Section 3: Finance/Fair Return

Q. (Section 3) Return on Equity

a) Please provide the actual return on equity, the allowed ROE and the ROE from the application of the Board's suspended adjustment formula for each year from the first year the ROE formula was used until 2024. Please discuss any material deviations from the actual and allowed ROE during this period.

b) Please provide the values used to determine the ROE resulting from use of the suspended ROE adjustment formula.

A. a) Newfoundland Power's return on rate base is regulated by the Board. In determining the Company's allowed return on rate base, the Board approves a ratemaking return on equity ("ROE").[1]

Newfoundland Power has an Excess Earnings Account, which is credited with any earnings in excess of the upper limit of the allowed return on rate base as approved by the Board.[2] The sole purpose of the Excess Earnings Account is to protect customers' interests by ensuring that the Company's earned returns do not materially exceed those approved by the Board for ratemaking purposes. This typically limits the Company's ROE to approximately 40 to 50 basis points above the approved return for ratemaking purposes.

Table 1 shows Newfoundland Power's actual and approved ROE from 1998 to 2024.[3]

Table 1:
Actual ROE and Approved ROE
1998-2024F

Year	Approved ROE	Actual ROE
1998	9.25%	9.58%
1999	9.25%	9.81%
2000[4]	9.59%	10.80%
2001[4]	9.59%	11.35%
2002[4]	9.05%	10.65%
2003	9.75%	10.22%
2004	9.75%	10.12%
2005	9.24%	9.60%
2006	9.24%	9.46%

[1] In Order No. P.U. 19 (2003), the Board ordered, in effect, that Newfoundland Power file a report explaining the circumstances and facts contributing to any difference between an actual rate of ROE that was greater than 50 basis points (0.50%) above the cost of equity as determined by the Automatic Adjustment Formula.

[2] The upper limit on the allowed rate of return on rate base, as established by the Board in Order No. P.U. 19 (2003), is 18 basis points above that used for ratemaking purposes.

[3] The Board approved the use of the Automatic Adjustment Formula for Newfoundland Power in Order No. P.U. 16 (1998-99).

[4] In 2000, 2001 and 2002, Newfoundland Power's actual ROE was 1.21%, 1.76% and 1.60%, respectively, over the approved returns. The variances in regulated returns for 2000 through 2002 were primarily attributable to the conclusion of a tax reassessment audit by the Canada Revenue Agency.

Table 1:
Actual ROE and Approved ROE
1998-2024F
(Continued)

Year	Approved ROE	Actual ROE
2007	8.60%	8.66%
2008	8.95%	9.13%
2009	8.95%	8.96%
2010	9.00%	9.21%
2011	8.38%	9.00%
2012	8.80%	8.98%
2013	8.80%	9.16%
2014	8.80%	9.15%
2015	8.80%	8.98%
2016	8.50%	8.90%
2017	8.50%	8.93%
2018	8.50%	8.76%
2019	8.50%	8.79%
2020	8.50%	8.93%
2021	8.50%	8.88%
2022	8.50%	8.95%
2023	8.50%	8.54%
2024F	8.50%	N/A

Table 2 provides *pro forma* ROEs for non-test years following suspension of the Formula in 2011.[5]

Table 2:
Requested Pro Forma ROE Analysis
(Based on the Suspended Formula)
Non-Test Years: 2012 to 2024

Year	ROE
2012	7.87%
2015	8.35%
2018	8.31%
2021	7.25%
2024	9.27%

b) See Attachment A for the supporting calculations to Table 2.

[5] The Board approved the use of the Formula for Newfoundland Power in Order No. P.U. 16 (1998-99). After this approval, ratemaking ROEs were still determined in the Company's general rate applications. The Formula was used to adjust the ROE determined in the previous general rate application (i.e. non-test years).

Automatic Adjustment Formula
***Pro Forma* Cost of Equity**
Non-Test Years Since 2011

Newfoundland Power Inc.
Automatic Adjustment Formula
***Pro Forma* 2012 Cost of Equity**

3-Month Forecast of 10-year Government of Canada Bond Yield[1]	2.30%	A
12-Month Forecast of 10-year Government of Canada Bond Yield[1]	2.60%	B
Average 10-year Government of Canada Bond Yield	2.45%	C = (A + B)/2
Add: Average Observed Spread between 10-year and 30-year Government Bonds[2]	0.64%	D
Forecast Long Canada Bond Yield	3.09%	E = C + D
Long Canada Bond Yield[3]	4.50%	F
Change in Long Canada Bond Yield	-1.41%	G = E - F
Change in Forecast Cost of Equity[4]	-1.13%	H = G x 0.8
Cost of Equity: Order No. P.U. 43 (2009)	9.00%	I
Change in Cost of Equity	-1.13%	H
2012 Forecast Cost of Equity	7.87%	J = I + H

[1] Yields are those reported in the *Consensus Forecasts, Survey of International Economic Forecasts* , October 2011.

[2] Average observed spread for all trading days in October 2011 between 10-year and 30-year Government of Canada Bonds as reported on the Bank of Canada website.

[3] Average Long Canada Bond Yield: Order No. P.U. 43 (2009) for 2010 Test Year.

[4] Reflects an adjustment in the total risk premium by a factor of 0.20 as required by Orders No. P.U. 16 and P.U. 36 (1998-99).

