Q. Further to the response to PUB-NP-088 in which Mr. Coyne explains why 45% is the minimum appropriate common equity, explain how a slight reduction in Newfoundland Power's common equity to 44% or 43% and the maintenance of a return on equity which would permit the company to maintain its credit metrics within a range to support its current credit rating as can be seen in the response to PUB-NP-029 would also not be appropriate.

A. Maintenance of the Company's credit rating is just one consideration in setting the company's capital structure. Mr. Coyne agrees with the Ontario Energy Board's finding in this regard:

> *"The ability of a utility to issue debt capital and maintain a credit rating were generally put forth by stakeholders in the consultation as a sufficient basis upon which to demonstrate that a particular equity cost of capital and deemed utility capital structure meet the capital attraction and financial integrity requirements of the FRS [Fair Return Standard]. The Board is of the view that utility bond metrics do not speak to the issue of whether a ROE determination meets the requirements of the FRS. The Board acknowledges that equity investors have, as the residual, net claimants of an enterprise, different requirements, and that bond ratings and bond credit metrics serve the explicit needs of bond investors and not necessarily those of equity investors."*[1]

Setting the equity ratio and ROE to just meet a minimum bond rating threshold is not sufficient to meet the fair return standard. The Board must also consider the ability to attract equity capital, and the comparison of equity ratios and allowed returns for like-risk enterprises. As Mr. Coyne has demonstrated in his evidence, a 45% equity ratio is the minimum necessary to meet those standards, and lowering the equity ratio would run contrary to those standards.

Also, please see the response to Request for Information CA-NP-202(c).

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[1] Ontario Energy Board, EB-2009-0084, Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, December 11, 2009, p. 20.