**Q. Evidence of the Company page 4-6**

**(a) In footnote 20 the company calculates the weighted average rate of return of 9.15% based on a forecast average rate base. Please indicate when the company moved from a historic rate base to a forecast average rate base and what adjustment was made at the time to the allowed rate of return for the fact that the forecast average rate base exceeds the historic rate base.**

**(b) Can the company or Ms McShane please indicate what companies in her US comparable sample use an historic test year versus a forward average test year to estimate their revenue requirement?**

**(c) With reference to b) above what adjustment needs to be made to adjust the allowed ROE on an historic test year basis to make it consistent with one for a company on a forward average test year basis?**

A. (a) For purposes of general rate proceedings, Newfoundland Power determines its test year revenue requirements based upon forecast information. This is consistent with legislation and regulatory practice in Newfoundland and Labrador.

Newfoundland Power has calculated its rate of return on rate base based on forecast test year rate base since at least the late 1970s. In the *Electrical Power Control Act* of 1977, it was stated that the rates to be charged for the supply of power within the province,

> *"should be established, wherever practicable to do so, for a period not exceeding three years based on studies of the future cost of services for the established period"*.

The Company is unable to identify in the time required for response what adjustment, if any, was made 30 years ago relating to this matter.

(b) The requested information is included in the response to CA-NP-18.

(c) Since there are multiple factors which determine the ability to earn the allowed return on the actual rate base in place, there is no reason to conclude that any adjustment is required, particularly with relatively low rates of inflation. The extent of differences between the measurement of rate base on a historic versus forecast test period depends on how the historic rate base is measured. Historic test year rate bases are frequently year-end, rather than mid-year, and may be adjusted for known and measurable changes. As a result, a rate case filed on April 1 would reflect a rate base measured as of December 31, adjusted for known and measurable changes. Further, other factors determine a utility's ability to earn the allowed return, including, for example, customer and load growth in relation to the trends in the costs incurred to serve those customers. When a forecast test year is used, economies of scale achieved through customer growth are flowed through to ratepayers. If historic normalized costs and load are the basis for rates, economies of scale achieved through growth in customers and sales would be retained by the utility.