Q. **In the third quarter of 2017 NP paid a special dividend to its parent Fortis to maintain the company's average capital structure that includes 45% common equity. Please confirm that otherwise Fortis would have held surplus cash within NP over and above any normal dividend payments. Please confirm whether in NP's judgment NP is a "cash cow" to Fortis in generating surplus cash that Fortis can use elsewhere and whether this indicates that NP is more or less risky than equivalent utilities that have to continually raise cash to finance operations.**

A. Newfoundland Power (the "Company") cannot confirm "that otherwise Fortis would have held surplus cash within NP over and above any normal dividend payments".

If Newfoundland Power did not pay a special dividend to Fortis in the third quarter of 2017, the Company's average capital structure would have exceeded the deemed 45% common equity as approved by the Board in the 1996 general rate proceeding.[1] Any common equity above 45% is deemed to be preferred equity with a return for rate-setting purposes equal to the return on preference shares for that year.

Newfoundland Power's dividend policy is based on maintaining an average capital structure of approximately 55% debt and preference equity and 45% common equity. This may require dividend payments to be increased or decreased in a given year.[2] This ultimately ensures that customers receive the full benefit of the cost of capital approved by the Board in the ratemaking process.[3]

In Newfoundland Power's judgment, it is not "a cash cow to Fortis in generating surplus cash that Fortis can use elsewhere".

Customer rates are based on the Company's reasonable costs of providing service to customers, including financing costs on its capital investment. Newfoundland Power's operations and costs are routinely reviewed by the Board in general rate applications.[4] Accordingly, customer rates are not based on the Company "generating surplus cash".

[1] In Order No. P.U. 7 (1996-97), the Board ordered that the common equity component of capital structure be in the 40-45% range for ratemaking purposes. In addition, the Board ordered that common equity exceeding 45% be deemed as preferred shares at the rate applicable in that year. The deemed 45% common equity ratio has been reaffirmed by the Board in each general rate proceeding since that time. Most recently, the Board approved a common equity component in the capital structure not to exceed 45% for ratemaking purposes in Order No. P.U. 18 (2016).

[2] For example, in 2015, the Company reduced its dividend payments to $9.5 million compared to $23.1 million in 2014. There are a number of other instances where the Company has either increased or decreased dividend payments to maintain its capital structure. For example, in 2002 and 2003, common dividend payments were reduced by approximately 50%. On October 7, 2011, Newfoundland Power paid a special dividend to Fortis of $29.9 million to maintain its capital structure following the 2011 revised support structures agreement with Bell Aliant in which Bell repurchased 40% of all joint-use poles and related infrastructure from Newfoundland Power.

[3] Newfoundland Power's capital structure, with a target 45% common equity ratio, has been part and parcel of the Board's assessment of the Company's risk profile since the 1990s.

[4] The Company's existing customer rates are based on the Company's 2016 and 2017 revenue requirements which were approved by the Board in Order No. P.U. 18 (2016).