Section 3: Finance/Fair Return

Q. (Section 3, page 3-10) Newfoundland Power discusses its finance charges from 2022 to 2026 and it average debt cost. Please indicate why Newfoundland Power should not be allowed a fixed premium over its average debt cost and why it is requesting a higher allowed ROE when this average debt cost is forecast to decline.

A. The Board is guided by the fair return standard in determining an appropriate capital structure and return on equity for Newfoundland Power as opposed to any specific approach such as the one outlined in this Request for Information.[1] Expert evidence filed with this Application indicates a fair return for Newfoundland Power for 2025 and 2026 comprises: (i) a capital structure consisting of 45% common equity; and (ii) a return on equity of 9.85%.

The Company's average debt cost is forecast to decline from 2022 to 2026 primarily as the result of higher interest rate debt being retired and replaced with lower interest rate debt. For example, in June 2022, Newfoundland Power repaid $28.4 million associated with the maturity of 10.125% Series AF First Mortgage Bonds that were issued in 1992. In August 2023, the Company issued $90 million in 5.122% Series AS First Mortgage Bonds.

For information on how interest rates are considered in determining Newfoundland Power's cost of capital, see the *2025/2026 General Rate Application, Volume 2, Expert Evidence, Cost of Capital: Mr. James Coyne, Concentric Energy Advisors, Inc*.

[1] See the *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3.3 Cost of Capital*, page 3-19.