

**Q. Evidence of the Company financial statements Exhibit 3**

- (a) Please explain why the cost of the preference shares on page 6 declined in 2008.
- (b) In page 7 please provide the actual ROE and allowed ROE for each year since 1990 and explain the causes for each deviation greater than 0.50%.
- (c) Can Ms. McShane or the company provide the same data as in b) above for the following local distribution companies (and predecessor companies where relevant) on both a weather normalized and actual basis: Enbridge Gas Distribution, Union Gas, Gaz Metro, Terasen Gas, ATCO Gas, and ATCO Electric. In each case indicate what part of the actual ROE was due to performance based regulation.
- (d) Please indicate the proportion of the company's requested revenues after power costs from Newfoundland Hydro representing fixed and variable costs respectively.
- (e) Please provide the most recent demand elasticity studies performed by the company for each customer class.

A. (a) The cost of preference shares declined principally due to a write-off of \$32,000 of unclaimed dividends in March 2008.

- (b) Attachment A provides details on Newfoundland Power's actual return on equity ("ROE") and the ROE used to establish customer rates from 1990 to 2008.

Deviations greater than 0.50% occurred in 1991, 1994, 1995, 1999, 2000, 2001, and 2002. Differences between ROEs used to establish customer rates and actual ROEs are typically the result of a medley of revenue and cost impacts which affect the business. The following summarizes the more prominent causes of differences in those years.

In 1991, financial results of operations resulted in an actual ROE which was 0.66% below the 13.95% ROE used to establish customer rates in 1990.

In 1994 and 1995, actual ROE was 1.22% and 1.18% below the 13.25% ROE used to establish customer rates in Order No. P.U. 6 (1991). During these years, actual returns were affected by a number of matters including general economic conditions in the early to mid 1990s and the Company's response to those conditions. This included reduced capital expenditure, early retirement programs, and an increased proportion of common equity in the Company's capital structure. These matters were considered by the Board in Order Nos. P.U. 7 (1996-1997) and P.U. 36 (1998-1999). In addition, these matters were the subject of the Board's stated case to the Court of Appeal in 1996.

1 In 1999, financial results of operations resulted in an actual ROE which was  
2 0.56% above the 9.25% ROE used to establish customer rates in 1998.

3  
4 In 2000, 2001, and 2002 actual ROE was between 1.21% and 1.76% above the  
5 ROE used to establish customer rates in those years. During this period, actual  
6 returns were affected by a number of extraordinary developments. Receipt of tax  
7 refunds resulting from income tax reassessments for the period 1988-1992  
8 improved actual ROEs. In addition, Newfoundland Power's purchase of jointly  
9 used utility poles in its service territory from Aliant Telecom resulted in increased  
10 capital expenditure and joint use pole rental revenue. These developments gave  
11 rise to rebates to customers of approximately \$7.7 million plus H.S.T. These  
12 matters were considered by the Board in a number of Orders which are  
13 summarized in Order No. P.U. 19 (2003).

14  
15 (c) Attachment B contains the data which Ms. McShane has compiled. Ms.  
16 McShane's data base does not separate the actual ROE into the components  
17 referenced in the question.

18  
19 (d) The proportion of Newfoundland Power's requested revenues that are fixed costs  
20 is 91%. The proportion of requested revenues that are variable costs is 9%.

21  
22 Excluding power costs from Newfoundland and Labrador Hydro, the proportion  
23 of the Company's requested revenues that are fixed costs is 75%. The proportion  
24 of requested revenues that are variable costs is 25%.

25  
26 A large proportion of Newfoundland Power's variable costs are associated with  
27 operating and maintaining its fixed plant. These variable costs do not tend to vary  
28 materially on a year to year basis. This can be contrasted with variable costs  
29 associated with production such as fuel.

30  
31 (e) Newfoundland Power does not have a formal demand elasticity study. The  
32 elasticity impacts for each rate class are derived from the econometric models  
33 used in the Customer, Energy and Demand Forecast.

Table 1 provides the elasticity impact for a 1% increase in the price of electricity by rate class over time.

**Table 1**  
**Impact of Electricity Price Changes on Energy Sales**

	<b>Year 1</b>	<b>Year 2</b>
<b>Domestic</b>		
Annual	(0.14)%	(0.20)%
Cumulative	(0.14)%	(0.34)%
<b>General Service</b>		
<b>Rate 2.1 &amp; 2.2</b>		
Annual	(0.08)%	(0.06)%
Cumulative	(0.08)%	(0.14)%
<b>Rate 2.3 &amp; 2.4</b>		
Annual	0.00%	0.00%
Cumulative	0.00%	0.00%
<b>Total General Service</b>		
Annual	(0.03)%	(0.02)%
Cumulative	(0.03)%	(0.05)%
<b>Total Company</b>		
Annual	(0.10)%	(0.13)%
Cumulative	(0.10)%	(0.22)%

The analysis indicates that the impact of a change in the price of electricity primarily occurs in the first two years after a rate change occurs. Overall, a 1% increase in the price of electricity will result in a 0.22% decrease in energy sales.

