

- 1 **Q. (Reference PUB-NP-007) Regarding the choice of discount rate in the NPV**  
 2 **calculations:**  
 3 **a) Why did NP choose a discount rate of 5.81% for the years 2023 to 2055?**  
 4 **b) What was the yield on the most recent NP debt issue, when was that**  
 5 **debt issued and for how long?**  
 6 **c) Has NP obtained any forecasts of interest rates from the Conference**  
 7 **Board of Canada, financial advisors or other forecasters for the years**  
 8 **2023 to 2055? If so, please provide same.**  
 9 **d) If NP's average cost of capital were to increase in 2023 by two**  
 10 **percentage points and if the project were approved, what would be the**  
 11 **impact on rates for street lighting?**  
 12 **e) Has NP's average cost of capital ever exceeded 5.81%? If so, when and**  
 13 **by how much?**
- 15 A. a) Newfoundland Power's discount rate for capital project evaluation is set to the  
 16 Company's incremental weighted average cost of capital. The discount rate at  
 17 the time the Company was preparing its *2023 Capital Budget Application* in early  
 18 2022 was 5.81%. The same discount rate was used in the response to Request  
 19 for Information PUB-NP-007.  
 20  
 21 b) Newfoundland Power's Series AR First Mortgage Bonds were issued on April 27,  
 22 2022 with a yield of 4.198%. The term of the debt issuance was 30 years.  
 23  
 24 c) Newfoundland Power obtains short-term and long-term forecasts from  
 25 Consensus Economics. These include short-term (one-year) and long-term  
 26 (10-year) forecasts of 10-Year Government of Canada Treasury Bond yields.  
 27 These forecasts are subject to copyright and the Company is not permitted to  
 28 reproduce or transmit same.  
 29  
 30 d) Newfoundland Power's return on equity of 8.5% for 2022, 2023, and 2024 was  
 31 approved by the Board in Order No. P.U. 3 (2022). As a result, an increase in  
 32 Newfoundland Power's incremental cost of capital of 2% in 2023 implies a yield  
 33 on the Company's next long-term debt issuance of 7.245%.<sup>1</sup>  
 34  
 35 Newfoundland Power's Street and Area Lighting rates for 2023 were approved by  
 36 the Board in Order No. P.U. 3 (2022) and are based on embedded costs and the  
 37 Company's weighted average cost of capital. An increase in the incremental cost  
 38 of debt from 3.608% to 7.245% associated with the 2023 capital expenditures  
 39 for the *LED Street Lighting Replacement Plan* would increase costs to Street and  
 40 Area Lighting customers by 0.7%.<sup>2</sup> Since Newfoundland Power's base rates for

<sup>1</sup> Newfoundland Power's approved capital structure consists of 55% debt and 45% equity. The incremental cost of debt used in the *2023 Capital Budget Application* was 5.81% and consisted of interest on debt of 3.608% and a return on equity of 8.50% ( $3.608\% \times 55\% + 8.50\% \times 45\% = 5.81\%$ ). A 2% increase in the weighted average cost of capital implies a 7.245% interest rate on debt ( $7.81\% - 8.50\% \times 45\% \div 55\% = 7.245\%$ ).

<sup>2</sup> Newfoundland Power is proposing \$5,453,000 in 2023 capital expenditures associated with the continuation of the *LED Street Lighting Replacement Plan*. A change in the incremental cost of debt from 3.608% to 7.245% would increase debt financing costs for Street and Area Lighting customers by \$109,079 ( $\$5,453,000 \times 55\% \times (7.245\% - 3.608\%) = \$109,079$ ). Newfoundland Power's 2023 Test Year Revenue Requirement from the Street and Area Lighting customer rate class is \$16,424,000 ( $\$109,079 / \$16,424,000 = 0.7\%$ ).

- 1                   2023 are already approved by the Board, the Company would incur the  
2                   additional debt financing costs in 2023 without an increase in 2023 customer  
3                   rates.<sup>3</sup>  
4
- 5           e)       Yes, Newfoundland Power's average incremental cost of capital has exceeded  
6                   5.81% in the past. In Newfoundland Power's *2021 Capital Budget Application*,  
7                   the Company's incremental weighted average cost of capital was 5.92%,  
8                   exceeding the weighted average cost of capital used in the *2023 Capital Budget*  
9                   *Application* by 0.11%.

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<sup>3</sup> Costs associated with higher debt financing costs, should they occur, would be included as part of Newfoundland Power's next general rate application.