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<p>1 (9:00 a.m.)</p> <p>2 CHAIR:</p> <p>3 Q. Good morning everyone.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. Good morning.</p> <p>6 CHAIR:</p> <p>7 Q. I've got my own preliminary matter this</p> <p>8 morning. So today, June 21st, is National</p> <p>9 Indigenous People's Day, so on this day we</p> <p>10 recognize and celebrate the history,</p> <p>11 heritage, resilience and diversity of</p> <p>12 Indigenous Peoples across Canada. So before</p> <p>13 we resume with the cross of Dr. Booth, I'll</p> <p>14 provide a land acknowledgment as</p> <p>15 demonstration of respect for the Indigenous</p> <p>16 Peoples and their past and present</p> <p>17 contributions to this province. We</p> <p>18 respectfully acknowledge the land which we</p> <p>19 gather and the ancestral homelands of the</p> <p>20 Beothuk whose cultures have been lost</p> <p>21 forever, they can never be recovered. We</p> <p>22 also acknowledge the island of Ktaqmkuk as</p> <p>23 the unceded traditional territory of the</p> <p>24 Beothuk and the Mi'kmaq. And we acknowledge</p> <p>25 Labrador as the traditional and ancestral</p>	<p>1 can get you out of here earlier than lunch,</p> <p>2 depending on what other questions are</p> <p>3 around. I probably have about 45 minutes of</p> <p>4 questions and answers, I would expect.</p> <p>5 DR. BOOTH:</p> <p>6 A. My flight is at 7:30, Mr. O'Brien, so I'll</p> <p>7 be quite happy to spend the whole afternoon</p> <p>8 here as well.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Glad to hear. Okay, so one of the other</p> <p>11 models, I guess that you looked at in your</p> <p>12 assessment is the dividend discount model, I</p> <p>13 believe you call it, was it the Gordon</p> <p>14 Model, is that what it was?</p> <p>15 DR. BOOTH:</p> <p>16 A. That's right, so it was invested by</p> <p>17 Professor Gordon at the University of</p> <p>18 Toronto and first used in a New York City</p> <p>19 application in the early '50s.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. Okay, and I'm going to ask if we can bring</p> <p>22 up Dr. Booth's direct at page 53, and I'm</p> <p>23 not sure what the pdf is, but if we could</p> <p>24 bring that up. And we go to the bottom of</p> <p>25 the page, right. And I just want to get a</p>
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<p>1 homelands of the Innu of Nitassin, the Inuit</p> <p>2 of Nunatsiavut, and the Inuit of</p> <p>3 NunatuKavut. We recognize all First Peoples</p> <p>4 who were here before us, those who live with</p> <p>5 us now, and the seven generations to come.</p> <p>6 As First Peoples have done since time</p> <p>7 immemorial, we strive to be responsible</p> <p>8 stewards of the land and to respect the</p> <p>9 cultures, ceremonies, and traditions of all</p> <p>10 who call it home. As we open our hearts and</p> <p>11 minds to the past, we commit ourselves to</p> <p>12 working in a spirit of truth and</p> <p>13 reconciliation to make a better future for</p> <p>14 us all. Okay, so it's back to Mr. O'Brien.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Than you Mr. Chair. Good morning Dr. Booth.</p> <p>17 DR. BOOTH:</p> <p>18 A. Good morning, Mr. O'Brien.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. Okay, I think we left off finishing the CAPM</p> <p>21 model yesterday, so I'm going to move just</p> <p>22 to the dividend discount model and ask you a</p> <p>23 few questions about that this morning. I</p> <p>24 only have a couple of questions on top of</p> <p>25 that that I want to cover, so hopefully we</p>	<p>1 bit of context of how you're using it. You</p> <p>2 had given us some testimony yesterday or the</p> <p>3 day before to indicate that you previously</p> <p>4 used to use it and if I understood, got away</p> <p>5 from using it at some point and I just want</p> <p>6 your answer here, how do you judge risk</p> <p>7 premium versus DCF estimates. You indicate</p> <p>8 there you "traditionally viewed the DCF</p> <p>9 estimates as checks on my CAPM estimates,</p> <p>10 since in my view, CAPM estimates have</p> <p>11 usually been in the right ballpark." And if</p> <p>12 we can scroll down to the next page,</p> <p>13 "However, the recent very low long-Canada</p> <p>14 bond yields forced me to re-evaluate this</p> <p>15 and look at what drives the difference</p> <p>16 between the DCF and simply CAPM estimates.</p> <p>17 This is because they should be consistent."</p> <p>18 So I guess the first question I have for you</p> <p>19 in this particular case, did you feel that</p> <p>20 your CAPM estimate was not in the ballpark?</p> <p>21 DR. BOOTH:</p> <p>22 A. That comment is, as it goes on to discuss,</p> <p>23 using the actual bond yield, not the 3.8</p> <p>24 percent that I used and that's a discussion</p> <p>25 of when the DCF model sort of fell out of</p>

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1 favour and when it was I favour and then it
 2 fell out of favour and we used the risk
 3 premium, and then the risk premium has come
 4 under a serious question basically for the
 5 last ten years because of the very low
 6 Canada bond yields. And in both cases we go
 7 on to say it's sort of a naïve application,
 8 it's a mechanical application of those two
 9 to see where the problems are, basically,
 10 and I do not use those naïve or simple
 11 mechanical applications.
 12 MR. O'BRIEN:
 13 Q. Okay, and I just want to make sure I
 14 understand what you're saying, so this
 15 comment is given in the context of the low
 16 Canada bond yield. In the context in which
 17 you have adjusted for that by using your 3.8
 18 risk free rate, so you've adjusted for that
 19 low Canada bond yield by using that trigger
 20 value, what is the purpose of using the DCF
 21 in that context?
 22 DR. BOOTH:
 23 A. The DCF model is giving higher estimates—
 24 sorry, the naïve mechanical DCF model just
 25 uses the dividend yield on the TSX, the rate

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1 of inflation and the real growth rate to
 2 come up with an estimate for the GDP, that's
 3 giving higher estimates if you mechanically
 4 use that, than if you mechanically use the
 5 CAPM which indicates where there's problems
 6 in terms of mechanically using either of the
 7 two formulas, because as I said, they're
 8 both estimating exactly the same thing and
 9 they should give the same answers, but they
 10 haven't been giving the same answers for
 11 different periods of time; whereas, so as a
 12 result, boards have favoured one versus the
 13 other at different periods of time.
 14 MR. O'BRIEN:
 15 Q. Okay, so would you have expected your DCF
 16 assessment to give higher estimates than the
 17 CAPM one?
 18 DR. BOOTH:
 19 A. If I didn't know anything mechanically
 20 applied, then the answer would be yes, but I
 21 do know what's causing the problem which is
 22 why I went through this analysis to indicate
 23 why I look at DCF. If you know one—for
 24 whatever reason, if you know that the CAPM
 25 is giving low estimates because of all of

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1 this massive intervention bond market, then
 2 you say, well, how can I confirm that, and
 3 I've been looking at the DCF basically for
 4 the last ten years again, and as I said, I
 5 used to look at it all the time in the '80s
 6 and '90s and then it fell out of fashion for
 7 reasons that we can discuss. Now I look at
 8 it and it tells me, well, yes, the current
 9 mechanical application of the CAPM gives
 10 estimates that are too low and it confirms
 11 the need to look at the, what I regard as a
 12 fairer estimate of the long Canada bond
 13 yield to indicate the trade off of risk
 14 versus return.
 15 MR. O'BRIEN:
 16 Q. Would you agree with me that regulators are
 17 now, in Canada, starting to look more at the
 18 DCF models and giving more weight to them?
 19 DR. BOOTH:
 20 A. I think that's reasonably true. I mean, I
 21 give more weight to them and I have been
 22 looking at this for the last ten years. I
 23 tend to look at them as a check in terms of
 24 what is a reasonable rate of return, and as
 25 I have said before, many boards, just

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1 because you couch your recommendation in
 2 terms of the CAPM or risk premium model,
 3 doesn't mean to say that that's a mechanical
 4 application. You look at the DCF or I look
 5 at the DCF and figure or try to estimate
 6 what is reasonable values to put it to a
 7 risk premium model, and you can always couch
 8 any estimate in a risk premium framework,
 9 which is what I do.
 10 MR. O'BRIEN:
 11 Q. Would you agree that, and I'm putting this
 12 out there because I'm not sure I know the
 13 answer, but DCF models having come into, I
 14 guess, are boards looking at them more and
 15 more as a function of looking at US utility
 16 proxies more and more?
 17 DR. BOOTH:
 18 A. That I can't answer. You're asking me what
 19 other boards do and I –
 20 MR. O'BRIEN:
 21 Q. I didn't know the answer and I'm asking if
 22 you do, if you do know the answer and the
 23 reason behind it is more or less that I see
 24 that US utilities do use DCF models more,
 25 commissions do use more as an assessment, is

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1 that a function here, we're using it in
 2 Canada more the fact that we're looking more
 3 at US utilities?
 4 DR. BOOTH:
 5 A. No, I don't think that's the case. I mean,
 6 it might be the case, I just never thought
 7 about that that the copying was going on in
 8 the United States. I mean, the FERC, for
 9 example, used to rely upon sustainable
 10 growth rates. We have never put such a
 11 heavy reliance on sustainable growth rates
 12 as the FERC, so they have moved to other
 13 methods of trying to—my understanding from
 14 Mr. Coyne is they've moved to other methods
 15 to try and find appropriate growth rates for
 16 the dividend discount model.
 17 MR. O'BRIEN:
 18 Q. Okay, and before I get to—and I do want to
 19 walk through your, I guess the adjustments
 20 or whatever adjustments or whatever approach
 21 you take with your dividend growth model,
 22 but just while we're on this topic of US
 23 utilities, and I gather from your testimony
 24 and I think that was fairly clear that you
 25 don't like using US utilities as a proxy

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1 group, you're forced to do so in this
 2 particular scenario when you're looking at
 3 assessing ROEs because you have a limited
 4 group of comparables in Canada, is that
 5 fair?
 6 DR. BOOTH:
 7 A. Well I think it's totally accurate, I'm
 8 forced to do it and if the great economist
 9 in the sky, which is what we refer to as the
 10 global person that's running all of this, if
 11 they told me absolutely certain what the
 12 fair rate of return for Apple was in the
 13 United States, absolutely certain it's 10
 14 percent, then would I use that in Canada?
 15 Of course I would, if I knew for sure,
 16 absolutely certain what a fair rate of
 17 return on anything is, then you take that
 18 and then you make adjustments to sort of
 19 bring it in to minus a benchmark, so to get
 20 to your point over the last 25 years the
 21 data that we've got in Canada has got poorer
 22 and poorer because of merges and
 23 acquisitions. I'm not voluntarily looking
 24 at US data for a whole variety of reasons;
 25 I'm forced to look at it. And you look at

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1 that and then you say, well, if I'm certain
 2 that's the number for this thing, whether
 3 it's anything, whether it's for a tech
 4 company, whether it's for a water utility in
 5 the UK, whether it's for a gas company in
 6 Japan, if I knew for certain what that rate
 7 was, then I would use that and I would make
 8 adjustments to use it into Canada. So the
 9 question with Mr. Coyne is he's not made any
 10 adjustments. I think it's perfectly
 11 legitimate to try and come up with estimates
 12 if the data is better than the data is in
 13 Canada, as long as you then use judgment and
 14 you make adjustments for the fact that it is
 15 a different country.
 16 MR. O'BRIEN:
 17 Q. And what sort of adjustments do you make to
 18 the data?
 19 DR. BOOTH:
 20 A. Well to the US data?
 21 MR. O'BRIEN:
 22 Q. Yeah.
 23 DR. BOOTH:
 24 A. I don't use the US market risk premium, the
 25 historic market risk premium, 6.47 percent

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1 on the historic record because I know the US
 2 is the winner economy and the bond return
 3 reflects the fact that the US dollar and the
 4 US Treasury has been the base rate in the
 5 global economy, so I think that taking into
 6 a risk premium, market risk premium for
 7 Canada is not appropriate. Similarly when I
 8 look at Canada, we had all sorts of
 9 restrictions on our portfolios. I don't
 10 know whether you have a RSP, Mr. O'Brien or
 11 a pension fund, but we had restrictions, we
 12 couldn't invest more than 10 percent in the
 13 United States for long periods of time.
 14 Then it went to 20 percent, now we're
 15 allowed to buy any juris security that we
 16 like, so that has clearly changed the
 17 relevance of the United States in terms of
 18 freeing up Canadian capital to invest in the
 19 United States. And as I said, Canadian bond
 20 yields used to be higher than the United
 21 States because we were short of capital in
 22 Canada. We used to tell our provinces
 23 borrow in US dollars because we didn't want
 24 them to borrow in Canadian dollars because
 25 it would push up interest rates. Now, we're

