

1 **Q. Without proper testing how can the Board determine that the amount of the**
2 **proposed deferral and recovery is "reasonable and prudent" as required by s.80 of**
3 **the Public Utilities Act?**
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5 A. The Board has determined the amount of deferred cost recoveries for Newfoundland
6 Power in the past without full testing of all forecast utility costs on a number of
7 occasions.
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9 The circumstances associated with the approval of these prior applications for deferred
10 cost recovery (the "prior applications") are fully described in the response to Request for
11 Information PUB-NP-001. In each of the prior applications, the Board was satisfied of
12 the appropriateness of the deferred cost recovery without a general rate application which
13 tested all Newfoundland Power costs. Put another way, the Board concluded that the
14 proposed deferred cost recovery in the prior applications was reasonable and prudent in
15 the circumstances.
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17 The 2016 deferred cost recovery proposed in the Application is calculated in a manner
18 consistent with the Board's regulation of Newfoundland Power's annual returns. The
19 Board's regulation of Newfoundland Power's annual returns meets the requirement found
20 in Section 80(1) of the *Public Utilities Act* which provides "A public utility is entitled to
21 earn annually a just and reasonable return...". Because the 2016 deferred cost recovery
22 proposed in the Application is calculated in a manner consistent with the Board's annual
23 regulation of Newfoundland Power's annual returns, it also is consistent with the
24 requirement found in Section 80(1) of the *Public Utilities Act*.
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26 The additional costs for which deferred cost recovery is proposed in the Application
27 represent the cost to finance the increased 2016 rate base resulting from capital
28 expenditures required to provide service to customers. These 2016 capital expenditures
29 can only be made following the Board's approval under Section 41 of the *Public Utilities*
30 *Act*. The Board's capital budget process provides confidence that expenditures approved
31 are reasonable and prudent. Use of estimated capital expenditures for this purpose is
32 expressly permitted by Section 80(4) of the *Public Utilities Act*.
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34 For further information on the issue of tested costs, refer to the response to Request for
35 Information PUB-NP-007.