# Office of the Consumer Advocate

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July 30, 2018

Board of Commissions of Public Utilities
120 Torbay Road, P.O. Box 2140
St. John's, NL A1A 5B2

**Attention: G. Cheryl Blundon, Director of Corporate Services / Board Secretary**

Dear Ms. Blundon:

**RE: Newfoundland Power's 2019-2020 General Rate Application**

Further to the above-captioned, enclosed please find enclosed the original and twelve (12) copies of the Consumer Advocate's Requests for Information CA-NP-001 to CA-NP-015.

A copy of this letter, together with enclosure, has been forwarded directly to the parties listed below.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours truly,

**Dennis Browne, Q.C.**

/jl
Enclosure

cc. **Newfoundland Power Inc.**
NP Regulatory (regulatory@newfoundlandpower.com)
Gerard Hayes (ghayes@newfoundlandpower.com)
Kelly Hopkins (khopkins@newfoundlandpower.com)
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**Board of Commissioners of Public Utilities**
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Mark Murray (mmurray@mwhslaw.com)

IN **THE MATTER OF**
the *Public Utilities Act,* R.S.N.L. 1990,
Chapter P-47, as amended (the *"Act")*;

AND

IN **THE MATTER OF**
a general rate application (the "*Application*")
by Newfoundland Power Inc. ("*Newfoundland Power*")
to establish customer electricity rates for 2019 and 2020.

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**CONSUMER ADVOCATE**
**REQUESTS FOR INFORMATION**
**CA-NP-1 to CA-NP-127**

**Issued: July 30, 2018**

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***General***

CA-NP-001 Please provide the most recent residential electric sales profile available. Submit end-use daily load curves for the typical home (kW versus time) showing electric space heating, electric water heating and other end-uses as available for a winter weekday and weekend, summer weekday and weekend, spring weekday and weekend and fall weekday and weekend.

CA-NP-002 Please provide the typical annual consumption of a residential customer:

- With no electric heating or hot water
- With electric hot water, but no electric heating
- With electric hot water and electric heating

CA-NP-003 Provide a comparison of the cost to the consumer to heat a typical home with oil and electricity at current and proposed rates.

CA-NP-004 Provide a comparison of the cost to the consumer of hot water for a typical home using oil and electricity at current and proposed rates.

CA-NP-005 What are Newfoundland Power's costs of supplying electricity to a typical home for: 1) hot water, and 2) home heating?

CA-NP-006 Provide the following information for the years 2014 through 2017, and forecast for the years 2018, 2019 and 2020 on the basis of the 2019-2020 General Rate Application:

- kWh sales/employee
- Customers/employee
- $ revenue/employee
- km distribution/employee
- Fixed cost associated with distribution system/km of distribution
- O&M cost associated with distribution system/km of distribution

***Schedule A - Rates***

CA-NP-007 Please provide in tabular format the number of customers in each of the past 5 years availing of the standard rate and the optional seasonal rate.

CA-NP-008 Does NP believe that a seasonal rate remains a viable rate alternative for customers? Please explain.

***Schedule B – Rules and Regulations***

CA-NP-009 Please confirm that no changes have been made to the Rules and Regulations as a result of the *2018 Rules and Regulations Review*.

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| CA-NP-010 | (Schedule B, clause 7 (n)) What is the basis for the 1.5% adjustment? What is the typical cost of metering at the primary versus the secondary distribution voltage level? What are the typical losses of a transformer? |
| CA-NP-011 | (Schedule B, clause 9 (f)) How do the $20 and the $40 reconnection fees compare to average costs to provide this service? |
| CA-NP-012 | (Schedule B, clause 9 (g)) Is NP's policy relating to the collection of minimum monthly charges during a period of disconnection consistent with practice elsewhere in Canada? |
| CA-NP-013 | (Schedule B, clause 9 (k)) Does the reduction in the monthly demand charge for customers who own their transformers reflect the savings to NP of owning and operating such facilities itself? |
| CA-NP-014 | (Schedule B, clause 9 (l)) Is this clause relating to adjustment of customer billing demands consistent with practice elsewhere in Canada? |
| CA-NP-015 | (Schedule B, clause 9 (n)) Does the $8 application fee reflect NP's costs of providing this service and how does it compare to such fees elsewhere in Canada? |
| CA-NP-016 | (Schedule B, clause 10 (c)) What is the basis for the 5% adder to the prime rate and how does it compare to practice elsewhere in Canada? |

CA-NP-017 (Schedule B, clause 10 (d)) How does the $16 charge for bad checks compare to practice elsewhere in Canada? The clause indicates the charge "may" be applied. How does NP decide when the charge will be applied to a customer's bill?

