

NSUARB Nova Scotia Utility & Review Board - Re: utility return on equity question

From: NSUARB Nova Scotia Utility & Review Board
To: Cody.Burdett@fin.gc.ca
Subject: Re: utility return on equity question

November 23, 2010

Mr. Burdett:

Receipt is acknowledged on November 16, 2010, of your email regarding utility return on equity.

This is to advise that your email has been directed to the Board for response.

Yours truly,

Nancy McNeil
Regulatory Affairs Officer/Clerk

>>> <Cody.Burdett@fin.gc.ca> 11/16/2010 1:00 PM >>>
Good afternoon,

I am doing some research on the different provincial approaches to determining the rates of return (return on equity) for electric utilities. If possible, I am hoping someone in your office could assist me by answering a few questions.

I understand from your website that normal rates of return in Nova Scotia are based on a number of criteria including the cost of attracting capital, encouraging efficient operation, ensuring fairness to investors, etc. and that rate proceedings are the primary method to setting allowable rates and equity.

I am curious if there are any codified methods or calculations that are used by the Board (or applicants) in determining such factors as 1) asset depreciation and 2) reasonable return from investment elsewhere in the economy. Further, are rates determined using the discounted cash flow approach, the capital asset pricing model, and/or the risk premium method (similar to the bond-yield formula in place in other provinces)?

Finally, of particular interest are hydro-electricity utilities, so if you have any information on the determination of normal rates of return for this specific sector, it would be greatly appreciated.

Thank you for your time,
Cody

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