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1 (9:00 a.m.)
 2 CHAIR:
 3 Q. Good morning everyone. Any preliminary
 4 matters?
 5 MS. GLYNN:
 6 Q. None that I'm aware of. I think we are
 7 ready to hand the baton right over to
 8 Newfoundland Hydro.
 9 CHAIR:
 10 Q. Good morning, Mr. Simmons.
 11 SIMMONS, KC:
 12 Q. Thank you very much. Good morning Chairman,
 13 Panel Members, and good morning gentlemen.
 14 As you know, I'm Dan Simmons, counsel for
 15 Newfoundland and Labrador Hydro here. I'm
 16 going to have a number of questions for you.
 17 They're fairly general, we're not going to
 18 get too deep into anything this morning, and
 19 since you're testifying as a panel, I think
 20 what I'll do is I'll generally direct the
 21 questions to you as a panel and as you've
 22 done yesterday, you can work out between
 23 yourselves who is going to speak to it or
 24 how you want to respond. If we run into any
 25 difficulty, we'll sort it out when we come

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1 to it. So first of all, I want to ask you
 2 about something that Mr. Coffey did ask you
 3 about yesterday which I was interested in.
 4 Early in your testimony yesterday, and Mr.
 5 Coyne it was you, who in response to a
 6 question about how your reports were
 7 prepared, that you said that "as a starting
 8 point we"--both you and Mr. Trogonoski--"go
 9 back to look at prior decisions from this
 10 Board to make sure that we haven't been tone
 11 deaf in anyway to positions the Board has
 12 taken." Now I thought an interesting choice
 13 of words, "tone deaf", I wonder if you could
 14 elaborate just a bit more on what you do to
 15 take account of decisions that the Board has
 16 made previously?
 17 MR. COYNE:
 18 A. Well what I mean by that is we'll look to
 19 see what pieces of our evidence and/or
 20 evidence of other experts that the Board
 21 found to be reliable for purposes of making
 22 its determination, and to the contrary, if
 23 they rejected aspects of our evidence and/or
 24 found other aspects of other witness'
 25 evidence more credible and more reliable for

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1 purposes, those purposes we'll look at that
 2 to see how they reached that conclusion and
 3 to see if we could approach our analysis in
 4 another way that would address any concerns
 5 that the Board would have, while staying
 6 consistent with what we think are the good
 7 principles of regulatory finance that will
 8 allow us to reach these determinations. So,
 9 as I mentioned for us, it's always a
 10 learning process and it's both a collective
 11 learning process, not just before this Board
 12 but before other boards for which we appear,
 13 and also financial markets are dynamic.
 14 They're always changing. And a case in
 15 point, as I mentioned yesterday, is our
 16 approach to the market equity risk of
 17 premium. It's not just controversial here,
 18 it's been controversial before other boards
 19 as we all wrestle what the forward looking
 20 market return is for equity markets. It's a
 21 big problem to solve in general and it's a
 22 challenging for estimating cost of capital
 23 models. So we're always just considering
 24 what the best approach to variables like
 25 that so that we can present data that we

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1 think will be reliable to the commissions.
 2 SIMMONS, KC:
 3 Q. So if I understand then, you take guidance
 4 from the Board's past decisions when you're
 5 considering what is the best data to use,
 6 what the Board would consider reliable, so
 7 you're trying to be helpful to the Board
 8 with the data you present. Do you also take
 9 guidance from how the Board in the past has
 10 interpreted your evidence and what they've
 11 done with the opinions you're presented? Do
 12 you take that as any guidance for how you
 13 might change or craft your own opinions when
 14 you come back to the Board in future
 15 hearings?
 16 MR. COYNE:
 17 A. We do, of course we have to stay consistent
 18 with, again, what we think are good
 19 financial and regulatory practice and there
 20 are times that a board will reach a decision
 21 that we don't understand or that we don't
 22 think was necessarily supported by the
 23 evidence. In which case we feel like we
 24 haven't done our job of presenting that
 25 evidence to the board, as well as we might,

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1 so we don't—we try not to be dogged about
 2 it, but if we feel like we have a good point
 3 to make and we haven't made it well, we'll
 4 to approach it in a different way.
 5 SIMMONS, KC:
 6 Q. Sure. So it's fair to say then, there are
 7 certainly times when you may not agree with
 8 the decisions that a board, this Board or
 9 other boards have made after hearing your
 10 evidence and the evidence of others at a
 11 rate case?
 12 MR. COYNE:
 13 A. That does happen, yes.
 14 SIMMONS, KC:
 15 Q. Would it be fair to say here that you
 16 haven't agreed with the outcome of the last
 17 couple of GRAs which has been a return on
 18 equity of 8.5 percent for Newfoundland
 19 Power?
 20 MR. COYNE:
 21 A. No, that's not true because the last two
 22 were both settled cases and in our view when
 23 parties, and we like to see it when parties
 24 do settle, there is a balance of interest
 25 that is achieved and we think that the

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1 company and parties that come to the table
 2 and can balance their own interest, I think
 3 that serves as a good practice and I think
 4 that's one that's helpful to boards like
 5 this, knowing that that balance has already
 6 been struck.
 7 SIMMONS, KC:
 8 Q. Would you agree with me then, that while a
 9 settlement is useful and that, as you say
 10 the parties balance their interests, perhaps
 11 to come to some compromise, if they fail to
 12 do so, the job then falls to the board to
 13 conduct that balancing of interests.
 14 MR. COYNE:
 15 A. That's right.
 16 SIMMONS, KC:
 17 Q. My first pen has failed already, it's a bad
 18 sign for this morning.
 19 MR. COYNE:
 20 A. I have an extra if you need one.
 21 SIMMONS, KC:
 22 Q. Okay, I'm good, thank you. So can we go,
 23 please, to the Concentric Report. It's
 24 found, as I expect you know at Volume 2 of
 25 Newfoundland Power's submission. I'm going

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1 to go to page 33 of the report which I think
 2 is pdf 143. And this is not a controversial
 3 point. If we go to the bottom of that page
 4 –
 5 MS. BOWN:
 6 Q. Do you have the page number? Sorry.
 7 SIMMONS, KC:
 8 Q. It should be page, of the pdf page 143,
 9 which should be page 33 of the report,
 10 unless I've calculated that incorrectly.
 11 That's it there. So in this section which
 12 is addressing methods for estimating the
 13 cost of equity, you've made a comment in
 14 line 26 and 26 there, "No financial model
 15 can exactly pinpoint the correct ROE, rather
 16 each test brings its own perspective and set
 17 of inputs that form the evidence." So
 18 another very general question for you,
 19 gentlemen, how much is this setting of a
 20 return on equity art and how much is it
 21 science? How much is it just working the
 22 numbers and doing the math and how much of
 23 it is the experience and judgment that has
 24 to be brought to bear by people
 25 knowledgeable of the art of setting an ROE?

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1 MR. COYNE:
 2 A. Hmm, what a terrific question. Oddly
 3 enough, never been asked it before. May
 4 even have different perspectives on this,
 5 but the models themselves are pretty tried
 6 and true. There's not—some experts might
 7 put a different amount of weight on the CAPM
 8 versus DCF or the risk premium which are the
 9 three that we primarily use, but most
 10 experts use a combination of at least two of
 11 those, if not three of those. So there's
 12 pretty little controversy there. Those are
 13 well established. The judgment comes in the
 14 section of the inputs and our view is that
 15 while we may be experts in these areas, the
 16 less we substitute our own judgment for
 17 market data or data that we can take from
 18 other reputable sources, the less
 19 controversial that is and after all, we're
 20 trying to determine the market based rate of
 21 return on equity ultimately. So I would say
 22 that in our choice of inputs to the models,
 23 we by and large rely on external sources,
 24 such as Bloomberg and Value Line, Zacks, et
 25 cetera, that project earnings growth rates.

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1 CAPM we're deriving from historic market
 2 data. Forecast for the risk free rate we
 3 take from Consensus Economics. So I can't
 4 think of any input to the models that we're
 5 using where we're substituting our judgment
 6 to say that we think, for example, beta
 7 should be this. We're measuring beta
 8 through Bloomberg or Value Line sources. So
 9 I would say that we try to minimize the
 10 judgmental elements of it by using data
 11 inputs that come from these reputable third
 12 party sources, but at the end of the day,
 13 you can take, use inputs from multiple
 14 sources. Where that's the case, we try to
 15 take it from multiple sources and we may
 16 average them so that we get the benefit of a
 17 perspective from the market. That being
 18 said, if you're solving for three different
 19 models, you'll get a range and oftentimes we
 20 take the midpoint of that range to try and
 21 find a center point of the evidence, so
 22 again try to minimize the judgment and let
 23 the models and the market data do what they
 24 do best, and that is inform us as to what
 25 the required return is. So there is some

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1 combination of that, I couldn't give you an
 2 exact percent, but I would say the less art
 3 and the more science, the more reliable the
 4 estimate in our view.
 5 SIMMONS, KC:
 6 Q. So would there be an element of judgment
 7 involved in selecting which models to use,
 8 how to weight them, for example?
 9 MR. COYNE:
 10 A. Yes.
 11 SIMMONS, KC:
 12 Q. And there's an element of judgment in
 13 selecting the input data that goes into the
 14 models?
 15 MR. COYNE:
 16 A. Yes.
 17 SIMMONS, KC:
 18 Q. And once you have the model results, there's
 19 another layer of judgment that overlays that
 20 then in how you interpret the different
 21 results from the different models and apply
 22 them to the case that's before you, is
 23 there?
 24 MR. COYNE:
 25 A. Yes.

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1 SIMMONS, KC:
 2 Q. And then ultimately the last element of
 3 judgment will be how the board members take
 4 your evidence and apply their own experience
 5 to it to make their determination.
 6 MR. COYNE:
 7 A. Perfectly described. And I didn't let Mr.
 8 Trogonoski answer, but he may have a
 9 different set of answers around the art and
 10 science question which I thought was
 11 important.
 12 (9:15 a.m.)
 13 MR. TROGONOSKI:
 14 A. No, I really don't. I think one thing Mr.
 15 Coyne did not mention though is how we use
 16 the economic and capital market data as
 17 context for the results of the models, so I
 18 think it's important also to consider what's
 19 happening with interest rates, what's
 20 happening with inflation, the trend in both
 21 of those and that kind of tells us what to
 22 expect in the future and the kind of returns
 23 investors might be requiring for a company
 24 like Newfoundland Power, so I think that
 25 also helps to inform the judgment piece of

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1 what we do here.
 2 SIMMONS, KC:
 3 Q. Okay, thank you. And I have a couple of
 4 more specific questions now on the results
 5 of the models, the DCF model, the CAPM
 6 results which I'm not going to get very
 7 deeply into Can we go to page 41 of the
 8 report please? Pdf 151. Okay, you can stop
 9 there. So it's Figure 24 I think presents
 10 the results of your calculations from your
 11 DCF model, is that correct?
 12 MR. COYNE:
 13 A. That's right.
 14 SIMMONS, KC:
 15 Q. And it is a very straightforward question
 16 these percentage numbers here, these are, if
 17 I understand correctly, return on equity,
 18 ROE rates, without taking any account of the
 19 relative capital thickness of the companies
 20 that apprise each proxy group, do I have
 21 that right?
 22 MR. COYNE:
 23 A. I wouldn't say without taking into account,
 24 they're based on a proxy group that has a
 25 given capital ratio and the market data says

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1 something about that equity ratio, but we
 2 haven't made any adjustments for the average
 3 equity ratios of this group, so it's coming
 4 straight out of the models, given the equity
 5 ratios these companies already have, and you
 6 can say that those equity ratios might have
 7 some impact on the market data that's
 8 determining the return is filtering through
 9 the model. Some analysts will make an
 10 adjustment for differences between the
 11 target company's equity ratio and the
 12 average for the proxy group, but we haven't
 13 done that. If you take a look at the
 14 average equity ratios for this proxy group,
 15 it's on the order of just over 50 percent.
 16 MR. TROGONOSKI:
 17 A. 50 percent, 51 percent.
 18 MR. COYNE:
 19 A. And the average equity ratio for
 20 Newfoundland Power is 45 percent. If we
 21 were to apply an adjustment, we would
 22 increase the ROE coming out of the models
 23 because Newfoundland Power has a lower
 24 equity ratio than the average of the proxy
 25 group companies, but we haven't made that

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1 adjustment.
 2 SIMMONS, KC.:
 3 Q. So the models themselves, if we went back to
 4 the formulas of the calculations that make
 5 up the models, the equity ratio of each
 6 company isn't a factor in those formulas,
 7 it's not an expressed piece of the
 8 calculation that goes into it.
 9 MR. COYNE:
 10 A. No, you have to make an adjustment after the
 11 fact for the difference between your target
 12 company, Newfoundland Power, and the average
 13 for the proxy group if you're going to do
 14 that.
 15 SIMMONS, KC.:
 16 Q. And if I understand what you've said, the
 17 underlying data, that market data that you
 18 used to plug into those models, may
 19 indirectly have already taken account of the
 20 equity ratio when the analysts had prepared
 21 that data?
 22 MR. COYNE:
 23 A. That's right.
 24 SIMMONS, KC.:
 25 Q. Did I understand you to say that?

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1 MR. COYNE:
 2 A. Yeah, that's right. The way this gets done
 3 if you want to make an adjustment, is to use
 4 something called the Hamada Equation, is
 5 when we approach that where you decompose
 6 your proxy group for its proxy group, and
 7 then you re-examine those results for the
 8 target company's actual equity ratio. And
 9 in this case, because Newfoundland Power has
 10 a lower equity ratio than the proxy group,
 11 the net effect would be to increase, you see
 12 the average, for example here of 9.7 percent
 13 for the North American electric utility
 14 group, actually we've relied on the multi-
 15 stage version of it which is 9.42 percent.
 16 I don't have the precise number here, but if
 17 we were to adjust that for Newfoundland
 18 Power, that number would probably over 10
 19 percent because there's a 5 percent
 20 difference in the equity ratio for
 21 Newfoundland Power versus the proxy group
 22 and we haven't done that.
 23 SIMMONS, KC.:
 24 Q. Right, so you haven't done those
 25 calculations and presented them here.

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1 MR. COYNE:
 2 A. No.
 3 SIMMONS, KC.:
 4 Q. No, okay.
 5 MR. COYNE:
 6 A. So the net increase would be to—the net
 7 impact would be to increase the ROE which we
 8 have not taken into account.
 9 SIMMONS, KC.:
 10 Q. And if we were to look at your CAPM
 11 calculations, would it essentially be the
 12 same answer, the ROE is not the—the equity
 13 level is not explicitly taken into account
 14 in the calculations that are done for the
 15 CAPM figures?
 16 MR. COYNE:
 17 A. No, the same, we've accepted those equity
 18 ratios as being representative of
 19 Newfoundland Power, the results coming out
 20 of those models as being representative of
 21 Newfoundland Power without making any upward
 22 adjustment.
 23 SIMMONS, KC.:
 24 Q. Can we go to page 55 please? And scroll
 25 down to Figure 33 and you can stop there.

Page 17	<p>1 And we may have looked—you may have been</p> <p>2 brought to this before, I’m not sure, in the</p> <p>3 previous examination, but I understand this</p> <p>4 to be a table that compares the common</p> <p>5 equity ratio of the listed companies or</p> <p>6 averages, and also lists their authorized</p> <p>7 return on investment and these are actual</p> <p>8 numbers for the companies that are listed</p> <p>9 there, correct?</p> <p>10 MR. COYNE:</p> <p>11 A. They are, they’ve since been updated and we</p> <p>12 provided an update to that in our rebuttal</p> <p>13 evidence, but the table accomplishes the</p> <p>14 same thing. I think the only thing that</p> <p>15 changed was the Alberta number changed</p> <p>16 between when we filed our direct and</p> <p>17 rebuttal.</p> <p>18 SIMMONS, KC:</p> <p>19 Q. Okay, well aside from that, if it’s okay</p> <p>20 with you, I’ll use this table just to ask</p> <p>21 you a couple of questions about it.</p> <p>22 MR. COYNE:</p> <p>23 A. Yes.</p> <p>24 SIMMONS, KC:</p> <p>25 Q. And I know in your rebuttal evidence you</p>	Page 19	<p>1 return to the equity investor, and John, I</p> <p>2 think in most of our Canadian evidence we</p> <p>3 have a table like that for that purpose.</p> <p>4 Not always in our US evidence because</p> <p>5 oftentimes the peer groups are more aligned</p> <p>6 from an equity ratio than they are in</p> <p>7 Canada.</p> <p>8 SIMMONS, KC:</p> <p>9 Q. Okay, interesting. And are there different</p> <p>10 ways to do the weighting, or is this the</p> <p>11 accepted approach just to take the equity</p> <p>12 ratio and multiply it by the return on</p> <p>13 investment?</p> <p>14 MR. COYNE:</p> <p>15 A. I don’t know of any other approach you could</p> <p>16 take because from a rate perspective, that’s</p> <p>17 how these flow through rates, you know, you</p> <p>18 compute a weighted average cost of capital</p> <p>19 which is the common equity ratio times the</p> <p>20 allowed ROW and the debt portion of the</p> <p>21 capital structure times the weighted average</p> <p>22 cost of debt. You add those two together</p> <p>23 and that is the cost of capital that flows</p> <p>24 through rates. So I can’t think of any</p> <p>25 other way to do it.</p>
Page 18	<p>1 also included a very helpful bar graph which</p> <p>2 you were brought to yesterday, which</p> <p>3 presented weighted, the weighted return on</p> <p>4 equity, and I’ve made some assumptions here,</p> <p>5 so I’ll just through this with you from this</p> <p>6 table. If, for example, we were to look at</p> <p>7 Newfoundland Power’s existing weighted</p> <p>8 return on equity, we would multiply the 45</p> <p>9 percent by the 8.5 percent?</p> <p>10 MR. COYNE:</p> <p>11 A. Precisely.</p> <p>12 SIMMONS, KC:</p> <p>13 Q. Correct, okay. So the first question is</p> <p>14 that seems to be a very useful measure and</p> <p>15 is that something that’s common or standard</p> <p>16 in your analysis to prepare and present that</p> <p>17 kind of weighted equity data?</p> <p>18 MR. COYNE:</p> <p>19 A. Increasing so, especially where we see the</p> <p>20 differences between ROEs or equity ratios</p> <p>21 and you don’t get the combined effect until</p> <p>22 you look at what the rate effect is going to</p> <p>23 be and you do that by multiplying them and</p> <p>24 that shows the, in our view, that shows a</p> <p>25 balance perspective on the overall risk and</p>	Page 20	<p>1 SIMMONS, KC:</p> <p>2 Q. Would it be fair for me to suggest that</p> <p>3 using the weighted cost of capital is a good</p> <p>4 way to assess what the value to the</p> <p>5 shareholder is of the company because it</p> <p>6 takes account of how many shares are issued,</p> <p>7 how much income there’s going to be and is</p> <p>8 therefore, a good proxy for assessing what</p> <p>9 the likely dividend return is going to be</p> <p>10 for that shareholder.</p> <p>11 MR. COYNE:</p> <p>12 A. I wouldn’t go that far. I think from a</p> <p>13 shareholder perspective the dividend return</p> <p>14 is going to take into account, as you said,</p> <p>15 the number of shares outstanding times the</p> <p>16 return per share. So they wouldn’t go</p> <p>17 through this calculation to make that</p> <p>18 determination specifically.</p> <p>19 SIMMONS, KC:</p> <p>20 Q. But you could see there being a correlation,</p> <p>21 a connection between the two. The higher</p> <p>22 the weighted return on equity, the higher</p> <p>23 the relative return to the shareholder is</p> <p>24 going to be.</p> <p>25 MR. COYNE:</p>

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1 A. I would say the higher the absent return
 2 would be, as opposed to relative.
 3 SIMMONS, KC:
 4 Q. Okay, all right, thank you. Now, this is
 5 your originally filed evidence and it
 6 includes the, I'll say the raw data here for
 7 the equity ratio and the return on equity,
 8 but you haven't included a weighting
 9 calculation in your original evidence like
 10 you did in your rebuttal. Is there any
 11 reason why you didn't present that as part
 12 of your evidence here?
 13 MR. COYNE:
 14 A. Well at this point in time we're just trying
 15 to do a build up of the recommendation, it's
 16 not a comparison against other
 17 recommendations. When we get to the
 18 rebuttal evidence, we had a recommendation
 19 from Dr. Booth that we wanted to put in
 20 perspective with regards to other allowed
 21 returns and our recommended return, so in
 22 that sense, we thought it was a more useful
 23 way of presenting the data than it is in the
 24 direct evidence. There, it's more of a
 25 ground-up analysis.

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1 SIMMONS, KC:
 2 Q. So you'll have to bear with me now, we're
 3 going to do a little bit of math, which I
 4 expect both of your gentlemen are pretty
 5 good at. So if we were to look at the
 6 Canadian average here, which is the deemed
 7 equity ratio of 39.6 percent and the
 8 authorized return on equity of 9.17 percent,
 9 if we multiply those two together, I get
 10 3.63, does that seem correct to you?
 11 MR. COYNE:
 12 A. Well we can do the math, but why don't we
 13 accept that subject to check.
 14 SIMMONS, KC:
 15 Q. Okay, I've tried to do it a couple of times,
 16 I stand to be corrected, but I get 3.63 for
 17 that –
 18 MR. COYNE:
 19 A. It looks about right, yeah.
 20 SIMMONS, KC:
 21 Q. And if we look at Newfoundland Power's
 22 existing numbers, if we multiply 45 percent
 23 by 8.5 percent, I get 3.825, so it's
 24 essentially .2 higher than the Canadian
 25 average, does that sound correct?

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1 MR. COYNE:
 2 A. We've done that for you on page 39 of our
 3 rebuttal evidence, except we're not doing
 4 the Canadian average there.
 5 SIMMONS, KC:
 6 Q. Right, the Canadian average is not included
 7 in your chart, which is why I'm asking here
 8 now.
 9 MR. COYNE:
 10 A. I see, yeah. So we have 3.83 there for
 11 Newfoundland Power, so I can confirm that,
 12 yeah.
 13 SIMMONS, KC:
 14 Q. So the conclusion I can draw from that is
 15 based on these current numbers, and subject
 16 to some adjustment to the Canadian average
 17 for the Alberta number which you said you've
 18 updated, the current Newfoundland Power
 19 weighted average return on equity is above
 20 the Canadian average?
 21 MR. COYNE:
 22 A. Well let's, again, the Alberta number has
 23 come up and that would probably move it
 24 closer to the average.
 25 SIMMONS, KC:

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1 Q. Right.
 2 MR. COYNE:
 3 A. I could do that math, but –
 4 SIMMONS, KC:
 5 Q. So, I mean, we can do that, but now –
 6 MR. COYNE:
 7 A. But I accept the principle that they would
 8 probably be close. But I think if you
 9 looked down below to the US average, of
 10 course, you can see that that number is
 11 going to be substantially higher.
 12 SIMMONS, KC:
 13 Q. Right, and this is my next question for you,
 14 if you do the same thing for the US average,
 15 I'm getting almost 5, 4.98 as being the
 16 number I get compared to the Canadian
 17 average, which on this table is calculated
 18 at 3.6, so it appears the US average is
 19 considerably higher than the Canadian
 20 average here, would that be correct?
 21 MR. COYNE:
 22 A. That's right, yeah, and a lot of that has to
 23 do with the equity ratio that's so much
 24 higher than the Canadian average.
 25 SIMMONS, KC:

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1 Q. Now, I gather the position you've taken in
 2 your analysis is that the US data, much of
 3 the US data is as good a comparator for
 4 Newfoundland Power as the Canadian data is,
 5 but my question here is do we have any
 6 explanation as to why this US utility
 7 average of weighted return on equity is so
 8 much higher than the Canadian average, and
 9 I'll just jump in, it strikes maybe there's
 10 three—I'll present three alternatives and
 11 you can tell me if either of those make
 12 sense or explain whatever you think the
 13 reason is. One is that the Canadian average
 14 is just too low and boards all need to raise
 15 it. The other is the American average is
 16 too high and regulators need to lower it. A
 17 third is that market forces being recognized
 18 by the boards are signaling that there's
 19 less risk in Canada and that's why the
 20 weighted averages are lower. So I'd welcome
 21 your response to those alternatives and how
 22 else you would explain it?
 23 (9:30 a.m.)
 24 MR. COYNE:
 25 A. Those are the only three answers.

