

1 **Volume 2: Cost of Capital: Expert Opinion of Mr. James Coyne - Capital Structure and**  
2 **Risk Analysis**

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4 **Q. Volume 2, Cost of Capital Report, page 83, lines 25-27. Mr. Coyne concludes that**  
5 **the current deemed equity ratio for Newfoundland Power of 45 percent remains the**  
6 **“minimum appropriate level”. What in Mr. Coyne’s opinion are the implications for**  
7 **the fair return for Newfoundland Power if the approved equity ratio is increased to**  
8 **a higher ratio such as 46% to 50%? In the response explain how increasing the**  
9 **equity ratio would affect the determination of the approved return on equity for**  
10 **Newfoundland Power and if Mr. Coyne believes it would be appropriate for the**  
11 **equity ratio to be increased.**

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13 A. Concentric recommends an authorized ROE of 9.85 percent for Newfoundland Power  
14 with a deemed equity ratio of 45.0 percent. The deemed equity ratio for Newfoundland  
15 Power is approximately 5-7 percentage points below the average equity ratio for U.S.  
16 electric and gas utilities, which ranges from 50-52 percent. If the Board were to authorize  
17 a higher equity ratio such as 46 to 50 percent for Newfoundland Power, that would still  
18 be lower than the U.S. average. Therefore, it would not have any downward impact on  
19 the recommended ROE of 9.85 percent but would bring Newfoundland Power closer to  
20 its U.S. peers in terms of overall return and financial risk. As illustrated in the Company’s  
21 response to Request for Information PUB-NP-061, higher equity ratios up to 50% would  
22 also have a demonstratively positive impact on the Company’s credit quality.