Q. With reference to Exhibits 4 and 8 of the 2011 Evidence, explain how can the estimated negative impact on revenue requirement is consistent with the least cost service standard?

A. **A. Introduction**

Newfoundland Power's financial analysis of the 2001 acquisition of Joint-Use Support Structures, which included a right of Bell Aliant to repurchase 40% of Joint Use Support Structures upon termination or non-renewal of the 2001 Joint Use Facilities Partnership Agreement ("JUFPA"), demonstrates the expected economic benefit of the transaction to Newfoundland Power and its customers.

As indicated in Exhibits 4 and 8, and in Response to Request for Information PUB-NP-74, the total benefits associated with the 2001 agreement are approximately $10.6 million for the period 2001 through 2015. These economic benefits have effectively reduced Newfoundland Power's revenue requirement from what it would otherwise have been for this period.

Exhibit 8 contains a number of negative values.[1] These values do not indicate that the results of the analysis are inconsistent with the least cost service standard in any way.

B. Explanation of Exhibit 8

Exhibit 8 provides a *pro-forma* revenue requirement analysis of the sale of 40% of the Company's Joint Use Support Structures and the 2011 Joint Use Agreement (the "2011 JUA"). This Exhibit compares, over the 5-year term of the 2011 JUA, the revenues and costs of the 2011 JUA with a 2011 renewal of the JUFPA.[2]

The incremental *revenues* shown in Exhibit 8 are negative. The forecast reduction in revenue reflects that the Company will not charge attachment fees to Bell Aliant under the 2011 JUA. Attachment fees would have continued under a renewal of the JUFPA. Similarly, incremental *costs* shown in Exhibit 8 are negative. The forecast reduction in costs reflects that the Company will no longer bear the costs of owning and maintaining the Support Structures sold to Bell Aliant. The net revenue requirement impacts are calculated by subtracting incremental cost from incremental revenue. If the cost reduction exceeds the revenue reduction, there is a surplus which, in effect, benefits customers. If the cost reduction is less than the revenue reduction, there will be a deficit which, in effect, costs customers.

The aggregate revenue requirement impact over the life of the 2011 JUA is indicated by the net present value of the surpluses and deficiencies shown in Exhibit 8.[3] The net

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1 There are no negative values indicated in Exhibit 4.

2 This is consistent with the regulatory practice of assessing capital projects based on net present value analysis of the project's impact over the life of the project.

3 The net present value calculation is not a simple arithmetic sum. It takes into account the time value of money and end effects related to taxes.

present value of those surpluses and deficiencies totals approximately $497,000, which is economically equivalent to a $123,000 benefit to customers in each year of the analysis.[4] This shows that over the life of the 2011 JUA, its cost is lower than the alternative of renewing the JUFPA.

C. Exhibit 4, Exhibit 8 and Least Cost

Assessment of whether the 2011 JUA is least cost should recognize that the 2011 JUA is effectively an extension of the JUFPA, since the purchase of Joint Use Support Structures by Newfoundland Power in 2001 was predicated on providing the right to Bell Aliant to repurchase 40% of Joint Use Support Structures upon termination or non-renewal of the JUFPA in 2011. The total benefits indicated by the financial analyses shown in Exhibit 4 and Exhibit 8 are approximately $10.6 million over the period 2001 through 2015. This is clearly consistent with the least cost standard.

Since Exhibit 8 provides the impact of the 2011 JUA by comparison to a 2011 renewal of the JUFPA, the benefits indicated in the analysis are effectively in *addition* to any on-going benefits established under the JUFPA which would have continued over the period 2011 through 2015 had the JUFPA been renewed.[5] These additional economic benefits are approximately $123,000 per year, or $497,000 over the 5-year period from 2011 through 2015. So the repurchase of 40% of the Joint Use Support Structures by Bell Aliant and the 2011 JUA are clearly consistent with the least cost standard even if one ignores the benefits derived during the period 2001 through 2010.

D. Conclusion

The negative values indicated in Exhibit 8 do not indicate the results of the analysis are inconsistent with the least cost service standard.

Newfoundland Power's 2001 purchase of Bell Aliant's Joint Use Support Structures (together with the JUFPA) and Bell Aliant's 2011 repurchase of 40% of the Joint Use Support Structures (together with the 2011 JUA) are collectively, and individually, consistent with the least-cost standard.

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[4] This benefit does not include all *potential* benefits which might result from the new Joint Use regime. For further information on these, please refer to the Response to Request for Information PUB-NP-35.

[5] The analysis in Exhibit 8 does not actually analyse the cost benefit associated with a 2011 renewal of the JUFPA. Because it compares the impact of the repurchase of 40% of the Joint Use Support Structures by Bell Aliant and the 2011 JUA to a 2011 renewal of the JUFPA, the comparative analysis does not show the continuing economic benefits of the JUFPA relative to the Joint Use arrangements existing prior to 2001. These continuing benefits, however, do exist.