Newfoundland Power Inc.
Automatic Adjustment Formula
***Pro Forma* 2015 Cost of Equity**

3-Month Forecast of 10-year Government of Canada Bond Yield[1]	2.40%	A
12-Month Forecast of 10-year Government of Canada Bond Yield[1]	3.00%	B
Average 10-year Government of Canada Bond Yield	2.70%	C = (A + B)/2
Add: Average Observed Spread between 10-year and 30-year Government Bonds[2]	0.54%	D
Forecast Long Canada Bond Yield	3.24%	E = C + D
Long Canada Bond Yield[3]	3.80%	F
Change in Long Canada Bond Yield	-0.56%	G = E - F
Change in Forecast Cost of Equity[4]	-0.45%	H = G x 0.8
Cost of Equity: Order No. P.U. 13 (2013)	8.80%	I
Change in Cost of Equity	-0.45%	H
2015 Forecast Cost of Equity	8.35%	J = I + H

[1] Yields are those reported in the *Consensus Forecasts, Survey of International Economic Forecasts* , October 13, 2014.

[2] Average observed spread for all trading days in October 2014 between 10-year and 30-year Government of Canada Bonds as reported on the Bank of Canada website.

[3] Average Long Canada Bond Yield: Order No. P.U. 13 (2013) for 2013 Test Year.

[4] Reflects an adjustment in the total risk premium by a factor of 0.20 as required by Orders No. P.U. 16 and P.U. 36 (1998-99).

Newfoundland Power Inc.
Automatic Adjustment Formula
***Pro Forma* 2018 Cost of Equity**

3-Month Forecast of 10-year Government of Canada Bond Yield[1]	2.30%	A
12-Month Forecast of 10-year Government of Canada Bond Yield[1]	2.50%	B
Average 10-year Government of Canada Bond Yield	2.40%	C = (A + B)/2
Add: Average Observed Spread between 10-year and 30-year Government Bonds[2]	0.36%	D
Forecast Long Canada Bond Yield	2.76%	E = C + D
Long Canada Bond Yield[3]	3.00%	F
Change in Long Canada Bond Yield	-0.24%	G = E - F
Change in Forecast Cost of Equity[4]	-0.19%	H = G x 0.8
Cost of Equity: Order No. P.U. 18 (2016)	8.50%	I
Change in Cost of Equity	-0.19%	H
2018 Forecast Cost of Equity	8.31%	J = I + H

[1] Yields are those reported in the *Consensus Forecasts, Survey of International Economic Forecasts* , October 9, 2017.

[2] Average observed spread for all trading days in October 2017 between 10-year and 30-year Government of Canada Bonds as reported on the Bank of Canada website.

[3] Average Long Canada Bond Yield: Order No. P.U. 18 (2016) for 2016 Test Year.

[4] Reflects an adjustment in the total risk premium by a factor of 0.20 as required by Orders No. P.U. 16 and P.U. 36 (1998-99).

Newfoundland Power Inc.
Automatic Adjustment Formula
***Pro Forma* 2021 Cost of Equity**

3-Month Forecast of 10-year Government of Canada Bond Yield[1]	0.80%	A
12-Month Forecast of 10-year Government of Canada Bond Yield[1]	1.10%	B
Average 10-year Government of Canada Bond Yield	0.95%	C = (A + B)/2
Add: Average Observed Spread between 10-year and 30-year Government Bonds[2]	0.59%	D
Forecast Long Canada Bond Yield	1.54%	E = C + D
Long Canada Bond Yield[3]	3.10%	F
Change in Long Canada Bond Yield	-1.56%	G = E - F
Change in Forecast Cost of Equity[4]	-1.25%	H = G x 0.8
Cost of Equity: Order No. P.U. 2 (2019)	8.50%	I
Change in Cost of Equity	-1.25%	H
2021 Forecast Cost of Equity	7.25%	J = I + H

[1] Yields are those reported in the *Consensus Forecasts, Survey of International Economic Forecasts* , October 12, 2020.

[2] Average observed spread for all trading days in October 2020 between 10-year and 30-year Government of Canada Bonds as reported on the Bank of Canada website.

[3] Average forecast 30-year Government Bond Yield for 2019 and 2020 based on *Consensus Forecasts, Survey of International Economic Forecasts* , April 9, 2018, *Long-Term Forecasts* and average observed spread between 10-year and 30-year Government Bonds in March 2018 as reported on the Bank of Canada website.

[4] Reflects an adjustment in the total risk premium by a factor of 0.20 as required by Orders No. P.U. 16 and P.U. 36 (1998-99).

Newfoundland Power Inc.
Automatic Adjustment Formula
***Pro Forma* 2024 Cost of Equity**

3-Month Forecast of 10-year Government of Canada Bond Yield[1]	3.70%	A
12-Month Forecast of 10-year Government of Canada Bond Yield[1]	3.40%	B
Average 10-year Government of Canada Bond Yield	3.55%	C = (A + B)/2
Add: Average Observed Spread between 10-year and 30-year Government Bonds[2]	-0.25%	D
Forecast Long Canada Bond Yield	3.30%	E = C + D
Long Canada Bond Yield[3]	2.34%	F
Change in Long Canada Bond Yield	0.96%	G = E - F
Change in Forecast Cost of Equity[4]	0.77%	H = G x 0.8
Cost of Equity: Order No. P.U. 3 (2022)	8.50%	I
Change in Cost of Equity	0.77%	H
2024 Forecast Cost of Equity	9.27%	J = I + H

[1] Yields are those reported in the *Consensus Forecasts, Survey of International Economic Forecasts* , October 9, 2023.

[2] Average observed spread for all trading days in October 2023 between 10-year and 30-year Government of Canada Bonds as reported on the Bank of Canada website.

[3] Average forecast 30-year Government Bond Yield for 2022 and 2023 based on *Consensus Forecasts, Survey of International Economic Forecasts* , April 12, 2021, *Long-Term Forecasts* and average observed spread between 10-year and 30-year Government Bonds in March 2021 as reported on the Bank of Canada website.

[4] Reflects an adjustment in the total risk premium by a factor of 0.20 as required by Orders No. P.U. 16 and P.U. 36 (1998-99).