

- 1   **Q.    Please provide a schedule similar to Exhibit NP-13 filed in the 2006 Accounting**  
2   **Policy Application showing the 2007 Rate of Return on Rate Base.**  
3  
4   A.    Attachment A shows the forecast 2007 rate of return on rate base based on the forecast  
5   values of invested capital and rate base as proposed in the *2007 Amortization and Cost*  
6   *Deferrals Application* and an average bond rate of 4.16%.<sup>1</sup>

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<sup>1</sup> The average bond rate of 4.16% is based on the observed bond yields of the three rate setting bonds for the last 5 business days in October and the first 5 business days in November 2006 in accordance with Order Nos. P.U. 16 (1998-1999), P.U. 36 (1999) and P.U. 19 (2003).

Requests for Information

Newfoundland Power Inc.

Pro Forma 2007 Formula Operation

1 Return on Rate Base Formula Approved by Order No. P.U. 36 (1998-99):

$$\begin{array}{l}
 2 \\
 3 \\
 4 \quad \text{Rate of} \\
 5 \quad \text{Return} \\
 6 \quad \text{on Rate} \\
 7 \quad \text{Base} \\
 8 \\
 9
 \end{array}
 = \frac{\text{Invested Capital}}{\text{Rate Base}} \times \frac{\text{Weighted Average Cost of Capital}}{\text{Rate Base}} + \frac{Z}{\text{Rate Base}}$$

10 Where Z represents amounts which are recognized in the calculation of either weighted average cost of capital or  
11 rate of return on rate base, but not both. These amounts include:

- 12 (a) Amortization of Capital Stock Issue Expenses (Recognized in the rate of return on rate base calculation  
13 but not the weighted average cost of capital calculation.);
- 14 (b) Interest on Customer Deposits (Recognized in the weighted average cost of capital calculation but not  
15 the rate of return on rate base calculation.); and,
- 16 (c) Interest Charged to Construction (Recognized in the rate of return on rate base calculation but not  
17 the weighted average cost of capital calculation.).

19  
20 **Pro forma 2007 Rate of Return on Rate Base**

$$\begin{array}{l}
 21 \\
 22 \\
 23 \\
 24 \quad \text{8.47\%} \\
 25 \\
 26
 \end{array}
 = \frac{\$ 787,990^1}{\$ 785,271^2} \times 8.46\%^3 + \frac{\$ 66 + \$ 30 - \$ 246^4}{\$785,271^2}$$

Notes:

<sup>1</sup> 2007 forecast average invested capital as shown in Exhibit NP-2 of the 2007 Amortization and Cost Deferrals Application.

<sup>2</sup> 2007 forecast average rate base as shown in Exhibit NP-1 of the 2007 Amortization and Cost Deferrals Application.

<sup>3</sup> Weighted average cost of capital resulting from operation of the Automatic Adjustment Formula for 2007.

This reflects an allowed return on equity of 8.60% and is subject to final Board approval.

<sup>4</sup> The component values for Z, as referred to above, approved for use in the Automatic Adjustment Formula in Order No. P.U. 19 (2003).