

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

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4 **Pg. 4, #6e and Appendix E - Please provide support for the allowance of 50 to 160**  
5 **basis points to the “bare-bones” return on equity estimate of 9.5%.**  
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7 A. The concept of a financing flexibility allowance is widely supported by both financial  
8 theory and regulatory practice. With respect to the latter, the Board adopted an allowance  
9 for financing flexibility in establishing Newfoundland Power’s return on common equity  
10 for 2010 in Order No. P.U. 43(2009) (page 25). Ms. McShane’s Appendix E explains in  
11 detail the support for her specific financing flexibility adjustment range.