Reference: Volume 3, Cost of Capital Report by James Coyne

Q. Volume 3, Cost of Capital Report by James Coyne, page 74, lines 10-27. In Order No. P.U. 18(2016), page 19, lines 31-33, the Board concluded that Newfoundland Power is an average risk utility compared to other Canadian utilities. Explain how each of the risks associated with the factors analyzed by Mr. Coyne in his assessment of Newfoundland Power's business risks compared to other Canadian utilities has increased since the Board's decision in 2016 that would cause the Board to now conclude that Newfoundland Power is above average risk compared to Canadian peers. In the response explain the degree to which any of the risks have changed and state whether the change is minor or material.

A. Mr. Coyne does not state that Newfoundland Power's risk has increased since the Board's decision in 2016 or since his analysis in 2018. His ROE recommendation does not include an adjustment for higher risk relative to the proxy groups; rather, his recommendation of 9.80% is slightly lower than the average ROE results for his U.S. and North American proxy groups and well below the average ROE results for the Canadian proxy group (at 11.3%). Mr. Coyne also recommends continuation of the same deemed equity ratio that the Board has found reasonable for the past 20 years. In summary, it is not necessary for the Board to find that Newfoundland Power has higher business risk than other Canadian utilities in order to approve Newfoundland Power's requested ROE and capital structure.