

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

Pg. 15, Section 5 - Given your estimated cost of equity for Newfoundland Power of 10.5% and a comparison to its Canadian utility peers in terms of allowed regulated return on equity for 2013 and 2014, does this support the assessment that Newfoundland Power is an average risk utility?

A. Yes. Ms. McShane's estimation of the fair return has been made independently of the returns on equity that regulators allow, that is, it is based on the application of market-based cost of equity tests. The return on equity that she is recommending for Newfoundland Power is the same as the return on equity that she would recommend for any Canadian utility that she assessed to be of comparable (average) total risk.