

1 **P.U. 39(2005)**
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5 **IN THE MATTER OF** the
6 **PUBLIC UTILITIES ACT**,
7 R.S.N. 1990, c. P-47, as amended
8 (the “*Act*”)
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10 **AND**

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12 **IN THE MATTER OF** the application
13 (the “Application”) by Newfoundland Power Inc.
14 (“Newfoundland Power”) for the approval of a
15 schedule of rates, tolls and charges on an interim basis
16 pursuant to the operation of the Automatic Adjustment
17 Formula (the “Formula”), filed pursuant to Sections 70,
18 75, and 80 of the *Act* and Order No. P. U. 19(2003).
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20 **WHEREAS** Newfoundland Power is a corporation duly organized and existing under the
21 laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the
22 *Act*, and is also subject to the provisions of the *Electrical Power Control Act, 1994*, and

23 **WHEREAS** by Order Nos. P.U. 16 (1998-99) and 36 (1998-99), the Board ordered the
24 establishment of the Formula for use in determining Newfoundland Power’s rate of return on
25 rate base and in setting customer rates, tolls and charges (collectively, “Customer Rates”) in
26 years subsequent to a test year, and

27 **WHEREAS** by Order No. P.U. 19 (2003), the Board modified the Formula and ordered
28 (i) that Newfoundland Power’s rate of return on rate base and Customer Rates for 2005, 2006
29 and 2007 be set using the Formula and (ii) that Newfoundland Power shall apply, by no later
30 than November 30th in each of 2004, 2005 and 2006, for the application of the Formula to the

1 rate of return on rate base and for a revised schedule of Customer Rates to become effective
2 January 1 in each year following, and

3 **WHEREAS** by Order Nos. P.U. 19(2003) and P.U. 23(2003), the Board approved the
4 establishment of the 2004 test year parameters for use in calculating Newfoundland Power's rate
5 of return on rate base and Customer Rates, and

6 **WHEREAS** by Order No. P.U. 23(2003), the Board approved the definition of the
7 Excess Earnings Account whereby earnings for 2004 and subsequent years in excess of the
8 maximum allowable rate of return on rate base be credited to the Excess Earnings Account,
9 unless otherwise ordered by the Board, and

10 **WHEREAS** by Order No. P.U. 16(2005), the Board approved rate stabilization and
11 municipal tax adjustment factors (the "RSA & MTA Factors") to be included in Customer Rates
12 for the period July 1, 2005 through June 30, 2006, and

13 **WHEREAS** on September 29, 2005, Newfoundland Power filed with the Board an
14 application to change its accounting policy related to its method of recognizing revenue and
15 included in the application a proposal for dealing with the resulting unbilled revenue, and

16 **WHEREAS** the forecast rate base and the forecast invested capital for 2006 will be
17 determined by the implementation of the pending decision of the Board regarding Newfoundland
18 Power's application to change its accounting policy, and

19 **WHEREAS** on November 16, 2005, Newfoundland Power filed with the Board its
20 calculation of the cost of common equity for 2006 pursuant to the operation of the Formula,
21 which cost of common equity for 2006 is calculated at 8.77%, and

1 **WHEREAS** pursuant to the operation of the Formula, the rate of return on rate base
2 using the figures for 2006 included in Newfoundland Power's application to change its
3 accounting policy is 8.54%, which falls within the range of 8.50% to 8.86% approved by the
4 Board in Order No. P.U. 50(2004), and

5 **WHEREAS** in accordance with the provisions of Order No. P. U. 36(1998-99), the rate
6 of return on rate base for 2006 will remain at 8.68%, in a range of 8.50% to 8.86%, and

7 **WHEREAS** Appendix A to the Application sets out the cost of common equity as
8 calculated using the long Canada bond yields for the period from October 25 to November 7,
9 2005, and

10 **WHEREAS** Appendix B to the Application sets out the calculation of the weighted
11 average cost of capital for 2006 based upon the operation of the Formula; and

12 **WHEREAS** Appendix C to the Application sets out the calculation of the rate of return
13 on rate base for 2006 based upon the operation of the Formula, and

14 **WHEREAS** the Application of the Formula will result in no change in the existing
15 customer rates approved by the Board in Order No. P. U. 16(2005).

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1 **IT IS THEREFORE ORDERED THAT**

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- 3 1. Pursuant to Section 70 of the *Act*, the use of the rates, tolls and charges approved in Order
4 No. P. U. 16(2005), on an interim basis, to be effective on all electrical usage on and after
5 January 1, 2006, is approved.
- 6 2. No later than January 15, 2006 NP shall apply for approval of the forecast 2006 rate base,
7 application of the Automatic Adjustment Formula to the rate of return on rate base and
8 approval of its Schedule of Rates, Tolls and Charges.
- 9 3. NP shall pay the expenses of the Board arising from this Application.

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12 **DATED** at St. John's, Newfoundland and Labrador this 23rd day of December 2005.

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Robert Noseworthy,
Chair & Chief Executive Officer.

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G. Cheryl Blundon
Board Secretary

Darlene Whalen, P.Eng.
Vice-Chair