Q. Reference: CA-NP-35

NP declined to answer the question as the assumed values of 15% and 3% for the embedded debt cost were unreasonable for the test years. However, the question was a general one. To rephrase does NP judge that the embedded debt cost affects the risk borne by the shareholder and that a higher embedded debt cost requires a higher ROE and vice versa?

A. The embedded debt cost *may* affect the risk borne by the shareholder. Whether it does, and the extent of the impact, will depend on the overall risk profile including changes in that risk profile.

It is not Newfoundland Power's view that higher embedded debt costs will necessarily always require a higher return on equity or that lower embedded debt costs will necessarily always require a lower return on equity. The estimation of fair return on equity does not, in Newfoundland Power's view, lend itself to that simplicity.