

1 **Q. Are there any objective measures or similar evidence to support the assertion that**
2 **Newfoundland Power faces higher business risk than other regulated utilities in**
3 **Canada? If so, please provide such information.**
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5 A. Investors judge the risk of investing in Newfoundland Power in relation to the risk of
6 investing in other North American utilities. Newfoundland Power's overall business
7 risks are relatively high compared to other Canadian electric and gas utilities.
8

9 Business risk is influenced by a company's ability to generate sufficient revenues,
10 manage expenses and meet its obligations to investors over the longer term.
11

12 Section 2.2 of the *Finance and Accounting Evidence* describes Newfoundland Power's
13 business risk, and why it is considered higher than other regulated utilities within Canada.
14 Two of the main components examined in Section 2.2 are long-term economic strength in
15 the franchise area and regulatory factors.
16

17 ***Long-Term Economic Strength***

18 In assessing ability to generate sufficient revenues over the longer term, long-term
19 economic forecasts are utilized. This is probably the single biggest factor influencing
20 business risk for Newfoundland Power. Various data obtained from the Conference
21 Board of Canada is noted in the evidence of Mr. Barry Perry on pages 19 through 21 and
22 is detailed in graphical format in BVP-3. This data indicates that over the 2000-2020
23 forecast period, Newfoundland is expected to lag behind most provinces in Canada and,
24 specifically, is predicted to:

- 25 • Have the lowest GDP growth in the country (see BVP-3, page 1);
- 26 • Have the lowest personal disposable income in the country (see BVP-3, page 2);
- 27 • Have the highest unemployment rate in the country (see BVP-3, page 2);
- 28 • Have the second lowest number of average housing starts in the country (see
29 BVP-3, page 2); and,
- 30 • Have the only negative population growth in the country (see BVP-3, page 3).
31

32 This independent data indicates that the Newfoundland customer base is growing at a
33 lower rate than the remainder of the country.
34

35 At the same time, since 1996 the Company has experienced:

- 36 • an increasing rate in population decline, continuing a trend over the past 20 years
37 (see BVP-3 page 4);
- 38 • an aging population in comparison to the rest of the country, particularly in the
39 under 45 age brackets, who will form the customer base of the future (see BVP-3,
40 page 5);
- 41 • a customer base that is declining in 92.7% of the municipalities served by the
42 Company (see BVP-3, page 7); and,
- 43 • either no increase or a decline in the number of domestic customers in 53% of the
44 municipalities served by the Company (see BVP-3, page 8)

1 Low growth, a customer base that is migrating to more urban areas, and the requirement
2 for continued capital investment in rural areas further increases the risk of recovering
3 costs in the future, and points to higher business risk.
4

5 ***Regulatory Factors***

6 The Standard & Poor's rating summary dated October 16, 2002, presented in Attachment
7 G to the Company's response to Request for Information CA-215, indicates in its
8 business risk assessment that the Company's financial position is "adversely affected by
9 one of the lowest approved ROEs in the Country and the fact that unlike any other
10 Canadian utility, it must return to customers all excess earnings".
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12 Attachment A to this response is a schedule of comparative approved returns on equity
13 for rate-making purposes for selected Canadian utilities from 1994 through 2002.

14 Attachment A shows that Newfoundland Power's approved returns on equity for rate-
15 making purposes have been the lowest (1998, 1999 and 2002) or among the lowest (2000
16 and 2001) in the Country since 1998, and below the Canadian average of approved
17 returns on equity for rate-making purposes by as much as 99 basis points (1998). As
18 shown in the Company's response to Request for Information CA-509, following the
19 Board's ruling to set rates based on a return on equity of 9.25 per cent in 1998,
20 Newfoundland Power's bond rating was reduced by CBRS from A to A-.
21

22 Comparative approved returns on equity for investor owned Canadian utilities are also
23 presented in Schedule 3, page 2 of 2 of Ms. McShane's testimony and exhibits.