

1 Q. **Reference: Schedule 1 – Evidence, page 2, lines 13 to 20**

2 On April 13, 2018, Hydro provided additional information to the Board and parties  
3 in the 2017 GRA showing actual costs for 2017. The actual costs show reduced  
4 operating costs and improved returns relative to the 2017 GRA forecast. Please  
5 provide Hydro's most recent forecast of regulated return on equity and percentage  
6 return on equity for 2018 at current rates and proposed interim rates. For the  
7 calculation, assume existing regulatory reserves are in effect for 2018 and Hydro  
8 keeps all forecast savings from off-island purchases in 2018.

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11 A. 2017 Actual Results

12 As noted in Hydro's filing on April 13, 2018,<sup>1</sup> in P.U. 39(2017) the Board indicated  
13 that the General Rate Application (GRA) would be the most convenient forum to  
14 address the issues relating to the recovery of the Supply Cost deferrals. Hydro's  
15 reported return on rate base for 2017 was 5.73%. However, this return includes  
16 earnings from 2014-2016 relating to both Cost Deferrals and Energy Supply Cost  
17 Deferrals resulting from the 2013 GRA orders.

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19 Annual returns for the years 2014-2017 will be re-filed when issues related to  
20 recovery of the Supply Cost Deferrals are addressed in a future Board Order. Upon  
21 re-file, Hydro anticipates the return on rate base for 2017 actual to be 5.07% which  
22 is comparable with the 2017 forecast amount of 5.02%.

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24 It is also noted that both the 5.73% and 5.07% are significantly below the lower end  
25 of the approved 2015 Test Year range of return on rate base of 6.41%.

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<sup>1</sup> Additional Information – 2017 Actuals, Schedule 4-I, reference 5.

1        2018 Forecast Return on Equity

2        In its 2017 General Rate Application evidence, Hydro forecasted its 2018 results  
3        under existing rates assuming forecast savings from off-island purchases were  
4        deferred in the proposed Off-Island Purchases Deferral Account.<sup>2</sup> In its response to  
5        CA-NLH-050 (Revision 1), Hydro also provided its forecast 2018 results under  
6        existing rates assuming all savings from off-island purchases were used to offset  
7        Hydro's 2018 Revenue Deficiency. A summary of these forecasts are included in  
8        Table 1.

**Table 1: Forecast 2018 Results – 2017 Approved Rates**

Line No.	Particulars	2017 Rates	CA-NLH-050 Rev1
1	Net Income (\$000s)	(10,707)	1,630
2	CoS Exclusions (\$000s)	5,041	5,041
3	Regulated Interest (\$000s)	92,385	92,315
4	Return on Rate Base (\$000s)	86,719	98,986
5	<b>Rate of Return on Rate Base (%)</b>	<b>3.84%</b>	<b>4.38%</b>
6	<b>Return on Equity (%)</b>	<b>-1.4%</b>	<b>1.6%</b>
7	Average Rate Base (\$000s)	2,259,681	2,259,681
8	Average Regulated Equity (\$000s)	406,396	412,564

9        In Order No. P.U. 7(2018), the Board approved interim rates for Hydro's Island  
10        Industrial Customers effective April 1, 2018. For the purpose of this response, Hydro  
11        has included this additional base rate revenue under current rates in Table 2.

<sup>2</sup> Hydro's 2017 General Rate Application evidence, Schedule 4-III, page 1 of 1.

**Table 2: Forecast 2018 Results – 2018 Current Rates vs. Proposed Utility**

Line No.	Particulars	Current Rates	Utility Interim
1	Net Income (\$000s)	3,350	13,751
2	CoS Exclusions (\$000s)	5,041	5,041
3	Regulated Interest (\$000s)	92,315	92,315
4	Return on Rate Base (\$000s)	100,706	111,107
5	<b>Rate of Return on Rate Base (%)</b>	<b>4.46%</b>	<b>4.92%</b>
6	<b>Return on Equity (%)</b>	<b>2.0%</b>	<b>4.5%</b>
7	Average Rate Base (\$000s)	2,259,681	2,259,681
8	Average Regulated Equity (\$000s)	413,424	418,625

1 Table 2 shows that compared to CA-NLH-050 (Revision 1), current rates reflecting  
2 increased Island Industrial Interim base rates effective April 1, 2018 result in an  
3 additional \$1.7 million in return for Hydro. Hydro forecasts that if the proposed  
4 interim rates from the Application are approved, Hydro's 2018 return will increase  
5 by an additional \$10.4 million.<sup>3</sup>

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7 Table 2 shows that under both current and proposed interim rates, Hydro's most  
8 recent rate of return on rate base forecast remains below both its current approved  
9 and forecast 2018 Test Year return levels.

<sup>3</sup> Forecast to be \$8.3 million from Newfoundland Power, and \$2.1 million from Hydro's Rural Customers.