Reference: Section 3: Finance

Q. Volume 1, page 3-45. In Newfoundland Power's opinion are there any changes to the automatic adjustment formula that could be made that would adjust for the current low risk-free rate?

A. In Order No. P.U. 13 (2013), the Board accepted that the Automatic Adjustment Formula (the "Formula") may not result in a fair return for Newfoundland Power in the circumstances that existed at the time. The Board indicated that, in the absence of a clear relationship between the long Canada bond yield and the cost of equity, it was difficult to see that the established return could be appropriately adjusted without exercise of further judgment. Accordingly, the Board could not conclude that *any* formula could be relied upon to establish a fair rate of return after a test period.[1]

In Order Nos. P.U. 18 (2016) and P.U. 2 (2019), the Board accepted settlement agreements in relation to the Formula and was satisfied, based on the evidence, that continued suspension of the Formula was appropriate.[2]

The low and volatile long Canada bond yields experienced during the COVID-19 pandemic continue to demonstrate the absence of a clear relationship between long Canada bond yields and the return on equity of a utility.[3] In Newfoundland Power's view, the use of any formula to adjust its return on equity during current financial market conditions does not appear viable and would require the Board to exercise further judgment.

See response to Request for Information PUB-NP-042.

[1] Order No. P.U. 13 (2013), page 36, line 38 to page 37, line 2.
[2] Order No. P.U. 18 (2016), page 10, lines 15-26 and Order No. P.U. 2 (2019), page 15, lines 13-24.
[3] For example, if the Formula had been reinstated following Newfoundland Power's *2019/2020 General Rate Application*, it would have resulted in a 2021 cost of equity for Newfoundland Power of 7.21%. See response to Request for Information PUB-NP-042.