

1 **Q. Reference: Dr. Booth's Evidence, Page 34, Line 1 to Page 35, Line 1**

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

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9 **A.** Dr. Booth has not given this much weight, since none of these factors are materially
10 different from the periods over which NP has consistently over-earned its allowed
11 ROE. In other words, the province's relative weakness, size and lack of
12 diversification are endemic problems, not new ones. At the provincial level, these
13 problems affect the provincial bond rating since they affect the ability to raise taxes
14 and provide services. However, they do not seem to have a material impact on
15 distribution companies. Dr. Booth first noticed this phenomenon in a
16 Newfoundland Tel rate application before the CRTC in 1991 when its bond rating
17 was better than that of the province.