

- 1 **Q. (Reference Application) With respect to a cost of service study:**  
 2 **a) Does NP accept that the cost of service study is an analysis of costs that**  
 3 **assigns to each class of customers its proportionate share of the utility's**  
 4 **total revenue requirement?**  
 5 **b) Does NP accept that the goal of the cost of service study is to ensure that**  
 6 **each customer class pays its fair share of the utility's revenue**  
 7 **requirement?**  
 8  
 9 A. a) Yes, cost of service studies are conducted on a regular basis to evaluate the  
 10 reasonableness of cost recovery by class of service and as a step in the process for  
 11 establishing Newfoundland Power's customer rates. The Company filed its latest cost  
 12 of service study as part of its *2025/2026 General Rate Application*.<sup>1</sup>  
 13  
 14 Newfoundland Power assesses the fairness of its customer rates by comparing the  
 15 revenue collected from each class with the cost to serve that class, as determined  
 16 through an embedded cost of service study (the "revenue-to-cost ratio").  
 17 Maintaining revenue-to-cost ratios for each customer rate class within a range of  
 18 90% to 110% has been an accepted approach to achieving fairness in rate design by  
 19 avoiding undue cross-subsidization among the various classes.<sup>2</sup> The revenue-to-cost  
 20 ratio for all of Newfoundland Power's customer rate classes are within the 90% to  
 21 110% range accepted by the Board.<sup>3</sup>  
 22  
 23 b) See part a).

<sup>1</sup> See Newfoundland Power's *2025/2026 General Rate Application, Volume 2: Supporting Materials, Cost of Service Study*.

<sup>2</sup> This is consistent with the views of the Board as expressed in Order No. P.U. 7 (1996-1997), which states: "The Board agrees with the philosophy that it is not necessary to achieve a 100% revenue to cost ratio for all classes and takes no exception to a variance of up to 10%."

<sup>3</sup> See Newfoundland Power's *2025/2026 General Rate Application, Volume 1: Application, Company Evidence and Exhibits, Section 5.3.1 Embedded Cost of Service Study*, pages 5-7, Table 5-5.