

1 **Q. Page 1, Schedule 1: Newfoundland Power states that: "Newfoundland Power's filing**
 2 **of a general rate application by June 1, 2015 will ultimately result in a more**
 3 **extended regulatory process than a filing by June 1, 2016. Such an extended process**
 4 **can be expected to increase the overall cost of Newfoundland Power's next general**
 5 **rate application." Explain why a June 1, 2015 filing would result in a more**
 6 **extended regulatory process than a June 1, 2016 filing and provide an analysis,**
 7 **explaining all assumptions, that illustrates the increase in overall cost.**

8
 9 **A. A. The Timing of Newfoundland Power’s Next GRA**

10 Newfoundland Power has filed 4 general rate applications (“GRA”) since 2002.

11 Table 1 summarizes data related to the timing of these Newfoundland Power GRAs.

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Table 1
Newfoundland Power
GRA Timing Data
2002-2013

Test Period	2002/2003	2008	2010	2013/2014
Filing Date	Oct. 11, 2002	May 10, 2007	May 28, 2009	Sept. 14, 2012
Hearing	Mar. 2003	Oct. 2007	Oct. 2009	Jan. 2013
Months to Board Order	8.3	7.3	6.9	7.1

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 18 Public hearings into Newfoundland Power GRAs filed in the 1st half of a year typically
 19 occur early in the 4th quarter of that year. This timing is consistent with efficient
 20 interrogation of the GRA through Requests for Information (“RFIs”) during the summer
 21 months. It also permits sufficient time for the Board to approve customer rates effective
 22 January 1st in the test year.

23
 24 The current schedule for Newfoundland and Labrador Hydro’s (“Hydro”) amended GRA
 25 was settled in February 2015. That schedule provides for the filing of experts’ reports
 26 and interrogation through RFIs in June. These include the reports of Grant Thornton LLP
 27 on the amended GRA and the Liberty Consulting Group on the prudence of over \$210
 28 million of Hydro costs. July and August are designated as a negotiation period for
 29 Hydro’s amended GRA with public hearings to commence in September, 2015. The
 30 scope and complexity of the issues raised in Hydro’s amended GRA are extraordinary,
 31 particularly when compared to recent Board experience.

1 Given the current schedule for Hydro's amended GRA, it seems unlikely that any
2 Newfoundland Power GRA filed by June 1, 2015, with a 2016 test year, would (i) be
3 publicly heard early in the 4th quarter of 2015, or (ii) result in the Board's approval of
4 customer rates as of January 1, 2016. This indicates that a Newfoundland Power GRA
5 filed by June 1, 2015, would result in a more extended regulatory process than that
6 experienced by Newfoundland Power since 2002.
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8 Given regulatory experience and the current outlook for Hydro's amended GRA, it would
9 be reasonable to expect that a Newfoundland Power GRA filed by June 1, 2016, with a
10 2017 test year, would result in customer rates being approved by the Board as of January
11 1st, 2017.
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13 **B. The Cost of Newfoundland Power's Next GRA**

14 ***GRA Costs Generally***

15 It is well accepted that GRAs are time consuming and expensive regulatory proceedings,
16 the cost of which is generally borne by customers.¹ GRA costs include the costs of
17 formal regulatory proceedings and the utility's cost to prepare and manage the GRA
18 process.
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20 Longer regulatory proceedings, including GRAs, will tend to increase the cost associated
21 with regulatory process. The Board has explicitly recognized this.² For a utility, which
22 must prepare and manage a GRA, longer proceedings can be expected to result in higher
23 costs. This logic underscores the following observation in Order No. P.U. 8 (2007):
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25 "The Board believes it has an obligation to promote an environment which
26 enhances opportunities for regulatory efficiency and, furthermore, that it is
27 incumbent on parties to strive to maximize these opportunities on behalf of
28 their clients/stakeholders." (at page 18)
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¹ See, for example, the commentary of the Board relating to this matter in Order No. P.U. 43 (2009), page 29, line 4 *et. seq.*

² See, for example, the commentary of the Board on the regulatory efficiencies arising from the negotiated settlement of Hydro's 2006 general rate application in Order No. P.U. 8 (2007). At page 17, the Board observed that total regulatory savings as a result of the settlement were not available and specifically referred to reduced RFIs and hearing days as measures of the extent of regulatory efficiencies achieved.

