DELIVERED BY HAND

April 29, 2016

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Ladies and Gentlemen:

Re: 2016/2017 General Rate Application

Please find enclosed the original and 12 copies of Newfoundland Power's Reply Submissions.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,

Gerard M. Hayes
Senior Counsel

Enclosures

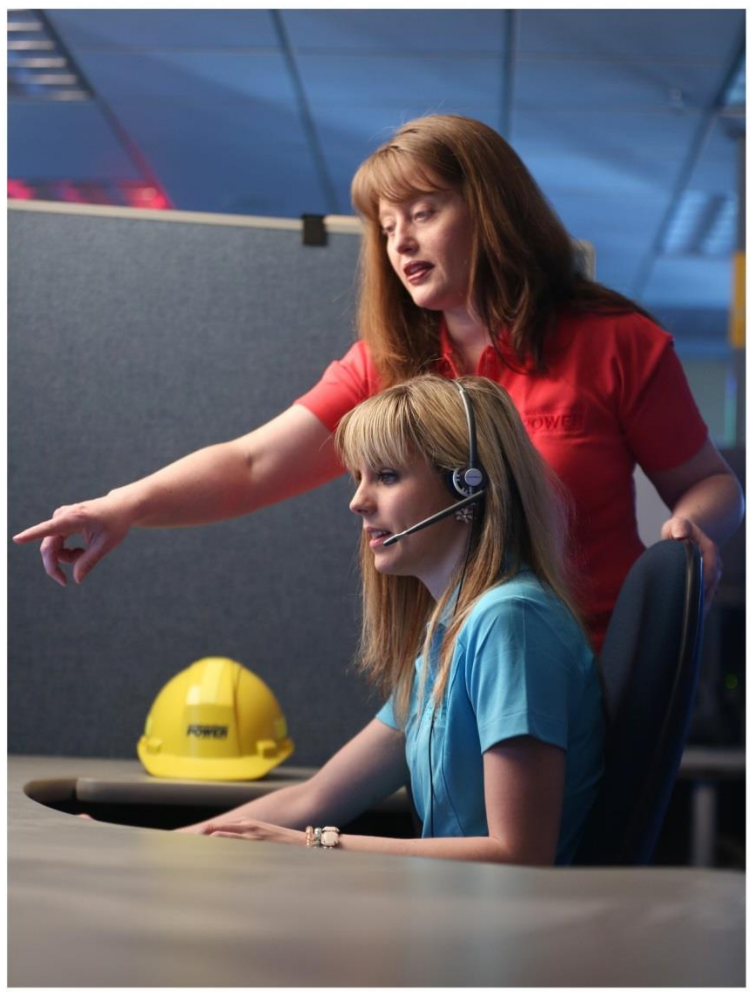
c. Geoffrey Young
Newfoundland and Labrador Hydro

Thomas Johnson, Q.C.
Consumer Advocate

Newfoundland Power Inc.
55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6
PHONE (709) 737-5609 • FAX (709) 737-2974 • ghayes@newfoundlandpower.com

2016/2017 General Rate Application

April 29, 2016
Reply Submissions



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A. ORGANIZATION OF REPLY SUBMISSIONS

The Consumer Advocate's Final Written Submissions in Newfoundland Power's 2016/2017 General Rate Application (the "Consumer Advocate's Final Submissions") were filed with the Board on April 26th, 2016. The Consumer Advocate's Final Submissions included (i) an assessment of the expert witnesses, (ii) submissions on return on equity and capital structure, (iii) submissions on executive compensation and (iv) submissions on conservation and demand management.

This Reply Submission addresses each of the 4 matters in the order itemized above.

Many of the submissions contained in the Consumer Advocate's Final Submissions are not supported by evidence. Other submissions mischaracterize the evidence of Newfoundland Power's witnesses and expert witnesses. While this Reply Submission specifically addresses some prominent instances of unsupported submissions and mischaracterizations of evidence, it is not practical to address them all.

Newfoundland Power's failure to specifically address submissions of the Consumer Advocate which are unsupported by evidence on the record of this proceeding should not be construed by the Board as the Company's acceptance of, or agreement with, such submissions.

