

1 **Q. Further to CA-NP-182, Attachment B, p. 2 of 2, it states that one of the “Unique**
2 **Accountabilities” of the Director Revenue and Supply is “Direction of the**
3 **Company’s short & long term pricing objectives.” What are the Company’s**
4 **current short and long term pricing objectives? When were these last changed and**
5 **describe the change(s) made at that time.**
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7 A. Newfoundland Power’s current and long-term pricing objective is to maintain customer
8 rates that are within planned revenue to cost ratios of 90% to 110% for each customer
9 class.¹ Maintaining revenue to cost ratios for each class within this range has been an
10 accepted approach to achieving fairness in rate design by avoiding undue cross-
11 subsidization among the various rate classes.² The Company’s pricing objective is also to
12 provide a price signal to customers that appropriately reflects marginal costs to the extent
13 possible.³
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15 Newfoundland Power’s current and long-term pricing objectives were reviewed in detail
16 in the Company’s Retail Rate Review.⁴ These pricing objectives are consistent with the
17 Criteria for Sound Rate Structure, described by James Bonbright in *Principles of Public*
18 *Utility Rates*.⁵

¹ See *Volume 1, Application & Company Evidence, Section 6: Customer Rates*, page 6-6, lines 1-10.

² This is consistent with the views of the Board as expressed in Order No. P.U. 7 (1996-97), which states: “The Board agrees with the philosophy that it is not necessary to achieve a 100% revenue to cost ratio for all classes and takes no exception to a variance of up to 10%....”

³ Marginal costs are used in rate design to promote the efficient use of electricity. In the Board’s 1992 Report on Cost of Service, page 7, the Board stated that “...efficiency in the consumption of electric energy is important and should be encouraged to the extent possible.”

⁴ The Retail Rate 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.

⁵ See the response to Request for Information CA-NP-325 for the Criteria for Sound Rate Structure.