

1 **Q. Please discuss why the ROE in table 4-11 differs from the allowed ROE of 8.80%.**

2  
3 **A. General**

4 Newfoundland Power's 2014 rate of return on common equity used to establish existing  
5 customer rates of 8.80% was approved by the Board in Order No. P.U. 13 (2013). This  
6 order also established a range of rate of return on rate base of 36 basis points ( $\pm 0.18\%$ )  
7 for 2013, 2014 and 2015. The 36 basis point range in rate of return on rate base reflects a  
8 range in rate of return on common equity of 80 basis points ( $\pm 0.40\%$ ).  
9

10 Changes in forecast rate of return on common equity in any given year is the result of a  
11 variety of differences from the Company's 2014 test year forecast.  
12

13 **2013 to 2015 Forecast**

14 The actual return on common equity for 2013, 2014 and 2015 forecast are within the  
15 implied range of  $\pm 0.40\%$  reflected by the Board's *allowed* range of rate of return on rate  
16 base of  $\pm 0.18\%$  approved in Order No. 13 (2013).  
17

18 Please refer to the response to Request for Information CA-NP-22 for further detail.  
19

20 **2016 and 2017 Forecast**

21 The Company's 2016 forecast rate of return on common equity is 7.96%. This is 0.84%  
22 lower than the 2014 test year forecast 8.80% rate of return on common equity.  
23

24 The Company's 2017 forecast rate of return on common equity is 7.22%. This is 1.58%  
25 lower than the 2014 test year 8.80% forecast rate of return on common equity.  
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27 For both 2016 and 2017 forecast, the differences primarily relate to rate base growth.

1 Table 1 shows Newfoundland Power’s forecast average rate base for 2014 test year, and  
2 2015 to 2017 forecast.<sup>1</sup>

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**Table 1**  
**Forecast Average Rate Base**  
**2014 Test Year, 2015 to 2017 Forecast**  
**(\$ millions)**

	2014	2015	2016	2017
Rate Base	955	1,016	1,058	1,102

5  
6

7 The increase in Newfoundland Power’s 2016 and 2017 forecast average rate base  
8 primarily reflects changes in plant investment and depreciation. Changes in plant  
9 investment occur as a result of capital expenditures approved by the Board. Similarly,  
10 changes in depreciation reflect depreciation rates specifically approved by the Board. To  
11 a lesser extent, changes in rate base reflect additions and deductions from a combination  
12 of specific Board Orders, operation of approved regulatory mechanisms and longstanding  
13 regulatory practice.

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15 The additional cost for Newfoundland Power to finance rate base growth since the 2014  
16 Test Year was not contemplated by current customer rates.

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<sup>1</sup> For 2014 test year average rate base, see Schedule 1, Appendix A: 2013 and 2014 Forecast Average Rate Base of the Company’s Application filed in compliance with Order No. 13 (2013), line 30. For 2015 to 2017 existing forecast average rate base, see *Exhibit 3: Financial Performance: 2013 to 2017E* of the Company’s Evidence, line 31.