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1 SIMMONS, KC:
 2 Q. Sorry?
 3 MR. COYNE:
 4 A. I was asking are those the only three
 5 answers, I assume, yeah. If you look at—
 6 maybe we'll just start by looking at the
 7 authorized ROEs. In Canada there's been a
 8 journey over the last two decades witnessed
 9 of ROEs that largely were based on formulas.
 10 They were a really good idea when they were
 11 initially set, they were tied to government
 12 bond yields as they were here in
 13 Newfoundland and then we entered this period
 14 of basically a two decade, tremendous period
 15 of low inflation and progressively lower
 16 interest rates and as a result of that,
 17 government bond yields followed suit and
 18 declined over the course of that approximate
 19 20 year period. And as a result of that,
 20 ROEs in Canada and the US that used to be
 21 closely aligned, I think there's a chart in
 22 one of the IRs to that effect, separated and
 23 separated significantly, and one at a time,
 24 Canadian jurisdictions reconsidered the
 25 matter of using a formula and those ROEs

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1 that were growing increasingly low as a
 2 result of that, separated from, in your
 3 view, what a fair return would be, and by
 4 and large beginning with the NEB in each
 5 jurisdiction that had used a formula,
 6 suspended or as was done here, set aside the
 7 formulated approached. But there was a gap
 8 that was created in that period of time and
 9 since then, it probably reached its maximum
 10 around 2008 or '9 and since then, it's been
 11 closing as each Canadian jurisdiction has
 12 reconsidered market evidence and in the case
 13 most recently in Alberta and BC, for
 14 example, recognizing that markets are
 15 integrated and the industries are integrated
 16 and it's appropriate to consider both North
 17 America and US data, and as a result of
 18 that, the gap has closed. You can see here
 19 that the Canadian average of 9.17 versus the
 20 US of 9.66 is about a 50 basis point
 21 differential. That differential was about
 22 200 basis points back around 2007, '8 and '9
 23 when this problem was, I think, at its
 24 greatest. So that's the ROE story, but I
 25 now see more of an integrated approach in

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1 Canada that looks more like it does in the
 2 US, looking at market data as a basis for
 3 determining returns, as opposed to a formula
 4 that frankly just wasn't working. There's a
 5 different story on the deemed equity ratio
 6 side. In Canada we have seen a focus on
 7 setting ROEs that were targeted towards
 8 maintaining a minimum credit rating with
 9 largely a focus on debt investors and
 10 maintaining a minimum credit rating;
 11 whereas, in the US we have seen a focus on a
 12 few different dimensions, a credit rating
 13 being one aspect of that, peer group equity
 14 ratios being another aspect of that, a
 15 business risk analysis around the utility
 16 and also a little bit more—and a reflection
 17 of the actual capital structures that were
 18 being maintained by the utilities because
 19 using those actual capital structures, they
 20 were raising debt and that debt cost is
 21 impacted by the actual structure of the
 22 utility. So I would say it's been a more
 23 comprehensive approach of examining capital
 24 structure in the US in that regard than
 25 there has been in Canada, with a focus,

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1 fairly narrow focus on maintaining a minimum
 2 credit rating and as a result of that, we
 3 see this different that prevails of
 4 substantially lower equity ratios. There
 5 has been some change in some jurisdictions
 6 in Canada around that issue, the most
 7 recently in BC we saw a significant movement
 8 in equity ratios acknowledging these
 9 differences and also acknowledging the
 10 shifts in business risk for utilities, so as
 11 a result of that, the BC commission moved up
 12 the gas utilities equity ratio to 45 percent
 13 which was a significant move over where it
 14 was previously, but the electric utility up
 15 to 41. So I think it's not yet an
 16 integrated approach that we see on the
 17 equity ratio side, as we have seen happening
 18 on the ROE side. I think it's still a piece
 19 of work in motion, as I see it, as
 20 regulatory bodies consider this evidence.
 21 SIMMONS, KC:
 22 Q. So if I could try to summarize what you just
 23 said and I appreciate the answer, it sounds
 24 to me like your view is it's the Canadian
 25 regulators that need to change, not the

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1 American regulators?
 2 MR. COYNE:
 3 A. That's really not what I said, I'm just
 4 saying that the Canadian regulators have
 5 viewed this evidence differently than
 6 American regulators have, with a different
 7 focus on the equity ratio. I see more
 8 homogeneity on the ROE side today than I do
 9 see on the equity ratio side, but I think
 10 that's also an evolving view of the world in
 11 Canada. I don't see change in the US, but I
 12 do see an evolving view of the world in
 13 Canada in that regard.
 14 SIMMONS, KC.:
 15 Q. Okay, and it's not your view that the US
 16 utility, electric utility average weighted
 17 return on equity is too high, it's your view
 18 that the Canadian average is too low?
 19 MR. COYNE:
 20 A. No, well if you look at our recommendation,
 21 you know, we have now recommended a US
 22 electric utility average equity ratio for
 23 Newfoundland Power. Our recommendation
 24 strikes a balance between the Canadian view
 25 of the world and the US view of the world,

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1 and also we have spent some time
 2 interviewing equity rating analysts and also
 3 credit rating agencies on these issues as we
 4 have tried to understand their different
 5 approaches to rating US utilities and
 6 Canadian utilities. We've spent quite a bit
 7 of time with Moody's and S&P on this issue,
 8 interviewing their credit rating analysts.
 9 We hired the S&P senior credit rating
 10 analyst to our team to give us greater depth
 11 of knowledge around these issues, and what
 12 we've learned in that process is that the
 13 rating agencies used to maintain different
 14 offices in Toronto and in New York for
 15 rating Canadian versus US utilities and have
 16 now taken a more global approach so that
 17 they have one team, and they are conducting
 18 the ratings for both, not only just Canadian
 19 and US utilities, but also for European
 20 utilities and utilities overseas, so they're
 21 not starting to see the world through one
 22 lens around business risk, country risk and
 23 things of that nature. So as capital
 24 markets have become more integrated, the
 25 approach of investors and credit rating

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1 agencies has now become more integrated. So
 2 I see it as, well, that's probably a longer
 3 answer than you wanted, but that's where
 4 we're coming from.
 5 SIMMONS, KC:
 6 Q. So just to close out this discussion then,
 7 we'll take a look, please, at the Rebuttal
 8 Report and at Figure 1 which is on page 10
 9 of the Rebuttal Report, I think it might be
 10 pdf page 70 of the evidence. Yes, you've
 11 got it, look at that. Okay, right there.
 12 So we just done the calculation of the
 13 Canadian average before the Alberta
 14 adjustment and looking at the scale on the
 15 left-hand side of the chart, if we were to
 16 slot 3.6 in there somewhere, it's going to
 17 be somewhere to the left of the Newfoundland
 18 Power grey bar which is the current weighted
 19 average for Newfoundland Power, so it's
 20 going to slot in some distance to the left
 21 of that, isn't it?
 22 MR. COYNE:
 23 A. Well, if you're to use 3.6, why don't we
 24 compute the actual number.
 25 SIMMONS, KC:

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1 Q. Sure, if you want to do that, sure.
 2 MR. COYNE:
 3 A. Well actually, I want to say we should at
 4 least include the updated Alberta number if
 5 we're going to use that number for this
 6 discussion.
 7 SIMMONS, KC:
 8 Q. Okay, all right, if that can be done
 9 quickly, fine, if not, maybe what I'll do is
 10 just ask you for an undertaking to provide
 11 that number afterwards.
 12 MR. TROGONOSKI:
 13 A. Why don't we do an undertaking.
 14 SIMMONS, KC:
 15 Q. Okay, that will work, thank you.
 16 MS. GLYNN:
 17 Q. So that would be undertaking No. 6 is to
 18 provide the updated Canadian –
 19 SIMMONS, KC:
 20 Q. Weighted, yeah –
 21 MS. GLYNN:
 22 Q. Average for the rate of cost of capital.
 23 SIMMONS, KC:
 24 Q. Right, Canadian average.
 25 MR. COYNE:

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1 A. So with that stipulation we can proceed.
 2 SIMMONS, KC:
 3 Q. Okay, yeah. Okay, can we go back, please,
 4 to the original report, page 69 of the
 5 report please. The bottom of the page, and
 6 this point has probably been already made, I
 7 just want to confirm it, at line 27, 28
 8 there in talking about your conclusions on
 9 business risk for Newfoundland Power, you
 10 said, "Historical risks have continued to
 11 persist and the business risk for
 12 Newfoundland Power is comparable to that in
 13 2021 or the company's previous GRA filing."
 14 Now in your evidence yesterday I did hear
 15 you to say that you regard Newfoundland
 16 Power's business risk to be higher than
 17 other Canadian utilities or the average
 18 Canadian utility, which I understand your
 19 evidence on that, but even though it's
 20 higher than the Canadian utility, it's no
 21 different than it was at the last GRA,
 22 right?
 23 MR. COYNE:
 24 A. That's right. We didn't see any fundamental
 25 change from that GRA to this one.

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1 SIMMONS, KC:
 2 Q. And would it be fair to say that from
 3 between one GRA and another the
 4 characteristics of some of the risks might
 5 have changed, but your overall assessment is
 6 that the overall business risk is unchanged.
 7 MR. COYNE:
 8 A. That's right.
 9 SIMMONS, KC:
 10 Q. And if we were to look back at the previous
 11 two GRA applications by Newfoundland Power,
 12 do I recall correctly that your view then
 13 was that there was not any material change
 14 in the overall business risk of Newfoundland
 15 Power on either of those occasions either?
 16 MR. COYNE:
 17 A. I think that is correct, let me just test my
 18 memory with Mr. Trogonoski's here.
 19 MR. TROGONOSKI:
 20 A. Yes, I would agree with that as well.
 21 SIMMONS, KC:
 22 Q. Okay, so since 2016 then, characteristics of
 23 the risk may have changed, it's basically
 24 the same, I presume through all that period
 25 you would have said it's higher risk than

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1 other Canadian utilities, as you say at this
 2 hearing.
 3 MR. COYNE:
 4 A. I believe that's, yeah.
 5 SIMMONS, KC:
 6 Q. So if the only factor that had to be
 7 considered here in setting the return on
 8 equity for Newfoundland Power at this
 9 hearing was its business risk, would there
 10 be any reason for the Board to treat it any
 11 differently than they did at the last three
 12 hearings when they set it at 8.5 percent?
 13 If that were the only factor, hypothetical,
 14 I know, and I know there's other factors but
 15 I'm just teasing this one out.
 16 MR. COYNE:
 17 A. I think that would be off the mark if you're
 18 talking about setting—well, maybe, are you
 19 referring to ROE or equity ratio when you
 20 ask that question.
 21 SIMMONS, KC:
 22 Q. ROE.
 23 MR. COYNE:
 24 A. Yeah, well business risk is captured in the
 25 market models when we estimate ROE, so when

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1 we estimate the DCF model or the CAPM model
 2 or the Risk Premium Model, the market data
 3 that we discussed in your opening questions
 4 is all captured by that market data. So as
 5 business risk changes in the industry when
 6 we run these market base models, the inputs
 7 to the models are capturing those changes in
 8 business risk, so that's why a model that we
 9 would have run in 2016 would give us a
 10 different set of results than it will in
 11 2024 because of changes in capital markets,
 12 you know, investors consider business risks
 13 when they value the stocks of these
 14 companies, they also consider macro
 15 economics, inflation, risk free rates,
 16 they're alternative investments, so to
 17 answer this Board would, I think, would not
 18 be well informed if it were only looking at
 19 changes in business risk between 2016 and
 20 2024 when it came to determining ROE because
 21 it would not be considering all the other
 22 aspects that go into the value of a security
 23 and those change considerably over time.
 24 SIMMONS, KC:
 25 Q. So is your answer then that you can't answer

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1 my question because you can't really tease
 2 out the business risk from the other factors
 3 in the way I've asked you to do?
 4 MR. COYNE:
 5 A. Can you restate, if you would, how you're
 6 asking me to consider –
 7 SIMMONS, KC:
 8 Q. I had asked you if you could just imagine
 9 that the only factor was the business risk
 10 and there's no change in Newfoundland
 11 Power's business risk over that overall
 12 period of time, so there would seem to be no
 13 reason to change the return on equity over
 14 that period of time if that were the only
 15 factor, and I asked you if that was the
 16 case. And what I take what you've told me
 17 is that it's hard to do that because you
 18 also have to take account of other changes
 19 in the markets that investors look at.
 20 MR. COYNE:
 21 A. Well, yeah, my simple answer is no and the
 22 reason my answer is no is because you would
 23 be ignoring all the other data that goes
 24 into determining a proper return and much
 25 more goes into it than just a simple

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1 examination of business risk.
 2 SIMMONS, KC:
 3 Q. Okay, I have a more specific question for
 4 you now. Can we go to page 44 of the report
 5 please? This is one question concerning the
 6 CAPM inputs and just scroll down to Figure
 7 27, you can stop there. So I don't pretend
 8 to fully understand what the beta is and how
 9 it all works, other than I know it's an
 10 input into the CAPM and it's got something
 11 to do with risk and I understand, and
 12 correct me if I'm wrong, that Value Line is
 13 a service that does calculations of beta
 14 values that are available to be used in
 15 situations like these calculations, right?
 16 MR. COYNE:
 17 A. Yes.
 18 SIMMONS, KC:
 19 Q. And they are the source for these three beta
 20 numbers, for the Canadian group, the US
 21 electric utility group and the North
 22 American electric group. The Canadian
 23 number looks to be materially lower than the
 24 US number and the North American aggregate
 25 number and my question is, is that an

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1 indication that the markets from which these
 2 data were drawn by Value Line, are valuing
 3 the Canadian group as less risky than the US
 4 group and the North American group?
 5 MR. COYNE:
 6 A. Let me just turn to the exhibit, I just want
 7 to make sure we have the same coverage as we
 8 did for the US companies. Sometimes there
 9 are coverage differences before I answer
 10 your question more generally.
 11 SIMMONS, KC:
 12 Q. Yes, whatever you need to do to answer the
 13 questions, okay.
 14 MR. COYNE:
 15 A. Yeah, so in response to a request, actually
 16 one of your data requests –
 17 SIMMONS, KC:
 18 Q. Which one?
 19 MR. COYNE:
 20 A. This is NLH-NP-142, we addressed this issue
 21 and the question was asked, just as you
 22 asked it now, and the problem there is that
 23 Value Line only covers two of the six
 24 companies in the Canadian proxy group, Amera
 25 and Embridge, and so to make a comparison of

Page 41	<p>1 Value Line versus the US companies when you</p> <p>2 only have two, I think is probably fraught</p> <p>3 with peril, so that's why we also look at</p> <p>4 Bloomberg and you can see there where we do,</p> <p>5 we have estimates for all six companies, you</p> <p>6 can see that they're much more closely</p> <p>7 aligned. So I wouldn't reach the conclusion</p> <p>8 that you've suggested based on those two</p> <p>9 companies alone.</p> <p>10 SIMMONS, KC:</p> <p>11 Q. But nevertheless you did include the data</p> <p>12 here in your report.</p> <p>13 MR. COYNE:</p> <p>14 A. We did, yeah, and we relied on in our</p> <p>15 estimates.</p> <p>16 SIMMONS, KC:</p> <p>17 Q. Uh-hm.</p> <p>18 MR. COYNE:</p> <p>19 A. But at the end of the day the Canadian</p> <p>20 numbers coming out of our models were higher</p> <p>21 than the North American proxy group that is</p> <p>22 the base of our recommendation.</p> <p>23 SIMMONS, KC:</p> <p>24 Q. Okay, so how you assess what data to use</p> <p>25 here, that kind of circles right back to one</p>	Page 43	<p>1 under a trust deed, and the response to this</p> <p>2 RFI, we said that the long-term first</p> <p>3 mortgage bonds are typically purchased by a</p> <p>4 small number of investors, which could vary,</p> <p>5 and the primary investors in the company's</p> <p>6 first mortgage bonds are located within</p> <p>7 Canada. So, there's an indication here that</p> <p>8 – and of course, Newfoundland Power doesn't</p> <p>9 issue shares directly, so it doesn't</p> <p>10 directly participate in equity markets, so</p> <p>11 we don't have, you know, hard data about who</p> <p>12 the investors would be in Newfoundland</p> <p>13 Power, but we do have hard data here for</p> <p>14 debt placements, that the investors are</p> <p>15 Canadian and they're not American.</p> <p>16 MR. COYNE:</p> <p>17 A. Um-hm.</p> <p>18 SIMMONS, KC:</p> <p>19 Q. So, is this an indication that we should be</p> <p>20 taking into account to say that the</p> <p>21 competitive market for who the investors</p> <p>22 might be in equities for Newfoundland Power</p> <p>23 would probably also be Canadian?</p> <p>24 MR. COYNE:</p> <p>25 A. I wouldn't reach that conclusion.</p>
Page 42	<p>1 of my earlier questions about bringing</p> <p>2 judgment to bear about what the input data</p> <p>3 is into all these calculations.</p> <p>4 MR. COYNE:</p> <p>5 A. It is and that's why we use three different</p> <p>6 proxy groups, Canadian, US and North</p> <p>7 American and we looked at the composition of</p> <p>8 the companies in those proxy groups, as well</p> <p>9 as the market inputs we were using and felt</p> <p>10 as though the North American proxy group was</p> <p>11 the most representative for the purposes of</p> <p>12 this determination. And we also, when you</p> <p>13 do—the problem you pointed out, we've</p> <p>14 identified together of two companies in our</p> <p>15 Canadian proxy group is a challenge and when</p> <p>16 you have 14 companies, such as we have in</p> <p>17 the North American proxy group, then you</p> <p>18 don't have to be as concerned with your lack</p> <p>19 of good market data.</p> <p>20 SIMMONS, KC:</p> <p>21 Q. Just one other question for you on the risk</p> <p>22 topic and then we're getting close to the</p> <p>23 end here. Can we pop up NLH-NP-133 please?</p> <p>24 Newfoundland Power, of course, raises money</p> <p>25 by borrowing as well, by issuing debentures</p>	Page 44	<p>1 Newfoundland Power is a very small utility,</p> <p>2 as we discussed yesterday, and so, therefore</p> <p>3 is limited to tapping into this private</p> <p>4 placement market, and its robust enough for</p> <p>5 a company that's raising relatively small</p> <p>6 amounts of capital to tap into those</p> <p>7 markets. But on the equity side, it's a</p> <p>8 different – oh, good, you found what I was</p> <p>9 thinking about. If you turn to page – if</p> <p>10 you turn to PUB-NP-115, I think it provides</p> <p>11 the comparison that would – the companion</p> <p>12 comparison on the equity side which we</p> <p>13 should be focused on here as well. And is</p> <p>14 it possible to bring that up?</p> <p>15 SIMMONS, KC:</p> <p>16 Q. That's up there now, yeah.</p> <p>17 MR. COYNE:</p> <p>18 A. Okay, and if you could scroll down to Table</p> <p>19 1? Right. So, there you could see the</p> <p>20 parent company, Fortis Inc., of Newfoundland</p> <p>21 Power is raising 50 percent of its equity in</p> <p>22 Canada and 26 percent in the US and 17</p> <p>23 percent in other countries, and you can see</p> <p>24 that this is true for all the Canadian</p> <p>25 companies that they're – and this is the</p>

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1 very premise of our view that it is an
 2 integrated North American market for capital
 3 for utilities and other companies when you
 4 can see how these companies go in the
 5 market. Canada is a portion of it, but US
 6 is an important portion or source of equity
 7 capital, along with other countries.
 8 SIMMONS, KC:
 9 Q. Does Fortis have subsidiary operations in
 10 the United States as well?
 11 MR. COYNE:
 12 A. Oh yes.
 13 SIMMONS, KC:
 14 Q. I see Hydro One is predominantly Canadian
 15 institutional investors. Does Hydro One
 16 have any operations outside Canada?
 17 MR. COYNE:
 18 A. No, but yet they're still raising capital
 19 outside Canada.
 20 SIMMONS, KC:
 21 Q. Yeah, 21 percent of their capital.
 22 MR. COYNE:
 23 A. Right.
 24 SIMMONS, KC:
 25 Q. 79 percent is within Canada.

