

1 **Q. Reference: CA-NP-004**

2
3 **As requested in CA-NP-004, please provide estimates for 2013-2015 “assuming that**
4 **the Board had continued to use the ROE adjustment methodology,”**
5 **notwithstanding the comments made in footnote 4 of the response to the original**
6 **RFI.**

7
8 **A. Background**

9
10 Section 80 of the *Public Utilities Act* entitles Newfoundland Power to an opportunity to
11 earn a just and reasonable return *each* year.

12
13 In Order No. P.U. 13 (2013), the Board suspended use of the Automatic Adjustment
14 Formula (the “Formula”) due to abnormally low long Canada bond yields and the
15 problematic impact that they had in the operation of the Formula.

16
17 In assessing the continued use of the Formula for Newfoundland Power, the Board
18 concluded in Order No. P.U. 13 (2013) that:

19
20 *“.....the evidence is clear that the formula as it is currently*
21 *structured may not result in a fair return for Newfoundland Power*
22 *in the current circumstances. Long-term Canada bond yields are*
23 *abnormally low which is particularly problematic in the operation*
24 *of the automatic adjustment formula. In the absence of a clear*
25 *relationship between the long-term Canada bond yield and the cost*
26 *of equity it is difficult to see that the established return can be*
27 *appropriately adjusted for 2015 without the exercise of further*
28 *judgement.....*

29 *The Board notes that the experts forecast a period of relative*
30 *stability in the bond markets with continued low long-term Canada*
31 *bond yields and a gradual return to normal levels over the next*
32 *several years.”¹*

33
34 In Order No. P.U. 13 (2013), the Board approved an 8.80% return on equity for 2013,
35 2014 and 2015.

¹ Order No. P.U. 13 (2013), page 36, lines 38-44 and page 37, lines 10-12.

Requested Scenario

As requested, Table 1 provides the estimated return on equity for 2013 to 2015 that would have resulted from the Formula had it not been suspended in those years.²

Table 1
Requested Scenario
Estimated Return on Equity
Automatic Adjustment Formula
2013- 2015
(percent)

Year	Return
2013	7.48
2014	8.23
2015	7.91

If the Automatic Adjustment Formula had been used in 2013, 2014 and 2015, the resulting return on equity for all years would have been more than 50 basis points below the 8.80% return on equity approved by the Board for 2013 through 2015. For 2013, the 7.48% return on equity is below the 7.85% return on equity which was forecast by the Formula at the time the Board suspended its use in Order No. P.U. 25 (2011).. The returns indicated also would have been the lowest allowed return on equity for Canadian investor-owned utilities in all of those years.

Further Information

For further information on the Automatic Adjustment Formula, please refer to the responses to Requests for Information PUB-NP-042, PUB-NP-043, PUB-NP-044, PUB-NP-045, PUB-NP-046, PUB-NP-047 and PUB-NP-048.

² The base cost of common equity used in the Formula is 9.00% which is the 2010 return on equity approved by the Board in Order No. P.U. 43 (2009).