

HAND DELIVERED

August 26, 2011

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

Attention: Ms. Cheryl Blundon
Board Secretary

Ladies & Gentlemen:

Re: Sale of Joint Use Support Structures

By application dated February 4, 2011, Newfoundland Power requested that the Board approve, pursuant to Section 48 of the Act, the sale to Bell Aliant Regional Communications Inc. ("Bell Aliant") by Newfoundland Power of 40% of the Joint Use Support Structures (the "Pole Sale Application"). In Order No. P.U. 17 (2011), the Board denied the Pole Sale Application.

Enclosed please find the original and eight copies of Newfoundland Power's application, made pursuant to Section 28 of the *Board of Commissioners of Public Utilities Regulations, 1996* to reopen the Pole Sale Application.

The enclosed application seeks to re-open the Pole Sale Application to receive further evidence with respect to the proposed sale to Bell Aliant by Newfoundland Power of the Joint Use Support Structures. The enclosed application also seeks approval for the sale of the Joint Use Support Structures.

For convenience, we have provided the Application and Evidence on 3 hole punched paper.



Join us in the fight against cancer.

Board of Commissioners
Of Public Utilities
August 26, 2011
Page 2 of 2

We trust the foregoing and enclosed are found to be in order. However, if you have any questions, please feel free to contact us at your convenience.

Yours very truly,



Peter Alteen
Vice President, Regulation and Planning

Enclosures

c. Geoff Young
Newfoundland and Labrador Hydro

Tom Johnson
O'Dea, Earle



Join us in the fight against cancer.

IN THE MATTER OF the *Public Utilities Act*,
(the “Act”); and

IN THE MATTER OF an application by
Newfoundland Power Inc., (“Newfoundland
Power”) for an Order pursuant to Section 48 of
the Act, and all other enabling powers for
approval of the sale by Newfoundland Power to
Bell Aliant Regional Communications Inc. (“Bell
Aliant”) of certain utility poles, anchors and
related equipment (“Support Structures”); and

IN THE MATTER OF Order No. P.U.17 (2011)
and an application by Newfoundland Power
pursuant to Section 28 of the *Board of
Commissioners of Public Utilities Regulations,
1996* to re-open the application to receive further
evidence.

TO: The Board of Commissioners of Public Utilities (the “Board”)

THE APPLICATION OF Newfoundland Power SAYS THAT:

A. The Pole Sale Application

1. Newfoundland Power is a corporation duly organized and existing under the laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the Act, and is subject to the provisions of the *Electrical Power Control Act, 1994*.
2. Newfoundland Power engages in the generation, transmission and distribution of electricity on the island of Newfoundland. Newfoundland Power owns the Support Structures, and rights of way, easements and other interests in real property for Support Structures, in connection with the provision of electrical service to its customers.
3. Bell Aliant engages in the provision of telecommunication services in, amongst other places, the island of Newfoundland and, in connection with the provision of such services, shares the use (“Joint Use”) of certain of the Support Structures owned by Newfoundland Power (the “Joint Use Support Structures”).
4. In June 2010, Bell Aliant gave notice to Newfoundland Power of its intention not to renew the Joint Use Facilities Partnership Agreement (“JUFPA”), which had governed the Joint Use of Support Structures between the parties since 2001, upon its expiration on December 31, 2010. The attachment rental rate to be paid to Newfoundland Power by Bell Aliant for the initial 10-year period of the JUFPA was based upon 60% / 40% cost sharing between the parties. The JUFPA provided, in the event it was not renewed, that Bell Aliant would purchase from Newfoundland Power 40% of the Joint Use Support Structures.

5. In December 2010, Newfoundland Power and Bell Aliant executed (i) a Joint Use Support Structures Purchase Agreement (the "Purchase Agreement") pursuant to which Newfoundland Power agreed to sell, and Bell Aliant agreed to purchase, 40% of the Joint Use Support Structures for the price of \$45,698,000, subject to adjustments, effective January 1, 2011 and (ii) a Joint Use Agreement (the "2011 JUA") which provided the terms of continuing Joint Use of Support Structures, effective January 1, 2011, including 60% / 40% cost sharing between the parties.
6. By Application dated February 4, 2011, Newfoundland Power applied to the Board for approval of the sale to Bell Aliant by Newfoundland Power of 40% of the Joint Use Support Structures as provided for in the Purchase Agreement (the "Pole Sale Application").
7. By Order No. P.U.17 (2011), the Board declined to approve the sale of the Joint Use Support Structures to Bell Aliant as proposed in the Pole Sale Application. In Order No. P.U.17 (2011), the Board stated, in effect, that the burden of proof was to show on a balance of probabilities that the impact of the proposed sale favours customers or at least leaves them no worse off, having regard to all of the circumstances, and that this burden had not been met by Newfoundland Power in the Pole Sale Application.

