

1 **Q. Re: Evidence of Dr. Cannon, page 2, lines 34-37 and his recommendation that the**
2 **operation of an Automatic Adjustment Mechanism for determining Hydro's annual**
3 **allowed return on rate base "should incorporate, in the year-by-year calculation of**
4 **the range for the allowed return on rate base, a weighted average cost of capital**
5 **("WACC") value that, subject to forecast error, is as close as possible to the actual**
6 **WACC likely to be experienced by Hydro in future year".**

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8 **Please indicate whether:**

- 9 **(a) In PU 36 (1998-99), the Board (following evidence from its financial consultant)**
10 **determined that test year values would be used for each of the dependent**
11 **variables of NP's Automatic Adjustment Mechanism with the exception of the**
12 **cost of common equity.**
13 **(b) Dr. Cannon's recommendation would be contrary to ratemaking principles**
14 **which are based on test year values.**

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17 **A. (a) As referenced in the Order section of P.U. 36 (1998-99) at page 99, paragraph**
18 **11(2)(c), that the Board determined that test year values would be used for each of**
19 **the dependent variables in Newfoundland Power's *Automatic Adjustment***
20 ***Mechanism* with the exception of the cost of common equity.**

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22 **(b) It is our understanding that in reaching its decisions the Board weighs and considers**
23 **all relevant principles in the context or circumstances of the evidence presented at a**
24 **hearing and the current regulatory environment.**