

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

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4 **Q. For the US companies listed in JMC-11 it appears that they have more equity than**
5 **Newfoundland Power. If they also have higher allowed ROEs why is it that they all**
6 **have lower bond ratings than Newfoundland Power? Should not a higher common**
7 **equity ratio and allowed ROE imply a higher bond rating, except if they were also of**
8 **higher risk?**
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10 A. As shown in Exhibit JMC-3, the companies in the U.S. Electric proxy group all have
11 credit ratings of BBB+ or higher from S&P Global Ratings. This was the credit rating
12 screen used by Concentric to select the U.S. proxy group. It is equivalent to
13 Newfoundland Power's Baa1 rating from Moody's, and ensures that the companies in the
14 U.S. proxy group have similar investment risk as Newfoundland Power.