

1 **Q. Please restate Exhibit 1 and Exhibit 5 for forecast 2015 and 2016 under existing**
2 **rates, assuming NP was deemed to have a 40% equity component in its capital**
3 **structure.**

4
5 A. Newfoundland Power observes that the Board has consistently approved a common
6 equity ratio of 45% for ratemaking purposes for Newfoundland Power since 1996. Over
7 the 20 years since 1996, the Board has reviewed Newfoundland Power's common equity
8 ratio numerous times and reached the conclusion that a 45% equity ratio for ratemaking
9 purposes was appropriate.

10
11 In the Application, Newfoundland Power seeks the Board's approval for 2016 deferred
12 cost recovery to permit the Company to file its next general rate application ("GRA") by
13 June 1, 2016 with a 2017 test year. At this GRA, a comprehensive review of the
14 continued appropriateness of Newfoundland Power's 45% common equity ratio will be
15 undertaken by the Board.

16
17 There is no expert evidence before the Board on this Application that indicates
18 Newfoundland Power's forecast cost of capital or appropriate capital structure for
19 ratemaking purposes. Changes to Newfoundland Power's longstanding 45% common
20 equity ratio in the absence of such evidence would be arbitrary. Further, in Order No.
21 P.U. 13 (2013), the Board maintained the ratemaking common equity ratio of 45% for
22 2015. Given this, no justification exists to restate the 2015 forecasts.

23
24 Attachment A is a *pro forma* Exhibit 1 at a 40% equity component for 2016.
25 Attachment B is a *pro forma* Exhibit 5 at a 40% equity component for 2016.

26
27 Attachment A shows that the *pro forma* 2016 rate of return on rate base at a 40% equity
28 component is 7.11%. This is below the range of 7.32% to 7.68% approved by the Board
29 for 2015 in Order No. P.U. 51 (2014).

30
31 Attachment A also shows that the *pro forma* 2016 forecast return on equity at a 40%
32 equity component is 8.20%. This is below the 8.80% allowed in Order No. P.U. 13
33 (2013). It is also below the returns on equity currently allowed other investor-owned
34 Canadian utilities.¹

¹ Returns on equity currently allowed for investor owned utilities by Canadian regulators are 8.75% (British Columbia), 8.30% (Alberta), 9.30% (Ontario), 8.90% (Quebec) and 9.00% (Nova Scotia). The 8.80% approved by the Board in Order No. P.U. 13 (2013) appears to be at the mean (and marginally below the median) of current equity returns allowed by other Canadian regulators.

Newfoundland Power Inc.
Pro Forma 2016 Forecast Returns
(Restated for NLH-NP-026)

Newfoundland Power Inc.
2016 Forecast Returns¹
(\$000s)

	2016
1 Revenue from Rates	637,733
2 Transfers from (to) the RSA	8,809
3	646,542
4	
5 Purchased Power Expense	424,735
6 Amortization of Weather Normalization Reserve	-
7 Demand Management Incentive Account Adjustments	-
8	424,735
9	
10 Contribution	221,807
11	
12 Other Revenue	5,281
13	
14 Other Expenses:	
15 Operating Expenses	59,735
16 Employee Future Benefit Costs	22,248
17 Depreciation	55,104
18 Finance Charges	37,494
19	174,581
20	
21 Income Before Income Taxes	52,507
22 Income Taxes	15,120
23	
24 Net Income	37,387
25 Preferred Dividends	552
26	
27 Regulated Return on Common Equity	36,835
28	
29	
30 Rate of Return on Rate Base (percentage)	7.11%
31 Regulated Return on Equity (percentage)	8.20%

¹ Revised for an assumed 40% equity structure for the 2016 year end.

**Newfoundland Power Inc.
Revised 2014 Test Year Revenue Requirement
(Restated for NLH-NP-026)**

Newfoundland Power Inc.
Revised 2014 Test Year Revenue Requirement¹
Adjusted for the revised return on rate base for 2016
(\$000s)

	<u>2014</u>		<u>2015</u>		<u>2016</u>
	<u>Test Year</u>	<u>Change</u>	<u>Revised</u>	<u>Change</u>	<u>Revised</u>
1 Return on Rate Base	75,235	-	75,235	2,319	77,554
2					
3 Other Costs					
4 Power Supply Cost	399,198	-	399,198	-	399,198
5 Operating Costs	55,406	-	55,406	-	55,406
6 Employee Future Benefit Costs	22,058	-	22,058	-	22,058
7 Amortization of Deferred Cost Recoveries	3,990	-	3,990	-	3,990
8 Depreciation	48,291	-	48,291	-	48,291
9 Income Taxes	16,056	-	16,056	559	16,615
10	544,999	-	544,999	559	545,558
11					
12 2014 Revenue Requirement	620,234	-	620,234	2,878	623,112
13					
14 Deductions					
15 Other Revenue	(5,247)	-	(5,247)	-	(5,247)
16 Interest on Security Deposits	12	-	12	-	12
17 Amortization of the Weather Normalization Reserve	(2,335)	-	(2,335)	-	(2,335)
18 Transfers to the RSA	(524)	-	(524)	-	(524)
19	(8,094)	-	(8,094)	-	(8,094)
20					
21					
22 2014 Revenue Requirement from Base Rates	612,140	-	612,140	2,878	615,018

¹ Revised for an assumed 40% equity structure for the 2016 year end.