

1 **Section 1: Introduction**

2
3 **Q. (Section 1) Common Equity Ratio**

- 4 **a) Would Newfoundland Power agree that 45% is one of the highest common**
5 **equity ratios allowed for a mainly electric distribution company in Canada?**
6 **b) Would Newfoundland Power agree that 45% is one of the highest common**
7 **equity ratios allowed for a mainly electric distribution company in the United**
8 **States?**

- 9
10 A. a) Newfoundland Power acknowledges that 45% deemed common equity ratio is higher
11 than the five other Canadian investor-owned electric operating utilities.¹

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13 The Board has approved a capital structure with a 45% common equity ratio for
14 Newfoundland Power since 1996.² Newfoundland Power considers its relatively
15 strong capital structure compared to other Canadian electric utilities to be appropriate
16 given the Company's overall risk profile.

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18 The appropriateness of the Company's capital structure has been recognized by the
19 Board on a number of occasions. For example, in Order No. P.U. 16 (1998-99), the
20 Board found that the relatively small size of Newfoundland Power reduced its
21 financial flexibility.³ Similarly, in Order No. P.U. 19 (2003), the Board characterized
22 Newfoundland Power's capital structure as a "sound and successful" one and
23 observed that a strong equity component was needed to mitigate the impact of the
24 Company's small size and low growth potential.⁴

25
26 Newfoundland Power's capital structure was comprehensively reviewed in the
27 Company's *2022/2023 General Rate Application*. In Order No. P.U. 3 (2022), the
28 Board approved a settlement agreement for Newfoundland Power which included a
29 deemed common equity ratio at 45%. The Board noted that both of the Company's
30 credit rating agencies "...recognize Newfoundland Power's longstanding 45%
31 common equity component of its capital structure as a key credit strength."⁵

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33 This is consistent with the Board's findings on Newfoundland Power's capital
34 structure which was comprehensively reviewed in the Company's *2016/2017 General*
35 *Rate Application*. In Order No. P.U. 18 (2016), the Board indicated that it did not
36 believe it was appropriate to deem a reduced common equity ratio for Newfoundland
37 Power given the uncertainty with Muskrat Falls and the economic outlook for the
38 province and also in light of the concerns set out by Newfoundland Power in relation
39 to the issuance or deeming of preferred shares.⁶

1 See Newfoundland Power's *2025/2026 General Rate Application, Volume 2, Supporting Materials, Tab B, Cost of Capital*, page 55, Figure 33.

2 See Order No. P.U. 2 (2019), page 12, lines 20 to 21.

3 See Order No. P.U. 16 (1998-99), page 37.

4 See Order No. P.U. 19 (2003), page 45.

5 See Order No. P.U. 3 (2022), page 5, lines 14 to 16.

6 See Order No. P.U. 18 (2016), page 25, lines 5 to 8.

1 b) No. Newfoundland Power’s current deemed common equity ratio is lower than the
2 average authorized common equity ratio for United States electric utilities.⁷
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4 The Cost of Capital Report prepared by Concentric Energy Advisors (the “Concentric
5 Report”) provides an analysis of Newfoundland Power’s financial risk and business
6 risk. The Concentric Report concludes that:
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8 *“The average authorized common equity ratio for U.S. electric utilities from
9 January 2022 through August 2023 was 51.6 percent, or 6.6 percent points higher
10 than Newfoundland Power’s current deemed common equity ratio of 45
11 percent.”*⁸

⁷ Supra note 1.

⁸ See Newfoundland Power’s 2025/2026 General Rate Application, Volume 2, Supporting Materials, Tab B, Cost of Capital, page 55, lines 12 to 15.