Q. In NP-142, the regulated margin includes an addition to the margin to account for the excess of assets over total capital structure multiplied by the weighted average cost of capital. Since the assets appear to be the total of the rate base, rural assets, CWIP and RSP, it would appear that a return on the assets in excess of the total capital structure is being duplicated (i.e., earning based on 3% equity component, financing costs being included in the interest expense, as well as earning on the excess of these assets). Should the adjustment result in a decrease in the regulated margin rather than an increase?

A. NP-142 presents the reconciliation between the $5,662,858 equity return on the rate base, excluding rural assets, which is the amount recovered through rates, and $9,610,000 which is essentially accounting net income. Accounting net income reflects the return on capital financing CWIP and the RSP.

The adjustment for the excess of assets over total capital was calculated incorrectly in NP-142 (revised NP-142 now filed). The earnings on the equity component had been double counted in the previous reconciliation. The revised reconciliation correctly presents only the return on debt portion for which there is no corresponding interest expense to be paid.

The adjustment does not increase or decrease the regulated margin. It is part of the difference between return on ratebase and accounting net income.

See also Hydro's response to NP-217.