

1 SECTION 3: FINANCE/FAIR RETURN

2
3 Q. Reference: NLH-NP-062

4 In its response to NLH-NP-062, Newfoundland Power states:

5 A fair return on equity provides the Company the ability to attract incremental
6 capital on reasonable terms and conditions, which benefits customers.7 a) Has Newfoundland Power had any difficulty to date attracting incremental
8 capital on reasonable terms based on the current equity structure of 45% and a
9 Return on Equity (“ROE”) of 8.5%?10 b) In Newfoundland Power’s opinion, is the benefit to customers from
11 Newfoundland Power’s ability to attract incremental capital on reasonable terms
12 and conditions, when compared to the costs of the rate increases associated with
13 a higher ROE, significant enough to meet the threshold of a balance of
14 competing interests between the utility and the consumers? Please explain.15
16 A. a) See the response to Request for Information CA-NP-080.17
18 b) The Board is guided by the fair return standard in determining an appropriate rate of
19 return on equity and capital structure for Newfoundland Power. Historically,
20 the Board has interpreted a fair return as one that is: (i) commensurate with returns on
21 investments of similar risk; (ii) sufficient to ensure the utility’s financial integrity; and
22 (iii) sufficient to attract necessary capital.¹ The Board has also provided that “*all*
23 *three of these requirements must be met and no one requirement takes precedence*
24 *over the other two.*”²25
26 The fair return standard is consistent with the *Electrical Power Control Act, 1994*,
27 which states:28
29 *“It is declared to be the policy of the province that... the rates to be*
30 *charged, either generally or under specific contracts, for the supply of*
31 *power within the province... should provide sufficient revenue to the*
32 *producer or retailer of the power to enable it to earn a just and*
33 *reasonable return as construed under the Public Utilities Act so that it is*
34 *able to achieve and maintain a sound credit rating in the financial markets*
35 *of the world.”*36
37 Without the ability to attract necessary capital, the Company’s ability to meet its
38 statutory obligations in delivering electricity service to customers would be
39 compromised.³ Accordingly, determining a fair return for Newfoundland Power is
40 consistent with the Company’s legislative requirements and within the Board’s
41 mandate – both of which are in place to protect customers’ interests.

1 See Order No. P.U. 2 (2019), page 12, lines 9-12.

2 Ibid.

3 See section 3(b)(iii) of the *Electrical Power Control Act, 1994*.

- 1 See the response to Request for Information PUB-NP-057 for further information on
- 2 the fair return standard.