Q. (Application Volume 1, page 1-8) It is stated *The Company's business risks have not materially changed since 2018. and Newfoundland Power's business risks also continue to be defined by longstanding factors*. Why then is NP seeking a substantial increase in its ROE despite no change in its business risks?

A. Newfoundland Power is seeking an increase in ROE from 8.5% to 9.8%. The recommended ROE of 9.8% reflects the expert opinion of Mr. James Coyne of Concentric Energy Advisors.

Mr. Coyne's recommendation is based upon analytical tools and data sources normally used for such purposes before regulators in Canada and the U.S.[1] Mr. Coyne's analysis included an examination of the legal and regulatory requirements for determining a fair rate of return.

The Board has applied its view of the fair return standard for Newfoundland Power in a number of proceedings. In Order No. P.U. 2 (2019), the Board stated:

> *"In Order Nos. P.U. 43(2009), P.U. 13(2013) and P.U. 18(2016) the Board explained that 'to be considered fair the return must be commensurate with the return on investments of similar risk and sufficient to assure financial integrity and to attract necessary capital.' All three of these requirements must be met and no one requirement takes precedence over the other two."*[2]

The fair return standard is essentially a relative concept. In developing a recommendation for Newfoundland Power's ROE, Mr. Coyne considered the returns of utilities comparable to Newfoundland Power. Mr. Coyne's analysis included the selection of Canadian, U.S. and North American proxy groups. A range of ROE results for each proxy group was developed using the CAPM, Constant Growth DCF and Multi-Stage DCF methodologies.[3]

Mr. Coyne's analysis places the greatest weight on the results of the North American Electric Utilities proxy group, as that group is most representative of Newfoundland Power. The analysis showed that the average of all 3 methods for the North American proxy group is 10.0%, within the range of 9.44% and 10.56%. Based on this analysis, Mr. Coyne recommended 9.8% as a reasonable estimate of Newfoundland Power's required cost of equity.[4]

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[1] See the *2022/2023 General Rate Application, Volume 3, Expert Evidence, Cost of Capital: Mr. James Coyne*, page 2.
[2] See Order No. P.U. 2 (2019), page 12, lines 9-12.
[3] See the *2022/2023 General Rate Application, Volume 3, Expert Evidence, Cost of Capital: Mr. James Coyne*, page 2.
[4] Ibid., page 3.

Changes in Newfoundland Power's business risk were considered in assessing the Company's proposed capital structure. Newfoundland Power has proposed maintaining its targeted capital structure of 45% common equity for ratemaking purposes. This is consistent with the Company's view that its business risks have not materially changed since its last general rate application.

Mr. Coyne also assessed the appropriateness of Newfoundland Power's proposed capital structure based on an examination of the Company's business and financial risks relative to the proxy groups.[5] Mr. Coyne concluded that the current deemed common equity ratio for Newfoundland Power of 45% remains the minimum appropriate level given its relative financial and business risks.[6]

[5] Ibid., page 2.
[6] Ibid., page 79.