

1 **Q.** **(Reference April 24, 2024 Brattle Report entitled Report on Newfoundland Power's**
2 **Deferral Accounts) It is stated (page 20) "Recommendation: While it is understood**
3 **that this issue has been previously considered and the Court of Appeal determined**
4 **there are limits on the Board's jurisdiction in this matter, it would be beneficial for**
5 **NP and its customers if an ESM based on its approved ROE could be put in place to**
6 **provide NP with proper incentives and to avoid any unintended consequences**
7 **resulting from the current excess earnings methodology that determines excess**
8 **earnings through return on rate base." If the Board were to decide that an ESM based**
9 **on an approved ROE is not feasible in this GRA owing to legal or other reasons, and**
10 **that excess earnings must continue to be defined with respect to the rate of return**
11 **on rate base then:**

- 12 **a) Would it be an improvement to redefine the amount of excess earnings as**
13 **earnings above the approved rate of return on rate base (not the upper limit**
14 **of the range) and that these excess earnings be shared equally between NP**
15 **and customers?**
- 16 **b) In order to avoid perverse incentives and unintended consequences, what**
17 **alternate ESM does Brattle suggest, considering that NP has a lengthy history**
18 **of earning annual rates of return on equity greater than the approved rates of**
19 **return on equity while rarely having any excess earnings under the current**
20 **ESM?**

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22 **A.** **a) In our view, this would not be an improvement to the current excess earnings**
23 **mechanism as it suffers from the same consequences as the current mechanism**
24 **as outlined in response to CA-PUB-006.**

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26 **b) Given the current inability to base an ESM on ROE, there is little that can be**
27 **done to the current excess earnings mechanism, based on return on rate base,**
28 **that would not result in the same unintended consequences as outlined in**
29 **response to CA-PUB-006. Given that the best method may be to limit the**
30 **variability of Newfoundland Power's actual ROE from methods such as**
31 **accounting for both revenues and costs as part of their ESCV deferral account.**