

- 1 **Q. Referring to page 10 of Ms. McShane's testimony, she quotes the Board's conclusion**
2 **that NP is of average business risk compared to other utilities, and concludes that**
3 **this determination is still valid for the reasons she sets out in her testimony. Has Ms.**
4 **McShane compared the financial risk of NP today relative to its financial risk in**
5 **2003? Specifically, has she compared the change, if any, to NP's common equity**
6 **ratio; and NP's embedded cost of debt since the 2003 rate decision? If affirmative,**
7 **please describe Ms. McShane's assessment of the change, if any, to NP's financial**
8 **risk since 2003.**
9
- 10 **A.** There has been no material change to Newfoundland Power's common equity ratio since
11 2003. Table 19 of Newfoundland Power's application indicates that the embedded cost
12 of debt in 2007 is expected to be 42 basis points lower than it was in 2003. By
13 comparison, the allowed return on equity is 115 basis points lower. Table 23 of the
14 application demonstrates that Newfoundland Power's credit metrics have deteriorated
15 since 2003. The deterioration in credit metrics indicates a higher level of financial risk
16 than in 2003.