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1 MR. COYNE:
 2 A. And this is for a company that's exclusively
 3 an Ontario company.
 4 SIMMONS, KC:
 5 Q. Right.
 6 MR. COYNE:
 7 A. And the reason for that is that, you know,
 8 you want to take advantage of the most
 9 competitive markets you can for attracting
 10 capital, and if you can shave a basis point
 11 off, here or there, attracting equity,
 12 equity capital, then you do. And that's why
 13 these companies have taken the time and
 14 expense to list in both Canada and the US.
 15 SIMMONS, KC:
 16 Q. I had a couple clarification points kind of
 17 for the record related to the recent rate
 18 mitigation announcements, and one really is
 19 just a correction for the record. In the –
 20 I'll make the reference to the transcript
 21 from yesterday. I don't know if we need to
 22 go to it. I'll – it's at page 55, lines 3
 23 to 10. But I'll just tell you. Mr. Coffey
 24 asked you a question and his question asked
 25 you whether rate mitigation that's been

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1 announced cap increases in rates charged by
 2 Hydro to Newfoundland Power at 2.25 percent.
 3 I think he probably meant to say that the
 4 rate mitigation was going to cap the
 5 increase in consumer rates related to
 6 Muskrat Falls by 2.25 percent. Does that
 7 sound correct? I think Mr. Coffey is
 8 nodding on that one.
 9 COFFEY, KC:
 10 Q. Yeah.
 11 SIMMONS, KC:
 12 Q. Because you agreed with his question on it,
 13 and I just want to make sure that you
 14 understood that the 2.25 percent is the
 15 Muskrat Falls effect on consumer rates
 16 that's being capped. Is that what you had
 17 understood?
 18 MR. COYNE:
 19 A. My – I've had to check my own thoughts on
 20 this and I believe, and again, and I would
 21 defer to the other experts at the company
 22 who know this better than I do, but my
 23 understanding is that the 2.25 percent is a
 24 cap on Hydro's rates that it would charge to
 25 Newfoundland Power for Muskrat Falls. So,

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1 that's my understanding.
 2 SIMMONS, KC:
 3 Q. Okay, fine, but so, I know you'd been
 4 questioned on a couple press releases that
 5 have been put in evidence here. So, in
 6 preparation for coming here and testifying
 7 over the last couple days, did you do
 8 anything to familiarize yourself with any of
 9 the details of the recently announced rate
 10 mitigation plan?
 11 MR. COYNE:
 12 A. I looked at the press release, or I'd say we
 13 looked at the press release and we looked at
 14 the slide deck that came along with it.
 15 SIMMONS, KC:
 16 Q. Yes, okay, all right. And coming out of
 17 that, your understanding is the 2.25 percent
 18 is a cap on Hydro's charges to Newfoundland
 19 Power?
 20 MR. COYNE:
 21 A. That is my understanding. But let me just
 22 check with Mr. Trogonoski.
 23 SIMMONS, KC:
 24 Q. That's fine.
 25 MR. COYNE:

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1 A. Do you agree? This could be our
 2 disagreement.
 3 SIMMONS, KC:
 4 Q. So, maybe I could help with this. Maybe we
 5 can bring up Information Item No. 7 please,
 6 which is the – one of the press releases,
 7 and we’ll go to page five, and scroll down
 8 to the next paragraph. You can stop there.
 9 I’m looking at the paragraph that begins
 10 “the majority of residents pay Island
 11 Interconnected fees” and if you go to
 12 starting there on the second sentence.
 13 “Each year we apply to the Public Utilities
 14 Board, the regulator, to update the rate we
 15 charge to Newfoundland Power. That rate
 16 will now be set to ensure that Hydro’s
 17 impact on customer rates is limited to 2.25
 18 percent.” See that?
 19 MR. COYNE:
 20 A. I do.
 21 SIMMONS, KC:
 22 Q. Okay.
 23 MR. COYNE:
 24 A. I think that’s consistent with my
 25 understanding, although I think the sentence

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1 could – maybe there’s some ambiguity in the
 2 sentence, also from my perspective. The way
 3 I read that and interpret it is that the
 4 rates that Hydro charges to Newfoundland
 5 Power will not go up by more than 2.25
 6 percent as a result of the Muskrat Falls
 7 Project. That’s what I take away from that.
 8 SIMMONS, KC:
 9 Q. Okay. Well, we’ll leave that there, and
 10 while we’re here on this, can we go back to
 11 page four, please? You can stop there.
 12 Now, one of the things you’d said yesterday
 13 was that you’d regard the rate mitigation
 14 arrangements which extend out to 2030 as
 15 being, I think you described it as a stop-
 16 gap measure and you described it as kicking
 17 the problem down the road, and I do
 18 understand what you’re saying that right
 19 now, we don’t know what will happen in 2030.
 20 We don’t know if there will be further rate
 21 mitigation or what form it will take or what
 22 circumstances will have changed. So, rate
 23 mitigation buys certainty till 2030, but
 24 there’s still uncertainty after that. So,
 25 that’s part of what you’d said yesterday, I

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1 think, right?
 2 MR. COYNE:
 3 A. I think that’s a fair characterization.
 4 SIMMONS, KC:
 5 Q. Right. And the point I want to confirm with
 6 you is if you look at this section of the
 7 press release that says, “who is paying for
 8 Muskrat Falls and how much?”, it says, “the
 9 exact sources and amounts of funding may
 10 vary each year, but essentially, the
 11 difference will be funded by Hydro. Beyond
 12 the amount recovered from customers and from
 13 Federal funding sources, between now and
 14 2030, Hydro will invest more than two
 15 billion to mitigate customer rates.” Now, I
 16 don’t know how much you know about the
 17 mechanics of how this financing works at
 18 Muskrat Falls, but when you said that the
 19 problem was being kicked down the road, did
 20 you intend to say that any of the payment on
 21 the Project that had to be made up to 2030
 22 was being postponed until after 2030?
 23 MR. COYNE:
 24 A. Not any. The press release indicates that a
 25 small – as I recall, a small amount of the

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1 Project, only – I think it states only a
 2 small amount of the Project will be
 3 recovered during this period.
 4 SIMMONS, KC:
 5 Q. Will be recovered from ratepayers.
 6 MR. COYNE:
 7 A. Recovered from ratepayers, yes.
 8 SIMMONS, KC:
 9 Q. Right. And as -
 10 MR. COYNE:
 11 A. My understanding is that what is not
 12 recovered from ratepayers -
 13 SIMMONS, KC:
 14 Q. Yes.
 15 MR. COYNE:
 16 A. - will be in a deferral on Hydro’s balance
 17 sheet.
 18 SIMMONS, KC:
 19 Q. Oh.
 20 MR. COYNE:
 21 A. And how that is going to be recovered in the
 22 future remains to be seen.
 23 SIMMONS, KC:
 24 Q. Um, and what’s the basis of you thinking
 25 that it’s going to be all deferred?

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1 (10:00 a.m.)
 2 MR. COYNE:
 3 A. From my reading of these press releases and
 4 the slide deck, that was the conclusion that
 5 I reached.
 6 SIMMONS, KC:
 7 Q. So, do you know what this reference here to
 8 Hydro investing more than two billion to
 9 mitigate customer rates is about?
 10 MR. COYNE:
 11 A. I don't know. It has no more clarity to it
 12 than that.
 13 SIMMONS, KC:
 14 Q. Okay, all right. Okay.
 15 MR. COYNE:
 16 A. If Hydro is investing, it could be investing
 17 in maintaining that deferral is one of the
 18 ways one could interpret that.
 19 SIMMONS, KC:
 20 Q. Great. Thank you very much. I don't have
 21 any other questions.
 22 CHAIRMAN:
 23 Q. Thank you. Over to Ms. Greene.
 24 MR. JAMES COYNE AND MR. JOHN TROGONOSKI, CROSS-
 25 EXAMINATION BY MAUREEN GREENE, KC

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1 GREENE, KC:
 2 Q. Thank you, Mr. Chair, Commissioners. Good
 3 morning.
 4 MR. TROGONOSKI:
 5 A. Good morning.
 6 GREENE, KC:
 7 Q. In your report, Attachment 1 outlined a
 8 number of the regulatory proceedings in
 9 which you have been an expert and similarly
 10 -- actually for Mr. Coyne and for Mr.
 11 Trogonoski, and I believe Mr. Coffey also
 12 asked you questions with respect to your
 13 experience. In the -- I think you had
 14 indicated you appeared in about 20
 15 proceedings in Canada. Is that correct?
 16 MR. COYNE:
 17 A. That sounds about right.
 18 GREENE, KC:
 19 Q. And in those 20 proceedings, on whose behalf
 20 would you have provided expert opinions?
 21 MR. COYNE:
 22 A. The vast majority of them would have been on
 23 behalf of utilities. I think the one
 24 exception I can think of would be in the
 25 work that we did for the Ontario Energy

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1 Board back in 2007 or '08 when we prepared
 2 an expert report for the Board, helping them
 3 understand the differences between allowed
 4 returns in Canada and the US and that became
 5 an expert report of the Board on that issue.
 6 GREENE, KC:
 7 Q. And would your response be similar for your
 8 regulatory work in the United States?
 9 MR. COYNE:
 10 A. I would say the vast majority are for
 11 utility companies or pipelines or electric
 12 transmission companies, although we sometime
 13 -- and I have sometimes also appeared on
 14 behalf of industrial consumers as well.
 15 GREENE, KC:
 16 Q. Mr. Trogonoski, in your experience as an
 17 expert, providing expert opinion, for your
 18 testimony, who would your client primarily
 19 have been?
 20 MR. TROGONOSKI:
 21 A. In Canada, it would primarily have been for
 22 the regulated utility companies, but I also
 23 have experience, as I said yesterday, as a
 24 staff member with the Colorado Public
 25 Utilities Commission. So, there, my

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1 recommendations were on behalf of Commission
 2 staff. So, I think if you look at my
 3 listing of expert testimony, probably about
 4 evenly divided between utility clients and
 5 staff recommendations.
 6 GREENE, KC:
 7 Q. But in your role as a consultant, you have
 8 primarily acted for utilities? Is that
 9 correct?
 10 MR. TROGONOSKI:
 11 A. Yes, with the exception of what Mr. Coyne
 12 just mentioned, our work for Ontario in 2007
 13 and 2008.
 14 GREENE, KC:
 15 Q. And I believe as well yesterday, Mr. Coyne,
 16 you indicated in response to a question from
 17 Mr. Coffey that it's a very small, limited
 18 group of experts who give cost of capital
 19 evidence in both the United States and
 20 Canada. Is that correct?
 21 MR. COYNE:
 22 A. Yes.
 23 GREENE, KC:
 24 Q. Okay.
 25 MR. COYNE:

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1 A. It's broader in the US than it is in Canada,
 2 in my experience.
 3 GREENE, KC:
 4 Q. And in your experience, do we all -
 5 MR. COYNE:
 6 A. But - I'm sorry. Do you mean in terms of
 7 the overall number of experts providing -
 8 GREENE, KC:
 9 Q. Yes.
 10 MR. COYNE:
 11 A. Okay. It's - in Canada, there are a number
 12 of experts that also provide, typically
 13 provide testimonies on behalf of
 14 intervenors, industrial groups, consumer
 15 groups and things of that nature. In our
 16 recent Alberta proceeding, I believe there
 17 were at least six, seven, or if not eight
 18 testifying experts in that proceeding on
 19 cost of capital. So, the number is broader
 20 if - those questions had to do with our
 21 competitors, those that are doing the type
 22 of work that we're doing, and I think the
 23 question pertained to those that are doing
 24 work for utilities and regulated utilities.
 25 GREENE, KC:

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1 Q. In your experience then, is the group of
 2 experts that we see at regulatory
 3 proceedings in Canada a small group or a
 4 large group?
 5 MR. COYNE:
 6 A. Well, I would say it's a relatively small
 7 group. Again, it's less than ten. But I
 8 think that number is probably not that much
 9 larger in the US. It's less than ten there
 10 as well, in our experience.
 11 GREENE, KC:
 12 Q. So, it's a fairly narrow group that provide
 13 this type of expertise in regulatory
 14 proceedings?
 15 MR. COYNE:
 16 A. I'd say that's fair, yes.
 17 GREENE, KC:
 18 Q. And in your experience, is it the typical
 19 practice that an expert will appear
 20 regularly for one interest group, whether it
 21 is the utility or an intervenor, such as a
 22 group of industrial customers or a group
 23 representing residential customers?
 24 MR. COYNE:
 25 A. I'd say that's fairly typical.

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1 GREENE, KC:
 2 Q. And would you also agree that it is very
 3 typical to see that the expert appearing on
 4 behalf of the utility usually provides the
 5 recommendations for the highest ROE to be
 6 awarded for the utility?
 7 MR. COYNE:
 8 A. As compared to an intervenor expert?
 9 GREENE, KC:
 10 Q. As opposed to the expert called on behalf of
 11 the residential user, such as the consumer
 12 advocate here.
 13 MR. COYNE:
 14 A. Oh, I think that's a fair characterization,
 15 yes. I think as exemplified by the
 16 recommendation of Dr. Booth in this
 17 proceeding and -
 18 GREENE, KC:
 19 Q. Which we have seen -
 20 MR. COYNE:
 21 A. - us in this proceeding.
 22 GREENE, KC:
 23 Q. Which we have seen in previous proceedings
 24 before the Board, and we'll talk a little
 25 bit about the proceedings in Alberta and BC,

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1 but it is typical for the utility expert to
 2 provide the recommendation of the highest
 3 ROE and the consumer advocate expert to
 4 provide the recommendation for the lowest
 5 ROE for the utility?
 6 MR. COYNE:
 7 A. Well, when you have two experts, as you have
 8 here, that's almost always the case. If you
 9 have multiple experts, then you tend to have
 10 a range. Even amongst both utility experts
 11 and the intervenor experts, there tends to
 12 be much more overlap when you have multiple
 13 experts, as we did for example in Alberta.
 14 And in other jurisdictions, it's also the
 15 case that the Board hires its own expert and
 16 oftentimes that provides a third
 17 perspective.
 18 GREENE, KC:
 19 Q. Mr. Simmons talked to you about the degree
 20 to which providing opinions on cost of
 21 capital, the appropriate fair return, is an
 22 art or a science, and I tend to characterize
 23 it as exercising judgment versus objective
 24 facts and whether the amount of discretion
 25 that's involved. In your experience, is the

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1 opinions provided by the expert influenced
 2 in any way by the clients that they
 3 typically represent?
 4 MR. COYNE:
 5 A. Well, it wouldn't be fair for me to
 6 characterize how others form their opinions
 7 based on their clients, but I can tell you
 8 how we work.
 9 GREENE, KC:
 10 Q. Okay.
 11 MR. COYNE:
 12 A. And that is that we have to be transparent
 13 with our analysis and our testimony, and
 14 we're also obligated to uphold obligations
 15 as being an impartial and expert witness,
 16 and that's why we lay out our analysis and
 17 our testimony the way that we do, so that
 18 it's transparent. All the data sources that
 19 we use are disclosed. Our work papers are
 20 provided. Our Excel working spreadsheets
 21 are provided. So, there is – I like to
 22 think that we're very transparent in
 23 reaching our recommendations and that we
 24 would reach the same recommendation
 25 regardless of who our client is. We don't –

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1 our clients don't tell us at the outset,
 2 "this is the ROE we'd like to get from this
 3 proceeding". We run our models and provide
 4 our analysis and we say, "this is the
 5 appropriate ROE". So, we have to maintain
 6 our own integrity of process in order to be
 7 able to do so.
 8 GREENE, KC:
 9 Q. And you just mentioned the models that
 10 you've run and the methodologies that you
 11 use and primarily here you've used a CAPM
 12 model, the Discounted Cash Flow model and
 13 the Risk Premium Analysis model are the
 14 three that you have based your
 15 recommendations on for this proceeding, and
 16 I believe you indicated that these models
 17 are fairly standard models used by all of
 18 the experts. Is that correct?
 19 MR. COYNE:
 20 A. Standard models, but not used by all the
 21 experts. Other, Dr. Booth, for example,
 22 does not rely on a Risk Premium Analysis, as
 23 we do.
 24 GREENE, KC:
 25 Q. No. So, the choice of which models is a

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1 matter of judgment of the individual expert.
 2 Is that correct?
 3 MR. COYNE:
 4 A. To some extent. I think virtually all
 5 experts rely to some extent on both a DCF
 6 and a capital asset – a CAPM approach. I
 7 think it is more discretionary, in my
 8 experience, to use the Risk Premium and the
 9 Expected Earnings. I would call these the
 10 second cousins to the DCF and the CAPM
 11 approach that are standard for most experts.
 12 GREENE, KC:
 13 Q. And in Canada, it is primarily the CAPM and
 14 some form of a discounted cash flow method
 15 that is primarily used. Is that correct?
 16 MR. COYNE:
 17 A. I'd say that's generally true. If you look
 18 to the BCUC decision that we recently
 19 testified, that Commission placed equal rate
 20 – equal weight on the CAPM, DCF and Risk
 21 Premium models that we provided to that
 22 commission, based on our recommendation, and
 23 they accepted equal weight on each of them.
 24 GREENE, KC:
 25 Q. But that isn't always the case. So, the

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1 choice and the weighting to be given is also
 2 within the discretion of the expert and the
 3 regulator in making the decision by the
 4 regulator. Is that correct? For example,
 5 in Alberta, they did not accept the Risk
 6 Premium method.
 7 MR. COYNE:
 8 A. As I recall, they placed primary weight on
 9 the DCF and the CAPM models. I don't recall
 10 the weight on the Risk Premium. Do you,
 11 John?
 12 GREENE, KC:
 13 Q. We will come to the actual decision -
 14 MR. TROGONOSKI:
 15 A. Yeah, I -
 16 GREENE, KC:
 17 Q. - which you'll see they specifically
 18 rejected the Risk Premium model for
 19 consideration in their decision. So, again,
 20 when you look at the models, there's
 21 discretion as to which ones are used,
 22 accepting that the CAPM is primarily still
 23 the main one used in Canada. Is that
 24 correct?
 25 MR. COYNE:

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1 A. No. I'd say almost every jurisdiction in
 2 Canada now relies on the CAPM and the DCF in
 3 modern times.
 4 GREENE, KC:
 5 Q. Okay.
 6 MR. COYNE:
 7 A. I think in Canada, the CAPM was prevalent up
 8 until ten years ago, but it has evolved to
 9 the point where most Canadian jurisdictions
 10 now rely at least on the CAPM and DCF and
 11 with consideration of the other models as we
 12 just discussed.
 13 GREENE, KC:
 14 Q. And within the DCF model, there's also a
 15 discretion as to whether the constant growth
 16 method of the multistage method is accepted
 17 in Canada. Is that correct?
 18 MR. COYNE:
 19 A. That's right, and that's why we – we present
 20 both results recognizing that distinction,
 21 the multistage and the constant growth, and
 22 our recommendation here is based on only the
 23 multistage version of the DCF model. It's
 24 the more conservative approach. It also
 25 produces lower numbers.

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1 GREENE, KC:
 2 Q. And Dr. Booth, in his evidence, primarily
 3 relies on the CAPM method. Is that correct,
 4 using the DCF to test or verify the results
 5 of his CAPM?
 6 MR. COYNE:
 7 A. That's how he characterizes his analysis,
 8 yes.
 9 GREENE, KC:
 10 Q. If we go to your report, please, the
 11 original report, page 34 of the report.
 12 MR. COYNE:
 13 A. Mr. Trogonoski – on that issue, Ms. Greene,
 14 it might be worth noting that in response to
 15 the Consumer Advocate 196, we were asked
 16 this question about the prevalence of the
 17 models. I think we have useful charts there
 18 that show the prevalence in Canada and the
 19 prevalence in the US of the DCF, the CAPM,
 20 comparable earnings and other models.
 21 GREENE, KC:
 22 Q. Okay.
 23 MR. COYNE:
 24 A. And it compares them on a side-by-side basis
 25 in each country.

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1 GREENE, KC:
 2 Q. So, would you like to go -
 3 MR. COYNE:
 4 A. Yeah, it might be useful.
 5 GREENE, KC:
 6 Q. We can bring it up. Yes, yeah.
 7 MR. COYNE:
 8 A. I think it's a good question you asked.
 9 Consumer Advocate NP-196, if we could.
 10 GREENE, KC:
 11 Q. So, would you like to go down through the
 12 chart, scroll down?
 13 MR. COYNE:
 14 A. Please, yeah. So, this goes back to 2016.
 15 I was asked to give a presentation at CAMPUT
 16 on this issue and in that presentation, at
 17 that point in time, we researched which
 18 models were being used by regulators in both
 19 countries, and you can see the first chart
 20 shows the predominance of the DCF, followed
 21 by the CAPM, the comparable earnings or
 22 expected earnings and other, which is
 23 primarily the Risk Premium model in the US.
 24 And then if you go to the chart below, you
 25 can see that it was the prevalence of the

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1 CAPM, followed by the DCF, the Risk Premium,
 2 expected earnings models in '16. And I
 3 think since then, we've seen, I would say,
 4 the bar on the DCF side has probably come up
 5 in Canada, based on our experience. So, I
 6 would say they're approximately equivalent
 7 at this point in time.
 8 (10:15 a.m.)
 9 GREENE, KC:
 10 Q. And when you refer to the DCF model, are you
 11 making any distinction between the constant
 12 growth method and the multistage method?
 13 MR. COYNE:
 14 A. No. That would be either or both.
 15 GREENE, KC:
 16 Q. Okay. So, both would be in there. And have
 17 you done any analysis to show the difference
 18 in use between the two types of the DCF
 19 model?
 20 MR. COYNE:
 21 A. Have I surveyed each regulator on that?
 22 GREENE, KC:
 23 Q. I just wondered if you made the distinction
 24 for DCF for constant growth and DC – and the
 25 multistage model. Would we see more use in

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1 Canada of the multistage, where it is
 2 accepted, versus the constant growth?
 3 MR. COYNE:
 4 A. Yes, more use of the – more acceptance of
 5 the multistage, and for that reason, we have
 6 relied exclusively on the multistage in our
 7 recommendation.
 8 GREENE, KC:
 9 Q. Thank you. No, that was helpful. If we
 10 could go to your report, page 34, lines 3 to
 11 4?
 12 MR. COYNE:
 13 A. Page 34 did you say?
 14 GREENE, KC:
 15 Q. Yes, page 34 in your original report, lines
 16 – actually line 4, begin with line 4. And
 17 here you recognize that in doing the
 18 analysis informed judgment is used to assess
 19 the reasonable of the results and to
 20 determine the appropriate weighting. So,
 21 talk about a little more about the
 22 discretion that’s used in the various models
 23 that are selected and into the inputs that
 24 are used into the various models and how
 25 what inputs you have used and whether

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1 they’ve been accepted by other regulators.
 2 So there, as we’ve just discussed, you do
 3 acknowledge – you call it informed judgment
 4 and I may refer to it as discretion, but I
 5 mean the same thing. So, the degree to
 6 which informed judgment is used, as opposed
 7 to objective facts, even when you determine
 8 -- when you said you looked at, for example,
 9 sources for your beta from Value Line and
 10 Bloomberg, even the decision to do that is a
 11 question of informed judgment, isn’t it?
 12 That not everybody would agree with, not the
 13 other experts and not the regulators that
 14 have looked at it.
 15 MR. COYNE:
 16 A. Okay. I’m going to try to answer your
 17 question, but I’m not sure that I understand
 18 exactly the question. So maybe could you
 19 just repeat it for me?
 20 GREENE, KC:
 21 Q. I guess the only – we can have a little bit
 22 of discussion about it, about how objective
 23 – because when you talk about the models and
 24 we use the formulas of the market risk
 25 premium multiplied by the beta, it makes it

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1 sound so objective and so factual, but in
 2 reality, there’s a lot of informed judgment
 3 or discretion used, either by the expert,
 4 and we’ll see by the regulators because we
 5 have different decisions in Canada on the
 6 models, on the inputs, on the outcomes. So,
 7 the degree to which you would use your
 8 judgment in the selection of the inputs, how
 9 would you qualify the degree? Minor,
 10 balanced, significant judgment is used?
 11 MR. COYNE:
 12 A. I would say – well, in each of the models,
 13 as we have been discussing, we try to use a
 14 third-party source that’s providing the data
 15 so that it’s not our opinion as to what beta
 16 is or our opinion as to what the risk-free
 17 rate is. You won’t hear that in our
 18 testimony and you won’t see that in our
 19 analysis. There’s some judgment involved in
 20 terms of using -- which forms of these
 21 models we use and the judgment there that
 22 we’re using is one that reflects our
 23 discussions about how we hear Canadian
 24 regulators responding to this data. There
 25 are some issues that are controversial in

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1 Canada that are not controversial before US
 2 regulators, and we respect that, and our
 3 evidence has evolved in Canada as a result
 4 of that, to reflect what I would
 5 characterize as more conservative
 6 interpretations of the models and their
 7 inputs, but we’re still taking them from
 8 objective market sources. The two –
 9 probably the two distinctions where that
 10 shows up to the greatest degree is – and I’m
 11 sorry if this is not a simple yes-no answer
 12 to your question or balanced, but it’s more
 13 important, I think, than I can do it justice
 14 with a simple answer to that.
 15 But take the DCF model, for example. I
 16 would say there is no reasonable analyst
 17 that would recommend a form of the DCF model
 18 other than the multistage, and as we’ve
 19 shown in our – the difference between the
 20 multistage and the DCF is in the DCF
 21 applicant, the constant growth, the typical
 22 assumption is to use analyst growth rates
 23 and you assume that those last forever,
 24 right. The multistage assumes that those
 25 analyst growth rates only last for five

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1 years and then from there, you taper down
 2 typically to a GDP growth rate. As we've
 3 shown in our evidence, the companies in the
 4 proxy group have growth at a substantially
 5 faster rate than GDP over 20 years of
 6 history. Their earnings routinely outpace
 7 GDP. So, by taking future expectations of
 8 earnings growth and tapering them down to
 9 GDP, we're taking a conservative and low
 10 estimate of what those future earnings
 11 growth – the future earnings growth would be
 12 for these companies. So, that's a very
 13 conservative interpretation of that model.
 14 So, we're using judgment, but that judgment
 15 is leaning towards a more conservative
 16 result.

