

1 **Reference: Volume 3, Cost of Capital Report by James Coyne**
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3 **Q. Further to PUB-NP-086, the allowed equity ratios for a number of Canadian**
4 **utilities are provided in Mr. Coyne’s report and all are below Newfoundland**
5 **Power’s with the overall average for Canadian electric utilities reported on page 54**
6 **being 38.9%. Is the conclusion that can be drawn from this that Newfoundland**
7 **Power is, in Mr. Coyne’s opinion, the riskiest electric utility in Canada?**
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9 A. Mr. Coyne has not attempted to determine the riskiest utility, but in his view,
10 Newfoundland Power is an above average risk utility in Canada due to its business risk
11 profile. The Company’s small size, relatively weak economic and demographic trends in
12 the province and power supply dependence on Newfoundland and Labrador Hydro
13 differentiate Newfoundland Power from its Canadian and U.S. peers.
14

15 The cost of capital for a regulated utility is a function of both the authorized ROE and the
16 deemed equity ratio. While Newfoundland Power has a higher than average deemed
17 equity ratio as compared with other Canadian investor-owned electric utilities,
18 Concentric’s recommended ROE and capital structure appropriately recognize these risk
19 differentiators. Additionally, the Company’s equity ratio is well below the average for
20 the U.S. Electric proxy group.