

1 **Q. The responses to PUB-NLH-003 and PUB-NLH-004 demonstrate that an increase in**
2 **the test year return on equity for Newfoundland Power will result in a material**
3 **increase in supply costs from Hydro and contribute to increased customer rates,**
4 **while an increase in the test year equity component of the capital structure for**
5 **Newfoundland Power could provide increased return to Newfoundland Power**
6 **without increasing supply costs from Hydro.**

7
8 **Should this relationship be considered when determining the return (in dollars)**
9 **when establishing the test year revenue requirement for Newfoundland Power? If**
10 **not, why not?**

11
12 A. Newfoundland Power is entitled to earn annually a fair return on its rate base in
13 accordance with section 80 of the *Public Utilities Act*.¹ The Board's determination of a
14 fair return for the Company is guided by the fair return standard, which requires
15 consideration of both Newfoundland Power's return on equity and capital structure. The
16 Board has summarized its interpretation of this requirement in prior Board orders. For
17 example, in Order No. P.U. 18 (2016), the Board stated:

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19 *"In Order No. P.U. 43 (2009) and in Order No. P.U. 13 (2013), its most recent*
20 *Order on this issue, the Board stated that "to be considered fair the return must*
21 *be commensurate with the return on investments of similar risk and sufficient to*
22 *assure financial integrity and to attract necessary capital."*²

23
24 Similarly, in Order No. P.U. 2 (2019), the Board stated: *"Determining a fair return*
25 *involves an assessment of both the utilities (sic) capital structure and return on equity, in*
26 *the context of the current capital market conditions and the utility's risk profile."*³

27
28 Newfoundland Power agrees with the Board's interpretation of the fair return standard. It
29 follows that an assessment of an appropriate return on equity and capital structure for the
30 Company should be predicated on current capital market conditions and the Company's
31 own risk profile. Newfoundland Power submits that, in determining an appropriate
32 capital structure for the Company, consideration of the interests of third parties is not a
33 component of the fair return standard.

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35 Newfoundland Power also submits that the Board should consider whether consideration
36 of third parties' interests is in accordance with the stand-alone principle. The Board has
37 upheld the stand-alone principle in past rulings.⁴

¹ See also paragraph 3 of Supreme Court of Newfoundland and Labrador, Court of Appeal, *Section 101 of the Public Utilities Act (Newfoundland) (Re)*, 164 Nfld & PEIR 60, June 15, 1998.

² See Order No. P.U. 18 (2016), page 10-11, lines 44-46 and 1, respectively.

³ See Order No. P.U. 2 (2019), page 12, lines 13-14.

⁴ See, for example, Order No. P.U. 19 (2003), pages 39 and 112.

1 In responding to this Request for Information, Newfoundland Power sought the opinion
2 of its Cost of Capital expert, Concentric Energy Advisors, Inc. (“Concentric”), who
3 stated:

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5 *“To expand the standard of review to consider how the allowed ROE or*
6 *capital structure for Newfoundland Power impacts the revenue*
7 *requirements of Newfoundland and Labrador Hydro, or payments under*
8 *the Transmission Funding Agreement, would thwart the Board’s*
9 *application of the fair return standard. Additionally, in our view, parties*
10 *to these agreements that rely on the Board’s determination of a fair return*
11 *for Newfoundland Power would have just concern if the Board used its*
12 *discretion to manipulate the return (in terms of ROE or capital structure)*
13 *in order to impact the revenue requirements or payments to other parties.”*

14
15 With respect to the stand-alone principle, Concentric stated: *“The Stand-Alone Principle*
16 *provides that the utility must be regulated as if it were a stand-alone entity, raising*
17 *capital on the merits of its own business and financial characteristics.”*⁵

⁵ See the 2025/2026 General Rate Application, Volume 2, Supporting Materials, Cost of Capital: Mr. James Coyne, Concentric Energy Advisors, Inc., page 8. See also the response to Request for Information CA-NP-179.