Q. Please list those components of the NEB formula which Newfoundland Power is recommending in one column and in another column list those components of the NEB formula which Newfoundland Power is rejecting.

A. In this proceeding, Newfoundland Power is proposing an equity risk premium of 4.75 per cent at a risk free rate of 6 per cent for a 2003 return on equity for ratemaking purposes of 10.75 per cent. At a risk free rate of 6 per cent, the current NEB equity risk premium would be 3.81 per cent.

Table 1 below provides a comparison of the components of the NEB formula and the components of the formula proposed in this proceeding by Newfoundland Power.

Table 1
Comparison of Automatic Adjustment Formulas
Newfoundland Power and NEB

NEB Formula	Newfoundland Power Proposal
Change in Risk Free Rate 1) Obtain the 12-month forecast bond yield for 10-year Government of Canada bonds based on Consensus Forecasts Report for the month of November. 2) Observe the average actual yield differential between 10-year and 30-year Government of Canada bonds for the month of October. 3) Add the results of Steps 1 and 2 to derive the forecast 30-year Government of Canada bond yield (risk free rate) for the upcoming year.	Change in Risk Free Rate 1) Obtain the 12-month forecast bond yield for 10-year Government of Canada bonds based on Consensus Forecasts Report for the month of November. 2) Observe the average actual yield differential between 10-year and 30-year Government of Canada bonds for the month of October. 3) Add the results of Steps 1 and 2 to derive the forecast 30-year Government of Canada bond yield (risk free rate) for the upcoming year.
Change in Equity Risk Premium 4) To calculate the change in the equity risk premium, subtract the risk free rate for the current year from the forecasted risk free rate from Step 3 and multiply the result by the adjustment factor to determine the change in the equity risk premium.	Change in Equity Risk Premium 4) To calculate the change in the equity risk premium, subtract the risk free rate for the current year from the forecasted risk free rate from Step 3 and multiply the result by the adjustment factor to determine the change in the equity risk premium.
Adjustment Factor 0.75	Adjustment Factor 0.80