

1 **Q. McShane Evidence - Ms. McShane, in her pre-filed evidence before the Board in**  
2 **2002 (p. 56 of 67) stated that for her proxy utilities she selected a sample of**  
3 **relatively “pure play” U.S. local gas distribution companies that serve as proxy for**  
4 **Newfoundland Power. Ms. McShane explained:**

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6 **“Further, I relied on LDCs rather than electric utilities for three reasons. First,**  
7 **Newfoundland Power is primarily an electric distribution utility. There are a very**  
8 **limited number of U.S. electric utilities whose operations are primarily distribution**  
9 **and/or transmission. Second, the operations of electric and gas distribution utilities**  
10 **have significant parallels, and are frequently considered to be proxies for one**  
11 **another. Third, as noted in Section II, a business profile score of “3” which is likely**  
12 **to be assigned to Newfoundland Power is the same as that of the typical U.S. LDC**  
13 **(Schedule 8). In contrast, the typical business score of the U.S. electric utilities is**  
14 **“4” (Schedule 8).”**

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16 **Why does a typical U.S. LDC have less business risk than a typical U.S. electricity**  
17 **utility? Does Ms. McShane still believe that Newfoundland Power would likely be**  
18 **assigned a business profile score of that of the typical LDC?**

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20 **A. Integrated electric utilities which have significant generation are typically viewed as**  
21 **more risky than LDCs due to the greater capital cost, operating and environmental risk**  
22 **associated with generating facilities than wires assets. Some types of generating facilities**  
23 **(e.g., fossil fuel) have greater potential to be bypassed than wires assets.**

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25 **S&P has not used business profile scores since late 2007. It now assigns one of six**  
26 **business risk rankings to each of the companies it rates, which range from “Excellent” to**  
27 **“Vulnerable”. The majority of Canadian utilities rated by S&P are in the “Excellent”**  
28 **category, with notable exceptions being Maritime Electric and Nova Scotia Power, both**  
29 **rated in the second category from the top, “Strong”. An “Excellent” ranking is given to**  
30 **the majority of U.S. electric and gas utilities. Twelve of the 13 companies in Ms.**  
31 **McShane’s sample are rated “Excellent”. Ms. McShane would expect that, if**  
32 **Newfoundland Power were still rated by S&P, its stand alone business risk rating would**  
33 **be “Excellent”.**