

1 **Q. In reference to page 22 of the Financial Consultant's 2003 Report re Embedded**
2 **Cost of Debt, where it is stated, "that because the cost of debt is set at a higher level**
3 **than actual, the company has the opportunity to increase the rate of return on**
4 **equity while still staying within the limits of the rate of return on rate base". Please**
5 **advise as to when this first came to the attention of the Financial Consultant.**

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7 A. The fact that the various individual components of the Automatic Adjustment formula
8 may vary and impact the operation of the formula was reviewed and discussed during the
9 1998 hearing.

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11 We noted in our 2000 and 2001 Annual Financial Review reports that we had observed
12 an increasing spread between the return on rate base and return on equity. These reports
13 were filed with the Board in September 2002.

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15 In the course of reviewing Newfoundland Power's application and pre-filed evidence for
16 the 2003 hearing we conducted a detailed analysis of the various components of the
17 Automatic Adjustment Formula. The results of this analysis, including the reference in
18 the above question, were presented in our report filed with the Board on February 4,
19 2003.