IN THE MATTER OF the Public
Utilities Act, R.S.N. 1990, Chapter P-47
(the Act), and

IN THE MATTER OF a General Rate Application
(the Application) by Newfoundland and Labrador Hydro
for approvals of, under Section 70 of the Act, changes
in the rates to be charged for the supply of power and
energy to Newfoundland Power, Rural Customers and
Industrial Customers; and under Section 71 of the Act,
changes in the Rules and Regulations applicable to the
supply of electricity to Rural Customers.

Requests for Information by
Newfoundland Power Inc.

To: Mr. Brad Rolph
NP-PUB-001 to NP-PUB-008

To: Grant Thornton
NP-PUB-009 to NP-PUB-013

To: Dr. John W. Wilson
NP-PUB-014 to NP-PUB-017

May 8, 2014

Requests for Information

NP-PUB-001 [Pre-filed Evidence of Brad Rolph, April 25, 2014 ("Brad Rolph Evidence"), Section 4.2]

With respect to common services that Hydro renders for its affiliates, it is Mr. Rolph's opinion that:

(i) allocating the HR, and safety and health-related costs to be recovered using FTEs as the allocator is reasonable; and,

(ii) allocating IS-related costs to be recovered using average number of users as the allocator is reasonable.

Did Mr. Rolph perform any comparative analysis to determine whether other allocators, such as those listed in the Brad Rolph Evidence, page 23, Table 4, might be more appropriate than the ones used by Hydro?

NP-PUB-002 [Brad Rolph Evidence, page 2]

Please confirm that Mr. Rolph evaluated the reasonableness of the methods used by Hydro and its affiliates to determine amounts to be charged, and did not evaluate the reasonableness of those amounts or whether the inter-affiliate transactions provide any demostrable benefit to ratepayers.

NP-PUB-003 [Brad Rolph Evidence, page 2]

With respect to common services that Hydro renders for its affiliates, it is Mr. Rolph's opinion that:

(i) allocating the HR, and safety and health-related costs to be recovered using FTEs as the allocator is reasonable; and,

(ii) allocating IS-related costs to be recovered using average number of users as the allocator is reasonable.

Did Mr. Rolph evaluate the reasonableness of the methodology used by Hydro to calculate FTEs and average users for purposes of allocating common services?

NP-PUB-004 In Order No. P.U. 19 (2003), the Board required Newfoundland Power Inc. to observe the following principle in ***all*** inter-corporate transactions:

"A utility shall ensure that inter-corporate transactions will not disadvantage the interests of ratepayers and furthermore that ratepayers and the utility will derive some demonstrable benefit from such transactions."

Is it Mr. Rolph's opinion that this principle should apply to transactions between Hydro and its affiliates?

NP-PUB-005 [Brad Rolph Evidence, page 28]

In considering the appropriateness of a mark-up on inter-affiliate transactions, Mr. Rolph states:

"I considered whether the absence on a mark-up would create an inappropriate subsidy. First, I considered the implications of Nalcor marking up the costs of rendering certain corporate services to Hydro. Such a mark-up would increase Hydro's revenue requirements and the rates that it charges its customers. Accordingly, I believe that applying a mark-up to the costs of rendering corporate services to Hydro would be inappropriate.

I believe that the same answer applies to situations in which Hydro is providing common or corporate services for the benefit of the public energy projects of its affiliates. To do otherwise, would create a situation in which Hydro's revenue requirement would decline at the expense of Nalcor, one of the public energy projects of its other lines of business or the Province."

Please provide any examples of which Mr. Rolph is aware where a regulator has determined that no mark-up was required because the non-regulated affiliate to which services were provided was publicly owned.

NP-PUB-006 Is it Mr. Rolph's opinion that differences between Newfoundland Power's inter-affiliate transactions and Hydro's inter-affiliate transactions justify that the two utilities follow different inter-affiliate pricing policies?

NP-PUB-007 In Mr. Rolph's opinion, in the calculation of an allocator based on, for example, FTEs, how should Hydro employees who perform common services be accounted for in the allocation calculation? Should they be (i) accounted for as full Hydro FTEs, (ii) removed from the allocation calculation, or (iii) accounted for by some other method?

NP-PUB-008 In Order No. P.U. 6 (1991), the Board ordered:

"NP shall put in place a quarterly reporting mechanism whereby NP aggregates all inter-corporate transactions by the accepted code of accounts, segregating purchases of goods and services from sales of goods and services. This report will be submitted to the Board together with any contracts and agreements signed during the quarter with any related parties. Transactions exceeding $50,000 individually or per annum must be reported separately and compared to the cost of the same transaction from an arms-length supplier(s). A description of the nature

and the amount of the transaction(s) as well as any amount due to or from the related party must be provided."

Does Mr. Rolph believe it is appropriate that the Board impose similar inter-affiliate transaction reporting requirements on Hydro?