B. Subsequent Events

8. Subsequent to Order No. P.U. 17 (2011), Newfoundland Power and Bell Aliant agreed:
 - (a) to extend the term of the 2011 JUA from 5 years to 10 years;
 - (b) to have Newfoundland Power provide pole installation and removal services for Bell Aliant through 2020; and
 - (c) to extend the terms of the Purchase Agreement until the earlier of the date of a further decision on this Application and October 31, 2011.
9. The renegotiated Joint Use arrangements described in paragraph 8 of this Application provide a material increase in the customer benefits as compared to the benefits indicated in Newfoundland Power's evidence in the Pole Sale Application.

C. Order Requested

10. Newfoundland Power requests that the Board re-open and/or rehear the Pole Sale Application pursuant to Regulation 28 of the *Board of Commissioners of Public Utilities Regulations, 1996*, as may be appropriate, for the Board to receive the further evidence filed with this Application with respect to the sale of 40% of the Joint Use Support Structures to Bell Aliant.
11. Newfoundland Power further requests that the Board make an Order pursuant to Section 48 of the Act, and all other enabling powers, as follows:

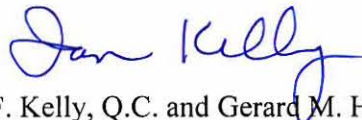
- (a) approving the sale to Bell Aliant by Newfoundland Power of the Joint Use Support Structures as provided for in the Purchase Agreement; and
- (b) such other matters as may appear just and reasonable upon the hearing of this Application.

D. Communications

- 12. Communication with respect to this Application should be forwarded to the attention of Ian F. Kelly, Q.C. and Gerard M. Hayes, Counsel to Newfoundland Power.

DATED at St. John's, Newfoundland this 26th day of August, 2011.

NEWFOUNDLAND POWER INC.



Ian F. Kelly, Q.C. and Gerard M. Hayes
Counsel to Newfoundland Power Inc.
P.O. Box 8910
55 Kenmount Road
St. John's, Newfoundland
A1B 3P6

Telephone: 737-5609
Telecopier: 737-2974

IN THE MATTER OF the *Public Utilities Act*,
(the “Act”); and

IN THE MATTER OF an application by
Newfoundland Power Inc., (“Newfoundland
Power”) for an Order pursuant to Section 48 of
the Act, and all other enabling powers for
approval of the sale by Newfoundland Power to
Bell Aliant Regional Communications Inc. (“Bell
Aliant”) of certain utility poles, anchors and
related equipment (“Support Structures”); and

IN THE MATTER OF Order No. P.U.17 (2011)
and an application by Newfoundland Power
pursuant to Section 28 of the *Board of
Commissioners of Public Utilities Regulations,
1996* to re-open the application to receive further
evidence.

AFFIDAVIT

I, Peter Alteen, of St. John’s in the Province of Newfoundland and Labrador, make oath and say
as follows:

1. That I am Vice President, Regulation and Planning, of Newfoundland Power Inc.
2. To the best of my knowledge, information and belief, all matters, facts and things set out
in this Application are true.

Sworn to before me at St. John’s
in the Province of Newfoundland and Labrador
this 16th day of August, 2011:



Sharon A. Stockley
A Commissioner for Oaths
In and for the Province of Newfoundland and Labrador
My commission expires on December 31, 2013



Peter Alteen

IN THE MATTER OF the *Public Utilities Act*,
(the “Act”); and

IN THE MATTER OF an application by
Newfoundland Power Inc., (“Newfoundland
Power”) for an Order pursuant to Section 48 of
the Act, and all other enabling powers for
approval of the sale by Newfoundland Power to
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pursuant to Section 28 of the *Board of
Commissioners of Public Utilities Regulations,
1996* to re-open the application to receive further
evidence.

**Additional Evidence of
Newfoundland Power Inc.**

August 26th, 2011

Additional Evidence of Newfoundland Power Inc.

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1 **1.0 INTRODUCTION**

2 **1.1 Background**

3 In 2001, Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) purchased all
4 the Joint Use Support Structures in its service territory which were owned by Bell Aliant (then,
5 Aliant Telecom). This purchase was approved by the Board in Order No. P.U. 17 (2001-2002).
6 Since 2001, Newfoundland Power has owned and maintained all of the Joint Use Support
7 Structures in its service territory.

