Q. At page 2-42 NP acknowledges that "more than ½ of the company's capital expenditures over the forecast period relate to replacement or refurbishment of existing assets." In its judgement is a mature utility like NP more or less risky than a utility facing significant system expansion due to population growth. Please comment in detail about the relative risk of replacement capex versus expansion capex.

A. Approximately 54% of the Newfoundland Power's approved 2018 Capital Budget expenditures are related to the replacement or refurbishment of plant. Approximately 21% of approved expenditures are required to meet the Company's obligation to serve new customers and meet the requirement for increased system capacity.[1] This is reflective of Newfoundland Power's low growth potential, which has been recognized by the Board as a business risk.

In Order No. P.U. 19 (2003), the Board states:

> *"The capital structure of NP has been maintained through the ongoing decisions of the Board as contained in its respective Orders and also NP's actions in managing the level of common equity accordingly. 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."*[2]

In the Company's *2016/2017 General Rate Application*, the Company's low growth potential was again recognized by the Board as a business risk. In Order No. P.U. 18 (2016), the Board stated:

> *"Newfoundland Power's small size relative to its peers and its low growth potential have been identified by the Board in the past as supporting a 45% common equity ratio. These factors were acknowledged by the experts in this proceeding as still present."*[3]

Newfoundland Power's low growth potential is a rating consideration for the Company's credit rating agencies. DBRS identifies the Company's electricity consumption growth, which is largely driven by growth in its customer base, as a credit challenge for Newfoundland Power.[4]

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[1] See page 2 of the *2018 Capital Plan* filed as part of Newfoundland Power's *2018 Capital Budget Application*. The Company's *2018 Capital Budget Application* was approved by the Board in Order No. P.U. 37 (2017).
[2] See Order No. P.U. 19 (2003), page 45.
[3] See Order No. P.U. 18 (2016), page 24, lines 20-22.
[4] See page 2 of the *DBRS Rating Report for Newfoundland Power Inc.* found in *Volume 1, Application, Company Evidence and Exhibits, Exhibit 4: Credit Rating Reports: Moody's and DBRS*.

Newfoundland Power has not performed a relative risk assessment to determine whether utility replacement capital expenditures are more or less risky than utility capital expenditures used for electrical system expansion. However, the Company observes that while its electrical system is mature, with assets averaging over 30 years of age, the average duration of customer outages has been approximately ½ the Canadian average over the past decade. This reflects Newfoundland Power's inspection and maintenance practices and is not merely a reflection of the age of the Company's assets.