

1 **Q. How would NP’s financial results be impacted if the proposed 2016 revenue**  
 2 **requirement shortfall was approved for deferral on an interim basis, with recovery**  
 3 **to be determined in a GRA filed later in 2015? Please provide the advantages and**  
 4 **disadvantages of this approach.**

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 6 A. Section 75 of the *Public Utilities Act* (the “Act”) provides for interim orders governing  
 7 rates. However, there is no provision in the Act which governs the deferral of a revenue  
 8 requirement shortfall on an interim basis. Newfoundland Power is uncertain as to how a  
 9 revenue requirement shortfall deferral on an interim basis would practically work and still  
 10 be consistent with the prospective nature of utility regulation in the province.

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 12 The Application requests approval of deferred cost recovery of approximately \$4 million  
 13 in 2016 costs on a *final* basis. The impact on Newfoundland Power’s 2016 financial  
 14 results of approval of deferred recovery on an *interim* basis is that such an approval  
 15 would not provide Newfoundland Power with a reasonable opportunity to earn a just and  
 16 reasonable return for 2016 within the meaning of Section 80 of the Act. In the words of  
 17 the Board, such an approach would not be consistent with “...regulatory practice and in  
 18 the interest of a predictable and fair regulatory framework that accepts the necessity and  
 19 practicality of prospective regulation...”<sup>1</sup>

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 21 In Newfoundland Power’s view, there are no advantages in the current circumstances to  
 22 the approach suggested in the question. On the other hand, the 2016 deferred cost  
 23 recovery proposed in the Application presents a number of advantages for Newfoundland  
 24 Power and for electricity customers on the Island interconnected system. It will permit  
 25 the orderly establishment of rates to be charged to customers in a manner that is  
 26 consistent: with (i) prospective ratemaking<sup>2</sup>; (ii) the principle of intergenerational equity  
 27 as applied by the Board<sup>3</sup>; (iii) reduced overall regulatory lag and delayed cost recovery<sup>4</sup>;  
 28 (iv) overall regulatory cost efficiency<sup>5</sup>; and (v) past regulatory practice.<sup>6</sup>

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<sup>1</sup> See Order No. P.U. 39 (2006), page 7, lines 1-2.

<sup>2</sup> Refer to the response to Request for Information PUB-NP-006, pages 2-3.

<sup>3</sup> Refer to the response to Request for Information PUB-NP-006, pages 3-4.

<sup>4</sup> Refer to the response to Request for Information PUB-NP-003, pages 1-2.

<sup>5</sup> Refer to the responses to Request for Information PUB-NP-002, pages 2-4 and PUB-NP-003, page 2.

<sup>6</sup> Refer to the response to Request for Information PUB-NP-001, pages 1-4.