

1 **Q. Please confirm that Newfoundland Power's various regulatory mechanisms such as**  
2 **the PEVDA, WNR, etc. transfer the risk of costs, whether positive or negative, to**  
3 **ratepayers?**  
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5 A. Not confirmed. While many regulatory mechanisms do effectively transfer the risk of  
6 costs others do not. For example, Newfoundland Power's excess revenue account, which  
7 serves to create a cap on earnings variances without providing a floor on such variances,  
8 does not transfer any risk of costs to ratepayers.  
9

10 Current regulatory mechanisms approved by the Board are consistent with sound public  
11 utility practice and are commonly employed by North American utility regulators.  
12

13 Please refer to the evidence of Newfoundland Power, Page 15, line 12 *et. seq.* where it is  
14 stated that:  
15

16 "Newfoundland Power's Weather Normalization Reserve stabilizes customer  
17 electricity rates by adjusting revenue and power supply costs to account for  
18 variations in weather. Such adjustments ensure that Newfoundland Power  
19 experiences neither an earnings windfall nor an earnings shortfall as a result of  
20 weather conditions. Normalization of revenue and supply costs for weather is  
21 common for regulated utilities that supply a substantial heating load.  
22

23 Newfoundland Power has variation accounts to ensure recovery of only those  
24 employee future benefit costs which are actually incurred by the Company.<sup>1</sup>  
25 Recovery accounts for utility employee future benefit costs have become more  
26 common as a result of a combination of changes in accounting practice and  
27 financial market conditions."  
28

29 In the Response to Request for Information CA NP 259, Attachment A, Ms. McShane  
30 provides a tabular summary of mechanisms for or regulatory assurance of cost recovery  
31 for a sample of U. S. utilities. Of the 15 mechanisms identified Newfoundland Power has  
32 experience with 6 of these mechanisms.  
33

34 In the expert evidence of Mr. Vander Weide it is stated that "Newfoundland Power's cost  
35 recovery mechanisms are typical for electric utilities throughout North America."<sup>2</sup>  
36

37 Newfoundland Power views existing regulatory mechanisms as striking a *continuing*  
38 reasonable regulatory balance in current circumstances which is consistent with current  
39 public utility practice.  
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41 Please refer to the Responses to Requests for Information CA NP 211 and CA NP 260.

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<sup>1</sup> The variation accounts ensure recovery of actual defined benefit pension costs and other post employment benefit costs. Each account operates to true up estimated costs to actual costs. The defined benefit pension variation account was approved in Order No. P.U. 43 (2009). The other post employment benefit variation account was approved in Order No. P.U. 31 (2010).

<sup>2</sup> See page 13, lines 13-16.