

1 **Section 1: Introduction**

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3 **Q. (Section 1, page 1-10) Newfoundland Power dismisses the application of an**
4 **automatic ROE adjustment formula with the argument that there is continued**
5 **“volatility in bond yields”. Please discuss in detail the level of bond market volatility**
6 **currently experienced and forecast versus that at the time when the ROE**
7 **adjustment formula was introduced. Is Newfoundland Power’s concern the**
8 **volatility or the level of the forecast bond yield?**
9

10 A. The Board approved the use of the Automatic Adjustment Formula (the “Formula”) for
11 Newfoundland Power in Order No. P.U. 16 (1998-99). The Company does not have
12 sufficient data to complete a detailed analysis of bond market volatility for 2024
13 compared to 1998.
14

15 The Board suspended use of the Formula in December 2011. Since that time, bond
16 market analyses have occurred at the time of each general rate application to determine if
17 the continued suspension of the Formula remained appropriate. The use of the Formula
18 was suspended in subsequent Board orders including the Board’s order in relation to
19 Newfoundland Power’s *2013/2014 General Rate Application*.¹ In Order Nos. P.U. 18
20 (2016), P.U. 2 (2019), and P.U. 3 (2022), the Board accepted settlement agreements in
21 relation to the Formula and was satisfied that continued suspension of the Formula
22 remained appropriate.
23

24 Since Newfoundland Power’s *2022/2023 General Rate Application*, bond yields have
25 increased. However, financial market conditions have been volatile. Government of
26 Canada benchmark bond yields for the period January 2001 to July 2023 show three
27 periods where yields on two-year Government of Canada benchmark bonds were
28 comparable to, or higher than, long-term Government of Canada benchmark bond
29 yields.²
30

31 In Newfoundland Power’s view, current economic conditions do not provide the stability
32 in financial markets necessary to establish a formula that can be used to adjust the
33 Company’s return on equity between test years. The expert evidence filed with this
34 Application recommends continued suspension of the Formula.³
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36 For further information on the Formula, see the response to Request for Information
37 NLH-NP-067.

¹ See Order No. P.U. 13 (2013), page 36, lines 38-44.

² This is referred to as an inverted yield curve which occurs in more volatile economic conditions. The time periods include: (i) the 2007-2008 period defined by the global financial crisis; (ii) the 2019-2020 period defined by the onset of the COVID-19 pandemic; and (iii) the 2022-2023 period defined by high inflation and increases in the central bank target overnight interest rate. See the discussion in Newfoundland Power’s *2025/2026 General Rate Application, Volume 1, Section 3: Finance*, pages 3-45 and 3-46.

³ See Newfoundland Power’s *2025/2026 General Rate Application, Volume 1, Section 3: Finance*, page 3-16, lines 15-20.