Page 13	<p>1 in a much better position than the United</p> <p>2 States in term of government debt, the GDP,</p> <p>3 and the rate of supply and demand in the</p> <p>4 capital market. So I do not think it is</p> <p>5 appropriate just to average things, not when</p> <p>6 I know or my judgment is that a market risk</p> <p>7 premium in the US, the historic data is too</p> <p>8 high and the market risk premium in Canada</p> <p>9 the historic data was too low.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. So you use your judgment in adjusting that?</p> <p>12 DR. BOOTH:</p> <p>13 Q. Mr. O'Brien, I have a Ph.D in Finance, I got</p> <p>14 a Masters in Economics, I've been teaching</p> <p>15 for 46 years. I use my judgment, yes.</p> <p>16 Everything I do I use my judgment. I can't</p> <p>17 reject the fact that I've been teaching this</p> <p>18 material and doing research on this for 46</p> <p>19 years.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. I'm not suggesting you shouldn't use your</p> <p>22 judgment, I'm just asking the questions.</p> <p>23 DR. BOOTH:</p> <p>24 A. It's impossible not to use my judgment, Mr.</p> <p>25 O'Brien.</p>	Page 15	<p>1 The money market, for example, has always</p> <p>2 been perfectly integrated. The bond market</p> <p>3 and the equity market was less integrated</p> <p>4 because of portfolio restrictions, and the</p> <p>5 utility market has been extremely segmented</p> <p>6 because we get a tax benefit for investing</p> <p>7 in Canadian companies that pay a dividend.</p> <p>8 We don't get any tax benefits for US</p> <p>9 companies paying a dividend, we pay the full</p> <p>10 marginal tax rate on that, and I own US</p> <p>11 shares, I'm paying full tax rate on that,</p> <p>12 exactly as if they're interest, and that</p> <p>13 doesn't occur for dividends and I'd have to</p> <p>14 say if I was to buy a Canadian security</p> <p>15 right now and wanted exposure of utilities</p> <p>16 in the United States, I wouldn't buy Duke</p> <p>17 Energy, I'd buy Emera or I'd buy Fortis</p> <p>18 because one of the wrinkles in the tax code</p> <p>19 is they can buy foreign utilities, US</p> <p>20 utilities and yet I still get the dividend</p> <p>21 tax credit, but if I buy foreign utilities,</p> <p>22 I don't get the dividend tax credit. So</p> <p>23 when we look at that, there has been</p> <p>24 movement in terms of—and I tell my students,</p> <p>25 never bet against the United States. I</p>
Page 14	<p>1 MR. O'BRIEN:</p> <p>2 Q. All right. When Ms. Greene had asked some</p> <p>3 questions of Concentric about the difference</p> <p>4 between, when we're looking at US utilities,</p> <p>5 where we are today versus 2016 when the</p> <p>6 Board ordered an adjustment of 50 to 100</p> <p>7 basis points to US utility data should be</p> <p>8 applied when considering that in the grand</p> <p>9 scheme of what an appropriate ROE is. Then</p> <p>10 Mr. Coyne gave some evidence that there's</p> <p>11 been some change since 2016 in that regard.</p> <p>12 And I just want to ask you just your</p> <p>13 commentary on some of that evidence. For</p> <p>14 example, he said that, he gave a number of</p> <p>15 responses, he said there's more of an</p> <p>16 integration in the US in Canadian capital</p> <p>17 markets now, and you indicated somewhat</p> <p>18 that's the case, but I don't think you went</p> <p>19 as far as to agree with him wholeheartedly</p> <p>20 on that, is that fair?</p> <p>21 (9:15 a.m.)</p> <p>22 DR. BOOTH:</p> <p>23 A. I think that's fair. What I would say is</p> <p>24 there's certain components of the capital</p> <p>25 market has always been perfectly integrated.</p>	Page 16	<p>1 mean, it's a big economy, it's very</p> <p>2 competitive and they really believe in</p> <p>3 competition, so I would never invest a</p> <p>4 hundred percent of my money in Canada and I</p> <p>5 never have, but when you look at that,</p> <p>6 certain segments of the capital market are</p> <p>7 more integrated than others, it's what we</p> <p>8 call a partially segmented capital market,</p> <p>9 and utilities, I noticed, I can't remember</p> <p>10 if it was in Mr. Coyne's evidence, he was</p> <p>11 saying Newfoundland competes for capital.</p> <p>12 No, it doesn't, it gets its equity from</p> <p>13 Emera—sorry, from Fortis and I don't think</p> <p>14 is qualified as an issue of debt in the</p> <p>15 United States. I think it raises most of</p> <p>16 its money in a private debt market from</p> <p>17 Canadian institutional buyers, which are</p> <p>18 basically insurance companies. So most</p> <p>19 Canadian—and the Alberta Utilities</p> <p>20 Commission has said this as well, they said</p> <p>21 most of them are registered issuers in</p> <p>22 Canada in the debt markets and the equity</p> <p>23 comes through Fortis.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. And those institutional buyers would also</p>

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1 have the opportunity to buy in the US versus
 2 Canada?
 3 DR. BOOTH:
 4 A. Yes, well they do buy in the US versus
 5 Canada and as I said, I mean, when I first
 6 did this we had all these restrictions and
 7 the Canadian market was a lot more
 8 segmented, the overall market was a lot more
 9 segmented than it is now, that's absolutely
 10 correct.
 11 MR. O'BRIEN:
 12 Q. And I thin that's where I was going with it,
 13 and the other issue that he raised was that
 14 there are more and more utilities that have
 15 cross-boarder operations, you'd agree with
 16 me on that?
 17 DR. BOOTH:
 18 A. Absolutely, we've got three, Algonquin
 19 Power, Emera and Fortis that five years ago
 20 they were Canadian, but when we look at the
 21 analyst—and I fact I reference in my analyst
 22 reports that they've got more and more of
 23 their earnings are coming from the US.
 24 MR. O'BRIEN:
 25 Q. And that's different from 2016.

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1 DR. BOOTH:
 2 A. That's correct, and Ultra Gas for example
 3 which is in Mr. Coyne's sample of Canadian
 4 firms, they have no Canadian regulated
 5 business, they have some mid-stream work
 6 which is gas prices in plants and stuff, but
 7 all of its rate of return regulated T&D
 8 business is in the United States. It's not—
 9 so when you look at that, it is invested in
 10 T&D utility business, but it's American T&D
 11 utility business, not Canadian.
 12 MR. O'BRIEN:
 13 Q. And we talked about already there's less and
 14 less comparator utilities in Canada in 2016
 15 for Newfoundland Power, that's fair?
 16 DR. BOOTH:
 17 A. That's absolutely correct, and I mean I can
 18 no longer use Enbridge, I can no longer use
 19 TransCanada because they're pipes and much
 20 riskier. So we have a—I mean, this is a
 21 growing problem that when you look at this
 22 and I think I say this in my testimony, I
 23 rely as much on a ranking, a hierarchy,
 24 money markets are the lowest risk, lowest
 25 rate of return. Long Canada bonds a little

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1 bit riskier, higher rate of return but its
 2 interest is highly taxed. Preferred shares,
 3 a little bit riskier, they're more like junk
 4 bonds than they are equity, but their rate
 5 of return is higher. Then at the top we've
 6 got the Canadian equity market return and
 7 the US equity market return and the question
 8 is where do you put Newfoundland Power in
 9 that ranking? They're clearly riskier than
 10 the long Canada bond, they're somewhat
 11 riskier than the preferred shares, but I
 12 don't think they're as risky as the overall
 13 equity market.
 14 MR. O'BRIEN:
 15 Q. So the answer is yes to that?
 16 DR. BOOTH:
 17 A. The answer is yes. I'm being forced because
 18 of decca limitations, dragged into looking
 19 at other things.
 20 MR. O'BRIEN:
 21 Q. Okay, and the other thing that is –
 22 DR. BOOTH:
 23 A. And the judgment is more important there if
 24 you wanted to add that.
 25 MR. O'BRIEN:

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1 Q. The other thing that Mr. Coyne had indicated
 2 was that over time credit rating agencies
 3 have come to understand more that regulatory
 4 environments in the US and Canada are not
 5 dissimilar, and I understood from your
 6 evidence and you did make some unflattering
 7 comments concerning the regulatory
 8 environment in the US and in terms of what
 9 level of evidence they would require in a
 10 cost of capital hearing, how lengthy the
 11 cost of capital hearings would be compared
 12 to Canadian ones, that sort of thing, you
 13 did make some commentary on that. Now, you
 14 prefaced it by saying this is hearsay
 15 evidence.
 16 DR. BOOTH:
 17 A. Absolutely, it's come up in Canadian
 18 hearings and US witnesses have said that.
 19 MR. O'BRIEN:
 20 Q. Have you presented before any US regulatory
 21 commissions on cost of capital?
 22 DR. BOOTH:
 23 A. No, you have to understand, not invented
 24 here, it's almost engraved into the United
 25 State's mind. My text book was very well

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1 received in Canada and the Canadian
 2 publishers, John Wiley, said we'll
 3 Americanize it, it was the first ever
 4 Canadian textbook that has been
 5 "Americanized" into the US market. How many
 6 did they sell? 235. The Americans—and I've
 7 got another very good colleague, John Hull
 8 is one of the world's derivatives expert.
 9 He wrote a book on derivatives that was
 10 basically mathematic and he was bombarded
 11 with questions, is this American or is this
 12 Canadian? I say it's math, so the
 13 Americans, look, and when I was a graduate
 14 student –
 15 MR. O'BRIEN:
 16 Q. Is that what you're doing?
 17 DR. BOOTH:
 18 A. Well I'm just saying the American attitude –
 19 MR. O'BRIEN:
 20 Q. Aren't you doing the opposite?
 21 DR. BOOTH:
 22 A. Doing what?
 23 MR. O'BRIEN:
 24 Q. When you say this is Canada, not American?
 25 DR. BOOTH:

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1 A. No, look, every Canadian knows more about
 2 America than they know about Canada. I
 3 mean, Rick Mercer, I mean I'm not—this is
 4 just a joke, but Rick Mercer used to go to
 5 the American, Harvard and ask them about
 6 Canada and got these ridiculous answers. I
 7 mean, that's just a joke, but there's deep
 8 truth there. When I was in—a graduate
 9 student, you'd get the weather and they'd
 10 have a map of the United States and it would
 11 just, nothing beyond the top of the United
 12 States. Canada didn't exist. In the
 13 American mind, we have to accept this. The
 14 American mind, Canada is there but they
 15 don't think deeply about it, but Canadians
 16 have to think deeply about the United
 17 States.
 18 MR. O'BRIEN:
 19 Q. Okay, so all jokes aside when we're talking
 20 about the regulatory systems in the US and
 21 Canada, you agree with me that Concentric
 22 has experience in both, significant
 23 experience in both. You only have
 24 experience in Canada. That's a fair
 25 comment?

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1 DR. BOOTH:
 2 A. That's correct.
 3 MR. O'BRIEN:
 4 Q. Right, so when the Board weighs how there's
 5 been changes, if any in terms of the
 6 regulatory environment or experience in the
 7 US versus Canada, and Concentric has given
 8 evidence on that point; whereas you're
 9 giving hearsay evidence, they're giving
 10 direct evidence. The Board can give more
 11 weight to Concentric's on that point?
 12 DR. BOOTH:
 13 A. I would disagree with that. When I said
 14 yesterday lawyers are a different people or
 15 words to that effect, it's the fact that we
 16 come with a cultural mindset for the things
 17 that we're familiar with and the things that
 18 we learn. Mr. Coyne came into Canada and
 19 said point blank that Canadian regulators
 20 were not meeting the fair return standard.
 21 I mean, he actually produces a table before
 22 the Alberta Utility Commission saying that
 23 as a fairness deficit, you're not giving
 24 fair ROEs. What was his basis before he
 25 even knew anything about Canada? His basis

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1 was US allowed ROEs, so if you tell me he's
 2 an objective analyzer of what goes on in
 3 Canada, the objective evidence is when he
 4 came to Canada, he didn't know anything
 5 about Canada and yet he had the strength to
 6 say our regulators were not giving allowed
 7 ROES that were consistent with the fair
 8 return standard.
 9 MR. O'BRIEN:
 10 Q. So we should accept your word and on top of
 11 the fact that your evidence is hearsay
 12 evidence versus the evidence of Concentric
 13 who has had direct evidence and being
 14 involved in both jurisdictions?
 15 DR. BOOTH:
 16 A. I have not presented evidence on US
 17 regulatory practice. All I know about US
 18 regulatory practice is what I've heard in
 19 hearings. For example, in the TransCanada
 20 hearing there was evidence that TransCanada
 21 was not accepted by FERC in a pipeline proxy
 22 group.
 23 MR. O'BRIEN:
 24 Q. That evidence is not on this record.
 25 DR. BOOTH:

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1 A. No, no, look, I haven't put any record of
 2 evidence on this record, I haven't said
 3 anything about the US regulatory
 4 environment, except and I said it was
 5 hearsay. Hearsay, you're a lawyer, hearsay
 6 is not evidence in court, I thought, but if
 7 you want to treat it as hearsay evidence and
 8 compare mine to Mr. Coyne, we have direct
 9 evidence out of Mr. Coyne's mouth that he
 10 regarded the allowed ROEs in Canada as being
 11 unfair and unreasonable, without even coming
 12 to Canada to do an assessment. Now, is that
 13 evidence that he was in a position to make a
 14 judgment then? I don't think that it was.
 15 He was just looking at US evidence and
 16 saying, well Canada should be the same,
 17 there's a fairness deficit because they're
 18 not the same. So I suggest to you that he
 19 may have learned since then, but his bias,
 20 his opinion coming into Canada is the same
 21 as what it is now.
 22 MR. O'BRIEN:
 23 Q. Doctor, would you agree with me that
 24 Canadian regulators, the BCUC, for example
 25 the AUC, have started using US data, subject

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1 to Ms. Greene's comment to Mr. Coyne with
 2 the suggestion that there was some remaining
 3 discretion in the Board as to how they weigh
 4 it, but they've started using it without a
 5 specific sort of adjustment for the US data,
 6 such as the 50 to 100 percent adjustment
 7 basis points that was applied back in 2016
 8 before this Board.
 9 DR. BOOTH:
 10 A. That's right and the BCUC made that same
 11 adjustment.
 12 MR. O'BRIEN:
 13 Q. But not in the most recent one.
 14 DR. BOOTH:
 15 A. No, that was in 2013, I believe it was, the
 16 same time as here.
 17 MR. O'BRIEN:
 18 Q. Right, but 2023 they didn't make that
 19 adjustment.
 20 MR. BOOTH:
 21 A. That's correct, well they didn't make an
 22 explicit reference to that adjustment,
 23 whether that adjustment was on the mind of
 24 the Board in terms of the Board's
 25 consistency with past Board decisions, I

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1 don't know. I don't know what Board members
 2 talk about when they huddle and decide to
 3 come up with a fair rate of return, but I
 4 would say the problems I face are no
 5 different to the problems that the Boards
 6 face, and it is clear, if you read the BCUC
 7 and the AUC decisions, they have been forced
 8 to look at US evidence and I would say with
 9 some reluctance. I wouldn't put it any
 10 stronger than that because they have to look
 11 at the evidentiary basis.
 12 MR. O'BRIEN:
 13 Q. Doctor, I wonder if we could turn to, we
 14 could bring up page 127 of your report, it's
 15 Schedule 9. And this was a table you talked
 16 about in your direct, the earned ROEs versus
 17 Newfoundland Power. Just have a couple of
 18 questions on that just for clarification.
 19 You've got 14 companies in this sample,
 20 where do those companies come from? Did you
 21 put together that sample yourself?
 22 DR. BOOTH:
 23 A. They're all companies that have been used by
 24 expert witnesses in the United States in
 25 previous hearings.

