IN THE MATTER OF
the *Electrical Power Control Act*, SNL 1994,
Chapter E-5.1 (the "*EPCA*") and the
Public Utilities Act, RSNL 1990,
Chapter P-47 (the "*Act*"), as amended;

AND

IN THE MATTER OF a General Rate Application (the *"Application"*) by Newfoundland Power Inc. to establish customer electricity rates for 2013 and 2014.

PUBLIC UTILITIES BOARD
REQUESTS FOR INFORMATION

PUB-NP-1 to PUB-NP-109

Issued: October 18, 2012

2013-2014 General Rate Application, Company Evidence

PUB-NP-1 Pg. 1-2, lines 10-11 - Please detail the operational efficiencies implemented in 2010 to 2012 that have reduced costs and improved productivity, indicating the cost savings and efficiencies with each initiative.

PUB-NP-2 Pg. 1-4, lines 7-10 - It is stated that Newfoundland Power Inc. ("Newfoundland Power") has longer term risks with one being customer demographic trends which are said to have *"implications for investment and long term cost recovery."* Explain what these implications are.

PUB-NP-3 Pg. 1-4, lines 7-10 - The future of electricity supply for Newfoundland Power is stated to be a longer term risk which is said to have potential implications for future cost recovery. Explain what these implications are.

PUB-NP-4 Pg. 1-6, lines 7-13 - Please provide a table showing each category of cost that contributes to the 1.6% increase and show the amount of each category.

PUB-NP-5 Pg. 2-5, Footnote 4 - Explain how the cost impacts of severe weather are a prominent feature of Newfoundland Power's business risk profile.

PUB-NP-6 Pg. 2-9, Footnote 14 - It is stated that composite labour rate increases of 4.95% in 2011, 3.71% in 2012, 4.09% in 2013 and 4.06% in 2014 were used in determining actual and forecast labour cost. Please provide the support/justification for these increases including details on average salary increases given and forecast over the same period by companies in Newfoundland and Atlantic Canada and by Canadian electrical utilities.

PUB-NP-7 Pg. 2-14, Table 2-7 - Please provide an explanation for the 2012 forecast decrease in participants for the Energy Conservation Programs and the forecast increase in energy savings.

PUB-NP-8 Pg. 2-22, Table 2-12 - What are the types of positions that are filled by temporary employees referred to in Table 2-12?

PUB-NP-9 Pg. 2-23, lines 1-6 - What is the increased operating labour costs forecast for 2012, 2013 and 2014 associated with the increased Full Time Equivalent ("FTE") complement?

PUB-NP-10 Pg. 2-31, lines 17-18 - Explain what consideration was given by Newfoundland Power to historic overtime incurred for severe weather events in the calculation of forecast overtime costs for 2013 and 2014 set out in Table 2-19 on pg. 2-30.

PUB-NP-11 Pg. 3-2, lines 22-23 - It is stated that in the period 2010 to 2012F Newfoundland Power's financial performance will have been consistent with its continued financial integrity. Table 3-10 on pg. 3-13 shows Newfoundland Power's regulated return on equity for the period. Please confirm that the forecast 8.81% return on equity for 2012 is consistent with the maintenance of the continued financial integrity of Newfoundland Power.

PUB-NP-12 Pg. 3-12, Footnote 37 - Please provide an explanation for the significant increase in tax adjustments for 2012.

PUB-NP-13 Pgs. 3-14 to 3-15 - How does a 10.4% or 10.5% return on equity for Newfoundland Power for the 2013/2014 test years compare to the recent allowed returns for other Canadian regulated electrical utilities?

PUB-NP-14 Pgs. 3-14 to 3-15 - How does the comparison with the allowed returns for other Canadian regulated electrical utilities reconcile with the position that Newfoundland Power is an average risk Canadian utility?

