

1 **Section 3: Finance/Fair Return**  
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3 **Q. (Section 3, page 3-12) It is stated "... is forecast to be above the approved range for**  
4 **2023, driven by a higher forecast return on debt compared to the Company's 2023 test**  
5 **year return on debt."**

6 **a) A primary justification for a range on the rate of return on rate base is to**  
7 **provide incentive for Newfoundland Power to increase efficiency to the benefit of**  
8 **consumers. Since the 2023 return is well-above the midpoint of the rate of return**  
9 **on rate base approved by the Board for 2023, and the increased earnings had**  
10 **nothing to do with efficiency improvements, will Newfoundland Power return all**  
11 **revenue above the midpoint of the range to consumers?**

12 **b) Does this justify elimination of the range, or alternatively, providing a sharing**  
13 **arrangement, for example a 50/50% sharing, of all earnings above the midpoint**  
14 **of the range approved by the Board?**

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16 **A. a)** The definition of the Excess Earnings Account was approved by the Board in Order  
17 No. P.U. 23 (2013).<sup>1</sup> The definition of the account provides that earnings in excess of  
18 18 basis points above the approved rate of return on rate base are to be credited to the  
19 account. Consistent with the account definition, Newfoundland Power has credited  
20 the account with 2023 regulated earnings in excess of 18 basis points above the  
21 approved 2023 rate of return on rate base.

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23 **b)** No, the operation of the account in 2023 does not justify the elimination or  
24 modification of the range around the approved rate of return on rate base. The  
25 increase in debt costs in 2023 compared to the 2023 test year reflected significant  
26 increases in the Bank of Canada's benchmark interest rate which is not typical  
27 between test years.<sup>2</sup>

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<sup>1</sup> See Schedule C to Order No. P.U. 23 (2013).

<sup>2</sup> Customer rates were established on March 1, 2022 as part of the Company's 2022/2023 General Rate Application. From March 2022 to July 2023, the Bank of Canada increased its interest rate 10 times for a total increase of 4.75%. Prior to these increases, the Bank of Canada interest rate was held constant since April 2020.