

1 Q. **2013-2014 General Rate Application, Company Evidence**

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3 **Pg. 1-4, lines 7-10 - It is stated that Newfoundland Power Inc. (“Newfoundland**
4 **Power”) has longer term risks with one being customer demographic trends which**
5 **are said to have “*implications for investment and long term cost recovery.*” Explain**
6 **what these implications are.**

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8 A. The population of Newfoundland and Labrador is declining. In addition, the population
9 is aging at one of the most rapid rates in Canada. Finally, there has been increased
10 migration from rural to urban areas of Newfoundland Power’s service territory.

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12 Utilities, including Newfoundland Power, invest in predominantly long life assets. The
13 return on this investment is typically required over decades. The population of a utility’s
14 service territory is the source of the revenues required to fund the return on utility
15 investment. If the population is in decline and aging more rapidly, this will increase the
16 *relative* risk that the utility will be unable to earn its allowed return when compared to a
17 utility serving a population which is growing and aging less rapidly. This is simply
18 because growth in revenues required to recover costs (including the cost of capital) will
19 be tend to be lower for the utility serving a population in decline and aging more rapidly.

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21 Migratory trends within a utility service territory can result in a utility being
22 simultaneously required to make investments to (i) fulfill its obligation to serve growing
23 populations in urban centres and (ii) maintain service in rural areas which have declining
24 numbers of customers and sales. This migratory dynamic can increase the overall level
25 of required utility investment. The increased investment can increase the *relative* risk to
26 earning the allowed return which already exists in serving a population in decline that is
27 rapidly aging.

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29 Please refer also to the response to Request for Information PUB-NP-027 which shows,
30 amongst other things, that the population of Canada is forecast to grow by over 27% in
31 the 20 years to 2031 while the population of Newfoundland and Labrador is forecast to
32 decline by over 5% in the same period.