Q. Opinion on Capital Structure and Return on Equity
Kathleen McShane – Volume 3

Pg. 2, #4 - If Newfoundland Power does have a favorable common equity ratio, all else being equal would you accept that this should result in a lower return on equity for Newfoundland Power compared to other Canadian utilities with similar business risks?

A. Yes, all other things equal. However, there is no evidence that Newfoundland Power is viewed as less risky overall, with its existing capital structure, which its debt ratings corroborate. In Ms. McShane's view, Newfoundland Power's somewhat higher than average common equity ratio relative to other Canadian utilities is warranted by its relatively small size. The impact of size is discussed further in response to CA-NP-319. With that capital structure, she considers that Newfoundland Power is of approximately average total risk compared to its Canadian peers. Ms. McShane would add the further caveat that the conclusion is premised on the assumption that the returns on equity allowed for other Canadian utilities meet the fair return standard.