jurisdiction in Canada? If so, please indicate where (i.e. jurisdiction, docket name, decision date).

NP-CA-074 Reference: Dr. Cleary's Evidence, Page 21, Lines 10-25

Please confirm that the Alberta Utilities Commission recently rejected Dr. Cleary's quantitative analysis in its 2018 Generic Cost of Capital Order, stating at paragraph 271:

"As discussed in Section 9.3.3, because of issues identified with Dr. Cleary's quantitative based comparison of the business risks of the affected utilities and U.S. utilities, the Commission is not convinced that there is substantial evidence on which to exclude the use of U.S. proxy groups."

NP-CA-075 Reference: Dr. Cleary's Evidence, Page 21, Line 10 to Page 24, Line 4

Is Dr. Cleary aware of any debt rating agency that has used his measures of EBIT volatility to determine a utility's business or financial risk? If so, please identify the debt rating agency and provide a copy of the report(s).

NP-CA-076 Reference: Dr. Cleary's Evidence, Page 23, Figure 6

Please provide the source data for Figure 6 in electronic, executable format with all formulas and links intact.

NP-CA-077 Reference: Dr. Cleary's Evidence, Page 23, Table 8

Please provide the median values for each column in Table 8 rather than the average values.

NP-CA-078 Reference: Dr. Cleary's Evidence, Page 23, Table 8

How does Dr. Cleary account for the negative value for EBIT for Edison International in 2000 (as indicated in Exhibit 9)? If this negative value were excluded from the calculation in Exhibit 9, how would the CV (EBIT) for Edison International change?

NP-CA-079 Reference: Dr. Cleary's Evidence, Page 25, Lines 7-11

"Table 9 provides data on allowable ROEs and equity ratios for Canadian electric distributors in 2018. I did not compare NP to the U.S. utilities included in Mr. Coyne's U.S. and North American proxy groups since the analysis above shows that U.S. holding companies are poor comparators for NP, because they have significantly higher business risk – partly due to their holding company structure and business holdings, and partly due to operating in the U.S. and not in Canada."

Please confirm that the analysis referred to above includes Dr. Cleary's CV of the EBIT/sales ratios analysis which was rejected by the Alberta Utilities Commission in its 2018 Generic Cost of Capital Decision (22570-D01-2018).

NP-CA-080 Reference: Dr. Cleary's Evidence, Page 25, Table 9

Please explain why Dr. Cleary has included crown corporations and municipal utilities in Table 9. Does Dr. Cleary believe that an investor owned utility has the same investment risk as a government owned utility such as Hydro Quebec Distribution, for example? Please elaborate.

NP-CA-081 Reference: Dr. Cleary's Evidence, Page 29, Lines 2-4

If DBRS' credit metrics support an AA rating for Newfoundland Power, why is the Company's DBRS rating only A? Is this lower rating an indication that DBRS believes that Newfoundland Power has higher business risk? If not, what is causing this lower credit rating in Dr. Cleary's opinion?

NP-CA-082 Reference: Dr. Cleary's Evidence, Page 29, Table 11

Please provide Dr. Cleary's understanding of whether DBRS' credit ratings are based entirely on the credit metrics shown in Table 11, or whether DBRS also takes other factors into consideration. If other factors are considered, please identify those factors.

NP-CA-083 Reference: Dr. Cleary's Evidence, Page 29, Table 11

Please provide the same information regarding the rating methodology used by Moody's Investors Service to rate regulated utilities. Is Moody's rating based entirely on credit metrics, or does Moody's also consider other factors?

NP-CA-084 Reference: Dr. Cleary's Evidence, Page 31, Lines 5-7

Please explain why Dr. Cleary believes it is not practical to perform an analysis of earned vs. authorized ROEs at the operating company level rather than the holding company level.

NP-CA-085 Reference: Dr. Cleary's Evidence, Page 32, Table 13

Please provide the source data for Table 13 in electronic, executable format with all formulas and links intact. Also, please indicate whether the data in Table 13 are at the holding company level or the operating company level.

NP-CA-086 Reference: Dr. Cleary Evidence, Page 32, Line 10 to Page 36, Line 2

Has Dr. Cleary presented a similar analysis, using the Dupont system for decomposing ROE into basic components, in any other regulatory jurisdiction in Canada? If so, please provide any referenced regulatory proceeding where it was used.

NP-CA-087 Reference: Dr. Cleary's Evidence, Page 32, Line 10 to Page 36, Line 2

Please provide an Excel worksheet with all formulas intact of the calculations that Dr. Cleary performs on Pages 33-35 of his evidence to support his analysis of the rate impact on Newfoundland Power customers of the Company maintaining a common equity ratio of 45.0 percent as compared to 40.0 percent.

NP-CA-088 Reference: Dr. Cleary's Evidence, Page 32, Line 10 to Page 36, Line 2

Does Dr. Cleary's analysis on Pages 33-35 of his evidence consider the possibility that the proposed reduction in Newfoundland Power's equity ratio from 45.0 percent to 40.0 percent may result in a downgrade in the Company's credit rating from Moody's and/or DBRS? If not, why not?

NP-CA-089 Reference: Dr. Cleary's Evidence, Page 36, Lines 4-14

Is it Dr. Cleary's opinion that a reduction in Newfoundland Power's equity ratio from 45.0 percent to 40.0 percent would permit Newfoundland Power to maintain its existing credit ratings from Moody's and DBRS? Please explain.

NP-CA-090 Reference: Dr. Cleary's Evidence, Page 36, Lines 4-14

In Dr. Cleary's opinion, what specific steps should Newfoundland Power take to reduce its common equity ratio from 45.0 percent to 40.0 percent, as he is recommending in his evidence?

NP-CA-091 Reference: Dr. Cleary's Evidence, Page 36, Lines 11-14

Dr. Booth has not recommended a change be made in Newfoundland Power's common equity ratio, noting the Board's examination of this issue in the 2016/2017 General Rate Application of Newfoundland Power and its decision to maintain the common equity ratio of Newfoundland Power at 45.0 percent. Does Dr. Cleary disagree with Dr. Booth on this issue? Please explain.

NP-CA-092 Reference: Dr. Cleary's Evidence, Page 36, Lines 11-14

In Dr. Cleary's opinion, does his recommended common equity ratio of 40.0 percent in combination with Dr. Booth's ROE recommendation of 7.50 percent, meet the three requirements of the Fair Return Standard? If so, please explain how it meets each requirement.

NP-CA-093 Reference: Dr. Cleary's Evidence, Page 36, Lines 11-14

Please provide an analysis comparing the recommended equity cost rate for Newfoundland Power (i.e., 7.50% ROE X 40.0% equity ratio = 3.00%) to other investor owned utilities in Canada.

If the recommended equity cost rate for Newfoundland Power is lower than other investor owned utilities in Canada, please provide justification for why this meets the Fair Return Standard.

NP-CA-094 Please provide all workpapers and supporting documents used by Dr. Cleary in the development of Figure 1, Figure 3, Figure 4, Figure 5, Figure 6, Table 8, Table 10, and Table 13. Please provide all electronic workpapers in working Excel format with all formulas intact.

NP-CA-095 Can Dr. Cleary please confirm that bond rating agencies use *actual* financial results in the assessment of a company's credit metrics?

NP-CA-096 Does Dr. Cleary agree that investors look at both the short term and long term investment risks? If so, please explain.

RESPECTFULLY SUBMITTED at St. John's, Newfoundland and Labrador, this 5th day of October, 2018.

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