CA-NP-018 (Schedule B, clause 10 (g)) How does NP decide whether or not to relieve the customer of responsibility for paying the underbilled amount?

CA-NP-019 (Schedule B, clause 11 (f)) Can a landlord simply call NP and have service transferred to his/her name when a tenant moves out without having a *Landlord Agreement*? In such cases is the landlord subject to any fees?

## ***Section 1 - Introduction***

CA-NP-020 (Table 1-2 and page 1.2, lines 17 to 19) Are media reports about the potential rate increases brought on by Muskrat Falls expected to influence NP sales during the period prior to the commissioning of Muskrat Falls? Please provide support for the response including all studies and elasticity studies.

CA-NP-021 (page 1-2, lines 22 to 24) Have customers indicated a willingness to pay for increased reliability? Please provide all research NP has conducted relating to customer willingness to pay for improved reliability and indicate how NP factors this into its capital and maintenance budgets.

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| CA-NP-022 | (page 1-2, lines 22 to 24) Please file for the record a copy of NP's distribution service reliability criteria and policy and show how it ties in with customer willingness to pay. |
| CA-NP-023 | (page 1-4, lines 1 to 3) It is stated "*The average duration of customer outages has been ½ the Canadian average over the last 10 years. The average frequency of customer outages has been consistent with the Canadian average.*" |

(a) What are NP's targets for SAIDI and SAIFI?

(b) Is it appropriate that NP provide service with SAIDI and SAIFI levels at the Canadian average given the harsh weather conditions experienced throughout Newfoundland Power's service territory" (page 1-7, line 10)?

(c) Have customers indicated that they want reliability at levels ½ the CEA average in the case of SAIDI and comparable to the Canadian average in the case of SAIFI?

(d) Does NP have an estimate of what it has cost customers to have reliability consistent with the Canadian average relative to, for example, having reliability as levels that are 20% above (worse than) the Canadian average?

(e) How much would customers save if NP allowed reliability to deteriorate to levels about 20% above (worse than) the Canadian average?

CA-NP-024 (page 1-7, lines 20 to 21) Did NP consider the impact of its application and proposed rate increase in the context of the large upcoming rate increase owing to the Muskrat Falls project and during a period of time when the provincial economy is in a fragile state? Did NP consider that its proposed rate increase is "piling it on customers" at a time when they can least afford it?

CA-NP-025 What actions is NP taking to alleviate the impact of electricity prices on the economy during this very difficult time?

***<u>Section 2 – Customer Operations</u>***

CA-NP-026 (page 2-9, Figure 2-1) What have been the major sources of customer dissatisfaction in recent years?

CA-NP-027 (page 2-12, lines 1 to 4) The assessment of the Customer Service System is estimated to cost $1.3 million over the 3-year period from 2018 to 2020. Please provide a rough estimate of the expected cost of the Customer Service System itself.

CA-NP-028 (page 2-12, Five-Year Conservation Plan) Has NP reassessed its five-year conservation plan in light if the poor provincial economy, the rate impact of Muskrat Falls, the reduction in the marginal cost of supply following completion of the LIL/LTA and ML transmission facilities and the decreasing demand for electricity in the Province? If not, why not?

CA-NP-029 (page 2-13, Footnote 36) Is it accurate to say that Holyrood is typically the marginal production facility on the Island Interconnected System? For how many hours in 2019 and 2020 is Holyrood expected to be the marginal plant?

CA-NP-030 (page 2-14, lines 6 to 10) Does NP tell customers what energy costs they will be avoiding when they make long-term decisions such as those associated with the installation of heat pumps? Does NP provide benefit to cost ratios to customers for such technologies? What are heat pump marketers telling customers about avoided energy costs?

CA-NP-031 (page 2-15, Footnote 43) Will marginal energy costs not in fact decrease prior to 2020 as a result of off-island purchases over the LIL and ML transmission displacing Holyrood production?

CA-NP-032 (page 2-36, lines 5 to 9) How do the savings in labour costs owing to the deployment of AMR compare to savings predicted when the AMR program was approved?