PUB-NP-15 Pg. 3-15, lines 1-7 and pg. 3-38, lines 11-12 - It is stated that the automatic adjustment formula should be discontinued as it does not accurately estimate the appropriate return on equity under current financial market considerations. Please confirm that it is Newfoundland Power's position that the formula did work properly until the current unsettled financial market conditions arose, approximately 2008, and that the state of the current financial markets, specifically the significant decline in the risk free rate, is the only reason for the proposal to discontinue or abandon the formula.

PUB-NP-16 Has Newfoundland Power considered any other alternatives, other than discontinuance, to the current automatic adjustment formula to adjust the return on equity between rate applications? If so, what alternatives were considered? If not, why not?

PUB-NP-17 Are there any changes to the current automatic adjustment formula that could, in Newfoundland Power's opinion, make it more reliable in determining a future return on equity for Newfoundland Power?

PUB-NP-18 Does Newfoundland Power consider that the current formula would be more reliable in determining a fair return on equity if there were a mechanism added which accounted for any material sudden drop/increase in the risk free rate?

PUB-NP-19 Does Newfoundland Power consider that changes in a fair return on equity between test years can be estimated accurately using a formula, or is a fair return on equity determination simply too complex to be applied using a formula approach? Please explain your response.

PUB-NP-20 Pg. 3-16 - Please confirm that Newfoundland Power considers itself to be an average risk Canadian utility.

PUB-NP-21 Pg. 3-16 - It is noted that Newfoundland Power's principal business, regulatory and financial risks have not changed materially since 1998. Is it Newfoundland Power's view that the required return on equity has increased since 2010 and 2012 due only to changes in financial market conditions?

PUB-NP-22 Please provide a table showing all regulatory assets and liabilities, approved by the Board, that are currently being used by Newfoundland Power. Please include the Board Order number, the effective date, the length of the period of amortization, the forecast balance as of December 31, 2012, and the planned manner of disposition.

PUB-NP-23 Does the existence of the regulatory cost recovery mechanisms referred to in PUB-NP-22 reduce or eliminate Newfoundland Power's business risks? Please explain your response.

PUB-NP-24 Please reproduce the table requested in PUB-NP-22 and include any regulatory assets or liabilities, with available information, that are being requested in this application to be added in 2013 and 2014.

PUB-NP-25 What weight should the Board give to the regulatory cost recovery mechanisms referred to in PUB-NP-22 and PUB-NP-24 in its consideration of Newfoundland Power's overall business risks?

PUB-NP-26 Pg. 3-17, Footnote 48 - It is stated that Newfoundland Power does not forecast energy sales and the number of customers beyond 5 years. Explain why these forecasts are not prepared for longer periods.

PUB-NP-27 Pg. 3-21, lines 11-18 and pg. 3-22, lines 1-4 - The demographic trends of a decline in the number of customers, decline in energy sales and the migration to urban areas are stated to be contributing factors that will exert increasing pressure on Newfoundland Power's required investment over the longer term. In her expert evidence on pg. 17, lines 463-464, Ms. McShane states that Newfoundland Power's long-term business risk profile largely relates to the demographics and economic outlook of its service area. Does Newfoundland Power agree that these are its most significant long-term business risks?

PUB-NP-28 What consideration has Newfoundland Power given to its long-term business risks of a declining number of customers and declining energy sales in the development of its corporate business strategy for the next 5, 10 and 20 year periods? If the answer is that consideration has been given to these risks, how are they addressed? If the answer is no, why not?

PUB-NP-29 Pg. 3-23, line 3 - It is stated that severe weather conditions increase volatility in operating and capital costs. Explain in detail how Newfoundland Power has historically dealt with the capital costs associated with severe weather, including detailing any capital costs arising from severe weather that have not been recovered from customers.

PUB-NP-30 Explain in detail the operating costs incurred in 2010 and 2011 and forecast for 2012 that have arisen solely due to severe weather, including the amount of such costs and their impact on the overall operating costs, net income and regulated return on equity in the year they were incurred.

PUB-NP-31 Explain in detail how Newfoundland Power considers costs and expenses arising from severe weather conditions in the preparation of annual operating and capital budgets.

