Volume 2: Cost of Capital: Expert Opinion of James Coyne-Return on Equity

Q. With respect to the paragraph on page 8 that refers to the three standards for a fair ROE and the need for a "favourable" credit rating (line 9) for Newfoundland Power.

a) Please define "favourable" and whether C&T regards this as consistent with the Board's statement in 2016 that rates should be set to "*enable the utility to earn a just and reasonable return so that it is able to achieve and maintain a sound credit rating in the financial markets of the world.*"

b) Is Mr. Coyne aware of any Canadian statutes or decisions of the Supreme Court of Canada that have interpreted the requirement to maintain a utility's financial integrity and credit in terms of a particular credit rating?

c) Since many US utility holding companies have some form of investment grade BBB credit rating would Mr. Coyne judge such a rating as consistent with the fair return standard and a sound credit rating? If not, why not?

A. a) Concentric defines a "favourable" credit rating as one that minimizes debt costs and provides lenders assurance that the company's earnings are adequate to meet its fixed obligations. Yes, we believe this is consistent with the Board's statement.

b) Concentric is not aware of any such statutes or decisions. However, several utility regulators in Canada including the Board have indicated that the authorized ROE or deemed equity ratio should be set at a level that allows the utility to maintain a sound credit rating.

c) Concentric has not evaluated "many U.S. holding companies" for purposes of our Report. Rather, Concentric has screened the U.S. proxy group to only include electric utilities with credit ratings of BBB+ or higher from S&P (which is equivalent to Baa1 from Moody's), equivalent to the credit ratings for Newfoundland Power.