Q. Re: Discounted cash flow analysis on page 21

a. Mr. Cicchetti states that "in order to take advantage of specific dividend forecasts for the next five years provided by Value Line..." Please confirm that both Mr Cicchetti's analysis and choice of companies is driven by the availability of Value Line forecasts rather than finding the best comparables for Newfoundland Power. If not please explain this sentence.

b. Please provide the underlying data used for the DCF estimates and provide the estimates individually for each company in MAC 10-11.

c. Please confirm that the issue cost adjustment is based on US capital market experience. If not please provide all data relied on to estimate issue cost for Canadian companies. Is Mr. Cicchetti aware that Canadian investment banks operate under slightly different regulations, in particular bought deals are common in Canada and not allowed in the US, so that issue costs are generally lower?

d. Please confirm that the resulting DCF estimates of 9.53% for electric and 9.57% for gas utilities are US estimates reflecting US investor behavior, monetary policy, taxes and capital markets. If not why not.

e. Please indicate all analysis that Mr Cicchetti has done to indicate that risk premia are the same in the US as Canada. In particular is Mr. Cicchetti aware that Canadian risk premia have historically been regarded as 1.0% lower than in the US due to differences in monetary policy, taxes, regulations etc?

f. Can Mr Cicchetti confirm that the US betas in MAC 8 and 9 are adjusted betas in that the actual betas are adjusted with 1.0? If not why not.

i. Can Mr Cicchetti provide references to any Canadian regulatory decision that has accepted the use of adjusted betas?

ii. Can Mr Cicchetti provide references to any literature that indicates that utility betas regress towards the overall market mean of 1.0 rather than the utility mean of about 0.50?

iii. Can Mr Cicchetti please un-adjust the Value Line betas to provide the actual direct beta estimates for the firms in MAC 8&9.

iv. Can Mr Cicchetti confirm that if the utility beta is 0.50 then he should reduce his US risk premium estimates by about 0.50%, which is the beta of 0.50 times the lower Canadian market risk premium. If not why not.

v. Can Mr Cicchetti further confirm that if he reduces his US estimates for the 0.50% lower utility risk premium and 0.50% lower risk free rate in Canada his resulting estimated ROE range is 8.0%-8.60%, if not why not?

g. In terms of Mr. Cicchetti's risk premium model:

i. Can he confirm that this is based in the same DCF model as his other two estimation techniques?

ii. Can Mr Cicchetti confirm that if the risk premium is higher in the US then all these estimates would be higher than for similar firms in the Canadian capital market, if not why not?

iii. Can Mr Cicchetti provide for each month the DCF equity cost estimate for the index broken out into its dividend yield and growth components and explain how this series differs from that in Ms. McShane's evidence?

iv. Can Mr Cicchetti please run a simple OLS regression of the two components of the risk premium against the US treasury yield and report the results.

A. (a.) Not confirmed. Mr. Cicchetti based his analysis on comparability. The sentence refers to Mr. Cicchetti reliance on the two stage DCF model which specifically discounts the explicit Value Line dividend forecasts that are available.

(b.) The underlying data are listed individually for each company in MAC 10 and 11.

(c.) Confirmed. It is also noted the issue cost adjustment recommended by Mr. Cicchetti is less than that recommended by Dr. Booth.

(d.) The results are confirmed, however, investors worldwide invest in U.S. stocks and securities not just U.S. investors.

(e.) Mr. Cicchetti's risk premium analysis is based on companies similar to Newfoundland Power. Mr. Cicchetti is not aware of any valid ex ante risk premium studies that reach the conclusions referenced in the question.

(f.) Confirmed.

(f.) (i) No.

(f.) (ii) Mr. Cicchetti is not aware of any studies on the subject limited to utility stocks.

(f.) (iii) Mr. Cicchetti does not have the necessary data to make the requested calculations.

(f.) (iv) Not confirmed. Mr. Cicchetti's risk premium estimates are not based on beta. Furthermore, the companies used in Mr. Cicchetti's analysis are similar to Newfoundland Power and as such would be expected to have similar betas.

