

1 **Q. Further to NLH-NP-030, Newfoundland Power is requesting the Board approve**
2 **recovery of \$4 million in additional costs from customers to allow an 8.80% return**
3 **on 45% common equity for 2016. The Board has requested a comprehensive review**
4 **of the 45% common equity component for 2016 in Order No. P.U. 13(2013) which**
5 **has not yet been completed by Newfoundland Power. Please explain why**
6 **Newfoundland Power has chosen to only compare the returns on equity of investor**
7 **owned utilities on page 4, footnote 11 of its application, and omitted any comparison**
8 **to the common equity ratios of those same investor owned utilities.**
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10 A. In the Application, Newfoundland Power provided its 2016 financial outlook. The
11 financial outlook indicated that the Company's rates of return on rate base and equity
12 were below the ranges used by the Board to determine the reasonableness of returns.¹
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14 The Board has historically reviewed Newfoundland Power's rate of return on rate base
15 and rate of return on equity on an annual basis. Between test years, the Board has used
16 ranges of 36 basis points ($\pm 0.18\%$) and 80 basis points ($\pm 0.40\%$) to assess the
17 reasonableness of returns on rate base and common equity respectively.² As part of its
18 evidence, Newfoundland Power simply observed that the forecast return on equity was
19 also less than what was currently approved in other Canadian jurisdictions.³
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21 Newfoundland Power's capital structure is not reviewed by the Board on an annual basis
22 in a manner similar to the Board's annual review of rates of return.⁴ This is the reason
23 that evidence of the appropriateness of the Company's capital structure has not been
24 required in previous cost deferral applications approved by the Board.⁵ As a result, a
25 comparison of common equity ratios of investor owned utilities was not included, or
26 reasonably required to be included, in the Company's evidence.
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28 Newfoundland Power will, in accordance with the Board's Order No P.U. 13 (2013), file
29 a report in relation to its capital structure as a part of its next general rate application.⁶

¹ See 2016 Deferred Cost Recovery: Evidence, Section 4.2. Forecast 2016 Return on Rate Base, page 9, lines 1-4.

² See 2016 Deferred Cost Recovery: Evidence, Section 4.2. Forecast 2016 Return on Rate Base, page 8, line 22 to page 9, line 1.

³ See 2016 Deferred Cost Recovery: Evidence, Section 2.2 Newfoundland Power's 2016 Financial Outlook, page 4, Footnote 11.

⁴ See the responses to Requests for Information NLH-NP-020, NLH-NP-023, and NLH-NP-024 for further information on Newfoundland Power's capital structure.

⁵ See the response to Request for Information PUB-NP-001 for details on previous cost deferral applications approved by the Board.

⁶ In Order No. P.U.13 (2013), page 60, lines 43-44, the Board stated "Newfoundland Power shall file, as part of its next general rate application, a report on its capital structure."