Q. Mcshane Evidence –

a. Can Ms. McShane review her answers to the information requests she provided to the Consumer Advocate in May this year and indicate whether she would change any of her answers and if so provide the changed response

b. Can Ms. McShane provide a concordance between her current testimony and that filed for the 2012 Cost of Capital Application, that is, provide a table showing in each case how her recommended ROE was determined and the values used and the basic macroeconomic and financial factors used to derive her estimates. At a minimum this should include:

a) Ms. McShane's use of a forecast long Canada bond yield

b) A forecast of an A bond yield cost.

c) Key macroeconomic factors, such as GDP growth etc.

d) Her financial parameters such as relative risk (beta) coefficients, market risk premium, flotation cost allowance etc.

e) The values used for her DCF risk premium and direct DCF estimates etc.

c. If the Board decided to continue with a variation of its ROE adjustment model how would Ms. McShane recommend they adjust the existing ROE model?

A. a. Ms. McShane's responses to the RFIs in the 2012 Cost of Capital Proceeding were based on the information and data she had at the time. She has reviewed her responses to those RFIs in that context, and is not aware of any changes that would be warranted.

b. The requested concordance is attached as "CA-NP-365 b Attachment 1.xls".

c. The persistently unsettled capital markets, the abnormally low long-term Canada bond yields and the unstable relationships between the utility cost of equity and Government bond yields make it difficult to construct an ROE automatic adjustment mechanism at this time that would successfully capture changes in the utility cost of equity. She recommends that the PUB adopt a constant ROE until Newfoundland Power's next GRA and re-consider at that time whether a formula should be re-implemented and how it should be constructed.

Requested Concordance

	March 2012		September 2012	
Equity Risk Premium Tests:				
Forecast 30-Year Canada bond yield	3.25%-3.5%		3.50%	
Forecast Long-Term A rated Utility Bond yield	4.80%		5.05%	
Risk-Adjusted Market Risk Premium Test:				
Market Risk Premium	8.0%		8.0%	
Relative Risk Adjustment	0.65-0.70		0.65-0.70	
Bare Bones Cost of Equity	8.8%		8.9%	
DCF Based Cost of Equity:				
Constant Growth:				
One variable (Long-term Gov't bond yields)	9.6%		9.6%	
Two variable (Long-term Gov't bond yields and spreads)	9.6%		9.7%	
One variable (Utility Bond Yields)	9.1%		9.3%	
Three-Stage Growth :				
One variable (Long-term Gov't bond yields)	9.6%		9.6%	
Two variable (Long-term Gov't bond yields and spreads)	9.6%		9.6%	
One variable (Utility Bond Yields)	9.4%		9.5%	
DCF-Based Risk Premium Test Result:	9.5%		9.5%	
Historic Utility Risk Premium:				
Utility Risk Premium over Forecast long Canada	6.75%		6.75%	
Utility Cost of Equity	10.0%-10.25%		10.25%	
Average of Risk Premium Tests (Before Financing Flexibility)	9.5%		9.6%	
DCF Cost of Equity Tests:	**Average**	**Median**	**Average**	**Median**
U.S. Utilities:				
Constant Growth:				
Analysts' Forecasts	9.4%	9.3%	9.4%	9.4%
Sustainable Growth	8.7%	8.6%	8.8%	8.5%
Three-Stage:				
GDP Growth Rate	4.9%		4.9%	
Three-Stage Growth	9.2%	9.1%	9.2%	9.1%
U.S. Utilities DCF	9.0%		9.1%	
Canadian Utilities:				
Constant Growth				
Analysts' Forecasts	11.7%	11.6%	11.2%	10.9%
Three-Stage				
GDP Growth	4.4%		4.3%	
Three-Stage Growth	8.7%	8.8%	8.5%	8.7%
Canadian Utilities DCF	10.25%		9.8%	
DCF: US and Canadian Utilities	9.5%		9.4%	
Bare Bones Cost Based on Risk Premium and DCF Tests (Equal Weight to Risk Premium and DCF)	**9.5%**		**9.5%**	
Financing Flexibility	0.5%-1.5%		0.5%-1.6%	
Recommended ROE	**10.5%**		**10.5%**	
Alternative Approach:				
Risk Premium and DCF "Bare Bones Cost"	9.5%		9.5%	
Financing Flexibility	0.5%		0.5%	
Market Based Tests ROE	10.0%		10.0%	
Comparable Earnings	11.25%-12.0%		11.0%-12.0%	
Alternative Approach ROE:	**10.5%**		**10.5%**	
75%/25%market based tests/ Comparable Earnings				