

1 **Q. In the Fortis Inc. 2004 Annual Report (page 12), it is stated "During 2004,**
2 **customers experienced, on average, 1.95 hours of interrupted service, marking the**
3 **eleventh consecutive year that the Company's system reliability has exceeded the**
4 **benchmark established under the former Maritime Electric Company Limited**
5 **Regulation Act." What is the basis upon which this benchmark was established, and**
6 **is such an approach appropriate for use by NP?**

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8 A. *The Maritime Electric Company Limited Regulation Act* (the "Act") came into effect in
9 April 2004. The Act implemented price cap regulation¹ which effectively removed a
10 substantial portion of the oversight function of the Island Regulatory and Appeals
11 Commission ("IRAC"). The Act contained a reliability benchmark to ensure Maritime
12 Electric maintained acceptable service levels in the absence of direct IRAC oversight.

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14 The reliability benchmark imposed by the Act is contained in section 4(1) which provides
15 as follows:

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17 4. (1) Subject to events beyond the control of the Utility, the Utility shall operate
18 the power system in accordance with good utility practice, so as to maintain
19 standards of reliability which result each year in,
20 (a) availability in the province as a whole not materially lower than the
21 average levels in the province achieved by the Utility from 1990 to 1993; and
22 (b) availability in each area of the province not materially lower than the
23 average of the availability achieved in the area by the Utility from 1990 to
24 1993.

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26 The Act was repealed in January 2004 and was replaced with the *Electric Power Act*.
27 The *Electric Power Act*, in effect, changed the regulation of Maritime Electric from price
28 cap regulation to cost of service regulation. The *Electric Power Act* does not contain any
29 specific benchmarks for reliability. However, as part of the return to cost of service
30 regulation, Maritime Electric has begun reporting reliability statistics to IRAC.

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32 Due to the specific circumstances surrounding the implementation of the Act,
33 Newfoundland Power does not believe the approach is appropriate for use by
34 Newfoundland Power.

¹ The Act legislated that the base rates charged by Maritime Electric for service "shall be such that the amounts payable by customers in each rate classification shall not exceed 110% of the amounts that would be payable if the customers in that classification were served in New Brunswick by the New Brunswick Power Corporation."