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1 MR. O'BRIEN:
 2 Q. Okay.
 3 DR. BOOTH:
 4 A. And the way I look at it is, unlike Mr.
 5 Coyne, I think (unintelligible) quotes
 6 samples by cutting firms out of the sample.
 7 Personally, I don't think it makes a lot of
 8 sense because if you look at these samples
 9 that people use, the firms come in and they
 10 go out every few years, so it may be that it
 11 makes sense for looking at the equity cost
 12 of betas, but I don't think it makes any
 13 sense to looking at the rates of return
 14 because what happens is you look at, one
 15 sort of instance like a drop in the bond
 16 rating or a drop in the share price causes a
 17 dropout of one of their samples and two,
 18 three years later, the company is back in
 19 the sample.
 20 Duke Energy, for example, has been in
 21 and out of these samples. So, when I look at
 22 it, I like to present all the data that's
 23 available that I have that's part of the
 24 samples.
 25 (9:30 a.m.)

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1 MR. O'BRIEN:
 2 Q. So, you do no screening whatsoever?
 3 DR. BOOTH:
 4 A. I don't do any screening.
 5 MR. O'BRIEN:
 6 Q. So, all of these companies, that's the only
 7 data that's available out there?
 8 DR. BOOTH:
 9 A. No, there's even more data than that.
 10 MR. O'BRIEN:
 11 Q. Well, why did you screen then?
 12 DR. BOOTH:
 13 A. Because these – well, because these are the
 14 ones used by US witnesses.
 15 MR. O'BRIEN:
 16 Q. Oh, the ones used by US witnesses, but you
 17 didn't do any sample screening yourself?
 18 DR. BOOTH:
 19 A. I do not want to get dragged into the
 20 specifics of a US company, and I've said
 21 this to Mr. Kelly. I don't want to be
 22 cross-examined on why Duke, why not Entergy
 23 or why Pinnacle West and not OGE. I prefer
 24 to rely upon US witnesses to do that because
 25 I don't want to be cross-examined on the

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1 detail of these companies. But these are
 2 the companies that are used in samples by US
 3 witnesses coming into Canada.
 4 MR. O'BRIEN:
 5 Q. Do you know how the ROEs are calculated?
 6 DR. BOOTH:
 7 A. Yeah, they're calculated by their
 8 accountants in their financial statements.
 9 MR. O'BRIEN:
 10 Q. Do you know – but, you haven't looked at how
 11 they're – do you know if this is at the
 12 operating or holding level?
 13 DR. BOOTH:
 14 A. Oh, it's the holding company level. It's as
 15 reported in their financial statements.
 16 MR. O'BRIEN:
 17 Q. And so -
 18 DR. BOOTH:
 19 A. And it's as reported by – in the
 20 quantitative equity reports by -
 21 MR. O'BRIEN:
 22 Q. Do you make any adjustments to make sure
 23 they're comparable?
 24 COFFEY, KC:
 25 Q. Could he just finish that?

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1 MR. O'BRIEN:
 2 Q. I'm sorry. I thought he was finished.
 3 DR. BOOTH:
 4 A. No, I don't feel – Value Line makes
 5 adjustments. S&P makes adjustments. But
 6 that's imposing judgment, Mr. O'Brien. I
 7 prefer to rely upon the data as reported in
 8 the financial statements and as reported to
 9 investors, and this comes from Morningstar.
 10 It's not my ROE. These are the actual ROEs
 11 reported in their financial statements and
 12 as reported by Morningstar.
 13 MR. O'BRIEN:
 14 Q. So, you don't consider whether or not
 15 they're comparable to Newfoundland Power?
 16 DR. BOOTH:
 17 A. What do you mean, the accounting?
 18 MR. O'BRIEN:
 19 Q. In any way, shape or form. You just take
 20 whatever is used from the other witnesses,
 21 put it here. You don't look at how it's
 22 calculated. You don't make sure it's
 23 comparable to Newfoundland Power. For
 24 example, there's four companies here that
 25 are not in Concentric's proxy group.

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1 DR. BOOTH:
 2 A. That's right, they're not now in
 3 Concentric's.
 4 MR. O'BRIEN:
 5 Q. Yeah, they're not now -
 6 DR. BOOTH:
 7 A. They have been in Concentric's in previous
 8 hearings.
 9 MR. O'BRIEN:
 10 Q. But they're not now.
 11 DR. BOOTH:
 12 A. Yeah, they've cut them out.
 13 MR. O'BRIEN:
 14 Q. They've cut them out. So, they've done a
 15 screening process.
 16 DR. BOOTH:
 17 A. Yeah.
 18 MR. O'BRIEN:
 19 Q. And they've cut them out, and I'm going to
 20 suggest to you -
 21 DR. BOOTH:
 22 A. Which is judgment.
 23 MR. O'BRIEN:
 24 Q. It's judgment, yes. You've – but you're not
 25 exercising judgment in this case?

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1 DR. BOOTH:
 2 A. Absolutely.
 3 MR. O'BRIEN:
 4 Q. You just said you weren't going to exercise
 5 judgment.
 6 DR. BOOTH:
 7 A. That's what I said, absolutely, I'm not
 8 exercising judgment.
 9 MR. O'BRIEN:
 10 Q. Okay, all right. Okay. So, I just wanted to
 11 make sure we were on the same page.
 12 DR. BOOTH:
 13 A. Now, look -
 14 MR. O'BRIEN:
 15 Q. If you took the four companies out that were
 16 not there, I'm going to suggest to you your
 17 average ROE is actually going to be up
 18 around 9.45, not 9.19.
 19 DR. BOOTH:
 20 A. Okay. Well, look, if you take some of the
 21 big ones out, some of the ones that are
 22 excessive out, that's - if you take the high
 23 ROE numbers, your average goes down. That's
 24 simple -
 25 MR. O'BRIEN:

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1 Q. I get the point.
 2 DR. BOOTH:
 3 A. That's math. That's high school math.
 4 MR. O'BRIEN:
 5 Q. My point is -
 6 DR. BOOTH:
 7 A. Well, it's grade school math.
 8 MR. O'BRIEN:
 9 Q. - is Concentric has gone through a process
 10 of screening. You have not.
 11 DR. BOOTH:
 12 A. I think the process of screening is
 13 extremely dubious. If it's got any value,
 14 it's got some value in terms of estimating
 15 the betas possibly, because the betas are
 16 affected by market values and the screens
 17 are mainly a result of looking at market
 18 values, looking at whether they were
 19 involved in M&A activity or whether they
 20 were involved in - they spotted a price or
 21 whether they cut the dividend. This is not
 22 the same data or the same principles that
 23 Concentric uses to create their samples.
 24 That would be my assessment. This is the
 25 overall assessment of what's going on in the

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1 United States. Whether it's comparable to
 2 Newfoundland Power, I've got Newfoundland
 3 Power there. I'm saying that all of these
 4 firms are not comparable to Newfoundland
 5 Power. They all have generation, except
 6 one, and this is the data that US utilities
 7 witnesses had used before and then, for
 8 whatever reason, they cut one out and they
 9 add one and then they add it back again and
 10 they cut another one out. I prefer to put
 11 all of the data out there and let the Board
 12 think about what's going on.
 13 MR. O'BRIEN:
 14 Q. Right. So, you don't consider whether or
 15 not any of these are comparable to
 16 Newfoundland Power?
 17 DR. BOOTH:
 18 A. I don't think any of them are comparable.
 19 Perhaps -- I think it's Eversource that
 20 doesn't have any generation.
 21 MR. O'BRIEN:
 22 Q. Okay.
 23 DR. BOOTH:
 24 A. But then if you look at the ROE for
 25 Eversource - where is Eversource?

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1 COFFEY, KC:
 2 Q. Third row.
 3 DR. BOOTH:
 4 A. It made - it had a loss in 2023.
 5 MR. O'BRIEN:
 6 Q. Yeah.
 7 DR. BOOTH:
 8 A. They lost 2.23 percent. Duke, which is in
 9 Mr. Coyne's sample, it's highest rate of
 10 return, 8.15 percent, and that's not just
 11 one year, it's throughout it's 12-year
 12 history, it barely makes seven percent. So,
 13 when you look at this, I think this is
 14 information that's useful to the Board in
 15 terms of what these so-called comparable
 16 utilities - and you can take one or two out
 17 if you don't like them, but the variability
 18 in these ROEs is way higher than the
 19 variability of the ROEs of Newfoundland
 20 Power.
 21 MR. O'BRIEN:
 22 Q. And I'm going to suggest to you, Doctor,
 23 that your evidence is that you don't like
 24 using US companies. You don't want to use
 25 US companies. And this is how you present

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1 it so that the Board shouldn't use US
 2 companies.
 3 DR. BOOTH:
 4 A. No, that is not correct. That's not correct
 5 at all. In fact, that's an assertion on
 6 your part.
 7 MR. O'BRIEN:
 8 Q. It is an assertion on my part because you
 9 don't do a screening process. You don't
 10 consider what's comparable. You throw out
 11 as much as you can, not a full sample as you
 12 suggest that – that maybe is what should be
 13 done, but you don't look at what is
 14 comparable to Newfoundland Power.
 15 DR. BOOTH:
 16 A. None of them are comparable with
 17 Newfoundland Power.
 18 MR. O'BRIEN:
 19 Q. Best proxy. You don't do -
 20 DR. BOOTH:
 21 A. Best -- No, look, that's totally incorrect.
 22 As I said, I do not want to get involved in
 23 these companies because it's not really even
 24 looking at what it is now, it's looking at
 25 what were they in 2011 or how comparable

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1 were they in 2011 or 2012. That requires a
 2 depth of knowledge of these companies that I
 3 don't have and I'm perfectly willing to
 4 accept that.
 5 MR. O'BRIEN:
 6 Q. All right.
 7 DR. BOOTH:
 8 A. All I'm saying is these are the companies
 9 that have been used as proxies for electric
 10 companies in Canada by different witnesses
 11 over the last ten years.
 12 MR. O'BRIEN:
 13 Q. Okay.
 14 DR. BOOTH:
 15 A. So, this is the sample. Am I going to
 16 include firms that have never been used by
 17 US witnesses in Canada? No.
 18 MR. O'BRIEN:
 19 Q. You're the expert, Doctor, not me. So, I
 20 don't know.
 21 DR. BOOTH:
 22 A. Well, you're making assertions about my
 23 behaviour, so you obviously have an opinion
 24 on this.
 25 MR. O'BRIEN:

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1 Q. I'm asking questions, Doctor. That's it.
 2 Maybe we can move on to the DCF model, move
 3 back to that. I just want to get a – before
 4 I finish my questions, get an idea as to how
 5 you put together your model and how that
 6 model informs you in this case. So, I want
 7 to ask a few questions on that.
 8 DR. BOOTH:
 9 A. Sure.
 10 MR. O'BRIEN:
 11 Q. Okay. So, I wonder if we could – you used –
 12 we went through that you use a DCF model, we
 13 understand that from your direct evidence,
 14 in order to inform your CAPM results.
 15 DR. BOOTH:
 16 A. That's correct.
 17 MR. O'BRIEN:
 18 Q. All right, okay. Concentric talked about a
 19 bunch of different sorts of DCF models, but
 20 relying more on the multistage model, I
 21 think is what their evidence was. Can you
 22 tell me is there a name on the model you
 23 use?
 24 DR. BOOTH:
 25 A. Mine is the dividend discount model.

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1 MR. O'BRIEN:
 2 Q. Okay. What is -
 3 DR. BOOTH:
 4 A. Or the Gordon growth model of the DCF model.
 5 That's what it's commonly referred to.
 6 MR. O'BRIEN:
 7 Q. Okay. So, there's not a multistage, a yield
 8 growth, constant growth. There's not a
 9 different type of DCF?
 10 DR. BOOTH:
 11 A. No. Just to backup.
 12 MR. O'BRIEN:
 13 Q. I'm just trying to get myself -
 14 DR. BOOTH:
 15 A. Okay, no, that's fine. I said let's just
 16 backup. The DCF model is designed to put us
 17 in a position of an investor.
 18 MR. O'BRIEN:
 19 Q. Right.
 20 DR. BOOTH:
 21 A. And it's designed to calculate their
 22 discount rate. So, we project a stream of
 23 cash flows.
 24 MR. O'BRIEN:
 25 Q. Yeah.

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1 DR. BOOTH:
 2 A. And we have the current price and we say
 3 what's the discount rate that makes all of
 4 those series of cash flows equal to the
 5 market price, and that's – we're trying to
 6 act like the market getting that discount
 7 rate.
 8 MR. O'BRIEN:
 9 Q. Right.
 10 DR. BOOTH:
 11 A. So, that is the rate that the – or it's
 12 trying to estimate the rate that the
 13 investor is using to value a stream of cash
 14 flows.
 15 MR. O'BRIEN:
 16 Q. Right.
 17 DR. BOOTH:
 18 A. Just as the yield to maturity on a bond is
 19 the rate that the market's using to value
 20 the stream of coupon payments on a bond.
 21 So, the question then is we don't have a
 22 contractual series of coupon payments the
 23 way we do on a bond. We have to project
 24 this stream of dividend payments and that's
 25 extremely difficult. Most of the time, we

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1 can only go out five years in basically
 2 forecasting dividends or forecasting pro
 3 forma financial statements. But for
 4 equities, there's no time limit. So, we
 5 have to go on "indefinitely" into the
 6 future. So, the way we derive the dividend
 7 discount model is – it's the way Mike Gordon
 8 derived it in the 1950s was we assume a low-
 9 risk company with a stable dividend and that
 10 dividend grows at a constant rate forever.
 11 Now, I don't know whether there are any
 12 engineers in the room or mathematicians, but
 13 if that growth rate goes on forever, we can
 14 use the formula for a geometric series and
 15 create the value for that and that gives us
 16 the dividend growth model. It assumes there
 17 is a constant rate forever, for infinity,
 18 for eternity, in order to generate a compact
 19 formula to get the value of a stock, and
 20 that's why I explained it's not appropriate
 21 for the vast bulk of companies because
 22 they're not that stable.
 23 MR. O'BRIEN:
 24 Q. That's a limitation with that -
 25 DR. BOOTH:

