

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

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4 **Q. Volume 2, Cost of Capital Report, page 78, lines 3-4. Mr. Coyne concludes that the**  
5 **business risk for Newfoundland Power is above average, which is comparable to**  
6 **that in 2021 during the previous general rate application and concludes that**  
7 **Newfoundland Power has above average business risk compared to other Canadian**  
8 **utilities. In Order No. P.U. 18(2016), page 19, lines 31-33, the Board concluded that**  
9 **Newfoundland Power is an average risk utility compared to other Canadian utilities.**  
10 **Explain how in Mr. Coyne's opinion the Board's decision on Newfoundland Power's**  
11 **business risk profile in comparison to other Canadian utilities, whether average or**  
12 **above average, should be taken into account in assessing Newfoundland Power's**  
13 **capital structure and fair return. Does acceptance of Mr. Coyne's recommendations**  
14 **require the Board to find that Newfoundland Power is an above average risk utility?**  
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16 A. Concentric's ROE recommendation does not include an adjustment for higher risk  
17 relative to the proxy groups; rather, Concentric's recommendation of 9.85% is based on  
18 the three-model average results for the North American proxy group as shown in  
19 Figure 43 of Volume 2, Concentric's *Cost of Capital* report, and also consistent with the  
20 average ROE results for the Canadian proxy group (at 9.87%). Concentric also  
21 recommends continuation of the same deemed equity ratio of 45.0% that the Board has  
22 found reasonable for the past 23 years. In summary, it is not necessary for the Board to  
23 find that Newfoundland Power has above average business risk compared to other  
24 Canadian or North American utilities in order to approve Newfoundland Power's  
25 requested ROE and capital structure.