

1 **Section 3: Finance/Fair Return**  
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3 **Q. (Section 3, page 3-20) Newfoundland Power references the 1998 Court of Appeal**  
4 **decision that “a capital structure cannot be changed easily or quickly.”**

5 **a) Does Newfoundland Power agree with this legal decision and if so, can it explain**  
6 **why it cannot, for example, simply borrow money and dividend the funds out to**  
7 **increase its debt ratio?**

8 **b) Has Newfoundland Power discussed the difficulty of changing its debt ratio with**  
9 **its financial advisors and received an opinion from them that such a change**  
10 **cannot happen?**

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12 A. a) Newfoundland Power acknowledges the importance of the cited Court of Appeal  
13 decision to utility regulation in the province. The Company interprets the excerpt of  
14 the quotation referenced in the Request for Information (as more fully quoted in the  
15 Company’s evidence) as broadly addressing the concept that a capital structure is  
16 intended to be longer-term in nature and not changed frequently without  
17 consideration of the associated costs and other consequences.

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19 Any change in capital structure would practically require the Company to refinance  
20 its business. An increase in the common equity ratio would require an equity injection  
21 from the Company’s shareholder, and a decrease in the common equity ratio would  
22 require a special dividend to the Company’s shareholder. The dividend would require  
23 borrowings of a similar amount to fund the dividend. A refinancing of this nature  
24 would have cost implications and other consequences, including an increase in  
25 financial risk, a decrease in credit metrics, and a potential re-evaluation of regulatory  
26 support by credit rating agencies.<sup>1</sup>

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28 See the response to Request for Information PUB-NP-066 for further discussion.

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30 b) No, Newfoundland Power has not had discussions of this nature with its financial  
31 advisors.

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<sup>1</sup> The Board has acknowledged the costs potentially associated with reducing the equity ratio. See Order No. P.U. 18 (2016), page 24, lines 35 to 38. See also the response to Request for Information PUB-NP-066.