

1 **Q.** Reference: *Fair Return for Newfoundland Power (NP)*, Evidence of
2 Laurence D. Booth, September 28, 2021, page 98, lines 10-11
3

4 **Please identify any authorized equity returns for investor-owned utilities**
5 **in Canada as low as Dr. Booth's ROE recommendation of 7.5%. If there**
6 **are no returns in Canada as low as Dr. Booth's recommendation, please**
7 **explain how his ROE recommendation of 7.5% meets the comparable**
8 **return requirement of the Fair Return Standard.**
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11 **A.** The "comparable return" standard does not refer to comparable allowed ROEs.
12 The fair return standard in Canada as laid down by the Supreme Court of
13 Canada is

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15 *"that the company will be allowed as large a return on the capital*
16 *invested in the enterprise as it would receive if it were investing the*
17 *same amount in other securities possessing an attractiveness, stability*
18 *and certainty equal to that of the company's enterprise."*
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20 The critical fact is the fair return standard refers to the return on other
21 "securities" not other allowed ROEs. Regulators in Canada have consistently
22 referred to this as a market rate of return applied to a book value cost.
23

24 Dr. Booth's recommended ROE is 7.5% and is consistent with the risk
25 hierarchy where the overall equity market return is about 9.0% in a range 8.5-
26 9.5% and the return on preferred shares 5.0%. As a result it satisfies the fair
27 return standard.
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29 The more relevant question is whether Mr. Coyne's recommended ROE of
30 9.50% satisfies the fair return standard when it is equivalent to Dr. Booth's
31 estimate of the fair return on the overall equity market and significantly
32 exceeds the long run equity market return forecasts of TD Bank, JP. Morgan,
33 AQR, BNY Mellon, Northern Trust, as well as the company's own actuary.
34 That is to say, Dr. Booth's recommendation is confirmed by an array of market
35 professionals, whereas Mr. Coyne's recommendation does not seem to have
36 any external validation.