

1 **Volume 1, Section 3 – Finance**
2

3 **Q. (Section 3.3.3, The Automatic Adjustment Formula) Has the Company or its**
4 **experts attempted to compare the relative forecast accuracy of the Company’s**
5 **current approach to setting the riskfree rate with that of the approach it is now**
6 **proposing, by examining historical data and Consensus Forecasts forecasts? If so,**
7 **please provide copies of all the studies/research and all input data and study**
8 **findings. If not, why has the Company not performed or commissioned such a**
9 **comparative analysis?**

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11 A. The Company has not commissioned any external studies with respect to comparing the
12 relative forecast accuracy of the Company’s current approach to setting the risk free rate
13 to a Consensus based approach. The Company has performed a comparison of the
14 average 30-year Canada Benchmark Bond Rates to yields resulting from the operation of
15 the automatic adjustment mechanisms for the BCUC and NEB for the period 2001 to
16 2006. The results are shown in Table 1.
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Table 1
30-Year Bond Yield Forecast
Automatic Adjustment Mechanisms of BCUC, NEB and NP
(percent)

	Consensus Forecast Approach BCUC¹	Consensus Forecast Approach NEB²	NP Adjustment Formula³	Average Benchmark 30-year Bond Yield⁴
2001	5.73	5.73	5.75	5.76
2002	5.63	5.63	5.50	5.68
2003	5.92	5.98	n/a	5.34
2004	5.65	5.68	n/a	5.14
2005	5.53	5.55	4.96	4.40
2006	4.79	4.78	4.37	4.28

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¹ The rate of return on equity was set in 2006 by the BCUC based on the generic cost of capital proceeding in March, 2006 as per Order No. G-14-06. The 4.79 percent is the rate that resulted from the normal operation of the formula as outlined in the BCUC Letter No. L-104-05.

² The NEB and the BCUC both use the November issue of the *Consensus Forecasts* in the establishment of the risk free rate; however, the determination of the spread between the 10 and 30 year bonds varies slightly.

³ Newfoundland Power uses the yield on selected Government of Canada 30-year bonds for the last 5 trading days in October and the first 5 trading days in November to establish the risk free rate. The rate of return on equity for 2003 and 2004 was approved in Order No. P.U. 19 (2003) resulting from the Company’s 2003 general rate application.

⁴ The average 30-year bond yields are based on the average 30-year Government of Canada benchmark bond yields for 2001 to 2006 as published on the Bank of Canada website.