

1 **Q. Further to the response to PUB-NP-003, Newfoundland Power has consistently since**
2 **2016 earned more than the return on equity approved by the Board. How was this**
3 **achieved and what conclusion, if any, can be drawn from this?**
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5 A. Through general rate applications (“GRA”), the Board approves forecast revenue
6 requirements to establish customer rates, including a return on the Company’s rate base.
7 Customer rates must yield sufficient revenue for a utility to have an opportunity to earn a
8 just and reasonable return, as determined by the Board.
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10 The notion of “reasonableness” has typically been reflected by the longstanding range of
11 return on rate base approved by the Board. The range of return on rate base is 36 basis
12 points ($\pm 0.18\%$), which translates to an implied range of rate of return on equity
13 (“ROE”) of approximately 80 basis points ($\pm 0.40\%$).¹ An achieved ROE 50 basis points
14 above the limit approved by the Board requires a report to explain the variance. Earnings
15 in excess of the upper limit of the Company’s allowed return on rate base are credited to
16 customers through operation of the Excess Earnings Account.²
17

18 Since 2016, Newfoundland Power’s achieved ROE has been higher than the 8.50% ROE
19 approved by the Board. This is due to actual costs differing from the forecast revenue
20 requirements used to establish customer rates. In 2016, the higher achieved ROE
21 primarily reflected lower operating costs, which were largely due to the accelerated
22 deployment of automated meter reading. From 2017 to 2020, higher achieved ROEs
23 were attributable to a combination of lower than anticipated debt costs and depreciation
24 expense, higher non-electricity revenues and the impact of lower electricity sales.³
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26 Since 2016, the rate of return on rate base achieved by Newfoundland Power has
27 consistently been within the range approved by the Board.⁴ The Company’s achieved
28 ROE has been lower than the reporting threshold for variances. The Excess Earnings
29 Account has not been required to operate over this period.
30

31 In Newfoundland Power’s view, these results show that the Company had an opportunity
32 to earn a just and reasonable return based on the customer rates in effect during each of
33 those years.

¹ The Board’s use of a “range” of return to determine the need for revisions to customer rates appears consistent with the notion of a “zone of reasonableness” as described by the Newfoundland and Labrador Court of Appeal. See paragraph 30 of the 1998 opinion of the Newfoundland and Labrador Court of Appeal in a stated case (June 15, 1998, Docket: 96/141).

² See the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3: Finance*, page 3-41.

³ The lower cost of debt in each year was the result of financing arrangements, which were specifically approved by the Board under Section 91 of the *Public Utilities Act*.

⁴ See *Return 13 Return on Average Rate Base & Determination of Excess Earnings* of the *Annual Returns* filed with the Board by March 31st of each year from 2016 to 2020.