Q. Evidence, page 44, line 22 to page 45, line 23. Explain how the non-materialization of risks should be considered by the Board in determining the equity component in the capital structure and the ROE for Newfoundland Power.

A. This is a very good question meaning it is difficult to answer! What Dr. Booth can say is that since his first appearance as an expert financial witness in 1986 he has repeatedly been confronted by witnesses on behalf of a utility proposing risks that have never materialized. For example, before the National Energy Board one witness proposed that the TransCanada Mainline was risky since it ran full, that is 100% load, so the load could only drop meaning it was risky. Then a few years later it was argued that the Mainline was risky because the load was not 100% and as a result was less competitive with a volatile load. Clearly the implication was that whatever the Mainline's load it was risky. This is why Dr. Booth places great store on the history of a utility earning its allowed ROE as that qualifies the validity of prior assessments of utility risk. If any of these "risk assessments" had been valid then the utility at some point would be expected to have had problems earning its allowed ROE. In terms of future risk, he accepts the judgment of the Ontario Energy Board (EB-2011-0354):

> *"Regarding the risk of future events, the Board agrees with CCC that the relevant future risks are those that are likely to affect Enbridge in the near term. Any risks that may materialize over the longer term can be taken into account in subsequent proceedings. In considering the risk of future events, the Board will take into account the fact that, generally, the more distant the potential event, the more speculative is any conclusion on the likelihood that the risk will materialize."*

Essentially the OEB is simply stating that it deals with problems as they arise, which is the regulatory dynamic in Canada to protect the utility, and will not address "speculative" risks. Invariably when such risks do arise they are allocated to the ratepayer through the operation of deferral accounts and not to the account of the shareholder. In this sense many of the risks advanced by witnesses for the utility as a utility risk invariably end up being borne by the ratepayers should they actually materialize.