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

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

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

A. (i) As explained in answer to PUB-CA-007, Dr. Booth judges most public utility regulators to be conservative and to base their decisions in part on what other regulators have allowed. As he noted, this also means basing decisions in part on the evidentiary basis of these other hearings. Consequently, they generally exceed the top end of Dr. Booth's recommended ROE range.

(ii) Dr. Booth generally believes that all Canadian regulators protect their utilities as part of the Canadian regulatory compact: lower allowed ROEs and less equity than in the US, but a range of deferral accounts that almost guarantees the utility earns its allowed ROE and recovers all its costs with frequent cost of service rate hearings. In Dr. Booth's judgment, there is almost no difference in risk after adjusting for common equity ratios and the existence of deferral accounts, which is why he believes in generic ROE hearings to set the allowed ROE in AUC hearings.

With this caveat, Dr. Booth judges NP to be similar to the other Canadian electric utilities owned by Fortis, particularly the Alberta T&D utilities that operate with 37% common equity. He regards NP as having lower business risk than Maritime Electric and FortisBC Electric, both of which are integrated electric utilities. Dr. Booth regards NP as significantly lower risk than Nova Scotia Power, since the latter is an integrated electric utility facing potential government intervention as rate payers may be facing the possibility of paying twice for generation.

Dr. Booth has traditionally placed Enbridge Gas Inc (EGI) as the lowest risk Canadian utility due to its totally dominant position distributing the lowest cost heating fuel in Ontario and its absorption of both Union Gas and Centra Gas Ontario. However, natural gas distributors are facing the risk of adjusting to carbon charges depending on the policies adopted by their respective provincial governments, and even in Ontario the OEB has increased the common equity ratio of EGI to 38% to reflect this long-run risk. In contrast, in Quebec the Regie has adopted a wait and see policy and not changed the equity ratio of Energir, while in BC the BCUC has significantly increased the equity ratio for FortisBC Energy. Dr. Booth judges NP to have lower business risk than any of these natural gas distributors other than ATCO Gas, which is in Alberta.