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Q. In Figure 34 C&T report the common equity ratios of a sample of regulated operating companies. Please confirm that these utilities have no traded equity in the public markets and are not directly used in C&T's fair return estimates. Further the holding companies that access the financial market usually issue debt that is one level removed from the operating companies and so pay a higher cost than the operating companies? Can C&T confirm that S&P for example, will not rate an operating company higher than a holding company unless it is functionally insulated from the actions of the parent?

A. Confirmed that the companies in Figure 34 are regulated operating companies that are not publicly traded and are not used in Concentric's ROE analysis for Newfoundland Power. As explained in Concentric's *Cost of Capital* report, we compared Newfoundland Power's common equity ratio of 45.0% to a group of T&D utilities of a similar size, most of which provide electric utility service in the northeastern U.S. The average equity ratio for these companies is 50.3%, indicating that Newfoundland Power has greater financial risk.

Concentric agrees that S&P does not rate an operating company higher than a holding company unless it is ring-fenced from the parent. Moody's, which rates Newfoundland Power's debt, does not have the same policy with regard to tying the rating for the operating company to that of the parent. The companies listed in Figure 34 have their own credit ratings and issue their own debt. The cost of that debt depends on the business and financial risk of the entity issuing the debt, as well as market conditions.