

1 **Reference: Evidence of GT on 2006 Accounting Policy Application, p.16**

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3 **Preamble: GT states: “We believe the appropriateness of Newfoundland Power’s**  
4 **proposals must be assessed based on whether they provide the opportunity to**  
5 **earn a just and reasonable return in 2006.**

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7 **Q. Please confirm that the quoted statement applies to all categories of costs that could**  
8 **be offset by recognizing 2005 Unbilled Revenue because no category of costs**  
9 **warrants an offset absent a determination that the Board has that there is an overall**  
10 **revenue deficiency based on evidence that has been tested through the Board’s**  
11 **normal procedures?**

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13 **A.** The statement referenced above from our report is based on the regulatory principle of  
14 fair return. Under a cost of service approach to regulation, a utility is entitled to recover  
15 its full costs of providing service including a fair return on invested capital. In the  
16 circumstance of a general rate application the regulator would normally conduct a full  
17 review of all categories of costs to assess their reasonableness and appropriateness in  
18 establishing the revenue requirement of the utility.

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20 While a full review of revenue requirement is appropriate for a GRA, regulatory practice  
21 would permit the Board to hear evidence on specific issues, including individual cost  
22 items, outside of a full review and render a decision based on its assessment of that  
23 evidence, where it determines it is appropriate in the circumstances.