Q. Page 35, lines 1-4: Please confirm that the adjustments to the CAPM model referred to are reflected in the 9.0% shown in Figure 16, page 34 and state what the "unadjusted" CAPM would be if no adjustments had been made to CAPM for the current market environment.

A. Mr. Coyne confirms that the 9.0% CAPM result for the Canadian Utility Proxy Group in Figure 16 includes the adjustments to the CAPM that are discussed on page 35 of Concentric's report.

In order to compute the "unadjusted" CAPM, Mr. Coyne has relied on the following inputs and assumptions:

Current risk-free rate: 2.24% (30-year long Canada bond yield as of 8/29/2015)
Bloomberg Beta: 0.64
Market Risk Premium: 6.3% (historical MRP only)

Based on these assumptions, the "unadjusted" CAPM result for the Canadian Utility Proxy Group would be approximately 6.8%, including 50 basis points for financial flexibility and flotation costs.

Mr. Coyne observes that the "unadjusted" CAPM result of approximately 6.8% is well below any authorized ROE for a regulated electric or gas utility in Canada or the U.S., and therefore does not meet the Fair Return Standard, which requires among other things that the allowed rate of return is comparable to returns available to investors in other investments of commensurate risk. For that reason, Mr. Coyne believes that the use of forward-looking rather than historical inputs and assumptions to the CAPM produce a more reliable indicator of the cost of equity for Newfoundland Power under current market conditions.