

1 **Q. Page 34, lines 2-4: Dr. Cleary concludes that Newfoundland Power is a**
2 **below-average-to-average business risk Canadian utility and has lower financial**
3 **risk. On page 37 it is stated that Newfoundland Power has "low business risk,**
4 **similar or slightly lower than for similar Canadian firms". Please clarify what is Dr.**
5 **Cleary's overall assessment of Newfoundland Power risk, that is, is it an overall**
6 **average risk Canadian utility or is it below-average risk in his opinion?**

7

8 A. Dr. Cleary is of the opinion that it is first important to recognize that NP has
9 "much lower business risk than the U.S. firms" (Cleary evidence page 25, lines 11-12),
10 and as expressed in the response to PUB-CA-025. This is the most relevant fact to take
11 away from his quantitative risk analysis, since it casts doubt on the use of U.S. utilities as
12 reasonable comparators, unless their figures are adjusted to reflect this additional
13 business risk.

14

15 With respect to the comparison of business risk to other Canadian utilities, Dr. Cleary's
16 opinion is that NP "at worst" has average business risk among comparable Canadian
17 utilities based on his analysis. He does not wish to speculate as to if it has lower business
18 risk or not, since qualitative debates on the issue cannot provide definitive conclusions
19 due to the subjectivity involved in such judgments, while his quantitative analysis
20 provided less conclusive results than comparisons to U.S. utilities (which were
21 overwhelmingly definitive), and because data availability for Canadian operating utilities
22 is often difficult to obtain. In fact, Dr. Cleary does not feel it is necessary to come to such
23 a definite conclusion in assessing NP's business risk relative to its Canadian peers, since
24 it is not critical to distinguish between various levels of "low risk," other than to say that
25 NP is "at worst" average. The important conclusion is stated on lines 11-12 on page 25 of
26 his evidence – "NP is very low business risk." This can also be said of most comparable
27 Canadian utilities, but not of U.S. utilities in general, at least not those included in Mr.
28 Coyne's U.S. proxy group.