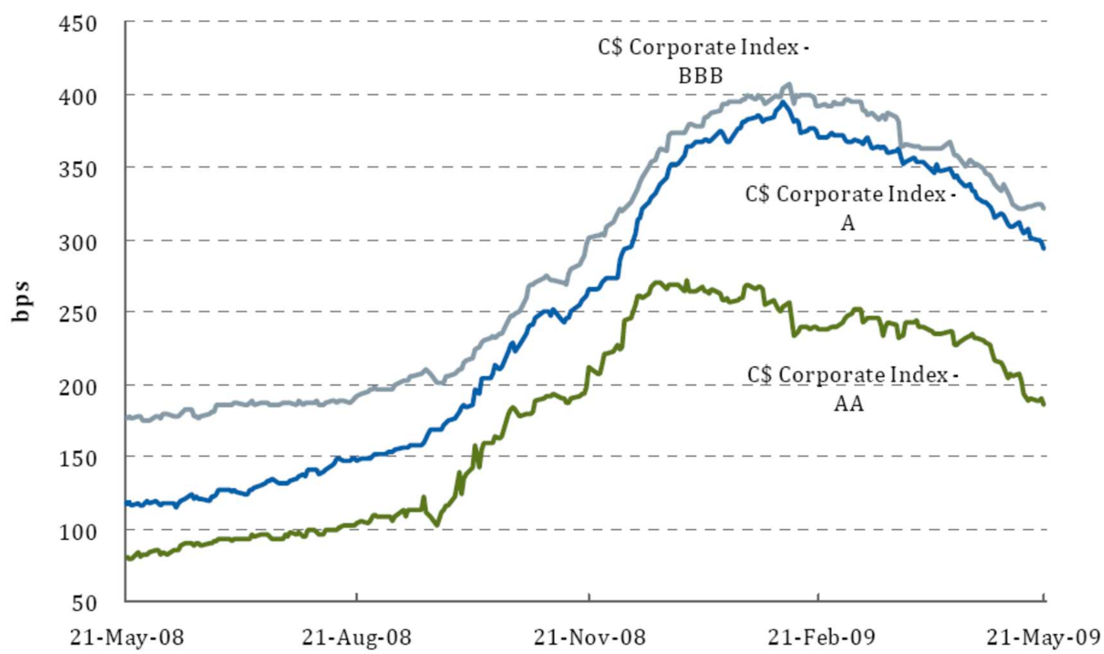
Q. Reference: ***Fair Return and Capital Structure for Newfoundland Power (NP),*** **Evidence of Laurence D. Booth, April 2024, page 31, lines 6-8.**

"As the graph shows, A bond yields are now approximately where they were in 2010 before the Euro crisis, the U.S. government downgrade, and the massive bond buying by central banks that started in 2011H2 and drove down bond yields."

Please confirm that Newfoundland Power's authorized ROE in 2010 was 9.00%, as shown on page 25 of the Board's Order No. P.U. 43(2009).

A. Dr. Booth can also confirm that his evidence was dated August 2009, just after the US financial market crisis. As his Appendix E discusses, both the National Energy Board and the Ontario Energy Board decided to suspend or review their automatic ROE models due to the turmoil in the financial markets. Consequently, other factors entered into the fair ROE. In its 2009 Decision, for example, the AUC reported the following graph,

Exhibit 2: C$ bond indices continue their march to tighter levels



Source: Bloomberg

where the A credit spread was still over 3% in early summer of 2009, but declining, and where at the time of the hearing Dr. Booth noted that the excess spread was 0.50% (paragraph 310 of the AUC generic decision), which was the amount the AUC added to their CAPM estimates (paragraph 326). The actions of the AUC in adding a premium to the ROE were paralleled by the Regie and other boards.

Dr. Booth can also confirm that in August 2009 he recommended a 7.75% ROE for NP, not materially different from his current recommendation of 7.70%. Further, it is important to note that the Board's 2009 Decision was based on a forecast LTC yield of 4.50%, as below, so the relevant LTC yield for NP's allowed ROE in 2010 is not the actual LTC yield in 2010, but the forecast yield in 2009. If NP wants to rely on changes in LTC yields since 2009, the correct comparison is to the forecast yield, which has dropped by at least 0.70%. If this is deducted from the 2010 allowed ROE of 9.0%, then it means a fair ROE of 8.3%.

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The Board notes that this finding is generally consistent with the experts' recommendations flowing from the other tests, recent Canadian return decisions, and the other calculations of returns, historical and expected, presented in evidence. The return on regulated common equity for Newfoundland Power for 2010 to be used for ratemaking purposes is set out below:

Newfoundland Power 2010 Test Year Allowed return on equity for ratemaking purposes	
Long term Canada Bond Yield	4.5%
Newfoundland Power Risk Premium	4.0%
Allowance for financing flexibility	0.5%
Total	**9.0%**

The Board is satisfied that for the 2010 test year a return on regulated common equity of 9.0%, with a common equity component of 45%, will provide Newfoundland Power the opportunity to earn a just and reasonable return on rate base that is consistent with the fair return principle and the provision of least cost reliable power.