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1 A. That's the limitation of the dividend
 2 discount model.
 3 MR. O'BRIEN:
 4 Q. Yeah.
 5 DR. BOOTH:
 6 A. So, instead, we say well, perhaps the
 7 dividends that we – we know a lot about it.
 8 It's got excess profits. They can last for
 9 five or six years and then competition would
 10 drive those profits down, and we assume
 11 another growth rate after then and then they
 12 – 20 years time, 10 years time, they might
 13 be just a typical company. And I tell my
 14 students, I say, "what's the ambition of
 15 every small fast-growing company? Well,
 16 it's to grow up to be a big, slow-growing
 17 company." They want to become a mature
 18 company earning good profits. That's the
 19 objective of every small growing company.
 20 So, we can't apply the dividend discount
 21 model for small growing companies. It
 22 doesn't satisfy the assumptions, and as I
 23 think I said in my direct, I have problems
 24 with the engineers in my class because they
 25 look at the dividend discount model, see

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1 that it's a good equation and they torture
 2 it to try and make it fit situations where
 3 it doesn't work. And that's when we say you
 4 have to use another model.
 5 MR. O'BRIEN:
 6 Q. So that -
 7 DR. BOOTH:
 8 A. And there's a variety of different models
 9 for -
 10 MR. O'BRIEN:
 11 Q. Right, and that's what I was talking about
 12 earlier.
 13 DR. BOOTH:
 14 A. - dividend discount models.
 15 MR. O'BRIEN:
 16 Q. There's a variety of models.
 17 DR. BOOTH:
 18 A. Yeah.
 19 MR. O'BRIEN:
 20 Q. And that this multistage model that
 21 Concentric uses, that accounts for that
 22 constant growth limitation, doesn't it?
 23 DR. BOOTH:
 24 A. It certainly mitigates -
 25 MR. O'BRIEN:

Page 45	<p>1 Q. Right, that's the point -</p> <p>2 DR. BOOTH:</p> <p>3 A. - any problems in terms of excessive growth</p> <p>4 rates, yes.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. That's the point of that model?</p> <p>7 DR. BOOTH:</p> <p>8 A. That's correct.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Right, okay, and that leaves you -</p> <p>11 DR. BOOTH:</p> <p>12 A. And there's also what we call a finite</p> <p>13 growth model.</p> <p>14 MR. O'BRIEN:</p> <p>15 Q. Right. So, that leaves you with your</p> <p>16 concern -- if I'm reading this correctly,</p> <p>17 your concern is the analyst bias that's</p> <p>18 left?</p> <p>19 DR. BOOTH:</p> <p>20 A. That's correct.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. Okay. So, when we come to -</p> <p>23 DR. BOOTH:</p> <p>24 A. It's why, incidentally, Mr. O'Brien, I</p> <p>25 mainly rely upon the dividend discount model</p>	Page 47	<p>1 in perpetuity -</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Right.</p> <p>4 DR. BOOTH:</p> <p>5 A. - then that plugging it into the constant</p> <p>6 growth model, those are the estimates we</p> <p>7 would get.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. So, is this the constant growth model or is</p> <p>10 this the multistage model?</p> <p>11 DR. BOOTH:</p> <p>12 A. Constant growth model.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. Constant growth, okay. Instead of using</p> <p>15 that, you use the sustainable growth over</p> <p>16 here. So, we move over a couple of columns.</p> <p>17 Because if you used your 8.84, you end up</p> <p>18 with an ROE, if you put on -</p> <p>19 DR. BOOTH:</p> <p>20 A. At 9.4, something like that.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. 9.34, if you put your floatation on, right?</p> <p>23 DR. BOOTH:</p> <p>24 A. Yeah, that's right.</p> <p>25 MR. O'BRIEN:</p>
Page 46	<p>1 for the economy as a whole. Because one</p> <p>2 firm's losses are another firm's gains and</p> <p>3 you look at aggregate in the economy,</p> <p>4 dividends and earnings basically grow at the</p> <p>5 same rate as the normal growth rate in the</p> <p>6 economy.</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. Right. So, we're on the same page, I think,</p> <p>9 and I think I understand with respect to</p> <p>10 that, and I'm going to ask you, just if we</p> <p>11 could bring up page 69 of -- and I just want</p> <p>12 -- Dr. Booth's direct. I just want to get</p> <p>13 your comment. And this is a chart, I think,</p> <p>14 and it's in a schedule as well, but this</p> <p>15 talks about or shows your sustained growth</p> <p>16 approach to the dividend discount model and</p> <p>17 if I'm reading this correctly, so you've got</p> <p>18 all of your US utilities here. The column</p> <p>19 there, K, that would be that shows the</p> <p>20 average of 8.84 there at the bottom, that's</p> <p>21 the analyst growth assessment. Is that</p> <p>22 right?</p> <p>23 DR. BOOTH:</p> <p>24 A. That's right. If you accept the short-term</p> <p>25 analyst growth forecast that's been going on</p>	Page 48	<p>1 Q. That's what you end up with. Instead of</p> <p>2 doing that, which is what the model</p> <p>3 suggests, you make an adjustment to the</p> <p>4 model?</p> <p>5 DR. BOOTH:</p> <p>6 A. Well, the model suggests you use the long-</p> <p>7 run infinite growth rate.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. Yeah.</p> <p>10 DR. BOOTH:</p> <p>11 A. And that's not a short-run point dividend.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. But that's what the model is.</p> <p>14 DR. BOOTH:</p> <p>15 A. No, no, let's be clear here. The model use</p> <p>16 a dividend growth rate in perpetuity.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Yeah.</p> <p>19 DR. BOOTH:</p> <p>20 A. Not a short-term earnings growth rate.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. No.</p> <p>23 DR. BOOTH:</p> <p>24 A. So, that data is incompatible with the</p> <p>25 dividend growth model. It's called the</p>

Page 49	<p>1 dividend discount model, the dividend growth</p> <p>2 model. It's not called the earnings growth</p> <p>3 model.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. So, you – but you testified yesterday you'd</p> <p>6 be up to the 9.34. Isn't that what the</p> <p>7 model would get you to?</p> <p>8 DR. BOOTH:</p> <p>9 A. That's what the model, the dividend growth</p> <p>10 model here would give you -</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Right.</p> <p>13 DR. BOOTH:</p> <p>14 A. - if you actually used the analyst earnings</p> <p>15 growth forecast.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. Right.</p> <p>18 DR. BOOTH:</p> <p>19 A. Correct.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. But you use a sustained growth instead.</p> <p>22 DR. BOOTH:</p> <p>23 A. That's right.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. And is that an adjustment, a personal</p>	Page 51	<p>1 companies will have a sustained growth of</p> <p>2 2.28?</p> <p>3 DR. BOOTH:</p> <p>4 A. No, it suggests that's the average.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. The average, yeah.</p> <p>7 DR. BOOTH:</p> <p>8 A. That's the historic average, yeah.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Yeah, okay, because there's certain ones in</p> <p>11 there that you'd end up with a negative</p> <p>12 growth and that sort of thing.</p> <p>13 DR. BOOTH:</p> <p>14 A. That's right.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. To test the average.</p> <p>17 DR. BOOTH:</p> <p>18 A. That's the problem. It's because we're</p> <p>19 looking at – I mean, the principle is</p> <p>20 simple. Utilities basically pay out about</p> <p>21 two-thirds of their earnings as dividends.</p> <p>22 So, they're high dividend stocks. One-third</p> <p>23 or so gets reinvested. So, the question is</p> <p>24 how does the earnings and the dividends grow</p> <p>25 when one-third of the money is plowed back</p>
Page 50	<p>1 adjustment? It's an adjustment that is used</p> <p>2 by economists regularly in calculating ROE</p> <p>3 or using this model? Where does that</p> <p>4 adjustment come from?</p> <p>5 (9:45 a.m.)</p> <p>6 DR. BOOTH:</p> <p>7 A. Comes from Professor Gordon who developed</p> <p>8 the Gordon growth model.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. So, the Gordon growth model itself, is that</p> <p>11 something normally used before regulatory</p> <p>12 bodies when a DCF is -</p> <p>13 DR. BOOTH:</p> <p>14 A. D over P plus G (phonetic), yes.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Yeah? So, the 2 -</p> <p>17 DR. BOOTH:</p> <p>18 A. That's the model that was – the standard</p> <p>19 model before we started using risk premium</p> <p>20 models in Canada. It's the model I used in</p> <p>21 the 1980s and 1990s because we have</p> <p>22 significant inflation and growth was</p> <p>23 relatively easy to forecast.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. So, this suggests that each one of these</p>	Page 52	<p>1 into the business? And we call that the</p> <p>2 plow-back ratio as well as retention ratio.</p> <p>3 If they earn ten percent on the money that's</p> <p>4 reinvested and one-third is reinvested, then</p> <p>5 they get 3.3 percent growth. Now, in order</p> <p>6 to get the analyst growth forecast of four</p> <p>7 or five percent, almost six percent -- well</p> <p>8 let's just take six percent as being the</p> <p>9 median growth rate, just for the</p> <p>10 mathematical simplicity. If you take six</p> <p>11 percent as the analyst short-term growth</p> <p>12 rate and say that that goes on forever, and</p> <p>13 all they're doing is plowing back one-third</p> <p>14 of their earnings, well, six percent divided</p> <p>15 by one-third means that the analysts are</p> <p>16 actually assuming they're going to make an</p> <p>17 18 percent rate of return on the funds</p> <p>18 reinvested. And when you look at the return</p> <p>19 on equity of those funds – well, only one</p> <p>20 firm, Entergy made – where is it?</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. 14 –</p> <p>23 DR. BOOTH:</p> <p>24 A. 16.69 percent ROE.</p> <p>25 MR. O'BRIEN:</p>

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1 Q. Right.
 2 DR. BOOTH:
 3 A. But that's assuming that all of these firms
 4 can actually make 18 percent, and the
 5 regulators underlying these businesses that
 6 allow rates of return, that allow the
 7 holding company to earn a rate of return of
 8 18 percent. Now, I'm using that because
 9 that indicates the degree of magnitude of
 10 the bias in analyst forecast that implicitly
 11 when they come up with a five to six percent
 12 growth rate, based upon the short-term
 13 earnings forecast, what's consistent with
 14 the sustainable growth model is they're
 15 basically assuming 18 percent return on
 16 equity, which is optimistic shall we say.
 17 MR. O'BRIEN:
 18 Q. So, is the Gordon model that's normally –
 19 because you indicated earlier the DCF models
 20 are generally higher. Is the Gordon model
 21 itself a sustained growth or a constant
 22 growth model?
 23 DR. BOOTH:
 24 A. It's both. Basically it's taking the
 25 sustainable growth rate and applying that as

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1 a constant growth rate. And I will tell
 2 you, the first time I ever did any
 3 regulatory work, I actually prepared
 4 exhibits for Mike Gordon before the
 5 Interstate Commerce Commission in the United
 6 States and as his research assistant, I
 7 estimated the sustainable growth rate and he
 8 used it in his testimony before the ICC.
 9 So, that's the stand – was – I mean, this
 10 was – Mike built his reputation, and he was
 11 the president of the American Finance
 12 Association, on the fact that growth rates
 13 have to come from internal to the firm's
 14 operations. How much of their earnings they
 15 plowback and reinvest and what sort of rate
 16 of return are they going to earn on those
 17 earnings. That's pretty much basic stuff.
 18 MR. O'BRIEN:
 19 Q. So, is your evidence you do not make any
 20 adjustment to the model to use sustainable
 21 growth versus constant growth or is it you
 22 making that adjustment because that's the
 23 way the model should work in your mind?
 24 DR. BOOTH:
 25 A. No, I've not made any adjustments. All I've

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1 done is said, well, look, these are the
 2 Be's, the retention rates, the plowback
 3 rates. These are the rates of return the
 4 firms are actually earning. Use a median to
 5 take out extreme values, such as the
 6 negative values, and you get a sustainable
 7 growth rate significantly below these
 8 analyst growth rates and the analyst growth
 9 rates, I don't know whether I discussed it
 10 before or after, are known to be biased.
 11 When we look at sustainable growth rates, we
 12 get a handle on what is the magnitude of
 13 that bias.
 14 MR. O'BRIEN:
 15 Q. Do you look at the actual growth rates
 16 historically at all to check your figures?
 17 DR. BOOTH:
 18 A. No, I don't.
 19 MR. O'BRIEN:
 20 Q. And do you know whether or not those actual
 21 growth rates exceed the sustainable growth
 22 rates you've got in your model?
 23 DR. BOOTH:
 24 A. No, most of the research that – in fact what
 25 Mr. Coyne references, they start – the

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1 analyst forecasts are better than historical
 2 growth rates. There's a forecast because
 3 we're looking at what's going to happen in
 4 the future, not what's happened in the past.
 5 MR. O'BRIEN:
 6 Q. And so, Mr. Coyne would also say that your –
 7 in his report, he would say that with these
 8 American companies that he's used, the
 9 actual dividend yield was significantly
 10 higher, more than double what your
 11 sustainable growth rate was. Would you
 12 expect the sustainable growth rate to reduce
 13 by half?
 14 DR. BOOTH:
 15 A. No, I'm just talking about the sustainable
 16 growth rate, not the past growth rate. The
 17 sustainable growth rate depends upon the
 18 plowback rate and the rate of return on
 19 investment. We had one company in Canada
 20 called TransAlta that manipulated its growth
 21 rate by increasing its dividend payout rate.
 22 So, every year it increased the dividend
 23 payout and its dividend growth rate was far
 24 in excess of anything that could be
 25 conceived of as the future growth rate. In

