

1 **Q. At page 2-41 NP acknowledges that “Over ½ of the Company’s forecast capital**
2 **expenditures relate to replacement or refurbishment of existing assets.” In its**
3 **judgement is a mature utility like NP more or less risky than a utility facing**
4 **significant system expansion due to population growth? Please comment in detail**
5 **about the relative risk of replacement versus expansion capex.**
6

7 A. Newfoundland Power has not performed a relative risk assessment to determine whether
8 utility replacement capital expenditures are more or less risky than utility capital
9 expenditures used for electrical system expansion.
10

11 Approximately ½ of Newfoundland Power’s annual capital expenditures relate to the
12 replacement of plant that is deteriorated, deficient or failed in service. Approximately ¼
13 of the Company’s annual capital expenditures relate to the requirement to serve new
14 customers and respond to customers’ increased electrical system requirements. This
15 breakdown of annual capital expenditures is reflective of Newfoundland Power’s low
16 growth potential, which has been recognized by the Board as a business risk.
17

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

20 *“The capital structure of NP has been maintained through the ongoing*
21 *decisions of the Board as contained in its respective Orders and also NP’s*
22 *actions in managing the level of common equity accordingly. Generally in*
23 *the past it has been determined by the Board that a strong equity*
24 *component is needed to mitigate the impact of NP’s relatively small size*
25 *and low growth potential.”¹*
26

27 In the Company’s 2016/2017 General Rate Application, the Company’s low growth
28 potential was again recognized by the Board as a business risk. In Order No. P.U. 18
29 (2016), the Board stated:
30

31 *“Newfoundland Power’s small size relative to its peers and its low growth*
32 *potential have been identified by the Board in the past as supporting a*
33 *45% common equity ratio. These factors have been acknowledged by the*
34 *experts in this proceeding as still present.”²*
35

36 Newfoundland Power’s low growth potential continues to be a rating consideration for
37 the Company’s credit rating agencies. DBRS identifies the Company’s electricity
38 consumption growth, which is largely driven by growth in its customer base, as a credit
39 challenge for Newfoundland Power.³

¹ See Order No. P.U. 19 (2003), page 45.

² See Order No. P.U. 18 (2016), page 24, lines 20-22.

³ See the 2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Exhibit 4, DBRS Rating Report for Newfoundland Power Inc., page 3.

1 A declining population presents an additional challenge for the Company when
2 considering its obligation to serve. In 2020, approximately $\frac{3}{4}$ of the Company's
3 distribution assets and $\frac{1}{2}$ of its customers were located in rural areas of the province.
4 While the population of rural areas is declining, the Company has a statutory obligation
5 to ensure all customers have equitable access to an adequate supply of power. The
6 requirement to invest in long-life utility assets throughout a large service territory with
7 low population density and a declining population can be expected to exert pressure on
8 the Company's ability to earn a fair return.⁴

⁴ Ibid., *Section 3: Finance, Service Territory Demographics*, page 3-25 *et seq.*