

1 **Q. Does NP accept that a 45% common equity ratio exceeds average allowed common**  
2 **equity ratios for Canadian electric transmission and distribution utilities and**  
3 **further that lower financial risk offsets higher business risk? If not, why not?**  
4

5 A. No.

6  
7 The Board has approved a capital structure with a 45% common equity ratio for  
8 Newfoundland Power since 1996.<sup>1</sup> Newfoundland Power considers its relatively strong  
9 capital structure compared to other Canadian electric utilities to be part and parcel of the  
10 Company's overall risk profile.

11  
12 The appropriateness of the Company's capital structure has been recognized by the Board  
13 on a number of occasions. For example, in Order No. P.U. 16 (1998-99), the Board  
14 found that the relatively small size of Newfoundland Power reduced its financial  
15 flexibility.<sup>2</sup> Similarly, in Order No. P.U. 19 (2003), the Board characterized  
16 Newfoundland Power's capital structure as a "*sound and successful*" one and observed  
17 that a strong equity component was needed to mitigate the impact of the Company's  
18 small size and low growth potential.<sup>3</sup>

19  
20 Newfoundland Power's capital structure was comprehensively reviewed in the  
21 Company's *2016/2017 General Rate Application*. In Order No. P.U. 18 (2016), the  
22 Board indicated that it did not believe it was appropriate to deem a reduced common  
23 equity ratio for Newfoundland Power given the uncertainty with the Muskrat Falls  
24 Project and the economic outlook for the province and also in light of the concerns set out  
25 by Newfoundland Power in relation to the issuance or deeming of preferred shares.<sup>4</sup>

26  
27 Newfoundland Power currently faces an overall riskier outlook compared to the outlook  
28 at the time of its *2016/2017 General Rate Application*.

29  
30 It is Concentric Energy Advisors' opinion that Newfoundland Power has comparable  
31 financial risk and above average business risk in comparison to its Canadian peers.<sup>5</sup>

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<sup>1</sup> Order No. P.U. 2 (2019), page 12, lines 20-21.

<sup>2</sup> Order No. P.U. 16 (1998-99), page 37.

<sup>3</sup> Order No. P.U. 19 (2003), page 45.

<sup>4</sup> Order No. P.U. 18 (2016), page 25, lines 5-8.

<sup>5</sup> See the *2022/2023 General Rate Application, Volume 3, Expert Evidence, Cost of Capital: Mr. James Coyne*, pages 57 and 74.