The Board is required to make its determinations on the basis of evidence and to apply tests which are consistent with generally accepted sound public utility practice in accordance with Section 4 of the *Electrical Power Control Act, 1994*. To the extent that the Consumer Advocate's Final Submissions are not based on evidence and/or are inconsistent with Section 4 of the *Electrical Power Control Act, 1994*, the Board should give those submissions little weight in its considerations.

The terms used in the Company's Reply Submissions are consistent with the Defined Terms outlined in Section 1 of Newfoundland Power's Final Submissions.

B. THE EXPERT WITNESSES

In his assessment of the expert witnesses, the Consumer Advocate's Final Submissions highlighted the academic qualifications of his cost of capital witnesses, Drs. Booth and Cleary. The Consumer Advocate contrasted this academic experience with the experience of Newfoundland Power's expert witness, Mr. Coyne. The Consumer Advocate submitted that Mr. Coyne "does not have the academic training and credentials possessed by Dr. Booth and Dr. Cleary" and that he "has not carried out research for, or contributed to, any peer reviewed academic journals in any area."

Dr. Booth's experience, based on his CV, is predominantly academic. Although Dr. Cleary has brief experience as a commercial lender for RBC, his experience is also largely academic. Dr. Cleary also indicated that he does not have a background in the operations or regulation of utilities.

The Consumer Advocate briefly noted Mr. Coyne's academic credentials and highlighted the fact that he commenced testifying in cost of capital matters in 2008. It was the Consumer Advocate's submission that, due to "the credential gap", where there are differences to be resolved between the experts, Dr. Booth's evidence is more deserving of weight.

Reference: *Consumer Advocate's Final Submissions, page 3, lines 1-16.*

The Consumer Advocate's assessment of a "credential gap" is not based upon the evidence before the Board. In particular, it ignores Mr. Coyne's professional experience in the energy and utility sectors extending over a period in excess of 30 years. This work has included the study of energy and capital markets and work with a broad array of clients in Canada and the United States on matters of rate regulatory policy, cost of capital, finance, transactions and planning. Mr. Coyne's understanding of utility operations and regulation provides insights into cost of capital matters that neither Dr. Booth's nor Dr. Cleary's experience permits.

One of the many examples of Mr. Coyne's understanding of the North American utility landscape on the record before the Board can be found in the following exchange between the Consumer Advocate and Mr. Coyne regarding the comparability of U.S. utilities to Newfoundland Power for the purpose of estimating cost of capital:

> "Q. I see. Well, what if the thought, boy, you know, there's a lot of these companies, and we'll get into this, they have heavy duty generation, some of whom have nuclear for instance. You know, that's a pretty big distinction between Newfoundland Power and a small hydro plant in Petty Harbour. So if they said, you know, this is one of the things where we don't think that these companies really look like Newfoundland Power, would that be the type of things that would invite an adjustment in your view?
>
> A. No. They're all in the electric distribution business. Every company in my sample has been carefully screened for being a predominant electric utility provider. Some of them have diversified assets, including generation; others are pure T & D companies. I've also looked at a sample of pure T & D companies in my analysis as well, and I would find no reason to distinguish that. It is important –
>
> Q. Just excuse me for –
>
> A. It's an important question, so I'd like to complete the answer if I could. What's important for a regulated electric utility is to understand; (a) the business it's in, and then (b) what provisions it has in its regulatory treatment that allows it to manage the cost and the risk associated with that business. So that's how I would have dealt with it. Those are very

large integrated utilities, there are sub-business aspects that are different than Newfoundland Power, and we will not find a utility that's exactly like Newfoundland Power in Canada or the US, but they're carefully screened for ones that are low risk predominantly electric utility providers that have credit ratings that are comparable or better than that of Newfoundland Power, to ensure that I have a sample that's reasonable for these purposes. That's about as good as it gets when it comes to cost of capital work."

