

1 **Q. Does NP accept that a 45% common equity ratio exceeds average allowed common**  
2 **equity ratios for Canadian electric transmission and distribution utilities and**  
3 **further that lower financial risk offsets higher business risk if the Board continues**  
4 **to regard Newfoundland Power *overall* as an average risk Canadian utility? If not,**  
5 **why not.**

6  
7 A. No.

8  
9 The Board has approved a capital structure with a 45% common equity ratio for  
10 Newfoundland Power since 1996.<sup>1</sup> Newfoundland Power considers its relatively strong  
11 capital structure compared to other Canadian electric utilities to be part and parcel of the  
12 Company's overall risk profile.

13  
14 The appropriateness of the Company's capital structure has been recognized by the Board  
15 on a number of occasions. For example, in Order No. P.U. 16 (1998), the Board found  
16 that the relatively small size of Newfoundland Power reduced its financial flexibility.<sup>2</sup>  
17 Similarly, in Order No. P.U. 19 (2003), the Board characterized Newfoundland Power's  
18 capital structure as a "...sound and successful..." one and observed that a strong equity  
19 component was needed to mitigate the impact of the Company's small size and low  
20 growth potential.<sup>3</sup>

21  
22 Newfoundland Power's capital structure was comprehensively reviewed in the  
23 Company's *2016/2017 General Rate Application*. In Order No. P.U. 18 (2016), the  
24 Board indicated that it did not believe it was appropriate to deem a reduced common  
25 equity ratio for Newfoundland Power given the uncertainty with Muskrat Falls and the  
26 economic outlook for the province and also in light of the concerns set out by  
27 Newfoundland Power in relation to the issuance or deeming of preferred shares.<sup>4</sup>

28  
29 Newfoundland Power currently faces an overall riskier outlook compared to the outlook  
30 at the time of the *2016/2017 General Rate Application*.

31  
32 It is Concentric Energy Advisors' opinion that Newfoundland Power has comparable  
33 financial risk and above average business risk in comparison to its Canadian peers.<sup>5</sup>

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<sup>1</sup> Order No. P.U. 18 (2016), page 24, lines 3-4.

<sup>2</sup> Order No. P.U. 16 (1998-99), page 37.

<sup>3</sup> Order No. P.U. 19 (2003), page 45.

<sup>4</sup> Order No. P.U. 18 (2016), page 25, lines 5-8.

<sup>5</sup> See Expert Evidence of Mr. James Coyne, found in *Volume 2, Supporting Materials, Tab B, Cost of Capital*, page 47, lines 25-26, and page 63, lines 21-22.