17 In the case of the CAPM model, there is
 18 a lot of debate concerning – and this just
 19 isn't in Canada, also in the US, concerning
 20 what the appropriate market equity risk
 21 premium is. So, we've taken the long-term
 22 history in both Canada and the US going back
 23 to 1926, and even though interest rates were
 24 higher then, we're treating that as the
 25 forward-looking market equity risk premium,

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1 even though the forward-looking market
 2 equity risk premium is higher, as we show in
 3 our report.

4 So, we're taking the lower input on the
 5 market equity risk premium and the lower
 6 expected earnings growth rate in the DCF,
 7 both which move those results down, but we
 8 show both results so that you can see that
 9 impact. So, these are coming from third-
 10 party objective sources of market inputs and
 11 we believe that it's a strong basis for
 12 presenting this recommendation to the board,
 13 such as this one.

14 GREENE, KC:
 15 Q. My only point is that in your selection of
 16 what to use, it has been different than, for
 17 example, what Dr. Booth has used in his with
 18 respect to how he has determined the growth
 19 rate to be used in the DCF model, and also
 20 how he has done the market risk premium,
 21 even when he looks at historic data versus
 22 how you have determined the historic data.
 23 So, there is judgment, and I can go back – I
 24 can take you to the BCUC decision too where
 25 you will see the choice of the inputs is a

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1 matter of judgment by the expert providing
 2 the opinion and there is not unanimity or
 3 else we wouldn't have all these expert
 4 opinions with different ranges in them,
 5 different outcomes. Is that correct?

6 MR. COYNE:
 7 A. There is not unanimity, and I think the
 8 biggest difference between the approach we
 9 take and Dr. Booth takes, for example, is
 10 that virtually every input or almost every
 11 input to Dr. Booth's analysis, both on the
 12 DCF side and on the CAPM side, is based
 13 around a judgment that Dr. Booth is making.
 14 Now, he's not – he's providing his opinion
 15 around what beta is, for example, by looking
 16 at a lot of history over beta as opposed to
 17 taking a Bloomberg or Value Line estimate as
 18 we have. So, I think that yes, there are
 19 differences of opinions between experts, but
 20 I like to think that when you're taking it
 21 from a third-party source that you can at
 22 least provide a board or commission with the
 23 source of that data, where it came from and
 24 the basis for it, which I believe doesn't
 25 have to rely on an expert's opinion.

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1 GREENE, KC:
 2 Q. We go through some of your, the inputs. The
 3 first one I wanted to look at is your choice
 4 of a North American proxy group.

5 MR. COYNE:
 6 A. Um-hm.

7 GREENE, KC:
 8 Q. And your recommendation is that the North
 9 American proxy group is the most relevant to
 10 support the recommendation. Is that
 11 correct?

12 MR. COYNE:
 13 A. That's right, even though we provide results
 14 for both the Canadian and US proxy group as
 15 well.

16 GREENE, KC:
 17 Q. And as we've heard some discussion already,
 18 the use of American data has been one of the
 19 issues that has been controversial over the
 20 years in Canada and I believe you indicated
 21 that there is a more recent trend to accept
 22 the use of US data. Is that correct?

23 MR. COYNE:
 24 A. That's right.

25 GREENE, KC:

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1 Q. If we could go to PUB-NP-115 please?
 2 MR. COYNE:
 3 A. Could you repeat that? Which one?
 4 GREENE, KC:
 5 Q. PUB-NP-115. You have referred to it already
 6 in your testimony. So, this was the
 7 question that was asked because the Board,
 8 the last time that we actually went to a
 9 hearing on cost of capital in 2016, decided
 10 that there should be a downward adjustment
 11 to reflect the difference between the US and
 12 Canadian experience, and I wanted to give
 13 you the opportunity here to provide a
 14 further explanation as to why the use of the
 15 US proxy group and US data doesn't need
 16 adjustment. You've already mentioned it
 17 briefly already, but here you – had there
 18 been any change since the previous decision,
 19 and I guess, here you refer to a recent
 20 decision from British Columbia. Is that
 21 correct?
 22 MR. COYNE:
 23 A. Yes.
 24 GREENE, KC:
 25 Q. And why was that significant for you?

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1 MR. COYNE:
 2 A. Well, it was an opportunity to re-examine
 3 this issue in a substantial way and not just
 4 BC, but beginning I'd say with Ontario back
 5 in 2009, there's been an ongoing exam – and
 6 prior to that, the NEB as well – an ongoing
 7 examination of the use of US proxy companies
 8 for these determinations. And increasingly,
 9 I think virtually every regulator in Canada
 10 at this point in time accepts the use of US
 11 proxy companies for this basis. So, that's
 12 no longer a question as to whether or not
 13 it's reasonable to use US companies for this
 14 analysis, I do not think, based on our
 15 experience at least. The question remains
 16 for some as to whether or not some
 17 adjustment is necessary, as in your
 18 question, and as we have looked at this
 19 issue, and you know, we'd look at the
 20 integration of capital markets. We'd look
 21 at the integration of the industries. New
 22 capital is raised on both sides of the
 23 border and the substantial investments that
 24 are made both by US companies in Canadian
 25 jurisdictions, but more so Canadian

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1 companies in US jurisdictions, as providing
 2 an integrated industry, operating in an
 3 integrated – increasingly integrated North
 4 American capital market. So, for that
 5 reason, we do not think it's necessary to
 6 make an adjustment on this basis.
 7 It's interesting that this issue was
 8 argued before the NEB about 20 years ago and
 9 at that point in time, it was argued that
 10 there should be a premium for Canadian
 11 companies over US companies, the opposite
 12 argument basically, and that argument was
 13 rejected then for this reason and I think
 14 it's still appropriate to consider the US
 15 proxy group integrated with Canadian
 16 companies, as we've done here, and you can
 17 actually show the data both ways, for
 18 Canadian proxy group with Canadian data and
 19 a US proxy group with US data, as well as
 20 the North American version, so the Board has
 21 the opportunity to see what impacts it would
 22 have.
 23 GREENE, KC:
 24 Q. So, the question, from the time we were here
 25 in 2016, the change, you did – relates to –

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1 and that's why you referred to it, a more
 2 recent decision from British Columbia, and
 3 we'll see one from Alberta as well, with
 4 respect to the use of US data. I just
 5 wanted to confirm with you that the
 6 decisions you refer to from Ontario and the
 7 National Energy Board were before 2016 and
 8 were also used by you at that time before
 9 the Board to justify the use of – of the
 10 acceptance of the fact there should be no
 11 adjustment to US data. Is that correct?
 12 MR. COYNE:
 13 A. That's right, yeah. I see it has been –
 14 it's an evolution of acceptance that's
 15 occurred in Canada.
 16 GREENE, KC:
 17 Q. I wonder if we could go now to the BC
 18 decision. It was circulated last week to
 19 the parties. I believe the parties
 20 indicated they did not need a copy. We have
 21 copies available and I would like to enter
 22 it as an information item.
 23 (10:30 a.m.)
 24 MS. GLYNN:
 25 Q. No. 23.

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1 GREENE, KC:
 2 Q. No. 23. Copies were provided electronically
 3 last week and the parties were asked if they
 4 wanted copies and indicated they did not.
 5 So, just a brief discussion of this. If we
 6 could go to page 16 of this decision.
 7 MR. COYNE:
 8 A. 1-6?
 9 GREENE, KC:
 10 Q. No, 16, 1-6.
 11 MR. COYNE:
 12 A. 1-6.
 13 GREENE, KC:
 14 Q. At the very bottom of the page, okay. Now
 15 there are no line items here, but if you
 16 look at the last paragraph, we do see this –
 17 the second sentence in that last paragraph,
 18 the Board – and this is the Board. The we
 19 is the Board in British Columbia. They did
 20 agree that there was ample basis to include
 21 US data. So, there they did agree in that
 22 they did agree to look at the results from
 23 the US proxy group, which is what you have
 24 said. Now let’s go to the next page, page
 25 17, and I’d like to read the first full

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1 sentence in the next paragraph, which is “as
 2 for the weighting of the ROE results among
 3 the North American proxy group, as between
 4 the Canadian utilities and the US utilities,
 5 we find that to be largely a matter of
 6 judgment that is within our discretion”.
 7 MR. COYNE:
 8 A. Yes.
 9 GREENE, KC:
 10 Q. Now again, while there’s a recognition that
 11 the data may be helpful, there certainly was
 12 also an indication that there is a matter of
 13 judgment that the regulator will take into
 14 account how to use the data. Is that
 15 correct?
 16 MR. COYNE:
 17 A. That’s right, and the Board accepted our
 18 screening criteria that we were using and
 19 which resulted in fewer Canadian companies
 20 as a result of that. And so, we ended up
 21 recommending a North American proxy group
 22 that removed non-comparable – what they
 23 called non-qualifying Canadian companies
 24 because they weren’t sufficiently either
 25 electric or gas enough to be representative

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1 of the gas or electric utility here in
 2 question.
 3 GREENE, KC:
 4 Q. And one of the reasons for looking at the
 5 proxy group, including US companies, if we
 6 go back to the previous page, is because of
 7 the limited number of similar comparators in
 8 Canada, is that correct?
 9 MR. COYNE:
 10 A. That’s right, yeah.
 11 GREENE, KC:
 12 Q. Okay. Can we go to rebuttal evidence,
 13 please, page 6.
 14 MR. TROGONOSKI:
 15 A. Page?
 16 GREENE, KC:
 17 Q. 6 of your rebuttal.
 18 A. 6? Oh, of our rebuttal?
 19 GREENE, KC:
 20 Q. And here if we could go to line 13. So,
 21 above that you do refer to the BC decision.
 22 Actually, we should scroll up to the top of
 23 the paragraph because it deals with how US
 24 data should be considered by the Board. So,
 25

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1 there you do say that British Columba--in
 2 the British Columbia decision we just looked
 3 at, they didn’t make an adjustment for US
 4 data, line 9 to 13. So, we just saw that
 5 the regulator also said that while you can
 6 look at US data, there is still a fair
 7 amount of discretion or judgement that must
 8 be used in how you assess the results.
 9 MR. COYNE:
 10 A. Yes, and the judgement they applied is that
 11 the North American Proxy Group was most
 12 appropriate, which only included a couple of
 13 Canadian companies because they were deemed
 14 to be most comparable. So, it was
 15 predominantly a US proxy group, but with
 16 appropriate Canadian companies that were
 17 added, and I think there were two that
 18 satisfied the Board’s criteria in that
 19 regard.
 20 GREENE, KC:
 21 Q. Yes, but they went on to say that in
 22 determining the appropriate ROE there was
 23 still judgment to be exercised -
 24 MR. COYNE:
 25

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1 A. Yes, there's judgement applied by the Board.
 2 GREENE, KC:
 3 Q. - about how to use the US data. So, if we
 4 now to go the second -
 5 MR. COYNE:
 6 A. How to--which companies to include in that
 7 case is what they were talking about.
 8 GREENE, KC:
 9 Q. As to the weighting of the--just go back to
 10 the US decision. I mean, I'm sorry, the BC
 11 decision we had up there. I guess it's an
 12 interpretation of the Board's words. "As
 13 for the weighting of the ROE results that's
 14 among the North American Proxy Group, as
 15 between Canadian/US utilities we find that
 16 to be largely a matter of judgement that is
 17 within our discretion." So, when I read
 18 that I understood that the Board, yes, they
 19 would--how I interpreted it, and perhaps we
 20 should see if you interpreted it
 21 differently, is that even though they looked
 22 at American companies to see what the
 23 information was because it was useful data,
 24 they go on to say how they weighted the
 25

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1 results from that group, it was to be a
 2 matter of judgement that was still within
 3 their discretion.
 4 MR. COYNE:
 5 A. Well, I think that sentence stands on its
 6 own, and I was going on our experience
 7 before the Board and the entire discussion
 8 where they talked--they're focused on which
 9 companies to include as arriving at their
 10 decision there is how I see the big picture,
 11 but I see what you're saying about their
 12 sentence.
 13 GREENE, KC:
 14 Q. So, if we go back to your rebuttal evidence,
 15 so you referred to the BC decision and you
 16 also then at line 13 go on to say that
 17 similarly the Alberta Utilities Commission
 18 also relied on a North American Proxy Group
 19 without making an adjustment for US data in
 20 its October '23 decision on generic cost of
 21 capital. So, you're relying on both BC and
 22 Alberta decisions to support your position
 23 there should be no adjustment or no
 24 discretion used with exercise, with how US
 25

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1 data is used because it's so similar to
 2 Canada, that the North American Proxy Group
 3 is the most relevant. So, now -
 4 MR. COYNE:
 5 A. That's not my position.
 6 GREENE, KC:
 7 Q. Oh, sorry.
 8 MR. COYNE:
 9 A. That's not my position. You said I've
 10 relied on these decisions--well, if you
 11 could repeat your question, but I think the
 12 way you characterized it is not our
 13 position. Perhaps you could just repeat the
 14 question.
 15 GREENE, KC:
 16 Q. When I read your evidence and the answer to
 17 the RFI, and now your rebuttal evidence, I
 18 took--what I took from it was that you were
 19 using the two recent decisions from Alberta
 20 and BC to support your opinion that the
 21 North American Proxy Group is the most
 22 relevant and reliable one for the Board to
 23 consider in setting the ROE for Newfoundland
 24 Power, and that in doing so, they didn't
 25

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1 need to make adjustment for US data, that it
 2 was no need to do that. That's how I took
 3 what--and you use those two decisions to
 4 support your opinion which you have
 5 expressed since you have been the Cost of
 6 Capital Expert for Newfoundland Power.
 7 MR. COYNE:
 8 A. Well, our opinion is based on much more than
 9 that. We provide substantial evidence on
 10 the integration of North American markets,
 11 integration of the industries. So, we cite
 12 those as examples of how other regulators
 13 have approached this issue, but that's not
 14 the sum basis of our evidence that that's
 15 the right thing to do.
 16 GREENE, KC:
 17 Q. And I didn't mean to imply that. That you
 18 are using that as additional support for
 19 your position, you have expressed and to
 20 reflect the fact that the situation in
 21 Canada is evolving, that more regulators are
 22 going towards the use of American data.
 23 MR. COYNE:
 24 A. Yes, I think that's a fair characterization.
 25

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1 GREENE, KC:
 2 Q. Sorry. That’s what I had meant from before.
 3 Okay. So, if we can go now to the Alberta
 4 decision, which also was circulated last
 5 week, and I’d like this filed as an
 6 Information Item.
 7 MS. GLYNN:
 8 Q. The Alberta decision will be Information
 9 number 24.
 10 GREENE, KC:
 11 Q. So, I’d like to go to page 22, and if we
 12 could go up to, yes, the paragraph 103.
 13 There reading from that, “While the
 14 Commission finds that the US companies have
 15 higher business risks than the Alberta
 16 utilities for the purpose of establishing
 17 the comparative group, the Commission
 18 accepts the utility’s evidence that it is
 19 appropriate to include US holding
 20 companies,” and they go on to give the
 21 reasons for doing so, which I won’t read,
 22 but then they go on in paragraph 104 and
 23 say, “After considering the evidence
 24 presented in this proceeding, the Commission
 25

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1 acknowledges that the utilities in the
 2 comparator group are not identical to the
 3 Alberta utilities, but concludes they are
 4 sufficiently comparable for use in the
 5 various financial models. And then we go on
 6 down. They go on to say that, “The Alberta
 7 utilities at the low end of the range of
 8 risk presented in comparator groups, and
 9 accordingly the Commission retains the view
 10 as expressed in the 2018 generic cost of
 11 capital decision, that a significant amount
 12 of judgement must be applied by the
 13 Commission when interpreting data from
 14 representative utilities to establish the
 15 ROE required by investors in the Alberta
 16 utilities.” So, again, there was--do you
 17 agree, Mr. Coyne, that there was an
 18 acknowledgement by the regulator there that
 19 again a significant amount of judgement had
 20 to be applied in interpreting the data even
 21 though they had considered American
 22 companies, or the North American Proxy
 23 Group, for the purposes of analysis?
 24 MR. COYNE:
 25

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1 A. Yes, I think that statement stands for
 2 itself. If you look at the context of this
 3 being involved in that proceeding, they did
 4 it in two phases, if it would be helpful for
 5 the Board to understand where they were
 6 coming from. They had a technical
 7 conference where experts participated
 8 representing utilities and intervenor groups
 9 to decide which companies should be included
 10 in a proxy group for this analysis, and we
 11 participated in that process. I don’t know
 12 if you remember how many companies were
 13 included in the proxy group, but it was a
 14 broad number of US electric and gas
 15 utilities, and I think the five or six
 16 Canadian companies that could be included.
 17 MR. TROGONOSKI:
 18 A. Yes.
 19 MR. COYNE:
 20 A. But it was –
 21 MR. TROGONOSKI:
 22 A. I think there were 33 companies in total.
 23 MR. COYNE:
 24 A. In total.
 25

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1 MR. TROGONOSKI:
 2 A. Five were Canadian, and 28 were US.
 3 MR. COYNE:
 4 A. And then they allowed each expert to provide
 5 evidence in the second phase of this using
 6 their discretion in terms of that proxy
 7 group and the models they would use to
 8 provide expert evidence around ROE and the
 9 continuation of the formula. And when they
 10 looked at the evidence submitted by the
 11 experts, they were of a view that the
 12 Alberta utilities--for one reason, the
 13 Alberta utilities don’t have the merchant
 14 flexion, so they don’t--they’re not
 15 suppliers, they’re a distributor, they’re
 16 T&D companies only. They don’t have a
 17 supply responsibility as does Newfoundland
 18 Power. So, they decided that for various
 19 reasons their view was that Alberta
 20 utilities were at the low end of the risk
 21 spectrum. So, when they considered the DCF
 22 model, for example, it was their view that
 23 the low to the mean estimates of earnings
 24 growth would be appropriate representing the
 25

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1 lower risk of Alberta utilities as they saw
 2 it. So, those are the kind of judgements
 3 they applied having reached the conclusion
 4 that Alberta’s utilities, while that proxy
 5 group was appropriate, that they were at the
 6 lower end of the risk spectrum. That’s the
 7 context that I see within this overall
 8 discussion and based on also the experience
 9 from the Board.
 10 GREENE, KC:
 11 Q. Yes. So, the reason to refer to these
 12 decisions is the fact that even though
 13 American data was considered in the two
 14 recent decisions, there was also
 15 acknowledgement that there’s still a
 16 significant amount of judgement that has to
 17 be applied to how the data is used. And, in
 18 fact, if we go through them, we may go
 19 through a couple of how Alberta considered
 20 your recommendations with respect to the
 21 market risk premium use of adjusted betas to
 22 see that they also exercised their judgement
 23 and how that was going to be applied to the
 24 proxy, proxy group that included American
 25

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1 companies.
 2 MR. COYNE:
 3 A. I’m sorry, was there a question?
 4 (10:45 a.m.)
 5 GREENE, KC:
 6 Q. I’m just saying, you had said they did--you
 7 went on to explain how risk was taken into
 8 account, and I made the comment that we will
 9 also see how they took into account the
 10 American results in looking at the use of
 11 betas and market risk premiums, and how they
 12 should consider American data for that as
 13 well. So, that was my only comment. So,
 14 the other--if we go back to your original
 15 report, page 3, Figure 1 -
 16 MR. COYNE:
 17 A. I’m sorry, the direct report?
 18 GREENE, KC:
 19 Q. Yes.
 20 MR. COYNE:
 21 A. Okay, and which page?
 22 GREENE, KC:
 23 Q. Page 3.
 24 MR. COYNE:
 25

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1 A. Page 3?
 2 GREENE, KC:
 3 Q. Page 3, yes. I just want to explore with
 4 you a little bit how you exercised your
 5 judgement in coming to your recommendation.
 6 Here we see the methods used, and this is
 7 not where you ended up with your
 8 recommendation that you presented the
 9 results to show the Board what the results
 10 would have been if the constant growth DCF
 11 method was used, and multi-staged DCF, the
 12 average CAPM, the risk premium applied to
 13 each of your proxy groups, is that correct?
 14 MR. COYNE:
 15 A. That’s right.
 16 GREENE, KC:
 17 Q. Now, if we go to the next figure, and this
 18 is illustrating the basis of your
 19 recommendation, is that correct?
 20 MR. COYNE:
 21 A. Yes.
 22 GREENE, KC:
 23 Q. In formulating your recommendation, even
 24 though you showed us the results of your
 25

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1 constant growth method which you had last in
 2 your previous opinions provided to the
 3 Board, why did you remove the constant
 4 growth method here?
 5 MR. COYNE:
 6 A. Because we know that in our experiences we
 7 discussed a few moments ago, it is not
 8 universally accepted by Canadian regulators
 9 that the constant growth assumptions the DCF
 10 model are reasonable, and we find that to be
 11 less controversial in the US, but in
 12 recognition of that issue in Canada, we have
 13 used only the multi-staged DCF in order to
 14 present what we believe was both eliminating
 15 that controversy, and presenting what we
 16 believe is a reasonable interpretation of
 17 the DCF model.
 18 GREENE, KC:
 19 Q. And that is one of the--would you agree that
 20 that is one of the ways in which you have
 21 exercised your judgement in formulating your
 22 recommendation?
 23 MR. COYNE:
 24 A. Yes, we’ve taken the more conservatory route
 25

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1 to using the DCF model, and that's

2 consistent with the two decisions that we

3 just looked at in BC and Alberta.

4 GREENE, KC:

5 Q. And the risk premium method that's there, I

6 think you mentioned earlier that that may

7 not be universally accepted as a method to

8 use in determining the appropriate ROE, is

9 that correct?

10 MR. COYNE:

11 A. Yes, that's right. With the risk--with the

12 CAPM and the DCF model we can use a

13 combination of Canadian companies and US

14 companies to form a North American Proxy

15 Group, and you'll see that we don't have a

16 risk premium result for Canadian utilities

17 there because up until now we haven't had

18 the same database of decisions in Canada

19 that would allow us to estimate a Canadian

20 risk premium model. The way that model

21 works is you regress the relationship

22 between allowed returns by regulators and

23 bond yields in order to show what that

24 relationship has been historically, and if

25

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1 regulators were consistent in making those

2 determinations, how they would determine ROE

3 based on current or projected bond yields.

4 So, it's an inherently US approach as a

5 result of that, and some commissions have

6 been less comfortable with the risk premium

7 approach as a result of that. That's not

8 true with BC. The BC Commission placed

9 equal weight on the risk premium model, and

10 I would say that we have been compiling a

11 database now of Canadian utility decisions

12 where we're now able to compute a risk

13 premium model. So, that's about to change

14 for us. We're finally in a position where

15 we can do that using Canadian decisions and

16 Canadian bond yields.

17 GREENE, KC:

18 Q. The risk premium model wasn't accepted by

19 this Board back in 2016 as a method to use

20 in determining the ROE, was it?

