

1 **Section 3: Finance/Fair Return**
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3 **Q. (Section 3, page 3-25) Newfoundland Power claims that a weak economic outlook,**
4 **following the housing market discussion, increases its risk of cost recovery. Is it**
5 **Newfoundland Power’s judgment that a rapidly growing distribution utility is less**
6 **risky than a more stable one? If so, would it acknowledge that rapid growth**
7 **frequently implies more financing problems and makes companies more, not less,**
8 **risky?**
9

10 A. Newfoundland Power has not performed a relative risk assessment to determine whether
11 a rapidly growing distribution utility is less risky than a more stable one.
12

13 Over half of the Company’s annual capital expenditures are focused on the renewal of
14 deteriorated assets to maintain reliable service for customers.¹ Approximately one quarter
15 of the Company’s annual capital expenditures relate to the requirement to connect new
16 customers and respond to system load growth.² This breakdown of annual capital
17 expenditures is reflective of Newfoundland Power’s low growth potential, which has
18 been recognized by the Board as a business risk.
19

20 In Order No. P.U. 19 (2003), the Board stated:
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22 *“The capital structure of NP has been maintained through the ongoing decisions*
23 *of the Board as contained in its respective Orders and also NP’s actions in*
24 *managing the level of common equity accordingly. Generally in the past it has*
25 *been determined by the Board that a strong equity component is needed to*
26 *mitigate the impact of NP’s relatively small size and low growth potential.”*³
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28 In the Company’s 2016/2017 General Rate Application, the Company’s low growth
29 potential was again recognized by the Board as a business risk. In Order No. P.U. 18
30 (2016), the Board stated:
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32 *“Newfoundland Power’s small size relative to its peers and its low growth*
33 *potential have been identified by the Board in the past as supporting a 45%*
34 *common equity ratio. These factors have been acknowledged by the experts in this*
35 *proceeding as still present.”*⁴
36

37 Low growth makes Newfoundland Power less appealing to financial markets than
38 utilities with higher growth potential.

¹ See Newfoundland Power’s 2024 Capital Budget Application, 2024 Capital Budget Overview, page 1, and 2024-2028 Capital Plan, page 1.

² Ibid.

³ See Order No. P.U. 19 (2003), page 45.

⁴ See Order No. P.U. 18 (2016), page 24, lines 20 to 22.