

1    **Q.**     **(Reference April 24, 2024 Brattle Report entitled Report on Newfoundland Power's**  
2           **Deferral Accounts) It is stated (page 20) "Constructing an excess earnings mechanism**  
3           **based on the return on rate base of a utility creates perverse incentives." Please**  
4           **elaborate on these perverse incentives.**

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6    **A.**     As outlined in the Report, unintended consequences of structuring an excess earnings  
7           mechanism on the basis of return on rate base have already presented themselves as  
8           part of Newfoundland Power's 2025-2026 GRA. During periods in which Newfoundland  
9           Power has earned actual ROE greater than that of its approved ROE, Newfoundland  
10          Power was not subject to the excess earnings mechanism. However, for 2023,  
11          Newfoundland Power had forecasted that the excess earnings mechanism would take  
12          effect primarily due to the higher-than-forecast cost of debt, even though its actual  
13          ROE was forecasted to be below approved. Since the filing of its 2025-2026 GRA,  
14          Newfoundland Power has provided its actual ROE for 2023, 8.54 percent, which is  
15          slightly above its approved ROE of 8.50 percent, as presented in response to CA-NP-  
16          079. However, this actual ROE of 8.54 percent is below the actual annual ROEs of  
17          Newfoundland Power since 2016 (the first year Newfoundland Power had an approved  
18          ROE of 8.50 percent). During this period, 2016-2022, the excess earnings mechanism  
19          had not once taken effect. Only in 2023 will the mechanism take effect due to the  
20          higher-than-forecast cost of debt. These results demonstrate that the current  
21          mechanism creates consequences for both the utility and its customers as a utility's  
22          return on debt is intended to compensate the utility for paying expenses associated  
23          with bondholders and other long-term debt holders.