Q. **Vander Weide Evidence (page13, line 28) - Dr. Vander Weide states,**

"The fair standard only requires that comparable risk investments have comparable total risk. Thus, an investment with greater business risk can be risk comparable to an investment with lower business risk as long as the first investment's greater business risk is offset by its lower financial risk."

How does Dr. Vander Weide make the determination that investments have comparable total risk?

A. As Dr. Vander Weide discusses on page 12 of 124 of his written evidence, total investment risk cannot be measured precisely "because the risk of earning an actual return that is less than an investors' required return depends on the investors' estimate of the probability distribution of future cash flows in all future years, and the probability distribution of future cash flows is difficult to estimate." Recognizing that investment risk cannot be measured precisely, Dr. Vander Weide analyzes Newfoundland Power's cost of equity by:

> (1) identifying several groups of utilities that are broadly comparable in risk to Newfoundland Power's risk; (2) estimating the cost of equity for each group of comparable risk utilities using cost of equity methodologies such as the discounted cash flow ("DCF"), risk premium and CAPM; and (3) adjusting the cost of equity results for my comparable groups to reflect possible differences between the risk of the comparable group and the risk of Newfoundland Power. [Vander Weide Direct Evidence at 14]