Reference: *Mr. Coyne Transcript, April 4th, 2016, page 62, line 13 to page 64, line 13.*

Mr. Coyne also showed a full understanding of the methodologies used by regulators for the purposes of estimating utilities' cost of capital and an appreciation of the difficulties the application of these methodologies presented to regulators:

"I think CAPM is a very useful tool, and I think in all jurisdictions where I present cost of capital analysis with the exception of FERC, I present CAPM along with DCF. The problem that we're running into with CAPM is it has three inputs, and as we've seen just by the questioning over the past three days, those inputs could be subject to considerable controversy and differences of opinion between experts. And that's one issue. And the second issue is that with capital market conditions the way they are, it's affected the risk free rate significantly. I think Dr. Booth and I would certainly agree to that. And as a result of that, you end up overlaying a lot of judgment one way or the other with a CAPM low (phonetic). Even Dr. Booth does this with his analysis in order to get reasonable results. And what I dislike about that is that whenever you're using judgment as opposed to capital market information, you can get wide differences of opinion regarding those judgments. And I don't think that's the best position to put a regulatory body in, is to have to determine the judgment of expert A versus expert B when they can rely on something that I consider more objective, and I think many regulators do, and that is the more direct market information you get in order to use the DCF model. So that's why I prefer it, especially in current capital market conditions."

Reference: *Mr. Coyne Transcript, April 7th, 2016, page 14, line 2 to page 15, line 11.*

C. RETURN ON EQUITY METHODOLOGIES

C.1 Dr. Booth's Recommendation vs. Mr. Coyne's Recommendation

The Consumer Advocate states that Mr. Coyne and Dr. Booth used different approaches to estimate the fair return for Newfoundland Power. This is correct.

Newfoundland Power observes that the Board addressed a substantially similar submission from the Consumer Advocate relating to the overall approach to estimation of the fair return in Newfoundland Power's last general rate application. In addition, the submissions respecting details of various model inputs are substantially similar to those advanced by the Consumer Advocate in 2013.

Each model used to estimate a fair return has strengths and weaknesses. Even Drs. Booth and Cleary's own corporate finance text book acknowledges this fact. However, it appears clear from the evidence that Mr. Coyne's overall approach to the estimation of a fair return for Newfoundland Power is more consistent with (i) the Board's determinations in Order No. P.U. 13 (2013) and (ii) current sound public utility practice than the overall approach of Dr. Booth.

Dr. Booth's approach to estimating a fair return on equity for Newfoundland Power is to use a conditional CAPM-based equity risk premium approach which includes a series of subjective adjustments. In addition, Dr. Booth looks to a DCF analysis to inform his judgement.

Reference: *Newfoundland Power's Final Submissions, page C-39 to C-41.*

The difficulties in the application of risk premium models were clearly acknowledged by Dr. Booth. His evidence was:

> "We have never had a situation where we've had this massive amount of intervention in government bond markets around the world which I think has made the risk premium models suspect, simply because they may be the yields that exist in the market, but I do not think they're fair basis for setting a risk premium model."

Reference: *Dr. Booth Transcript, April 8th, 2016, page 42, lines 10-17.*

Dr. Booth's subjective adjustments which differed from those in 2012 effectively yield the same ROE recommendation as he made in 2012. The uncertainty associated with both Dr. Booth's judgement and his subsequent subjective adjustments was also acknowledged in his evidence:

> "I've used my judgement, but there's huge uncertainty surrounding that adjustment now that was even bigger than it was three years ago because the U.S. is now finished and we've got all these other things going on, but you're correct, I mean, the estimate is what it is, it's higher."

Reference: *Dr. Booth Transcript, April 8th, 2016, page 68, line 9 to page 69, line 2.*

By contrast, Mr. Coyne uses multiple CAPM and DCF based models, all of which are consistent with accepted regulatory practice, to support his fair return on equity recommendation. To the extent possible, Mr. Coyne used market based inputs, as opposed to subjective adjustments, in these models. He described his approach in evidence as follows:

"…I relied on three modeling approaches in three proxy groups for estimating the cost of equity for the company. I believe it's essential to use alternative models especially in the current market environment to estimate the cost of equity. I also believe it's essential to draw upon market based and transparent inputs to these models so they can be appropriately reviewed and critiqued both by regulators and by stakeholders. There is an element of professional judgement in selecting inputs and methods, but where possible, I've used market-based inputs or those from reliable third-party sources to minimize any potential for analyst bias in these estimates."

Reference: *Mr. Coyne Transcript, April 4th, 2016, page 21, line 15 to page 22, line 11.*

Mr. Coyne's approach appears consistent with the Board's conclusions regarding the estimation of ROE in current economic conditions:

"The Board concludes that given the current financial and economic conditions a simple application of the capital asset pricing model cannot be relied on to produce a fair return for Newfoundland Power. In the circumstances it is necessary to take a broader view and look to other available information in relation to fair return. The Board will continue to give primary weighting to the capital asset pricing model; however, it will also look to the other evidence in relation to the fair return for Newfoundland Power and in particular the results of other models."