21 MR. COYNE:

22 A. No, I don't believe it was.

23 GREENE, KC:

24 Q. And was it accepted by the Alberta Board in

25

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1 its recent October 2023 decision?

2 MR. COYNE:

3 A. No, I don't believe it was.

4 GREENE, KC:

5 Q. No. It was specifically rejected, wasn't

6 it? We can go to the decision if you would

7 like to see that.

8 MR. COYNE:

9 A. Do you have any different --

10 MR. TROGONOSKI:

11 Q. No, I don't.

12 MR. COYNE:

13 Q. I think we're in agreement.

14 GREENE, KC:

15 Q. If we eliminate the risk premium model from

16 your Figure 2 summary, the overall average

17 declines a bit doesn't it, because the risk

18 premium is the highest one there, the

19 results for US and North American?

20 MR. COYNE:

21 A. Right. We could compute that number if you

22 like.

23 GREENE, KC:

24 Q. Yes, that would be helpful. Should we mark

25

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1 that as--are you going to do it now?

2 MR. COYNE:

3 A. Sure.

4 GREENE, KC:

5 Q. Okay.

6 MR. COYNE:

7 A. It's just two numbers. Even I can handle

8 that on the stand. I trust myself doing

9 that. I have somebody who will check me

10 here.

11 MR. TROGONOSKI:

12 A. I think it would be 9.64.

13 MR. COYNE:

14 A. So, you did it in your head. I'm impressed.

15 This is youth for you. I'll just my trusty

16 calculator, but I trust Mr. Trogonoski. I

17 confirm that result.

18 GREENE, KC:

19 Q. The 9.6?

20 MR. COYNE:

21 A. 9.64 if you just used the two models.

22 GREENE, KC:

23 Q. So, if we--so, if you take out that it would

24 be for the Canadian utility group, the

25

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1 average would be what?
 2 MR. COYNE:
 3 A. Oh, for the Canadian utility group?
 4 GREENE, KC:
 5 Q. Let's do that one first.
 6 MR. COYNE:
 7 A. For the North American Proxy Group it would
 8 be 9.64 if we just used those two models.
 9 We only had the two models for the Canadian
 10 group, and that's 9.87 as you can see there,
 11 yes.
 12 GREENE, KC:
 13 Q. Okay. So, let's just confirm again I'm
 14 sorry. It's--for the US Electric Proxy
 15 Group it would be --
 16 MR. TROGONOSKI:
 17 A. I think it would be 9.77.
 18 MR. COYNE:
 19 A. There you go.
 20 GREENE, KC:
 21 Q. And for the North American Electric Proxy
 22 Group?
 23 MR. TROGONOSKI:
 24 A. That would be 9.64.
 25

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1 MR. COYNE:
 2 Q. Are you doing that in your head, or did you
 3 already figure that out, but he's right.
 4 GREENE, KC:
 5 Q. If we look at the historical CAPM method,
 6 you have adjusted how you have done that
 7 from the last time you were here, is that
 8 correct?
 9 MR. COYNE:
 10 A. That's right.
 11 GREENE, KC:
 12 Q. Can you just explain briefly the adjustment
 13 that you did?
 14 MR. COYNE:
 15 A. Oh, the adjustment? Previously, as I
 16 recall, we took an average of the forward
 17 looking and the historical market equity
 18 risk premium, and in this case we've used
 19 only the historical, and we've done that for
 20 two reasons. One is that the earnings
 21 growth projections for the broad market are
 22 fairly robust. Coming out of COVID they're
 23 pretty strong expectations for earnings
 24 growth for the S&P 500 companies, or the TSX
 25

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1 companies, and we see an increasing gap
 2 between the projections of earnings growth
 3 and what they have earned historically. So,
 4 when we check it against the historic data,
 5 the market equity return is much lower, and
 6 we know that that's also been a source of
 7 controversy before Canadian regulators, even
 8 though as--it's a model that has been
 9 adopted by FERC in the US after substantial
 10 litigation around the issue of whether or
 11 not forward or historic looking market
 12 equity risk premiums were more appropriate.
 13 FERC accepts the forward looking only
 14 without any reliance on history, but again,
 15 to our more conservative approach here,
 16 we've used only the historic market equity
 17 risk premium to take that controversy off
 18 the table, and it gives you a lower and more
 19 conservative result as a result of that
 20 input.
 21 GREENE, KC:
 22 Q. So, again, it is a change from your previous
 23 expert opinion when you were here in 2016,
 24 and that's another example of how you have
 25

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1 exercised your judgement in coming forward
 2 with the recommendation for the ROE?
 3 MR. COYNE:
 4 A. That's right, and consistent with what we
 5 said earlier about reading orders and
 6 understanding what commissions have found to
 7 be reliable and credible for these purposes.
 8 GREENE, KC:
 9 Q. Another input into the CAPM method is of the
 10 use of a beta. Do you want just to give a
 11 high level description of what beta is, very
 12 general? I'm not going into any detail with
 13 you. It's like Mr. Simmons, I'm not quite
 14 sure I understand them either. I understand
 15 how people have treated them, but -
 16 MR. COYNE:
 17 A. Well, I'm not doing my job if I can't
 18 explain it in terms for those that don't do
 19 this every day. The Capital Asset Pricing
 20 Model, or the CAPM, has three primary
 21 inputs, and it's based on a fairly basic
 22 premise, that an investor would require a
 23 return that's equal to the Risk Free Rate,
 24 and the Risk Free Rate is typically the
 25

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1 government bond yield, 10 or 30 years. For
 2 most utility matters we use 30 years because
 3 that is the expected life of utility assets,
 4 it's typically very long term. So, it's
 5 equal to the Risk Free Rate, plus some
 6 adjustment for risk associated with a
 7 utility investment. And the way that we get
 8 at that is we look at the overall return on
 9 the market, and as we just discussed, that's
 10 the market equity risk premium. So what
 11 does market overall require as a premium
 12 over the risk free bond yield. And as we
 13 were just discussing, we take that as the
 14 history of all market equity risk premiums
 15 in the Canadian/US markets over time as
 16 being reflective of what we think investors
 17 will expect in the future. And then we
 18 multiply that by beta. And what beta does
 19 is, it says you're not trying to return--
 20 you're not trying to calculate the expected
 21 return for the overall market, which is the
 22 risk free rate plus the market equity risk
 23 premium, we want a utility. And in order to
 24 get at the utility, beta is the multiplier.
 25

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1 And what beta does is it determines the
 2 relationship between the stock prices for
 3 utilities and the stock prices for the
 4 overall market, and if those stock prices
 5 are less volatile in relationship to the
 6 overall market, that's deemed as being a
 7 good thing, and therefore beta will be less
 8 than one. So, the typical beta adjustment
 9 is the overall market return times the beta
 10 adjusted downward for utility because
 11 they're a safer and a little bit less
 12 volatile than the overall market. And now
 13 it becomes an issue of how do you estimate
 14 that beta, and the way that we estimate beta
 15 is we take two sources. One is Value Line,
 16 because they publish investor reports that
 17 are widely used, and they use five years of
 18 weekly betas in relationship to the New York
 19 Stock Exchange, and then they calculate--or
 20 the TSX in Canada, and that's how they
 21 calculate their beta. So, it's utility
 22 stocks moving in relationship to the TSX or
 23 the New York Stock Exchange, five years of
 24 data, weekly observations. We use the same-
 25

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1 -we derive the same beta calculation from
 2 Bloomberg, but Bloomberg uses the S&P 500 as
 3 the basis for the TSX. So, it's a slightly
 4 different market measure, but they move so
 5 closely together that you get very
 6 comparable results, but in both cases it's
 7 five years of data used to determine what
 8 that relationship is between utility stocks
 9 and the overall market, and those are the
 10 three inputs to the CAPM model.
 11 GREENE, KC:
 12 Q. And while people agree with the need to
 13 reflect the risk of a utility versus the
 14 overall market risk, which is the use of the
 15 beta, what the actual beta is and how it's
 16 calculated is one of the most controversial
 17 issues in looking at the CAPM result, isn't
 18 it?
 19 MR. COYNE:
 20 A. Only in Canada.
 21 GREENE, KC:
 22 Q. There's lots of things only in Canada,
 23 whether it's our orange pekoe tea; only in
 24 Canada.
 25

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1 MR. COYNE:
 2 A. I didn't hear your comment. Could you
 3 repeat it?
 4 GREENE, KC:
 5 Q. It's a Newfoundland expression I think
 6 certainly. Orange pekoe tea, and I'm not
 7 even a tea drinker, but there used to be an
 8 ad that said, "Only in Canada," and that's
 9 what you reminded me of.
 10 MR. COYNE:
 11 A. Well, I enjoy orange pekoe tea. When I say
 12 only in Canada, let me tell you more about
 13 what I mean. This is an issue that is
 14 widely accepted in the investment community,
 15 investors that we work with. It's generally
 16 considered to be the use of an adjusted beta
 17 that's adjusted according to the "Blume
 18 Methodology", and the analysis behind that
 19 shows that beta can be raw, and that is what
 20 you estimate from the market data, and that
 21 over time betas that are adjusted towards
 22 the market mean one, will do a better job of
 23 predicting how the stocks are actually going
 24 to behave in the market, and then there's
 25

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1 some other statistical reasons to do that as
 2 well, and that's called the Blume Adjustment
 3 Methodology. And I know we have in an IR
 4 comparison, maybe John can find it here, of
 5 raw betas and adjusted betas to show you the
 6 difference that that makes, but before US
 7 regulators, in our experience, these
 8 adjusted betas were into the Blume
 9 Methodology are the standard, and it's
 10 typically not a controversial issue.
 11 (11:00 a.m.)
 12 GREENE, KC:
 13 Q. But it is in Canada, isn't it, another
 14 difference here between the Canadian
 15 regulatory environment and the US regulatory
 16 environment? I can take you through
 17 decisions where--and we will actually go
 18 through a couple where it is not accepted in
 19 Canada to use adjusted betas.
 20 MR. COYNE:
 21 A. Well, again -
 22 GREENE, KC:
 23 Q. In the manner that you have recommended.
 24 MR. COYNE:
 25

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1 A. Most recently in the BC decision, the BC--
 2 the BC Commission relied on our use of these
 3 adjusted betas, and they were also endorsed
 4 by the Board's expert. So, that was not--I
 5 would say that that was not a controversial
 6 outcome from my perspectives in that
 7 proceeding, but it has been--it has been an
 8 issue in other Canadian proceedings as to
 9 whether or not they should be adjusted, and
 10 if so, by how much. What's happened is
 11 interesting because raw betas have come up
 12 substantially for utilities over the course
 13 of the last five years, and as a result of
 14 that, the difference between an unadjusted
 15 or an adjusted beta is much smaller than it
 16 used to be. So, to the extent the risk
 17 controversy there, it's less important than
 18 it used to be, and I think if we turn to
 19 page--that's just in our rebuttal testimony.
 20 This would be the Figure 5 on page 29 in our
 21 rebuttal testimony, is probably the best way
 22 to look at that. So, knowing that this is
 23 an issue of concern perhaps for this Board
 24 as it has been in the past, we compared raw
 25

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1 and Blume adjusted betas, and it's the Blume
 2 adjusted betas that we're using to show you
 3 what those differences are, and if you look
 4 at the North American Proxy Group that we're
 5 using, you can see that for the most recent
 6 data that we're relying on through April of
 7 '24, that different is .82 versus .88, and
 8 that's narrowed some from where we it was
 9 when we prepared our direct testimony, which
 10 is .79 versus .86. So, that's with no
 11 adjustment whatsoever. And using the Blume
 12 adjustment it takes it up by 7 basis points
 13 back in August, or 6 basis points now. And
 14 the reason for that is that the betas for
 15 utility companies have moved much closer to
 16 the market, and there are various
 17 interpretations of that, but one
 18 interpretation is that the market views
 19 utilities as being riskier than they have in
 20 the past. If you go back to January 2020,
 21 you can see that the betas were lower on
 22 both sides, both raw and adjusted, more in
 23 line with the view that Dr. Booth has taken
 24 on what betas are, but in our view those
 25

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1 don't reflect the current market data that
 2 shows that betas have moved up substantially
 3 since then.
 4 GREENE, KC:
 5 Q. We're past our break time.
 6 CHAIR:
 7 Q. Okay. We'll take a break now. Thank you.
 8 (BREAK - 11:04 a.m.)
 9 (RESUME - 11:51 a.m.)
 10 CHAIR:
 11 Q. So we're back to Ms. Greene.
 12 GREENE, KC:
 13 Q. Thank you, Mr. Chair. When we adjourned for
 14 the break, we were talking about betas and
 15 the role they play with respect to the CAPM
 16 method, and I just wanted to take you, it's
 17 the last question on the use of betas in the
 18 CAPM method to the decision from the Alberta
 19 Utilities Commission which is Information
 20 No. 24, page 28—I'm sorry, before the break
 21 I believe you mentioned that in British
 22 Columbia the commission did accept the use
 23 of Blume adjusted betas and I just wanted to
 24 also refer to the decision from Alberta and
 25 beginning at paragraph 129, and here in the

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1 decision by the commission they note that—
 2 I’m just reading from the first sentence in
 3 paragraph 129, “For example, the commission
 4 remains uncertain of the extent, if any, to
 5 which the Blume adjustment is warranted in
 6 determining betas for regulated utilities
 7 that face less risk than an average firm in
 8 the market. Indeed there are ample reasons
 9 to question on what basis the systematic
 10 risk faced by regulated utilities might ever
 11 be expected to approach, much less exceed
 12 those for the market as a whole, which is a
 13 central premise of the Blume adjustment.”
 14 And the Blume adjustment is what you have
 15 used in your recommendations, is that
 16 correct, Mr. Coyne?
 17 MR. COYNE:
 18 A. That’s right.
 19 GREENE, KC:
 20 Q. And then we go on down to paragraph 132
 21 where they do conclude that utility stocks
 22 are appreciably less risky and volatile than
 23 equities in the broader market and they go
 24 on to look at the range of betas between .45
 25 and .75 in that case. So again, just to

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1 confirm that whether betas get adjusted and
 2 by how is one of the issues that remains a
 3 bit controversial or is controversial here
 4 in Canada, is that correct?
 5 MR. COYNE:
 6 A. Well it is, I think the AC decision stands
 7 for itself and maybe to your point if you
 8 look at the BC decision, they arrived at a
 9 conclusion that the Blume adjusted betas
 10 were reasonable, so maybe that is your
 11 point, that not every regulator sees this
 12 the same way. One thing to bear in mind,
 13 though, is that the betas have come up since
 14 then. This was based on market data that
 15 was over a year ago, so both raw and
 16 adjusted betas have all come up since that
 17 period of time as we discussed in our
 18 earlier questioning and the chart that we
 19 showed, I think it was in our rebuttal
 20 testimony, that shows you the difference
 21 between a raw and adjusted data, so both
 22 were available for the Board.
 23 GREENE, KC:
 24 Q. And we have evidence before the Board from
 25 both you and from Dr. Booth with respect to

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1 recommended betas to use in this particular
 2 case, but again, as we’ve gone through some
 3 of the inputs into the various models, we do
 4 see that there is significant, in my view,
 5 discretion or judgment used by experts and
 6 by regulators in terms of the inputs to the
 7 various models that are used. One last
 8 question –
 9 MR. COYNE:
 10 A. I’m sorry, was there a question?
 11 GREENE, KC:
 12 Q. No, an observation. I wouldn’t ask you to
 13 agree. One last question on area on your
 14 recommended return on equity. You have
 15 stated in your evidence as filed and also in
 16 your testimony that the capital market
 17 conditions have changed since you were here
 18 last and that also is a factor that needs to
 19 be taken into account, and I believe Dr.
 20 Booth also agrees with that point. Last
 21 time you were here, your recommended ROE for
 22 Newfoundland Power was 9.8 on a 45 percent
 23 equity in their capital structure. This
 24 time your recommendation is 9.85, so how do
 25 we take your difference in your

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1 recommendation of only 5 basis points, if
 2 you accept that the ROE here of 8.5 should
 3 be a bit higher because the capital market
 4 conditions have changed, indicating the
 5 reason of requirement for a higher ROE, is
 6 the range in that vicinity of 5 basis points
 7 that the Board should consider?
 8 MR. COYNE:
 9 A. I think the appropriate range for the Board
 10 to consider should be that’s based on the
 11 current market data, as presented in our
 12 evidence and if you look to, if you look to
 13 page 86, if we could go there in our direct
 14 testimony, Figure 43. Thank you. So the
 15 range from the North American proxy group is
 16 9.42 to 10.26 and an average of 9.85. To me,
 17 that’s the range that the Board should be
 18 considering and the basis for our
 19 recommendation is the average result from
 20 the three models. So I think that’s the
 21 appropriate range based on current market
 22 data and as we’ve discussed, there have been
 23 changes both to our approach, as well as the
 24 market data utilized between 2016—was your
 25 point of reference 2021, ’22?

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1 GREENE, KC:
 2 Q. Well since the capital market conditions
 3 have changed in your last recommendation
 4 which was the 2022 GRA.
 5 MR. COYNE:
 6 A. They have, yes, and we have a chart that
 7 shows those changes.
 8 GREENE, KC:
 9 Q. Yes, and I don't mean to go through it, I
 10 was trying to understand, you recommended
 11 9.8 last time; this time you say the capital
 12 market conditions have changed, but you
 13 intuitively might have thought that your
 14 recommended ROE therefore would be higher
 15 than just 5 additional basis points.
 16 MR. COYNE:
 17 A. Yeah, there have been some offsetting
 18 factors and development of that
 19 recommendation.
 20 GREENE, KC:
 21 Q. Okay, so the other inputs have changed into
 22 how you have done the analysis for the
 23 various methods you've used.
 24 MR. COYNE:
 25 A. That's right.

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1 (12:00 p.m.)
 2 GREENE, KC:
 3 Q. I wanted to move now to a different topic
 4 which is first if we could bring up PUB-NLH-
 5 003. And we'll come to a RFI that was also
 6 asked of Concentric with respect to the
 7 implications, if any, on their recommended
 8 ROE and capital structure for Newfoundland
 9 Power that arises from the impact on
 10 Newfoundland Hydro and on rates for
 11 customers arising from the flow-through of
 12 the Newfoundland return on equity that flows
 13 through to Hydro as a result of various
 14 contracts that are in place. So if we could
 15 go to the next page, page 2, we see there in
 16 the last paragraph that a change in
 17 Newfoundland Power's ROE of plus or minus .5
 18 percent changes Hydro's payments under the
 19 Transmission Funding Agreement by 11 million
 20 per year on average and in addition there's
 21 other flow-throughs other than just the
 22 Transmission Funding Agreement that would be
 23 impacted, so the overall change for each
 24 half percent change is Newfoundland Power's
 25 ROE is another 13.6 million dollars which

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1 would be added to Hydro's revenue
 2 requirements to be recovered from customers.
 3 So the question now, if we could go to PUB-
 4 NP-134 and I'm not sure, have you seen this
 5 elsewhere where a change in the return on
 6 equity for a utility would have that
 7 automatic flow-through to another utility
 8 and then onto customers, so the question was
 9 given this situation which may or may not be
 10 unique, how, from a regulatory perspective,
 11 should the Board take into account that
 12 their decision for the Newfoundland Power
 13 return on equity also will cost Newfoundland
 14 ratepayers a significant increase over the
 15 longer term? Is that a relevant
 16 consideration for the Board to take into
 17 account? And that was the RFI, refresh your
 18 memory, with your response.
 19 MR. COYNE:
 20 A. And, Ms. Greene, your question is is it a
 21 relevant consideration?
 22 GREENE, KC:
 23 Q. Yes, that the Board should take into account
 24 in their consideration of the appropriate
 25 fair return for Newfoundland Power.

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1 MR. COYNE:
 2 A. The impact it would have on Hydro's rates.
 3 GREENE, KC:
 4 Q. And then ultimately consumers in the
 5 province.
 6 MR. COYNE:
 7 A. And consumers. And your question is is that
 8 a consideration that the Board should take
 9 into account.
 10 GREENE, KC:
 11 Q. In setting the fair return for Newfoundland
 12 Power and your opinion has been provided on
 13 what that fair return should be.
 14 MR. COYNE:
 15 A. Well, you know, as discussed earlier I think
 16 the Board has two sets of responsibilities.
 17 One is to set a fair return in this
 18 proceeding for Newfoundland Power and in
 19 doing so, it's guided by the fair return
 20 standard and the North Western principles
 21 that form the fair return standard. But I
 22 think the Board also has a broader set of
 23 responsibilities when it comes to setting
 24 just and reasonable rates and the Board has,
 25 you know, without going through its

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1 legislative requirements, I think the Board
 2 has to take a big picture view of the
 3 impacts of all of its actions on customers,
 4 consumers and the broader welfare of the
 5 province, so I'd recognize that it has two
 6 sets of responsibilities in that regard.
 7 GREENE, KC:
 8 Q. But with respect to the fair return
 9 standard, given that we have seen there is
 10 significant, I'd say significant, you may
 11 disagree, judgement or discretion into
 12 determining what is a fair return, you
 13 believe, I take from your answer you believe
 14 that that is a factor that in the broader
 15 context can be considered, the flow-through
 16 –
 17 MR. COYNE:
 18 A. Well I think the Board needs to understand
 19 the implication of its decisions on all
 20 consumers and how they are impacted. The
 21 Board has a difficult set of
 22 responsibilities in that regard and that's
 23 why I found solace in the fact that it does
 24 have these fair return standard requirements
 25 that it can use and then within those

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1 standards, it has to exercise its informed
 2 judgment in determining what a fair ROE is.
 3 So I would agree with all of those things.
 4 We think that that fair ROE is 9.85 percent
 5 based on the analysis that we've conducted,
 6 but I recognize the Board has to take into
 7 account all of those considerations.
 8 GREENE, KC:
 9 Q. Moving to my last area of questions, you
 10 recommended in your evidence and it has been
 11 accepted by the parties in the Settlement
 12 Agreement that the automatic adjustment
 13 formula will continue to be suspended at
 14 this point in time, is that correct?
 15 MR. COYNE:
 16 A. Yes.
 17 GREENE, KC:
 18 Q. Based on your experience, if there is no
 19 automatic adjustment formula and here
 20 Newfoundland Power is asking for rates to be
 21 set based on two test years, what would your
 22 recommendation be with respect to years
 23 subsequent to 2026 in this particular case,
 24 from a fair return standard?
 25 MR. COYNE:

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1 A. Well we have, we have used, as practical, we
 2 have used forward looking market data in
 3 reach our recommendation, so I would think
 4 that the 9.85 percent that we recommended
 5 would be appropriate over a three-year rate
 6 period and I understand that that, that
 7 implies some risk that markets change, both
 8 up or down, between now and then, but I
 9 think that's a reasonable period of time
 10 over a company, that a company, such as
 11 Newfoundland Power, should be able to manage
 12 within that rate period.
 13 GREENE, KC:
 14 Q. And so if we continue and it would be up to
 15 the utility if it determined that it was
 16 impossible for it to make its fair return to
 17 make a new application to the Board for new
 18 rates based upon a new test year, is that
 19 how I take your answer?
 20 MR. COYNE:
 21 A. That's my understanding of the option it
 22 would have here, yes. Unless it committed
 23 to, you know, some other period that it
 24 would come back in for a rate review. And
 25 Mr. Trogonoski is reminding me that we've