CA-NP-033 Please provide the following for each of the past five years and explain how each is measured, and if any exclusions apply:

(a) Percentage of customers not reaching a company representative within 40 seconds during normal business hours, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of calls not reaching a company rep within 40 seconds}}{\text{Number of attempts to reach a company rep}}$$

(b) Percentage of calls abandoned during normal business hours, excluding outage-related calls, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of calls abandoned}}{\text{Number of attempts to reach a company rep}}$$

(c) Percentage of attempted outage related calls not answered live on a 24-hour, 7-day per week basis, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of outage calls not answered}}{\text{Number of outage calls attempted}}$$

(d) Percentage of calls blocked (receive a busy signal or call back message), calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of calls receiving a busy signal/message}}{\text{Number of calls trying to reach NP}}$$

CA-NP-034 Please provide the following for each of the past five years and explain how each is measured, and if any exclusions apply:

(a) Percentage of bills not rendered within seven days of the scheduled billing date, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of bills not rendered within seven days of the scheduled billing date}}{\text{Total number of bills scheduled to be rendered}}$$

(b) Percentage of bills found inaccurate after being sent to customers, brought to company's attention either as a result of customer complaints and/or by the company's own efforts, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of bills rendered inaccurately for the month}}{\text{Total number of bills rendered for the billing month}}$$

(c) Percentage of customers filing complaints ultimately classified as escalations to the Company or to the Board concerning the posting of their payments to their accounts, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of customers complaining about payment posting}}{\text{Total number of customers}}$$

(d) Percentage of meters not read each month in relation to the number that were scheduled to be read, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of scheduled meters not read}}{\text{Number of meter readings scheduled}}$$

CA-NP-035 Please provide the following for each of the past five years and explain how each is measured and if any exclusions apply:

(a) The percentage of jobs resulting from customer requests for meter-related or other customer requested work that are completed on or before the promised completion date as defined and agreed to by the customer, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of jobs not completed on or before promised delivery date}}{\text{Total number of jobs promised to be completed in the reporting month}}$$

(b) Average number of days after the missed delivery date in which Newfoundland Power was to complete meter-related or other customer-requested work, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Total days of delay}}{\text{Total number of delayed jobs in the reporting month}}$$

CA-NP-036 Please provide the following for each of the past five years and explain how each is measured, and if any exclusions apply:

(a) Percentage of customers who are satisfied or completely satisfied following customer-initiated contact with the company (report, request, inquiry, customer requested work and complaint resolution). What does NP believe to be a reasonable standard of performance for this measure?

(b) Percentage of customers satisfied or completely satisfied with the Company. What does NP believe to be a reasonable standard of performance for this measure?

CA-NP-037 Please provide the following for each of the past five years and explain how each is measured, and if any exclusions apply. Are these worker safety measures currently tracked by Newfoundland Power? If not, please provide performance for each of the past five years for the worker safety performance areas that are tracked.

(a) The number of lost time cases experienced by Newfoundland Power in a calendar year, multiplied by 200,000 and divided by the total hours worked by Newfoundland Power employees, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of lost time cases x 200,000}}{\text{Total hours worked by Company employees}}$$

(b) The number of employee lost days experienced by Newfoundland Power for a calendar year, multiplied by 200,000 and divided by the total hours worked by Newfoundland Power employees, calculated as follows. What does NP believe to be a reasonable standard of performance for this measure?

$$\frac{\text{Number of employee lost days x 200,000}}{\text{Total hours worked by the Company employees}}$$

CA-NP-038 What does NP believe to be a reasonable standard of performance for system-wide SAIFI and SAIDI?

CA-NP-039 In NP's opinion, what is a reasonable time in calendar days to respond to customer complaints expressed directly to the Company? What is a reasonable time in calendar days to respond to customer complaints expressed through the Board?

CA-NP-040 Are weather-related delays defined in NP's contract with unionized employees concerning restrictions on outside work during inclement weather, and if so, please provide the clause?

CA-NP-041 Does the Customer Information System log customer complaints?

CA-NP-042 Does NP have a Work Management System that logs direct customer-related work such as move-ins, move-outs, check readings, etc.? What other information related to direct customer work does it log?

CA-NP-043 Does NP currently have, or plan to initiate development of, a Distribution Reliability and Service Standard for customers? If not, why not?

CA-NP-044 For the Island Interconnected System, please provide a breakdown of customer interruptions both in terms of frequency and number of minutes owing to generation-, transmission- and distribution-related causes.

CA-NP-045 Please provide for the record a copy of the most recent Peer Group Report.

***<u>Section 3 - Finance</u>***

CA-NP-046 (page 3-3, Table 3-3) What is the basis for the "*purchases from Hydro*" dollar amounts included in Table 3-3 for 2019 and 2020? When are the costs of Muskrat Falls expected to be incorporated in purchase costs?

CA-NP-047 (page 3-24, lines 20 to 22) It is stated "*The cost of serving a declining number of customers in rural areas will put increased pressure on the Company's ability to recover the investment in assets required to serve those customers*". What steps is NP taking to reduce capital expenditures and the associated risk that it will not recover such capital investments?

