

- 1 **Q. Please confirm that Newfoundland Power (NP) is requesting a rate increase for the**
2 **2022 and 2023 test years and that all risk assessments are based on NP’s risk during**
3 **these test years.**
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- 5 A. Newfoundland Power does *not* confirm that all risk assessments are based only on the
6 2022 and 2023 test years.
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- 8 The nature of utility investment tends to be long-term. For example, the utility
9 investment in a distribution pole providing service to a residential subdivision will not be
10 fully recovered for decades. Over that period, the cost of financing represents a
11 significant portion of the overall cost of that distribution pole. For this reason, fair
12 returns, together with sound financial management, are essential to the delivery of least-
13 cost service to customers. The long-term nature of utility investment underscores the
14 importance of stability and consistency in regulatory decision-making.¹
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- 16 As a result, the assessment of business and financial risks reflects both near-term and
17 long-term analyses.

¹ This longer-term perspective is appropriate because investors consider both near-term and longer-term factors when deciding 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, pages 151-152.