

- 1 **Q. Page 39, lines 6-15: State the impact of each adjustment made to the calculation of**
 2 **the ROE using the CAPM model that was made to adjust for current market**
 3 **conditions.**
 4
 5 A. The table below shows the effect of each adjustment made to the calculation of the ROE
 6 using the CAPM that was made to adjust for current market conditions. The first
 7 adjustment shows the effect of using the current risk-free rate rather than a projected risk-
 8 free rate from Consensus Economics. The second adjustment shows the effect of using a
 9 historical market risk premium only instead of an average of the historical and forward-
 10 looking market risk premiums for both Canada and the U.S. The far right column shows
 11 the combined effect of these two adjustments on the CAPM results.

				Historical MRP
		Current		and Current
	As Filed	Risk Free Rate	Historical MRP	Risk Free Rate
	Mean Result	Mean Result	Mean Result	Mean Result
Canadian Utilities	9.61%	8.75%	8.53%	7.68%
U.S. Electric Utilities	9.16%	8.61%	8.24%	7.70%
North American Electric Utilities	9.22%	8.63%	8.28%	7.69%

- 12 Please see the response to Request for Information PUB-NP-064 for the reasons why Mr.
 13 Coyne does not believe it is reasonable to use the “unadjusted” CAPM results to estimate
 14 the cost of equity for Newfoundland Power under current market conditions. In fact,
 15 these “adjustments” are required in order to properly use the CAPM to estimate the cost
 16 of equity.