CA-NP-048 (page 3-26, Footnote 52) It is stated "*To address declining sales, some regulated gas and electric utilities have implemented revenue decoupling mechanisms. Revenue decoupling refers to adjustable pricing mechanisms that break the link between the amount of energy sold and the actual (allowed) revenue collected by the utility. Decoupling mechanisms enable a utility to recover its approved test year revenue requirement as its sales decline. During periods of sales growth, decoupling mechanisms have the effect of returning revenues in excess of a utility's approved revenue requirement back to customers.*"

(a) Is NP proposing such a decoupling mechanism? If not, why not?

(b) Please provide an example of a decoupling mechanism that might be implemented for NP.

(c) Would an incentive-based, or performance-based, regulatory mechanism be appropriate in an era of declining sales? Please provide support for your response.

(d) What might NP propose as an appropriate incentive-based regulatory mechanism going forward?

(e) Would NP's risk be reduced if its revenue requirement were decoupled from its power purchase costs? How might such a mechanism be designed?

***<u>Section 4 – Rate Base and Revenue Requirement</u>***

***<u>Section 5 – Customer Rates</u>***

CA-NP-049 (page 5-4, Table 5-3) Is the forecast reduction in sales within NP's historical load forecast margin of error. What is NP's load forecast margin of error?

CA-NP-050 (page 5-4, Table 5-3) Please show the impact on revenue requirement and required rate increase for the test year for the following load forecast scenarios (compared to the most recent 12-month period for which actual load data are available, weather adjusted):

(a) A 1% increase in demand;

(b) No change in demand;

(c) A 5% reduction in demand.

CA-NP-051 (page 5-15, Section 5.5 – Net Metering Service Option)

(a) Has NP identified shortcomings in the net metering program that may be hindering up-take? Does NP plan to propose any changes to the net metering program to alleviate shortcomings?

(b) Has NP identified benefit to cost ratios for net metering installations to provide guidance to customers when making decisions about net metering?

(c) Has NP done any calculations of the impact on net metering program up-take in response to the forecast doubling of rates following commissioning of Muskrat Falls? Please provide any analyses NP had conducted in this regard.

CA-NP-052 Please provide in tabular format a list of interruptions to Curtailable Service customers for each of the last five winter periods, including: date of dispatch, time of dispatch, time of recall, amount of load dispatched, and reason for dispatch including whether NP- or Hydro-initiated.

CA-NP-053 Please show the number of Curtailable Service customers in each of the last 5 years and the amount of curtailable load available. Is NP expecting any changes in the number of curtailable customers?

CA-NP-054 Does NP's Curtailable Service program still provide value to the system? Please explain.

CA-NP-055 With regard to NP thermal generation, please provide a table showing the following for each of the past five years: date of dispatch, time of dispatch, time of recall, amount of generation dispatched, and reason for dispatch including whether NP- or Hydro-initiated.

***Volume 2, Tab 3 – Customer, Energy and Demand***

CA-NP-056 Please provide in tabular form actual number of customers, peak load and energy demand for each month from January 2016 through June 2018, and forecast for July 2018 through December 2020. Please show the data with and without NP generation. Please provide the forecast figures based on assumptions in the Application.

CA-NP-057 (page 3 of 7) It is stated "*Current analysis indicates that a 1% increase in the price of electricity will result in a 0.21% decrease in energy sales. It also indicates the response will vary depending on the timeframe and rate category. In addition, changes in oil prices can impact the market share of electricity in the competitive space heating market.*"

(a) Please provide the analysis supporting the notion that a 1% increase in the price of electricity will result in a 0.21% decrease in energy sales.

(b) To what range of rate increases does this analysis apply; i.e., changes in electricity prices ranging from +/- 5%?

(c) Has NP analyzed the impact on sales of large rate increases such as those expected to be brought on by the Muskrat Falls project? If so, please provide the analysis.

CA-NP-058 (page 3 of 7) Has NP updated its load forecast to reflect the latest projected Hydro rate increases identified at the bottom of page 3 of 7 in light of the recent Supplemental Settlement Agreement? What impact is this expected to have on NP's load forecast?

***<u>Volume 2, Tab 4 – Cost of Service Study</u>***

CA-NP-059 (page 1) It is stated that NP's cost of service methodology and marginal costs have received Board approval and have been in use for some time now. It is understood that later in 2018 Hydro plans to file a cost of service study, marginal costs and customer rates for application in the post Muskrat Falls era. Does NP plan to file a new cost of service methodology and customer rates to reflect changes arising from the Hydro application?

