Q. NP is proposing a 6% average rate increase effective March 1, 2013 (Application page 1-5, lines 9-10) and a significant increase in return on equity, from the current 8.8% approved only a few months ago by the Board for 2012 (Application page 1-5, line 23 and page 1-6, line 1), to 10.4% in this Application (September 14, 2012 letter to Board Re: 2013/2014 General Rate Application, page 3). In return for this sizeable increase in rates and return on equity, is NP proposing to:

a. Take on increased risk to relieve the burden of risk currently taken on by customers?
b. Commit to specific improvements in efficiency and cost reduction?
c. Commit to specific improvements in customer service and quality of supply?

If proposing any of (a) through (c), please identify and provide details of the proposal and the source in the Application.

A. **A. General**

The 6% average rate increase in customer rates proposed in this Application results from a variety of factors, not just an increased ratemaking return on equity as this question implies. For example, approximately 2.6% of the increase in customer rates proposed in this application is attributable to increased supply costs from Newfoundland and Labrador Hydro.

The return on equity proposed by Newfoundland Power in this Application broadly reflects the return on equity proposed by the Company in its 2012 cost of capital application which was filed with the Board less than 6 months before this Application. At the time of the settlement of the Company's 2012 cost of capital in the 2nd quarter of 2012, it was known that the issue of ratemaking return on equity for 2013 would be revisited in the September application which the Board directed the Company to file.

Newfoundland Power's proposed 2013/2014 return on equity of 10.4% in its September 2012 application is consistent with the 2012 return on equity proposed in its March 2012 application.

B. The Specific Questions Posed

(a) In this Application, Newfoundland Power seeks a ratemaking return on equity for 2013/2014 of 10.4%. This is based upon the Company's longstanding business, regulatory and financial risks. (See, generally, Expert Evidence of Ms. Kathleen McShane and Dr. James Vander Weide). The Company is not proposing to recalibrate those risks in this Application. If this were to be done, Newfoundland Power's ratemaking return on equity would have to be recalibrated accordingly.

(b) Newfoundland Power's overall operating cost efficiency is forecast to improve in 2013/2014 (see, Company Evidence, Section 2, p. 2-8, *et. seq.*). By proposing operating costs for ratemaking purposes that are reduced in *real* terms, the Company ensures customers get the benefit of the forecast whether it is achieved or not.

(c) In this Application, Newfoundland Power has outlined the increasing diversity of customer service expectations, including an increased customer desire for means to reduce their electricity bills (see Company Evidence, Section 2, pages 2-6 to 2-8 and pages 2-12 *et. seq.*). The Company (i) continues to manage this diversity effectively and at a lower *real* cost per customer, and (ii) has proposed an expansion in customer energy conservation programming. These items improve the service received by Newfoundland Power's customers.