

1 **Q. (page 3-26, Footnote 52) It is stated “To address declining sales, some regulated gas**
2 **and electric utilities have implemented revenue decoupling mechanisms. Revenue**
3 **decoupling refers to adjustable pricing mechanisms that break the link between the**
4 **amount of energy sold and the actual (allowed) revenue collected by the utility.**
5 **Decoupling mechanisms enable a utility to recover its approved test year revenue**
6 **requirement as its sales decline. During periods of sales growth, decoupling**
7 **mechanisms have the effect of returning revenues in excess of a utility’s approved**
8 **revenue requirement back to customers.”**

9
10 **(a) Is NP proposing such a decoupling mechanism? If not, why not?**

11
12 **(b) Please provide an example of a decoupling mechanism that might be**
13 **implemented for NP.**

14
15 **(c) Would an incentive-based, or performance-based, regulatory mechanism be**
16 **appropriate in an era of declining sales? Please provide support for your**
17 **response.**

18
19 **(d) What might NP propose as an appropriate incentive-based regulatory**
20 **mechanism going forward?**

21
22 **(e) Would NP’s risk be reduced if its revenue requirement were decoupled from its**
23 **power purchase costs? How might such a mechanism be designed?**

24
25 **A. (a) No, Newfoundland Power is not proposing a decoupling mechanism at this time.**

26
27 With the recent interconnection of the Island Interconnected System to the North
28 American grid and the impending completion of the Muskrat Falls Project, the
29 electrical system in the Province is currently in a period of transition. The timing and
30 magnitude of customer rate increases is uncertain.¹ Without more fulsome
31 information relating to future costs and rates, Newfoundland Power is not in a
32 position to fully assess or propose a decoupling mechanism at this time.

33
34 **(b) See response (a) to this Request for Information.**

35
36 **(c) Any incentive-based or performance-based mechanism would need to be assessed and**
37 **considered with a full and complete understanding of Newfoundland Power’s**
38 **operations and risks at the time any such mechanism would be in place. The current**
39 **uncertainty in the Province’s electricity sector, particularly relating to future customer**
40 **rates, is not conducive to the introduction of a new regulatory framework at this time.**

41
42 In addition to declining sales, other matters need to be considered in the development
43 of an incentive-based or performance-based regulatory framework. For example,

¹ See the response to Request for Information PUB-NP-012.

- 1 costs and reliability are typically considered in incentive-based or performance-based
2 regulation. Newfoundland Power's performance over the past 20 years demonstrates
3 that the existing regulatory framework can contribute to sound cost management and
4 improved reliability. See the response to Request for Information PUB-NP-003 for
5 details of Newfoundland Power's cost management and reliability performance over
6 the past 20 years.
7
- 8 (d) See response to (c) to this Request for Information.
9
- 10 (e) Newfoundland Power is not proposing a decoupling mechanism at this time and,
11 therefore, has not completed an assessment of whether or not the Company's business
12 risk would change if such a mechanism were implemented.