Q: Reference: Page 16, Lines 27-30:

"..the deviations of NP's actual returns from the mid-point of its Board-allowed ROCEs have been only a little over half as great as those experienced by Enbridge Gas and Union Gas, despite the latters' economically stronger and more diverse service territories."

Does Dr. Cannon agree that over the longer term the fact that Newfoundland Power is subject to an Excess Earnings Account, as explained in CA-NP-21, reduces the variability of the actual ROCEs for Newfoundland Power? If not, why not?

A: Dr. Cannon agrees that the operation of NP's Excess Earnings Account reduces the upside variability of its actual ROCE over time. For example, NP's actual ROCE would have been higher than 10.80% during 2000 – and, hence, have been further above the mid-point of its allowed return of 9.59% for that year – had it not been for the operation of the Company's Excess Revenue/Earnings Account, which subsequently resulted in rebates to NP's ratepayers.

Please note, however, that NP's Excess Revenue/Earnings Account has no impact on the downside variability of its ROCE and, hence, has no impact on the real riskiness of its shareholder's position. Common sense dictates that it is only ROCE deviations below the allowed value, or the expected value, that cause negative concern for shareholders, and it is virtually impossible for the operation of NP's Excess Revenue/Earnings Account to cause the Company to earn an actual ROCE less than the mid-point of the ROCE range used to establish its allowed return-on-rate-base range for a given year.

The year 2000 provides an example of this. Despite the application of the Excess Revenue/Earnings Account to NP's year-2000 earnings, the Company still earned an actual ROCE that was 1.21% above the mid-point of the ROCE range used to set its allowed return on rate base for that year. NP also had excess revenues/earnings of $944,000 in 2001, which the Board required it to rebate to its customers. Nevertheless, NP still managed to achieve a 11.35% ROCE for 2001, 1.76% above the mid-point of its allowed ROCE range for that year. Finally, with respect to its 1992-1993 excess earnings, despite NP's not being allowed to earn any return on a $1.9 million portion of its common equity over the 1999-2003 period, it still managed to have its actual earned ROCE exceed its allowed ROCE by a healthy margin in every one of these years. Clearly, the operation of NP's Excess Revenue/Earnings Account does not elevate the risk exposure of the Company's shareholder.