**Newfoundland Power Inc.**  
**Actual and Approved Return on Equity**  
**1990 - 2008**

**Newfoundland Power Inc.**  
**Actual vs. Approved Return on Equity**

<b>Year</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Actual	13.71%	13.29%	13.47%	12.79%	12.03%	12.07%	11.21%	11.14%	9.58%	9.81%	10.80%	11.35%	10.65%	10.22%	10.12%	9.60%	9.46%	8.66%	9.13%
Approved	13.95%	13.95%	13.25%	13.25%	13.25%	13.25%	11.00%	11.00%	9.25%	9.25%	9.59%	9.59%	9.05%	9.75%	9.75%	9.24%	9.24%	8.60%	8.95%
Deviation	-0.24%	-0.66%	0.22%	-0.46%	-1.22%	-1.18%	0.21%	0.14%	0.33%	0.56%	1.21%	1.76%	1.60%	0.47%	0.37%	0.36%	0.22%	0.06%	0.18%

**Selected Utilities**  
**Actual and Approved Return on Equity**  
**1990 - 2007**

**Selected Utilities**  
**Actual vs. Approved Return on Equity**

	<u>Enbridge Gas Distribution</u>			<u>Union Gas</u>			<u>Gaz Metro</u>		<u>Terasen Gas</u>		<u>ATCO Gas</u>			<u>ATCO Electric</u>			
	Allowed	Actual Weather	Normal Weather	Allowed	Actual Weather	Normal Weather	Allowed	Actual	Allowed	Actual	Allowed	Actual	Normaliz ed	Allowed	Actual Tx	Actual Dx	Actual Integrated
1990	13.25	13.57	13.60	13.75	10.70	13.40	14.25	14.25	13.50					13.50			12.55
1991	13.12	9.40	13.29	13.50	11.50	12.50	14.25	14.25	13.50					13.50			14.29
1992	13.12	13.29	13.40	13.50	14.00	13.70	14.00	14.00	12.25	9.06				13.25			13.56
1993	12.30	15.26	14.43	13.00	15.30	14.30	12.50	12.50	N/A	11.91				11.88			12.58
1994	11.60	14.69	12.49	12.50	10.95	12.14	12.00	12.04	10.65	9.73				11.88			12.60
1995	11.65	10.71	12.66	11.75	12.17	12.12	12.00	11.78	12.00	12.03				11.88			12.67
1996	11.88	15.00	13.14	11.75	13.47	12.52	12.00	12.04	11.00	11.80				11.25			11.38
1997	11.50	13.17	13.00	11.00	12.19	12.26	11.50	11.90	10.25	11.27							11.73
1998	10.30	8.31	11.97	10.44	8.03	11.14	10.75	11.09	10.00	9.70					10.11	8.32	
1999	9.51	7.94	10.77	9.61	8.76	10.10	9.64	10.22	9.25	9.97					9.10	9.52	
2000	9.73	8.23	10.83	9.95	10.62	10.11	9.72	10.06	9.50	10.12					11.32	10.90	
2001	9.54	10.80	10.03	9.95	9.30	11.45	10.38	10.38	9.25	9.31	9.75	8.65	9.58		10.25	10.49	
2002	9.66	8.98	11.81	9.95	10.67	12.36	9.69	10.67	9.13	10.03	9.75	11.24	9.77		10.30	12.15	
2003	9.69	13.14	9.74	9.95	11.98	12.08	10.34	10.82	9.42	10.23	9.50	11.55	10.68	9.40	8.46	12.12	
2004	9.69	12.17	10.66	9.62	11.36	11.51	10.96	11.47	9.15	9.31	9.50	9.48	10.42	9.60	9.36	11.53	
2005	9.57	9.46	9.46	9.62	10.79	10.99	11.64	10.51	9.03	10.09	9.50	5.81	8.00	9.50	9.61	9.10	
2006	8.74	5.71	8.86	8.89	8.48	10.26	9.33	9.66	8.80	9.82	8.93	8.26	9.74	8.93	9.28	9.38	
2007	8.39	10.70	9.78	8.54	NA	NA	9.57	9.91	8.37	9.55	8.51	10.83	11.02	8.51	8.50	10.26	