

1 **Section 3: Finance/Fair Return**  
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3 **Q. (Section 3, page 3-35) With respect to Purchased Power Costs and Fixed Costs, it is**  
4 **stated “These costs are largely beyond management’s control in any given year.”**  
5 **Moving outside of a one-year focus, are not finance charges and depreciation largely**  
6 **due to Newfoundland Power’s capital investment decisions?**  
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8 A. Newfoundland Power invests in long-life assets. Depreciation and finance charges are  
9 incurred in a manner that closely pairs the life span of these long-life assets with the  
10 amortization periods of the corresponding depreciation and finance charges.

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12 The majority of the capital infrastructure in the Company’s electrical system have  
13 remaining life spans that range from 30 to 40 years. For example, in Newfoundland  
14 Power’s most recent depreciation study, the most commonly used distribution conductor  
15 had a probable remaining life of approximately 38 years, while wood distribution poles  
16 had life spans ranging from 31 to 33 years.<sup>1</sup>  
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18 Of the Company’s last five first mortgage sinking fund bond issuances, three have been  
19 for 30-year terms, and two have been for 40-year terms.<sup>2</sup> The long-term nature of these  
20 tenors is consistent with the period of time over which the Company’s assets are expected  
21 to be in service.  
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23 The depreciation and finance charges presented in this application are reflective of the  
24 costs for investment in these long-term assets. The Company’s investment decisions and  
25 capitalization practices reflect established regulatory principles of the Board.<sup>3</sup>

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<sup>1</sup> See the 2022/2023 General Rate Application, Volume 3, Expert Evidence, Tab 1, Depreciation Study: Mr. John Weidmayer, Gannett Fleming Valuation and Rate Consultants LLC, page VI-11.

<sup>2</sup> See the response to Request for Information CA-NP-067.

<sup>3</sup> For example, intergenerational equity is a principle of fairness that holds that ratepayers in a given period should pay only the costs necessary to provide them with service in that period. In the context of utility ratemaking, the principle of intergenerational equity requires that the costs of capital assets be recovered from the customers who will benefit from those assets. In Newfoundland Power’s view, recovering the costs of the capital assets required to maintain reliability and replace aging assets reflects this regulatory principle.