Q. Further to PUB-NP-035, what weight or consideration should be given to the significant difference in the capital structures of the investor-owned utilities referred to in the response which all have lower equity in their capital structures than Newfoundland Power when considering the comparability of the allowed returns?

A. As the Board has previously recognized, a fair return must be (i) commensurate with return on investments of similar risks; (ii) sufficient to ensure financial integrity; and (iii) sufficient to attract necessary capital.[1]

For decades, Newfoundland Power has had a relatively strong capital structure when compared to Canadian electric utilities.[2] This has consistently been judged by the Board to be required to mitigate against the Company's risks such as small size and low growth prospects. This strong capital structure has been a longstanding credit strength for Newfoundland Power.

For the return on equity allowed by the Board to be reasonable, it must, amongst other things, be commensurate with returns on investments of similar risk. Such investments would, in Newfoundland Power's view, include equity investments in other Canadian electric utilities.

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[1] See, for example, Order No. P.U. 32 (2007), Appendix A, page 6, and the Company's *2016/2017 General Rate Application, Volume 1, Application & Company Evidence, Section 4: Finance*, pages 4-19, *et.seq.*.

[2] See the response to Request for Information PUB-NP-032.