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6 **P.U. 40(2006)**

7 **IN THE MATTER OF** the
8 **PUBLIC UTILITIES ACT,**
9 RSNL 1990, c. P-47, as amended
10 (the "*Act*")

11 **AND**

12
13 **IN THE MATTER OF** the application
14 (the "Application") by Newfoundland Power
15 Inc. (the "Applicant") for an Order:

- 16 (i) approving a revised rate of return on
17 rate base for 2007 and a revised definition
18 of the Excess Earnings Account; and
19 (ii) permitting deferral of application for a
20 revised schedule of rates, tolls and charges
21 effective January 1, 2007 to a date no later
22 than December 15, 2006;
23 as required by the automatic adjustment formula
24 (the "Formula") approved pursuant to Order No.
25 P.U. 19(2003).
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27
28 **WHEREAS** the Applicant is a corporation duly organized and existing under the laws of the
29 Province of Newfoundland and Labrador, is a public utility within the meaning of the *Act*, and is
30 also subject to the provisions of the *Electrical Power Control Act, 1994*; and
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32 **WHEREAS** by Order Nos. P.U. 16(1998-99), P.U. 36(1998-99) and P.U. 19(2003) the Board
33 ordered the establishment of the Formula for use in determining the Applicant's rate of return on rate
34 base and in setting customer rates, tolls and charges (collectively "Customer Rates") in years
35 subsequent to a test year; and

1 **WHEREAS** by Order No. P.U. 19(2003) the Board ordered that the Applicant's rate of return on
2 rate base and Customer Rates for 2005, 2006 and 2007 be set using the Formula; and

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4 **WHEREAS** by Order Nos. P.U. 19(2003) and P.U. 23(2003) the Board approved the establishment
5 of the 2004 test year parameters for use in calculating the Applicant's rate of return on rate base and
6 Customer Rates; and

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8 **WHEREAS** by Order No. P.U. 50(2004) the Board approved the definition of the Excess Earnings
9 Account whereby earnings for 2005 and subsequent years in excess of the maximum allowable rate
10 of return on rate base of 8.86%, are to be credited to the Excess Earnings Account, unless otherwise
11 ordered by the Board; and

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13 **WHEREAS** by Order Nos. P.U. 50(2004) and P.U. 3(2006) the Board approved Customer Rates to
14 reflect a range of return on rate base of 8.50% to 8.86% for 2005 and 2006; and

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16 **WHEREAS** by Order No. P.U. 38(2006) the Board approved the Applicant's request for a deferral
17 of the application for a revised schedule of rates, tolls and charges to be effective January 1, 2007
18 but deferred its decision on the Applicant's request for a revised rate of return on rate base for 2007
19 and a revised definition of the excess earnings account; and

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21 **WHEREAS** by Order No. P.U. 39(2006) the Board approved the 2007 forecast average rate base of
22 \$785,271,000 and 2007 forecast invested capital of \$787,990,000 for use in the Formula; and

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24 **WHEREAS** Appendix A to the Application sets out the calculation of the cost of common equity
25 for 2007 as 8.60% in accordance with Order No. P.U. 19(2003); and

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27 **WHEREAS** Appendix B to the Application sets out the calculation of the weighted average cost of
28 capital for 2007 based upon the operation of the Formula and a 2007 cost of common equity of
29 8.60%; and

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WHEREAS Appendix C to the Application sets out the rate of return on rate base for 2007 of 8.47%, in a range of 8.29% to 8.65% pursuant to the operation of the Formula; and

WHEREAS Appendix D to the Application sets out the calculation of a revised revenue requirement for 2007 based upon the operation of the Formula; and

WHEREAS Appendix E to the Application sets out the proposed revised definition of the Excess Earnings Account for 2007; and

WHEREAS the Board has reviewed the information filed and is satisfied that the proposed rate of return on rate base for 2007 is just and reasonable in the circumstances and that the revised definition of the Excess Earnings Account should be approved.

IT IS THEREFORE ORDERED THAT:

The Board approves:

- (i) pursuant to Section 80 of the *Act*, a rate of return on rate base for 2007 of 8.47% in a range of 8.29% to 8.65%; and
- (ii) pursuant to Section 58 of the *Act*, a revised definition of the Excess Earnings Account as set out in Schedule 1.

DATED at St. John's, Newfoundland and Labrador, this 7th day of December 2006.

Robert Noseworthy
Chair & Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

G. Cheryl Blundon
Board Secretary

Schedule 1

Order No. P.U. 40(2006)

Issued: December 7, 2006

Excess Earnings Account

This account shall be credited with any earnings in excess of the upper limit of the allowed range of return on rate based as determined by the Board, plus the amount of any applicable income taxes calculated at the prevailing income tax rate in that year. Disposition of any balance in this account shall be as determined by the Board. For 2007 and subsequent years, all earnings in excess of an 8.65% rate of return on rate base shall, unless otherwise ordered by the Board, be credited to this account.