

1 **Q. Further to CA-NP-182, Attachment B, p. 2 of 2, it states that one of the “Unique**  
2 **Accountabilities” of the role of Director Revenue and Supply is “Establishing rate**  
3 **structures to optimize revenue requirement, stability & competitive position vs.**  
4 **impact on customer costs.” Please explain how the Company’s rate structures**  
5 **achieve these goals.**

6  
7 A. Newfoundland Power has a set of criteria it uses in guiding its process for establishing  
8 appropriate rate structures. They suggest practicality, effectiveness in yielding a fair  
9 return, stability, efficiency, and fairness as being good rate attributes.<sup>1</sup> These criteria are  
10 often in conflict with each other thus requiring a balance of criteria when designing rates.

11  
12 All aspects of this process are guided by the Criteria for Sound Rate Structure described  
13 by James Bonbright in *Principles of Public Utility Rates* and summarized below:<sup>2</sup>

- 14  
15 • *Effectiveness* – rates should yield total revenue requirements under the fair-return  
16 standard.
- 17  
18 • *Practicality* – rates should be understandable, publicly acceptable and feasible in their  
19 application.
- 20  
21 • *Stability* – rates should ensure revenue stability for the utility and also stability in the  
22 charges to customers.
- 23  
24 • *Efficiency* – rates should discourage wasteful use of service and promote economic  
25 use of service.
- 26  
27 • *Fairness* – rates should be fair in apportioning the total cost of service among  
28 customer classes and avoid undue discrimination.

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30 By using the Criteria for Sound Rate Structure as the basis for rate design, Newfoundland  
31 Power is able to establish customer rates that are appropriate for customers and the  
32 Company.

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<sup>1</sup> The criteria used in the development of Newfoundland Power’s customer rates were reviewed in detail in the Retail Rate Review. This review was provided for as part of the settlement agreement reached in respect of Newfoundland Power’s 2008 *General Rate Application*. In Order No. P.U. 32 (2007), the Board observed that the proposed scope, objectives and processes will provide an open and transparent process to evaluate the designs of Newfoundland Power’s rates.

<sup>2</sup> Bonbright, *Principles of Public Utility Rates*, Columbia University Press, 1961, Chapter 16.