***<u>Volume 2, Tab 6 – RSP Refund Progress Report</u>***

CA-NP-060 It is understood that $6.5 million remains to be refunded to customers. It is also understood that NP proposes two more rounds of refund activities. What does NP forecast as the cost to administer these final two rounds of refund activities and how much does it expect to refund of the remaining $6.5 million? Has Hydro agreed with this approach and has it agreed to pay for these final two rounds of refunds?

***Volume 2, Tab 8 – 2018 Rules and Regulations Review***

CA-NP-061 (page 2) It is stated "*Newfoundland Power's uncollectible customer billings appear to be low compared to other Canadian utilities.*" Has NP incorporated this reduced risk relative to other Canadian utilities in its cost of capital assessment? Please explain why or why not, and if it has been incorporated, please explain how.

CA-NP-062 (page 5, Footnote 11, page 14, Table 3) It is stated that NP typically does not charge security deposits for domestic customers. Table 3 indicates that most utilities do. Page 15 indicates that the Company instead works with customers to establish a payment process. Why doesn't NP do both, as presumably most utilities do?

CA-NP-063 (page 9) It is stated that NP will not disconnect customers in winter who are seniors or have major illnesses. How does NP determine if a customer is a senior or has a major illness?

***Volume 2, Tab 9 – Expert Evidence – Cost of Capital: Mr. James Coyne***

CA-NP-064 (page 54, Operating Risks) When a major storm has hit the Province in the past leading to widespread outages, has NP typically issued a filing with the Board for recovery of such costs? If so, what process is generally followed when filing for cost recovery?

CA-NP-065 (page 54, Power Supply Risk) Specifically, what questions are there with respect to the reliability of Hydro's current and future generation sources?

CA-NP-066 (page 54, Power Supply Risk) In its response to CA-NLH-115 from the Outage Inquiry Hydro indicates that supply risk will be reduced post Muskrat Falls. Please explain how Mr. Coyne's cost of capital analysis has incorporated this reduced risk.

CA-NP-067 Please confirm that Newfoundland Power (NP) is requesting a rate increase for the 2019 and 2020 test years and that all risk assessments are based on NP's risk during those two test years. That is, that its assessment of the provincial economy and the implication of Muskrat Falls for the company pertain to their impact during the two test years and not for years after 2020.

CA-NP-068 Given that recently it has been the consistent judgment of the Board (4-23) that NP is an average risk Canadian utility, is the company aware of any previous decisions of the Board that have described the company as above average risk?

CA-NP-069 NP is requesting a 1.2% increase in rates effective March 2019. From the discussion at Section 1-8 it appears that the main driver of this increase is the requested 9.50% ROE, can the company confirm that if the ROE is not changed there would be no material increase in rates.

CA-NP-070 Can NP confirm that a decrease in the allowed ROE or common equity ratio would decrease its rates and partially offset any pass through of Nalcor Energy's Muskrat Falls project? Conversely, can NP confirm that an increase in rates due to the requested ROE increases its risk relative to what it would otherwise be?

CA-NP-071 Can NP indicate in its judgment what levers Nalcor Energy and the Provincial Government have to mitigate any rate shock resulting from Muskrat Falls?

CA-NP-072 Please indicate when approximately the next provincial election is due and whether the company is aware that in Ontario facing similar (though smaller) rate shock, and with an election looming, the *then* Liberal government took steps to mitigate that rate shock. If so, can the company briefly highlight what steps the Ontario government took to mitigate this rate shock.

CA-NP-073 NP (page 1-7) indicates that the provincial economy is "struggling". Please compare the forecast state of the provincial economy over the two test years based on GDP growth rate, unemployment rate, inflation, provincial long-term debt yields (or borrowing cost), and electricity costs for a typical residential user compared to 1991 when the Board approved a common equity ratio in a range of 40-45%. If this is not practical, please file any extracts regarding the provincial economy entered into evidence at the time of that Board decision.

CA-NP-074 Does NP accept that a 45% common equity ratio exceeds average allowed common equity ratios for Canadian electric transmission and distribution utilities and further that lower financial risk offsets higher business risk if the Board continues to regard Newfoundland Power *overall* as an average risk Canadian utility? If not, why not.

CA-NP-075 With reference to the statements on page 1-7, lines 20-24 and the company's acknowledgement that other factors such as the province's demographics, weather conditions, rugged terrain etc., have "persisted over the long term." Is the implication that if the Board judges that economic conditions of the provincial economy have also persisted over the long term and that it is premature to judge the impact of Muskrat Falls over the test years, then then there is no justification for an increase in the allowed ROE?

