

1 **Q. 2013-2014 General Rate Application, Company Evidence**

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

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7 A. Newfoundland Power is dependent upon Newfoundland and Labrador Hydro for the  
8 power supply required by the Company to meet its obligation to serve its customers.  
9 These power supply costs accounted for approximately 66% of revenue from rates in  
10 2011.

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12 Newfoundland Power's single supply dependency is a long term risk for a number of  
13 reasons. Firstly, it limits management's ability to influence the Company's largest cost.  
14 Management has no competitive alternative sources of supply to serve its customers'  
15 needs. Secondly, basic economic theory would indicate that the impact of supply costs  
16 on customer rates could serve to influence consumer behaviour. In particular, increased  
17 supply costs, resulting in increased customer rates, could restrict sales growth or promote  
18 sales decline. Finally, abrupt increases in power supply costs could have the effect of  
19 delaying recovery of Newfoundland Power's other costs.

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21 Single supply dependency is more problematic for the future than the present for a  
22 number of reasons.

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24 The future is inherently more uncertain than the present. And long term uncertainty is  
25 greater than short term uncertainty. This has obvious implications for the recovery of  
26 investment in long life utility assets.

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28 Newfoundland Power is currently recovering its supply costs. There is no assurance that  
29 economic circumstances will prevail in a manner that permits the Company to recover its  
30 supply costs in the short term and the long term. Failure of the Company to recover its  
31 supply costs presents a hazard to the Company's ability to earn its allowed return.

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33 Current marginal supply costs for the Island Interconnected Grid are materially higher  
34 than current average supply costs. This indicates that, as customers' energy requirements  
35 grow on the Island Interconnected Grid, the growth will tend to increase overall supply  
36 costs as a proportion of Newfoundland Power's total costs.

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38 Finally, medium to long term supply costs are currently uncertain. The impact of  
39 medium to long term supply choices on cost is not expected to become clear until  
40 construction of the next production facilities and associated transmission is nearer  
41 completion. But it is currently expected that long term supply costs will be higher than  
42 current marginal supply costs.