Q. Overall recommended ROE and the ROE allowed by the formula. Mr. Cicchetti's recommended ROE is in a range 9.0-9.60% and he recommends the top of the range based on current financial market turmoil and notes that the allowed ROE from the formula is 8.5%

(a) Please confirm that all three estimates of the fair ROE come from analyzing either a sample of US electric or natural gas utilities using a two-stage DCF estimate or a DCF based risk premium model.

(b) Please confirm that none of Mr. Cicchetti's recommendation is based directly either on Canadian firms or data from the Canadian capital market. If Mr. Cicchetti can not confirm please point explicitly to any part of his testimony where his recommendations have been altered as a result of reviewing Canadian capital market data or firms.

(c) Please indicate the courses/studies Mr. Cicchetti has taken in international finance.

(d) Please indicate whether Mr. Cicchetti is aware of the interest rate parity result and if so please explain it succinctly.

(e) Please indicate any theory or practice in international finance that indicates that you can take estimates of the fair "opportunity cost," that is equity cost or required rate of return from one country and apply it in another without doing any checks.

(f) Please indicate what checks are required and where in Mr. Cicchetti's evidence he has made these checks.

(g) Please provide the current Prime rate in the US and Canada and the current long term (30 year) government bond rates. Currently the difference between the two rates in above is 1.0% and 0.50% respectively please confirm that if the rate differentials are subtracted from his range of estimates the result is a range of either 8.0%-8.60% based on Prime or 8.50%-9.1% based on long government bond yields.

(h) Please confirm that the current allowed formula ROE of 8.50% is within the range indicated in above once basic differences between the US and Canada are accounted for.

A. (a.) Confirmed.

(b.) Mr. Cicchetti did not directly rely on any Canadian firms in his cost of equity analyses. Mr. Cicchetti did evaluate the Canadian capital markets and utility industry in reaching his recommendation.

(c.) Multinational financial management.

(d.) Mr. Cicchetti is aware of the interest rate parity condition. The interest rate parity condition when dealing with international investment /comparison is the following:

Returns on U.S. Assets = Returns on Foreign Assets + Expected Dollar Depreciation

If the positions are covered at the beginning of the investment period (using a forward rate to convert the future transactions in currencies), then there is no risk associated with the exchange rate change, the above equation becomes the covered interest rate parity condition. Most empirical results suggest the covered interest (rate) parity condition holds exactly if appropriate assets (forward contracts, risk free assets in different countries) are chosen. In this case, the expected dollar depreciation is known given the forward currency contracts.

If the position is not covered, then the condition (uncovered interest rate parity) still should hold in theory. In reality, economists have been having a hard time validating the condition using actual exchange rate data because the expected exchange rate is very hard to measure and using the actual exchange rate often leads to problematic empirical results.

(e.) Canada and the U.S. are closely integrated trading partners with similar economic characteristics, public policies, and free capital flows between them. The U.S. dollar did not depreciate in 2008 and has gained approximately 11 percent in the first seven months of 2009. The dollar is not expected to change in 2010 so Mr. Cicchetti's methodology is a reasonable current estimate of the cost of common equity for Newfoundland Power.

(f.) The prime rate and long-term government rate for the U.S. are 3.25 percent and 4.22 percent, respectively. The prime rate and long-term government rate for Canada are 2.25 percent and 3.90 percent, respectively.

(g.) Not confirmed. The difference in the long-term government bond rates currently is 38 basis points and not 50 basis points.

Not confirmed. Mr. Cicchetti does not believe this is a valid analysis or conclusion.