PUB-NP-32 Pg. 3-25 - It is stated that Newfoundland Power's single supply dependence on Newfoundland and Labrador Hydro could possibly affect Newfoundland Power's ability to recover its cost of service in the future. Explain in detail the significance of this single supply dependence as a business risk of Newfoundland Power, including why it is viewed as more problematic for the future than currently.

PUB-NP-33 What weight does Newfoundland Power consider should be given by the Board in its determination of the overall risks of Newfoundland Power to the longer term risks of a declining customer base, declining energy sales and single supply dependence?

PUB-NP-34 Pg. 3-26 to 3-27 - What weight should be given to the regulatory mechanisms that allow Newfoundland Power to recover its power supply costs in assessing the risk to Newfoundland Power of a single source supply? Does the existence of these regulatory mechanisms reduce or eliminate this business risk? Please explain your response.

PUB-NP-35 Pg. 3-27, lines 11-12 - It is stated that normalization of revenue and supply costs for weather is common for utilities with a substantial heating load. Please provide a list of the utilities that have such recovery mechanisms and describe the recovery mechanism in place for each utility.

PUB-NP-36 Pgs. 3-27 to 3-28 - Please provide backup for the comment that recovery accounts for employee future benefits have become more common, including information on which other Canadian jurisdictions, other than Alberta and British Columbia which have been noted in the application, provide for this recovery.

PUB-NP-37 Pgs. 3-27 to 3-28 - Would you characterize Newfoundland Power as having lower regulatory risk compared to other Canadian utilities which may not use approved regulatory accounts to deal with the recovery of employee future benefits?

PUB-NP-38 Pgs. 3-29 to 3-30 - How does Newfoundland Power's capital structure compare to other Canadian utilities in 2012?

PUB-NP-39 Pgs. 3-29 to 3-30 - Have other Canadian utilities changed capital structures since 1990? Please explain in your response the changes that have occurred.

PUB-NP-40 Pg. 3-34, line 14 - Please define what is meant by "*unusually*" low long term bond yields.

PUB-NP-41 Pg. 3-52 - Newfoundland Power is proposing that the annual balances in the Weather Normalization Reserve be dealt with as part of the annual Rate Stabilization Adjustment to customer rates on July 1st of each year. Newfoundland Power states that the current reserve provisions do not provide for timely recovery or credit of balances. Explain the implications for Newfoundland Power and its customers of this stated concern with the current timing for recovery or crediting of balances and why the proposed change is more appropriate for customers and Newfoundland Power.

PUB-NP-42 Volume 2, Exhibit 2, line 14 - Please provide an explanation for the significant increase in *"Taxes and Assessments"* from 2010 to 2014 Forecast.

PUB-NP-43 Volume 2, Exhibit 2, line 20 - What is included in *"Other Company Fees"*?

PUB-NP-44 Volume 2, Exhibit 2, line 20 - Please provide an explanation for the significant increase in *"Other Company Fees"* from 2010 to 2014 Forecast.

PUB-NP-45 Volume 2, Exhibit 2, line 26 - What vegetation management practices or policies are currently followed by Newfoundland Power?

PUB-NP-46 As a result of recent severe weather events, including Hurricane Igor and Tropical Storm Leslie, has Newfoundland Power reviewed its vegetation management practices? If not, why not? If yes, what changes in practices have been implemented?

PUB-NP-47 Volume 2, Exhibit 14 - In the proposed revised Section III Rate Changes, why were the words in brackets in the existing section removed?

PUB-NP-48 Volume 2, Report 5, Cost of Service Study - Why does Newfoundland Power use actual costs and revenue for 2011 in the completion of the Cost of Service Study filed in support of its Application rather than forecast costs and revenues for the test years 2013 and 2014? Include in the answer information on the practices of other Canadian distribution utilities in this regard.

