

1 **Q. It is understood that the proposed 1.2% rate increase is required based solely on the**
2 **NP cost of capital expert's opinion that a higher return is justified based on a**
3 **perceived increase in NP's business risk since the last GRA filing. It is also**
4 **understood that the perceived increase in business risk is brought on primarily by**
5 **the increase in Muskrat Falls costs and the deterioration in the Provincial economy.**

6
7 **a) Please confirm or correct the above statements.**

8
9 **b) Please confirm that the reasons for increased business risk also make a case for**
10 **avoiding additional rate increases for customers during these difficult times.**

11
12 **c) Please identify all alternatives considered by NP to cut costs to a point where the**
13 **rate increase brought on by the proposed increase in return would be fully**
14 **mitigated resulting in no rate increase for NP customers.**

15
16 **d) What would be the repercussions and impact on rates in the 2019 and 2020 test**
17 **years of delaying the customer information project until 2021 or beyond?**

18
19 **A. a) The above statement regarding the proposed 1.2% rate increase is not correct.**

20
21 The 1.2% average rate increase proposed in *Newfoundland Power's 2019/2020*
22 *General Rate Application* reflects forecast changes in the Company's cost of
23 providing service since 2016. This includes a fair return for Newfoundland Power
24 based on the recommendations of Mr. James Coyne of Concentric Energy Advisors.
25 It also includes changes in Newfoundland Power's costs since its last general rate
26 application and changes in the recovery of wholesale supply costs. These changes are
27 summarized in the Company's *2019/2020 General Rate Application, Volume 1,*
28 *Application, Company Evidence and Exhibits, Section 1: Introduction, Page 1-8.*

29
30 The above statement regarding Newfoundland Power's business risk is broadly
31 correct.

32
33 Since 2016, the Company's business risk has increased. The primary contributors to
34 Newfoundland Power's riskier outlook since that time are: (i) a deteriorating outlook
35 for the provincial economy; and (ii) increased costs related to Nalcor Energy's
36 Muskrat Falls Project. For more information, see response to Request for Information
37 PUB-NP-014.

38
39 **b) In accordance with the *Public Utilities Act* and the *Electrical Power Control Act,***
40 ***1994,* Newfoundland Power's proposed customer rates, including the 1.2% average**
41 **rate increase proposed in this Application, are based on the Company's forecast cost**
42 **of providing service to customers. This includes the Company's cost of capital. As a**
43 **matter of public policy, the rates charged by Newfoundland Power should provide**

1 sufficient revenue to enable the opportunity to earn a just and reasonable return as
2 determined by the Board.¹

3
4 By Order No. P.U. 18 (2016), Newfoundland Power was required to file its next
5 general rate application no later than June 1, 2018. Order No. P.U. 18 (2016) is
6 consistent with past practice of the Board, which typically entails a triennial review of
7 Newfoundland Power's costs and the establishment of customer rates reflective of
8 those costs. Newfoundland Power's *2019/2020 General Rate Application* complies
9 with Order No. P.U. 18 (2016).

- 10
11 c) The 1.2% average rate increase proposed in *Newfoundland Power's 2019/2020*
12 *General Rate Application* reflects forecast changes in the Company's cost of serving
13 customers. The customer rates proposed in this Application are consistent with the
14 least-cost delivery of reliable service to customers.
15
16 d) A total of \$538,000 in operating costs is included in Newfoundland Power's 2020
17 revenue requirement to initiate replacement of the Company's Customer Service
18 System. Removing these costs results in a 0.08% reduction in the Company's 2020
19 revenue requirement from customer rates.²

20
21 A technical assessment of the 25-year-old Customer Service System showed the
22 system is facing increased risk of technical and functional obsolescence over the next
23 5 years.³ Industry experience indicates replacing such systems generally requires 5
24 years to complete. Given the criticality of the system in providing service to
25 customers, delaying this project would not, in Newfoundland Power's view, be
26 prudent.

¹ See Section 80(1) of the *Public Utilities Act* and Section 3(a)(iii) of the *Electrical Power Control Act, 1994*.

² This calculation assumes no change in elasticity or other costs.

³ See response to Request for Information PUB-NP-008, Attachment A, Appendix A, for a copy of the technical assessment.