Q. Further to PUB-NP-052, the response refers only to new regulatory deferrals requested in the 2016/2017 General Rate Application. List each existing regulatory deferral account and energy supply cost recovery mechanism, the date each was first established and explain the weight or consideration that should be given for all existing and proposed deferral and energy supply cost recovery accounts in the Board's assessment of the appropriate return.

A. Table 1 provides a list of Newfoundland Power's existing regulatory mechanisms.

Table 1
Existing Regulatory Deferral Mechanisms

Regulatory Mechanism	**Board Order**
Conservation Program	No. P.U. 13 (2013)
Energy Supply Cost Variance Deferral Account	Nos. P.U. 32 (2007), P.U. 43 (2009)
Rate Stabilization Account	Nos. P.U. 34 (1985), P.U. 17 (1987), P.U. 43 (2009), P.U. 31 (2010), P.U. 13 (2013),
Weather Normalization Reserve	Nos. P.U. 32 (1968), P.U. 1 (1974), P.U. 13 (2013)
Demand Management Incentive Account	No. P.U. 32 (2007)
Excess Earnings Account	No. P.U. 23 (2013)
Pension Expense Variance Deferral Account	No. P.U. 43 (2009)
OPEBs Cost Variance Deferral Account	No. P.U. 31 (2010)
Seasonal/Time of Day Rates Deferral Account	No. P.U. 8 (2011)

The Assessment of Return and Regulatory Mechanisms

General

Cost of capital is the rate of return that investors could expect to earn if they invested in equally risky securities.[1] Therefore, cost of capital is essentially a relative concept. The accepted relative measure for determining a business' cost of capital is risk.

Risk is an assessment of the capability of an enterprise to recover its investment as well as earn a return on that investment. For regulated utilities such as Newfoundland Power, risk is generally considered to have business and financial elements.

Business risk includes the regulatory framework under which the Company operates. This includes the Board's determinations of how Newfoundland Power's costs are to be recovered and how risks are to be shared between investors and customers. Cost recovery is one element of business risk. Regulatory mechanisms are one form of cost recovery.

Newfoundland Power is not aware of any regulatory jurisdiction that assigns specific weightings to different elements of risk. Each risk element needs to be considered as part of the overall risk assessment in determining the Company's cost of capital.

The Assessment

In consideration of Newfoundland Power's overall risk, the Board should assess risk elements, such as cost recovery through regulatory mechanisms, relative to other North American electric utilities.

In his Cost of Capital Evidence, Mr. Coyne provides a comparison of Newfoundland Power's business risk to other Canadian investor-owned electric utilities and comparable U.S. electric utilities. This assessment includes cost recovery through regulatory mechanisms.

For Mr. Coyne's comparison to other Canadian investor-owned electric utilities, please refer to his Cost of Capital Evidence, Appendix A, pages 18 to 25.

For Mr. Coyne's comparison to comparable U.S. electric utilities, please refer to his Cost of Capital Evidence, Appendix A, pages 25 to 32.

Mr. Coyne's Cost of Capital Evidence, Appendix A, indicates that the regulatory mechanisms that Newfoundland Power has are generally consistent with those at other Canadian and U.S. electric utilities.

[1] See, for example, Brealey, Myers et. al., *Fundamentals of Corporate Finance* (2nd Canadian Edition), page 271.