PUB-NP-49 Volume 2, Report 5, Cost of Service Study, Schedule 1.3 - Column H shows the Rural Subsidy allocated to each customer class based on actual costs and revenues incurred in 2011. Provide a table showing the percentage of the revenue derived from each customer class in 2011 attributable to the Rural Subsidy and the forecast percentage for 2013 and 2014.

PUB-NP-50 Volume 2, Report 7, Appendix A - Please provide a detailed explanation of each recovery mechanism for each utility listed, including a comparison to the mechanisms in place for Newfoundland Power.

Opinion on Capital Structure and Return on Equity
Kathleen McShane – Volume 3

PUB-NP-51 Please provide a table of the most recently approved returns, including approval dates, for regulated utilities in other Canadian jurisdictions.

PUB-NP-52 Please provide a table identifying utilities that you would consider to be comparable to Newfoundland Power, detailing the characteristics that would cause them to be considered comparable.

PUB-NP-53 Please provide a table listing Canadian regulated utilities and their capital structures. Please indicate any that would be considered comparable to Newfoundland Power.

PUB-NP-54 Pg. 2, #3 - Please provide support for your assessment that Canadian and US utilities operate in similar operating and regulatory environments.

PUB-NP-55 Pg. 2, #4 - Compared to other utilities, how would you characterize Newfoundland Power's equity ratio?

PUB-NP-56 Pg. 2, #4 - Can you confirm that Newfoundland Power's common equity ratio exceeds the typical equity ratio of a similar size Canadian utility? If not, what comparable Canadian utilities would you regard as being similar risk but with a higher common equity ratio?

PUB-NP-57 Pg. 2, #4 - If Newfoundland Power does have a favorable common equity ratio, all else being equal would you accept that this should result in a lower return on equity for Newfoundland Power compared to other Canadian utilities with similar business risks?

PUB-NP-58 Pg. 3, #5f and pg. 61 - Please confirm that the source of your forecasts of long-term Government of Canada bond yields for 2013-2014 is Consensus Forecasts, April 2012. As well, please confirm if the same source was used for both years, and if not, please explain why not.

PUB-NP-59 Pg. 4, #6b - Please explain why you did not use the latest available forecast yield of 30 year Government of Canada bonds for 2013 and 2014 using Consensus Economics.

PUB-NP-60 Are you aware that James Vander Weide is using a different risk free rate, based solely on 2013 Consensus Economics forecasts for long-term Government of Canada bond yields?

PUB-NP-61 Pg. 4, #6e and Appendix E - Please provide support for the allowance of 50 to 160 basis points to the "*bare-bones*" return on equity estimate of 9.5%.

PUB-NP-62 Pg. 4, #6e and Appendix E - Have you made this adjustment for a financing flexibility allowance, in the same amount, in any previous cases, particularly those relating to Newfoundland Power? If the adjustment varies from previous assessments specific to Newfoundland Power, please explain the rationale for the variance.

PUB-NP-63 Pg. 4, #6f - Please explain why the financing flexibility allowance would differ for this alternative method, 50 bps vs. 100 bps.

PUB-NP-64 Pg. 4, #6g - Please explain why the comparable earnings test is now noted as an alternative approach and not given any weight. Is this a deviation from your March 2012 report?

PUB-NP-65 Pg. 4, #6g - In Canada, has the comparable earnings approach been accepted by regulators as a generally accepted methodology?

PUB-NP-66 Pg. 11, lines 288-289 - Please define an average risk Canadian utility.

PUB-NP-67 Pg. 15, Section 5 - Given your estimated cost of equity for Newfoundland Power of 10.5% and a comparison to its Canadian utility peers in terms of allowed regulated return on equity for 2013 and 2014, does this support the assessment that Newfoundland Power is an average risk utility?

PUB-NP-68 Pg. 22, Section 6 - Please confirm, given the conclusion that the business risk profile of Newfoundland Power has not changed materially since 2007 and 2009, that any increase in the cost of equity since that time solely relates to changes in the financial markets.

