

1 **Q. Evidence of Ms. McShane, business risk, Pages 12-18: Ms. McShane states that**
2 **business risk has both a short and long term dimension. Please indicate whether she**
3 **looked at NP's stated ability to earn its allowed ROE, why she did not discuss this if**
4 **she did and what role she judges that ability to warrant in terms of assessing the**
5 **business risk of a utility.**

6
7 A. Yes, Ms. McShane is aware of Newfoundland Power's ability to earn its allowed return.
8 The Company's ability to earn its allowed return is implicit in its regulatory framework,
9 discussed at lines 431 to 450 of Ms. McShane's testimony. The regulatory framework,
10 which is a key determinant of a utility's ability to earn the allowed ROE, as well as the
11 ability to recover the invested capital over the longer-term, is an important factor in the
12 assessment of the utility's business risk. It is not only important that the utility be
13 allowed the opportunity to earn the allowed ROE; the allowed ROE itself must be fair
14 and reasonable.