

Q. 2013-2014 General Rate Application, Company Evidence

Does Newfoundland Power consider that changes in a fair return on equity between test years can be estimated accurately using a formula, or is a fair return on equity determination simply too complex to be applied using a formula approach? Please explain your response.

A. Newfoundland Power does not believe that changes in a fair return on equity in current financial market conditions can be estimated accurately using a formula. This is substantially a reflection of current financial market conditions which include such features as substantial (and sporadic) government intervention aimed at keeping bond yields low.

The regulatory consensus that existed at the time of the Board's adoption of the Formula in 1998 does not exist today. In Newfoundland Power's view, the current lack of consensus illustrates the difficulties in crafting a formula that can be expected to yield a fair result in current financial markets. Part of this is likely attributable to increased complexity. Part is also likely due to the inherent limitations of formula based approaches.

Newfoundland Power does not believe that because a formula can yield a reasonable estimate of a fair return in certain financial market conditions, that a formula can yield a reasonable estimate of a fair return in *all* financial market conditions.