

1 **Q. Schedule 1, Page 6 of the application states:**  
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3 *“The additional cost for Newfoundland Power to finance the 2016 rate base growth*  
4 *resulting from 2016 capital expenditures was not contemplated by current customer*  
5 *rates. Recovery of this additional cost is the basis of the proposed 2016 deferred cost*  
6 *recovery.”*  
7

8 **Is NP of the opinion that utilities should be given the opportunity to earn a return**  
9 **on additions to rate base between Test Years if the additions to rate base are**  
10 **forecast to result in earnings below the bottom of the approved return and rate**  
11 **base? Please explain.**  
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13 A. Newfoundland Power is of the opinion that Section 80 of the *Public Utilities Act* permits  
14 the utility the opportunity to earn a just and reasonable return on rate base each year.  
15 This supports the Board’s approval of the 2016 deferred cost recovery of \$4 million for  
16 Newfoundland Power in the current circumstances, particularly in light of Newfoundland  
17 and Labrador Hydro’s (“Hydro”) outstanding general rate application (“GRA”).<sup>1</sup> These  
18 circumstances are, in Newfoundland Power’s view, extraordinary.  
19

20 The 2016 deferred cost recovery proposed in the Application permits recovery of  
21 additional costs associated with financing 2016 capital expenditures. It is consistent with  
22 (i) prospective ratemaking<sup>2</sup>; (ii) the principle of intergenerational equity as applied by the  
23 Board<sup>3</sup>; (iii) reduced overall regulatory lag and delayed cost recovery<sup>4</sup>; (iv) overall  
24 regulatory cost efficiency<sup>5</sup>; and (v) past regulatory practice.<sup>6</sup>  
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26 In the current circumstances, the 2016 deferred cost recovery proposed in the Application  
27 will have the result of allowing Newfoundland Power the opportunity to earn a return  
28 above the bottom of the appropriate range of return on rate base in 2016. The use of  
29 deferred cost recovery to permit this (as opposed to a GRA) is justified by the  
30 extraordinary circumstances. Absent these extraordinary circumstances, Newfoundland  
31 Power would file a GRA by June 1, 2015, to ensure it had the opportunity to earn a just  
32 and reasonable return in 2016.

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

<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.