NP-PUB-009 [Grant Thornton Financial Consultant's Report, April 25, 2014 ("Grant Thornton Report"), page 18]

Relative to the 2013 test year, Grant Thornton states:

"The difference in rate of return on book equity of 9.59% and Hydro regulated return on equity of 8.80% arises due to differences between the Company's average rate base and average invested capital balances."

Does Grant Thornton believe that the difference between Hydro's rate of return on book equity and its regulated return on equity is a relevant consideration in determining whether the rates proposed in this Application provide Hydro with an opportunity to earn a just and reasonable return in accordance with the requirements of the Order in Council and the *Electrical Power Control Act, 1994*?

NP-PUB-010 What studies and methodologies used by Hydro to calculate the 2013 test year working capital and materials and supplies allowances did Grant Thornton review to assess the reasonableness of the allowances?

NP-PUB-011 [Grant Thornton Report, page 32, lines 16 to 25]

Page 76 of Order No. P.U. 19 (2003) states:

"In the Board's view the range of rate of return on rate base can act as an incentive device to encourage NP to seek efficiencies between rate hearings, which can then be passed on to customers. This is evidenced in the operational efficiencies and cost savings that have been implemented by NP since the last rate hearing in 1998".

In Grant Thornton's opinion, is evidence of operational efficiencies and cost savings required to justify increasing Hydro's range of return on rate base for incentive purposes?

NP-PUB-012 [Grant Thornton Report, page 99, lines 8 - 9]

Based on Grant Thornton's review, forecast 2013 capital expenditures included in the rate base for 2013 test year are overstated. Does Grant Thornton agree that this also results in an overstatement of interest capitalized during construction expense included in the 2013 test year revenue requirement?

NP-PUB-013 [Grant Thornton Report, page 108]

Section 3.2.8 WBS Task 800 – Construction, page 3.9 of the *Holyrood Thermal Generating Station Decommissioning Study* states:

"Some construction will be required during demolition as a considerable portion of the existing powerhouse structure will be retained for future operations. Construction will include structural modifications and installation of cladding at the powerhouse and the pumphouse # 1, as well relocation of electrical and mechanical systems and sub-surface water and sanitary connections."

In Table 4.2.1 of the *Holyrood Thermal Generating Station Decommissioning Study*, these construction costs are indicated to total $3.4 million. The calculation of the asset retirement obligation associated with the decommissioning of the Holyrood Thermal Generating Station, as provided in the response to Request for Information NP-NLH-091, includes these construction costs.

Does Grant Thornton believe that including construction costs as part of an asset retirement obligation is appropriate?

NP-PUB-014 [Pre-filed Evidence of J.W. Wilson & Associates, Inc., April 25, 2014 ("J.W. Wilson Evidence"), page 1]

Dr. Wilson states that:

"*It is our conclusion that the cost allocation steps in Hydro's filing have been carried out in general conformance with Hydro's prior filings and with the cost allocation procedures previously approved by the Board."*

Has Dr. Wilson reviewed whether Hydro has normalized loads, expenses, revenues, and other components of the test year in accordance with generally accepted practice, or is his statement concerned only with classification and allocation of costs?

NP-PUB-015 [J.W. Wilson Evidence, page 3]

Dr. Wilson observes that Hydro's proposal to set Newfoundland Power's second block rate at 10.4 cents per kWh would weaken the energy price signal in Newfoundland Power's rate. Dr. Wilson suggests the adoption of a two-block energy seasonal differential would permit the retention of a marginal cost energy price signal in Newfoundland Power's two block energy rate.

Would Dr. Wilson agree that maintaining the Newfoundland Power demand rate at its current level instead of setting it at the full embedded cost would also assist in retaining a marginal cost price signal in

Newfoundland Power's second block, even if seasonal rates were not adopted?

NP-PUB-016 [J.W. Wilson Evidence, page 24]

Dr. Wilson states:

"…there is little evidence that marginal cost capacity rates have as significant an impact on efficient capacity demand as marginal energy rates do on efficient energy demand."

Given this observation, is it Dr. Wilson's opinion that Hydro's focus on Newfoundland Power's demand price signal is misplaced at this time?

NP-PUB-017 [J.W. Wilson Evidence, pages 21, 22 and 29]

On page 29, Dr. Wilson states:

"… if the load variation costs are to be covered by the RSP we agree that Hydro's proposed allocation of these costs based on customer energy ratios is an equitable allocation method."

On page 21, Dr. Wilson describes the distorting effect that the difference between the Industrial Customer and Newfoundland Power tail block energy rates has on load variation adjustments to the RSP.

If the combination of the proposed allocation of the portion of load variation costs covered by the RSP and the portion of load variation costs covered by tail block energy rates were to result in Newfoundland Power paying the incremental cost of its load variation and also paying a majority of the incremental costs of the Industrial Customer class load variation, would Dr. Wilson agree that such result is inequitable?

RESPECTFULLY SUBMITTED at St. John's, Newfoundland and Labrador, this 8th day of May, 2014.

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