Requests for Information

- Q. Please explain the connection between the yield on a 10-year Canada bond and a common equity investment in Newfoundland Power.
- A. The return required by investors in Newfoundland Power is related to the opportunity cost of funds in alternative investments. Financial theory states that investors will seek a return from investment in Newfoundland Power that is based on the returns available from less risky investment, such as 10 year Canada bonds, plus a risk premium for the higher risk of equity investment in Newfoundland Power relative to the risk of investment in 10 year Canada bonds. Thus, there is a connection through the expectations of the capital markets between the yield available on 10 year Canada bonds and the returns expected from equity investment in Newfoundland Power. Similar connections exist for other alternative investments such as yields on 15 year Canada bonds or 30 year Canada bonds but the risk premium will vary by the degree of relative risk.