1 ***Newfoundland Power's Recent GRAs***

2 Table 2 summarizes data related to Board and 3rd party costs of Newfoundland Power
3 GRAs since 2002.
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Table 2
Newfoundland Power
GRA Cost Data
2002-2013

Test Period	2002/2003	2008	2010	2013/2014
Months to Board Order	8.3	7.3	6.9	7.1
Board & 3 rd Party Costs	\$1.2 million	\$1.25 million	\$750,000	\$1.25 million

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8 Since 2002, it has taken, on average, just under 7½ months from the date of filing for the
9 Board to issue an order on a Newfoundland Power GRA. For the 4 GRAs since 2002,
10 this has resulted in stable Board and 3rd party costs associated with Newfoundland Power
11 GRAs.³
12

13 Newfoundland Power does not record the internal embedded costs of preparation,
14 management and hearing of a GRA separate from other regulatory and ratemaking
15 processes. GRA costs are considered part of the routine of a regulated business.
16 However, the internal costs associated with a GRA are surely material.⁴
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18 ***Hydro's Amended GRA***

19 Proceedings in relation to Hydro's currently outstanding amended GRA commenced in
20 July, 2013. These proceedings are clearly extraordinary from the perspective of the
21 length of regulatory process.⁵

³ For the 2010 Newfoundland Power GRA, Board and 3rd party costs were relatively lower, largely due to the relatively short interval between the 2010 GRA and the previous 2008 GRA.

⁴ A typical GRA takes more than a year to complete. This includes 3-6 months of preparation before filing and 7-9 months to Board order. There is typically additional time for customer rate implementation following Board order on the GRA. The number of people engaged in a Newfoundland Power GRA is significant and includes the Company's CEO, CFO and Chief of Operations all of whom appear as witnesses. While the majority of internal costs will not be incremental, the financial cost of a GRA will be significant because the scope of participation is significant. In addition, GRAs present something of a disruption to routine operations. This provides additional incentive for improved regulatory efficiency.

⁵ They are extraordinary by comparison to both prior Newfoundland Power GRAs and prior Hydro GRAs. Hydro's GRAs that resulted in Order Nos. P.U. 7 (2002-2003), P.U. 14 (2004) and P.U. 8 (2007) took, on average, just over 10½ months from filing to Board order.

1 The original Hydro GRA filed in July, 2013, was scheduled for public hearing
2 commencing February 11, 2014.⁶ The current schedule for Hydro's amended GRA
3 provides for public hearing commencing September 9, 2015. This is almost 19 months
4 later than the original public hearing date.

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6 The original Hydro GRA filed in July, 2013, indicated GRA and Board costs of \$1.8
7 million.⁷ Currently, Hydro's GRA and Board costs appear to have increased to \$7
8 million.⁸ Such a significant increase appears consistent with the notion that increased
9 length of regulatory proceedings increases the cost to the utility managing those
10 proceedings.

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12 These increased costs do not appear to include a forecast of *all* of the costs related to the
13 extended proceedings associated with Hydro's outstanding GRA.⁹ For example, the
14 Board has already ordered recovery of over \$300,000 in intervenor costs for Hydro's
15 industrial customers and the Innu Nation.¹⁰ They do not appear to include participant
16 costs of other intervenors. They do not include any Newfoundland Power costs.

17
18 ***Conclusion***

19 Longer GRAs result in increased overall regulatory costs. The Board has recognized the
20 costs of GRAs are generally borne by customers.

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22 The experience thus far relating to Hydro's amended GRA clearly indicates that the
23 increased costs of extended regulatory proceedings can be significant.

⁶ See Order No. P.U. 28 (2013).

⁷ See Hydro's Original GRA, Volume I, Section 2: Regulated Activities, Table 2.7, page 2.25. These costs appear to include Hydro's external consultancy costs related to their GRA (Refer to the response to Request for Information NP-NLH-322).

⁸ See Amended GRA, Volume I, Section 2: Regulated Activities, Table 2.7, page 2.39 which indicates GRA and Board costs of \$1.2 million in 2013, \$3.5 million in 2014 and \$2.3 million in 2015.

⁹ See Hydro's Amended GRA, Volume I, Section 3: Finance, page 3.22, line 8 *et. seq.*, where it is indicated that an estimate of \$1 million in external regulatory costs is forecast in respect of the amended GRA is expected to be updated prior to the conclusion of the GRA.

¹⁰ See Order Nos. P.U. 1 (2014), P.U. 30 (2014), P.U. 31 (2014), P.U. 54 (2014), P.U. 1 (2015) and P.U. 7 (2015).