

- 1 **Q. Laurence D. Booth Report, pages 46-48, Automatic Adjustment Formula. Dr. Booth**
2 **refers to the NEB's (now the Canada Energy Regulator) ROE Adjustment Formula**
3 **and states on page 48, lines 13-15 that application of that Formula would result in a**
4 **ROE of 8.4%.**
5
- 6 **(i) In Dr. Booth's opinion is the result from application of this formula, which is**
7 **a slightly higher ROE than the high end of his recommended range,**
8 **appropriate or unreasonable for an ROE for Newfoundland Power at this**
9 **time?**
10
- 11 **(ii) On page 3, line 19 to page 4, line 6, Dr. Booth refers to the changing capital**
12 **market conditions and says that, as we are getting closer to the 3.8% forecast**
13 **LTC yield which he regards as the "normality trigger" for bond prices and**
14 **yields to be determined on the basis of fair market value, "the validity of the**
15 **suspended ROE adjustment formulae begin to assert themselves". Does Dr.**
16 **Booth recommend the use of the automatic adjustment formula as described**
17 **on page 22 of Appendix E, which includes first setting the starting value at**
18 **8.5%, or any other adjustment formula be implemented at this time to**
19 **determine the ROE for Newfoundland Power or that use of an automatic**
20 **adjustment formula be reviewed at the time of Newfoundland Power's next**
21 **general rate application to determine if capital market conditions have then**
22 **fully returned to "normal"?**
23
- 24 **A. (i) Dr. Booth, along with his colleague the late Dr. Berkowitz, presented evidence in**
25 **the landmark hearing before the NEB that produced the RH-2 94 NEB ROE**
26 **formula. Dr. Booth has accepted the formula as generating fair and reasonable**
27 **ROEs even though they generally exceeded his own direct estimates, as indeed**
28 **they exceeded the expert recommendations put forward by utilities. Dr. Booth**
29 **would accept the 8.4% ROE as fair and reasonable if the consumer advocate asked**
30 **his opinion in settlement negotiations.**
31
- 32 **(ii) Yes. The only issue Dr. Booth sees is that NP has not submitted very substantial**
33 **evidence on automatic ROE adjustment methodology and might judge it to be**
34 **unfair.**