8
9 In June 2010, Bell Aliant gave notice of its intention not to renew the existing Joint Use
10 arrangements with Newfoundland Power.¹ In December 2010, Newfoundland Power and Bell
11 Aliant executed (i) a Joint Use Support Structures Purchase Agreement (the “Purchase
12 Agreement”) pursuant to which Newfoundland Power has agreed to sell, and Bell Aliant has
13 agreed to purchase, 40% of the Joint Use Support Structures for the price of \$45,698,000, subject
14 to adjustments, effective January 1, 2011 and (ii) a Joint Use Agreement (the “2011 JUA”)
15 which provides the terms of continuing Joint Use of Support Structures, effective January 1,
16 2011, including 60% / 40% cost sharing between the parties.

17
18 Newfoundland Power applied to the Board by application dated February 4, 2011 for approval of
19 the sale to Bell Aliant by Newfoundland Power of 40% of the Joint Use Support Structures as
20 provided for in the Purchase Agreement and other related matters (the “Pole Sale Application”).
21 In Order No. P.U. 17 (2011), the Board denied the Pole Sale Application.

¹ The Joint Use Facilities Partnership Agreement (“JUFPA”) provided, in the event it was not renewed, that Bell Aliant would repurchase 40% of the Joint Use Support Structures at net book value as defined in the JUFPA. The JUFPA also provided, in the event it was not renewed, that Newfoundland Power and Bell Aliant would, in effect, negotiate a new Joint Use arrangement based upon historical practice, including the 60% / 40% sharing of costs of Joint Use Support Structures.

1 **1.2 Board Order**

2 In Order No. P.U. 17 (2011), the Board concluded that the benefits of Joint Use of Support
3 Structures are clear and the central issue to the Pole Sale Application related to the ownership of
4 the Joint Use Support Structures, whether sole ownership vs. joint ownership.²

5
6 The Board determined approval of the Pole Sale Application to renew joint ownership required
7 Newfoundland Power to show on a balance of probabilities that when the potential positive and
8 negative impacts of the transaction are weighed, the balance favours customers or at least leaves
9 them no worse off.³ The Board concluded that Newfoundland Power's evidence in the Pole Sale
10 Application did not meet the required burden of proof for approval of the Pole Sale Application.

11
12 The Board indicated that more compelling and substantive evidence would be required showing
13 clear benefits and protections for customers to justify the approval of the sale of the Joint Use
14 Support Structures. The Board specifically noted concerns that:

- 15 (i) the projected negative revenue requirement impacts for 2013 to 2018 will be reflected in
16 increased revenue requirement from Newfoundland Power's customers in the next
17 general rate application;⁴
- 18 (ii) the overall positive impacts demonstrated on revenue requirement were so limited that
19 changes to assumptions could significantly impact results;⁵
- 20 (iii) adequate evidence of customer protections had not been provided in the event that
21 circumstances were different than predicted;⁶ and

² Order No. P.U. 17 (2011), page 3, lines 20 to 24.

³ Order No. P.U. 17 (2011), page 9, lines 9 to 18.

⁴ Order No. P.U. 17 (2011), page 13, lines 15 to 24.

⁵ Order No. P.U. 17 (2011), page 13, lines 26 to 28.

⁶ Order No. P.U. 17 (2011), page 14, line 31 to page 15, line 25.

1 (iv) the 5-year term of the proposed Joint Use Agreement was short in the context of a sale of
2 the Joint Use Support Structures.⁷

3
4 In summary, the Board found the evidence filed in support of the Pole Sale Application to be
5 inadequate, especially when compared to the evidence provided in support of Newfoundland
6 Power's 2001 application to purchase the Joint Use Support Structures.⁸

8 **1.3 The Current Application**

9 Following Order No. P.U. 17 (2011), Newfoundland Power and Bell Aliant considered the
10 options available to them to permit an orderly transition to a new Joint Use regime.

11
12 In the Pole Sale Application, it was indicated that the Company would perform installation and
13 removal of Joint Use Support Structures on behalf of Bell Aliant for 2011 and 2012, and that
14 arrangements for such installations and removals for 2013 and beyond were under discussion.⁹
15 Newfoundland Power also indicated that the actual benefits for Newfoundland Power's
16 customers which will result from the new Joint Use regime could exceed those indicated in the
17 pre-filed evidence.¹⁰

18
19 Subsequent to Order No. P.U. 17 (2011), Newfoundland Power and Bell Aliant concluded
20 revised terms for installation and removal of the Joint Use Support Structures. Under the new

⁷ Order No. P.U. 17 (2011), page 15, lines 27 to 33.

