

- 1 **Q. At 4-13 NP provides the actual return on equity for the company. Please provide the**
 2 **actual ROE, the allowed ROE and the interest coverage ratio (EBIT/Interest) for**
 3 **each year since 1990 and explain any significant deviations in the actual from**
 4 **allowed ROE (+/-1%).**
 5
 6 A. Newfoundland Power is regulated on return on rate base. In determining the Company’s
 7 allowed return on rate base, the Board approves a ratemaking return on equity (“ROE”).¹
 8
 9 Table 1 shows Newfoundland Power’s actual ROE, approved ROE and pre-tax interest
 10 coverage for the years 1990 through 2014.
 11
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Table 1
Actual ROE, Approved ROE and Pre-tax Interest Coverage
1990 – 2014

<u>Year</u>	<u>Approved ROE</u>	<u>Actual ROE</u>	<u>Pre-tax Interest Coverage²</u>
1990	13.95%	13.71%	2.8
1991	13.95%	13.29%	2.8
1992	13.25%	13.47%	2.9
1993	13.25%	12.79%	2.9
1994 ³	13.25%	12.03%	2.9
1995 ⁴	13.25%	12.07%	2.7
1996	11.00%	11.21%	2.7
1997	11.00%	11.14%	2.7
1998	9.25%	9.58%	2.4
1999	9.25%	9.81%	2.4
2000 ⁵	9.59%	10.80%	2.4

¹ In Order No. P.U. 19 (2003), the Board ordered, in effect, that Newfoundland Power file a report explaining the circumstances and facts contributing to any difference between an actual rate of ROE that was greater than 50 basis points (0.50%) above the cost of equity as determined by the Formula.

² The pre-tax interest coverage is based on Standard and Poor’s Rating Services methodology. The calculation considers Newfoundland Power’s pre-tax earnings and total interest costs to the Company’s total interest costs.

³ In 1994 Newfoundland Power’s actual return on equity was 1.2% percent less than the approved return. This was related directly to a severe sleet storm in 1994.

⁴ In 1995, Newfoundland Power’s actual return on equity was 1.2% below the ratemaking return due primarily to a 1995 Early Retirement Program and costs related to an income tax reassessment.

⁵ In 2000, 2001 and 2002, Newfoundland Power’s actual return on equity was 1.2%, 1.8% and 1.6% respectively over the approved returns. The variances in regulated returns for 2000 through 2002 were primarily attributable to the successful conclusion of a tax reassessment audit by the Canada Revenue Agency.

Table 1
Actual ROE, Approved ROE and Pre-tax Interest Coverage
1990 – 2014
(Cont'd)

<u>Year</u>	<u>Approved ROE</u>	<u>Actual ROE</u>	<u>Pre-tax Interest Coverage</u>
2001 ⁵	9.59%	11.35%	2.5
2002 ⁵	9.05%	10.65%	2.6
2003	9.75%	10.22%	2.4
2004	9.75%	10.12%	2.5
2005	9.24%	9.60%	2.4
2006	9.24%	9.46%	2.3
2007	8.60%	8.66%	2.2
2008	8.95%	9.13%	2.5
2009	8.95%	8.96%	2.4
2010	9.00%	9.21%	2.4
2011	8.38%	9.00%	2.4
2012	8.80%	8.98%	2.3
2013	8.80%	9.16%	2.3
2014	8.80%	9.15%	2.3