

Q. Evidence of Kathleen McShane – Appendix “B”: What are the Value Line Rankings for each of the U.S. companies in Ms. McShane’s sample and what is Ms. McShane’s opinion as to what the Value Line Ranking would be for Newfoundland Power? How would Ms. McShane’s opinion on Newfoundland Power’s cost of capital be influenced if Ms. McShane were to use only U.S. companies with the top or highest Value Line rating?

A. The Value Line Safety Ranks for the sample of U.S. companies are found on Schedule 13, page 1 of 2. As regards the Value Line ranking for Newfoundland Power, Ms. McShane’s view is that it would likely be a 2. The potential for a ranking of 2 reflects Newfoundland Power’s relatively small size, since Value Line states that a ranking of 1 is usually assigned to large, financially sound companies.

Ms. McShane is unable to respond to the question regarding the influence on Newfoundland Power’s cost of capital if she were to use only companies with a rating of 1. There are 95 other companies operating in over 40 industries (see following table) with a Safety Rank of 1, whose cost of equity was not estimated as a proxy for that of Newfoundland Power.

Aerospace/Defense	Computers/Peripherals	IT Services	Retail (Hardlines)
Air Transport	Diversified Co.	Med Supp Invasive	Retail (Softlines)
Auto Parts	Drug	Med Supp Non-Invasive	Retail Building Supply
Bank	Electrical Equipment	Medical Services	Retail Store
Bank (Midwest)	Electric Utility	Metal Fabricating	Retail/Wholesale Food
Beverage	Entertainment	Natural Gas (Div.)	Semiconductor
Biotechnology	Financial Svcs. (Div.)	Natural Gas Utility	Shoe
Chemical (Basic)	Food Processing	Petroleum (Integrated)	Telecom. Equipment
Chemical (Diversified)	Household Products	Pharmacy Services	Telecom. Services
Chemical (Specialty)	Insurance (Prop/Cas.)	Reinsurance	
Computer Software	Investment Co.	Restaurant	