

1 **Q. Please list those components of the BCUC formula Newfoundland Power is**
2 **recommending and in another column list those components of the BCUC formula**
3 **Newfoundland Power is rejecting.**
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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. The BCUC currently allows an equity risk premium of 3.50 to 4.25 per
8 cent at a risk free rate of 6 per cent, as shown in Table 1.
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Table 1 BCUC Equity Risk Premiums (at 6% Risk Free Rate)	
B.C. Gas Utility	3.50%
Aquila Networks (B.C.)	3.90%
Pacific Northern Gas	4.25%

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12 Table 2, on page 2, provides a comparison of the components of the BCUC formula and
13 the components of the formula proposed in this proceeding by Newfoundland Power.
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Table 2 Comparison of Automatic Adjustment Formula Methodologies BCUC and Newfoundland Power	
BCUC Formula	Newfoundland Power Proposal
<u>Change in Risk Free Rate</u> 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. 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. 3) Determine the average of the 3-month and 12-month forecast bond yields from Steps 1 and 2. 4) Observe the average actual yield differential between 10-year and 30-year Government of Canada bonds for the month of October. 5) Add the results of Steps 3 and 4 to derive the forecast 30-year Government of Canada bond yield (risk free rate) for the upcoming year.	<u>Change in Risk Free Rate</u> 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.
<u>Change in Equity Risk Premium</u> 6) To calculate the change in the equity risk premium, subtract the base year risk free rate (currently 6.0%) from the forecasted risk free rate determined in Step 5, and multiply the difference by the adjustment factor to determine the change in the equity risk premium shown in Table 1.	<u>Change in Equity Risk Premium</u> 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.
<u>Adjustment Factor</u> 0.80 when Step 5 results in a risk free rate that is greater than 6.0%; 1.0 when the risk free rate is 6.0% or lower.	<u>Adjustment Factor</u> 0.80

2