Q: Would Dr. Cannon's comments respecting the proposed operation of an Automatic Adjustment Mechanism for determining Hydro's annual allowed return on rate base (see page 2, lines 32 - 37 and page 3, lines 1 - 10) apply equally to Newfoundland Power's Automatic Adjustment Mechanism approved by this Board in PU 16 (1998-99), pages 102 – 107; PU 36 (1998-99), pages 69 – 71; PU 19 (2003), pages 62 - 69 and 121; and PU 39 (2005), pages 1 - 3 attached?

A: In principle, Dr. Cannon's proposal is valid, appropriate, and practical for any rate-regulated utility that uses an automatic adjustment mechanism (AAM) for setting and adjusting its allowed rate of return on rate base and its customer rates.

Dr. Cannon has not been retained to evaluate the features and operation of Newfoundland Power's AAM in this hearing, so he has not done so. He can only speculate that, as a practical matter, the advisability of NP's making a similar adjustment to its AAM – to use pre-established embedded costs of debt (ECD) in each year of its AAM term to match the forecasted most-likely level of these costs – would depend on the nature of NP's capital structure and financing policies and on any unique aspects of its AAM that may or may not mirror those that Hydro is proposing.