

1 Q. What is the basis for using 10% rate of return on equity used in the studies?

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4 A. Nalcor's derivation of the long run forecast cost of equity is contained in the

5 Financing Rates worksheet contained in Exhibit 5e. The general approach is as

6 follows: Nalcor obtains a long term forecast of risk free Government of Canada

7 bonds from the Conference Board of Canada and then applies the cost of equity

8 formulation as approved by the Board for Newfoundland Power and applicable to

9 regulated Hydro at its next General Rate Application. These calculations result in a

10 long run forecast average cost of equity of 9.94% which for analysis purposes was

11 rounded to an even 10%.