

1 **Q. Additional Information, Schedule B, Table 1. A 2024 return on equity (ROE) of**  
2 **8.10% is forecast if customer rates to provide the opportunity to achieve the**  
3 **proposed lower end of the return on rate base (6.67%) are approved. Please confirm**  
4 **that an 8.10% ROE for 2024 would be within the implied range of ±40 basis points**  
5 **reflected in the range of return on rate base of ±18 basis points provided in recent**  
6 **Board orders.**

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8 A. Newfoundland Power can confirm that, assuming a constant cost of debt, a range of  
9 return on rate base of 36 basis points implies a range of return on common equity of 80  
10 basis points (±0.40%).<sup>1</sup>

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12 An important caveat to the implied range of return on common equity of ±40 basis points  
13 is that it is a theoretical analysis, intended to provide context for the Company's regulated  
14 range of return on rate base of ±18 basis points. To determine the implied range of return  
15 on equity, the analysis is completed using test year figures and assuming the cost of debt  
16 remains constant. In reality, the cost of debt will vary, which could significantly impact  
17 the resulting return on equity.

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19 For example, in Order No. P.U. 3 (2022), the Board approved a rate of return on rate base  
20 for 2023 of 6.39% in a range of 6.21% to 6.57%. The 2023 test year rate of return on rate  
21 base included a cost of debt of 4.67%. For 2023, the Company is forecasting a cost of  
22 debt of 5.11%, 44 basis points higher than the 2023 test year cost of debt.<sup>2</sup>

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24 Attachment A to this response provides a version of the *Implied Range of Rate of Return*  
25 *on Common Equity* analysis provided in Attachment 1 to *Additional Information,*  
26 *Schedule B* filed with the Board on November 28, 2023 adjusted to reflect a 44 basis  
27 point increase in the cost of debt. The analysis shows that, on a theoretical basis, the  
28 implied range of return on common equity in that scenario is between minus 86 basis and  
29 minus four basis points.

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31 These dynamics can be observed in Newfoundland Power's 2023 forecast. In 2023, the  
32 Company is forecasting a return on equity of 8.44% and excess earnings of \$3.6 million  
33 on an after-tax basis.

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35 In Newfoundland Power's view, using the bottom of the implied range of return on  
36 equity of 8.10% to determine customer rates for 2024 would not be appropriate.

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38 For further information on the appropriateness of setting 2024 customer rates based on  
39 the low end of the proposed range of return on rate base for 2024, see the response to  
40 Request for Information PUB-NP-003.

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<sup>1</sup> For example, see Attachment 1 to *Additional Information, Schedule B* filed with the Board on November 28, 2023. The analysis was based on the 2023 Test Year capital structure and rate of return on rate base approved in Order No. P.U. 3 (2022) and assumed the cost of debt remains constant.

<sup>2</sup> The increased 2023 return on debt since existing customer rates were established in March 2022 reflects increases to the Bank of Canada's benchmark interest rate over that timeframe. From March 2022 to July 2023, the Bank of Canada increased its interest rate 10 times, for a total increase of 4.75%.