

1 **Q. Please explain why the Board should allow deferred recovery without a full testing**  
 2 **of Newfoundland Power's 2016 costs and before the filing of a general rate**  
 3 **application. Provide examples of when the Board has allowed for deferred recovery**  
 4 **without full testing of forecast costs.**

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 6 **A. A. The Issue of Tested Costs**

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 8 ***What's Tested and What's Not***

9 If the Board approves the 2016 deferred cost recovery of \$4 million for Newfoundland  
 10 Power as proposed in the Application, Newfoundland Power's 2016 customer rates will  
 11 continue to reflect the tested values approved by the Board in Newfoundland Power's last  
 12 general rate application ("GRA"). This is shown in Exhibit 5 to the evidence filed in  
 13 support of the Application.

14  
 15 The 2016 deferred cost recovery proposed in the Application represents the additional  
 16 cost for Newfoundland Power to finance the increased 2016 rate base resulting from 2016  
 17 capital expenditures required to provide service to customers. This is the *only* additional  
 18 cost that is proposed to be recovered from customers in 2016 which will not have been  
 19 specifically approved by the Board following Newfoundland Power's last GRA.

20  
 21 In the Application, the amount of this *additional* cost is calculated in a manner consistent  
 22 with the Board's existing practice for the annual regulation of Newfoundland Power's  
 23 forecast returns on rate base for years that are not test years.

24  
 25 ***Regulatory Practice***

26 The Board has allowed for deferred cost recovery for Newfoundland Power without full  
 27 testing of forecast costs on a number of occasions.<sup>1</sup> In doing so, the Board used a variety  
 28 of means to assess and determine the appropriateness of cost deferrals in advance of  
 29 approving them.

30  
 31 These have included use of values that have been tested in the previous test year.<sup>2</sup> The  
 32 Board has effectively tested the appropriateness of cost deferrals in standalone deferred  
 33 cost recovery applications.<sup>3</sup> Capital budget applications have provided the Board with a  
 34 reasonable basis for establishing the value of an item for deferred cost recovery.<sup>4</sup> Finally,

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<sup>1</sup> A full consideration of the practice of the Board over the past 10 years concerning deferred cost recovery for Newfoundland Power can be found in the response to Request for Information PUB-NP-001.

<sup>2</sup> See Order Nos. P.U. 40 (2005), P.U. 39 (2006), P.U. 30 (2010) and P.U. 22 (2011), where the deferred cost recoveries were justified on the basis of the expiration of depreciation and other amortizations which were approved in a prior GRA.

<sup>3</sup> In Order No. P.U. 40 (2005), the Board determined the appropriate amount of a deferred revenue accrual, in part, by assessing the reasonableness of a tax settlement entered into by Newfoundland Power and the Canada Revenue Agency after the prior test year.

<sup>4</sup> In Order No. P.U. 39 (2006), the additional replacement energy costs relating to the 2007 refurbishment of Newfoundland Power's Rattling Brook hydroelectric plant were considered by the Board as part of the Company's 2007 capital budget application.

1 the Board has used applicant and intervenor agreement as a basis for determining the  
2 appropriateness of deferred cost recovery.<sup>5</sup>  
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#### 4 ***Calculating the Additional Cost***

5 Since 1998, the Board has determined a just and reasonable return on rate base for  
6 Newfoundland Power on an annual basis. For most years that were not test years, the  
7 Board determined a just and reasonable return on rate base for the Company based upon  
8 the operation of the automatic adjustment formula (the “Formula”).<sup>6</sup> Historically, this  
9 has included the use of forecast values for invested capital and rate base.<sup>7</sup>  
10

11 Following suspension of the Formula in 2012, the Board considered both Newfoundland  
12 Power’s forecast rate base and returns to determine a just and reasonable return on rate  
13 base for 2015.<sup>8</sup> The computation of the Company’s forecast 2016 return on rate base is  
14 consistent with the approach used for 2015. The use of estimates of rate base to  
15 determine a just and reasonable return on rate base is expressly permitted by Section  
16 80(4) of the *Public Utilities Act* (the “Act”).<sup>9</sup>  
17

18 This additional 2016 cost is calculated in a manner consistent with existing practice for  
19 regulating Newfoundland Power’s annual returns. So, it should provide the Board with a  
20 high degree of confidence that the amount of recovery is appropriate in the  
21 circumstances.  
22  
23

#### 24 **B. Why the Deferred Cost Recovery Should be Approved**

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26 The Board should approve the 2016 deferred cost recovery of \$4 million for  
27 Newfoundland Power because it is reasonable and appropriate in the current  
28 circumstances, particularly in light of Newfoundland and Labrador Hydro’s (“Hydro”)  
29 outstanding GRA.<sup>10</sup>  
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31 The 2016 deferred cost recovery proposed in the Application is consistent with (i)  
32 prospective ratemaking<sup>11</sup>; (ii) the principle of intergenerational equity as applied by the

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<sup>5</sup> Board approval of the deferred cost recovery to improve Newfoundland Power’s 2012 return in Order No. P.U. 17 (2012) was the subject of a settlement agreement between Newfoundland Power and the Consumer Advocate.

<sup>6</sup> See Order Nos. P.U. 20 (1999-2000), P.U. 30 (2000-2001), P.U. 28 (2001-2002), P.U. 50 (2004), P.U. 3 (2006), P.U. 40 (2006), P.U. 35 (2008) and P.U. 32 (2010).

<sup>7</sup> See Order Nos. P.U. 20 (1999-2000), P.U. 30 (2000-2001), P.U. 28 (2001-2002), P.U. 50 (2004), P.U. 3 (2006) and P.U. 40 (2006).

<sup>8</sup> See Order No. P.U. 51 (2014).

<sup>9</sup> Section 80(4) of the *Act* states: “The board may use estimates of the rate base and the revenues and expenses of a public utility”.

<sup>10</sup> Refer to the response to Request for Information PUB-NP-001, pages 4-6.

<sup>11</sup> Refer to the response to Request for Information PUB-NP-006, pages 2-3.

- 1 Board<sup>12</sup>; (iii) reduced overall regulatory lag and delayed cost recovery<sup>13</sup>; (iv) overall  
2 regulatory cost efficiency<sup>14</sup>; and (v) past regulatory practice.<sup>15</sup>

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<sup>12</sup> Refer to the response to Request for Information PUB-NP-006, pages 3-4.

<sup>13</sup> Refer to the response to Request for Information PUB-NP-003, pages 1-2.

<sup>14</sup> Refer to the responses to Request for Information PUB-NP-002, pages 2-4 and PUB-NP-003, page 2.

<sup>15</sup> Refer to the response to Request for Information PUB-NP-001, pages 1-4.