Q. Reference: 2012 Cost of Capital, Booth's Evidence, May 2012, Page 8, Lines 1-5

"However, we are still living with the aftermath of the financial crisis and while Canada has recovered, much of the developed world (Europe) is still locked either in recession or is struggling with financial constraints (US). Consequently, I do not recommend a change in NP's common equity ratio just yet unless the Board decides to significantly increase NP's ROE, since both a higher ROE and lower financial risk are incompatible with NP's average risk profile."

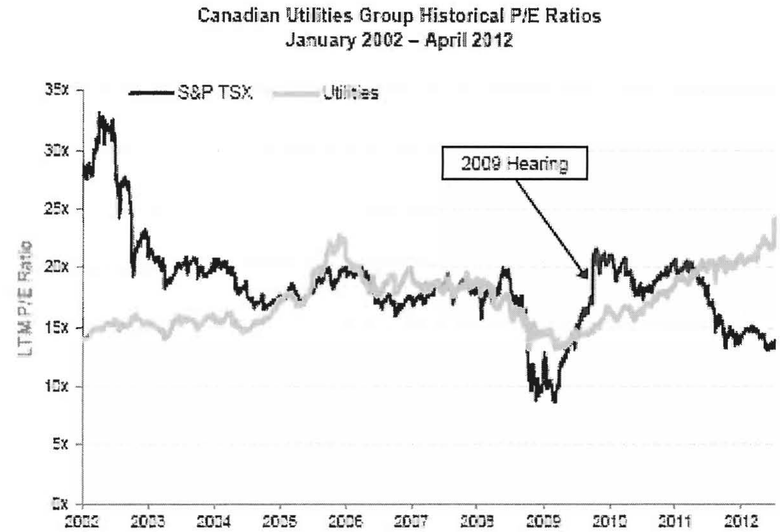
Reference: Page 46, Lines 20-22

"These are not average market conditions…"

Given current market conditions are not yet normal, please explain why Dr. Booth recommends a reduction in Newfoundland Power's common equity ratio?

A. Note that Dr. Booth states "average" not normal. There is no question that the Canadian real economy is back to average, but financial markets are being buffeted by events outside Canada and they are not yet "average." However, these are currently to the advantage of Canadian utilities in two ways:

1) Utilities are being valued on historically high Price-Earnings ratios as they are dividend rich defensive stocks (see Appendix C, page 6, for convenience repeated below).



2) Utilities are able to finance at currently incredibly low borrowing costs, several have been able to issue 40 and in some cases 50 year debt, for example, on September 5, 2012 CU Inc issued 50 year MTNs at a yield of 3.825%.

So Dr. Booth's judgment is that the only non-normal characteristic of current capital market conditions is the very low level of Canadian bond yields which works to the advantage of Canadian utilities.