

1 **Q. Page 4-31, lines 12-14: It is stated that severe weather conditions increase the**
2 **unpredictability of Newfoundland Power’s operating and capital costs and can**
3 **result in earnings volatility. Explain in detail how Newfoundland Power has**
4 **historically dealt with such costs associated with severe weather.**

5
6 A. Historically, Newfoundland Power has not budgeted for extraordinary costs associated
7 with severe weather events.¹

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9 When severe weather events occur and require repairs or other extraordinary operating
10 costs, the Company expends the necessary amounts to reinstate or secure service to
11 customers. Following the event, the Company reviews its operating budget for the
12 remainder of the year. To the extent reasonable, some remaining non-critical operating
13 expenses may be deferred to permit at least some of the extraordinary costs to be
14 accommodated within the existing operating budget. Accommodating at least some of
15 the severe weather related costs in the current year’s operating budget will reduce the
16 impact of the extraordinary costs on that year’s earnings.

17
18 The degree to which extraordinary costs can be accommodated in an existing operating
19 budget will depend, in part, on the time of the year the severe weather event occurred.
20 Operating costs associated with severe weather events later in the year will tend to have a
21 greater impact on earnings because most operating costs will have already been incurred
22 and so not be capable of consideration for deferral.

23
24 The Company’s annual capital budgets include the *Allowance for Unforeseen Items*
25 project. The purpose of the allowance is to permit the Company to act expeditiously to
26 respond to events affecting the electrical system in advance of seeking specific approval
27 of the Board.² This includes capital expenditures associated with the replacement of
28 facilities and equipment due to severe weather events.

¹ Please see the response to Request for Information CA-NP-233 in the *2010 General Rate Application* and the response to Request for Information CA-NP-413 in the *2013/2014 General Rate Application*.

² Approval by the Board for the use of the Unforeseen Allowance is sought in accordance with Section B Supplemental Capital Budget Expenditures of the *Capital Budget Application Guidelines*.