

1 **Q. Re: p. 24. Provide basis for statements at lines 13-17, which cast doubt on**  
2 **Newfoundland Power's ability to maintain satisfactory ratios and that characterize**  
3 **the allowed returns on equity as 'low'.**  
4

5 A. The referenced statements attribute the limit on Newfoundland Power's ability to  
6 maintain satisfactory ratios, particularly interest coverage ratios, to the low returns on  
7 equity used to set rates since 1998, and to deficiencies in the automatic adjustment  
8 formula established in Order Nos. P.U. 16 and 36 (1998-1999) (the "Formula").  
9

10 The allowed return established with the creation of the Formula was among the lowest  
11 allowed regulated returns in North America. The Formula has yielded among the lowest  
12 estimates of return on common equity in Canada since 2000. As noted in the Prepared  
13 Testimony of Kathleen C. McShane, Newfoundland Power's Formula-based return on  
14 equity for 2002 of 9.05% is the lowest among regulated utilities in Canada.  
15

16 Detailed information with respect to allowed regulated returns for investor owned utilities  
17 in Canada is set out in Schedule 3 of the Statistical Exhibit accompanying the Prepared  
18 Testimony of Kathleen C. McShane.  
19

20 The deficiencies in the Formula are reviewed in detail in Section 4 of the *Finance &*  
21 *Accounting Evidence*, and the Company is proposing changes to the Formula in this  
22 proceeding to address those deficiencies.  
23

24 Table 4, at page 14 of the *Finance & Accounting Evidence*, illustrates how the financial  
25 impact on Newfoundland Power of extraordinary events in 2000, 2001 and 2002 helped  
26 the Company maintain its financial integrity despite the low returns established by the  
27 Formula. Without the impact of these extraordinary events, the Company's returns and  
28 interest coverage ratios would have been significantly lower than actual results.  
29

30 By virtue of the successful management of operating costs and the positive impact of  
31 extraordinary events, Newfoundland Power has been able to achieve actual returns on  
32 common equity commensurate with other regulated utilities. However, such events  
33 cannot be relied upon to maintain the Company's future creditworthiness.