

1 **Q. Page 3 of NP's Application indicates that the company is seeking to set rates in 2013**  
2 **and 2014 that will recover the forecast revenue requirement in 2013 and 2014. This**  
3 **application therefore proposes to adopt a two-year test period for this application.**  
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5 **Please provide the company's rationale for bring forward an application based on a**  
6 **two-year test period, rather than the traditional one-year test period.**  
7

8 A. The *Electrical Power Control Act, 1994* ("EPCA") provides that rates should be  
9 established based on forecasts for one or more years.<sup>1</sup> The Board has in past accepted the  
10 use of a two-year test period. In Order No. P.U. 19 (2003), the Board approved the use of  
11 fiscal years 2003 and 2004 as the test years for determining revenue requirements and  
12 setting rates effective August 1, 2003.<sup>2</sup>  
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14 Newfoundland Power's proposal of a two-year test period, 2013 and 2014, reflects  
15 consideration of regulatory efficiency and customer rate stability. Based on the timing of  
16 this Application, implementation of the Board's decision in this matter is likely to occur  
17 during 2013. When the projected implementation date for new customer rates is several  
18 months into a test year, it is appropriate to consider how the new rates would reflect  
19 revenue requirements for the following year. In this situation, setting rates based upon a  
20 single test year could result in two customer rate adjustments within a relatively short  
21 time frame, in order to ensure rates reasonably reflect costs for the following year.  
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23 Revenue from existing rates will not meet the Company's 2013 and 2014 revenue  
24 requirements, as described in the evidence supporting the Application. The proposed  
25 average rate increase of 6.0% effective March 1, 2013 will provide Newfoundland Power  
26 the opportunity to recover its 2013 forecast revenue requirement in 2013 and its 2014  
27 forecast revenue requirement in 2014.<sup>3</sup>  
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29 The Company's proposal for a two-year test period is in accordance with the EPCA, is  
30 consistent with practice accepted by the Board in the past, and is reasonable in the current  
31 circumstances.

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<sup>1</sup> See Section 3(a)(ii) of the *Electrical Power Control Act, 1994*.

<sup>2</sup> See Order No. P.U. 19 (2003), pages 90 and 112 *et seq.*

<sup>3</sup> The forecast revenue requirement for each year reflects a proposed regulatory amortization to recover, over the period March 2013 to December 2015, a \$980,000 revenue shortfall for 2013 due to the timing of the March 1<sup>st</sup> rate change implementation date. See *Volume 1, Application and Company Evidence, Section 3.5.4 2013 Revenue Shortfall*, page 3-55 *et seq.*, and *Section 4.3 2013 and 2014 Revenue Requirements*, page 4-5, Table 4-5.