Reference: *Order No. P.U. 13 (2013), page 20, lines 32-37.*

The approach adopted by Mr. Coyne and the Board's conclusions in Order No. P.U. 13 (2013) are both consistent with current sound public utility practice. This was addressed directly by Mr. Coyne in his evidence:

"It is generally well-accepted among cost of capital practitioners and regulatory commissions that multiple methods for estimating the fair rate of return provide the best basis upon which to make a fair determination. Specifically, the OEB when confronted with this issue in its Consultative Cost of Capital Process, said basically as much in the following:

> The Board agrees that the use of multiple tests to directly and indirectly estimate the ERP [equity risk premium] is a superior approach to informing its judgment than reliance on a single methodology. In particular, the Board is concerned that CAPM, as applied by Dr. Booth, does not adequately capture the inverse relationship between the ERP and the long Canada bond yield. As such, the Board does not accept the recommendation that it place overwhelming weight on a CAPM estimate in the determination of the initial ERP."

Reference: *Coyne Rebuttal Evidence, page 26, lines 8-20.*

The Consumer Advocate also submits that the Board should place no weight on the results of Mr. Coyne's DCF-based estimates, in part, because of the proxy group of comparable U.S. utilities selected. However, the DCF analysis relied upon by Dr. Booth to inform his judgement on a fair return uses the same U.S. proxy group as Mr. Coyne. The Consumer Advocate's submission stands in fairly stark contradiction to Dr. Booth's analysis.

Reference: *Dr. Booth Transcript, April 8th, 2016, page 84, line 8 to page 85, line 12; and Consumer Advocate's Final Submissions, page 5, lines 23-25 and page 21, line 5 to page 27, line 10.*

C.2 The Context for ROE Estimation

The evidence before the Board indicates financial market conditions are substantially similar to those existing at the time of Newfoundland Power's last general rate application. As Mr. Coyne observed:

> "…the bottom line is that Canadian and US utilities are paying about the same for the long-term debt, but both are paying slightly more than they did in 2012. We can directly observe these costs for debt, but there's no

> reason to—but there's no reason to believe that it's not also true for the cost of equity which all would agree bears more risk than debt does"

Dr. Booth's evidence was that the cost of equity in Canada is directionally higher today than at the time of Newfoundland Power's last general rate application.

Reference: *Mr. Coyne Transcript, April 4th, 2016, page 16, lines 5-13; and Dr. Booth Transcript, April 8th, 2016, page 70, lines 5-16.*

The evidence before the Board that the provincial economy is materially weaker than in 2012-2013 is also essentially un-contradicted. Developments with respect to the Muskrat Falls Project will also impact the Board's determination of changes in Newfoundland Power's business risk over the past few years.

Taken together, the evidence relating to financial market conditions and changes in the local circumstances of Newfoundland Power simply do not support a reduction in allowed ROE as Dr. Booth recommends. If anything, this evidence supports a higher ROE in 2016-2017 than that approved in Order No. P.U. 13 (2013).

D. CAPITAL STRUCTURE

D.1 Evidence Supporting a 45% Common Equity Ratio

The Consumer Advocate states that the fact that Newfoundland Power has had a deemed common equity ratio of 45% for the past 25 years does not mean that it enjoys a presumption of being reasonable and appropriate in this proceeding. The Consumer Advocate also submits that if this Board were to conclude that Newfoundland Power has comparable financial risk with other investor-owned utilities in Canada, the Board would need to identify evidence that supports this conclusion.

Reference: *Consumer Advocate's Final Submissions, page 27, lines 27-32; and page 31, lines 14-19.*

The evidence is compelling that Newfoundland Power's common equity ratio remains appropriate under current conditions.

From the perspective of the Company's creditworthiness, the evidence is that the Company's 45% equity ratio is a cornerstone of the Company's financial integrity.

Reference: *Ms. Perry Transcript, March 29th, 2016, page 33, line 8 to page 35, line 4; and Company Evidence (1st Revision), Exhibit 4 (1st Revision).*

The evidence is also clear that Newfoundland Power's allowed ROE of 8.80% and regulated capital structure of 45% common equity is assessed independently by credit rating agencies as being comparable to its peers across Canada.

