

Q. 2013-2014 General Rate Application, Amortization of Deferrals

In Section 3.5.1 of the Application NP outlines its proposition to amortize over the three-year period: (i) cost recovery deferrals approved in 2010 for 2011, \$2,400,000, in 2011 for 2012, \$2,400,000, and in 2012 for 2012, \$2,500,000; (ii) third party hearing costs associated with this Application, \$1,250,000; (iii) the year end 2011 balance in the Weather Normalization Reserve, (\$7,005,0000); and (iv) a 2013 revenue shortfall resulting from a forecast March 1, 2013 implementation of revised customer rates, netting to \$0 over the three-year period. The period of amortization is 2013, 2014 and 2015, and the total amount to be recovered is \$1,545,000.

Is it also an option, in NP's view, to set rates for a defined period only to ensure that deferral accounts, cost of equity and other matters are review at appropriate intervals? If Yes, what is an appropriate interval?

- A. In Newfoundland Power's view, reviewing customer rates at reasonable intervals has the advantage of ensuring that customer rates continue to reasonably reflect the cost of service. This includes ensuring that deferral accounts, the Company's cost of equity and other matters continue to be reasonable. It is also Newfoundland Power's view that reviewing customer rates at too short intervals can result in unnecessary regulatory costs.

Following the Company's last two general rate cases, the Board required the next succeeding general rate case to be filed within 3 years.¹ Such an interval appears reasonable to the Company.

In the context of this Application, in the Company's view, appropriate timing for re-examining Newfoundland Power's customer rates would occur if the Company was ordered to file its next general rate case no later than the 2nd quarter of 2015 with a 2016 test year. This reflects the Company's current view that a rate case will likely be required to deal with a forecast revenue shortfall of approximately \$7.6 million in 2016.²

If circumstances were to develop in a way that a reasonable opportunity did materialize to defer the next review of Newfoundland Power's customer rates to a 2017 test year, then the Company could apply to the Board for such a deferral. Such an application would require the Company, at a minimum, to (i) inform the Board of the relevant circumstances and (ii) show that the deferral of the rate case was reasonable in *all* of the then current circumstances.³

¹ In Order No. P.U. 32 (2007), the Board ordered the Company to file its next general rate case no later than June 30, 2010. In Order No. P.U. 43 (2009), the Board ordered the Company to file its next general rate case no later than May 31, 2012. Both of these Orders implicitly indicated the base rates approved by the Board would be in effect for a 3-year period.

² A rate case may be required earlier. Please refer to the responses to Requests for Information PUB-NP-112 and CA-NP-398.

³ One of those circumstances would be the impact of the rate case deferral on Newfoundland Power's opportunity to earn a just and reasonable return in 2016.