Q. Coyne Evidence: Does Mr. Coyne accept that integration means the "law of one price" holds, that is, the same thing sells for the same price in both countries? If not, why not?

A. The "law of one price" is an economic and trade principle based on the assumption that prices for homogeneous goods will be priced equally between locations, absent any transportation, economic barriers, or market information gaps; otherwise arbitrage will reduce any price differentials. Mr. Coyne did not assume either perfect integration or homogeneous goods in development of his cost of capital recommendation for Newfoundland Power. He did demonstrate:

> "On balance, the economic and business environments of Canada and the U.S. are highly integrated and exhibit strong correlation across a variety of metrics, including GDP growth and government bond yields. Based on these macroeconomic indicators, there are no fundamental dissimilarities between Canada and the U.S. (*i.e.*, in terms of economic growth, inflation, unemployment, or government bond yields) that would cause a reasonable investor to have materially different return expectations for a group of comparably situated utilities in the two countries." [Concentric Report, p.15]