## Requests for Information Please list those components of the NEB formula which Newfoundland Power is 1 **Q**. 2 3 recommending in one column and in another column list those components of the NEB formula which Newfoundland Power is rejecting. 4 5 A. In this proceeding, Newfoundland Power is proposing an equity risk premium of 4.75 per 6 cent at a risk free rate of 6 per cent for a 2003 return on equity for ratemaking purposes of 7 10.75 per cent. At a risk free rate of 6 per cent, the current NEB equity risk premium 8 would be 3.81 per cent. 9 10 Table 1, on page 2, provides a comparison of the components of the NEB formula and the 11 components of the formula proposed in this proceeding by Newfoundland Power. 12

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Table 1 Comparison of Automatic Adjustment Formulas Newfoundland Power and NEB	
NEB Formula	Newfoundland Power Proposal
<ul> <li><u>Change in Risk Free Rate</u></li> <li>1) Obtain the 3-month forecast bond yield for 10-year Government of Canada bonds based on Consensus Forecasts Report for the month of November.</li> <li>2) Obtain the 12-month forecast bond yield for 10-year Government of Canada bonds based on Consensus Forecasts Report for the month of November.</li> <li>3) Determine the average of the 3-month and 12-month forecast bond yields from Steps 1 and 2.</li> <li>4) Observe the average actual yield differential between 10-year and 30-year Government of Canada bonds for the month of October.</li> <li>5) 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.</li> </ul>	<ul> <li><u>Change in Risk Free Rate</u></li> <li>1) Obtain the 3-month forecast bond yield for 10-year Government of Canada bonds based on Consensus Forecasts Report for the month of November.</li> <li>2) Obtain the 12-month forecast bond yield for 10-year Government of Canada bonds based on Consensus Forecasts Report for the month of November.</li> <li>3) Determine the average of the 3-month and 12-month forecast bond yields from Steps 1 and 2.</li> <li>4) Observe the average actual yield differential between 10-year and 30-year Government of Canada bonds for the month of October.</li> <li>5) 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</li> </ul>
<ul> <li><u>Change in Equity Risk Premium</u></li> <li>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.</li> </ul>	<ul> <li><u>Change in Equity Risk Premium</u></li> <li>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.</li> </ul>
Adjustment Factor 0.75	Adjustment Factor 0.80

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