

1 **Q. What weight does Newfoundland Power consider should be given by the Board to**
2 **the overall risks associated with a declining number of customers, declining energy**
3 **sales, increasing power supply costs and increasing power supply risks?**
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5 A. The Board has long recognized that Newfoundland Power’s small size and low growth
6 potential were significant aspects of the Company’s business risk profile which affect the
7 determination of an appropriate capital structure. The risks associated with service
8 territory economics and demographics outlined in the Company evidence simply reflect
9 these longstanding attributes.¹ The risks associated with Newfoundland Power’s power
10 supply as outlined in the Company evidence have materially increased.²
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12 The perspective of the Newfoundland and Labrador Court of Appeal on the subject of
13 capital structure set out in the Company evidence is informative:
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15 “[135] In approaching these questions, it has to be remembered that there is
16 no such thing as one ideal capital structure. It is a function of economic
17 conditions, business risks and ‘largely a matter of business judgement’.
18 Furthermore, a given capital structure cannot be changed easily or quickly.
19 As well, the long-term effects of changes on capital structure on the enterprise
20 and on the future costs of capital may not be easily predictable.”³
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22 In Newfoundland Power’s view, the confluence of longstanding service territory
23 economic and demographic risks with emerging power supply risks weighs heavily in
24 favor of maintaining the Company’s existing capital structure. This capital structure has
25 enabled the sound financial management consistent with least cost delivery of service to
26 customers over the long-term.

¹ See *Volume 1, Company Evidence, Section 4: Finance*, page 4-23, line 17 to page 4-27, line 7.

² See *Volume 1, Company Evidence, Section 4: Finance*, page 4-27, line 9 to page 4-30, line 13.

³ *The Stated Case*, June 15, 1998, Newfoundland and Labrador Court of Appeal, paragraph 135.