Page 57	<p>1 fact, it ended up last time I looked, it was</p> <p>2 paying out over 100 percent of its earnings,</p> <p>3 its dividends -</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. How do you come up -</p> <p>6 DR. BOOTH:</p> <p>7 A. - to support the high growth rate.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. Sorry, I didn't mean to cut you off. How do</p> <p>10 you come up with your sustainable growth</p> <p>11 rate?</p> <p>12 DR. BOOTH:</p> <p>13 A. I take - I do the - that data that's in the</p> <p>14 quarterly, the QERs, the quarter - produced</p> <p>15 by Morningstar, I use the return on equity</p> <p>16 that they use and I use the dividends and</p> <p>17 the earnings from - latest dividends and</p> <p>18 earnings from Yahoo to work out the</p> <p>19 retention rate and I use as many of these</p> <p>20 companies as possible when I calculate the</p> <p>21 typical or median current plowback rate,</p> <p>22 retention rate, and the median return on</p> <p>23 equity to calculate the median sustainable</p> <p>24 growth rate.</p> <p>25 MR. O'BRIEN:</p>	Page 59	<p>1 constant growth model. I didn't know</p> <p>2 whether that was going to be higher or lower</p> <p>3 than my CAPM forecast, and as you know, you</p> <p>4 can see it here, it's higher. I didn't</p> <p>5 delete it because it was higher and I didn't</p> <p>6 include it because it was higher.</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. No, that wasn't my question.</p> <p>9 DR. BOOTH:</p> <p>10 A. I included it because I always include it.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Yeah. My question was: you used the DCF</p> <p>13 model as a check?</p> <p>14 DR. BOOTH:</p> <p>15 A. That's correct.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. Right, so, when you -</p> <p>18 DR. BOOTH:</p> <p>19 A. The DCF model on the utilities I use as a</p> <p>20 check, yes.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. So, my question is: if you - when you look</p> <p>23 at the data that's there for the, I guess,</p> <p>24 the analyst data and you know you're going</p> <p>25 to modify that in terms of I'm not going to</p>
Page 58	<p>1 Q. Is there any judgment applied to that? Is</p> <p>2 there -</p> <p>3 DR. BOOTH:</p> <p>4 A. Well, not in the statistics; the statistics</p> <p>5 are what they are.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. And when you started this process, when you</p> <p>8 said, "now I'm going to use the DCF model or</p> <p>9 the Gordon model with a sustainable growth</p> <p>10 rate", did you anticipate you were going to</p> <p>11 get a result anywhere near what your CAPM</p> <p>12 figures were?</p> <p>13 DR. BOOTH:</p> <p>14 A. Now, you have to qualify that. The CAPM</p> <p>15 figures including the 3.8 percent minimum or</p> <p>16 the CAPM using the current Canada bond</p> <p>17 yield?</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. The 3.8 percent.</p> <p>20 DR. BOOTH:</p> <p>21 A. Using the 3.8 percent, I would have expected</p> <p>22 the sustainable growth rate to be below the</p> <p>23 analysts' earnings forecast estimate for the</p> <p>24 dividend discount model. I had no priors on</p> <p>25 what would come out from the analysts' based</p>	Page 60	<p>1 use the analyst data, I'm going to use</p> <p>2 sustainable growth rate, do you anticipate</p> <p>3 from the start this is going to be a low</p> <p>4 number compared to my CAPM?</p> <p>5 DR. BOOTH:</p> <p>6 A. No.</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. You really don't?</p> <p>9 DR. BOOTH:</p> <p>10 A. No.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. So, you think that sustainable growth could</p> <p>13 be the same as the analyst data?</p> <p>14 DR. BOOTH:</p> <p>15 A. No.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. Okay. So, it could be higher?</p> <p>18 DR. BOOTH:</p> <p>19 A. Could be higher.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. Do you expect it to be? It's a long time.</p> <p>22 DR. BOOTH:</p> <p>23 A. Usually the experience I've had is it's</p> <p>24 lower than the earnings growth rates from</p> <p>25 the analysts, because -</p>

Page 61	<p>1 MR. O'BRIEN: 2 Q. Have you ever had a DCF be higher? 3 DR. BOOTH: 4 A. - because, because the analysts are biased. 5 And I'll hesitate. I mean, I said this 6 decades ago and members of the panels were 7 "bias? Are you saying that they're 8 deliberately manipulating?" I'm not saying 9 that. They're just optimistic and 10 persistently optimistic because they tend to 11 get attached – we call it the attachment 12 behavioural bias because they tend to get 13 attached to the companies that they follow 14 and they tend to have a more favourable 15 opinion of them than actually ends up, and 16 this is a behavioural bias we call the 17 optimism bias. So, I would have expected 18 the analyst-based DCF constant growth model 19 to be higher than my risk premium estimate, 20 CAPM estimate, and I would have expected the 21 sustainable growth rate that basically tries 22 to remove that bias as being lowered. So, 23 the rank order, I would agree. I would say 24 analysts' earnings growth rate estimates 25 would be higher than my CAPM estimates,</p>	Page 63	<p>1 estimates? 2 DR. BOOTH: 3 A. I would assume so, yes. 4 MR. O'BRIEN: 5 Q. Yeah. 6 DR. BOOTH: 7 A. I mean, I don't – it depends whether you 8 look at – sometimes you look at the board 9 decisions, you don't know how they come up 10 with it, and - 11 MR. O'BRIEN: 12 Q. And I'm getting – I'm kind of getting to 13 that point on your commentary. I guess, why 14 not just say that "my opinion is based on 15 the long-term Canada bond, and at this 16 stage, I've got a value trigger of 3.8. 17 Hits me to 7.5. Until we get to that 3.8, 18 then that's what my opinion is going to be"? 19 DR. BOOTH: 20 A. Okay. I could write that in one page. 21 MR. O'BRIEN: 22 Q. Yeah. 23 DR. BOOTH: 24 A. And I could send it to the Board in one 25 page.</p>
Page 62	<p>1 would be higher than my sustainable growth 2 rate estimates. 3 MR. O'BRIEN: 4 Q. So, how did you use your analyst results in 5 informing your overall opinion? Did you 6 just push that aside because you didn't – 7 you don't think that that's reasonable and 8 just inform your opinion on the basis of a 9 sustainable growth rate? 10 DR. BOOTH: 11 A. No, the analysts' growth rates we know are 12 biased. So, why would I include a biased 13 estimate in my estimates? And that's really 14 there to just confirm the fact that 15 everybody knows the analysts are bias. I 16 mean, they are sell-side analysts. 17 MR. O'BRIEN: 18 Q. But why do that calculation at all? 19 DR. BOOTH: 20 A. I think it's because Mr. Coyne used to do 21 that estimate. Other analysts do that 22 estimate and it's important to put that data 23 on the table for the Board to look at. 24 MR. O'BRIEN: 25 Q. Boards are starting to look at those</p>	Page 64	<p>1 MR. O'BRIEN: 2 Q. Yeah, yeah. 3 DR. BOOTH: 4 A. And I will tell you, the – before the 5 Ontario Energy Board, my colleague and I 6 once were looking at Union Gas and Consumers 7 Gas and we provided full estimates for 8 Consumers Gas and then Union Gas was 9 literally three months later. So, we were 10 conscious of our costs and we included a 11 short summary for Union Gas and we included 12 our Consumers Gas as an appendix. So, and 13 we got raked over the coals for not 14 including Union Gas because the hearing was 15 about Union Gas. So, I could very easily 16 put testimony in here before the Board and 17 said what's changed since 2016, and I've 18 actually did that before the Alberta Utility 19 Commission. I went through and I gave short 20 testimony and I had four pages, what has 21 this Board decided, and I said the AUC has 22 decided this. They decided this. They 23 decided this. They decided this. I'm not 24 going to talk about all of these other 25 things. And that was at the time when it</p>

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1 was simultaneous presentation of evidence,
 2 and lo and behold, the utility witnesses,
 3 they ignored all of the board decisions and
 4 they put in the same work. So, what I'm
 5 saying is I'd like nothing better than in
 6 three years time to come back and not have
 7 to write 200 pages and just write "dear
 8 board members, what's changed since 2000
 9 and" -- what are we, '24.
 10 MR. O'BRIEN:
 11 Q. Would be an easy approach, wouldn't it?
 12 DR. BOOTH:
 13 A. It would be a lot easier approach.
 14 MR. O'BRIEN:
 15 Q. And I'm going to suggest to you that it's
 16 probably due to the fact that the normal
 17 approach with this is to look at a number of
 18 different models. They all have their own
 19 limitations. Put that evidence before the
 20 Board. The Board can exercise its own
 21 regulatory judgment in looking at those
 22 models, the opinions of the experts and the
 23 facts, other comparable ROEs out there.
 24 It's a process. So, that's why you wouldn't
 25 just say 7.5, that model, stick to it,

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1 because the Board has to look at everything.
 2 DR. BOOTH:
 3 A. And that's what I've done.
 4 MR. O'BRIEN:
 5 Q. Yeah.
 6 DR. BOOTH:
 7 A. I mean, the way in which, as I went through
 8 the standard models are: CAPM,
 9 overwhelmingly number one; number two,
 10 multi-beta models, ended up huge problems in
 11 terms of testimony; number three, looking at
 12 people's expectations; number four, looking
 13 at the dividend discount model; and number
 14 five, looking at regulatory decisions. I
 15 think I've covered all of those bases and --
 16 and I've tried to look at the data even when
 17 it's higher than my estimates and when it's
 18 lower than my estimates and that's the
 19 problem with estimates. If you only have
 20 one estimate, it's easy, the number is this.
 21 If you have two ways of looking at a
 22 problem, those two estimates never agree.
 23 MR. O'BRIEN:
 24 Q. Yeah.
 25 DR. BOOTH:

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1 A. So, you have to look at that and you have to
 2 provide that information to the Board.
 3 MR. O'BRIEN:
 4 Q. Okay. I have no further questions for Dr.
 5 Booth.
 6 CHAIRMAN:
 7 Q. Mr. Simmons?
 8 SIMMONS, KC:
 9 Q. No questions. Thank you, Mr. Chairman.
 10 DR. BOOTH:
 11 A. Excuse me, can we just take a five-minute
 12 water break?
 13 CHAIRMAN:
 14 Q. Sure.
 15 DR. BOOTH:
 16 A. Just five minutes.
 17 (10:00 a.m. – BREAK)
 18 (10:05 a.m. – RESUME)
 19 CHAIRMAN:
 20 Q. So, it's over to Ms. Greene.
 21 DR. LAURENCE BOOTH, CROSS-EXAMINATION BY MAUREEN
 22 GREENE, KC
 23 GREENE, KC:
 24 Q. Thank you, Mr. Chair. Good morning, Dr.
 25 Booth.

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1 DR. BOOTH:
 2 A. Good morning, Ms. Greene.
 3 GREENE, KC:
 4 Q. I have six questions.
 5 DR. BOOTH:
 6 A. You promise?
 7 MR. O'BRIEN:
 8 Q. Promise?
 9 GREENE, KC:
 10 Q. Promise, unless you take me somewhere else.
 11 So, hopefully we won't be too long. The
 12 first question is a question I also asked
 13 Mr. Coyne and I wanted to give you the
 14 opportunity to provide your opinion on it as
 15 well. And that's to do with how the Board
 16 should consider, in setting the fair return
 17 for Newfoundland Power, the fact that it
 18 affects Hydro and customers because of the
 19 flow-through of whatever ROE Newfoundland
 20 Power gets also goes to Hydro for certain
 21 financial arrangements, and the impact -- and
 22 I won't take you there because I believe you
 23 were in the room at the time -- the impact
 24 that for about every half percent change in
 25 Newfoundland Power's ROE, plus or minus,

Page 69	<p>1 there is an additional cost to Hydro of 13.6 2 million dollars. And the question is: how 3 should the Board take that into account, if 4 at all, in setting the fair return for 5 Newfoundland Power? And we did ask you that 6 in an RFI and I wanted to bring that up, 7 which is PUB-CA-14. And in the first line 8 of your answer, you say that “both entities 9 should be regulated independently on the 10 basis of the fair return standard”. So, 11 first, that’s the normal approach, isn’t it? 12 That because they have to be treat – each 13 entity is to be treated stand alone, there 14 should be no consideration of an impact for 15 Newfoundland Power that might affect Hydro. 16 Is that correct? 17 DR. BOOTH: 18 A. That’s correct. 19 GREENE, KC: 20 Q. Okay. Is there any other comment that you 21 wish to provide with respect to this issue? 22 DR. BOOTH: 23 A. Ultimately in regulation, we regulate 24 utilities because of the prices that they 25 charge because otherwise there’s a monopoly</p>	Page 71	<p>1 you end up getting subsidiaries to 2 electricity, which is what was happening in 3 Ontario, which didn’t make us very happy 4 with a lot of electricity consumers, but 5 sometimes your judgment, constrained by 6 economics and everything else, works in the 7 favour of consumers and sometimes it 8 doesn’t. So, at that time, I said that 9 Hydro, which was a Crown corporation owned 10 by government of Ontario with no equity 11 except that retained by charging rates, 12 should get a return equivalent to that of a 13 private corporation. If that’s the decision 14 of the Province of Newfoundland, then that 15 link between Hydro and Newfoundland Power 16 means that whatever the Board decides for 17 Newfoundland Power hits Hydro and if it 18 decides, for example, to – as one of the 19 information requests asked me to consider, 20 suppose we give more equity to Newfoundland 21 Power and then lower the allowed ROE so it’s 22 fair to Newfoundland Power, the question 23 then is: is that lower ROE fair to Hydro? 24 And I can’t answer that. That’s a question 25 the Government of Newfoundland and Labrador</p>
Page 70	<p>1 element. So, ultimately it comes down to 2 the charges to the consumer. We regulate 3 them because otherwise the charges would be 4 unfair. So, that’s the genesis of 5 regulating public utilities. So, I can 6 understand why the Board would think in 7 terms of what rates to the consumers are 8 fair and reasonable and why it would 9 consider that the biggest element or one of 10 the biggest elements is the cost of 11 electricity that comes through from Hydro. 12 I don’t know whether it was the Board’s 13 decision or the government decision that 14 Hydro would get the same allowed ROE as 15 Newfoundland Power. 16 GREENE, KC: 17 Q. Definitely government. 18 DR. BOOTH: 19 A. I know in BC, BC Hydro gets the same allowed 20 ROE allowed for other utilities in BC, and I 21 hate to tell you that in 1986, my colleague 22 and I presented testimony before the Ontario 23 Energy Board basically saying that Ontario 24 Hydro, as it then was, should be regulated 25 as if it’s a private utility. Otherwise,</p>	Page 72	<p>1 has to answer, whether they’re willing to 2 accept a low ROE for Hydro based upon 3 changes that have made Newfoundland Power’s 4 situation fair but makes Hydro’s situation 5 possibly unfair. And my judgment would be 6 that you have to treat them both as separate 7 entities and give what is regarded as fair, 8 but I don’t know what’s fair for Hydro. 9 GREENE, KC: 10 Q. But in this particular case, where the Board 11 is considering the fair return for 12 Newfoundland Power, they would have to 13 ensure that whatever the decision is, it is 14 a fair return for Newfoundland Power and 15 would meet all of the criteria, whether it’s 16 financial integrity, ability to attract 17 capital and comparable investments in 18 securities? 19 DR. BOOTH: 20 A. Yeah, I don’t know what evidence there is on 21 the file that would allow the Board to say 22 that suppose it went with 50 percent equity 23 for Newfoundland Power and dropped the ROE 24 to eight percent. I don’t know if there’s 25 anything on the record to indicate that</p>

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1 eight percent for Hydro would be fair.
 2 GREENE, KC:
 3 Q. So, in your – go back. So, that’s your –
 4 what should guide the Board is that, in
 5 looking at this particular issue in this
 6 rate case, the Board needs to look at the
 7 fair return and ensure it’s indeed fair from
 8 an overall perspective for Newfoundland
 9 Power as a stand-alone entity?
 10 DR. BOOTH:
 11 A. That’s right. I would agree with Mr. Coyne
 12 that cost of capital is a cost like any
 13 other cost.
 14 GREENE, KC:
 15 Q. The next question then relates to the
 16 automatic adjustment formula, and you know
 17 that in this hearing, the parties have
 18 agreed that the automatic adjustment formula
 19 will continue to be suspended. I know your
 20 preference is to have an adjusted formula,
 21 but that might be an issue for the next
 22 hearing, but not for this one. So, if the
 23 Board sets the ROE and capital structure for
 24 ’26 and ’27, what – how do you see the next
 25 year working, from a regulatory perspective?

