Q. Reference Evidence of Newfoundland power, pages 3 & 21: Would the company have regarded the ROE emanating from the Board's formula to be just and reasonable if the 2010 ROE of 9.0% had been based on the actual forecast LTC yield of 4.01% calculated in the normal formulaic way rather than 4.5%?

A. Please refer to the Evidence of Newfoundland Power, Page 1, line 5 *et. seq.* where it is stated that:

> "Neither the ratemaking return on equity of 7.85% for 2012 indicated by the automatic adjustment mechanism used to establish a return on rate base for the Company (the "Formula") nor the ratemaking return on equity of 8.38% currently included in the Company's return on rate base on an interim basis are appropriate. Neither meets the return standard because they are too low."

Both of these returns on equity were generated by the Formula. It is the Evidence of Newfoundland Power that the Formula should be discontinued as it does not accurately estimate the appropriate return on equity under current financial market conditions (see Page 25, lines 9 to 10).

If the Board had based its 2010 return on equity award of 9% on a forecast long-term Canada bond yield of 4.01% as opposed to 4.5%, the Formula-generated return on equity would have been 8.77% in 2011 and 8.24% in 2012. While these are higher than the 8.38% and 7.85% generated by the Formula, they would still have been lower than rates of return awarded by any Canadian regulator for an investor-owned electric utility. Please refer to the Evidence of Newfoundland Power, Page 3, footnotes 5 and 6.

Please refer to the Response to Request for Information CA NP 017.