

- 1 **Q. Further to Appendix B, Newfoundland Power’s 2024 WACC equals 6.67%:**
- 2 a) In its evidence in its 2008 General Rate Application, Volume 1, page 61),
- 3 Newfoundland Power stated, “The appropriate arithmetic expression of the
- 4 Formula following the Company’s transition to the Asset Rate Base Method is:
- 5 Return on Rate Base = Rate Base X WACC”. Why is Newfoundland Power not
- 6 proposing to apply this formula in the determination of rate base for 2024 in their
- 7 application? Please explain.
- 8 b) Please confirm that Schedule B, Attachment 2 to PUB Information Request (ii)
- 9 filed on November 28, 2023, provides analysis reflecting the use of the 6.67%
- 10 forecast WACC to compute the rate of return and revenue requirements for 2024.
- 11
- 12 A. a) Under the Asset Rate Base Method (“ARBM”), rate base is determined so that it
- 13 represents the invested capital necessary to finance the rate base (the debt and equity
- 14 investments). In this way, the Company’s return on rate base could theoretically be
- 15 expressed by multiplying its rate base by its weighted average cost of capital
- 16 (“WACC”).¹ However, Newfoundland Power’s return on rate base has been
- 17 determined by adding the Company’s return on debt, return on common equity and
- 18 return on preferred equity together in its general rate applications and rate of return
- 19 on rate base applications since 2008.²
- 20
- 21 To illustrate, Table 1 shows the calculation of Newfoundland Power’s 2008 test year
- 22 return on rate base.³

Table 1:
2008 Test Year Return on Rate Base Calculation
(\$000s)

Return on equity	32,700
Return on preferred equity	586
<u>Return on debt</u>	
Interest on long-term debt	32,334
Other interest	2,450
Amortization of bond issue expenses	179
AFUDC	<u>(283)</u>
	34,680
 Return on rate base	 67,966

¹ Newfoundland Power’s return on rate base closely aligns with the calculation of rate base x WACC in years where the Company’s invested capital is similar to its rate base. Under the ARBM, differences in invested capital and rate base still exist related to construction work in progress, cash working capital and materials and supplies amounts, which can create differences in the two calculations. For a reconciliation of the Company’s forecast rate of return on rate base and WACC for 2024, see the response to Request for Information PUB-NP-015.

² As outlined in the response to Request for Information PUB-NP-018, Newfoundland Power’s return on rate base was determined by multiplying its rate base by WACC in its 2011 application associated with the operation of the automatic adjustment formula. The operation of the formula was suspended in Order No. P.U. 25 (2011).

³ The totals of each return are shown on lines 26 to 30 in *Exhibit 10 (1st Revision), 2008 Return on Rate Base* in Newfoundland Power’s evidence to its 2008 *General Rate Application (Amended)*.

1 The Company's 2008 test year return on rate base was calculated by adding its return
2 on debt, return on common equity and return on preferred equity together as opposed
3 to the formula of rate base x WACC.
4

5 Newfoundland Power has calculated its forecast return on rate base for 2024 by
6 adding together its return on debt and return on common equity for 2024. This is
7 consistent with the Company's approach in its 2015, 2018 and 2021 rate of return on
8 rate base applications, each of which were approved by the Board as filed.⁴
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- 10 b) PUB Information Request (ii), Attachment 2, provides an analysis, consistent with
11 Appendix B to the *2024 Rate of Return on Rate Base* report, using a rate of return on
12 common equity of 8.10% to determine Newfoundland Power's 2024 rate of return
13 on rate base (i.e. the low-end scenario). In the attachment, the Company's WACC is
14 6.49%, which is 18 basis points lower than the 2024 forecast mid-point WACC of
15 6.67% to account for the reduced rate of return on common equity.
16

17 The Company observes that the low-end scenario provides for a rate of return on rate
18 base of 6.67%, which is equal to the mid-point of the 2024 forecast WACC shown in
19 Appendix B.

⁴ See Orders No. P.U. 051 (2014), P.U. 41 (2017) and P.U. 36 (2020).