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1 DR. BOOTH:
 2 A. Okay. First of all, according to the
 3 Alberta decision, all the parties in Alberta
 4 didn’t want an automatic adjustment formula
 5 either, but the Board, the AUC seemed to
 6 impose it. So, I don’t know whether the –
 7 like I don’t know whether the Board has said
 8 it’s off the table. If it’s off the table,
 9 it’s off the table. My position is simply
 10 that if you’re on a three-year GRA, two
 11 years are determined and you got that third
 12 year. What do we do with the third year?
 13 Now, I know – do you just extend it? In
 14 which case, why not say it’s a three-year
 15 ROE. Or if you have an automatic formula,
 16 my recommendation would be to keep it the
 17 same unless the forecast long Canada rate
 18 goes above 3.8 percent. So, what’s going to
 19 happen in three years time? Newfoundland
 20 Power will probably -- if they came to the
 21 Board and said, “look, long Canada rates are
 22 4. – forecast to be 4.5 percent. Booth’s on
 23 the record, don’t change it unless it’s over
 24 3.8 percent. We need a high rate of
 25 return”. And then if the Board – and then

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1 if consulted the Consumer Advocate and the
 2 Consumer Advocate consulted me, I would say,
 3 “well, 4.5 percent, 75 percent adjustment
 4 from 3.8, give them another” whatever that
 5 is, another three-quarters of 75 basis
 6 points, and I would regard that as being
 7 fair. So, that’s one way you could do it.
 8 Or you could just say it’s fixed for three
 9 years or you can formally put them on an
 10 adjustment mechanism, and instead of having
 11 the company consult the Board and the Board
 12 consult Consumer Advocate, and the Consumer
 13 Advocate consult me, if I’m still here in
 14 three years time, then just put them on –
 15 say that we’re thinking about an adjustment
 16 mechanism in that third year, 75 percent of
 17 any increase in the forecast long Canada
 18 rate above 3.8 percent.
 19 (10:15 a.m.)
 20 GREENE, KC:
 21 Q. Assume there is no formula in place, then
 22 based on your first option, I took that it
 23 would be up to the utility to decide if they
 24 needed rate relief to come back in and ask
 25 for a change?

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1 DR. BOOTH:
 2 A. It’s always up to the utility. I mean, the
 3 utility in 2011 came to the Board and said,
 4 “look, long Canada rates have fallen through
 5 the floor because of all of these factors.
 6 We don’t think the adjustment formula is
 7 appropriate”, and the Board went to the
 8 Consumer Advocate. The Consumer Advocate
 9 came to me and I said, entirely, I agree
 10 with them.
 11 GREENE, KC:
 12 Q. The next question that I have relates to
 13 your recommendation, and I just wanted to
 14 confirm with you my understanding is that
 15 your recommend – you agree that your
 16 recommendation of a 7.7 percent ROE on a 40
 17 percent capital structure would raise red
 18 flags with the credit rating agencies and
 19 would be a concern to the credit rating
 20 agencies. Is that correct?
 21 DR. BOOTH:
 22 A. That’s correct. I think any – look, the
 23 proposition is simple. Any reduction in the
 24 ROE lowers the EBIT, earnings before
 25 interest and tax, lowers the times interest

Page 77	<p>1 earned, and the rating agencies pay</p> <p>2 attention to that. Any change in the common</p> <p>3 equity ratio, simply because it is perceived</p> <p>4 to be a longer-term thing, they'd look at</p> <p>5 that very seriously. Now, they've noted on</p> <p>6 numerous occasions that Newfoundland Power</p> <p>7 has a very general common equity ratio. So,</p> <p>8 which is why I said to the Board, at least</p> <p>9 flag – you go back to '96/97 and just</p> <p>10 reaffirm that the Board believes that the</p> <p>11 common equity ratio should be between 40 and</p> <p>12 45 percent. And then say something like,</p> <p>13 well, the current situation, blah, blah,</p> <p>14 blah, we're going to use 45 percent. But</p> <p>15 I'd like it back on the record that the</p> <p>16 appropriate common equity ratio is 40 to 45</p> <p>17 percent. And then the rating agencies will</p> <p>18 look at that and they'll say, "oh, well,</p> <p>19 could be 40 percent", the same as every</p> <p>20 other – pretty much the same as every other</p> <p>21 electric utility in Canada. That's not a</p> <p>22 shocker.</p> <p>23 GREENE, KC:</p> <p>24 Q. But based on your answer, wouldn't be for</p> <p>25 this particular rate case. You would want</p>	Page 79	<p>1 GREENE, KC:</p> <p>2 Q. No?</p> <p>3 DR. BOOTH:</p> <p>4 A. No, that latter part is not correct.</p> <p>5 Newfoundland Power has got a A-2 rating with</p> <p>6 Moody's and Mr. Coyne constantly says well,</p> <p>7 it's a Baa high rating, not an A-2 rating</p> <p>8 and he distinguishes between an issue</p> <p>9 rating, and just to clarify to the Board,</p> <p>10 the issue we're rating is supposed to be a</p> <p>11 rating of the company because they actually</p> <p>12 give ratings for companies that don't issue</p> <p>13 securities because they use the law in</p> <p>14 contracts for – to go with contractual</p> <p>15 commitment to buy gas or something or other,</p> <p>16 there may be a commitment to the rate. The</p> <p>17 bond rating has to be a certain value. So,</p> <p>18 they have an issue we're rating and then</p> <p>19 they have an issue rating. Moody's</p> <p>20 routinely gives a double bump for mortgage</p> <p>21 debt and that's ever since the scandals in</p> <p>22 the United States where a lot of utilities</p> <p>23 were raided by their parents because they</p> <p>24 didn't have enough regulatory protection.</p> <p>25 DBRS doesn't do that because we've never had</p>
Page 78	<p>1 the Board to give some indication that</p> <p>2 they're going there in the future?</p> <p>3 DR. BOOTH:</p> <p>4 A. Absolutely. I've made this recommendation</p> <p>5 for 15 years. So, I mean, it's not –</p> <p>6 shouldn't be a surprise to the Board or the</p> <p>7 company that I think that the common equity</p> <p>8 ratio is out of line with other Canadian-</p> <p>9 owned electric utility companies, and each</p> <p>10 time the Board has said not now, not now</p> <p>11 Muskrat Falls, not now other reasons, and I</p> <p>12 could understand the Board making that</p> <p>13 decision, but I think it's about time, I</p> <p>14 mean, the Board stop saying not now.</p> <p>15 GREENE, KC:</p> <p>16 Q. But again, your indication to my previous</p> <p>17 answer was that you're not – even though</p> <p>18 it's in your report, you understand that it</p> <p>19 would be a concern to the credit rating</p> <p>20 agencies, which then would be of concern to</p> <p>21 Newfoundland Power's ability to attract</p> <p>22 capital and their financial integrity, so</p> <p>23 that -</p> <p>24 DR. BOOTH:</p> <p>25 A. No.</p>	Page 80	<p>1 that problem in Canada. So, rates it</p> <p>2 equivalent to Moody's A-2 because he rates</p> <p>3 it on a hierarchy principle. Is there any</p> <p>4 debt with a higher ranking on the claims of</p> <p>5 the firm's earnings than this particular</p> <p>6 debt issue, and then they're not allowed to</p> <p>7 issue anything above that ranking. So, DBRS</p> <p>8 doesn't care that they're not Moody's bonds.</p> <p>9 It just rates them as the highest rated</p> <p>10 entity with a claim on the earnings of the</p> <p>11 firm. When I say don't care, they obviously</p> <p>12 care, but they don't factor it into their</p> <p>13 rating the way that Moody's does. And in</p> <p>14 fact, if you look at the Moody's rating,</p> <p>15 they actually rate the company as an A-3,</p> <p>16 the lowest rating, and they look at all of</p> <p>17 these categories and they say A plus or</p> <p>18 whatever. They come up with all these</p> <p>19 rankings and at the bottom, they've got what</p> <p>20 they should be, which is A-3, and then they</p> <p>21 say, well, we think triple B plus is</p> <p>22 appropriate. So, and I've seen that several</p> <p>23 times in ratings that they do all the</p> <p>24 quantitative analysis and come up with a</p> <p>25 rating and then they give something</p>

Page 81	<p>1 different from that rating. I guess that's</p> <p>2 the rating agency's judgment. But you'd</p> <p>3 probably know, we used to have two rating</p> <p>4 agencies in Canada, the Canadian Bond Rating</p> <p>5 Service and the Dominion Bond Rating</p> <p>6 Service. CBRS was taken over by S&P about</p> <p>7 20 years ago. DBRS was taken over by</p> <p>8 Morningstar. So, those ratings are now both</p> <p>9 American companies, and as we heard two days</p> <p>10 ago, they're rating offices are now moved</p> <p>11 from Toronto to New York and they're staffed</p> <p>12 by American rating agencies and I hate to</p> <p>13 say, it's like Costco. I loved it when</p> <p>14 Costco came to Canada. All of a sudden, we</p> <p>15 got this great wealth of product. But it</p> <p>16 was American product. It was the American</p> <p>17 supply chain, and I used to get annoyed</p> <p>18 because I'd buy electronics there or</p> <p>19 software there and the warranties weren't</p> <p>20 valid in Canada. They were valid only in</p> <p>21 the United States. Because we were on their</p> <p>22 supply chain. And I think the same thing's</p> <p>23 happening in the bond markets and in the</p> <p>24 rating agencies. DBRS is no longer a</p> <p>25 Canadian rating agency. CBRS hasn't been</p>	Page 83	<p>1 Q. Right.</p> <p>2 DR. BOOTH:</p> <p>3 A. - you got to remember the ratios, the AUC</p> <p>4 looks at these ratios, and particularly the</p> <p>5 S&P ratios, and it uses the lowest numbers</p> <p>6 in the AUC to maintain the standard, because</p> <p>7 they don't actually use those ratios. So,</p> <p>8 if it's a temporary phenomenon, then they'll</p> <p>9 look at that and say, "well, whatever caused</p> <p>10 that change, it will disappear and it won't</p> <p>11 be a factor". So, you got to distinguish</p> <p>12 between temporary and sort of permanent</p> <p>13 factors. When you look at my data,</p> <p>14 according to the AUC use – and they use the</p> <p>15 S&P financial metrics, then their estimates</p> <p>16 for 37 percent common equity ratio and a</p> <p>17 pre-tax – and I have to emphasize, pre-tax</p> <p>18 return on equity, not the after-tax return</p> <p>19 on equity, more than satisfies the credit</p> <p>20 rating agencies. So, I checked the numbers.</p> <p>21 7.7 percent, that would be different for an</p> <p>22 Alberta utility than for Newfoundland Power.</p> <p>23 Now why is that? Well, I hate to tell you,</p> <p>24 you're in a high tax jurisdiction. So,</p> <p>25 along with 7.7 percent comes a higher tax</p>
Page 82	<p>1 Canadian for 20 years. It's now S&P. So, I</p> <p>2 fully expect that the ratings agency will be</p> <p>3 – take a harsher position on Canadian</p> <p>4 companies than when the rating agencies were</p> <p>5 Canadian and more familiar with what's going</p> <p>6 on in Canada. That would be my judgment.</p> <p>7 Mr. O'Brien, that's my judgment.</p> <p>8 GREENE, KC:</p> <p>9 Q. And you weren't here when we discussed with</p> <p>10 Ms. London, Vice President of Finance for</p> <p>11 Newfoundland Power, the Moody's reports and</p> <p>12 the impact on the credit metrics of various</p> <p>13 scenarios, but when we looked at those</p> <p>14 scenarios, and I can bring it up, which I</p> <p>15 hasn't intended to do, it would be clear</p> <p>16 that Newfoundland Power would not be able to</p> <p>17 make the 16 to 18 percent coverage for the</p> <p>18 cash flow to debt operations that Moody</p> <p>19 requires for the current rating with your</p> <p>20 recommendation. Would you like to see that?</p> <p>21 DR. BOOTH:</p> <p>22 A. I remember that Moody's said that it's got a</p> <p>23 temporarily there's a problem with one of</p> <p>24 the ratios but -</p> <p>25 GREENE, KC:</p>	Page 84	<p>1 burden, and the pre-tax of 7.7 percent puts</p> <p>2 you in line with the nine percent after-tax</p> <p>3 in Alberta in their schedule with the fact</p> <p>4 that Alberta, they're parallel tax rate.</p> <p>5 So, as far as the rating agencies are</p> <p>6 concerned, the more tax Newfoundland Power</p> <p>7 pays, the better it is for the bond holders.</p> <p>8 I know that sounds crazy, but that's</p> <p>9 absolutely correct, because they look at the</p> <p>10 earnings before interest and tax. So, when</p> <p>11 you look at the rating metrics, my</p> <p>12 recommendation would satisfy the – not only</p> <p>13 does it satisfy the fair return standard, it</p> <p>14 certainly satisfies an A-3 bond rating.</p> <p>15 Whether it satisfies an A-2 bond rating,</p> <p>16 which is the highest of any utility in</p> <p>17 Canada except Fortis Energy FEI, Fortis BC</p> <p>18 Energy out in BC, gas utility, and so I</p> <p>19 would not regard dropping from A-2 to A-1</p> <p>20 the same as most utilities in Canada as</p> <p>21 being a shock, but I wouldn't be surprised</p> <p>22 if it is dropped from an A-2 to an A-1, but</p> <p>23 that – obviously I'm not a bond rater, but</p> <p>24 I'm just going by how they rate other</p> <p>25 Canadian utilities.</p>

