

**Q. Reference Evidence of Newfoundland Power, pages 3.1-3.2**

**In the Company's overview it states that the central issue in the hearing is to determine a just and reasonable return. It goes on to propose that the ROE adjustment methodology be discontinued given current financial conditions.**

- a. Please provide the allowed ROE and actual ROE earned by NP since 1990.**
- b. Please indicate when NP judged its allowed ROE, as determined by the ROE formula, to be giving unfair and unreasonable ROEs.**
- c. Please indicate the factors that NP regards as contributing to the unfair allowed ROE, that is, is it simply the forecast long Canada bond yield, the utility risk premium or other factors**
- d. In the judgment of NP did the Board make a mistake in setting the level of the allowed ROE in 2010 or continuing with the ROE adjustment formula or both? That is does NP accept the board determined ROE in 2010 as being fair and reasonable?**

- A. a. Table 1 provides details on Newfoundland Power's allowed return on equity (ROE) and actual ROE for the years 1990 to 2012.**

**Table 1  
Return on Equity  
1990-2012**

<b>Year</b>	<b>Allowed ROE</b>	<b>Actual ROE</b>
1990	13.95%	13.71%
1991	13.95%	13.29%
1992	13.25%	13.47%
1993	13.25%	12.79%
1994	13.25%	12.03%
1995	13.25%	12.07%
1996	11.00%	11.21%
1997	11.00%	11.14%
1998	9.25%	9.58%
1999	9.25%	9.81%
2000	9.59%	10.80%
2001	9.59%	11.35%
2002	9.05%	10.65%
2003	9.75%	10.22%
2004	9.75%	10.12%
2005	9.24%	9.60%
2006	9.24%	9.46%
2007	8.60%	8.66%
2008	8.95%	9.13%
2009	8.95%	8.96%

**Table 1 (Cont'd)**  
**Return on Equity**  
**1990-2012**

<b>Year</b>	<b>Allowed ROE</b>	<b>Actual ROE</b>
2010	9.00%	9.21%
2011	8.38%	9.00%
2012	8.80%	

- 1  
2  
3       b.       Newfoundland Power indicated at its 2010 general rate application that changing  
4               financial market conditions had "...affected the fairness of the returns on equity  
5               yielded by use of the Formula." (see *Company Evidence, Section 3 (1<sup>st</sup> revision):*  
6               *Finance*, page 3-19, lines 10-12, September 28, 2009). Also, please refer to the  
7               response to Request for Information CA-NP-384 g.  
8  
9       c.       For factors that Newfoundland Power regards as contributing to the unfair  
10              allowed ROE see *Volume 1: Application and Company Evidence, Section 3:*  
11              *Finance*, pages 3-14 to 3-40; and expert Cost of Capital evidence of Ms. Kathleen  
12              McShane and Dr. James Vander Weide (*Volume 3, Expert Evidence & Studies*,  
13              Tabs 1 and 2).  
14  
15      d.       Please refer to b. above. In Order No. P.U. 43 (2009): Reasons for Decision at  
16              p.25, the Board indicated that it was "...satisfied that for the 2010 test year a  
17              return on regulated common equity of 9.0%, with a common equity component of  
18              45%, will provide Newfoundland Power the opportunity to earn a just reasonable  
19              return on rate base that is consistent with the fair return principle and the  
20              provision of least cost reliable power."