

1 **Q. Evidence of Dr. Vander Weide: ROE formula Pages 14-17: Would Dr. Vander**
2 **Weide accept that the ROE adjustment formula once the ROE is set is based solely**
3 **on the one piece of objective evidence as to a long run expected rate of return in the**
4 **capital market, that is, the expected return on the long Canada bond?**
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6 A. No. The ROE adjustment formula is based on: (1) a forecast of the yield on long Canada
7 bonds; and (2) an estimate of the linear relationship between changes in the cost of equity
8 and changes in the forecast yield on long Canada bonds. Both of the ROE formula inputs
9 are subjective because they relate to the future, and the future is uncertain. In addition,
10 the relevant issue in this proceeding is whether the ROE formula currently produces a
11 reasonable estimate of Newfoundland Power's cost of equity. Dr. Vander Weide presents
12 evidence that it does not.