

- 1 Q. In reference to Grant Thornton’s page 6, note 3, Hydro’s Common Equity  
2 Component Capital Structure in the Compliance Application is not to exceed 45%.  
3
- 4 (a) What is Hydro’s actual equity component and what comprises Hydro’s  
5 equity? And what is Hydro’s debt and what are the components of Hydro’s  
6 debt?  
7
- 8 (b) The Electrical Power Control Act requires that the Public Utilities Board  
9 (the “PUB”), in carrying out its duties and exercising its powers, will apply  
10 tests which are consistent with generally accepted sound public utility  
11 practice and also requires that all sources and facilities for the production,  
12 transmission and distribution of power in the province should be managed  
13 and operated in a manner that would result in power being delivered to  
14 consumers in the province at the lowest possible cost consistent with reliable  
15 service. Generally, what would be the result on consumer rates if Hydro’s  
16 common equity component (and indeed Newfoundland Power’s for that  
17 matter) was set by the Board for rate making purposes as to not to exceed  
18 40% - which is common in other Canadian jurisdictions?  
19
- 20 (c) Generally, should such a 40% equity component result in a lower cost to  
21 consumers, rather than a 45% equity component?  
22
- 23 (d) In examining Hydro’s compliance and the various costs and expenses found  
24 throughout the Report, has Grant Thornton concluded that the delivery of  
25 power to consumers at the lowest possible cost is reflected in the rates, costs  
26 and expenses and all accounting data referenced throughout the report?  
27 And, has Grant Thornton confirmed the same to the PUB?  
28
- 29 A. (a) Hydro’s debt and equity components are set out in the Compliance Application,  
30 Exhibit 2:  
31 (i) for 2014, Appendix A, Page A-4;  
32 (ii) for 2015 rate setting, Appendix B, Page B-4;  
33 (iii) for 2015 revenue deficiency, Appendix C, Page C-4 and  
34 (iv) for 2016 Revenue Deficiency, Appendix D, Page D-4.  
35
- 36 (b) There would be no impact on consumer rates as Hydro’s test year equity  
37 component does not exceed 40%. Refer to Appendix B, Page B-4 for 2015 rate  
38 setting of the Compliance Application.

1 The Board addressed the issue of capital structure at page 20-21 of Order No.  
2 P.U. 49(2016). The Board stated:

3  
4 *In addition OC2009-063 provides that the regulated capital structure*  
5 *of Hydro should be permitted to have a maximum proportion of equity*  
6 *as was most recently approved for Newfoundland Power. In Order No.*  
7 *P.U. 18(2016) the Board approved a common equity component in*  
8 *Newfoundland Power's capital structure not to exceed 45% for rate*  
9 *making purposes.*

10  
11 *The issue of Hydro's forecast capital structure for rate setting was not*  
12 *contested during the proceeding but has been a significant issue in the*  
13 *past. In previous decisions the Board has supported and encouraged*  
14 *initiatives to improve Hydro's regulated capital structure, which can*  
15 *lead to enhanced financial stability and performance and lower overall*  
16 *costs for rate payers. The demonstrated improvement in Hydro's debt*  
17 *to capital ratio since 2007 is a positive step in this direction.*

- 18  
19 (c) Review of the capital structure and whether it will result in a lower cost to  
20 consumers generally forms part of a cost of capital expert analysis and report.

21  
22 In Order No. P.U. 18(2016), the Board, in addressing the Consumer Advocate's  
23 proposal to reduce Newfoundland Power's common equity ratio to 40% to bring  
24 it in line with other Canadian jurisdictions, stated:

25  
26 *The Board accepts that there is a cost to maintaining the higher*  
27 *common equity ratio. However there may also be a cost to reducing the*  
28 *equity ratio in terms of required borrowings, potential credit metric*  
29 *impacts and increased financial risk, as described by Ms. Perry in her*  
30 *testimony.*

- 31  
32 (d) Grant Thornton was engaged to review and confirm that Hydro's Compliance  
33 Application complied with Board orders. The scope of Grant Thornton's  
34 financial review is outlined on page 1 of its report. Grant Thornton reviewed the  
35 proposals set out in the Compliance Application to ensure correctness and  
36 compliance with Board orders. The scope of the review did not involve analysis  
37 of least cost delivery of power to consumers.