

- 1 **Q.** **Reference: *Fair Return for Newfoundland Power (NP)*, Evidence of**
2 **Laurence D. Booth, September 28, 2021, page 44, lines 1-2.**
3
4 ***“However, what is striking is the standard deviation of the annual earned***
5 ***ROEs (variability), which is a broad measure of risk.”***
6
7 **a)** **Please provide published references that define equity investment risk in**
8 **terms of variability of earned ROEs.**
9
10 **b)** **Please confirm that equity investment risk is typically measured through**
11 **the standard deviation of the security’s price over a number of periods.**
12
13
14 **A.** This whole discussion is about business risk not investment risk. As discussed
15 previously in answer to NP-CA-19 there is an added risk dimension as far as
16 equity investors are concerned which is market risk. This market risk is not the
17 standard deviation of the securities price risk but the systematic risk of the total
18 return, price plus dividends, as measured through beta.
19
20 The beta is the ratio of the stock’s return standard deviation relative to that of
21 the market times its correlation coefficient. So equity risk is not just the
22 standard deviation of its price risk.