Q. (Reference Application, 2024 Capital Budget Overview, page 9) It is stated "*The capital projects proposed in the Application are estimated to increase the Company's annual revenue requirement by approximately $4 million on a pro forma basis. The estimate includes increases in depreciation, return on rate base and income taxes*."

a) What is the expected percentage increase in rates resulting from the proposed capital budget?

b) How much will the 2024 CBA increase NP's rate base and profits?

c) How much would service be improved and how much gain in efficiency would result if the capital expended were increased to a level that would increase the annual revenue requirement by $8 million?

d) How much would service be diminished and how much reduction in efficiency would result if the capital expended were decreased to a level that would result in no change in the annual revenue requirement?

A. a) The $4 million *pro forma* revenue requirement estimate would translate to an approximate 0.5% increase in customer rates.

The *pro forma* estimate is practically limited as it does not include potentially higher revenues from growth-related projects, or the long-term effect that fully justified capital expenditures have on minimizing revenue requirements.[1] See the *2024 Capital Budget Application, 2024 Capital Budget Overview, Section 2.3.3 Customer Rates* for a fulsome discussion on the relationship between Newfoundland Power's capital investments, revenue requirements and customer rates.

b) See the response to the request for Information NLH-NP-039 for a breakdown of the *pro forma* estimate, including estimated impacts on the Company's average rate base. An estimated impact on Newfoundland Power's return on equity for 2024 is $2.6 million.[2] An appropriate capital structure combined with fully justified capital expenditures and efficient operations contributes to minimizing revenue requirements over the long term.[3]

c) The Company cannot quantify the change in service or efficiency related to arbitrary changes in capital expenditure or annual revenue requirement as requested in this hypothetical scenario. The Board has previously recognized the complex relationship between capital investments, revenue requirements and customer rates.[4]

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[1] For example, the systematic replacement of deteriorated plant during regular work hours tends to reduce the cost of making emergency repairs due to equipment failures, which often occurs during overtime hours.

[2] As outlined in the response to Request for Information NLH-NP-039, the change in average rate base of $68.5 million x 45% x 8.5% = $2.6 million.

[3] See, for example, Order No. P.U. 7 (2002-2003), where the Board stated: *"From a regulatory perspective, efficient operations, fully justified capital expenditures and a low cost capital structure all combine to minimize revenue requirement, and hence provide least cost electricity to ratepayers."* The Company's capital structure for ratemaking purposes has not changed in over 25 years and has contributed to the Company's continued access to capital markets on reasonable terms.

[4] In Order No. P.U. 40 (2005), the Board stated: *"NP undertakes a capital program and incurs capital expenditures each year and these expenditures impact the revenue requirement in other ways, in addition to depreciation. The portion of capital expenditures incurred for example as a result of customer growth will be offset somewhat by higher revenues from increased energy sales. Other capital expenditures may impact maintenance expenses…these expenses are properly dealt with in the context of a general rate application."*

Newfoundland Power's objective is to maintain current levels of overall service reliability for its customers. The projects included in the *2024 Capital Budget Application* represent the capital additions and improvements necessary to continue providing safe and reliable service to customers at the lowest possible cost.

d) See part c).