

1 **Reference: "2023 Capital Budget Application," Newfoundland Power Inc., June 29,**
 2 **2022, 2023 Capital Budget Overview, p. 9, sec. 2.3.3.**
 3

4 **Q. a) Is there a direct relationship between Newfoundland Power's average**
 5 **annual capital expenditures of over \$100 million since 2016 and the**
 6 **resulting rate changes from the 2019/2020 General Rate Application**
 7 **and the 2022/2023 General Rate Application?**
 8

9 **b) Would you expect similar rate impacts in future general rate**
 10 **applications if capital expenditures continued to average over \$100**
 11 **million? Please explain.**
 12

13 **c) Would a reduction in capital expenditures result in a decrease in**
 14 **Newfoundland Power's contribution to customer rates? Please explain.**
 15

16 A. a) The relationship between Newfoundland Power's capital expenditures and its
 17 revenue requirements or customer rates is not a direct one.¹ The Board has
 18 previously recognized it as a complex relationship. In Order No P.U. 40 (2005),
 19 the Board stated:
 20

21 *"NP undertakes a capital program and incurs capital expenditures each year*
 22 *and these expenditures impact the revenue requirement in other ways, in*
 23 *addition to depreciation. The portion of capital expenditures incurred for*
 24 *example as a result of customer growth will be offset somewhat by higher*
 25 *revenues from increased energy sales. Other capital expenditures may*
 26 *impact maintenance expenses...these expenses are properly dealt with in*
 27 *the context of a general rate application."*²
 28

29 b) The customer rate impact related to the Company's continued investment in the
 30 electrical system was estimated to be 1.5% in Newfoundland Power's
 31 *2022/2023 General Rate Application* ("GRA").³ Rate impacts have not yet been
 32 developed for Newfoundland Power's next GRA; therefore, associated rate
 33 impact estimates cannot be provided at this time.⁴ Generally, the Company
 34 would expect continued investment in the electrical system to increase its
 35 revenue requirements over time.
 36

37 c) A reduction in overall customer costs, not simply a reduction in capital
 38 expenditures, results in a decrease to revenue requirement. Newfoundland
 39 Power's total revenue requirements are interrogated by the Board on a triennial
 40 basis in the context of a GRA. See part a) to this response for further

¹ See the *2023 Capital Budget Application, 2023 Capital Budget Overview, Section 2.3.3 Customer Rates* for a fulsome discussion on the relationship between the Company's capital investments, revenue requirements and customer rates.

² See Order No. P.U. 40 (2005), page 13.

³ This increase is in comparison to customer rates approved by the Board in Order No. P.U. 2 (2019) upon the conclusion of Newfoundland Power's *2019/2020 GRA*. See the response to Request for Information CA-NP-073 for further information.

⁴ The Company has been ordered to file its next GRA by June 1, 2024.

- 1 explanation. Also, see the response to Request for Information CA-NP-011 for
- 2 information on how the Company's capital planning process employs practices to
- 3 ensure capital projects, where practicable, reduce overall costs to customers.