

1 **Q. Does the company accept that lower financial risk due to the 45% common equity**
2 **ratio translates into a lower allowed ROE if NP is an average Canadian utility? If**
3 **not, why not.**
4

5 A. No.
6

7 Newfoundland Power considers its relatively strong capital structure (and the associated
8 lower financial risk) to be part and parcel of the Company's overall risk profile. This has
9 been recognized by the Board on a number of occasions.
10

11 For example, in Order No. P.U. 16 (1998-99), the Board found that the relatively small
12 size of Newfoundland Power reduced its financial flexibility.¹ Similarly, in Order No.
13 P.U. 19 (2003), the Board characterized Newfoundland Power's capital structure as a
14 "...sound and successful..." one and observed that a strong equity component was
15 needed to mitigate the impact of the Company's small size and low growth potential.²
16

17 Newfoundland Power currently faces an overall riskier outlook compared to the outlook
18 at the time of the *2013/2014 General Rate Application*. This contributes to the Company
19 currently being above average risk in comparison to its Canadian peers.
20

21 Please refer to the responses to Requests for Information PUB-NP-033 and PUB-NP-071.

¹ Order No. P.U. 16 (1998-99), page 37.

² Order No. P.U. 19 (2003), page 45.