Reference: Volume 3, Cost of Capital Report by James Coyne

Q. Volume 3, Cost of Capital Report by James Coyne, page 79, lines 22-24. Mr. Coyne concludes that "the current deemed common equity ratio for Newfoundland Power of 45 percent remains the minimum appropriate level given these relative financial and business risks". Did Mr. Coyne quantify these relative financial and business risks in reaching his conclusions for the report? If yes provide the quantification. If no, provide them at this time.

A. Mr. Coyne provides a comparison of the deemed equity ratios for other Canadian electric investor-owned utilities ("IOU") in his *Cost of Capital* report in Figure 30. He also provides a comparison of the credit metrics for Newfoundland Power and the Canadian and U.S. proxy group companies in Exhibit JMC-10. Business risk is more qualitative in nature than financial risk. Starting on page 57 of Concentric's *Cost of Capital* report, Mr. Coyne provided evidence regarding the business risk of Newfoundland Power, including 1) its small size relative to other electric IOU, 2) macroeconomic and demographic trends in the province and elsewhere in Canada, 3) operating risks associated with the Company's service territory, 4) changes in the power supply, and 5) competition from alternative fuels. Mr. Coyne also provided a comparison of Newfoundland Power's business risk relative to five other investor-owned electric utility companies in Canada starting on page 68 of his *Cost of Capital* report, and he provided an assessment of the regulatory risk of his U.S. proxy group compared to Newfoundland Power in Exhibit JMC-12 and on pages 75-78 of the *Cost of Capital* report.

In Mr. Coyne's view, it is not possible to quantify the business risks of a regulated utility such as Newfoundland Power.