

1 **Section 3: Finance/Fair Return**
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3 **Q. Further to PUB-NP-068 in Order No. P.U. 18(2016), page 19, lines 26-33, the Board**
4 **determined that Newfoundland Power is an average risk utility. The return on**
5 **equity and capital structure formed part of the settlement agreement in the 2019-**
6 **2020 and the 2022-2023 General Rate Applications and continued the equity**
7 **component and return on equity approved by the Board in Order No. P.U. 18(2016).**
8 **In Order No. P.U. 3(2022) at page 5, lines 1-3, the Board stated that both the expert**
9 **for Newfoundland Power and for the Consumer Advocate had concluded that there**
10 **was no material change in business risk since 2018. Describe, in detail, if the**
11 **principal risks have not materially changed, what factors should the Board consider**
12 **in this proceeding to support a conclusion that Newfoundland Power is now above**
13 **average business risk in comparison to Canadian utilities as opined by**
14 **Newfoundland Power’s expert.**

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16 A. The Board had historically assessed Newfoundland Power to be an average risk Canadian
17 utility.¹ This assessment was generally consistent with the Company’s submissions prior
18 to 2015. The Board and the Company diverged in their respective assessments of
19 Newfoundland Power’s business risks in 2016.

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21 In its *2016/2017 General Rate Application*, the Company filed evidence which indicated
22 that its business risks had increased, and provided expert evidence that concluded the
23 Company had above average business risk compared to other Canadian utilities.² Despite
24 the evidence submitted by the Company and its expert, as referenced in this Request for
25 Information, the Board issued Order No. P.U. 18 (2016) in which it determined that
26 Newfoundland Power is an average risk utility.

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28 Since that time, the Company has observed that its business risks have either become
29 more pronounced or have not materially changed.³ With each General Rate Application
30 subsequent to the *2016/2017 General Rate Application*, the Company has filed expert
31 evidence which maintains the assessment that Newfoundland Power has above average
32 business risk compared to other Canadian utilities.

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34 The Company submits that in making a determination on the Company’s relative
35 business risk, the Board should focus on whether it agrees with the Company’s
36 assessment of its business risks as outlined in its evidence, and whether it agrees with the
37 Company’s expert evidence. A determination based primarily on how the business risks
38 have changed since the Company’s last General Rate Application precludes the Board

¹ See, for example, Order No. P.U. 19 (2003), page 33, where the Board indicated that the business risk profile of Newfoundland Power had not changed appreciably since 1998, and Order Nos. P.U. 43 (2009), page 13, and P.U. 13 (2013), page 17, where the Board found that Newfoundland Power continued to be an average risk Canadian utility.

² See the *2016/2017 General Rate Application, Volume 3, Expert Evidence and Studies, Tab 1, Cost of Capital, Appendix A*, page 24.

³ See the response to Request for Information PUB-NP-068 for a discussion of the changes in the Company’s risk profile since 2015.

1 from accepting the expert evidence filed by the Company and does not properly allow for
2 an evaluation of how the Company's business risks compare to other Canadian utilities.
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4 For further discussion see the response to Request for Information PUB-NP-126.