

1 Q. Reference: CA-NP-019

2
3 **The response shows that NP has earned an ROE above the allowed ROE in 19**
4 **straight years, averaging 49.5 basis points above the allowed ROE. In light of such**
5 **historical evidence, please explain why the Company expects to earn an ROE below**
6 **the allowed figures in the upcoming years.**
7

8 A. Newfoundland Power observes that the response to Request for Information CA-NP-019
9 shows a 25 year period from 1990 to 2014. Throughout the 25 year period,
10 Newfoundland Power earned above the midpoint of its approved return in 20 of 25 years.
11 The Company earned less than the midpoint of its approved return in 5 of those 25 years.
12

13 Newfoundland Power's approved return on equity over the 25 year period was, on
14 average, approximately 23 basis points above the midpoint of its approved return on
15 equity. This compares to the typical range approved by the Board for Newfoundland
16 Power of ± 18 basis points on return on rate base which broadly equates to ± 40 basis
17 points return on equity on a *pro forma* basis.¹
18

19 As a regulated utility, and in accordance with the *Public Utilities Act* (the "Act"),
20 Newfoundland Power is required to "submit to the Board, its rules and regulations which
21 relate to its service, and amendments to them..."² Newfoundland Power was able to
22 achieve the results outlined in the response to Request for Information CA-NP-019 as a
23 result of routine general rate applications submitted in accordance with the Act.
24

25 Throughout the 25 year period shown in the response to Request for Information
26 CA-NP-019, Newfoundland Power filed a total of 7 general rate applications with the
27 Board.³ These general rate applications were necessary for Newfoundland Power to
28 rebalance its costs with customer rates and provide an opportunity for the Company to
29 earn a just and reasonable return as described in the Act.⁴
30

31 On October 16, 2015, Newfoundland Power filed its 2016/2017 General Rate Application
32 (the "Application") to establish rates for 2016 and 2017.⁵ Newfoundland Power's
33 Application included a financial forecast that projected a 7.96% and 7.22% return on
34 equity for 2016 and 2017 respectively, under existing customer rates.⁶

¹ See Newfoundland Power's 2016/2017 General Rate Application, Volume 1, Application & Company Evidence, Section 4: Finance, page 4-14, lines 6-7.

² See *Public Utilities Act, Approval of Changes in Rates, Section 71*.

³ See Order Nos. P.U. 1(1990), P.U. 7 (1996-97), P.U. 36 (1998-99), P.U. 19 (2003), P.U. 32 (2007), P.U. 43 (2009), and P.U. 13 (2013).

⁴ See *Public Utilities Act, Annual Earnings, Section 80(1)*.

⁵ Newfoundland Power was ordered to file its 2016-2017 General Rate Application in accordance with Order No. P.U. 15 (2015).

⁶ See Newfoundland Power's 2016-2017 General Rate Application, Volume 1, Application & Company Evidence, Section 4: Finance, pages 4-41, Table 4-15.

1 This is below the range of return on equity that was approved for Newfoundland Power
2 in 2015 and is also below the range of return on equity the Company is seeking in its
3 Application.⁷
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5 Changes in 2016 and 2017 revenue requirement from existing to proposed rates are
6 detailed in *Exhibit 7: 2016 and 2017 Revenue Requirements* of the Application.

⁷ The return on equity approved for Newfoundland Power in 2015 was 8.80%. See Order No. P.U. 51 (2014). There is currently no approved return on equity for 2016 or 2017. In the Application, the Company filed expert evidence relating to cost of capital that indicated a fair return on equity of 9.50%. See Newfoundland Power's *2016/2017 General Rate Application, Volume 3, Cost of Capital, Expert Evidence & Studies*, Tab 2, prepared by Mr. Coyne.