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1 answered that question in response to NP-130
 2 where we recommended the return be continued
 3 in 2027, absent to change by the Board, so I
 4 think that's consistent with what I said.
 5 GREENE, KC:
 6 Q. The automatic adjustment formula has been
 7 suspended here for a number of years and in
 8 a previous Board order, the Board ordered
 9 Newfoundland Power, in their third year, to
 10 file a rate of return application, so based
 11 on what I understood your answer to be, you
 12 probably think that would not be necessary
 13 and would not be regulatory practice?
 14 MR. COYNE:
 15 A. In the third year.
 16 GREENE, KC:
 17 Q. 2027 if we could talk about specifics here.
 18 MR. COYNE:
 19 A. Yeah, so I'm sorry, just so I understand
 20 your question, so is your question whether
 21 or not the Board should require the company
 22 to come back and make a new rate application
 23 for 2027?
 24 GREENE, KC:
 25 Q. No. The practice here has been the Board

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1 has asked them in the third—since the
 2 formula has been suspended to file an
 3 application in the third year indicating
 4 what the rate of return would be for the
 5 third year. I’m not sure if I need to go
 6 into any more details in that about it, but
 7 I took from your answer that if the Board
 8 did not order that this time, which of
 9 course is certainly up to the Board, the
 10 normal practice would be that then in the
 11 third year these principles that would set
 12 in this GRA would apply and it’s up to the
 13 utility then to determine if they needed to
 14 file anything for the third year.
 15 MR. COYNE:
 16 A. My view is that’s fair and that’s consistent
 17 with the thought we gave to that approach,
 18 and I like, I think capital markets are more
 19 stable than they were back during the COVID
 20 period, and so, I think a three-year period
 21 of reliance on a ROE in today’s markets is
 22 reasonable. So my view is that it should
 23 not be necessary to revisit that until year
 24 four, as I understand your question.
 25 GREENE, KC:

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1 Q. Yes, thank you very much. That concludes
 2 all my questions, Mr. Coyne, Mr. Trogonoski,
 3 thank you very much.
 4 MR. COYNE:
 5 A. You’re welcome.
 6 CHAIR:
 7 Q. So it’s up to us?
 8 GREENE, KC:
 9 Q. Yes.
 10 VICE-CHAIR NEWMAN:
 11 Q. No questions, thank you.
 12 COMMISSIONER O’BRIEN:
 13 Q. No questions.
 14 CHAIR:
 15 Q. I’ve got a couple of short ones. One of the
 16 ones I struggled with, now it’s a pretty
 17 complex topic you got, so there’s probably a
 18 lot of things I would struggle with, but I
 19 was, a direct question with regard to how
 20 does the stronger capital structure of
 21 Newfoundland Power influence your
 22 recommended return on equity?
 23 MR. COYNE:
 24 A. When we look at the overall analysis, we
 25 come to both a ROE recommendation and a

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1 capital structure recommendation, and then
 2 we look at the underlying credit worthiness
 3 of the company and we look at ROEs and
 4 capital structures of the peer companies,
 5 both in the proxy group, as well as the
 6 Canadian operating companies, and our view
 7 on that is that the capital structure that’s
 8 been in place for Newfoundland Power has
 9 served it well, it has maintained a strong
 10 credit rating during a variety of economic
 11 capital market conditions and I think that
 12 the Board, in my view, is probably somewhat
 13 forward looking when it established the
 14 equity ratio that it did for Newfoundland
 15 Power, recognizing some of the risk
 16 characteristics that are still associated
 17 with the utility and I see over time that, I
 18 think other Canadian regulators will
 19 probably be catching up to where this Board
 20 has been in terms of bridging some of the
 21 gap between where Canadian companies have
 22 typically operated and where the US
 23 companies operate at 45 percent. That’s why
 24 we didn’t recommend a higher equity ratio,
 25 even though it’s lower than the US peers

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1 because it’s still higher than its Canadian
 2 peers and in our view, that’s appropriate
 3 because it is a different risk profile than
 4 its Canadian peers, so we therefore just
 5 relied on the ROE model results without
 6 making any adjustment for the fact that
 7 Newfoundland Power had a lower equity ratio
 8 than the proxy companies because it has
 9 worked, the company continues to raise
 10 capital on reasonable terms, as we
 11 understand it, and we think, we understand
 12 it’s, from a company perspective, it has
 13 worked well and we think it’s justified by
 14 the data.
 15 CHAIR:
 16 Q. So I was looking at the Alberta case where,
 17 I guess the new ROE came out to be 9
 18 percent, I think, the AUC was –
 19 MR. COYNE:
 20 A. It’s currently—9 percent was the base and
 21 then it’s adjusted once since then for the
 22 new market data and I believe it’s 9.288
 23 percent currently.
 24 CHAIR:
 25 Q. Okay, but the capital structure in the

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1 Alberta utility, I think, is 37 percent, is
 2 it?
 3 MR. COYNE:
 4 A. 37 percent, yes. And the rationale that
 5 that board articulates around that is that
 6 Alberta’s utilities are T&D only utilities,
 7 both on the gas side and on the electric
 8 side and therefore, they consider them to be
 9 at the lower end of the risk spectrum.
 10 CHAIR:
 11 Q. Could you just discuss that a little bit
 12 because, I mean, I kind of view Newfoundland
 13 Power as closer to a transmission,
 14 distribution utility because it only has a
 15 small amount of generation, so I’ve
 16 struggled in thinking about Alberta with
 17 only 37 percent equity versus the 45 here,
 18 and is it the stronger economy or there’s
 19 probably a lot of factors, but if you could
 20 just comment on that it would be helpful.
 21 MR. COYNE:
 22 A. Sure, from the board’s perspective in
 23 Alberta or ours or both?
 24 CHAIR:
 25 Q. More just from—okay, your perspective to

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1 start.
 2 MR. COYNE:
 3 A. Yeah, well we recommended a higher equity
 4 ratio than that in Alberta, but as did some
 5 other experts, but the view of the board was
 6 because they don’t have that supply function
 7 at all, as opposed to Newfoundland Power
 8 which does have supply responsibility,
 9 they’re relying on Hydro for 93 percent of
 10 its energy, that they still have the
 11 responsibility of making sure that they have
 12 enough power to meet their customers needs.
 13 In Alberta, they rely on other retail
 14 providers who are responsible for providing
 15 energy to those customers, so they are
 16 purely T&D companies. In Ontario you also
 17 have pure T&D companies and there those
 18 electric utilities are at 40 percent, you
 19 know, so just nominally higher. As we
 20 compare Canadian companies to their US peers
 21 that are 50 percent, 52 percent, in that
 22 range, we see that as a gap over time that
 23 ultimately places Canadian utilities at
 24 greater financial risk or at least their
 25 investors at greater financial risk, so we

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1 think over time, given integration of
 2 capital markets, it makes sense to look for
 3 closure there, you know. We have not
 4 recommended parody, that these equity ratios
 5 need to be exactly the same, but we’re in
 6 the middle of a process in Ontario that’s
 7 reconsidering where those equity ratios
 8 should be and in my mind, I think
 9 Newfoundland is probably setting a good
 10 example, you know, for something that’s a
 11 middle ground between where Canadian
 12 utilities typically have been, where we
 13 think they need to be in order to continue
 14 to raise capital on a competitive basis.
 15 (12:15 p.m.)
 16 CHAIR:
 17 Q. Would one aspect of it be a difference
 18 between Alberta and Newfoundland is the fact
 19 that the pricing for the distribution and
 20 transmission utilities is unbundled in
 21 Alberta versus bundled in Newfoundland and
 22 Labrador, so from a volume variance forecast
 23 perspective, so if sales vary, then
 24 Newfoundland Power experiences the impact of
 25 volume decline on recovery of, let’s say,

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1 distribution costs, whereas in Alberta they
 2 wouldn’t have that volume risk as such with
 3 regard to the pricing, would that come into
 4 play in evaluating the business risk in
 5 looking at one versus the other?
 6 MR. COYNE:
 7 A. It does and that’s a good synopsis. You
 8 know, here it is bundled and there it is
 9 unbundled, so it’s separated the risk of the
 10 generation supply function away from those
 11 utilities.
 12 CHAIR:
 13 Q. I have one last item. It was mentioned
 14 earlier with regard to the rate mitigation
 15 plan of the government, the press release
 16 hasn’t been fully clear on how it will all
 17 work, okay, so it wouldn’t be difficult for
 18 someone to misunderstand how it will
 19 actually work and I’m sure there’s lot of
 20 speculation on how it’s going to work, but
 21 if Hydro was using its non reg profits to
 22 effectively fund the Muskrat Falls costs, so
 23 it wasn’t going into a deferral account to
 24 be ultimately be recovered from customers,
 25 would it have any—how would that impact your

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1 opinion with regard to whether this is just
 2 pushing the issue forward or not?
 3 MR. COYNE:
 4 A. It is and I went back and looked at that
 5 after our discussion to make sure that I
 6 understood it and now I realize that I don't
 7 fully understand it either because there's
 8 some ambiguity between what's said in the
 9 press release and what's said in the slide
 10 deck that accompanied the press release.
 11 Now I'm less sure about exactly how that
 12 would flow through rates. On the issue of
 13 whether or not it's deferred or foregone, I
 14 think there's probably some ambiguity there,
 15 but if you're trying to recover the cost of
 16 a 13.5 billion dollar investment, if you are
 17 foregoing to the first premise that Hydro
 18 might forego those earnings entirely,
 19 there's two pieces of rate recovery from an
 20 asset like this and one would be
 21 depreciation over that period of time, and
 22 the other would be a return on its capital.
 23 And in a typical deferral, you would take
 24 anything that is not the cost of service and
 25 that would be depreciation plus your return

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1 on investment and you would place it into a
 2 deferral account and you might earn
 3 something on that deferral or you might not
 4 or you might earn a debt return and then
 5 you'd recover that at a later date. So it's
 6 not clear to me based on what's been
 7 provided in the public domain exactly how
 8 that would work. If it's foregone or will
 9 be deferred and how that, if it would be
 10 deterred from a rate standpoint, if it would
 11 be recovered in a future date, but to your
 12 basic question, though, if it were foregone
 13 entirely and not to be recovered, then I'm
 14 not sure what that reduction is on the
 15 overall cost of the 13.5 billion dollars,
 16 but I assume it's relatively minor share of
 17 what that would be over the life of the
 18 asset.
 19 CHAIR:
 20 Q. So your view is that the cliff is still high
 21 once you get beyond 2030, even if there was
 22 internal funding offsetting the cost of
 23 Muskrat until that time?
 24 MR. COYNE:
 25 A. Oh yes, yeah, because my assumption is—and I

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1 say it's an assumption, that would be
 2 recovering those costs, typically for a
 3 hydro electric asset and these transmission
 4 lines, those are probably 50 year assets and
 5 as a result of that, if you're foregoing
 6 depreciation for the first five years, you
 7 still have 45 years left to recover and then
 8 you have your rate of return. As you're
 9 depreciating that asset for those remaining
 10 45 years, so on just a simple math basis, 5
 11 out of 50 without knowing the exact figures,
 12 would be, I guess, would that be 10 percent
 13 of the total costs that would be foregone on
 14 a 13.5 billion dollar asset, so I think it's
 15 still a significant economic issue for the
 16 province to resolve.
 17 CHAIR:
 18 Q. So it wouldn't change any of your
 19 recommendations in your evidence?
 20 MR. COYNE:
 21 A. No, and I think the other thing is, you
 22 know, from an investor standpoint as they
 23 would look at this, we have uncertainty
 24 about exactly what the government is doing
 25 to try and mitigate it based on what's been

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1 said and so investors would be looking at it
 2 the same way. As we have cited in the
 3 credit rating reports, it's a problem that
 4 still remains to be solved and we don't yet
 5 have full clarity about what that solution
 6 is.
 7 CHAIR:
 8 Q. All right, thank you.
 9 MR. COYNE:
 10 A. You're welcome.
 11 MR. O'BRIEN:
 12 Q. Nothing arising, Mr. Chair.
 13 MS. GLYNN:
 14 Q. I think if we could take a quick five-minute
 15 break to switch over the witnesses.
 16 CHAIR:
 17 Q. Okay, thank you.
 18 (BREAK - 12:21 p.m.)
 19 (RESUME - 12:23 p.m.)
 20 CHAIR:
 21 Q. Any preliminary matters Ms. Glynn?
 22 MS. GLYNN:
 23 Q. Yes, Mr. Chair, I believe that Newfoundland
 24 Power has a preliminary matter to raise.
 25 MR. O'BRIEN:

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1 Q. Yes, Mr. Chair, and I think you're aware
 2 that the issue, Dr. Booth, I understand is
 3 going to provide some direct evidence this
 4 morning by a slide show presentation which
 5 we understand will cover roughly 50 slides.
 6 I don't get the understanding if the intent
 7 is to put the presentation on the record,
 8 but it is to put the presentation up on the
 9 screen and to walk through it. I do feel
 10 the need to raise an objection and then I do
 11 think this will take quite a long time and
 12 it does amount to largely a review of a
 13 report that's on the record. I think the
 14 parties have the ability to question Dr.
 15 Booth if they are uncertain about portions
 16 of his report and that's what the normal
 17 process has been, so I'm a bit concerned
 18 about the time this will take and whether or
 19 not this is additional evidence that will be
 20 put on the record. I'm assured it's not
 21 additional evidence, but I don't know how
 22 the discussion the slides will go, so I do
 23 feel I have to raise an objection at this
 24 point.
 25 (12:30 p.m.)

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1 CHAIR:
 2 Q. Yeah, well it is a bit unusual, I except
 3 with regard—sorry, I'll let Mr. Browne speak
 4 first. Mr. Coffey, sorry.
 5 COFFEY, KC:
 6 Q. Thank you, Mr. Fagan. This is simply a
 7 means of presentation. The last time Dr.
 8 Booth testified here, his opening statement
 9 was an hour and 17 minutes and I've looked,
 10 I did the calculation. Here, I think it's
 11 important, members of the Board, that
 12 although the evidence has been filed, the
 13 summary of it be available, and provided by
 14 the Consumer Advocate's expert in this
 15 regard. There are many, as you've heard,
 16 many, many millions of dollars involved in
 17 this. This is a very important topic and,
 18 you know, from my perspective, as counsel to
 19 the Consumer Advocate, you know, an option
 20 would be to simply keep going back and forth
 21 to various pages in his report and the
 22 appendices and so on, instead of—and that is
 23 disjointing when you're presenting
 24 something. It's far easier to see something
 25 just brought up, it's there, it's already

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1 there. I understand from Dr. Booth that
 2 there is one, an updated piece of
 3 information in one of the slides because of
 4 something that happened, became public a
 5 week ago, a technical matter, and there is
 6 one other slide, I understand slide 3, that
 7 it's not in his actual report but there's
 8 already a reference here and in fact, it's a
 9 matter that was before this Board years ago
 10 back in 2016, it's just one comment. So
 11 it's a matter of presentation and manner of
 12 doing it. I am, my background doesn't much
 13 matter in this, but I'll make the comment
 14 anyway, that I am very familiar with
 15 presenting matters in front of tribunals and
 16 courts and it's my belief that rather than,
 17 in terms of being able to make this
 18 comprehensible, it's my belief that having
 19 something to look at visually and listening
 20 to the witness testify in relation to what
 21 you see in front of you, makes it far more
 22 comprehensible for the person who is
 23 actually listening and watching, than it
 24 does just simply hearing somebody talk. So
 25 this is an aid to comprehension, it's a

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1 modern method and it's used in all sundry
 2 aspects of life. So that is our position,
 3 it's, the amount of time we spent, in fact
 4 frankly, we spent more time talking about
 5 this between—not in front of you, but
 6 between ourselves, the lawyers and stuff, as
 7 much time probably in total as we would have
 8 done in just doing it. And as a matter of
 9 here, when you look back at the 2016 opening
 10 statement by Dr. Booth, and it was done
 11 with, I understand, no objection. You know,
 12 it was detailed. There was no objection
 13 made and here, rather than just simply
 14 winding up with a question, you know, two or
 15 three questions and have him repeat what is
 16 in effect read off an answer, which in fact
 17 I watch – I witnessed here, and you know,
 18 that's happened, rather than have that, it's
 19 a matter of having it visually there and you
 20 can listen to him and I am hoping that it
 21 will convey to you in a more comprehensive
 22 way what it is he's trying to communicate.
 23 So, that's really – it's different, but I
 24 think it is more – it would be more
 25 effective, as an advocate.

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1 CHAIRMAN:
 2 Q. Well, in this circumstance –
 3 MS. GLYNN:
 4 Q. Mr. Chair, if I could add, please?
 5 CHAIRMAN:
 6 Q. Oh, that would help, yes. I apologize.
 7 MS. GLYNN:
 8 Q. I think we have three issues here that
 9 needed to be addressed. One was a
 10 misunderstanding of how the presentation was
 11 going to be recorded by the Board. We have
 12 worked that out between counsel that it will
 13 not be added to the record. As Mr. Coffey
 14 just indicated, it is an aid for Dr. Booth
 15 to be able to present his evidence. So, we
 16 have worked that particular issue out.
 17 The second issue is if there is new
 18 evidence that will be presented in this
 19 presentation by Dr. Booth, as Mr. O’Brien
 20 pointed out, we will address that as the
 21 presentation goes on. If there is new
 22 evidence, Mr. O’Brien can certainly speak to
 23 that at that time.
 24 And then there is the timing issue. As
 25 Mr. Coffey pointed out, yes, the direct

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1 testimony of Dr. Booth was longer than most
 2 other witnesses last time. That’s to be
 3 expected with the information that we’re
 4 given, and if that is the way that the
 5 Consumer Advocate wants to present this
 6 evidence, we will give him the time that he
 7 needs. I do recognize that we are in a bit
 8 of a time crunch here today for 1:30. So,
 9 I’m hopeful that we might be able to get
 10 through Dr. Booth and his direct testimony
 11 today.
 12 CHAIRMAN:
 13 Q. Yeah, I mean, to me it’s the, well it’s the
 14 largest issue in the hearing; at least one
 15 of the top two. And there’s only two cost
 16 of capital experts, and so, there’s one
 17 representing the Consumer Advocate, so I
 18 think, you know, we really need to let him
 19 present his case, but hopefully in the most
 20 efficient way we can and move it along and
 21 certainly follow the guidelines that Ms.
 22 Glynn mentioned. So, we’ll proceed. Thank
 23 you.
 24 DR. LAURENCE BOOTH, SWORN, EXAMINATION-IN-CHIEF BY
 25 BERNARD COFFEY, KC

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1 COFFEY, KC:
 2 Q. Would you, for the record, please state your
 3 name?
 4 DR. BOOTH:
 5 A. My name is Laurence David Booth.
 6 COFFEY, KC:
 7 Q. And you’re referred to as Dr. Booth in your
 8 professional life?
 9 DR. BOOTH:
 10 A. To a lot of things, but Dr. Booth, I’m
 11 perfectly comfortable with.
 12 COFFEY, KC:
 13 Q. And Dr. Booth, you filed a report in this,
 14 in relation to this proceeding?
 15 DR. BOOTH:
 16 A. Yes, I did.
 17 COFFEY, KC:
 18 Q. And do you adopt that as your evidence?
 19 DR. BOOTH:
 20 A. I do.
 21 COFFEY, KC:
 22 Q. And that report includes your CV itself?
 23 DR. BOOTH:
 24 A. It does.
 25 COFFEY, KC:

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1 Q. It does, yes. And I’m not going to take –
 2 again, that’s there to be read by the Board.
 3 Dr. Booth, we have a slide presentation I
 4 understand you prepared. Ms. Bown, I
 5 believe, has control of the slides. So, I’m
 6 going to ask that you utilize the slide deck
 7 to give an overview to the Board of your
 8 position concerning the cost of capital.
 9 DR. BOOTH:
 10 A. Do you want me to refer to the pages in my
 11 testimony that these slides are derived
 12 from?
 13 COFFEY, KC:
 14 Q. No, in relation to that, I would just
 15 suggest this: is that no, there’s no need to
 16 do that. If it turns out that – one could
 17 actually go afterward and look, but no, you
 18 go ahead. Just this is an aid to your
 19 presentation. So, obviously the first page
 20 of the slide deck is what this is about.
 21 Newfoundland Power, fair return and capital
 22 structure. So, you go ahead, Doctor.
 23 DR. BOOTH:
 24 A. Next slide. And I hope Mr. O’Brien doesn’t
 25 object too much to some of my comments, but

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1 this is a critical issue, what is the legal
 2 standard in Canada and the United States.
 3 And several times I heard Mr. Coyne
 4 yesterday refer to alternative investments
 5 and alternative allowed rates of return.
 6 That is not the standard in Canada. The
 7 standard in Canada is that of Mr. Justice
 8 Lamont and the definition states, “the
 9 company will be allowed as large a return on
 10 the capital invested in the enterprise as it
 11 would receive if it were investing the same
 12 amount in other securities possessing and
 13 attractiveness, stability and certainty
 14 equal to that of the company’s enterprise”.
 15 So, the front and foremost is risk and I’ll
 16 be talking about risk. But there’s also
 17 something in there which is relevant to
 18 Canada but doesn’t seem to be as directly
 19 relevant in the United States. That is it
 20 specifically refers to securities. It
 21 doesn’t say investments. It doesn’t say
 22 alternative business investments or rates of
 23 return that firms earn elsewhere. It refers
 24 to securities, and there’s a big difference
 25 between the rate of return on a security and

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1 the rate of return earned on a business.
 2 And yesterday, I was struck, and I
 3 talked to this with counsel before, on
 4 Emera’s sale of the stake in Labrador Island
 5 Link. Now, my understanding from the news
 6 release is that the book value of that
 7 investment is 750 million dollars. KKR is
 8 paying 957 million dollars for that 750
 9 million dollars in book value and agreeing
 10 to take over Emera’s commitment to the 135 –
 11 whatever it is, 300 and so further
 12 commitments. Now, it’s important to
 13 understand the book value of that investment
 14 is earning at 8.5 percent. That is not
 15 KKR’s required rate of return. It’s not
 16 their fair rate of return. It’s not the
 17 rate of return that you get on securities of
 18 equivalent risk. The securities that it’s
 19 buying is the equity stake in LLI (sic) and
 20 it’s paying a 207-million-dollar premium to
 21 buy that 750 million dollars in book value.
 22 That 270 million – 207 million dollars earns
 23 a zero rate of return, zero rate of return.
 24 KKR is spending 207 million dollars just to
 25 get the 750 million dollars earning 8.5

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1 percent. That happens all the time in the
 2 flipping and the sale of regulated assets.
 3 The AUC has looked to that in terms of its
 4 recommendations because it directly measures
 5 what is the rate of return on alternative
 6 securities with the same risk, which is the
 7 legal standard in Canada.
 8 If you take into account the 207
 9 million dollars that’s earning zero, KKR’s
 10 actual required rate of return or fair rate
 11 of return is way less than 8.5 percent.
 12 It’s market to book ratio, which is the 957
 13 million dollars its spending divided by the
 14 book value, 750 million dollars, is about
 15 1.28. And we look at the market to book
 16 ratio to assess whether the fair – the rate
 17 of return is fair. That is standard across
 18 every regulator and textbook that I’ve
 19 looked at. 1.28 indicates that the allowed
 20 rate of return of 8.5 percent on the
 21 Labrador Island Link is excessive. The fact
 22 that they’re paying a premium for it
 23 indicates it’s excessive. KKR are not
 24 stupid investors. So, the actual fair rate
 25 of return that KKR wants is less than 8.5

