

1 **Q. Further to Newfoundland Power's response to NLH-NP-030 in which NP did not**
 2 **complete the requested table as lines 2 and 3 did not include "... information**
 3 **referenced in the application...", Hydro has compiled the following:**
 4

Line No.	Province	Newfoundland	Newfoundland	Ontario	Quebec	British Columbia	Nova Scotia	Alberta
	Utility	Newfoundland Power (Approved)	Newfoundland Power (2016 Forecast)	FortisOntario	Gaz Metro	FortisBC	Nova Scotia Power	FortisAlberta
1	Regulated Return on Equity (%)	8.80%	8.08%	9.30%	8.90%	8.75%	9.00%	8.30%
2	Common Equity for Rate Making (%)	45.00%	45.00%	40.00%	38.50%	38.50%	37.50%	40.00%
3	Weighted Average Return on Equity (%) (Line 2 * Line 3)	3.96%	3.64%	3.72%	3.43%	3.37%	3.38%	3.32%

5
 6 *Common Equity References: Newfoundland Power - P.U. 13(2013), FortisOntario - Report of the Board on Cost of*
 7 *Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors dated December 20, 2006, Gaz*
 8 *Metro - D-2011-182, R-3752-2011 Phase 2, 2011 11 25, FortisBC - Generic Cost Of Capital Proceeding (Stage 1) Dated*
 9 *May 10, 2013, Nova Scotia Power - 2005 NSUARB 27, FortisAlberta - Decision 2191-D01-2015*

10
 11 **The table shows that Newfoundland Power's approved Weighted Average Return**
 12 **on Equity is the highest of all investor owned utilities listed in footnote 11 of the**
 13 **Application. Given the capital structure review for 2016 required per P.U. 13(2013)**
 14 **has not been completed, please explain how approval by the Board of an 8.80%**
 15 **return on equity and a 45% common equity ratio on a final basis for 2016 can be**
 16 **considered to be "just and reasonable as provided by Section 80 of the Public**
 17 **Utilities Act" and also be considered least cost consistent with reliable service.**
 18

19 **A. A. General**

20
 21 Newfoundland Power will, in accordance with Board's Order No. P.U. 13 (2013), file
 22 evidence in relation to its capital structure as a part of its next general rate application
 23 ("GRA").¹ A review of Newfoundland Power's capital structure, including a comparison
 24 to other utilities, will be considered in evidence at the next GRA.

25
 26 The Board has approved 5 cost recovery deferral applications for Newfoundland Power
 27 that enabled the Company to earn a just and reasonable return.² All of the prior
 28 applications were based upon Section 80 of the *Public Utilities Act* and were approved by
 29 the Board.³ Each of these applications effectively allowed Newfoundland Power an
 30 opportunity to earn a just and reasonable return which it would not have had without

¹ In Order No. P.U.13(2013), page 60, lines 43-44, the Board stated "Newfoundland Power shall file, as part of its next general rate application, a report on its capital structure."

² See the response to Request for Information PUB-NP-001 for details on Newfoundland Power's previous cost deferral applications.

³ See Order Nos. P.U. 40 (2005), P.U. 39 (2006), P.U. 30 (2010), P.U. 22 (2011), and P.U. 17 (2012).

1 filing a GRA. Similar to the 5 previous cost deferral applications, Newfoundland
2 Power's current application does not contain evidence relating to the Company's capital
3 structure which has not changed since 1996.⁴
4

5 For further information regarding the appropriateness of the 2016 deferred cost recovery
6 proposed in the Application, refer to the responses to Requests for Information
7 PUB-NP-001, PUB-NP-002, PUB-NP-003, PUB-NP-006, PUB-NP-007, and
8 PUB-NP-008.
9

10 **B. Capital Structures of Other Utilities**
11

12 Newfoundland Power is uncertain as to what relevance, if any, the data relating to capital
13 structure set out by Newfoundland and Labrador Hydro in this request for information
14 has to the Application.
15

16 Between GRAs regulatory practice has been for the Board to review Newfoundland
17 Power's rate base and returns on an annual basis. This is consistent with Section 80 of
18 the *Public Utilities Act* which permits a utility to earn a just and reasonable return on an
19 annual basis. As indicated in the response to Request for Information NLH-NP-071, it
20 has not been regulatory practice for the Board to review Newfoundland Power's capital
21 structure on an annual basis.
22

23 The Board reviews expert cost of capital evidence relating to Newfoundland Power's
24 capital structure as well as the capital structures of other utilities in all of the Company's
25 GRAs. This evidence includes the common equity ratios for the utilities referenced in
26 this request for information. Newfoundland Power's evidence, as well as evidence from
27 other cost of capital experts, is reviewed by the Board and considered in its final orders.⁵
28

29 In GRAs, there is typically no controversy as to what other utilities' capital structures are.
30 The primary issue is the appropriateness of Newfoundland Power's capital structure
31 given the specific risks to which it is exposed. Comparative capital structures typically
32 provide some assistance to the Board by way of context.

⁴ See the responses to Request for Information NLH-NP-023 and NLH-NP-024 for further information on the appropriateness of Newfoundland Power's capital structure.

⁵ See Order Nos. P.U. 19 (2003), P.U. 32 (2007), P.U. 43 (2009), and P.U. 13 (2013).

1 Table 1 shows the common equity ratios that were reviewed by the Board for the utilities
2 referred to in this request for information at the Company's four most recent GRAs.
3 Table 1 also shows the change in the equity component of the capital structure over that
4 time.
5
6

Table 1
Equity Component of Capital Structures
for Selected Utilities

Newfoundland Power GRA	Newfoundland Power	Fortis Ontario ⁶	Gaz Metro	FortisBC ⁷	Nova Scotia Power	FortisAlberta
2003/2004	45%	-	38.5%	-	33-35%	-
2008	45%	-	38.5%	35%	37.5%	37%
2010	45%	40%	38.5%	35%	37.5%	37%
2013/2014	45%	40%	38.5%	40%	37.5%	41%
Data in RFI	45%	40%	38.5%	38.5%	37.5%	40%

7
8
9 The data contained in Table 1 shows that Newfoundland Power's current capital structure
10 with 45% common equity, which was first approved by the Board in 1996, has been
11 approved by the Board in each of the Company's last four GRAs. The evidence reviewed
12 by the Board in Newfoundland Power GRAs since 2000 has indicated that, over this
13 period, (i) the equity component in the capital structures of each of Newfoundland Power,
14 FortisOntario and Gaz Metro appear to have remained stable and (ii) the equity
15 component in the capital structures of each of FortisBC, Nova Scotia Power and
16 FortisAlberta appear to have *increased* by 2.5% to 4.5%.

⁶ Evidence relating directly to FortisOntario has not been provided by Newfoundland Power in its general rate applications. However, generic information relating to cost of capital information for electricity distributors in Ontario was provided in Newfoundland Power's 2010 and 2012 general rate applications.

⁷ The British Columbia benchmark utility, FortisBC, was known as Terasen Gas until March 2011.