⁸ Order No. P.U. 17 (2011), page 16, lines 4 to 20.

⁹ See Response to Request for Information PUB-NP-27. Newfoundland Power will also perform operating maintenance on behalf of Bell Aliant for 2011. The revenue resulting from the provision of maintenance services is reflected in the financial analysis filed with the Pole Sale Application as well as in the updated financial analysis filed with this Application.

¹⁰ See Response to Request for Information PUB-NP-35 which outlines a number of potential benefits which might be realized.

1 Joint Use regime, the installation and removal of Support Structures will now be performed by
2 Newfoundland Power on behalf of Bell Aliant for the period 2011 to 2020.

3
4 The analysis of the benefits supporting the Pole Sale Application assumed the provision of
5 installation and removal services for the Joint Use Support Structures would conclude at the end
6 of 2012. The extension of single party installation and removal of the Joint Use Support
7 Structures through 2020 *assures* material additional financial benefits to Newfoundland Power
8 and its customers under the new Joint Use regime.

9
10 Further additional benefits to Newfoundland Power and its customers are likely in the future.¹¹
11 However, these potential additional benefits have not been included in the analysis filed with this
12 Application.¹²

13
14 Since Order No. P.U. 17 (2011), Newfoundland Power and Bell Aliant have agreed to extend the
15 term of the 2011 JUA from 5 years to 10 years.¹³

16
17 Although the Purchase Agreement effectively terminated upon the Board's issuance of Order
18 No. P.U. 17 (2011), Newfoundland Power and Bell Aliant have now agreed that the Purchase

¹¹ Additional future benefits would arise due to a variety of factors, some of which are identified in the Response to Request for Information PUB-NP-35. One is additional revenue associated with third party attachments as a result of the pole count survey. Based upon pole count survey results to date, this could result in as much as \$700,000 per year in additional benefits to Newfoundland Power and its customers. Another example is the re-negotiation of third party attachment rates scheduled to commence later in 2011. This could result in an additional \$200,000 in benefits per year to Newfoundland Power and its customers. A third example is the possible negotiation of co-operative arrangements for future inspection and maintenance activities respecting the Joint Use of Support Structures.

¹² While the likelihood of these additional benefits is substantial, the necessary details have not been sufficiently settled or agreed with the respective other users of Support Structures to permit specific amounts to be included in the financial analysis.

¹³ The JUFPA which took effect in 2001 was also a 10-year agreement.

1 Agreement will terminate if Board approval of the sale of the Joint Use Support Structures is not
2 received by October 31, 2011. Termination of the Purchase Agreement will have significant
3 financial and operational consequences for Newfoundland Power.¹⁴ Termination of the Purchase
4 Agreement might also have legal consequences.¹⁵

5
6 Newfoundland Power has requested a re-opening of the Pole Sale Application to receive further
7 evidence with respect to the sale of Joint Use Support Structures as a result of the change in facts
8 and circumstances subsequent to Order No. P.U. 17 (2011). The additional evidence shows
9 (i) longer term co-operative arrangements for installation and removal of Joint Use Support
10 Structures, (ii) a longer term for the new Joint Use regime and (iii) an extension of the time in
11 which the sale of the Joint Use Support Structures may be completed. This, in turn, enables an
12 orderly transition to a new Joint Use regime and ensures materially improved benefits and
13 protections for Newfoundland Power and its customers.

¹⁴ Should the Purchase Agreement be terminated, it, the 2011 JUA, and all ancillary service arrangements will become null and void. In this situation, Newfoundland Power would not receive the agreed purchase price of \$45.7 million for 40% of the Joint Use Support Structures, which would create significant financial uncertainty for the Company. In addition, Newfoundland Power would have no comprehensive regime for Joint Use of Support Structures from January 1, 2011. Amongst other things, there would be no basis for Joint Use of the over 5,000 new Joint Use Support Structures installed in each year to provide service to Newfoundland Power's customers. This would also increase Newfoundland Power's cost of providing service to its customers.

¹⁵ These potential legal consequences flow from the fact that in 2001 Newfoundland Power purchased the Joint Use Support Structures of Bell Aliant (then, Aliant Telecom) subject to a right of repurchase. What those consequences might be is a matter of some uncertainty (see, for example, Transcript of Oral Argument, June 1, 2011, page 25 line 12 to page 26 line 7 and page 45 line 7 to page 49 line 8.)

