

- Q. At p. 12, line 8, Dr. Kalymon refers to "the improper operation of the return adjustment formula". Please explain what is meant by this phrase and demonstrate how the operation of the return adjustment formula has been improper.
- A. **The goal of an adjustment formula for the allowed return on equity should be to permit electricity rates to consumers which will provide an opportunity to the regulated entity to achieve, on average, the targeted mid-point level of allowed returns. However, as demonstrated in Newfoundland Power's submission (BVP-17), the operation of the adjustment formula permitted the company to consistently overachieve the targeted return on equity by a wide margin.**