

- 1 **Q.** **Reference: Page 27, Lines 568-571**
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3 **Is Mr. Cicchetti recommending that the Board retain an automatic**
4 **adjustment formula? Please explain why or why not.**
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6 **A.** Mr. Cicchetti did not make a specific recommendation to retain or
7 abandon the automatic adjustment formula. However, Mr. Cicchetti is not
8 in favor of automatic adjustment formulas for determining the required
9 return on equity. Mr. Cicchetti believes use of such formulas removes a
10 regulatory body's ability to exercise judgment and discretion which are
11 important aspects of determining the required rate of return. It is Mr.
12 Cicchetti's professional opinion that the current formula is
13 underestimating the current required return on equity for Newfoundland
14 Power. If the Board wishes to retain the formula, Mr. Cicchetti
15 recommends the Board update the formula to reflect risk premiums and
16 changes in risk premiums that are in line with current financial market
17 conditions. Mr. Cicchetti also recommends the Board amend the formula
18 to include use of a forecasted long-term risk free rate. Mr. Cicchetti
19 believes the use of a forecasted rate will better reflect investor
20 expectations.