

1 **Q. In this application NP is seeking a rate of return of 9.8%. Please advise if this**
2 **application is successful, will Newfoundland and Labrador Hydro be entitled to**
3 **9.8%? Please advise if this application is successful, if the rate of return for the**
4 **Labrador Island Transmission Link and the contractual obligations hereunder will**
5 **also ensure a rate of return of 9.8%.**

6
7 **a) Has NP calculated the cost to rate payers and rates resulting from the above,**
8 **and please provide the same?**
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10 A. Yes, Order in Council 2009-063 permits Newfoundland and Labrador Hydro (“Hydro”) a
11 rate of return on common equity for ratemaking purposes equal to that approved by the
12 Board for Newfoundland Power.¹
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14 While Newfoundland Power cannot attest to the contractual obligations associated with
15 the Labrador-Island Link (“LIL”), it is the Company’s understanding that the
16 Transmission Funding Agreement (“TFA”) provides that any TFA payments made by
17 Hydro to the LIL Limited Partnership would reflect a rate of return on equity equal to that
18 approved by the Board for Newfoundland Power.²
19

20 a) Newfoundland Power has calculated its 2022 and 2023 revenue requirements to
21 reflect the Company’s proposed 9.8% rate of return on common equity.³
22

23 Newfoundland Power does not calculate Hydro’s revenue requirements.

¹ Prior to 2009, the Board consistently determined that Hydro did not operate as an investor-owned utility and therefore was not entitled to a return on equity equivalent to that of an investor-owned utility. For example, in Order No. P.U. 7 (2002-2003), page 42, the Board stated: “*The Board finds no statutory basis for treating NLH as an investor owned utility. The Board concludes approval in principle of NLH’s request to be treated as an investor owned utility is not justified based on its current operating characteristics. The Board believes NLH’s request is premature in the absence of a sound plan by NLH of how it will achieve financial targets similar to an investor owned utility and what impact this will have on its customers. The Board notes that NLH’s debt is guaranteed by Government and this ensures NLH’s continued access to the capital markets of the world.*” In Order No. P.U. 14 (2004), page 41, the Board again found Hydro is not entitled to a return on equity comparable to an investor-owned utility.

² On July 28, 2021, the governments of Canada and Newfoundland and Labrador announced an agreement in principle for the financial restructuring of the Muskrat Falls Project. The outcome of this agreement in principle may affect the terms of the TFA.

³ See the 2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Exhibit 8: 2022 and 2023 Return on Rate Base.