

1 **Q. Schedule 1, Page 4 of the application states:**
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3 *“For 2016, Newfoundland Power’s forecast return on equity is 8.08%. This is below*
4 *the 8.80% allowed in Order No. P.U. 13 (2013).”*

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6 **P.U. 13 (2013) states:**
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8 *“Newfoundland Power has had a deemed common equity ratio of approximately 45%*
9 *for the last twenty-five years and the evidence is clear that the rating agencies place*
10 *importance on its strong common equity position. There is no evidence of a change in*
11 *circumstances which would justify a change in the ratio and there is little substantive*
12 *evidence demonstrating that the appropriate common equity ratio for Newfoundland*
13 *Power is 40%. The Board therefore finds that a change in the common equity ratio has*
14 *not been justified in the circumstances. The Board notes that it has been some time*
15 *since Newfoundland Power’s capital structure has been comprehensively reviewed and*
16 *that it may be appropriate for this issue to be addressed in Newfoundland Power’s next*
17 *general rate application, Newfoundland Power will be directed to file a comprehensive*
18 *report in relation to its capital structure with its next general rate application.*
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20 *The Board finds that Newfoundland Power continues to be an average risk Canadian*
21 *utility. The Board will accept a common equity component of no greater than 45% for*
22 *ratemaking purposes for Newfoundland Power. The Board will require Newfoundland*
23 *Power to file a report in relation to its capital structure with its next general rate*
24 *application.”*
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26 **What evidence has NP provided to demonstrate a common equity ratio of 45% is**
27 **appropriate for 2016?**
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29 **A.** Refer to the response to Request for Information NLH-NP-020.
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31 Newfoundland Power observes that the Board has consistently approved a common
32 equity ratio of 45% for ratemaking purposes for Newfoundland Power since 1996. Over
33 the 20 years since 1996, the Board has reviewed Newfoundland Power’s common equity
34 ratio numerous times and reached the conclusion that a 45% equity ratio for ratemaking
35 purposes continued to be appropriate.
36

37 In the Application, Newfoundland Power seeks the Board’s approval for 2016 deferred
38 cost recovery to permit the Company to file its next general rate application (“GRA”) by
39 June 1, 2016 with a 2017 test year. At this GRA, a comprehensive review of the
40 continued appropriateness of Newfoundland Power’s 45% common equity ratio will be
41 undertaken by the Board.

- 1 For further information regarding the appropriateness of the 2016 deferred cost recovery
- 2 proposed in the Application, refer to the responses to Requests for Information
- 3 PUB-NP-001, PUB-NP-002, PUB-NP-003, PUB-NP-006, PUB-NP-007 and
- 4 PUB-NP-008.