Q. Dr. Cleary Evidence, Page 23, Lines 5-7: Please confirm that the Board has previously recognized that the small size of Newfoundland Power limits the Company's financial flexibility and makes it more risky than other electric utilities in Canada, and that this finding has been used by the Board to support a higher than average common equity ratio in prior Orders.

A. Dr. Cleary did not find any such conclusions in the most recent Board Orders (2013, 2009 or 2007) with respect to the Board's conclusions regarding NP's risk or capital structure. Dr. Cleary acknowledges that in a previous order (Order No. P.U. 2003) the Board stated on page 45:

> *"Generally in the past it has been determined by the Board that a strong equity component is needed to mitigate the impact of NP's relatively small size and low growth potential."*

This statement does not suggest that NP's size makes it "more risky than other electric utilities in Canada." In fact, in that same order, the Board concluded its discussion of Business Risk on pages 31-33, stating on page 33 that:

> *"The Board does not anticipate a change in the business risk of NP in the foreseeable future and concurs with the assessment of NP and the cost of capital experts that NP is of average business risk compared to other utilities."*

Similarly, on page 35 of the 2003 Order, the Board concluded its discussion of NP's financial risk on pages 33-35, stating on page 35:

> *"The Board finds that capital market conditions, in particular affecting the equity market, have changed substantially since 1998. This volatility has contributed to an overall reduction in investor expectations in the equity market from historic levels. In addition, volatility has contributed to greater spreads being demanded by corporate bondholders and equity investors to account for added risk as compared to long-term government securities. The Board finds these trends will similarly influence NP but present no greater financial risk to NP than will be experienced by other comparable Canadian utilities."*

Finally, on page 40 of the 2003 Order, the Board provides a "summary of risks" and concludes on page 40:

> *"Despite the change in circumstances since 1998, the Board finds that the overall investment risk of NP is average when compared to other Canadian utilities. This finding will be the basis on which the Board will consider a commensurate capital structure and ROE for the utility."*

As mentioned, Dr. Cleary similarly saw no direct references by the Board to NP's size in reaching its conclusions regarding NP's risk or capital structure in the 2007, 2009 or 2013 Orders. For example, the Commission makes no mention of NP's size in Order No. P.U. 13 (2013), in the section entitled "Board Findings - Risk and Capital Structure," on pages 16-17 of that Order. The Order concludes this section on page 17, lines 19-23, stating:

> *"The Board finds that Newfoundland Power continues to be an average risk Canadian utility. The Board will accept a common equity component of no greater than 45% for ratemaking purposes for Newfoundland Power. The Board will require Newfoundland Power to file a report in relation to its capital structure with its next general rate application."*

As noted on page 23 (lines 5-15) of his evidence, Dr. Cleary does not view NP's size to be a big risk:

> *"First of all, NP has always been small relative to some, but not all, other utilities, so this does not seem to warrant attention as something that has changed since the last hearings to affect NP's business risk. Secondly, NP operates in a mature segmented market with virtually no competition and with a proven business and regulatory model that allows it to steadily grow its revenue base and pass through its costs to maintain earnings and cash flow stability. In other words, there is no reason to believe that a small firm operating a virtual monopoly in such a supportive environment is any riskier than a big firm operating in markets where there is more competition, or where they face greater regulatory risk, for example. Finally, there is no evidence that its small size has hindered NP from accessing public (or private) debt markets, as attested to by its*

successful long-term bond issue in 2015, and its existing short-term credit facility that is available to it."