

1 **Q. Please confirm that Newfoundland Power (NP) is requesting a rate increase for the**
2 **2019 and 2020 test years and that all risk assessments are based on NP’s risk during**
3 **those two test years. That is, that its assessment of the provincial economy and the**
4 **implication of Muskrat Falls for the company pertain to their impact during the two**
5 **test years and not for years after 2020.**

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7 A. Newfoundland Power does *not* confirm that all risk assessments are based only on the
8 2019 and 2020 test years.

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10 The nature of utility investment tends to be long-term. For example, the utility
11 investment in a distribution pole providing service to a residential subdivision will not be
12 fully recovered for decades. Over that period, the cost of financing represents a
13 significant portion of the overall cost of that distribution pole. For this reason, fair
14 returns, together with sound financial management, are essential to the delivery of least-
15 cost service to customers. The long-term nature of utility investment underscores the
16 importance of stability and consistency in regulatory decision-making.¹

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18 As a result, the assessment of business and financial risk reflect both near-term and long-
19 term analyses. The assessment typically considers changes in these risks since the last
20 Board determination.

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22 In Order No. P.U. 18 (2016), the Board recognized that the Muskrat Falls Project and a
23 deteriorating economy have an impact on Newfoundland Power’s business risk. In Order
24 No. P.U. 18 (2016) the Board states:

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26 *“The Board accepts that the risks associated with Muskrat Falls, both in terms of*
27 *supply and costs, are real and may have an impact on Newfoundland Power’s*
28 *business risk. In addition the Board accepts that the economic indicators for the*
29 *test year period are not strong and that this could also have an impact on*
30 *Newfoundland Power’s business risk.”²*

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32 Since the Board’s determination that Newfoundland Power was an average risk utility in
33 2016, the Company’s business risk has increased. The primary contributors to
34 Newfoundland Power’s riskier outlook since that time are (i) a deteriorating outlook for
35 the provincial economy, and (ii) increased costs related to the Muskrat Falls Project. See
36 the response to the Request for Information PUB-NP-014 for further information on
37 changes in these risk factors since the Company’s *2016/2017 General Rate Application*.

¹ This longer-term perspective is appropriate because investors consider both near-term and longer-term factors when making a decision to invest in a utility. Dr. Morin reinforces this point in his book on utility cost of capital: *“The expected common stock return is based on long-term cash flows, regardless of an individual’s holding time period. Utility asset investments generally have long-term useful lives and should be correspondingly matched with long-term maturity financing instruments.”* See *New Regulatory Finance*, Roger A. Morin, PhD, *Public Utility Reports*, 2006, pp. 151-152.

² See Order No. P.U. 18 (2016), page 19, lines 16-19.