PUB-NP-69 Pg. 27, Section F - Beyond utilities in Alberta and BC, are there any other Canadian jurisdictions that have allowed increases in common equity ratios since 2009?

PUB-NP-70 Please provide the DBRS report for Newfoundland Power dated January 2012.

PUB-NP-71 Pg. 29, Section G.2 - In the DBRS report dated January 2012, it was pointed out that Newfoundland Power has a favorable equity ratio. Would this imply that there would be some room for a decrease while maintaining current credit ratings, or would this imply that it does not have the optimal capital structure?

PUB-NP-72 Pg. 56, Section C - How was the difference in the economic risk profile of each country considered in the selection of comparable companies?

PUB-NP-73 Pg. 67, lines 1659-1663 - Given that Table 11, pg. 66, suggests that when bond income returns are below 4% the average risk premiums are 10.7% and 14.7%, how does this reconcile to your selected 8% equity risk premium?

PUB-NP-74 Pg. 83, lines 2054-2057 - Given the DCF equity risk premium methodology was applied only to the sample of US utilities, do you believe this methodology to be less relevant or reliable as Newfoundland Power is a Canadian based utility?

PUB-NP-75 Pg. 92, line 2270 - Please explain the rationale for the 50% sensitivity factor applied to this calculation. Please provide your support for this rationale.

PUB-NP-76 Please confirm that you believe the main reason that the current automatic adjustment formula no longer works is entirely due to current financial market conditions, specifically the significant decline in the risk free rate.

PUB-NP-77 Have you considered any alternatives, other than discontinuance, to the current automatic adjustment formula to adjust the return on equity between rate applications? If yes, what alternatives were considered? If no, why not?

PUB-NP-78 Are there any changes to the current automatic adjustment formula, in your view, that could make it more reliable in determining a future return on equity for Newfoundland Power?

PUB-NP-79 Do you believe that the current formula would be more reliable in determining a fair return on equity if there was a mechanism added which accounted for any material sudden drop/increase in the risk free rate?

PUB-NP-80 Do you believe that changes in a fair return on equity between test years can be estimated accurately using a formula, or is a fair return on equity determination simply too complex to be applied using a formula approach? Please explain your response.

Written Evidence of James H. Vander Weide – Volume 3

PUB-NP-81 Pg. 11, A21 - Please provide examples in Canada where a regulatory authority has utilized the approach recommended.

PUB-NP-82 Pg. 14, A34 - Please confirm that your selection of comparable risk utilities is in-line with what other Canadian utilities are using to estimate cost of equity. For example, is the BMO CM basket typically used for Canadian comparable risk utilities or is the S&P/TSX Utilities index used?

PUB-NP-83 Pg. 18, A47 and pg. 35, Table 2 - Would another disadvantage be that return data for the BMO CM basket has been available since 1983 while the data from the S&P/TSX Utilities index has been available since 1956? Given the shorter time frame, do you believe the data from the BMO CM basket is reliable?

PUB-NP-84 Pg. 20, A55 - Beyond business risks and regulatory risks, have you factored in differences in economic risks between Canada and the US?

PUB-NP-85 Pg. 30, A83 - Given the difficulty of using Canadian utilities due to the lack of analysts' forecasts and relatively small number of companies, is the DCF methodology less relevant in estimating the required return on equity for Newfoundland Power? Do these factors reduce its applicability to Canadian utilities in general?

PUB-NP-86 Pg. 33, A92 - Given that the DCF methodology used to estimate fair return on equity is entirely based on US comparables (pg.30, A83), why have you decided to exclude US comparables in your ex post risk premium method? What would be the results of the ex post risk premium methodology if US comparables were used?

PUB-NP-87 Pg. 33, A92 - What would the risk premium have been if US utilities had been included?

PUB-NP-88 Pg. 35, Table 2 - Given the relatively short time frame for the BMO CM utilities index, and the large difference between equity risk premiums noted in Table 2, does this make the BMO CM data less reliable? If not, why not?

