

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P. U. 12(2010)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SN 1994, Chapter E-5.1 (the
3 “*EPCA*”) and the *Public Utilities Act*, RSNL 1990,
4 Chapter P-47 (the “*Act*”) as amended;

5
6 **AND**

7
8 **IN THE MATTER OF** an automatic
9 adjustment formula for fixing and
10 determining the rate of return on rate
11 base for Newfoundland Power Inc.
12 (“Newfoundland Power”).

13
14
15
16 **WHEREAS** Newfoundland Power is a corporation duly organized and existing under the laws of
17 the Province of Newfoundland and Labrador, is a public utility within the meaning of the *Act*, and is
18 also subject to the provisions of the *EPCA*; and

19
20 **WHEREAS** by Order Nos. P.U. 16(1998-99) and P.U. 36(1998-99) the Board established the
21 Automatic Adjustment Formula for fixing and determining the annual rate of return on rate base for
22 Newfoundland Power in years following a test year (the “Formula”); and

23
24 **WHEREAS** by Order Nos. P.U. 19(2003) and P.U. 32(2007) the Board approved the continued use
25 of the Formula with certain modifications; and

26
27 **WHEREAS** by Order No. P.U. 43(2009) the Board ordered the further continued use of the Formula
28 for 2011 and 2012 with modifications but also advised Newfoundland Power that it may apply to the
29 Board by March 15, 2010 to propose changes to the Formula; and

1 **WHEREAS** on March 12, 2010 Newfoundland Power submitted an application (the “Application”)
2 proposing that for 2011 and 2012 the risk free rate in the Formula be determined by adding:

- 3 (i) the average of the 3-month and 12-month forecast of 10-year Government of Canada
4 Bonds as published by *Consensus Forecasts* in the preceding November; and
5 (ii) the average observed spread between 10-year and 30-year Government of Canada
6 Bonds for all trading days in the preceding October; and
7

8 **WHEREAS** the Application proposed no other changes to the Formula; and
9

10 **WHEREAS** the Consumer Advocate advised the Board by letter dated March 18, 2010 that the
11 Application as filed was acceptable to the Consumer Advocate; and
12

13 **WHEREAS** Newfoundland and Labrador Hydro advised the Board by letter dated March 24, 2010
14 that it had no comments in relation to the Application; and
15

16 **WHEREAS** the Board has reviewed the Application and is satisfied that the proposed changes to
17 the Formula are consistent with generally accepted sound public utility practice and should be
18 approved.
19

20 **IT IS THEREFORE ORDERED THAT:**
21

- 22 1. The risk free rate used to calculate the forecast cost of equity for use in the Automatic
23 Adjustment Formula to establish Newfoundland Power’s annual rate of return on rate base
24 for 2011 and 2012 shall be determined by adding:
25 (a) the average of the 3-month and 12-month forecast of 10-year Government of
26 Canada Bonds as published by *Consensus Forecasts* in the preceding
27 November; and
28 (b) the average observed spread between 10-year and 30-year Government of
29 Canada Bonds for all trading days in the preceding October.
30
31 2. Newfoundland Power shall pay all expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador, this 20th day of April 2010.

Andy Wells
Chair & Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

Dwanda Newman, LL.B.
Commissioner

Barbara Thistle
Assistant Board Secretary