Q. **Reference: Cost Relationship to Changes in Newfoundland Power's Return on Equity**

Please estimate the impacts, if any, on Hydro's annual costs if Newfoundland Power's return on equity is increased or decreased by 0.5%. In the response, please address both changes in Hydro's internal costs and changes in costs incurred under the Muskrat Falls Project agreements.

A. If Newfoundland Power Inc.'s ("Newfoundland Power") Return On Equity ("ROE") is increased or decreased by 0.5%, Newfoundland and Labrador Hydro's ("Hydro") revenue requirement would be impacted as well as the payments made under the Transmission Funding Agreement ("TFA").[1]

OC2009-063 directed the Board of Commissioners of Public Utilities ("Board") to adopt policies as follows for all future general rate applications ("GRA") made by Hydro, commencing with Hydro's first GRA after January 1, 2009:

> i) in calculating the return on rate base for Newfoundland and Labrador Hydro, to set the same target return on equity as was most recently set for Newfoundland Power through a General Rate Application or calculated through the Newfoundland Power Automatic Adjustment Mechanism;
>
> ii) that Newfoundland and Labrador Hydro is entitled to earn annually, a rate of return equal to the weighted average cost of capital, as ordered from time to time, on the entire rate base as fixed and determined by the Board of Commissioners of Public Utilities, including amounts used solely for the provision of service to its rural customers; and
>
> iii) that the capital structure approved for Newfoundland and Labrador Hydro should be permitted to have a maximum proportion of equity as was most recently approved for Newfoundland Power.[2]

---

[1] "Transmission Funding Agreement," Labrador-Island Link Limited Partnership, Labrador-Island Link Operating Corporation, and Newfoundland and Labrador Hydro, November 29, 2013.
[2] OC2009-063, (*Electrical Power Control Act*, *1994,* SNL 1994, c E-5.1).

Based on the direction provided in OC2009-063, Hydro would receive the same ROE as approved for Newfoundland Power in their 2025–2026 GRA. A change in Newfoundland Power's ROE of +/- 0.5% would change Hydro's revenue requirement by approximately +/- $2.6 million per year.[3] In addition, the calculation of payments under the TFA includes an ROE approved by the Board for privately owned regulated utilities in Newfoundland and Labrador; in this instance, it would be the ROE for Newfoundland Power.

A change in Newfoundland Power's ROE of +/- 0.5% would change Hydro's payments under the TFA by approximately +/- $11.0 million per year, on average, over the remaining term of the agreements commencing in 2025. In total, Hydro's revenue requirement would change by +/- $13.6 million per year under this scenario.

[3] Estimated based on Hydro's 2022 Actual Average Rate Base of $2.334 billion and Average Equity of 22.3% ($2.334 billion x 22.3% x 0.5%). The impact on Hydro's revenue requirement will increase as the rate base grows and the target equity in the capital structure of 25% is reached.