Q. 2013-2014 General Rate Application, Company Evidence

Pg. 3-21, lines 11-18 and pg. 3-22, lines 1-4 - The demographic trends of a decline in the number of customers, decline in energy sales and the migration to urban areas are stated to be contributing factors that will exert increasing pressure on Newfoundland Power's required investment over the longer term. In her expert evidence on pg. 17, lines 463-464, Ms. McShane states that Newfoundland Power's long-term business risk profile largely relates to the demographics and economic outlook of its service area. Does Newfoundland Power agree that these are its most significant long-term business risks?

A. Newfoundland Power agrees that Newfoundland Power's long-term business risk profile largely relates to the demographics and economic outlook of its service territory. And, as Newfoundland Power indicates on page 3-15 of its evidence, business risk is essentially a *relative* concept.

Table 1 shows the relative population outlook for each Canadian province and Canada as a whole for the period 2011 through 2031.

Table 1
Population Change[1]
2011 to 2031
(%)

Province/Country	Change
Newfoundland and Labrador	**-5.6**
Prince Edward Island	18.4
Nova Scotia	6.1
New Brunswick	1.2
Quebec	17.0
Ontario	32.1
Manitoba	36.7
Saskatchewan	24.4
Alberta	39.5
British Columbia	32.7
Territories	21.7
Canada	**27.3**

The population of Canada is forecast to grow by over 27% in the period 2011 through 2031. In Newfoundland and Labrador, population is expected to decline by over 5%.

[1] From Conference Board of Canada, *Provincial Outlook Long-Term Economic Forecast 2012,* May 2012.

In terms of relative population growth, the Province of Newfoundland and Labrador's long-term population outlook is *relatively* very weak compared to other provinces which are served by other utilities. This essentially means that Newfoundland Power can expect lower growth in revenue from future customer connections (and sales) than other utilities which provide utility service in other provinces. Lower growth in revenues will translate into a higher risk that a utility will not be able to earn its allowed return. This is simply because there is less revenue to cover the utility's costs, including its cost of capital.

Table 2 shows the relative annual growth in gross domestic product, or GDP, for each Canadian province and Canada as a whole for the period 2011 through 2031.

Table 2
Annual GDP Growth[2]
2011 to 2031
(%/year)

Province/Country	Growth
Newfoundland and Labrador	**0.9**
Prince Edward Island	1.6
Nova Scotia	1.2
New Brunswick	1.3
Quebec	1.7
Ontario	2.2
Manitoba	2.2
Saskatchewan	2.3
Alberta	2.8
British Columbia	2.0
Territories	3.3
Canada	**2.1**

Newfoundland and Labrador's expected annual growth in GDP for the period 2011 through 2031 is less than ½ that expected, on average across Canada and just under 1/3 that expected in the province of Alberta.

In terms of *relative* economic prospects, the Province of Newfoundland and Labrador's long-term economic outlook is also *relatively* very weak compared to other provinces which are served by other utilities. This essentially means that Newfoundland Power can expect growth in electricity sales associated with provincial economic growth to be lower than other utilities which provide service in other provinces that have higher economic growth rates.

[2] From Conference Board of Canada, *Provincial Outlook Long-Term Economic Forecast 2012*, May 2012.

Newfoundland Power agrees that Newfoundland Power's long-term business risk profile largely relates to the demographics and economic outlook of its service territory. For both of these risk elements, the Company is relatively weak compared to other provinces which are served by other utilities.