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

Q. Volume 3, Cost of Capital Report by James Coyne, page 57, lines 2-6. Explain how Mr. Coyne concluded that Newfoundland Power has comparable financial risk to the other investor-owned electric utilities in Canada given its higher equity component and higher long-term issuer rating from Moody's.

A. Newfoundland Power's deemed equity ratio of 45.0% is higher than that of its Canadian peers, as Mr. Coyne goes on to explain on page 57 of Concentric's *Cost of Capital* report. This additional equity strength is necessary to offset its additional business risk, which is higher than its Canadian peers. As explained in footnote 74 of Concentric's report, while Newfoundland Power's credit rating is higher than the two Canadian proxy group companies that are rated by Moody's (i.e., Emera and Enbridge), Newfoundland Power has the same Moody's rating as other electric operating utilities in Canada such as FortisBC Electric and Fortis Alberta. Nova Scotia Power is also rated BBB+ by S&P, which is equivalent to Newfoundland Power's Baa1 rating from Moody's. Newfoundland Power's deemed equity ratio of 45% has enabled the Company to maintain its Baa1 credit rating.