PUB-NP-89 Pg. 35, A102 - Did you consider using a blended average rate of the Consensus Economics forecast for 2013 and 2014 as opposed to only using a forecast for 2013?

PUB-NP-90 Pg. 35, A102 - Please provide your rationale for your selection of a risk free rate relative to using forecasted future long-term Government of Canada yields.

PUB-NP-91 Pg. 36, A102 - Please provide support and rationale for your selection of 50 bps allowance for floatation costs and financial flexibility.

PUB-NP-92 Pg. 38, A110 - Why is the ex ante risk premium calculated with US Treasury Bonds, while the overall cost of equity for this methodology is built up utilizing long-term Government of Canada bond yields?

PUB-NP-93 Pg. 39, A112 - Please confirm whether the Value Line beta is a raw or adjusted beta, and whether it was calculated using weekly or monthly prices.

PUB-NP-94 Pg. 39, A112 - Did you consider using the betas for your two Canadian utility comparable samples and your small US comparable sample? If not, why not?

PUB-NP-95 Pg. 39, A112 - Since your beta and equity risk premium are US based, would it be more appropriate to add a US risk free rate and then adjust for country risk rather than to add a Canadian risk free rate? If not, why not?

PUB-NP-96 Pg. 43, A119 - Please provide examples where the historical ratio of the average utility risk premium to the average S&P 500 risk premium is utilized in place of the Value Line Utilities Beta or a similar estimate of beta.

PUB-NP-97 Pg. 44, A121 - Please provide examples of Canadian regulatory authorities agreeing with this position that the CAPM methodology should not be utilized.

PUB-NP-98 Pg. 45, A124 - If you had given equal weighting to the risk premium method, CAPM and DCF, what would the average return on equity have been?

PUB-NP-99 Pg. 45, A126 - Please provide the averages for allowed return on equity for Canadian electric utilities and for Canadian natural gas utilities over a similar time frame, January 2010 through June 2012, as the US decisions you examined.

PUB-NP-100 Pg. 45, A126 - Please confirm that it is your position that Canadian regulatory allowed return on equity decisions are less relevant than US regulatory allowed return on equity decisions to Newfoundland Power's allowed return on equity.

PUB-NP-101 Pg. 45, A126 - Are there examples of other Canadian utility regulatory authorities that have adopted the position that Canadian allowed return on equity decisions are less relevant than US allowed return on equity decisions in setting return on equity in their jurisdictions? If so, please provide these examples.

PUB-NP-102 Pg. 46, A127 - While you have stated that allowed return on equity decisions are not the best measure of the cost of equity at this point in time, do you believe they are a relevant consideration in Newfoundland Power's allowed return on equity?

PUB-NP-103 Pg. 46, A128 - Given that US utilities have an average approved equity ratio that is higher than Canadian utilities, does this lessen the reliance on US utility comparables?

PUB-NP-104 Pgs. 55-100 - Please provide sources for all information contained in your exhibits if not included in the report. For example, in Exhibit #1, do these values come from Newfoundland Power's 10k annual report?

PUB-NP-105 Please confirm that you believe the main reason that the current automatic adjustment formula no longer works is entirely due to current financial market conditions, specifically the significant decline in the risk free rate.

PUB-NP-106 Have you considered any alternatives to the current automatic adjustment formula to adjust the return on equity between rate applications? If yes, what alternatives were considered? If no, why not?

PUB-NP-107 Are there any changes to the current automatic adjustment formula, in your view, that could make it more reliable in determining a future return on equity for Newfoundland Power?

PUB-NP-108 Do you believe that the current formula would be more reliable in determining a fair return on equity if there were a mechanism added which accounted for any material sudden drop/increase in the risk free rate?

PUB-NP-109 Do you believe that changes in a fair return on equity between test years can be estimated accurately using a formula, or is a fair return on equity determination simply too complex to be applied using a formula approach? Please explain your response.

DATED at St. John's, Newfoundland this 18th day of October, 2012.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Per C Blundon
Cheryl Blundon
Board Secretary