

1 **Q. The Board has not yet (i) determined NP's allowed return on equity for 2016; (ii)**  
2 **determined the equity component to be reflected in NP's capital structure for 2016;**  
3 **(iii) determined the depreciation rates to apply in determining 2016 depreciation**  
4 **costs; or (iv) tested the reasonableness of NP's load or cost forecasts. Please provide**  
5 **the advantages and disadvantages to NP of approving the proposed 2016 cost**  
6 **recovery deferral on a final basis vs. an interim basis.**

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8 **A. A. Interim Approval**  
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10 Section 75 of the *Public Utilities Act* (the "Act") provides for interim orders governing  
11 rates. However, there is no provision in the Act which governs the approval of cost  
12 recovery deferrals on an interim basis. Newfoundland Power is uncertain as to how a  
13 cost recovery deferral on an interim basis would practically work and still be consistent  
14 with the prospective nature of utility regulation in the province.  
15

16 The impact on Newfoundland Power's 2016 financial results of approval of deferred  
17 recovery on an *interim* basis is that such an approval would not provide Newfoundland  
18 Power with a reasonable opportunity to earn a just and reasonable return for 2016 within  
19 the meaning of Section 80 of the Act. In the words of the Board, such an approach would  
20 not be consistent with "...regulatory practice and in the interest of a predictable and fair  
21 regulatory framework that accepts the necessity and practicality of prospective  
22 regulation..."<sup>1</sup>  
23

24 There is a lack of regulatory certainty and predictability associated with any *interim*  
25 approval of the 2016 cost recovery deferral. This, together with the inconsistency of such  
26 an approval with prospective regulation, makes such an approach to the current  
27 circumstances unacceptable.  
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29 **B. Final Approval**  
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31 The Application requests approval of deferred cost recovery of approximately \$4 million  
32 in 2016 costs on a *final* basis. This will permit the development of customer rates for the  
33 Island interconnected system on an orderly basis.  
34

35 Items (i) through (iv) set out in the question are all matters that will be considered by the  
36 Board in Newfoundland Power's next general rate application ("GRA").  
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38 For information regarding instances in which the Board has allowed for deferred cost  
39 recovery and thereby deferred a Newfoundland Power GRA for 1 year, refer to the  
40 response to Request for Information PUB-NP-001.

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

1           **C.       Advantages and Disadvantages of Final Approval**

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3           The advantages to Newfoundland Power and its customers of the Board’s approving the  
4           proposed 2016 cost recovery deferral on a final basis are that it will permit the orderly  
5           establishment of rates to be charged to customers in a manner that is consistent with: (i)  
6           prospective ratemaking<sup>2</sup>; (ii) the principle of intergenerational equity as applied by the  
7           Board<sup>3</sup>; (iii) reduced overall regulatory lag and delayed cost recovery<sup>4</sup>; (iv) overall  
8           regulatory cost efficiency<sup>5</sup>; and (v) past regulatory practice.<sup>6</sup>

9  
10          In Newfoundland Power’s view, there are no disadvantages to Newfoundland Power or  
11          its customers of the Board’s approving the proposed 2016 cost recovery deferral on a  
12          final basis as proposed in the Application. For this reason, the 2016 deferred cost  
13          recovery proposed in the Application is the superior alternative to addressing the current  
14          circumstances.

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<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.