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1 GREENE, KC:
 2 Q. You would agree that your recommendation of
 3 the 7.7 ROE and the 40 percent equity in the
 4 capital structure, if accepted by the Board,
 5 would be the lowest ROE of any utility in
 6 Canada?
 7 DR. BOOTH:
 8 A. I don't know about any utility in Canada,
 9 certainly the big ones that we tend to look
 10 at.
 11 GREENE, KC:
 12 Q. And you would also agree that such a
 13 decision would cause a red flag to be raised
 14 at least for the credit rating agencies?
 15 DR. BOOTH:
 16 A. Red flag with who, sorry?
 17 GREENE, KC:
 18 Q. The credit rating agencies, I think we've
 19 got that.
 20 DR. BOOTH:
 21 A. Yes, they would certainly look at it and say
 22 what's going on here and take a closer look.
 23 Now, as I said, I'd love to know what the
 24 financial structure of KKR's bid for –
 25 GREENE, KC:

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1 Q. I don't think we need to go there today.
 2 We've heard about it and it's not necessary.
 3 MR. BOOTH:
 4 A. But I'd love to know what it is.
 5 GREENE, KC:
 6 Q. Perhaps you can ask that of them or Emera in
 7 another environment, but not this hearing.
 8 Now, when you go your specific
 9 recommendation, first on the floatation
 10 adjustments, the 50 basis points that you
 11 have included. You raised a question about
 12 whether that is appropriate, but I
 13 understood from your evidence that you are
 14 suggesting in any way that it would be
 15 removed from your recommendation?
 16 DR. BOOTH:
 17 A. No, my recommendation includes the 50 basis
 18 points adjustment as it does right across
 19 every utility in Canada because we stopped
 20 making extensive arguments about how much
 21 cost is there actually to issue equities,
 22 and we used to go through extensive
 23 testimony on how much does it cost to
 24 actually issue shares in Canada, and what
 25 are those costs, and it was just an endless

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1 period of litigation. And like it or not,
 2 we sort of all settled on 50 basis points,
 3 and I was just struck by the fact that
 4 Newfoundland Power said, well we don't have
 5 any issued costs and legally, I'm just
 6 raising the issue legally, how can you pass
 7 on a cost where the company admits that they
 8 haven't got any costs?
 9 GREENE, KC:
 10 Q. Are you aware that in the recent BC decision
 11 the board disallowed the 50 basis points for
 12 the recovery of floatation costs?
 13 DR. BOOTH:
 14 A. I wasn't aware of that. I wasn't in that
 15 hearing and I'd say that's a bit of a shock.
 16 GREENE, KC:
 17 Q. On the other hand, but in doing that, they
 18 said if there was an actual cost they could
 19 apply to recover it, but they said it
 20 affected the financial flexibility and they,
 21 that was one of their considerations in
 22 increasing the equity to 41 percent. So
 23 again, even though they took it out in one
 24 part, they considered it –
 25 DR. BOOTH:

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1 A. Put it back in another.
 2 GREENE, KC:
 3 Q. Right.
 4 DR. BOOTH:
 5 A. But that's the board exercising their
 6 judgment, I would suspect.
 7 GREENE, KC:
 8 Q. Right, and that's why I wanted to use it as
 9 an example of how boards exercise their
 10 judgment, which is where we will come to.
 11 COFFEY, KC:
 12 Q. If I could, Mr. Chair and Ms. Greene, is
 13 that decision actually on the –
 14 GREENE, KC:
 15 Q. It is on the record, I can take you through
 16 the page numbers –
 17 COFFEY, KC:
 18 Q. Okay, no, no, that's fine, I just wanted to
 19 confirm that, that's all.
 20 GREENE, KC:
 21 Q. It is actually on the record.
 22 MR. BOOTH:
 23 A. Now I wasn't involved in that hearing, but
 24 you've given me an incentive actually to
 25 read in.

Page 89	<p>1 GREENE, KC.:</p> <p>2 Q. Yes, and as I've said, I won't go there now</p> <p>3 in the interests of time, but it is</p> <p>4 certainly on the record and it's page 126,</p> <p>5 paragraphs 134 and 135. So moving on to</p> <p>6 another part of you recommendation or</p> <p>7 another input which is the market risk</p> <p>8 premium. Here I did want to go to the</p> <p>9 Alberta Utilities Commission decision, which</p> <p>10 is Information Item No. 24, and I believe,</p> <p>11 Dr. Booth, your evidence is that when you</p> <p>12 look at the market risk premium, you do use</p> <p>13 judgment and part of that includes</p> <p>14 consideration of the forecast or opinions of</p> <p>15 independent third parties, is that correct?</p> <p>16 (10:30 a.m.)</p> <p>17 DR. BOOTH:</p> <p>18 A. That's correct.</p> <p>19 GREENE, KC:</p> <p>20 Q. Including items such as surveys, the</p> <p>21 Fernandez survey, for example?</p> <p>22 DR. BOOTH:</p> <p>23 A. And the Kroll who are the experts in this</p> <p>24 area and Damodaran because they are the</p> <p>25 three that are referenced in surveys in the</p>	Page 91	<p>1 some indication of what market professionals</p> <p>2 believe the ROE may be in the future. This</p> <p>3 can and potentially does affect investor</p> <p>4 expectations and subsequent behaviour and</p> <p>5 that, in itself, can shed light on the</p> <p>6 limits of frontiers of the range of</p> <p>7 reasonable estimates of the prior ROE.”</p> <p>8 Now, and if we go over to the next page –</p> <p>9 DR. BOOTH:</p> <p>10 A. So that's not the market risk premium,</p> <p>11 that's the overall market return and the</p> <p>12 board has said that, the AUC has said that</p> <p>13 consistently for the last 15 years or so,</p> <p>14 that there is a limit, basically, to the</p> <p>15 equity return for the market and then the</p> <p>16 allowed return for utilities should be below</p> <p>17 that.</p> <p>18 GREENE, KC:</p> <p>19 Q. And then if you go to the next page in</p> <p>20 paragraph 143, you note there they excluded</p> <p>21 that estimate from Concentric as being too</p> <p>22 high. So I'm using this as an example of</p> <p>23 what BC may have accepted certain practice.</p> <p>24 When we go to Alberta, which was released a</p> <p>25 month after BC, we see a different exercise</p>
Page 90	<p>1 United States of who do they look for in the</p> <p>2 market risk premium.</p> <p>3 GREENE, KC:</p> <p>4 Q. So here, if we go to the Information Item</p> <p>5 No. 24, which is the Alberta Utilities</p> <p>6 Commission decision, if you go to page 30.</p> <p>7 We can go back and look, but you will see</p> <p>8 that Dr. Cleary was one of the experts in</p> <p>9 this hearing, in fact, they had several</p> <p>10 experts on cost of capital, not just two.</p> <p>11 And Dr. Cleary tends to be more similar to</p> <p>12 your expert opinion in his recommendations,</p> <p>13 is that correct?</p> <p>14 DR. BOOTH:</p> <p>15 A. That's correct. I was his supervisor for</p> <p>16 his PhD and I hope I taught him something.</p> <p>17 GREENE, KC:</p> <p>18 Q. So when you look at paragraph 41, you say,</p> <p>19 the commission there says “There may be</p> <p>20 pitfalls in relying on available forecast of</p> <p>21 market return. For example, these estimates</p> <p>22 may not be as robust as empirical studies,</p> <p>23 be amendable to ready analysis or testing</p> <p>24 and may be prepared for different purposes.</p> <p>25 However, this type of evidence does offer</p>	Page 92	<p>1 of judgment by the commission and they did</p> <p>2 say that that type of information would be</p> <p>3 useful and would be taken into account, is</p> <p>4 that -</p> <p>5 DR. BOOTH:</p> <p>6 A. Can I comment on that?</p> <p>7 GREENE, KC:</p> <p>8 Q. Sure.</p> <p>9 DR. BOOTH:</p> <p>10 A. I've had many interesting discussions with</p> <p>11 the panel of the AUC, and one of them was</p> <p>12 Professor Booth, why should we accept your</p> <p>13 3.8 percent as the long Canada rate, why</p> <p>14 don't we just use a lower rate and then use</p> <p>15 a bigger market equity risk premium? And I</p> <p>16 said, well, I don't think that's appropriate</p> <p>17 because I don't think the current market</p> <p>18 rate is a fair market value and we have a</p> <p>19 lot of evidence on the market risk premium,</p> <p>20 so why should we sort of torture the market</p> <p>21 risk premium to apply to a lower long Canada</p> <p>22 rate in order to get a fair return? And the</p> <p>23 second part of that is if you believe the</p> <p>24 beta was .5, including that long Canada</p> <p>25 adjustment that I was using of about 1.8</p>

Page 93	<p>1 percent or whatever, you put that inside the</p> <p>2 market risk premium and then for the utility</p> <p>3 with a beta of .5, you only include 90 basis</p> <p>4 points of it, half of it. I prefer to</p> <p>5 include it in the base to get what I regard</p> <p>6 as a reasonable estimate; whereas the</p> <p>7 Alberta Utilities Commission has routinely</p> <p>8 had a higher market risk premium applied to</p> <p>9 a lower long Canada bond yield during this</p> <p>10 period when we had incredibly low long</p> <p>11 Canada bond yields. What would be</p> <p>12 inappropriate is to use this adjusted high</p> <p>13 market risk premium and apply it to my 3.8</p> <p>14 percent long Canada bond yield because</p> <p>15 that's double counting and we'd end up with</p> <p>16 an excessive estimate. So when we look at</p> <p>17 these estimates, I can't remember who came</p> <p>18 up with 5.9 percent, but I think that, based</p> <p>19 upon the historic evidence, based upon</p> <p>20 Kroll, based upon Damodaran, based upon all</p> <p>21 of the survey responses, that's reasonable</p> <p>22 applied to what would be regarded as a</p> <p>23 normalized long Canada bond yield or what I</p> <p>24 call a trigger yield. 7.5 percent at that</p> <p>25 time may have been reasonable to apply</p>	Page 95	<p>1 paragraph 128 on page 28, this I think we'll</p> <p>2 agree with, the very first sentence, "In</p> <p>3 this proceeding, parties have much the same</p> <p>4 debate about beta as in past generic cost of</p> <p>5 capital proceedings, consistent with its</p> <p>6 views in past generic cost of capital</p> <p>7 decisions, the commission considers that</p> <p>8 there exists room for legitimate differences</p> <p>9 of opinion among industry practitioners and</p> <p>10 academic experts on what constitutes a</p> <p>11 reasonable range for a regulated utility</p> <p>12 beta." Then we go to the next page –</p> <p>13 DR. BOOTH:</p> <p>14 A. Is there a question there?</p> <p>15 GREENE, KC:</p> <p>16 Q. No, I just—you may not agree with that.</p> <p>17 DR. BOOTH:</p> <p>18 A. Well I would say I don't know, I'm an</p> <p>19 academic, I look at the evidence and I would</p> <p>20 not accept that industry practitioners use</p> <p>21 adjusted betas, which presumably is the</p> <p>22 implication. There's no evidence for that.</p> <p>23 There's no evidence for that at all?</p> <p>24 GREENE, KC:</p> <p>25 Q. No, I'm just saying this was the view of—and</p>
Page 94	<p>1 against an incredibly low long Canada bond</p> <p>2 yield, so the market risk premium it's</p> <p>3 important to take into account, is a market</p> <p>4 risk premium over what? So this range, they</p> <p>5 don't clearly specify what they're doing</p> <p>6 with that range or what the experts would do</p> <p>7 or where that range was coming from for the</p> <p>8 experts.</p> <p>9 GREENE, KC.:</p> <p>10 Q. And I didn't intend to go there, I was using</p> <p>11 it as an example of how a regulatory board</p> <p>12 in looking at all of the evidence has used</p> <p>13 their judgment based on—and did take into</p> <p>14 account and did reference the independent</p> <p>15 third party views of experts, that's all.</p> <p>16 DR. BOOTH:</p> <p>17 A. I mean, if –</p> <p>18 GREENE, KC:</p> <p>19 Q. If we could move on now to betas. Again,</p> <p>20 just as an example of another, how</p> <p>21 commissions do treat betas. If you go to</p> <p>22 the same decision on page 28, and this was a</p> <p>23 source of several questions by Mr. O'Brien</p> <p>24 with respect to betas and how your betas</p> <p>25 differed from Mr. Coyne's. If you go to</p>	Page 96	<p>1 we'll come back to how a regulator may view</p> <p>2 the opinions and judgments that are put</p> <p>3 forward. So then we go to the next page</p> <p>4 which is paragraph 131 and we see what was</p> <p>5 estimated by Mr. Coyne at that time, his</p> <p>6 estimated beta of .83 and .86. And then we</p> <p>7 go on to the next paragraph, sorry, same</p> <p>8 paragraph, second last sentence, "The</p> <p>9 commission finds that these are unreasonably</p> <p>10 high given its findings regarding the</p> <p>11 overall risk of Alberta utilities." The</p> <p>12 last paragraph, "The commission concludes</p> <p>13 that utility stocks are appreciably less</p> <p>14 risky and volatile than equities in the</p> <p>15 boarder market and therefore, consider a</p> <p>16 reasonable range of betas for regulated gas</p> <p>17 and electric utilities to be between .45</p> <p>18 representing Dr. Cleary's unadjusted long-</p> <p>19 term beta, and .75 in the range of the</p> <p>20 adjusted betas recommended by Dean Masden</p> <p>21 and the other expert who was there." So I</p> <p>22 wanted to bring you to at least the Alberta</p> <p>23 decision, which is different than the</p> <p>24 British Columbia Utility decision and how it</p> <p>25 treated some of these factors. And you</p>

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1 would agree, obviously, that Mr. Coyne's
 2 estimates in this proceeding are also too
 3 high, it shouldn't be considered by the
 4 Board for the beta to be used in determining
 5 the recommended ROE based on CAPM.
 6 DR. BOOTH:
 7 A. The Aberta decision—the AUC has in the past
 8 explicitly rejected Mr. Coyne's adjusted
 9 betas.
 10 GREENE, KC:
 11 Q. And they did here again.
 12 DR. BOOTH:
 13 A. And the Hamada adjustment is a joke and I'd
 14 have to say is a joke. It's explicitly
 15 rejected by the AUC and Hamada adjustment,
 16 I've never seen people apply, a Hamada
 17 adjustment is to the capital structure of
 18 the firm and you'll see it's basically an
 19 adjustment for the tax advantage to using
 20 debt financing for the company and it's
 21 based upon US tax system, not based upon
 22 what we do in Canada. So perhaps a joke is
 23 too strong, it's just, it was explicitly
 24 rejected here—it's basically a leverage
 25 adjustment. It's basically saying that in

