

- 1 **Q. (Reference Application, 2024 Capital Budget Overview, page 12) It is stated**
 2 **"In Newfoundland Power's view, the Company's approach to capital planning**
 3 **tends to minimize overall costs to customers over the longer term." Further, it**
 4 **is stated "Newfoundland Power's contribution to average customer rates**
 5 **increased by approximately 16% from 2015 to 2024."**
 6 **a) If NP's contribution has increased customer rates by 16% from 2015 to**
 7 **2024, how has the capital planning approach "minimized overall costs to**
 8 **customers"?**
 9 **b) How does a 16% increase over this time frame compare to a peer group of**
 10 **comparable utilities?**
 11 **c) If the distribution reliability target was the Atlantic Canadian average,**
 12 **would NP's contribution to rates be less?**
 13
 14 **A.** a) Newfoundland Power's contribution to average customer rates increased by
 15 approximately 16% from 2015 to 2024, a period of 10 years. On an inflation-
 16 adjusted basis, the Company's contribution to average customer rates decreased by
 17 10%.¹ During the period, Newfoundland Power has been able to maintain
 18 reasonable service reliability for customers. This demonstrates effective capital
 19 planning and cost management.
 20
 21 In Newfoundland Power's view, the Company's approach to capital planning tends to
 22 minimize overall costs to customers over the longer term. The Board has also
 23 recognized that fully justified capital expenditures contribute to the delivery of least-
 24 cost service to customers.²
 25
 26 b) Newfoundland Power does not have the data to complete the analysis requested.
 27 The Company can provide that electricity rate increases in the United States ("U.S.")
 28 over the period 2015 to 2023 have exceeded inflation.³ According to the U.S.
 29 Bureau of Labor Statistics, prices for electricity in the U.S. are 27% higher in 2023
 30 than they were in 2015.⁴ Over the same period, U.S. gross domestic product
 31 increased by approximately 25%.⁵ By comparison, Newfoundland Power's
 32 contribution to customer rates increased by approximately 16% from 2015 to 2024,
 33 or decreased by 10% on an inflation-adjusted basis.

¹ See Newfoundland Power's 2024 Capital Budget Application, 2024 Capital Budget Overview, page 12.

² In Order No. P.U. 7 (2002-2003), 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."

³ Historical industry-wide data on utility operations, costs and rates is not readily available for Canadian utilities.

⁴ See All Items (chained) Inflation Calculator (2023). *Consumer Price Index, U.S. Bureau of Labor Statistics*. Retrieved August 25, 2023 from [https://www.in2013dollars.com/All-items-\(chained\)/price-inflation/2015-to-2023?amount=1](https://www.in2013dollars.com/All-items-(chained)/price-inflation/2015-to-2023?amount=1)

⁵ Ibid.

1 c) The average duration of Newfoundland Power’s customer outages has been
2 approximately 31% lower than the Atlantic Canadian average over the 10-year
3 period 2012 to 2021.⁶ As demonstrated in part a) and part b) to this response,
4 Newfoundland Power has been able to achieve its reliability performance while
5 effectively managing costs. This demonstrates that the Company’s approach to
6 reliability is both effective and efficient.
7

8 Setting a reliability target to the Atlantic Canadian average effectively means
9 extending the duration of customer outages. In Newfoundland Power’s view, this
10 would expose customers to greater risk and would not directly translate to lower
11 costs.
12

13 Newfoundland Power’s reliability performance primarily reflects the general condition
14 of the electrical system and the Company’s operational response when customer
15 outages occur. Newfoundland Power attributes its reliability performance over the
16 past 20 years to its: (i) design and construction standards which are based on
17 national standards; (ii) its asset management practices which conform to good utility
18 practice; and (iii) its operational response.⁷
19

20 Targeting lower reliability performance effectively means designing and constructing
21 the distribution and transmission system to a lower standard, applying asset
22 management practices that are not consistent with good utility practice, and not
23 maintaining an effective and efficient operational response. In Newfoundland
24 Power’s view, such an approach would lead to more frequent and longer duration
25 unplanned outages which would result in higher costs.

⁶ See Newfoundland Power’s *2024 Capital Budget Application, 2024 Capital Budget Overview*, page 13.

⁷ See the response to Request for Information PUB-NP-020 for additional information on the appropriateness of Newfoundland Power’s design and construction standards, asset management practices, and use of technology.