Q. **Reference:** ***Fair Return and Capital Structure for Newfoundland Power (NP),*** **Evidence of Laurence D. Booth, April 2024, page 6, lines 4-7.**

"Because the legal standard for a fair rate of return in Canada stemmed from changed conditions in the money market, where we would now understand the money market to mean the capital market. Also, conventional practice is to base the fair ROE on the forecast long term Canada (LTC) bond yield."

Based on the legal standard for a fair return in Canada, please explain why Dr. Booth recommends a reduction in NP's authorized ROE of 80 basis points when the actual 30-year LTC bond yield increased from 2.05% in March 2015 to 3.50% in August 2023, and the actual yield on the A-rated Canadian utility bond increased from 3.46% in March 2015 to 4.98% in August 2023, as shown in the response to CA-NP-183?

A. Because since the summer of 2011, LTC yields have not met the legal standard of "fair market value," which in Canada is:

"The highest price available in an open and unrestricted market between informed and prudent parties, acting at arm's length and under no compulsion to act, expressed in terms of cash."

Huge central bank intervention in the bond market as quantitative easing or bond buying to support the economy has caused LTC yields to deviate from fair market value, as Dr. Booth explains in his report. It was for this reason that Dr. Booth supported NP's request to suspend the application of the Board's ROE formula in 2011, and has consistently used a minimum trigger point of 3.8% for the forecast LTC bond yield despite much lower LTC yields.