

Q. NLH-123 CA (Re: Page 31)

Dr. Kalymon makes a downward adjustment of 25 basis points for the higher risk of the utility sample relative to the regulated activities of Hydro. Please explain why the adjustment has been reduced from 50 basis points in Dr. Kalymon's August 2001 testimony for NLH and the December 2002 testimony for Newfoundland Power.

A. **The selection of a downward adjustment for the regulated activities of Hydro as compared to the risk of the utility sample is a matter of judgment as market measurements are not possible given that purely regulated activities are not widely traded in the market. As the required returns for the utility sample appear to have moderated a reduced allowance for further risk adjustment appeared to be warranted.**