Reference: *Company Evidence (1st Revision), Exhibit 4 (1st Revision), DBRS Rating Report for Newfoundland Power Inc., August 21st, 2015.*

Finally, the comprehensive analyses, from multiple perspectives, performed by Mr. Coyne indicate that the longstanding 45% equity ratio continues to be appropriate. He summarized the results of these analyses as follows:

> "So the Board has determined over the past 20 years that the existing capital structure was reasonable given the company's unique characteristics and operating circumstances. My assessment is that remains so today. I base this conclusion on analysis of the company's risk from three different perspectives as described in Appendix A of my October report, the Risk Appendix. Those perspectives again are threefold. One is a comparison of the company's risk today versus the last GRA filing in September 2012; secondly, a comparison of Newfoundland Power to other investor-owned utilities in Canada; and then thirdly, a comparison to a group of comparable electric utilities in the US."

Reference: *Mr. Coyne Transcript, April 4th, 2016, page 16, line 18 to page 18, line 10.*

Dr. Cleary's recommendation of a 40% common ratio for Newfoundland Power is substantially based on a quantitative analysis of the Company's EBIT volatility. The evidence before the Board is Dr. Cleary's quantitative analysis is not consistent with generally accepted sound public utility practice as required under Section 4 of the *Electrical Power Control Act, 1994*.

Reference: *Dr. Cleary Transcript, April 11th, 2016, page 138, line 22 to page 139, line 12; and NP-CA-014.*

D.2 Dr. Cleary's Quantitative Conundrum

Dr. Cleary's risk assessment was primarily focused on a quantitative analysis of Newfoundland Power's financial data, including its credit metrics. Dr. Cleary appeared to be unable to understand his credit metric calculations compared to those of Newfoundland Power.

Reference: *Dr. Cleary Transcript, April 11th, 2016, page 45, line 6 to page 52, line 11.*

Following the hearing of Newfoundland Power's 2016/2017 General Rate Application, the Company provided a detailed response to a specific Consumer Advocate request for additional clarification of the calculation of credit metrics.

Reference: *Newfoundland Power Letter of April 18th, 2016.*

Upon receiving the Company's response, Dr. Cleary was ultimately unable to reconcile certain details with respect to the calculation of the Company's credit metrics. He submitted that this demonstrates a clear need for transparency and recommended that the Board's financial consultants perform further review of the data Newfoundland Power provides to external parties for calculation of ratios, as well as the ratios it provides to the Board.

Reference: *Consumer Advocate's Final Submissions, page 42, lines 4-14.*

The financial information used to calculate the Company's credit metrics is already reviewed extensively by external parties.

The Company's financial statements are audited annually by Ernst & Young, Chartered Professional Accountants. Grant Thornton completes annual financial reviews which reconcile Newfoundland Power's regulated and financial reporting requirements. Grant

Thornton also filed a report on Newfoundland Power's 2016/2017 General Rate Application which did not raise any material issues regarding the reasonable accuracy of the Company's financial data.

Reference: *Grant Thornton Report, page 2, lines 13-17; Supplemental Grant Thornton Report.*

Detailed discussions, calculations, and reconciliations related to the Company's credit metrics were also provided in the responses to Requests for Information CA-PUB-001 to CA-PUB-006.

Reference: *CA-PUB-001; CA-PUB-002; CA-PUB-003; CA-PUB-004; CA-PUB-005; and CA-PUB-006.*

Based on the amount of information before the Board, and the degree of external party review which has taken place, the Company submits that no further review, as suggested by the Consumer Advocate, is warranted in the circumstances.

D.3 First Mortgage Bonds Earnings Test

In Undertaking U-7, Newfoundland Power provided a *pro forma* Earnings Test Interest Coverage calculation for *2017* based on an 8.30% return on equity and 40% equity capital structure.

Reference: *Undertaking U-7.*

The Consumer Advocate's Final Submissions indicated the interest rate assumption of 5.50% used to calculate the "Annual Bond Interest After New Issue" is inconsistent with Exhibit 5 of the Company's evidence, which states an interest rate assumption of 5.00% for 2016 forecast.