CA-NP-076 At 4-24 of its 2016 filing NP discussed the province's short-term growth outlook, which reflected the completion of major projects, like Muskrat Falls and Hebron. Would NP agree that the Board did not change its risk assessment of NP at that time and discuss why it should change its risk assessment of NP now that those projects are completed and the temporary growth spurt dissipated?

CA-NP-077 At pages 2-21 to 2-32, it appears that despite the rugged terrain Newfoundland Power's system has proven very reliable in the face of increased significant events. Can NP confirm this judgement and compare its system over the period 2010-2017 with that of Nova Scotia Power, Maritime Electric and New Brunswick Power on the basis of the age of the plant and equipment in its system, for example, using net to gross plant in service or any other metric the company judges to be more useful.

CA-NP-078 At page 2-42 NP acknowledges that "more than ½ of the company's capital expenditures over the forecast period relate to replacement or refurbishment of existing assets." In its judgement is a mature utility like NP more or less risky than a utility facing significant system expansion due to population growth. Please comment in detail about the relative risk of replacement capex versus expansion capex.

CA-NP-079 NP discusses depreciation at page 3-6 and indicates that the next depreciation study is expected to be completed in 2020. Given the decision of the Ontario government in the face of rate shock to increase the useful life of electricity assets to reduce depreciation charges, would NP agree that there is a possibility for similar action both by the Board for NP and the provincial government for Nalcor and Muskrat Falls? If not why not?

CA-NP-080 Is NP aware that in Alberta the utilities claim to be exposed to the risk of assets that are no longer "used and useful" being taken out of the rate base? Can NP indicate whether it regards such risk as material for itself and whether this represents a material difference in risk between Alberta electric distribution utilities and itself?

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| CA-NP-081 | At 3-9 NP discusses the return on its defined benefit pension plan. In 2016, NP provided (CA-NP-014) its consulting actuaries Capital Market Assumptions and Methodology (AON Hewitt) and Economic and Market Outlook (Mercer) related to these values. Please provide the latest equivalent reports and any other reports in its possession that deal with future equity and bond market returns. |
| CA-NP-082 | On its web page NP has its 2017 annual and its 2018 quarterly report. Please both reports. Questions CA-NP-17 to CA-NP-23 relate to these materials. |
| CA-NP-083 | With reference to NP's June 2, 2018 issue of $75 million first mortgage bonds at 3.815%. Please provide the spread over equivalent maturity long Canada bonds and whether NP has previously issued 40-year bonds and if so indicate the amount, date and spread over equivalent maturity long Canada bonds as of the issue date. |
| CA-NP-084 | In the third quarter of 2017 NP paid a special dividend to its parent Fortis to maintain the company's average capital structure that includes 45% common equity. Please confirm that otherwise Fortis would have held surplus cash within NP over and above any normal dividend payments. Please confirm whether in NP's judgment NP is a "cash cow" to Fortis in generating surplus cash that Fortis can use elsewhere and whether this indicates that NP is more or less risky than equivalent utilities that have to continually raise cash to finance operations. |

CA-NP-085 NP indicates that as compared to 2016 for 2017 its borrowing under its committed line of credit had dropped from $60.5 million to $12 million while the credit facility has been renewed for a further 5 years. For the 2019-2020 test years, does NP anticipate any pressures on its available liquidity?

CA-NP-086 In its discussion of its credit ratings, NP indicates the issue ratings of A2 from Moody's and A from DBRS, both stable. However, in its filing page 3-12 NP refers to what appears to be its issuer rating from Moody's of Baa1. Please indicate which rating NP believes that investors use in deciding to buy NP's bonds: the issuer or the issue rating and justify its answer.

CA-NP-087 Please indicate the last time that representatives from Moody's and or DBRS met (or communicated in a substantive manner) with NP and whether NP fully briefed them on the possible rate shock from Muskrat Falls. Please indicate whether this was before or after both rating agencies confirmed NP's rating and judged them to be stable.

CA-NP-088 Please confirm that the estimated fair value of NP's debt is approximately $140 million more than the value in NP's annual report indicating that bond investors have earned a significant capital gain. Please confirm that in the unlikely event of a one notch bond downgrade these investors would in all likelihood still have earned in excess of what they regarded as a fair return when they originally purchased these bonds. If not why not?

CA-NP-089 In the management discussion and analysis there is mention of Nalcor Energy's investigation to moderate the impact of Muskrat Falls on electricity prices. However, there is no mention that these prices could "more than double" as there is on page 1-6 of its filing, which forms a substantive part of its business risk assessment. Since securities law requires the disclosure of all material facts, why is there no disclosure of this in NP's annual report's discussion of its business risk?

