1 2 3 4	Q.	P. 42 Common Equity Calculate the impact on the 2004 revenue requirement of seeking a 10.71% return on an average balance of \$8,904,000 of "notional equity", representing the accumulated disallowed expenses.
5 6 7	A.	The impact of seeking 10.71% return on an average equity balance of \$8,904,000 increases 2004 Revenue Requirement by \$1,443,000.
8 9 10 11 12 13		The calculation of average regulated common equity is appropriate for ratemaking purposes under the current practice of determining return on rate base for Newfoundland Power. The adding back to the net earnings of the Company of non-regulated expenses provides regulatory continuity to the calculations of common equity used for ratemaking purposes.
14 15 16		The calculations supporting the reduction in 2004 revenue requirement of \$1,443,000 are shown in Tables 1-5 below.
17 18 19 20 21		If the current practice of calculating the average regulated common equity was not established, the Company would have requested a return on equity for 2003 and 2004 of 11.05 and 11.03 respectively instead of 10.75% and 10.71% respectively. Details of this calculation are included in the response to Request for Information NLH-236.
22 23 24 25 26 27		The higher return on equity would be justified in combination with the Company's proposed capital structure to allow the Company to generate a sufficient return on ratebase to maintain its current bond rating as required by section 3(a)(iii) of the <i>Electrical Power Control Act, 1994.</i> A just and reasonable return on ratebase as described in section 80(1) of the <i>Public Utilities Act</i> must be sufficient to maintain a utility's creditworthiness.

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Table 1Forecast Weighted Average Cost of Capital2004 Proposed 1							
	%	Cost Rate	Weighted Cost Rate				
Debt	54.15	8.21%	4.45%				
Preferred	1.39	6.31%	0.09%				
Common	44.46	10.71%	4.76%				
	100.00		9.30%				

As shown in Exhibit BVP-18, page 1 of 1, line 26. 1

Table 2Forecast Weighted Average Cost of CapitalUsing Book Common Equity2004 Pro Forma								
	%	Cost Rate	Weighted Cost Rate					
Debt	54.85	8.21%	4.50%					
Preferred	1.41	6.31%	0.09%					
Common	43.74	10.71%	4.69%					
	100.00		9.28%					

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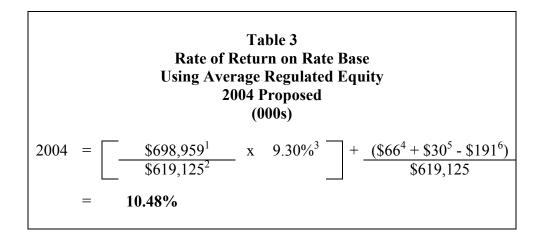
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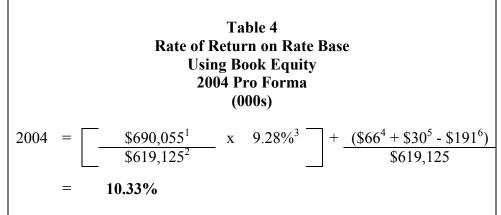
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- ¹ Forecast of Average Invested Capital for 2004 proposed as shown in Exhibit BVP-10, page 1 of 1, line 6.
- ² Forecast of Average Rate Base for 2004 proposed as shown in Exhibit BVP-9, page 1 of 2, line 27.
- Weighted Average Cost of Capital as calculated in Table 1 above and as shown in Exhibit BVP-18, page 1 of 1, line 26.
 Exhibit BVP-18, page 1 of 1, line 26.
- ⁴ Forecast of Amortization of Capital Stock Issue expenses for 2004 as shown in Exhibit BVP-13, page 1 of 1, line 31.
 ⁵ Forecast of Line 31.
- Forecast of Interest on customer deposits for 2004 as shown in Exhibit BVP-13, page 1 of 1, line 33.
- ⁶ Forecast of Capitalized Interest for 2004 as shown in Exhibit BVP-13, page 1 of 1, line 32.



14	¹ Forecast of Average Invested Capital for 2004 using book equity comprised of Average Invested
15	Capital for 2004 proposed as shown in Exhibit BVP-10, page 1 of 1, line 6 less difference between
16	book equity and regulated average common equity for 2004 of \$8,904,000.
17	² Forecast of Average Rate Base for 2004 proposed as shown in Exhibit BVP-9, page 1 of 2, line 27.
18	³ Weighted Average Cost of Capital as calculated in Table 2 above.
19	⁴ Forecast of Amortization of Capital Stock Issue expenses for 2004 as shown in Exhibit BVP-13,
20	page 1 of 1, line 31.
21	⁵ Forecast of Interest on customer deposits for 2004 as shown in Exhibit BVP-13, page 1 of 1, line 33.
22	⁶ Forecast of Capitalized Interest for 2004 as shown in Exhibit BVP-13, page 1 of 1, line 32.

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Table 5 Impact on 2004 Revenue Requirement of Using Book Equity 2004 Pro Forma (000s)						
	Average Rate Base ¹	Rate of Return on Rate Base ²	Return on Rate Base ³			
2004 Proposed	\$619,125	10.48%	\$64,894			
2004 Pro Forma	\$619,125	10.32%	63,956			
Reduction In 2004 Reduction In Rate	938					
Reduction In 2004 Reduction In Taxe	505					
Total Reduction In 2004 Revenue Requirement Due To						
The Removal of \$8 Invested Capital ⁶	\$1,443					

¹ Forecast of Average Rate Base for 2004 proposed as shown in Exhibit BVP-9, page 1 of 2, line 27.

² Rate of Return on Rate Base For 2004 proposed as shown in Exhibit BVP-16, page 1 of 1, line 21 and 2004 Pro Forma Rate of Return on Rate Base with \$8,904,000 reduction in Average Invested Capital as shown in Table 4 above.

³ Return on Rate Base For 2004 proposed and 2004 Pro Forma. It is equal to the Average Rate Base multiplied by the Rate of Return on Rate Base.

⁴ Reduction in revenue requirement for 2004 due to a reduction in required Return on Rate Base equal to \$64,894,000 minus \$63,894,000.

⁵ Reduction in revenue requirement for 2004 due to a reduction in taxes associated with a reduced return on rate base, calculated as \$1,000,000 * (.35/.65). The reduction in taxes assumes no tax impact from a change to the pro forma average debt.

⁶ Total reduction in 2004 revenue requirement due to the reduction in Average Invested Capital of \$8,904,000.