

1 **Q. Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*,  
2 Evidence of Laurence D. Booth, April 2024, page 88, lines 2-3.**

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4 ***“If Mr. Coyne’s reported authorised (allowed) returns are correct: U.S. allowed ROEs  
5 have been consistently higher than in Canada by about 1.5%.”***

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7 **a) The referenced chart from Mr. Coyne’s 2009 testimony before the AUC covers  
8 the period from 1994-2008. Has Dr. Booth updated this analysis for decisions  
9 since 2008?**

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11 **b) Would Dr. Booth agree that the gap between authorized ROEs in Canada and  
12 the U.S. has narrowed since 2009 to approximately 50-60 basis points on average?**

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14 **A. a)** No. Dr. Booth does not see it as his responsibility to update Mr. Coyne’s graph  
15 when he does not have the underlying data. He is merely pointing out that  
16 Mr. Coyne implicitly regarded the allowed ROEs in Canada, before he started  
17 testifying here as a fair return expert, as being unfair. Dr. Booth would instead  
18 point out that Moody’s at the time regarded Canadian utilities as lower risk, and,  
19 starting with the movement of the Canadian government into a surplus position in  
20 1997, there is a good reason for the lower allowed ROEs, one of which is the  
21 decline in the level of LTC interest rates relative to those in the US.

22  
23 Of importance is that this gap is growing larger, not smaller, as the current (May  
24 2024) RBC report extracted below indicates. Currently RBC is reporting that the  
25 forecast LTC yield 18 months out is 1.65% higher in the US than Canada. The  
26 basic building block for the fair ROE is the LTC bond yield, which Concentric  
27 accepts in its risk premium analysis. To observe such a staggering difference in  
28 long-term interest rates and NOT make an adjustment for US estimates used in  
29 Canada violates just about every financial principle Dr. Booth is aware of. If the  
30 yield difference alone is used as an adjustment, then Mr. Coyne’s “fairness gap”  
31 should still be at the same level of about 1.50%.

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33 In Dr. Booth’s judgment, Canada and the US are not in the same place as far as  
34 inflation and interest rates are concerned, mainly due to the different structure of  
35 their mortgage markets and the greater sensitivity of aggregate demand in Canada  
36 to the level of interest rates. However, this is only one of many differences between  
37 the two countries.

## Interest rate outlook

Policy rates and government bond yields, end of period

	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24	Q3-24	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25
<b>Canada</b>												
Overnight rate	4.50	4.75	5.00	5.00	5.00	4.75	4.25	4.00	3.75	3.25	3.00	3.00
Three-month	4.34	4.90	5.07	5.04	4.99	4.65	4.10	3.95	3.60	3.20	3.00	3.00
Two-year	3.74	4.58	4.87	3.88	4.22	3.95	3.60	3.25	2.90	2.75	2.90	3.00
Five-year	3.02	3.68	4.25	3.17	3.58	3.50	3.25	3.00	2.85	2.90	2.90	3.00
10-year	2.90	3.26	4.03	3.10	3.52	3.45	3.25	3.00	2.90	2.95	3.00	3.10
30-year	3.02	3.09	3.81	3.02	3.41	3.40	3.25	3.05	3.00	3.05	3.10	3.15
<b>United States</b>												
Fed funds midpoint	4.88	5.13	5.38	5.38	5.38	5.38	5.38	5.13	4.88	4.63	4.63	4.63
Three-month	4.85	5.43	5.55	5.40	5.45	5.36	5.23	4.93	4.75	4.53	4.60	4.65
Two-year	4.06	4.87	5.03	4.23	4.66	4.95	4.95	4.90	4.80	4.70	4.70	4.75
Five-year	3.60	4.13	4.60	3.84	4.28	4.60	4.60	4.45	4.35	4.35	4.40	4.50
10-year	3.48	3.81	4.59	3.88	4.27	4.45	4.40	4.30	4.25	4.30	4.40	4.50
30-year	3.67	3.85	4.73	4.03	4.41	4.55	4.45	4.50	4.55	4.60	4.70	4.80

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3 b) Dr. Booth has not entered testimony in the US, or on the level of US allowed ROEs,  
4 but he has no reason to doubt the Concentric reporting of US allowed ROEs in  
5 their Schedule JMC-9. However, he would point out that the latest entry for 2023  
6 of 9.88% would now indicate a utility risk premium for NP at its existing allowed  
7 ROE of 8.5%, or 5.35% over RBC’s forecast LTC yield for 2025Q4 of 3.15%. In  
8 contrast, at NP’s requested ROE of 9.85% it would represent a utility risk premium  
9 of 6.70% which is clearly excessive based on US comparisons. However, he agrees  
10 with the AUC in its 2009 generic Decision when it stated:

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12 *“In Section 3.2.3 of this Decision, the Commission determined that it would not*  
13 *consider return awards by U.S. regulators, although it expected market determined*  
14 *returns for U.S. utilities may be examined on a market risk-adjusted basis in*  
15 *assessing a fair return for stand-alone Alberta utilities.”*

16  
17 Dr. Booth judges that the AUC decision also applies when US allowed ROEs are  
18 used indirectly in Canada via a risk premium analysis, particularly if there are no  
19 adjustments for the different level of interest rates in the US versus Canada.