1 **2.0 FINANCIAL IMPACTS**

2 **2.1 Revenue Requirement Impacts**

3 Exhibit 8 provided a 5-year financial analysis of the Pole Sale Application.¹⁶ Response to
 4 Request for Information PUB-NP-81 (Attachment A) extended the financial analysis provided in
 5 Exhibit 8 to a 10-year period.

6
 7 Exhibit 10 provides the updated financial analysis of the revenue requirement impacts of the
 8 2011 JUA and Newfoundland Power's continued installation and removal of all the Joint Use
 9 Support Structures for a 10-year period.¹⁷

10

11 Table 1 provides a comparison of the results of the financial analyses provided in Response to
 12 Request for Information PUB-NP-81 and Exhibit 10 for the 10-year period 2011 through 2020.

13

Table 1
Comparison of *Pro forma* Revenue Requirement Analyses

	PUB-NP-81	Exhibit 10
Levelized Annual Revenue Requirement	\$76,115	\$1,445,127
Net Present Value of Surplus	\$534,393	\$10,146,084

14

15 Table 1 shows a material increase in the revenue requirement impacts compared to the benefits
 16 indicated in the Pole Sale Application. The levelized annual revenue requirement savings

¹⁶ Exhibit 8 provided the *pro forma* revenue requirement impacts on the Company over a 5-year period of the sale of 40% of the Joint Use Support Structures and the 2011 JUA, as compared with a 2011 renewal of the JUFPA to reflect current financial parameters. The primary financial parameters include current embedded costs of Support Structures and current cost of capital. The JUFPA was based upon 2000 embedded costs of Support Structures and 2001 cost of capital.

¹⁷ The analysis provided in Exhibit 10 is completed upon the same basis as that provided in Exhibit 8 and Response to Request for Information PUB-NP-81 (Attachment A).

1 increase from approximately \$76,000 to \$1.45 million. The \$1.45 million surplus levelized
2 annual revenue requirement is equivalent to approximately 0.25% of Newfoundland Power's
3 annual revenue from rates. The net present value of revenue requirement surpluses over the
4 10-year period increases from approximately \$0.5 million to \$10.1 million.

5
6 The forecast annual customer benefits associated with the new Joint Use regime of
7 approximately \$1.45 million are more than 3.5 times the annual benefits of just under \$400,000
8 forecast at the time of Newfoundland Power's purchase of Bell Aliant's Joint Use Support
9 Structures in 2001.¹⁸ The forecast annual customer benefits are approximately 1.8 times the
10 annual benefits of just under \$800,000 achieved under the 10-year term of the JUFPA.¹⁹

11
12 Exhibit 10 indicates that the revenue requirement impacts are positive for all years in the updated
13 financial analysis.²⁰ The analysis indicates that the benefits of the new Joint Use regime will be
14 reflected in future customer rates through future general rate applications.

15 16 **2.2 Sensitivity Analysis**

17 Exhibit 11 provides a sensitivity analysis of the *pro forma* revenue requirement impacts provided
18 in Exhibit 10. The purpose of the sensitivity analysis is to determine if changes in assumptions
19 would reverse the revenue requirement benefits demonstrated in Exhibit 10.²¹

¹⁸ See Consent #1, Exhibit 10 (1st Revision) to July 25, 2001 Application.

¹⁹ See Exhibit 4.

²⁰ The revenue requirement impacts supporting the Pole Sale Application were negative for the six years from 2013 through 2018. See Response to Request for Information PUB-NP-81, Attachment A and Order No. P.U. 17 (2011), page 13, lines 8 to 13.

²¹ A comparable sensitivity analysis was also provided in the 2001 application to purchase the Joint Use Support Structures of Bell Aliant. See Consent #1, Exhibit 10 (1st Revision) to July 25, 2001 Application.

1 The sensitivity analysis was performed on certain key assumptions underlying the financial
2 analysis. The sensitivity analysis examines the effect of varying: the regulated return on equity;
3 the incremental cost of capital; the inflation rate; the number of Joint Use Support Structure
4 additions per year; the number of Joint Use Support Structure replacements per year; the Joint
5 Use administrative costs; and the compensation for Newfoundland Power's continued
6 installation and removal of all the Joint Use Support Structures.²²

7
8 The sensitivity analysis shows positive revenue requirement impacts for customers under all
9 scenarios evaluated. Revenue requirement impacts indicated in the analysis ranged from 0.15%
10 to 0.36% of revenue from rates.²³ This demonstrates that changes in assumptions should not
11 eliminate the positive revenue requirement effects associated with the new Joint Use regime.

