

- 1 **Q. Does Newfoundland Power consider that changes in a fair return on equity between**
2 **test years can be estimated accurately using a formula, or is a fair return on equity**
3 **determination simply too complex to be applied using a formula approach?**
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- 5 A. Depending upon financial market conditions and the level of confidence in the
6 relationship between changes in long Canada bond yields and changes in the utility cost
7 of equity, Newfoundland Power believes that changes in a fair return on equity can be
8 reasonably estimated using a formula. In fact, Newfoundland Power supported the
9 introduction of the formula which commenced with Order No. P.U. 16 (1998-99) when
10 the potential for greater regulatory efficiency and improved predictability were the
11 expected outcomes.
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- 13 Following a series of regulatory proceedings arising from difficulties associated with the
14 formulaic approach to establishing a fair return on equity, the Board discontinued use of a
15 formula in Order No. P.U. 13 (2013).¹ Newfoundland Power does not believe that a fair
16 return on equity can be estimated more accurately on a formulaic basis today than in
17 2013.
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- 19 Please refer to the responses to Requests for Information PUB-NP-042, PUB-NP-043 and
20 PUB-NP-045.

¹ In the 5 years prior to 2013, the Board considered the use of the automatic adjustment formula on 6 occasions. See Order Nos. P.U. 35 (2008), P.U. 43 (2009), P.U. 12 (2010), P.U. 32 (2010), P.U. 25 (2011) and P.U. 17 (2012). This degree of regulatory attention is not consistent with regulatory efficiency or predictability.