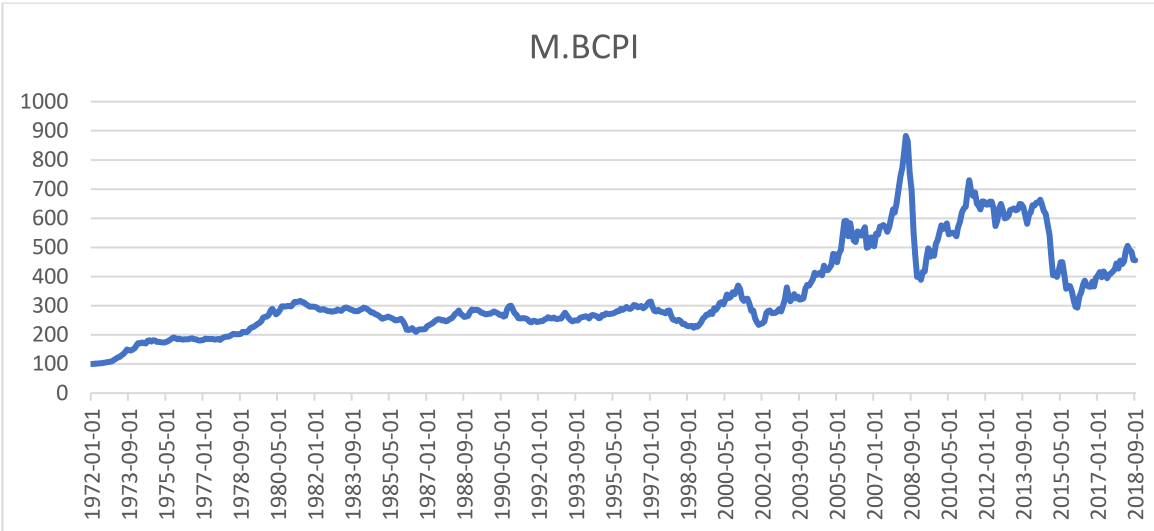
Q. Reference: Dr. Cleary's Evidence, Page 17, Line 9 to Page 18, Line 11

Dr. Cleary provides an assessment of Newfoundland Power's revenue growth to the Province of Newfoundland and Labrador's GDP growth. Please explain in detail why comparing Newfoundland Power's revenue growth to the provincial GDP growth is an appropriate way to assess Newfoundland Power's business risk? In the response, please comment on the impact of commodity prices on both Newfoundland Power's revenue and the provincial GDP.

A. Comparing NP's revenue to Newfoundland and Labrador (NL) GDP growth is "one" way of assessing NP's business risk, since it demonstrates the relationship between general economic activity and NP's revenues. It also illustrates the resiliency of NP's revenues (and profits) in response to changes and declines in economic activity. NP and Mr. Coyne argue at length in their evidence regarding the risks that NP faces due to future changes in GDP growth, specifically with respect to long-term economic forecasts. Therefore, it is reasonable to test the impact that economic growth has had on NP's revenues and profits in the past. GDP is a summary measure of economic growth and is relevant to NP, with over 60% of its energy sales being to domestic consumers, and with non-domestic sales also being directly affected by economic growth.

The NL economy, and hence NP's revenues are influenced by commodity prices, as mentioned on page 12 (lines 13-15) of Dr. Cleary's evidence where he notes that the Conference Board of Canada (CB) "forecast the NL economy would lead all provinces with 4.9% in growth during 2019, which would be primarily due to increasing oil production at Hebron." Of course, in addition to oil, the price of other commodities has an important influence on the NL economy. The importance of commodity prices is noted in the January 2018 CB Provincial Outlook, where it notes on page 11 that: "As economy process slowly improve over the forecast, the province's vast untapped natural resources are likely to attract prospectors." The figure below provides a graph of the Bank of Canada's commodity price index (BCPI), which is "a chain Fisher price index of the spot or transaction prices in U.S. dollars of 26 commodities produced in Canada and sold in world markets."[1] The index has increased more than 55% since February of 2016, indicating stronger commodity prices over the last two and a half years.

[1] Source: https://www.bankofcanada.ca/rates/price-indexes/bcpi/#data.


M.BCPI
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1977-01-01
1978-09-01
1980-05-01
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