CA-NP-090 At 3-10 NP starts a discussion of its credit metrics and notes that its embedded debt cost is declining as it refunds more expensive debt, while at 3-11 its statutory tax rate is increasing. Please confirm that all else constant a declining embedded interest cost and higher tax rate increases its pre-tax interest coverage ratio. Further that the pre-tax interest coverage ratio is a key credit metric and part of its new issue restrictions when it issues debt.

CA-NP-091 NP does not want to return to an automatic ROE adjustment formula for test year 2021 and beyond. In its judgment, does a review of its ROE and common equity ratio for the 2021 test year lower NP's risk as compared to setting the ROE according to an automatic ROE adjustment model?

CA-NP-092 Please provide the actual return on equity and the allowed ROE for each year since 1990 and discuss any deviations of the actual from allowed outside of the band set by the board. Please discuss any material deviations and whether such causes are now covered by deferral accounts.

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| CA-NP-093 | Please provide the pre-tax interest coverage ratio, cash flow interest coverage ratio and cash flow debt coverage as on page 3-35 for each year since 2000. |
| CA-NP-094 | Please discuss any instances where NP has approached its investment banker since 2000 and been advised that the bond markets were not receptive to an issue by NP and how NP arranged alternative financing. |
| CA-NP-095 | Please provide any recent Moody's analyses of its rating methodology used for evaluating regulated utilities, similar to those filed in both the 2009 and 2012 hearings. If no new ones have been issued please provide the latest documents. |
| CA-NP-096 | Please provide any DBRS documents that describe its generic policies towards regulated Canadian and US utilities. |
| CA-NP-097 | Please provide copies of recent equity analyst reports on Fortis that reference NP in a material way. |
| CA-NP-098 | Please provide Fortis common equity ratio, interest coverage ratio, cash flow to debt and interest coverage and bond rating since 2000 in a similar manner to that for NP at 3-35. |
| CA-NP-099 | In its 2016 filing at 4-29 NP referred to potential competition as a result of increased power costs. At that time, NP was asked to provide the cost of conversion for a typical residential customer to an oil furnace and the current annual cost of heating with oil versus electricity for different rate |

classes. With the increased capital cost of Muskrat Falls can NP revisit and update its answer and also reference any other alternative fuels that both residential and industrial users might switch to.

CA-NP-100 NP gets its common equity from Fortis as its sole owner, can NP confirm that Fortis has had very large common and preferred share issues over the last few years and provide details of both the amounts and the issue costs attached to the share issues.

CA-NP-101 Has NP ever paid Fortis any issue costs attached to any infusions of common equity from Fortis? Further, Fortis has a dividend reinvestment plan where shares can be purchased at a 2% discount. In the judgment of NP is a 2% issue cost appropriate for any equity issued by Fortis and then invested in NP? If not, and bearing in mind the amount of equity generated through retained earnings, what is NP's best estimate of the after tax cost paid to issue new equity to Fortis.

CA-NP-102 Can NP confirm that currently Fortis' common equity ratio is 38.50% and significantly less than NP's current regulated 45%. Further that since Fortis 2017 ROE was 8.30% is it the judgment of NP that Fortis has lower business risk than NP given that it has approximately the same ROE, but significantly more financial risk? Please discuss why or why not.

**All RFIs relate to Mr. Coyne's evidence:**

| | |
|---|---|
| CA-NP-103 | Please provide all data and workpapers used to prepare JMC-1 through to JMC-10. |
| CA-NP-104 | Please provide data and workpapers used to prepare Figures 1, 2, 4-9, 13, 15-17, 19-25, 27-30. |
| CA-NP-105 | Please provide the April 12, 2018 Consensus Economics Inc. Survey referenced in footnote 24. |
| CA-NP-106 | Please provide the Economist Intelligence Unit article referenced in footnote 29. |
| CA-NP-107 | Please provide the article by Beaton and Desroches (2011) referenced in footnote 31. |
| CA-NP-108 | Please provide the Conference Board January 2018 report referenced in footnote 18. |
| CA-NP-109 | Please provide the article referenced in footnote 81. |
| CA-NP-110 | On page 47, Mr. Coyne discusses the views of credit agencies and quotes a January 2018 Moody's debt rating report. Please provide a copy of ALL debt rating reports for Newfoundland Power and Fortis Inc. that have been produced since 2014. |

CA-NP-111 Figure 10 on page 23 provides Mr. Coyne's Canadian Utility Proxy Group of 4 utilities. For each of the utilities listed in Figure 10, please provide the following information:

(a) All available debt ratings.