Reference: *Consumer Advocate's Final Submissions, page 40, line 32 to page 41, line 7.*

The Consumer Advocate is mistaken. The 5.00% interest rate provided in Exhibit 5, and as testified to by Ms. Perry, is based on a 2016 forecast bond issue. The 5.50% interest rate used to calculate the Annual Bond Interest After New Issue, is based on a 2017 forecast bond issue.

Reference: *Company Evidence (1st Revision), Exhibit 5 (1st Revision), page 9 of 9, lines 20–22; and Ms. Perry Transcript, March 30th, 2016, page 44, line 17 to page 46, line 10.*

The 2017 forecast bond interest rate assumption of 5.50% is consistent with the evidence, including the evidence of the Consumer Advocate's expert, Dr. Booth. Dr. Booth's evidence was that the 30-year long-term Canadian bond yield is forecast to be 3.35% by the end of 2017. The Company's evidence shows that the Company's issue spread (the amount over the 30-year Canada bond yield reflected in the First Mortgage Bond issue coupon rate) for its latest bond issue was 2.15%. This evidence therefore clearly supports a 5.50% (3.35% + 2.15% = 5.50%) interest rate assumption for 2017 as reasonable.

Reference: *Dr. Booth Transcript, April 8th, 2016, page 4, line 22 to page 6, line 12; and Company Evidence (1st Revision), page 4-34, Table 4-14.*

E. EXECUTIVE COMPENSATION

E.1 General

The Consumer Advocate's Final Submissions raise 4 issues regarding the amount of executive compensation included in Newfoundland Power's test year revenue requirement. Those issues are (i) the comparator group used to set the level of compensation, (ii) changes in short-term incentive ("STI") compensation since the last general rate application, (iii) the weighting given to "earnings" in Newfoundland Power's STI compensation and (iv) the inclusion of "regulatory performance" as a discretionary factor in Newfoundland Power's STI compensation.

E.2 Comparator Group

The Consumer Advocate submits that Newfoundland Power's use of the broad Canadian Industrial comparator group is not supported by analysis.

Reference: *Consumer Advocate's Final Submissions, page 46, line 20 to page 48, line 9.*

The expert evidence of Mr. Karl Aboud, Senior Principal of Korn Ferry Hay Group Canada's Reward Consulting Practice, is that Newfoundland Power's use of the broad Canadian Commercial Industrial marketplace as its comparator group is reasonable. In his testimony, Mr. Aboud states:

> "Because your perspective market for talent is beyond just utilities, you, for executives, you should go up to a broad market of companies, and that's what we've done. And these companies are across Canada because you shouldn't be restricted to looking for talent just of a region for executive jobs. So what we've done here is consistent with what we would do for

> any large, sophisticated company at the executive level, look as broad a market as you could and should for executive talent and price to that market, and that's why this is a broad market."

Reference: *Mr. Aboud Transcript, April 1st, 2016, page 26, lines 10-23.*

The Consumer Advocate submits that executive compensation should be adjusted based on "the level paid for comparable positions in Atlantic Canada." The Consumer Advocate proposes that salaries and incentives tied to base salary be reduced based on a 2012 Hay Group comparison of the Commercial Industrial market and the Atlantic Canada Industrial market.

Reference: *Consumer Advocate's Final Submissions, page 48, line 11 to page 49, line 26.*

The Consumer Advocate presented no evidence in support of the use of the Atlantic Canada Industrial market as a reasonable comparator for setting Newfoundland Power's executive compensation policies.

E.3 STI Changes

The Consumer Advocate submits that the inclusion in test year revenue requirement of amounts related to changes in the target STI payout to Newfoundland Power executives since the last general rate application is not reasonable "for the current economic situation."

Reference: *Consumer Advocate's Final Submissions, page 50, lines 7-14.*

The Consumer Advocate presented no evidence in support of this submission.

E.4 STI Related to Earnings and Regulatory Performance

The Consumer Advocate submits that the portion of STI related to earnings should be excluded from the Company's test year revenue requirements because "the ratepayer's best interests are at odds with the executive earnings incentive…"

The Consumer Advocate also submits that the STI components related to regulatory performance should be excluded from the revenue requirement because its inclusion is "more aligned with shareholders than with ratepayers."

