

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

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4 **Pg. 83, lines 2054-2057 - Given the DCF equity risk premium methodology was**
5 **applied only to the sample of US utilities, do you believe this methodology to be less**
6 **relevant or reliable as Newfoundland Power is a Canadian based utility?**

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8 A. No. The test has been applied to a sample of utilities that she has assessed to be of
9 comparable total risk to Newfoundland Power, and, as such, the results are no less
10 relevant or reliable than other tests. Ms. McShane explained at page 83 why the test
11 could not be applied to Canadian utilities. Ms. McShane considers that the test is
12 particularly relevant for estimating relationships between the utility cost of equity/risk
13 premiums and interest rates.