Q. In Newfoundland Power's last GRA – Moody's Credit Opinion, August 3, 2009 (see Application 1st Revision, Exhibit 4) acknowledges the differences the regulatory and business environments in the U.S. and Canada, stating:

> **"NPI's Baaa 1 issues rating reflects the fact that the company's operations are exclusively based in Canada, a jurisdiction where regulatory and business environments in general are relatively more supportive than those of other international jurisdictions such as the United States, in Moody's view."**

In Ms. McShane's view, was Moody's wrong when it made this statement pertaining to the regulatory and business environments in Canada and the U.S.

A. Comparing the regulatory jurisdictions in each country as a whole, Ms. McShane does not disagree that the utility regulatory environment in Canada is somewhat more supportive than in the United States. In Canada, the typical regulatory model has taken a form that has provided somewhat greater assurance that regulated companies will earn the allowed return from year to year than in the U.S. In the U.S., while there is no single regulatory approach, a common philosophy is that the regulated company should be provided an opportunity to earn a fair return on average; that does not mean that a utility will necessarily achieve the allowed return each and every year. With respect to the longer-term risk that utilities will not be afforded the opportunity to earn a compensatory return on the capital invested, and to recover the capital invested, Ms. McShane has not found there to be a noticeable difference.

U.S. regulation of public utilities is not a monolith; it differs from state to state. Those differences are reflected in different regulatory ratings. Some states are viewed by Standard & Poor's, for example, as credit supportive, and some are viewed as less credit supportive. Of the 48 state regulatory jurisdictions S&P ranks, 28 are ranked as "credit supportive" or "more credit supportive". It is also important to recognize that comparability of risk entails both business/regulatory and financial risk. For example, the ability of capital structure to offset differences in business risk is at the heart of the Alberta Utilities Commission's approach to setting the allowed cost of capital for the utilities it regulates. In that context, with respect to Moody's specifically, the average and median debt rating of Ms. McShane's sample is the same as Newfoundland Power's debt rating, indicating that, from an overall risk perspective, Moody's views those companies of similar risk to Newfoundland Power.