(f.) (v) Not confirmed. Mr. Cicchetti's risk premium analysis was not based on beta.

(g.) (i) Confirmed.

(g.) (ii) Not confirmed. Mr. Cicchetti's risk premium analysis is based on similar companies operating in similar conditions under similar regulation in integrated capital markets and he has no reason to believe the risk premium should be lower than that resulting from his analysis.

(g.) (iii) This request is voluminous and overly burdensome.

(g.) (iv) See Attachment CA-PUB-16 (g)(iv).

1. Linear Regression - Estimation by Least Squares
Dependent Variable RISKFREERATE
Monthly Data From 1999:08 To 2009:07
Usable Observations 120 Degrees of Freedom 118
Centered R**2 0.280061 R Bar **2 0.273959
Uncentered R**2 0.987018 T x R**2 118.442
Mean of Dependent Variable 5.1427500000
Std Error of Dependent Variable 0.6998306668
Standard Error of Estimate 0.5963118120
Sum of Squared Residuals 41.959357702
Regression F(1,118) 45.9027
Significance Level of F 0.00000000
Log Likelihood -107.22521
Durbin-Watson Statistic 0.152488

Variable	Coeff	Std Error	T-Stat	Signif
1. Constant	0.9304983443	0.6240991297	1.49095	0.13864398
2. INDEXROE	0.4444162889	0.0655950261	6.77515	0.00000000

2. Linear Regression - Estimation by Least Squares
Robust Standard Error Calculations with Newey-West/Bartlett Window and 2 Lags
Dependent Variable RISKFREERATE
Monthly Data From 1999:08 To 2009:07
Usable Observations 120 Degrees of Freedom 118
Centered R**2 0.280061 R Bar **2 0.273959
Uncentered R**2 0.987018 T x R**2 118.442
Mean of Dependent Variable 5.1427500000
Std Error of Dependent Variable 0.6998306668
Standard Error of Estimate 0.5963118120
Sum of Squared Residuals 41.959357702
Log Likelihood -107.22521
Durbin-Watson Statistic 0.152488

Variable	Coeff	Std Error	T-Stat	Signif
1. Constant	0.9304983443	0.8665170533	1.07384	0.28289560
2. INDEXROE	0.4444162889	0.0966057774	4.60031	0.00000422

3. Regression with AR1 - Estimation by Cochrane-Orcutt
Dependent Variable RISKFREERATE
Monthly Data From 1999:09 To 2009:07
Usable Observations 119 Degrees of Freedom 116
Centered R**2 0.907687 R Bar **2 0.906095
Uncentered R**2 0.998352 T x R**2 118.804
Mean of Dependent Variable 5.1331932773
Std Error of Dependent Variable 0.6948819346
Standard Error of Estimate 0.2129390364
Sum of Squared Residuals 5.2597918521
Regression F(2,116) 570.2948
Significance Level of F 0.00000000
Log Likelihood 16.72872
Durbin-Watson Statistic 1.800176
Q(29-1) 28.392005
Significance Level of Q 0.44382682

Variable	Coeff	Std Error	T-Stat	Signif
1. Constant	4.2166197143	0.8697477708	4.84809	0.00000390
2. INDEXROE	0.0717037404	0.0849871496	0.84370	0.40057302
3. RHO	0.9413020479	0.0293895197	32.02849	0.00000000

4. Linear Regression - Estimation by Least Squares
Dependent Variable RISKFREERATE
Monthly Data From 1999:08 To 2009:07

Usable Observations	120	Degrees of Freedom	118
Centered R**2	1.000000	R Bar **2	1.000000
Uncentered R**2	1.000000	T x R**2	120.000
Mean of Dependent Variable	5.1427500000		
Std Error of Dependent Variable	0.6998306668		
Standard Error of Estimate	0.0000000000		
Sum of Squared Residuals	4.86942e-26		
Log Likelihood	3614.03112		
Durbin-Watson Statistic	0.000591		

Variable	Coeff	Std Error	T-Stat	Signif
1. Constant	-1.0408e-14	0.0000	0.00000	0.00000000
2. RISKFREERATE	1.0000	0.0000	0.00000	0.00000000