Volume 1, Section 2 – Customer Operations (sic)*

Q. (page 59) NP states that it is proposing that "changes in the risk free-rate used in the calculation of the weighted average cost of capital ("WACC") be determined by reference to Consensus Forecasts. . .". Please compare in table format how this proposal would have impacted upon NP's past rates of return on common equity assuming it had been implemented in 2002 and kept in operation to the present time (for use in non-test years) as compared to the method actually used.

A. Table 1 below shows the calculated rates of return on common equity for Newfoundland Power for 2002 to 2007 based on the *Consensus Forecasts* approach of determining changes in the risk-free rate and the actual rate of return on equity allowed for ratemaking purposes.

Table 1
***Proforma* Rate of**
Return on Common Equity
Consensus Forecasts
2002 – 2007
(percent)

	Calculated ROE using *Consensus Forecasts*[1]	**Actual Allowed ROE**
2002	9.25[2]	9.05
2005	9.75[3]	9.24
2006	9.10[4]	9.24
2007	8.65[5]	8.60

*Refer to Volume 1, Section 3 – Finance.

[1] The detailed calculations of the rate of returns on common equity for 2002 to 2007 under the *Consensus Forecasts* are included as Attachment A to this response.

[2] The cost of equity in 2002 resulting from the operation of the Formula under the *Consensus Forecasts* is 9.15%, however, the resulting return on rate base is within the previously approved range, therefore, there is no change in revenue or returns in 2002.

[3] The cost of equity in 2005 resulting from the operation of the Formula under the *Consensus Forecasts* is 9.69%, however, the resulting return on rate base is within the previously approved range, therefore, there is no change in revenue or returns in 2005. The allowed rate of return on common equity for ratemaking purposes in 2003 and 2004 was set at 9.75% as per Order No. P.U. 19 (2003).

[4] The rate of return on rate base resulting from the operation of the Formula under the *Consensus Forecasts* is outside the range of 8.73% to 9.09% approved in Order No. P.U. 19 (2003), therefore, the revenues and returns would be adjusted to reflect a revised cost of common equity for ratemaking purposes of 9.10%.

[5] The rate of return on rate base resulting from the operation of the Formula under the *Consensus Forecasts* is outside that would have been established resulting from the operation of the Formula under the *Consensus Forecasts*, therefore, the revenues and returns would be adjusted to reflect a revised cost of common equity for ratemaking purposes of 8.65%.

Rate of Return on Common Equity for 2002 to 2007 under the *Consensus Forecasts*

Newfoundland Power Inc.
***Proforma* Rates of Return on Common Equity**
Consensus Forecast Approach
2002 - 2007
(percent)

	2002	2005	2006	2007
1. Ten Year Canada Bond Yield - end of February (November Consensus Forecast of prior year)	4.90	4.90	4.40	4.10
Ten Year Canada Bond Yield - end of November (November Consensus Forecast of prior year)	5.40	5.20	4.70	4.20
Average of 3 and 12 month forecasts	5.15	5.05	4.55	4.15
2. Add yield spread between 10-year and 30-year bonds for all trading days in October of prior year.[1]	0.48	0.48	0.24	0.07
3. Forecast Yield on Long-Term Canada Bonds	5.63	5.53	4.79	4.22
4. Risk Free Rate allowed for Ratemaking purposes	5.75	5.60	5.60	5.60
5. Difference	(0.12)	(0.07)	(0.81)	(1.38)
6. Adjusted Difference (Factor - 80%)	(0.10)	(0.06)	(0.65)	(1.10)
7. Cost of Common Equity[2]	9.25	9.75	9.75	9.75
8. *Pro forma* Rate of Return on Common Equity (6+7)	9.15	9.69	9.10	8.65

Notes:
[1] Government of Canada 10-year and 30-year benchmark bonds for the applicable periods as published on the Bank of Canada website.
[2] For 2002, 9.25% is as per Order No. P.U. 36 (98-99). For 2005 - 2007, 9.75% as per Order No. P.U. 19 (2003).