Q. Laurence D. Booth Report, page 2, lines 3-11 and page 114, lines 9-24. Forecast net income is expressed as a % of future average rate base and a comparison is provided to the same metric for other Fortis Canadian regulated utilities.

(i) Please explain how this metric should be taken into account by the Board in determining the equity and fair return for Newfoundland Power.

(ii) Please explain whether any Canadian regulator has explicitly taken this metric into account in a decision.

(iii) Please provide the same metric for Canadian electric utilities, other than the Fortis associated companies for which the metric is provided in Dr. Booth's Evidence.

A. (i) Most Canadian regulators allow a pass through of the utility's debt cost even though it is not a market rate, and similar to NP, the statute under which the utility is regulated is based on a fair return on rate base, not common equity. The only exception to this is the Canadian Energy Regulator, when as the National Energy Board it regulated Trans Quebec and Maritimes Pipeline (TQM) based on an after tax weighted average cost of capital (ATWACC) using market values. For utilities like NP that invariably earn their allowed ROE, the main interest of the utility's shareholder is the earnings generated by the utility, which by definition is the ROE times the amount of common equity.

(ii) Dr. Booth is not aware that this has been directly referenced in a decision by a Canadian regulator, but the trade-off between the allowed ROE and the common equity ratio has often been referenced.

(iii) The other significant electric utility is Nova Scotia Power (NSP) with a 9.0% allowed ROE on 40.0% common equity, or a net income return on rate base of 3.60%. However, NSP is an integrated electric utility with significant generation coming from coal plants, where the cost of these assets will continue to be recovered from ratepayers even after they are no longer used and useful. Moreover, NSP's bonds have recently been downgraded as a result of potential government interference in the rate setting process. Prior to the NSUARB's 2022 decision, NSP was allowed an ROE of 9% on 37.5% common equity, or a net income return on rate base of 3.375%.