Reference: *Consumer Advocate's Final Submissions, page 52, lines 28-32; and page 53, lines 31-32 and page 54, lines 4-7.*

Mr. Smith, Newfoundland Power's President & CEO, addressed these matters at the hearing:

> "I kind of go back to in terms of the last time we were before the Board, and the information you had up recently that we really believe that maintaining our financial integrity is good for our customers and good for the company, it's part of what allows us to maintain our bond rating, allows us to do the capital work we need to do to service our customers, and I frankly look at it the other way, if we weren't maintaining our financial integrity that the company would be worse off."

> "…introducing a regulatory STI component was important, in that our regulatory filings with the Board we take very serious, it's the cornerstone of what we do to service our customers, and so we thought it was appropriate to include that as a metric in our overall performance."

Reference: *Mr. Smith Transcript, March 30th, 2016, page 174, line 24 to page 175, line 11; and March 31st, 2016, page 54, lines 17-23.*

Similar submissions regarding STI exclusions have been rejected by the Board in the past because there was no evidence indicating the Company's practice was unreasonable.

Reference: *Order Nos. P.U. 36 (1998-99), P.U. 19 (2003) and P.U. 13 (2013).*

The evidence before the Board regarding the alignment of the management of Newfoundland Power with the customer interest is both clear and uncontested.

Newfoundland Power's costs are reasonable and consistent with the least cost management of the electrical system. The Company's overall operating efficiency is unchallenged. Newfoundland Power's electrical system reliability and responsiveness are significantly better than the Canadian averages. Finally, the Company remains reasonably responsive to customers' evolving service expectations.

Reference: *Newfoundland Power Final Submissions, B.2: Uncontested Matters, page B-1, et. seq.*

The evidence before the Board is also clear that the continuing financial integrity of Newfoundland Power is consistent with the least cost delivery of power to customers in the long-term. Sound financial and regulatory management are also consistent with maintenance of the Company's financial integrity.

Reference: *Company Evidence (1st Revision), page 4-2, lines 1-3; and page 4-17, line 22 to page 4-18, line 4.*

Given this un-contradicted evidence, no reasonable basis exists for the proposition in the Consumer Advocate's Final Submissions that any of the Company's STI targets are "at odds" with the ratepayer interest. In fact, the evidence indicates the contrary: that the Company is currently managed in a manner that ensures delivery of least-cost, reliable service to customers.

F. CONSERVATION AND DEMAND MANAGEMENT

F.1 Need for Targets

The Consumer Advocate's Final Submissions contend that Newfoundland Power should have corporate targets in place that specifically drive performance on achieving results in relation to conservation and demand management. The Consumer Advocate believes that targets for participation and demand energy savings should be set in conjunction with the Board on an annual basis, with the results published annually.

Reference: *Consumer Advocate's Final Submission, page 55, lines 3-11.*

Newfoundland Power's approach to conservation and demand targets has been consistent. Mr. Smith, Newfoundland Power's President & CEO, explains this approach as follows:

> "What I would say to that, Mr. Johnson is that our performance in the area of our CDM efforts remains strong. We're consistently beating our target and our efforts are very well recognized within the company."

Reference: *Mr. Smith Transcript, March 31st, 2016, page 62, lines 21-25.*

Mr. Smith further explained how the Company's approach to targets is reasonable:

> "Again because I believe that the impacts of it are picked up in the overall customer satisfaction score, for the same reason that, you know, answering the phone isn't a corporate target. These are things that we do to service our customers in a broad sense, and we believe it's picked up in the customer satisfaction score."

Reference: *Mr. Smith Transcript, March 31st, 2016, page 63, line 23 to page 64, line 5.*

Newfoundland Power is required to report annually to the Board on its conservation and demand management performance. No evidence was presented in the hearing that Newfoundland Power's performance in relation to conservation and demand management has not been reasonable.

Reference: *Order No. P.U. 7 (1996-97).*

F.2 Mini Split Heat Pumps

Background

Mr. Lorne Henderson, Newfoundland Power's Director, Revenue and Supply, provided evidence on the evaluation of conservation programs generally at the Company and the results of economic testing relating to mini split heat pumps ("MSHP"). On the evaluation of programs, his evidence was:

> "The cost effectiveness of a conservation program is evaluated using a number of industry standard tests. Two cost benefit tests used by most utilities are the total resource cost test and the program administrator cost test. The settlement agreement reached in this GRA recommends that the total resource cost test and the program administrator cost test be used by Newfoundland Power to assess the economics of conservation programs. A program will only be considered for implementation when it passes both of these tests. This ensures the company's customer energy conservation program achieves cost effective energy savings consistent with the least cost provision of electric service."

