

- 1 **Q. On page 3 of Newfoundland Power's Customer, Energy and Demand Forecast the**
2 **Company states" ... key economic indicators such as service sector GDP,**
3 **employment levels, household disposable income and housing will continue to**
4 **contract throughout the forecast period."**
5
- 6 a) **Given the economic hardships consumers are expected to face, please justify the**
7 **requested 1.2% general rate increase to provide Newfoundland Power an**
8 **increased ROE.**
9 b) **Please provide a table showing the approximate amount of the 1.2% general rate**
10 **increase in dollars (as opposed to percentages) for 2019-2020.**
11 c) **Please discuss any commentary or feedback Newfoundland Power has heard**
12 **from its workforce, consumers or the media regarding its application for a 1.2%**
13 **general rate increase to increase the Company's ROE.**
14 d) **Does Newfoundland Power believe its workforce and consumers are generally**
15 **supportive of the application?**
16 e) **Please provide a table showing the amount of ROE in dollars (as opposed to**
17 **percentages) for 2015-2020, using the actual ROE figures where available and**
18 **the 9.5% ROE applied for in the test period.**
19 f) **Please provide Table 4-1 from the application expanded to include the years**
20 **2015-2020.**
21
- 22 A. a) The proposed increase in Newfoundland Power's return on equity is based upon the
23 recommendations of Mr. James Coyne of Concentric Energy Advisors. Mr. Coyne's
24 recommendation of a fair return for Newfoundland Power follows a review of capital
25 market conditions and an assessment of Newfoundland Power's business and
26 financial risk. This assessment includes a review of key economic indicators.¹
27
- 28 As a public utility, Newfoundland Power is required to invest in long-lived capital
29 assets to ensure the delivery of least-cost, reliable service to customers over the long
30 term. Maintenance of the Company's financial integrity, which includes a fair return
31 for Newfoundland Power and continued access to capital, is consistent with the *fair*
32 *return standard* and past practice of the Board.
- 33
- 34 The Board has indicated that the attributes of a fair utility return include that it be: (i)
35 commensurate with return on investments of similar risk; (ii) sufficient to ensure
36 financial integrity; and (iii) sufficient to attract necessary capital. These attributes are
37 consistent with provincial legislation, including the *Electrical Power Control Act,*
38 *1994* and the *Public Utilities Act.*²

¹ See Volume 2, Supporting Materials, Expert Evidence, Cost of Capital: Mr. James Coyne.

² See Volume 1, Application, Company Evidence and Exhibits, Section 3: Finance, page 3-15 to page 3-19 et seq.

- 1 b) Table 1 shows the proposed increase in Newfoundland Power's revenue requirement
2 for 2019 and 2020.

Table 1:
Increase in Revenue Requirement
(millions)

2019	\$6.4
2020	\$8.2

- 3 c) By Order No. P.U. 18 (2016), Newfoundland Power was obligated to file its next
4 General Rate Application no later than June 1, 2018. Newfoundland Power did not
5 survey its workforce or customers in advance of complying with the Board's order.
6
7 Newfoundland Power's primary means of receiving feedback is through its quarterly
8 customer satisfaction surveys.³ The Company's *2019/2020 General Rate Application*
9 was filed in the second quarter of 2018.⁴ Customer satisfaction scores in the first and
10 second quarters of 2018 were both 86%.⁵ While overall customer satisfaction was
11 unchanged, customer feedback between the first and second quarters of 2018
12 demonstrated a growing concern regarding the price of electricity.⁶
13
14 d) Newfoundland Power's *2019/2020 General Rate Application* proposes a March 1,
15 2019 average increase in customer rates of 1.2%. This increase reflects changes in
16 the Company's cost of providing service to customers since 2016. Newfoundland
17 Power recognizes that rising electricity costs impact its customers and focuses on
18 meeting customer expectations while demonstrating sound cost management and
19 maintaining reliable service.⁷

³ Newfoundland Power has been conducting customer satisfaction surveys since the late 1990s. In 2013 the Company expanded its surveying to include a more detailed transaction focused customer survey.

⁴ On June 1, 2018 Newfoundland Power issued a press release to inform the media and customers of the filing of the Company's *2019/2020 General Rate Application*. An internal announcement was also made available to Newfoundland Power employees.

⁵ Customers are considered *satisfied* if they rank the Company's overall service a 7 or higher on a scale of 1 to 10.

⁶ Of those residential customers that were surveyed in Q1 2018 as being *not satisfied* (score of less than 6/10) with the Company's overall service, approximately 49% indicated that price was the deciding factor. In Q2 2018, approximately 59% of residential customers that were *not satisfied* indicated that price was the determining factor.

⁷ See the responses to Requests for Information PUB-NP-002 and PUB-NP-003 for information relating to Newfoundland Power's approach to cost management.

- 1 e) Table 2 shows Newfoundland Power's actual regulated earnings for 2015 to 2017,
2 forecast regulated earnings for 2018, and forecast 2019 and 2020 earnings based on
3 the proposals contained within the Company's Application.

Table 2:
Regulated Earnings
2015 to 2020P
(millions)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018F</u>	<u>2019P</u>	<u>2020P</u>
Earnings	\$40.6	\$42.3	\$43.4	\$41.9	\$48.9	\$50.4

- 4 f) Table 3 provides a revised Table 4-1 from the Application to include 2015 to 2018.

Table 3:
Summary of Revenue Requirements
2015 to 2020F
(\$000s)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018F</u>	<u>2019F</u>	<u>2020F</u>
Power Supply Cost	424,430	443,311	435,306	432,443	429,949	429,144
Operating Costs ⁸	55,157	56,851	59,915	61,620	62,679	64,610
Employee Future Benefit Costs	26,355	18,441	17,039	14,029	9,080	7,566
Deferred Cost Recoveries and Amortizations	3,990	2,064	(1,032)	(1,032)	649	(324)
Depreciation	51,851	55,190	57,487	59,801	62,350	64,908
Income Taxes ⁸	16,529	18,152	19,424	18,137	20,320	21,078
Return on Rate Base	76,254	77,519	78,869	78,167	85,635	88,362
Revenue Requirement	654,566	671,528	667,008	663,165	670,662	675,344
Adjustments						
Other Revenue	(5,206)	(5,234)	(6,283)	(6,380)	(5,612)	(5,594)
Interest on Security Deposits	19	11	12	18	18	18
Energy Supply Cost Variance Adjustments	(3,599)	(3,134)	2,446	3,591	1,064	-
CDM Program Amortization & Other ⁹	(6,149)	(1,790)	(1,299)	(1,928)	(4,665)	(5,650)
Revenue Requirement from Rates	639,631	661,381	661,884	658,466	661,467	664,118

⁸ For revenue requirement purposes, operating costs and income taxes do not include non-regulated expenses.

⁹ Includes: (i) CDM program amortizations; (ii) Pension variance deferral account; (iii) OPEBs variance deferral account; (iv) DMI account adjustments; and (v) Wholesale Rate Change Flow-Through adjustments.