Q. Company Evidence, p. 18: The Company states that, "The Company's target of 45% common equity units Capital Structure is consistent with Board Orders since 1990[62]. Newfoundland Power's capital structure is a relative strength that mitigates risks associated with the Company's small size and low long-term forecast growth estimates[63]." What was Newfoundland Power's common equity proportion prior to P.U. 1 (1990). Please demonstrate and explain how ratepayers benefit from the present 45% proportion of equity in the Company's capital structure relative to a 40% equity component, given that the cost of debt is less than the cost of equity.

A. Newfoundland Power's common equity ratio increased from 40.9% in 1986 to 43.3% in 1990. At it's 1989 General Rate Proceeding, the evidence before the Board indicated that Newfoundland Power's interest coverage had fallen off despite a strengthening capital structure.

On page 33 of Order No. P.U. 1 (1990), the Board concluded that the Company's target common equity ratio of 42% to 47% was reasonable. The financial plan accepted in Order No. P.U. 6 (1991) included a maximum common equity component of 45%. This maximum common equity component has been in place for more than 20 years.

As indicated in the Evidence of Newfoundland Power at page 18, the Board has recognized that Newfoundland Power's capital structure is a relative strength that mitigates risks associated with the Company's small size and low long term growth estimates. The Board's continued approval of a capital structure with 45% common equity has therefore been supportive of the Company's maintenance of a sound credit rating in accordance with the requirements of the *Electrical Power Control Act*. A sound credit rating provides benefits to customers through reduced cost of capital reflected in customer rates over the long term.

Please refer to the Response for Request for Information CA NP 004.