12
13 There is significant potential for additional future benefits to Newfoundland Power and its
14 customers associated with the new Joint Use regime.²⁴ These would only serve to increase the
15 positive revenue requirement impacts indicated in the analyses filed with this Application.

17 **2.3 Protection of Financial Benefits**

18 The new Joint Use regime is structured to protect the financial benefits shown in Exhibit 10.

²² The compensation for Newfoundland Power's continued installation and removal of all the Joint Use Support Structures is subject to review at the end of 2015 to ensure continued benefits to both parties.

²³ The *lowest positive* revenue requirement impact indicated in the sensitivity analysis in Exhibit 11 is 0.15% of revenue from rates. A comparable sensitivity analysis provided in the 2001 application to purchase the Joint Use Support Structures of Bell Aliant indicated the *lowest positive* revenue requirement impact was 0.05% of revenue from rates. The larger value indicated in the sensitivity analysis in Exhibit 11 implies a greater degree of financial protection for customers than was indicated in 2001. See Consent #1, Exhibit 10 (1st Revision) to July 25, 2001 Application.

²⁴ See footnote 11.

1 The 2011 JUA provides that the 60%/40% cost sharing of the Joint Use Support Structures is
2 maintained through pole installations and removals.²⁵ This ensures equitable cost sharing of the
3 Joint Use Support Structures by Newfoundland Power and Bell Aliant through 2020.

4
5 The compensation payable by Bell Aliant for the installation and removal of Support Structures
6 is subject to annual adjustment based upon changes in Newfoundland Power's costs.²⁶ This
7 provides Newfoundland Power and, indirectly, its customers with protection from unforeseen
8 cost increases associated with the installation and removal of Joint Use Support Structures on
9 behalf of Bell Aliant.

10

11 **3.0 CUSTOMER SERVICE IMPACTS**

12 The new Joint Use regime is consistent with the maintenance of Newfoundland Power's current
13 customer service levels. This was explicitly addressed by incorporating Newfoundland Power's
14 construction, inspection and maintenance practices in the terms of the 2011 JUA. The practices
15 provided in the 2011 JUA reflect Newfoundland Power's existing operational practices for
16 Support Structure inspections, maintenance and for emergency response times.²⁷

17

18 No change in construction and maintenance standards can be implemented without the
19 agreement of both parties.²⁸ Newfoundland Power would not accept any change in construction
20 and maintenance standards that would negatively impact its customers.²⁹

²⁵ Section 14.02 of the 2011 JUA, Administration Practices.

²⁶ Annual adjustment will ensure recovery of both Newfoundland Power's internal and contractor costs.

²⁷ Sections 18, 19 and 20 of the 2011 JUA Administration Practices.

²⁸ Section 18.01(c) of the 2011 JUA Administration Practices.

²⁹ In addition, it is open to the Board, in exercise of its supervisory powers under the *Public Utilities Act*, to order Newfoundland Power to notify the Board in advance of any material changes in construction and maintenance standards that might be expected to impact customer service.

1 There is an explicit economic incentive for the parties to fulfill the required maintenance
2 standards by enabling the other party to perform necessary work at a defaulting party's expense
3 and risk.³⁰

4
5 Both parties must adhere to Newfoundland Power's safe work practices in the construction and
6 maintenance of the Joint Use Support Structures. This ensures a continued emphasis on
7 employee and public safety is maintained under the new Joint Use regime.³¹

8
9 In addition, the parties are required to maintain both a Joint Use Working Committee and a Joint
10 Use Administration Committee to provide coordination on all Joint Use matters. The committee
11 structure is consistent with past Joint Use regimes, including the JUFPA, and ensures the
12 efficient ongoing administration of Joint Use.³²

13
14 If the Joint Use committees are unable to resolve disputes, provision exists for independent
15 arbitration.³³ Substantially similar provisions regarding dispute resolution and remedy have
16 existed in Joint Use agreements since at least the late 1980s.

³⁰ Article 11.03 of the 2011 JUA specifically provides for expedited notification of default and Article 11.02 permits the party not in default to perform the work at 200% of fully distributed cost and the defaulting party's liability risk.

³¹ Article 4 of the 2011 JUA.

³² Section 2 of Administration Practices in 2011 JUA. More detail on the workings of the committees is provided in Response to Request for Information PUB-NP-53.

