

1 **Q. Reference: 2024 Return on Rate Base, page 4 of 8**

2
3 **Using 45% for deemed equity and 55% for debt, and using, as given in Table 2 for**
4 **2023T, 8.5% for the rate of return on equity and 4.67% for the rate of return on debt**
5 **yields a regulated rate of return on rate base of 6.39% as given in Table 2 for 2023T.**
6 **However, a similar calculation using Table 2's 8.5% for the rate of return on equity**
7 **and 5.27% for the rate of return on debt for 2024F yields a 6.72% regulated rate of**
8 **return on rate base for 2024F. Table 2 however gives the regulated rate of return on**
9 **rate base for 2024F as 6.85%. Please explain why this calculation for 2024F gives a**
10 **different figure for 2024F than in Table 2.**

11
12 **A.** Table 2 provides Newfoundland Power's 2024 regulated cost of equity of 8.50% and its
13 2024 forecast cost of debt of 5.27%. Using an average capital structure of 45% for equity
14 and 55% for debt, it would provide a calculated weighted average cost of capital of
15 6.72%.

16
17 The Company's 2024 forecast average capital structure, before cost recovery, is 43.24%
18 for equity and 56.76% for debt.¹ Using this average capital structure would provide
19 Newfoundland Power's 2024 forecast weighted average cost of capital of 6.67% under
20 existing customer rates as outlined in Appendix B to the *2024 Rate of Return on Rate*
21 *Base* report.

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23 In Order No. P.U. 32 (2007), the Board approved Newfoundland Power's calculation of
24 rate base in accordance with the Asset Rate Base Method. Under this methodology,
25 differences between average invested capital and average rate base exist for the cash
26 working capital allowance, the materials and supplies allowance, and construction work
27 in progress. For 2024, these differences result in the weighted average cost of capital of
28 6.67% differing by 0.18% from the rate of return on rate base of 6.85%.

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30 For more information, see the response to Request for Information PUB-NP-015.

¹ See the *Application, 2024 Rate of Return on Rate Base, Appendix B*, lines 7 and 8.