

1 **Q. Re: Evidence of Dr. Cannon, page 3, lines 2 – 4 that “Hydro’s proposed Automatic**
2 **Adjustment Mechanism fails to reflect the WACC that the Company is likely to**
3 **experience in future years by virtue of the fact that the embedded cost of debt in the**
4 **WACC calculation is held constant, for each year after the test year”.**

5
6 **Please indicate whether:**

7 **(a) in NP’s Board-approved Automatic Adjustment Mechanism, the embedded**
8 **cost of debt in the WACC calculation is held constant for each year after the**
9 **test year; and**

10 **(b) in Exhibit MGB-1, Hydro’s proposal for an Automatic Adjustment Mechanism**
11 **is consistent with the Board approved Automatic Adjustment Mechanism for**
12 **NP in this respect.**

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15 **A. (a) In P.U. 36 (1998-99) (and confirmed in P.U. 19 (2003) with certain amendments)**
16 **the Board approved an *Automatic Adjustment Formula* or *Mechanism* for**
17 **Newfoundland Power Inc. for determining its allowed rate of return on rate base for**
18 **years in between general rate hearings. Under the *Mechanism* the utility’s test year**
19 **values, including the test year embedded cost of debt, are used in the formula for the**
20 **purpose of adjusting the rate of return on rate base in subsequent years until adjusted**
21 **by Board order.**

22
23 **(b) Hydro’s proposed *Automatic Adjustment Mechanism* as described in Exhibit MGB-1**
24 **of its pre-filed evidence is consistent with Newfoundland Power’s approved**
25 ***Mechanism* with respect to the use of the utility’s test year embedded cost of debt.**