³³ See Article 18 – Dispute Resolution of the 2011 JUA. A dispute which is not resolved at the Working Committee is forwarded to the Joint Use Administration Committee. Only two operational issues have been forwarded to the Administration Committee in the past 10 years, and both were quickly resolved. Referrals to arbitration under Article 18 are made in accordance with the provisions of the *Arbitration Act* R.S.N. 1990, c. A-14, and the decision of the arbitrator shall be binding.

1 Any proposed sale of Joint Use Support Structures by either Bell Aliant or Newfoundland Power
2 to an independent third party is subject to a right of first refusal at net book value.³⁴ In the event
3 that Bell Aliant proposed to dispose of Support Structures to which Newfoundland Power
4 requires continued access, Newfoundland Power would simply exercise its right to purchase such
5 Support Structures to preserve its ability to provide safe and efficient service to its customers.³⁵

6

7 **4.0 CONCLUDING**

8 The evidence before the Board in the Pole Sale Application and this Application, taken together,
9 clearly indicate that the new Joint Use regime favours Newfoundland Power's customers. To
10 enable implementation of this new Joint Use regime, the Board should approve Newfoundland
11 Power's sale of 40% of the Joint Use Support Structures to Bell Aliant.

³⁴ Article 5.03 of the 2011 JUA. This provision has existed in Joint Use agreements since at least the late 1980s.

³⁵ See Section 14.5 of the Purchase Agreement, and Article 13 of the 2011 JUA. The Company would be required to request approval of the Board to purchase Support Structures if the cost of such a purchase is in excess of \$50,000, as indicated under Section 41 (3) of the *Public Utilities Act*. In the event that either party was to assign its rights to an affiliate, then both the party *and* the affiliate would continue to be bound by the respective agreements.

Joint Use Regime Effective 2011
Pro forma Revenue Requirement Analysis
2011-2020
(\$)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Incremental Revenues¹	(1,974,710)	(6,173,074)	(6,206,485)	(6,331,562)	(6,451,949)	(6,582,187)	(6,706,631)	(6,832,524)	(6,958,034)	(7,084,670)
Incremental Costs										
Depreciation Expense ²	(2,494,753)	(2,581,966)	(2,673,539)	(2,771,391)	(2,873,158)	(2,978,995)	(3,089,066)	(3,203,539)	(3,322,592)	(3,446,407)
Cost of Capital ³	(1,314,950)	(2,650,264)	(3,396,901)	(3,466,028)	(3,538,109)	(3,613,245)	(3,691,549)	(3,773,140)	(3,858,144)	(3,946,697)
Income Taxes ⁴	(405,268)	(699,771)	(712,243)	(726,737)	(741,851)	(757,605)	(774,023)	(791,131)	(808,954)	(827,521)
Operating Expenses ⁵	-	(397,772)	(507,040)	(516,694)	(525,576)	(536,413)	(546,473)	(556,811)	(567,239)	(577,921)
Total Incremental Costs	(4,214,971)	(6,329,773)	(7,289,723)	(7,480,850)	(7,678,694)	(7,886,258)	(8,101,111)	(8,324,621)	(8,556,929)	(8,798,546)
Surplus (Deficiency)	2,240,261	156,699	1,083,238	1,149,288	1,226,745	1,304,071	1,394,480	1,492,097	1,598,895	1,713,876
Levelized Annual Revenue Requirement⁶	1,445,127									
Net Present Value of Surplus (Deficiency)⁷	10,146,084									

Notes:

- ¹ The forecast reduction in incremental revenues includes reductions in attachment rental revenues for 2011-2020, partially offset by recoveries from Bell Aliant.
- ² The forecast reduction in depreciation reflects the sale of joint use support structures in 2011 and an annual reduction in pole installation costs for 2011 to 2020. The composite depreciation rate for distribution assets is 3.14%.
- ³ The forecast reduction in cost of capital is based on a capital structure of 55% debt/45% equity and assumes an incremental cost of capital of 5.83% in 2011 and 2012, and 7.35% thereafter. The sale of Joint Use Support Structures will reduce Newfoundland Power's average rate base by approximately \$46 million.
- ⁴ The forecast reduction in income taxes primarily reflects the reduction in the cost of capital.
- ⁵ The forecast reduction in incremental operating costs includes: increased Joint Use administration costs of approximately \$100,000 per year beginning in 2012; approximately \$200,000 operating cost savings per year commencing in 2013 as a result of the 2011 JUA (50% of which is forecast to be realized in 2012); and decreased vegetation management costs related to distribution poles of approximately \$400,000 per year.
- ⁶ This is the levelization of the annual revenue surplus (deficiency) from 2011 to 2020.
- ⁷ This is the net present value of the annual revenue surplus (deficiency) from 2011 to 2020.

