

1 **Q.** **(Reference, April 24, 2024 Brattle Report entitled Report on Newfoundland Power's**
2 **Deferral Accounts) It is stated (page 17) "Excess Earnings or Earnings Sharing**
3 **Mechanisms ("ESM") are common amongst many utilities within Canada. However,**
4 **all of these ESMs look at excess earnings from an ROE basis and not from the return**
5 **on rate base as is done with NP." Table 1 in the response to CA-NP-079 shows that**
6 **for every year from 1998 to 2023 inclusive Newfoundland Power earned an actual**
7 **rate of return on equity greater than the approved rate of return on equity. Does the**
8 **information from Table 1 provide any insight as to why these other ESMs are**
9 **structured on a ROE basis?**

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11 **A.** As outlined in the Report, the predominant practice among utilities that have some
12 form of ESMs is to structure the mechanisms on an ROE basis. This approach reflects
13 the consideration that the ROE represents the net income a utility would earn by
14 providing service to its customers. Various methodologies and mechanisms could be
15 used when designing an ESM based on ROE. Simply having an earned ROE greater than
16 an approved ROE is not in itself a basis for the need to share those earnings over the
17 approved ROE.