Q. Please discuss why the company continues to require a band around its allowed ROE and reference other regulated Canadian electric transmission and distribution companies that have a similar band.

A. The Company does not "require" a band around its allowed ROE as this question suggests.

The Board has required Newfoundland Power to maintain an Excess Earnings Account. The Excess Earnings Account is credited with any earnings in excess of the upper limit of the allowed return on rate base as approved by the Board. The sole purpose of the Excess Earnings Account is to protect the consumer interest by ensuring that Newfoundland Power's earned returns do not materially exceed those approved by the Board for ratemaking purposes. Amounts credited to the Excess Earnings Account are subject to the Board's determination as to disposition and are typically returned to customers via refunds or reduced future rates. No corresponding protection exists for the Company in cases where earned returns are materially lower than those approved by the Board.

The upper limit of Newfoundland Power's allowed return is typically set at 0.18% above the return on rate base used for ratemaking purposes. On a *pro forma* basis, this limit translates into approximately 0.40% above the return on equity used for ratemaking purposes.

Newfoundland Power is not aware of any other regulated Canadian electric transmission or distribution company that maintains an Excess Earnings Account. Typically, Canadian utilities are entitled to retain any earnings achieved over those established by the regulator for the purpose of setting rates. For example, FortisAlberta, an affiliate of Newfoundland Power, achieved a return on equity of 9.8% in 2014. This was 1.5% over the return on equity of 8.3% allowed by the regulator for 2014.