1   **SECTION 3: FINANCE/FAIR RETURN**
2
3   **Q.**   **Reference: NLH-NP-088**
4   **a) In the determination of the 30-year risk free rate, a forecast of a 10-year yield**
5   **was used as of April 2023, a time when yields were heavily inverted, and adding**
6   **the historical positive spread between the 10 and 30 year yield which, in theory,**
7   **would result in a much higher rate. What would the 30-year risk free rate be if a**
8   **30-year benchmark forecast was used in the calculation during the same period?**
9   **b) Please explain the interpretation of the lower R-square values of the monthly**
10   **beta in comparison to the weekly beta in Table 2?**
11   **c) Regarding the t-statistic for weekly and monthly beta, please provide the**
12   **underlying data and calculations in an excel format.**
13   **d) Please provide the capital structures of the North American electric proxy**
14   **group. Please provide the percentage of their revenues and net income derived**
15   **from the regulated businesses. How are adjustments being made for the reduced**
16   **risk of a highly regulated entity such as Newfoundland Power?**
17   **e) Please provide an estimate of the Canadian equity market risk premium.**
18
19   **A.**   a) As explained in the response to NLH-NP-088, a long-term estimate of the 30-year
20   government bond yield is not available from Consensus Economics. For that reason,
21   Concentric uses the 10-year forecast and adds to it the historical spread between 10-
22   and 30-year government bond yields in both Canada and the U.S. A long-term
23   estimate of the 30-year government bond yield is available from Blue Chip Financial
24   Forecasts for the U.S. but not for Canada. The current 30-year government bond yield
25   forecast for the U.S. from Blue Chip is 4.10%, as compared to the risk-free rate used
26   in our CAPM analysis for the U.S. electric utilities of 3.98%, as shown in Exhibits
27   JMC-8.1 and JMC-8.2.
28
29   b) The lower R-square values of the monthly betas in comparison to the weekly betas
30   demonstrates that the regression equation for weekly betas is a better fit than for
31   monthly betas. This supports a conclusion that betas calculated using weekly return
32   data have higher predictive value than do betas calculated using monthly return data.
33
34   c) Please see NLH-NP-122, Attachment A, which is available in electronic format on
35   Newfoundland Power's stranded website at: https://ftp.nfpower.ca/. The t-statistics in
36   Table 2 were generated by Bloomberg. See screenshots for Canada and the U.S. for
37   relevant time periods (i.e., 2 year monthly, 2 year weekly, 5 year monthly, 5 year
38   weekly).
39
40   d) Please see Exhibit JMC-11 for the percentage of debt to capitalization reported by
41   Moody's Investor Service for the companies in the U.S. electric proxy group and the
42   Canadian proxy group. The percentage of debt shown on this exhibit includes parent
43   level debt which differs from the operating utilities. Exhibit JMC-10 shows the
44   average common equity ratios over the last eight quarters for the operating companies
45   held by the companies in the U.S. Electric proxy group.

1   The table below shows the percentage of operating income and revenues derived from
2   the regulated business for the companies in the North American Electric proxy group.
3   The companies in the North American Electric proxy were selected because they have
4   similar business and financial characteristics as Newfoundland Power. These
5   companies are also highly regulated as shown by the substantial percentage of their
6   operating income and revenues derived from regulated operations from 2020-2022.
7   Therefore, no adjustment is necessary for differences in risk due to regulation.

North American Electric Proxy Group

Company	% Regulated Operating Income	% Regulated Revenues
Algonquin Power & Utilities Corp	94%	87%
Canadian Utilities Limited	105%	87%
Emera Inc.	101%	99%
Hydro One, Ltd.	102%	99%
Alliant Energy Corp.	97%	98%
American Electric Power Company	98%	96%
Duke Energy Corporation	94%	100%
Entergy Corporation	99%	94%
Evergy Inc.	100%	100%
Eversource Energy	92%	100%
NextEra Energy Inc.	96%	79%
OGE Energy Corp.	100%	100%
Pinnacle West Capital Corp.	100%	100%
Portland General Electric Company	100%	100%

8   e) Figure 28 in Concentric's cost of capital report, Volume 2, shows the historical and
9   forward-looking market risk premiums for Canada and the U.S. Concentric's ROE
10   recommendation for Newfoundland Power is based on historical market return data
11   from Kroll for Canada the U.S. Specifically, Concentric uses the average of the
12   historical market risk premium for Canada of 5.62% and for the U.S. of 7.17%. As
13   shown in Exhibit JMC-8.2, the resulting market risk premium is 6.39% in
14   Concentric's historical CAPM analysis.