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1 percent. If you assume all they expect to
 2 get is 8.5 percent, their fair rate of
 3 return is about 6.6 percent, 6.7 percent.
 4 MR. O'BRIEN:
 5 Q. Mr. Chair, I’m going to have to take Mr. or
 6 Dr. Booth up on his comment. None of this
 7 is in Dr. Booth’s evidence. So, we’re on
 8 the first slide and now we’re talking about
 9 something that’s outside of Dr. Booth’s
 10 report.
 11 CHAIRMAN:
 12 Q. Mr. Coffey?
 13 COFFEY, KC:
 14 Q. Yes. Well, it – bearing in mind that the
 15 KKR and Emera and Newfoundland and Labrador
 16 Hydro announced that deal on May 28th, 2024,
 17 this year and closed it on June 4th, it could
 18 hardly have been, you know, in terms of
 19 within Dr. Booth’s reports, number one. His
 20 report was filed before May 28th. That’s
 21 number one. Number two, the Emera/KKR deal
 22 has been – at least what’s publicly known in
 23 terms of the materials that were provided
 24 yesterday, what’s publicly known is before
 25 the Board; has been before the Board at

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1 least since yesterday. So, you know, it's –
 2 he's made the comment he has. It's
 3 certainly not in his original report because
 4 of course there was no way for it to be. It
 5 hadn't happened. It's happened and he's
 6 made a comment. If Mr. O'Brien wishes to
 7 cross-examine him on it, of course, or
 8 questions on his views on it, those
 9 questions can be put. And Mr. O'Brien's
 10 certainly correct, it's not in his report.
 11 But this has only just happened.
 12 MR. O'BRIEN:
 13 Q. It's not in any supplemental evidence or
 14 request to file supplemental evidence.
 15 COFFEY, KC:
 16 Q. Oh, it -
 17 MR. O'BRIEN:
 18 Q. We're talking about a press release here.
 19 CHAIRMAN:
 20 Q. Ms. Glynn?
 21 MS. GLYNN:
 22 Q. I didn't know if Mr. Coffey had any -
 23 COFFEY, KC:
 24 Q. No, no.
 25 CHAIRMAN:

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1 Q. Okay.
 2 MS. GLYNN:
 3 Q. Mr. O'Brien correctly points out that the
 4 rules for procedure do say that if any
 5 supplementary evidence is wanted to be
 6 provided by a witness that there should be
 7 an application for that to be made or a
 8 request for that to be put through the
 9 witness.
 10 (12:45 p.m.)
 11 COFFEY, KC:
 12 Q. Well, it was put before – my understanding
 13 of that was it would be put before the
 14 Board, and it was. I filed it the day
 15 before I was going to cross-examine Mr.
 16 Coyne.
 17 MS. GLYNN:
 18 Q. But you didn't ask for this witness to be
 19 able to provide -
 20 COFFEY, KC:
 21 Q. Oh, this – oh, I apologize for that.
 22 MR. O'BRIEN:
 23 Q. This witness.
 24 COFFEY, KC:
 25 Q. It was just I thought once it was before the

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1 Board, it's before the Board. That was my –
 2 that's – I didn't realize it had to be for
 3 each individual witness.
 4 MR. O'BRIEN:
 5 Q. Well, this witness is expressing an opinion
 6 now on a – an expert opinion on what is put
 7 before the Board as a press release.
 8 There's no indication Dr. Booth has reviewed
 9 documents associated with this transaction
 10 or has put himself in a position to provide
 11 a fair and objective and impartial opinion
 12 to the Board on this. Yet in our first
 13 slide here, this is what we're talking
 14 about.
 15 COFFEY, KC:
 16 Q. That's – they're my comments.
 17 CHAIRMAN:
 18 Q. Any further comment, Ms. Glynn?
 19 MS. GLYNN:
 20 Q. No, not at this time, Mr. Chair.
 21 CHAIRMAN:
 22 Q. Well, I think the -
 23 DR. BOOTH:
 24 A. Can I clarify, Mr. Chairman?
 25 CHAIRMAN:

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1 Q. Yeah, I'd like you to speak before I
 2 comment. Go ahead.
 3 DR. BOOTH:
 4 A. I'm just making a point about the definition
 5 of the legal standard. I can retract any
 6 comment on the Labrador Island Link, but the
 7 comment is simply that the basic definition
 8 of a fair return in Canada is based upon the
 9 securities, not on the book value of the
 10 investment. The price paid by KKR for the
 11 Labrador Island Link, all I'm saying is if
 12 it a premium -- and I don't know whether
 13 it's a premium. All I'm doing is relying
 14 upon the information that was put before the
 15 Board yesterday. If it is a premium, it
 16 means that the 8.5 percent rate of return is
 17 attractive. That is my expert opinion.
 18 That would be the opinion of any
 19 undergraduate in finance. That is not, I
 20 would suggest, a contentious issue. But the
 21 point is simply what is the legal standard
 22 of a fair return. And if you listen to Mr.
 23 Coyne yesterday and today, he consistently
 24 said fair return standard. He consistently
 25 said fails to meet the fair return standard.

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1 And here we have an objective example
 2 directly relevant to this hearing that
 3 indicates what the fair return is. So, that
 4 would be my computation.
 5 CHAIRMAN:
 6 Q. I think what Mr. Booth has done with regard
 7 to a simple computation of the press release
 8 purchase value relative to the book value
 9 presented in the press release probably
 10 wouldn't be a surprise with regard to the
 11 purchase price being in excess, which would
 12 indicate the return being lower. So, I'm
 13 struggling with that being a challenging
 14 matter to ask questions on. The issue
 15 itself was brought up yesterday and so that
 16 is on the record. I think if you – Mr.
 17 O'Brien if you want to talk more about this,
 18 I think you'll have time to ask questions on
 19 it tomorrow.
 20 MR. O'BRIEN:
 21 Q. That's fine, Mr. Chair. Just I didn't know
 22 how far we're going down this road and we're
 23 on the first slide.
 24 CHAIRMAN:
 25 Q. Yes, yeah.

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1 MR. O'BRIEN:
 2 Q. And this is a significant discussion on
 3 something that's not on the record from Dr.
 4 Booth.
 5 CHAIRMAN:
 6 Q. Yeah. I think the –
 7 MS. GLYNN:
 8 Q. And I think the reminder of the direct
 9 testimony to bring out what is in the
 10 current report and then the parties will
 11 explore other issues, such as press releases
 12 or any other information items that were
 13 presented throughout the testimony that
 14 we've heard in the last few days.
 15 CHAIRMAN:
 16 Q. Yeah. So, Dr. Booth, you know, you could –
 17 hopefully we don't have any other press
 18 releases as we proceed through, to make it
 19 easier.
 20 DR. BOOTH:
 21 A. And I'll be honest with you, I only – when I
 22 prepared my slides, I never ever anticipated
 23 talking about the Labrador Island Link. So,
 24 it was there to talk about risk and it was
 25 there because the legal standard means that

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1 you have to take into account risk. So, the
 2 main way in which utility witnesses advocate
 3 higher returns is through higher risk. So,
 4 I've always referred to utility witnesses as
 5 risk generating, in the risk generating
 6 business.
 7 CHAIRMAN:
 8 Q. So, we'll take what you discussed about the
 9 Labrador Island Link as an illustrative
 10 example of your point, and then we can just
 11 move on.
 12 DR. BOOTH:
 13 A. Yeah, I was just going to say take company A
 14 with a 750 million book value and company B,
 15 but I couldn't resist, I'm afraid. So, next
 16 slide please. So, risk, in 2016, I referred
 17 to all of the instances prior to then of
 18 company witnesses advocating higher risk.
 19 Mainly it was fuel competition and how that
 20 was putting the company at a disadvantage.
 21 And I was looking at the 2016 testimony and
 22 I – the difference between Mr. Coyne and I
 23 is I regard settlements as a black box. So,
 24 the only litigated was 2016. So, I went
 25 back to 2016 to see what Mr. Coyne said and

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1 I don't have to read all of this out, but
 2 everything he's saying today, he said in
 3 2016, and it refers to Muskrat Falls. It
 4 refers to the reliability of the power. It
 5 refers to the small – nothing that he said
 6 today in his testimony is any different from
 7 2016.
 8 Turn over. One thing that is
 9 dramatically different between Mr. Coyne and
 10 myself is that I've been testifying in
 11 Canada since 1985 and I first testified
 12 before Bell Canada, before the CRTC on Bell
 13 Canada. Bell Canada went through dramatic
 14 changes in its risk. Trans Canada, in 2012
 15 I think it was, faced dramatic changes in
 16 risk. So, the history in Canada has been
 17 that we do not standby and let utilities
 18 hang out to dry. This is what I said in
 19 2004 before the Trans Canada – before the
 20 National Energy Board. It was to do with a
 21 hearing – and this is on my testimony, page
 22 92. This was to do with a new pipeline we
 23 were putting in down MacKenzie Valley and
 24 Perry were proposing it and the NEB had to
 25 look at all of the cash flow predictions out

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1 25 years. But they only had signed
 2 contracts to lease for the gas to run down
 3 the pipeline out for a shorter time period.
 4 So, the question was what happens when those
 5 leases run out, and that was where we
 6 started talking about short-term versus
 7 long-term. And I said then, and I still
 8 hold to this, it's what I view as the
 9 regulatory compact in Canada. If problems
 10 occur, then firms bring these problems to
 11 the regulator and frequently compromises are
 12 worked out. This is part of the regulatory
 13 bargain that I now refer to as the
 14 regulatory compact. Only regulated firms
 15 have this capability. For example, if a
 16 competitive firm suffers a supply shock,
 17 then the stockholders are directly affected.
 18 But in contract, a regulated firm can, that
 19 have losses, put in a deferral account and
 20 allocate it to future customers or apply to
 21 the regulator for other means to protecting
 22 the stockholder from loss. Consequently, it
 23 is unreasonable to expect no action on the
 24 part of the regulator to the increased risk
 25 after year 11, and year 11 was when these –

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1 the contracts on the MacKenzie Valley
 2 pipeline ran out. I still hold to that.
 3 I believe that you commissioners are
 4 reasonable people and I believe that every
 5 board across Canada has got reasonable
 6 people and we look at our utilities and we
 7 protect our utilities. I've never seen an
 8 instance when a utility wasn't protected in
 9 Canada, and that's part of who we are in
 10 Canada. We don't hold the utilities out to
 11 dry. Now, next slide please.
 12 So, how can I verify that? Every
 13 hearing I've been involved in, at least for
 14 the last 25 years, I've asked for all the
 15 evidence on the allowed rate of return and
 16 the actual rate of return, and for
 17 Newfoundland Power, last 30 years, it's over
 18 earned its allowed ROE, and I ask what
 19 happened in the early '90s. That was when
 20 it was competition from fuels, and they said
 21 no, it was a CRA audit, and they had to lose
 22 money on an audit and then they got the
 23 money back on audit. And Mr. Kelly and I
 24 went through this in 2016 and he said also
 25 it was due to the cod problem at that time,

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1 which I can't say whether it was or it
 2 wasn't, but for 30 years, Newfoundland Power
 3 has consistently earned its allowed ROE.
 4 Now, that is not at all unusual in Canada.
 5 Practically every utility I look at, they do
 6 that. And why? Because we have deferral
 7 accounts to pass on most of the risks to
 8 ratepayers and that's the most important
 9 thing. I constantly hear utility witnesses
 10 say, "risk, risk, risk. The sky is falling.
 11 There's increased risk." It's not really
 12 utility risk. It's ratepayer risk because
 13 the way we operate in Canada is those risks
 14 are passed on to ratepayers. It's
 15 ratepayers who are going to pay the cost of
 16 higher electricity prices, and I'll talk
 17 about that on the next slide, and I'll skip
 18 a lot of slides in my testimony because the
 19 question is Mr. Kelly in 2016 said, "well
 20 suppose prices go up 50 percent" and that
 21 was the prevailing opinion at that point.
 22 Now, risk mitigation, they're not going up
 23 by 50 percent. They're going up by 2.25
 24 percent possibly. And then the question is,
 25 which utility witnesses never addressed and

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1 I've never seen utility witnesses put in the
 2 allowable as actual. That's always me that
 3 has to ask for that. They prefer
 4 qualitative assessments. But the question
 5 is: what electricity prices in Newfoundland
 6 will cause a risk to Newfoundland Power?
 7 Nobody wants to pay more for electricity,
 8 but what's the capacity to increase
 9 electricity prices in Newfoundland?
 10 And Hydro Quebec puts this table
 11 together every year and it's exactly the
 12 same table that I presented in 2016. The
 13 lowest cost producer is Quebec. Apart from
 14 their own power, they've got Churchill Falls
 15 coming through, which is at a cheap rate.
 16 So, they've got very low-cost power in
 17 Quebec. Vancouver and Winnipeg also have
 18 huge reserves of power. So, they've got
 19 low-cost power. And then you look at the
 20 next one, Ontario or Ottawa, sorry, and then
 21 St. John's. I hate to tell you guys, but
 22 you're not paying a lot of money for
 23 electricity. If you go to Halifax, they're
 24 paying – well, if you drop down here to
 25 Halifax, where is it? \$234 for the same

Page 161	<p>1 amount of power. And we had a big hearing</p> <p>2 last year about their coal plants. They're</p> <p>3 going to be put in a deferral account and</p> <p>4 they're going to be paying twice for</p> <p>5 electricity. So, they're going to be bump</p> <p>6 up in electricity costs in Nova Scotia</p> <p>7 because they're still going to be paying for</p> <p>8 those coal plants that are no longer used</p> <p>9 and useful. And then we look at Prince</p> <p>10 Edward Island, where I can't find – oh,</p> <p>11 there's Charlottetown, PEI at 228, way</p> <p>12 higher than in St. John's.</p> <p>13 So, the question is how high can</p> <p>14 electricity prices go in St. John's and in</p> <p>15 Newfoundland before people start going to</p> <p>16 alternative means of heating. And what are</p> <p>17 the alternative means of heating? We got</p> <p>18 carbon taxes that are currently at \$80 a ton</p> <p>19 going to \$160 a ton. So, I find it</p> <p>20 extremely difficult to believe that anybody</p> <p>21 right now, if electricity prices go up in</p> <p>22 St. John's, they're going to basically</p> <p>23 decide to go to home heating with heating</p> <p>24 oil given all of the increases that are</p> <p>25 going to come down the pipe for home heating</p>	Page 163	<p>1 ratio. The National Energy Board -- next</p> <p>2 slide please, in my testimony page 89, you</p> <p>3 know – well, perhaps one – can we go back to</p> <p>4 the one – oh, same slide. Forget about that</p> <p>5 one. That one seems to have dropped out of</p> <p>6 the slide deck.</p> <p>7 Business risk is the main component of</p> <p>8 determining the capital structure. The</p> <p>9 National Energy Board and the Ontario Energy</p> <p>10 Board and the BCUC basically look at</p> <p>11 business risk before they determine common</p> <p>12 equity ratio. The basic principle is you</p> <p>13 don't add a lot of financial risk on top of</p> <p>14 business risk. And in order to equalize to</p> <p>15 use the same allowable rate of return on oil</p> <p>16 pipelines versus gas pipelines in the NEB</p> <p>17 case or gas versus an electric utility in</p> <p>18 Alberta, you need to equalize the risk. So,</p> <p>19 first of all, you equalize based upon the</p> <p>20 business risk with the common equity ratio.</p> <p>21 Then you give them all exactly the same</p> <p>22 allowed ROE. So, sometimes they look at it</p> <p>23 and say, well, you know, Dr. Booth says</p> <p>24 they're all equivalent in risk. Well,</p> <p>25 that's the way we tend to do it for multiple</p>
Page 162	<p>1 oil. So, the question is not just are</p> <p>2 electricity prices going up. I don't know</p> <p>3 what they're going to go up, but the</p> <p>4 question is how high can they go, and are</p> <p>5 people going to stop using electricity</p> <p>6 because of that, and I just don't see it</p> <p>7 happening.</p> <p>8 My daughter lives in New York, in</p> <p>9 Brooklyn. She is paying as much – and</p> <p>10 sorry, this isn't in testimony. Counsel</p> <p>11 told me to cut it out. I shouldn't refer to</p> <p>12 my family. But she's in Brooklyn. She's</p> <p>13 paying more to heat a two-bedroom condo in</p> <p>14 Brooklyn than I pay for a five-bedroom house</p> <p>15 in Toronto. So, Canadians don't realize how</p> <p>16 lucky they are in terms of the power cost.</p> <p>17 So, she's not cutting the cord, which</p> <p>18 usually refers to cable, but the power cord,</p> <p>19 and even if she did, how are we going to be</p> <p>20 using our televisions and all sorts of</p> <p>21 things, and computers and stuff? We need</p> <p>22 electricity. So, that's my comment on the</p> <p>23 long-run risk.</p> <p>24 Importance of business risk, business</p> <p>25 risk is at the core of the common equity</p>	Page 164	<p>1 hearings. We basically equalize the risk</p> <p>2 and common equity ratios, equalize the</p> <p>3 business risk, then give them all a generic</p> <p>4 ROE.</p> <p>5 (1:00 p.m.)</p> <p>6 The Alberta Utility Commission calls it</p> <p>7 a generic ROE and so that's the importance</p> <p>8 of business risk. So, next slide please.</p> <p>9 Oh, can I go back two slides? The Canadian</p> <p>10 comparators. And the one before that. Oh,</p> <p>11 we seem to have dropped that one out. Okay.</p> <p>12 Canadian comparators. This is directly</p> <p>13 from – and I was trying to slim the slide</p> <p>14 deck out. The direct comparators for</p> <p>15 Newfoundland Power are the other Fortis</p> <p>16 electric companies. So, rather than going</p> <p>17 to Duke Energy or going to American Electric</p> <p>18 Power, and I'll talk about those, what about</p> <p>19 the other Fortis electric utilities? What</p> <p>20 about Fortis Alberta? What about Fortis</p> <p>21 Ontario? What about Maritime Electric? And</p> <p>22 I don't know why they don't call it Fortis</p> <p>23 PEI, but what about – and what about the old</p> <p>24 West Kootenay Power in BC, Fortis BC</p> <p>25 Electric. They have 37-40, 40-41 percent</p>

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1 common equity ratios. Nova Scotia Power, I
 2 was in a hearing two years ago. It was 37.5
 3 percent. By settlement, we agreed on 40
 4 percent because it's facing significant
 5 problems and because the province intervened
 6 in the middle of that hearing. There's
 7 absolutely no question Newfoundland Power's
 8 45 percent is out of line. I've been saying
 9 that ever since I've been coming here, I
 10 think, since 2009. The Board has not made
 11 any changes because it's always sort of said
 12 something like, "well, Muskrat Falls is
 13 coming along. Let's wait and see". I'm not
 14 pushing hard on 45 percent – sorry, 40
 15 percent. What I'm saying is go back and put
 16 in the PUB's decision in '96/97 a range of
 17 40 to 45 percent. So, the bond rating
 18 agencies know that it's 40 to 45 percent and
 19 if you want to go to 40 percent, I will
 20 recommend you go immediately. Even then
 21 I've been I think quite conservative saying
 22 go slowly, a little bit over time. Add
 23 preferred shares. Don't shock the market.
 24 But recognize that 45 percent is excessive
 25 compared to the Canadian comparators.

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1 So, when we look at other comparators -
 2 - next slide please – Mr. Coyne goes to the
 3 United States. Now, I've got to be careful
 4 what I say that's not in my testimony, but
 5 there aren't many Canadian witnesses out
 6 there. When I started testifying, most of
 7 the witnesses in Canada were Canadian.
 8 After we signed the free trade agreement
 9 with the Americans in 1987, I started
 10 shopping in Costco instead of other stores.
 11 I started shopping at Home Depot instead of
 12 Aikenheads. I started shopping at Business
 13 Depot. There's absolutely no question that
 14 we've become more integrated with the United
 15 States ever since the Free Trade Agreement.
 16 That does not mean to say that just because
 17 we're more integrated that we can take US
 18 companies without adjustments into Canada,
 19 and that's the critical thing.
 20 I look at US companies now. I never
 21 used to. When I started out, I looked only
 22 at Canadian companies and I've got an
 23 exhibit somewhere where I looked at the
 24 companies that I used to look at. My first
 25 attendance here in Newfoundland was in 1991.