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1 the US they use more debt, you apply a
 2 Hamada adjustment to the Canadian utilities
 3 and you need to increase their ROE. And
 4 that assumes that the use of debt increases
 5 the volatility of the earnings of the
 6 utility. I don't see that for Newfoundland
 7 Power, I don't see it for any utility in
 8 Canada because of all the deferral accounts.
 9 My judgment would be that Newfoundland Power
 10 could be allowed a 35 percent common equity
 11 ratio and it would still earn its allowed
 12 ROE because of the extent of regulatory
 13 protection. The amount Hamada adjustment
 14 takes no account whatsoever of the use of
 15 deferral accounts to adjust for the
 16 volatility of the underlying earnings of the
 17 utility. So it's totally inappropriate to
 18 use for regulated companies. And in fact,
 19 there was papers in the American and
 20 Economic review back in the mid 1960s
 21 basically saying that it shouldn't be used.
 22 And Dr. Villisan (phonetic) is an
 23 accountant.
 24 GREENE, KC:
 25 Q. So I've come to my last question, you have

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1 said in your evidence and also in cross-
 2 examination by Mr. O'Brien that you're
 3 somewhat frustrated in having appeared for
 4 38 years, I believe you said, and not having
 5 your opinion understood and accepted. I was
 6 going to say I think I've been here almost
 7 as long involved in regulatory proceedings,
 8 for several years for a utility and in the
 9 last 13 as board hearing counsel and what
 10 the commissioners may and board hearing
 11 counsel may find difficult to understand or
 12 frustrating is when they're looking at these
 13 things, we see significantly different
 14 recommendations coming from experts, often
 15 using the same methodologies. I believe you
 16 have agreed that significant discretion and
 17 judgment, I'll call it discretion, it's
 18 judgment, has to be used by the experts and
 19 you can see it's also used by the regulatory
 20 boards when they are presented with what can
 21 appear to be extreme recommendations. What
 22 I mean extreme, I mean one is very, is much
 23 lower than the other and the utility cost of
 24 capital expert tends to be higher than what
 25 ends up being accepted by the regulator;

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1 whereas the Consumer Advocate expert's
 2 opinion doesn't seem to be accepted either,
 3 so what is the Board to do with that, I was
 4 going to ask you your opinion on it.
 5 DR. BOOTH:
 6 A. Very, very, very good question. What
 7 constitutes an expert, I think that's the
 8 core of the question. In Quebec they have
 9 different opinions on what an expert is and
 10 as a result, legally they have to apply
 11 different weights to an expert's opinion
 12 versus somebody that could come in and
 13 testify based upon knowledge of what goes
 14 on, rather than is a genuine expert. And I
 15 say that, just I mean, this is just, I don't
 16 know whether the Board is aware of this, but
 17 the lawyers I'm sure are aware of it, that
 18 the definition of an expert differs in
 19 different jurisdictions and as a result the
 20 weight placed on their evidence differs. I
 21 think academics have a different view to
 22 what the fair return standard is because
 23 we're trained to basically look at the
 24 economics of regulated industries and why
 25 they are regulated and we're trained to look

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1 at capital markets and what the fair return
 2 is, we just call it the cost of equity
 3 capital or the cost of debt capital, and
 4 then we make an adjustment for the fair
 5 return, but that's—we do research on this,
 6 and the papers get sent out and they're
 7 reviewed and the ones that aren't acceptable
 8 disappear, they're basically—so there is a
 9 lot of research on this. Professors of
 10 finance have to read this literature, so I
 11 read the literature and there's no evidence
 12 on betas adjusting towards 1 for utilities.
 13 The only evidence is that they don't.
 14 Witnesses produced, well, let's just say
 15 that's an academic perspective on this.
 16 (10:45 a.m.)
 17 In 2012, I think it was, the BCUC
 18 brought in the chair of the financial group,
 19 financial group at the Sauder Business
 20 School at the University of British
 21 Columbia, Ron Giammarino. I tried to hire
 22 him at U of T, but he preferred for some
 23 reason to go to UBC, but I thought having
 24 somebody, a genuine expert in terms of the
 25 financial issues on the board to assist the

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1 board and explain, well, this is why they
 2 get that expert, this is why they get this
 3 expert and underlying what's going on was
 4 useful to the BCUC, and in fact, the BCUC,
 5 the chair of the BCUC for a number of years
 6 was on leave from the University of British
 7 Columbia from their Department of Economics.
 8 So I think, it is, I recognize it's tough
 9 for laymen, particularly with all due
 10 respect you're knowledgeable, you're
 11 intelligent, but you're not familiar with a
 12 lot of this material except what you hear,
 13 your personal investing and what you hear in
 14 the courtroom, so I would, I thought the UBC
 15 got it right. That was a hearing where
 16 there were five different witnesses and if
 17 you have five different witnesses, you're
 18 going to get five different answers, and I
 19 think having a genuine expert on the board
 20 to advise them had a big impact on that
 21 hearing before the BCUC. And that was a
 22 particularly important hearing because it
 23 was just after the US financial crisis, and
 24 as a result, things were all over the place,
 25 so there was more dispersion, should I say,

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1 than normal in that hearing. So as a
 2 professor of finance and I don't have a bias
 3 for none of these, I do work for the Justice
 4 Department on Indian Land Claims, I do work
 5 on CRA tax cases that I find interesting,
 6 and I've appeared on behalf of a variety of
 7 interest groups, but my judgement is always
 8 exactly the same. I think I'm unbiased, but
 9 I think I've been trained to think a certain
 10 way and getting off that certain way is
 11 difficult, so in may be I'm biased because
 12 I'm a professor of finance. Maybe economics
 13 is wrong, maybe what we teach our MBAs and
 14 what we do research on is all wrong. Maybe
 15 the world is different out there, making
 16 fundamental mistakes. It would be against
 17 my background to say that. I happen to
 18 think that the consensus in the finance
 19 community, thousands of finance academics
 20 doing research on these topics, is
 21 reasonably correct. We have a few oddballs,
 22 you actually get publications by being
 23 oddballs, by making out of the ordinary
 24 recommendations that attract interest and
 25 then generate controversy. Academics is

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1 full of controversy, that's how we come to
 2 decide on some form of consensus, so I can't
 3 help the Board this time, but there's some
 4 good people in Memorial, perhaps next
 5 hearing they could bring in the chair of the
 6 economics group from Memorial as a
 7 supplementary panel member just to hear some
 8 of this regulatory work. I am getting
 9 testy, perhaps it's just old age. I'm
 10 testier than I was six years ago because you
 11 hear the same things over and over again and
 12 I'd like a lot of these things to be
 13 settled.
 14 GREENE, KC:
 15 Q. But unfortunately we are where we are and
 16 unfortunately regulators haven't generally
 17 accepted the academic approach, so we're
 18 left with the academic approach as what I
 19 described, you just described and then the
 20 utility expert who comes in with their data,
 21 so it's a challenge for the commissioners.
 22 DR. BOOTH:
 23 A. I would say you look at the burden of the
 24 evidence and I've come a long way from when
 25 I used to present my own estimates thinking,

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1 well, what we do in academia is right, and
 2 produced those estimates. Now I produce all
 3 of this stuff from Bank of New York Mellon,
 4 from JP Morgan, from TD, from Kroll, the
 5 beta estimates from RBC and from—I mean,
 6 I’ve done that because I think that I’m
 7 unbiased. I also think that most of the
 8 people in the capital market are unbiased.
 9 There’s people putting their money on the
 10 table buying a utility, a nameless utility,
 11 they’re doing it for a reason and that’s
 12 subjective data. So I’ve tried to go out of
 13 my way, particularly over the period since
 14 2009 when we got, after the financial crisis
 15 to include more and more, as much data as
 16 possible on independent views of what’s
 17 going on in the capital market. And as I
 18 said, Mercer, Newfoundland Power’s actuary,
 19 their estimate of the Canadian equity market
 20 return is within a few basis points, exactly
 21 the same as mine, and if Mercer and
 22 Newfoundland Power accepts Mercer’s judgment
 23 that the adjusted market return from 7.1
 24 percent to 8 point something or another to
 25 make it consistent with regulatory practice

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1 is in the 8s, if that has been accepted by
 2 Newfoundland Power, it’s Mercer’s judgment,
 3 it’s exactly the same judgment as mine, how
 4 can you give Newfoundland Power 9 point
 5 whatever it is they’re asking for, 9.85
 6 percent when their own actuary is telling
 7 them that the long-run return on the equity
 8 market is 8 point four something or other.
 9 You now, sooner or later you’ll have to
 10 listen to, not just the academic finance
 11 experts, but the actuaries and the people
 12 actually putting money behind their
 13 estimates.
 14 GREENE, KC:
 15 Q. Thank you very much, Dr. Booth, those are
 16 all my questions.
 17 CHAIR:
 18 Q. Any questions?
 19 COMMISSIONER O’BRIEN:
 20 Q. No questions from me.
 21 CHAIR:
 22 Q. I just want to touch on one item, I guess it
 23 was the, initially when you started your
 24 discussion and you talked about the
 25 investment in the LIL.

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1 DR. BOOTH:
 2 A. Am I allowed to talk about that?
 3 CHAIR:
 4 Q. My only point is that there’s a lot we don’t
 5 know about that, it was a press release
 6 which doesn’t have all the details and based
 7 on my reading, I thought there was some
 8 future obligation of Emera to pay for
 9 sustained capital, continue to pay for
 10 sustaining capital, and if that was the
 11 case, you wouldn’t—there’s potentially we
 12 may not see all of the values that Emera
 13 brings to the table in the calculation of
 14 the market to book calculation that you
 15 completed if there was future obligations of
 16 Emera, would that be fair?
 17 DR. BOOTH:
 18 A. No. My understanding from the press release
 19 is KKR has assumed those obligations. KKR
 20 talks, one of them talks about 235 million,
 21 the other one talks about 240 million, so I
 22 don’t know why there’s a 5 million
 23 discrepancy, but when you look at the
 24 numbers that I gave you, I didn’t use the
 25 one point, whatever it was, one point

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1 something or other that KKR has agreed to
 2 pay, I used the amount they agreed to pay
 3 minus the continuing obligations to LIL. So
 4 that’s what they paid for the existing value
 5 of the assets and my understanding, I could
 6 be wrong here, but my understanding is Emera
 7 said they are to continue an obligation, I
 8 forget whether it’s 235 or 240 and KKR has
 9 said they got, they assume that obligation,
 10 they got a slightly different number, but
 11 that’s specific to LIL and I would say
 12 something else that Mr. O’Brien might take
 13 offence at, but even if you assume, if KKR
 14 is reasonable, they’re going to look at this
 15 and they are going to think about not just
 16 now but the future. Even if they think that
 17 this Board is going to give 9.85 percent and
 18 the LIL is going to get 9.85 percent, that
 19 doesn’t change the analysis, the implicit
 20 required return on the part of KKR is still
 21 less than my recommendation because it has
 22 to be that they assume they’re going to get
 23 11 percent on their investment to justify
 24 paying a 207 million dollar premium for the
 25 book value; otherwise, any reasonable number

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1 that you put in there for what KKR is going
 2 to earn, means that that 207 million dollar
 3 goodwill, premium over the book value, we
 4 know it's not going to earn any money. I
 5 mean, that's what—it's gone, all you earn is
 6 a book value and that's why I started out,
 7 the fundamental difference between myself
 8 and Mr. Coyne and I'm not a legal expert,
 9 all I know is that in Canada we're required
 10 to look at the securities, not look at the
 11 book value and the return on book value, but
 12 the return on the market value and that
 13 means whatever premium KKR paid, their fair
 14 return is less than 8.5 percent,
 15 significantly less than 8.5 percent, so I
 16 looked at that as just confirmation that
 17 here am I saying 7.7 percent, everybody else
 18 is saying higher, look at KKR, they're
 19 implicit fair return is significantly lower
 20 than 8.5 and it's actually lower than my
 21 estimate, so it's probably closer to Dr.
 22 Cleary's estimate in the AUC.
 23 CHAIR:
 24 Q. Okay, I just wanted a clarification that
 25 piece. All right, thank you very much.

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1 Back to counsel.
 2 MS. GLYNN:
 3 Q. Any re-direct?
 4 MR. O'BRIEN:
 5 Q. I dare not, it was on that point, Mr. Chair
 6 and I think I would agree with you that the
 7 sustained capital was kept by Emera, is my
 8 understanding of the obligation on that, and
 9 Dr. Booth, I believe there are other pieces
 10 and you can comment on that as to whether or
 11 not there's any operating risk for KKR that
 12 you are aware of? My understanding is
 13 operations may not come with this and that
 14 maybe Hydro might be involved with
 15 continuing the operations and that may
 16 affect the value of that return.
 17 MR. BOOTH:
 18 A. I'll accept that. I was originally just
 19 going to use suppose Company X paid such and
 20 such, but Company Y's book value, what is –
 21 MR. O'BRIEN:
 22 Q. And my point is we didn't have all the
 23 information.
 24 MR. BOOTH:
 25 A. No, we don't have all the information. It

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1 could be the story is slightly different.
 2 MR. O'BRIEN:
 3 Q. Right.
 4 MR. BOOTH:
 5 A. But all we know from the press release,
 6 there's a 207 million dollars in goodwill
 7 and goodwill doesn't earn any rate of
 8 return.
 9 MR. O'BRIEN:
 10 Q. And you've commented on that and I
 11 understand that on the record, I guess my
 12 point is more there are more pieces to this
 13 we're not aware of.
 14 DR. BOOTH:
 15 A. There could be and I'll give you that, all I
 16 know is the press release.
 17 MR. O'BRIEN:
 18 Q. All right, that's all I have.
 19 MS. GLYNN:
 20 Q. Any re-direct from that?
 21 COFFEY, KC:
 22 Q. Oh, no, no.
 23 CHAIR:
 24 Q. I guess we're done for the day. Thank you
 25 very much and have a good weekend.

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1 BROWNE, KC:
 2 Q. Have a good weekend everyone.
 3 Upon conclusion at 10:50 a.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 21st, 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 21st day of June, 2024

Judy Moss

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