

1 **Reference: Volume 3, Cost of Capital Report by James Coyne**  
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3 **Q. Volume 3, Cost of Capital Report by James Coyne, page 79, lines 22-24 Explain the**  
4 **basis for Mr. Coyne’s conclusion that 45% is the minimum appropriate common**  
5 **equity ratio for Newfoundland Power.**  
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7 A. Mr. Coyne agrees with the Board’s previous decisions which have approved a deemed  
8 equity ratio of 45.0% for Newfoundland Power. As discussed on pages 50-51 of  
9 Concentric’s report, the Board has determined that a deemed equity ratio of 45.0% helps  
10 to ensure that the Company is able to maintain its credit rating (Baa1 long-term issuer  
11 rating). Mr. Coyne’s conclusion that this is the minimum appropriate common equity  
12 ratio for Newfoundland Power is based on his assessment that Newfoundland Power is an  
13 above average risk Canadian electric utility, and the fact that the Company has a higher  
14 equity ratio but the same long-term issuer rating as other Canadian electric utilities.  
15 Maintaining the Company’s current equity ratio sends a signal to investors and rating  
16 agencies that Newfoundland and Labrador remains a supportive regulatory environment.  
17 This is particularly important amid fluctuating capital market conditions and economic  
18 and demographic trends in Newfoundland and Labrador that are among the weakest of  
19 any Canadian province.