Sensitivity Analysis of Revenue Requirement Impacts

1.0 Introduction

The following sensitivity analysis examines the impact of variations in certain key assumptions underlying the financial analysis of the *pro forma* revenue requirement impacts provided in Exhibit 10.¹ The sensitivity analysis provides an assessment of whether such variations are likely to reverse the revenue requirement benefits indicated in Exhibit 10.

The sensitivity analysis examines the effect of varying: the regulated return on equity; the incremental cost of capital; the inflation rate; the number of Joint Use Support Structure additions per year; the number of Joint Use Support Structure replacements per year; the Joint Use administrative costs; and the compensation for Newfoundland Power's continued installation and removal of all the Joint Use Support Structures.²

2.0 Results

The results of the sensitivity analysis are found in the table provided on page 2 of 2 of this Exhibit.

The sensitivity analysis shows positive revenue requirement impacts for customers under all scenarios and demonstrates that reasonable changes in assumptions would not reverse the positive revenue requirement effects associated with the new Joint Use regime.

¹ The parameters used in the sensitivity analysis are comparable to those used in the sensitivity analysis provided in the 2001 application to purchase the Joint Use Support Structures of Bell Aliant. See Consent #1, Exhibit 10 (1st Revision), page 8 of 8 to July 25th, 2001 Application.

² The compensation for Newfoundland Power's continued installation and removal of all Joint Use Support Structures is subject to review at the end of 2015 to ensure continued benefits to both parties. The Company evaluated the impact of a variation of + / - 25% in the benefit associated with Newfoundland Power's installation and removal of all Joint Use Support Structures as a result of this review.

Sensitivity Analysis – Pro forma Revenue Requirement Impacts
(\$000)

Adjustment	Exhibit 10	Return on Equity ³		Incremental Cost of Capital ⁴		Inflation ⁵		Number of Additions ⁶		Number of Replacements ⁷		Administrative Costs ⁸		Installation / Removal Benefits ⁹	
		+1%	-1%	+1%	-1%	+1%	-1%	+10%	-10%	+20%	-20%	+100%	-100%	+25%	-25%
NPV of Surplus (Deficiency)	10,146	12,048	8,173	14,183	6,109	9,557	10,738	12,130	8,162	11,675	8,617	9,420	10,872	11,381	8,911
Levelized Annual Revenue Requirement	1,445	1,757	1,137	2,020	871	1,361	1,529	1,728	1,163	1,663	1,227	1,342	1,549	1,621	1,269
% of Revenue from Rates	0.25%	0.31%	0.20%	0.36%	0.15%	0.24%	0.27%	0.30%	0.20%	0.29%	0.22%	0.24%	0.27%	0.29%	0.22%

³ An increase in return on equity provides additional revenue requirement benefits from the sale of the Joint Use Support Structures and a decrease in return on equity results in decreased revenue requirement benefits.

⁴ An increase in the incremental cost of capital provides additional revenue requirement benefits from the sale of the Joint Use Support Structures and a decrease in the incremental cost of capital results in decreased revenue requirement benefits.

⁵ An increase in the inflation rate relative to forecast reduces the revenue requirement benefits from the sale of the Joint Use Support Structures and a reduction in the inflation rate relative to forecast increases the revenue requirement benefits.

⁶ 10% corresponds to a change of 550 Support Structure additions per year. The number of Support Structure additions per year impacts the annual charges payable by Bell Aliant. An increase in the number of additions provides additional revenue requirement benefits.

⁷ 20% corresponds to a change of 315 Support Structure replacements per year. The number of Joint Use Support Structure replacements per year also impacts the annual charges payable by Bell Aliant. An increase in the number of replacements provides additional revenue requirement benefits.

⁸ 100% corresponds to a \$100,000 variance in Newfoundland Power's Joint Use administrative costs.

⁹ The compensation for Newfoundland Power's continued installation and removal of all the Joint Use Support Structures is subject to review at the end of 2015 to ensure continued benefits to both parties. The Company evaluated the impact of a variation of +/- 25% in the benefit associated with Newfoundland Power's installation and removal of all Joint Use Support Structures as a result of this review. This corresponds to an approximate \$400,000 variance in Newfoundland Power's annual charges to Bell Aliant with respect to these services.