Reference: *Mr. Henderson Transcript, April 12th, 2016, page 39, line 8 to page 40, line 4.*

Mr. Henderson's evidence concerning the results of economic testing on MSHPs and the Company's plans for providing customer support was:

"Mini-splits do not currently meet the requirement of utility economic testing. That means from a system perspective, the cost of mini-splits could not be recovered from the system savings. Nevertheless Newfoundland Power recognizes that customer demand for mini-splits will increase as customer rates increase. To support customer needs, the company's five year conservation plan includes a program to address customer education and installer capacity. We will also provide on bill financing for mini-split installation. Our program is similar to other utilities mini-split programs except it does not include any rebates."

Reference: *Mr. Henderson Transcript, April 12th, 2016, page 48, line 18 to page 49, line 12.*

Educational Initiative

The Consumer Advocate states that it is difficult to conceive that spending only $100,000 per year on the MSHP educational initiative will be sufficient to educate and guide consumer choices in a timely fashion. The Consumer Advocate states the amount of spending should reflect the amount of risk involved with customers choosing inefficient technology and installation procedures for the island's future energy consumption and demand, but does not specify an amount.

Reference: *Consumer Advocate's Final Submission, page 56, line 32 to page 57, line 2.*

Between 2016 and 2020, the Company plans to spend approximately $529,000 on the MSHP educational initiative. The program will be monitored and continually reviewed to ensure it is promoting MSHP in a manner that will provide customers the highest achievable energy savings at a reasonable cost.

Reference: *Company Evidence (1st Revision), Exhibits and Supporting Materials, Tab 1, Five-Year Energy Conservation Plan: 2016-2020, Schedule C, pages 12-13.*

The Consumer Advocate provided no evidence that Newfoundland Power's approach to educating customers on MSHP technology is not reasonable and provided no evidence in support of either an alternate approach or a higher expenditure on the MSHP educational initiative.

Reporting

The Consumer Advocate also submits that Newfoundland Power should be ordered to file an update to its MSHP Report incorporating data and findings in New Brunswick and Nova Scotia.

To stay current with MSHP technology, Newfoundland Power works with suppliers and installers, and participates in a working group that includes other Atlantic Canadian utilities and provincial governments.

Reference: *Mr. Henderson Transcript, April 12th, 2016, page 50, line 13 to page 51, line 11.*

Newfoundland Power will continue to report on developments with respect to MSHP in its annual conservation and demand management reports.

Consumer Advocate's Rebate Proposal

The Consumer Advocate further submits that Newfoundland Power should provide a rebate in support of MSHP educational initiatives.

It is Newfoundland Power's evidence that investment in MSHP programming is not economically justified. It has been agreed in the Settlement Agreement that a conservation and demand management program is required to pass both the Total Resource Cost test and the Program Administrators Cost test. Economic testing ensures the Company's customer energy conservation programs achieve cost effective energy savings consistent with the least cost provision of electric service. The MSHP technology did not pass the Total Resource Cost test, even using a favorable load factor assumption. For that reason, a MSHP rebate would not be a cost effective utility investment.

Reference: *Mr. Henderson Transcript, April 12th, 2016, page 39, line 8 to page 40, line 7, page 47, line 16 to page 49, line 12 and page 68, line 22 to page 71, line 9; and Settlement Agreement, Item 17.*

Mr. Henderson summarized Newfoundland Power's decision to not offer rebates on MSHPs at this time in the following terms:

> "Obviously this is a very important end use, electric heat is a big end use for us and making sure we're doing the right thing by customers is what I think the Public Utilities Board would expect, so we will continue to monitor it and do what we can to make sure the right things go and get installed, but to offer heat pumps—you know, discounts and all that sort of stuff is, might be a little bit too far to go, especially since it's not passing these tests."

Reference: *Mr. Henderson Transcript, April 12th, 2016, page 86, line 24 to page 87, line 10.*