

1 **Section 3: Finance/Fair Return**
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3 **Q. Reference: “2025/2026 General Rate Application,” Newfoundland Power Inc.,**
4 **December 12, 2023, vol. 1, Evidence, sec. 3.3.4, p. 3-44.**
5 **Please provide a chart outlining what Newfoundland Power's Return on Equity**
6 **would have been using the Automatic Adjustment Formula for 2025 and 2026**
7 **Proposed.**
8

9 A. The Automatic Adjustment Formula (the “Formula”) requires information only available
10 in the months leading up to the year in which the adjusted return on equity (“ROE”) is to
11 apply.¹ For example, to estimate the ROE that the Formula would calculate for 2025
12 would require information that would only become available in October and November
13 of 2024.
14

15 Had the Formula had been reinstated by the Board following Newfoundland Power’s
16 *2022/2023 General Rate Application*, it would have resulted in a ROE of 9.27% for 2024.
17 Attachment A provides the Company’s *Pro Forma* ROE that would have resulted from
18 the operation of the Formula in 2024.

¹ The Formula requires: (i) a November consensus forecast of 10-year Government of Canada bond yields; and
(ii) actual 10-year and 30-year Government of Canada bond yields in October.

Automatic Adjustment Formula
***Pro Forma* 2024 Cost of Equity**

**Newfoundland Power Inc.
Automatic Adjustment Formula
Pro Forma 2024 Cost of Equity**

3-Month Forecast of 10-year Government of Canada Bond Yield ¹	3.70%	A
12-Month Forecast of 10-year Government of Canada Bond Yield ¹	3.40%	B
Average 10-year Government of Canada Bond Yield	<u>3.55%</u>	C = (A + B)/2
 Add: Average Observed Spread between 10-year and 30-year Government Bonds ²	 -0.25%	 D
 Forecast Long Canada Bond Yield	 3.30%	 E = C + D
Long Canada Bond Yield ³	<u>2.34%</u>	F
Change in Long Canada Bond Yield	<u>0.96%</u>	G = E - F
Change in Forecast Cost of Equity ⁴	0.77%	H = G x 0.8
 Cost of Equity: Order No. P.U. 3 (2022)	 8.50%	 I
Change in Cost of Equity	<u>0.77%</u>	H
2024 Forecast Cost of Equity	<u><u>9.27%</u></u>	J = I + H

¹ Yields are those reported in the *Consensus Forecasts, Survey of International Economic Forecasts*, October 9, 2023.

² Average observed spread for all trading days in October 2023 between 10-year and 30-year Government of Canada Bonds as reported on the Bank of Canada website.

³ Average forecast 30-year Government Bond Yield for 2022 and 2023 based on *Consensus Forecasts, Survey of International Economic Forecasts*, April 12, 2021, *Long-Term Forecasts* and the average observed spread between 10-year and 30-year Government Bonds in March 2021 as reported on the Bank of Canada website.

⁴ Reflects an adjustment in the total risk premium by a factor of 0.20 as required by Orders No. P.U. 16 and P.U. 36 (1998-99).