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1 Newfoundland Tel here before the CRTC
 2 because Newfoundland Tel went from
 3 provincial to CRTC regulation. Newfoundland
 4 Tel doesn't exist anymore. New Brunswick
 5 Tel doesn't exist anymore. Island Telephone
 6 doesn't exist anymore. Maritime Electric
 7 exists but not as a private company.
 8 Consumers Gas doesn't exist as a private
 9 company. We've lost a large number of
 10 Canadian companies. So, in my testimony
 11 somewhat I'm forced to look at the United
 12 States, and that is absolutely correct,
 13 forced to look. We should be looking at
 14 Canadian companies in Canadian capital
 15 markets, but we're forced to look at the
 16 United States. But that doesn't mean to say
 17 that we take US evidence in without making
 18 adjustments and seeing whether it truly is
 19 comparable.
 20 Now, in terms of Mr. Coyne's US
 21 comparators, Mr. Coffey was going to go
 22 through their 10Ks and show just how
 23 diversified they are, and how many coal
 24 plants they have and how many nuclear plants
 25 they have. And this is Mr. Coyne's

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1 evidence. He asked me what's significant
 2 about nuclear in terms of how significant
 3 does it have to be to make sense. I should
 4 have said it depends on how many there are.
 5 You only need one of them to cause a
 6 disaster. So, to some extent, it doesn't
 7 matter how many they have. Any of them are
 8 probably exposed to more risk. And these
 9 utilities, the only one without much
 10 generation is Eversource. Of all of these
 11 US companies, the one that's closest to
 12 being a pure T&D like Newfoundland Power is
 13 Eversource. Otherwise, I find it extremely
 14 difficult to accept as comparables for
 15 Newfoundland Power companies that are
 16 integrated US utilities, which means
 17 integrated power generation, coal plants,
 18 nuclear plants, wind plants, co-gen plants,
 19 gas co-gen plants, and then a diversified
 20 group of customers, industrial customers as
 21 well as retail. There aren't anywhere close
 22 to comparable to Newfoundland Power. And
 23 previously, Mr. Coyne has made adjustments.
 24 He did this before Hydro, the Regime in
 25 Quebec, and made adjustments for Hydro

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1 Quebec because he didn't have Hydro Quebec
 2 transmission, Hydro Quebec distribution,
 3 because they didn't have any power. All of
 4 their power was coming from Hydro Quebec,
 5 and he made an adjustment there. So, the
 6 question is how big an adjustment do you
 7 have to make to these US utilities to make
 8 them comparable to Newfoundland Power.
 9 Clearly, they're not comparable. And the
 10 problem with other regulators looking at
 11 them, it depends what the evidence that they
 12 put before them. I don't know whether in
 13 the AUC or the BCUC hearings people put all
 14 the 10Ks of Mr. Coyne's samples to basically
 15 cross-examine him on the comparability of
 16 the sample. But this Board rejected this
 17 when Tom – I've forgotten his name, the
 18 counsel.
 19 BROWNE, KC:
 20 Q. Tom Johnson.
 21 COFFEY, KC:
 22 Q. Johnson.
 23 DR. BOOTH:
 24 A. Tom Johnson, sorry, counsel on behalf of the
 25 Consumer Advocate. And the Board rejected

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1 their comparability because of exactly these
 2 problems, and this hasn't changed. Duke
 3 hasn't got rid of its nuclear power plants.
 4 They're still there. So, that's a concern.
 5 Next slide please.
 6 Where the rubber meets the road is here
 7 in the ROE. This is an exhibit I've got my
 8 – it's Schedule 9. It's got Newfoundland
 9 Power's earned rate of return over this time
 10 period and all of these electric utilities.
 11 They are not comparable even when you look
 12 at the financial data. The average earned
 13 ROE of Newfoundland Power, 8.92 percent.
 14 The average from this sample, 9.19 percent,
 15 which is less. You look at the variability
 16 and the average across these utilities, Duke
 17 Energy, I don't know how you can think
 18 Duke's comparable to Newfoundland Power.
 19 The ROE, it hasn't been above seven and a
 20 half – or sorry, 8.15 percent in basically
 21 12 years, and it's got a lot of variability
 22 in its ROE. The variability in the ROE is a
 23 major criteria in the bond rating. The
 24 rating companies like to see very consistent
 25 regular ROE because that's what is basically

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1 there to support the bond rating, and these
 2 are all riskier utilities by any definition.
 3 How do we look at how the market looks at
 4 that? The way at which we look at this, we
 5 look at price-to-book, or market-to-book
 6 ratios. That's basically the book value,
 7 the asset, and what is it selling for in the
 8 capital market. All of these utilities,
 9 even with their volatile ROE's relative to
 10 Newfoundland Power, are selling at price-to-
 11 book ratios significantly above about 1.1 or
 12 1.15. Previously before this body, Kathy
 13 McShane, the witness for Foster and
 14 Associates and the company, used to say
 15 market-to-book ratio should be 1.1 or 1.15,
 16 and then now to boost the ROE to account for
 17 issue cost and things. These are well above
 18 1.1 and 1.15, which means the market is very
 19 happy with what these integrated companies
 20 are doing.
 21 Now, the crux. I've forgotten how many
 22 times Mr. Coyne said fair return standard,
 23 and I was intrigued by Mr. Simmons' cross-
 24 examination, because you got to remember
 25 that Kathy McShane was the company witness

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1 until 2012 I think it was. Mr. Coyne came
 2 into Canada 2009, and before the Alberta
 3 Utility Commission--now, I give him, that's
 4 the list. He went to the Alberta Utility
 5 Commission and told them you haven't been
 6 given fair return standard ROE's, and he
 7 produces this document, and I can't verify
 8 the first three years. I don't believe for
 9 a minute they're exactly the same, but he
 10 said there's a fairness deficit. Deficit
 11 means something below, which must mean he
 12 felt that allowed ROE's in Canada were less
 13 than fair compared to what, compared to the
 14 United States.
 15 He has consistently said since coming
 16 into Canada fair return standards, give them
 17 what my US sample gives. Treat them like
 18 American companies, and give them higher
 19 allowed rates of return, and give them more
 20 equity, and he said basically the same thing
 21 here.
 22 So, that was his calling card coming
 23 into Canada for utilities. Hire me because-
 24 -and this is obviously being factious, but
 25

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1 basically I believe that allowed ROE's in
 2 Canada should go up. They're not meeting
 3 the fair return standard. I do not believe
 4 that for a minute. He said that it was due
 5 to the use of automatic adjustment
 6 mechanisms. That's absolutely incorrect.
 7 The Alberta Utilities Commission didn't put
 8 their utilities on an automatic adjustment
 9 mechanism until 2003. These "unfair allowed
 10 rates of return" started in '97, '98, and
 11 '99, 2000, way before the Alberta utilities
 12 went on an automatic adjustment mechanism,
 13 and I was in a hearing before the Trans
 14 Canada--before the NDP on the Trans Canada
 15 Mainline where they reviewed their automatic
 16 adjustment formula, and they said in no
 17 uncertain terms it's fair. I was also in a
 18 hearing before the Ontario Energy Board in
 19 2004 where they reviewed their formula, and
 20 they said it's fair, there's nothing wrong
 21 with it.
 22 So, these were decisions that the
 23 Canadian regulators made and reviewed their
 24 adjustment formulas, those that had them,
 25

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1 and they decided they were fair returns.
 2 Mr. Coyne has come into Canada and said what
 3 we do in Canada is not fair. I do not
 4 accept that.
 5 So, that's an overview really of the
 6 difference between Mr. Coyne and myself. I
 7 tend to think that Canadian boards have made
 8 serious decisions after litigated hearings
 9 with significant evidence, way more evidence
 10 than they get in the United States.
 11 I'm told, and this is hearsay evidence,
 12 that their hearings basically half an hour,
 13 or an hour, on fair ROE. They've narrowed
 14 it down to a smaller number of things that
 15 they talk about. Our decisions are much
 16 more broader. I've been involved in five
 17 days of hearings into a fair ROE.
 18 So, then the question is, the legal
 19 standard is not just a market based
 20 opportunity cost on securities, but changes
 21 in the money market. What's going on in the
 22 capital markets? What's changed since the
 23 last litigated hearing in 2016? The core of
 24 that is the money market, the overnight
 25

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1 rate, and that's--Mr. Coyne didn't mention
 2 it. Well, he said integrated markets.
 3 They're integrated between the US and
 4 Canada. Absolutely no question, the money
 5 market is totally integrated.
 6 You've tested me I'm afraid, Mr.
 7 O'Brien, but Canadian banks borrowing the US
 8 dollars, pound sterling, any currency, and
 9 they swap it into Canadian dollars. They
 10 find wherever it's cheaper. But just
 11 because it's integrated doesn't mean to say
 12 that the rates of return are the same. You
 13 hedge them. You get currency risk. You've
 14 got--you forward--you hedge it by buying
 15 forward weights to hedge the foreign
 16 currency risk, and this is the--Canadians do
 17 this--Canadian banks do this every single
 18 day. They look to where can they find the
 19 cheapest funding.
 20 So, the money market is where we start,
 21 and when you look at this--go to the next
 22 slide please.
 23 (1:15 p.m.)
 24 The business cycle is critical for all
 25

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1 of this, and Mr. Coyne repeatedly said,
 2 well, things have increased since 2020.
 3 Well, sorry, what's that got to do with it?
 4 2020--first of all, it was in 2016.
 5 This is the history of long Canada bond
 6 yields and treasury bills in Canada going
 7 back to 2000. Now, I must admit, I added
 8 these arrows because they're the points that
 9 are always interesting because it reflects
 10 the policies of the central bank. The Bank
 11 of Canada pushed up interest rates in 2000
 12 to slow down the Canadian economy. That's
 13 what they do. There's lots of discussion at
 14 the moment about how young people are really
 15 hit with mortgage costs. It happens all the
 16 time. It's regular as clockwork. You push
 17 up interest rates, mortgage rates go up, and
 18 you slow down the economy. It happened in
 19 the early 2000's.
 20 The T-bill rate, which was very close
 21 to the money market rate, went up to the
 22 long Canada rate, and then it brought down
 23 the rate of inflation. The Canadian economy
 24 went into recession as a result of the techs
 25

Page 177	<p>1 rec (phonetic) and then honky-dory, we 2 stayed the same until 2008. 2008 Canadian 3 economy was getting strong again. Ontario, 4 we had high inflation. We went above the 3 5 percent top of the range. So the Bank of 6 Canada pushed up the T-bill rate again. 7 Pushed up short-term interest rates and we 8 got a recession, huge recession. It wasn't 9 caused by the Bank of Canada, it was caused 10 by Big Brother in the United States. 11 Every single major recession has 12 originated in the United States, not in 13 Canada. The Great Recession was--the Great 14 Depression, sorry, and stock market crash, 15 was caused by the actions of the Fed and to 16 do with utility holding companies I should 17 mention, not by Canada. The US likes to 18 refer to the global recession in 2009/10. 19 We didn't have a recession in Canada, we had 20 a short slowdown. We were out of it very, 21 very, quickly, and we were pushing up 22 interest rates in 2011, and I provided 23 evidence in 2011 about increasing interest 24 rates and we were getting back to normal, 25</p>	Page 179	<p>1 also a Chartered Business Valuator, a CBV, and 2 the basic think in valuation is what we call 3 fair market value. It's a legal standard in 4 Canada and the United States. So, if any of 5 you ever get a divorce and the spouse 6 challenges the value of your assets, a 7 valuator has to come in and value them at 8 fair market value. Not at what you think 9 they're worth, but what fair market value 10 is. Fair market value, I've got the 11 definition in my evidence, is basically the 12 free market where nobody is forced to buy or 13 sell, nobody has got more information, 14 nobody has got market power. 15 There is absolutely no way the long 16 Canada bond yield has satisfied the 17 definition of fair market value since 2011, 18 and before this Board in 2012/13 I said, use 19 3.8 percent as a minimum long Canada bond 20 yield, and I've said I would not change my 21 recommendations because interest rates go 22 down, because they want fair market value. 23 I didn't think at that time, and I still 24 don't think, that the equity markets trade 25</p>
Page 178	<p>1 because in Canada we were, and then we got a 2 message from Newfoundland Power. They said, 3 well, the Board's adjustment mechanism is 4 giving unfair rates return, we'd like it 5 suspended, and that was--they asked the 6 Consumer Advocate. The Consumer Advocate 7 asked me do I agree to the suspension of the 8 formula, and I said I think the actual ROE 9 is fair, but I don't think the long Canada 10 bond rate is fair, so I agree with 11 Newfoundland Power, and I agree to a 12 suspension of the automatic adjustment 13 formula. And at that point the long Canada 14 rate had dropped dramatically in the second 15 half of 2011. 16 Why they done that is because the 17 Americans--the economy was so bad the 18 Americans engaged in what we call bond 19 buying. I call Operation Twist, or 20 quantitative--massive bond purchases to 21 drive down interest rates. 22 Now, this is very, very, important. 23 It's where I disagree with Mr. Coyne, and I 24 disagree with a lot of other witnesses. I'm 25</p>	Page 180	<p>1 off risk and return using long Canada bond 2 use which were ridiculously low, and Mr. 3 Coyne sometimes says, well, Booth has had 4 7.5, 7.--I've had the same basic 5 recommendation ever since 2012, because the 6 bond market is still not fair market value, 7 and we're getting there as I will explain, 8 but it's not fair market value. 9 After the US started bond buying 10 basically to buy long-term bonds to lower 11 mortgage rates, so basically allow Americans 12 to refinance their mortgages and put money 13 into their pockets, and also incidentally to 14 save the banks from mortgage defaults--we 15 recovered quite quickly. Basically we were 16 doing some recovery until the hearing in 17 2016 when we went into a technical recession 18 because China basically slowed down and 19 stopped buying resources, and then we were 20 doing great. 21 2019 we started thinking, well, 22 interest rates are going up. The economy is 23 very strong, and then along came COVID. And 24 2020, which is Mr. Coyne's--seems to be his 25</p>

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1 judgment about the reference point. 2020
 2 was COVID. COVID is not anybody's reference
 3 point. COVID--we have massive--even the
 4 Bank of Canada entered (phonetic) into the
 5 bond market. We had negative real interest
 6 rates. We had bond yields incredibly low
 7 that no reasonable person would have bought
 8 them except for the fact the Bank of Canada
 9 bought about 460 billion dollars worth of
 10 Federal Government debt, and it still has
 11 300 billion dollars worth of Federal
 12 Government debt.
 13 My colleague was Tiff Macklem. He's
 14 now the--he was the Dean of the Rotman
 15 School. He's now the Governor of the Bank
 16 of Canada. He admits that the Bank of
 17 Canada made a mistake. The mistake--and
 18 also every central bank made that mistake so
 19 Tiff really wasn't to blame, but COVID--I
 20 say we're living in--we've got the hangover
 21 from COVID, which is what we have.
 22 Federal Government has doubled the
 23 Federal Government debt, doubled. It's
 24 concerned about inter-generational fairness,
 25

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1 but it's leaving a lot of debt for our
 2 children and our grandchildren. It's
 3 doubled the Federal debt, massive fiscal
 4 stimulus to boost the economy, and we
 5 couldn't spend the money. The savings rate
 6 in Canada went up through the roof, the
 7 highest savings rate in G7. We couldn't go
 8 out dining. We couldn't travel. We
 9 couldn't do anything, so we basically bought
 10 houses and we saved, and then as soon as we
 11 could when COVID passed we spent money.
 12 Now, my son smashed up our car in 2022,
 13 so I had to go and buy a new car. I got
 14 more from the insurance company for
 15 compensation for my car than I paid for my
 16 car earlier because there were no new cars
 17 to buy because there was a shortage of
 18 chips, there were still supply shortages.
 19 Prices went up, and the graph is from the
 20 budget book of the Government of Canada, and
 21 this is the deviation of the inflation rate
 22 from the target. We're below trend, or
 23 below target, throughout 2020, and then we
 24 started recovering, and Tiff was very slow
 25

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1 on basically taking up--upsetting
 2 measurements, but we started getting all
 3 this inflation building up because we could
 4 now spend a lot of the savings that
 5 collectively we had in Canada where there
 6 wasn't much to buy.
 7 Now, on top of that the Federal
 8 Government has made a number of very big
 9 policy mistakes, one of it was increasing
 10 immigration, and I'm not talking about a
 11 little bit, but we generally let in 250,000,
 12 300,000, people into Canada every year.
 13 2021/2022 we let in 1.2 million people, and
 14 surprise, surprise, those people need a
 15 house, they need somewhere to stay, and no,
 16 absolutely no planning went into providing
 17 housing for all of the recent immigrants
 18 that have come into Canada. So, surprise,
 19 surprise, rents have gone up. Surprise,
 20 surprise, housing prices have gone up, and
 21 surprise, surprise, that is a big component
 22 of the consumer price index.
 23 So, we're living with inflation. The
 24 Bank of Canada has increased interest rates
 25

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1 dramatically. This--I don't know whether
 2 this was in my testimony, but this is the
 3 reduction and overnight rate for 5 percent
 4 to 4.75 percent. We're way ahead of the
 5 United States in getting a grip on
 6 inflation.
 7 One thing about Mr. Coyne is I never
 8 know when he's talking about--when he says
 9 something whether he was talking about the
 10 US or Canada. He did make a comment about
 11 inflation being protracted in the United
 12 States. It is not in Canada. Our economy
 13 is a lot more sensitive to interest rates,
 14 mainly because of the way in which we look
 15 at the mortgage market, but the result is
 16 that our people have suffered a lot more
 17 because of higher interest rates, and
 18 inflation has come down a lot more.
 19 So, we're at 2.7 percent. The core
 20 measures that we look at--we take our energy
 21 because it's volatile. We also take out
 22 housing because that's caused by the Bank of
 23 Canada, and then we look at what are the
 24 capital markets believe. Now, one thing
 25

<p style="text-align: right;">Page 185</p> <p>1 that really bugs me about Mr. Coyne and what 2 he says, he says we'll boost judgment, 3 judgment, judgment, judgment, fair return 4 standard. My testimony is littered with 5 evidence. 6 If I were to tell my students--when I 7 asked them about long run inflation in 8 Canada, I say it's two percent. Why is 9 that? It's because the Government of Canada 10 and the Bank of Canada committed to two 11 percent inflation 25 years ago, and hell and 12 high weather the Bank of Canada is not going 13 to let the rate of inflation go up 14 indefinitely and it's bringing it down to 15 two percent. Do the capital markets believe 16 them? Well, we look at what we call the 17 break even inflation rate. It's the 18 difference between the real return bond that 19 gives you compensation for inflation and the 20 nominal bond that doesn't. So, if you 21 really think that inflation is going to be 22 very high, you buy the real return bond and 23 then it's indexed to inflation. To draw a 24 line straight across the two percent you'll 25</p>	<p style="text-align: right;">Page 187</p> <p>1 What's their forecast? If you look at 2 inflation, 2024 it's going to come down to 3 2.4 percent because it's going to drop 4 through the year. They said the end of the 5 year. 2025, 1.9; 2026 to 2028, 1.9 percent. 6 Nobody in Canada believes the rate of 7 inflation of a long run is going to be 8 anything other than two percent if they know 9 about the agreement between the Government 10 of Canada and the Bank of Canada. 11 Where's the economy? Well, we hear a 12 lot about Newfoundland, temporary problems. 13 Canada has it. We're in a slowdown, there's 14 no question about that. That's why we got 15 high interest rates, is to bring down the 16 rate of inflation. 2024, GDP .8 percent; 17 2025, 2.4, and then back to long run trend 18 about 2.1 percent. So, basically 2025, the 19 beginning of the next cycle for the test 20 year, basically back to normal. COVID, the 21 hangover will be gone. 22 In terms of the PBO forecast on 23 interest rates, a lot of the people use 10 24 year--the forecast for the 10 year bond. 25</p>
<p style="text-align: right;">Page 186</p> <p>1 see that it goes up and down, but basically 2 two percent is what the capital markets 3 think is the long run rate of inflation. 4 So, I tell my students, if I give you 5 any question and you say anything other than 6 two percent for the long run rate of 7 inflation, then you'll get enough because 8 that is that is the commitment it made in 9 Canada. The United States has not made that 10 commitment. So, when you talk about the US 11 versus Canada, the US has got a commitment 12 to two percent averaged over the business 13 cycle which allows them to go up and to go 14 down. We don't have that. We have two 15 percent. So, that's the two percent rate of 16 inflation. 17 I think it was Hydro asked me about 18 independent forecasts. The PBO, 19 Parliamentary Budget Office, basically 20 audits the Federal Government, and they are 21 our watchdog as they were, and they get the 22 views of economists. This is their forecast 23 as of February/March, which is pretty much 24 bang-on when I was doing my testimony. 25</p>	<p style="text-align: right;">Page 188</p> <p>1 Why? Because every country has a 10 year 2 bond, and these are basically used for 3 comparisons around the world. Every country 4 does not have the ability to issue 50 year 5 bonds, which is what the Government of 6 Canada has been able to do. So, if you try 7 to do a comparison to 50 year bonds, you 8 can't do it because a lot of countries don't 9 issue 50 year bonds. So, it's a 10 year 10 bond forecast. What does he have? 3.3 to 11 3.4 percent. If you add--by that time the 12 normal markets you should be adding a normal 13 spread to the 30 year bond. That's 30 to 25 14 percent. You're basically at my trigger of 15 3.8 percent. So, for the last 12 years I've 16 told people don't change the allowed ROE 17 unless the bond yield gets above 3.8 18 percent, and I've stuck with that with my 19 forecasts, and surprise, surprise, the BCUC 20 just stuck with their forecast and they use 21 3.8 percent, and they use 3.8 percent when 22 they adopted my suggested formula back in 23 2013. And I suggested that this Board use 24 3.8 percent, which they did back in I think 25</p>

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1 it was 2013. That I think is the lowest
 2 (unintelligible) interest rate that
 3 satisfies fair market value.
 4 So, when Mr. Coyne says, well, interest
 5 rates have gone up since 2020. Well, they
 6 have. It doesn't affect my forecast because
 7 from one suboptimal rate to another rate
 8 that's a little bit suboptimal, neither of
 9 which I've used in my own estimates or
 10 recommendations to the Board.
 11 (1:30 p.m.)
 12 RBC, I've been using RBC because I'm a
 13 RBC client and I get all their forecasts. I
 14 get a huge amount of stuff from RBC. It
 15 happens to be a G-SIB, Globally Systemically
 16 Important Bank, one of two in Canada, and
 17 that's a big change. Ten years ago we
 18 didn't have any Globally Systemically
 19 Important Banks. Now we have a financial
 20 system that is globally important. RBC has
 21 a long Canada bond yield at 3.15 out to the
 22 end of the 2025. Normally they're
 23 optimistic, and I'm surprised that they're
 24 pessimistic in terms of the long Canada bond
 25

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1 yield, and they're out of line with the
 2 other forecasters, but I'll draw your
 3 attention to the difference in the interest
 4 rates in the US and Canada.
 5 Canada has lower interest rates than
 6 the United States. We have had lower
 7 interest rates since John Chretien and Paul
 8 Martin balanced the books in Canada and we
 9 no longer had huge deficits basically
 10 borrowing money forcing up interest rates.
 11 Canada moved to a surplus, and we ended up
 12 with lower interest rates than the United
 13 States. The US debt to GDP is well above
 14 Canada, and they've got more problems.
 15 Now, you might look at that and say,
 16 well, Mr. Coyne says the markets are
 17 integrated. They're not integrated, or
 18 they're integrated, but that doesn't mean to
 19 say the interest rates are the same. As I
 20 said, you can take an integrated market, and
 21 if there are different interest rates, the
 22 forward currency depreciation upsets that.
 23 So, what's happening in Canada? The
 24 Canadian dollar is gone down. Why has the
 25

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1 Canadian dollar gone down? Because our
 2 interest rates have dropped 25 basis point.
 3 You ask me where the Canadian dollar is
 4 going to go. I was going to say it's going
 5 to go down even more. Why? Because we are
 6 going to be lowering interest rates before
 7 the United States, and as a result we're
 8 going to--the currency is going to take the
 9 hit.
 10 It's a basic rule in finance that I
 11 told the Board in 2016 and previously.
 12 Integration doesn't mean to say the rates of
 13 return are the same. We definitely have an
 14 integrated money market, and even the bond
 15 market is pretty well integrated, but
 16 interest rates aren't the same. So, taking
 17 interest rates--taking an allowed rate of
 18 return for the United States into Canada
 19 without adjusting for the fact that interest
 20 rates in Canada, the base for any risk
 21 premium of 125 basis points lower than in
 22 the United States doesn't make any sense.
 23 MS. GLYNN:
 24 Q. Mr. Chair, I do note that it's past the 1:30
 25

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1 timeline, just barely, and I don't think
 2 we're even halfway through the reduced slide
 3 presentation deck.
 4 DR. BOOTH:
 5 A. Okay. The other slides, long-term credit
 6 spreads, just to check, is the default risk
 7 in the credit markets the same? Basically
 8 the same as eight years ago. Credit spreads
 9 in the bank loan offices, basically the same
 10 as eight years ago. The volatility index,
 11 basically the same as eight years ago.
 12 Canada Financial Stress Index, the same as
 13 eight years ago.
 14 CHAIR:
 15 Q. I just have to ask this question of how long
 16 for the--longer you think you'll be?
 17 DR. BOOTH:
 18 A. I'm trying to go through these as quickly as
 19 possible. They're just basically--I will
 20 guarantee less than--less than 25 minutes.
 21 COFFEY, KC:
 22 Q. So, I would suggest we pick it up again
 23 tomorrow. That's just my suggestion. I can
 24 sit--I have nothing else to do. I can be
 25

1 here all afternoon, but I'll leave that to
 2 the Board obviously.
 3 CHAIR:
 4 Q. We'll start again in the morning.
 5 COFFEY, KC:
 6 Q. Great. Thank you.
 7 Upon conclusion at 1:34 p.m.
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CERTIFICATE

I, Judy Moss, hereby certify that the foregoing is a true and correct transcript of hearing in the matter of Newfoundland Power Inc. 2025-2026 General Rate Application heard on June 19th, 2024 before the Newfoundland and Labrador Board of Commissioners of Public Utilities, 120 Torbay Road, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.

Dated at St. John's, Newfoundland and Labrador this 19th day of June, 2024

Judy Moss

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