(b) The size of the company in terms of revenue and total assets.

(c) A list of all operating companies that are subsidiaries of each utility, as well as a list of the jurisdiction(s) in which these companies operate.

(d) The percentage breakdown of revenue, operating earnings and net income from each of the operating companies identified in part (c).

(e) The percentage breakdown of regulated versus unregulated portion of revenue, operating earnings and net income for the four utilities listed in Figure 10.

(f) A similar breakdown to that requested in part (d) for operations that are based in Canada, versus operations that are based in other countries.

(g) A similar breakdown to that requested in part (d) for operations related to transmission, distribution, generation, and other activities.

CA-NP-112 Figure 11 on page 24 provides Mr. Coyne's U.S. Electricity Proxy Group of 10 utilities. For each of the utilities listed in Figure 11, please provide the following information:

(a) All available debt ratings.

(b) The size of the company in terms of revenue and total assets.

(c) A list of all operating companies that are subsidiaries of each utility, as well as a list of the jurisdiction(s) in which these companies operate.

(d) The percentage breakdown of revenue, operating earnings and net income from each of the operating companies identified in part (c).

(e) The percentage breakdown of regulated versus unregulated portion of revenue, operating earnings and net income for the 10 utilities listed in Figure 11.

(f) A similar breakdown to that requested in part (d) for operations that are based in the U.S., versus operations that are based in other countries.

(g) A similar breakdown to that requested in part (d) for operations related to transmission, distribution, generation, and other activities.

CA-NP-113 Figure 11 on page 24 provides Mr. Coyne's U.S. Electricity Proxy Group of 10 utilities. During the 2015-16 Proceedings, Mr. Coyne's U.S. Proxy Group included 7 utilities. The differences include the 2018 *inclusion* of five new utilities: Aliant Energy Corp.; American Electric Power Company; Edison International Inc.; PNM Resources Inc.; and, Southern Company. The 2018 sample also does *not* include the following two utilities: Great Plains Energy; and, Westar Energy.

Please provide the rationale that led to the change in the U.S. proxy sample used during these proceedings.

CA-NP-114 Figure 13 provides historical EPS growth for the U.S. proxy group and the Canadian proxy group over the 2008-2017 period.

Please provide a list of all M&A activity undertaken by each utility in both Proxy groups over that period, which may have influenced EPS figures.

CA-NP-115 Figure 15 provides Mr. Coyne's DCF estimates for various Proxy groups.

Please reproduce Figure 15, providing the estimates that would have resulted if Mr. Coyne had:

(a) Not adjusted the current dividend yield (Do/Po) by multiplying it by (1 + 0.5g), as described on page 28 (i.e., simply use Do/Po); and,

(b) Had assumed 4 years (2/2) years of high growth followed by a long-term growth rate to infinity, instead of assuming 10 years (5/5) of above normal growth.

Provide all data and workpapers used to produce this revised version of Figure 15.

CA-NP-116 Figure 18 provides Mr. Coyne's beta estimates for various Proxy groups, which are "adjusted" betas.

Please reproduce Figure 18, providing the corresponding "raw" (or unadjusted) beta estimates that correspond to the reported adjusted betas.

CA-NP-117 On page 38 Mr. Coyne states:

"The forward-looking MRP is calculated by subtracting the risk-free rate for each country from the estimated total return for the overall market, as calculated using the DCF methodology for the S&P/TSX Composite Index in Canada and the S&P 500 Index in the U.S."

(a) Please confirm that the estimated total return for both market indices is calculated using the Constant Growth DCF Model. If not confirmed, please explain how these estimated total returns are calculated.

(b) Please confirm that the use of the Constant Growth DCF Model implies that all firms used to estimate the MRP pay dividends that can be expected to grow at a constant annual rate from now to infinity. If not confirmed, please explain.

(c) Please provide the number of companies included in the TSX Index that is used to estimate the Canadian MRP that did not have a valid dividend yield, and hence were not included in the estimation of the MRP.

(d) Please provide the number of companies included in the TSX Index that did not have a valid earnings growth estimate, and hence were not included in the estimation of the MRP.

(e) Please provide the number of firms actually used to estimate the MRP in JMC-5.

(f) Please confirm that the average long-term growth estimates provided in JMC-5 for the remaining firms in the TSX Index after eliminating the firms noted in part (d) was 8.21%, and that the expected return on the TSX was 11.72% according to Mr. Coyne's calculations. If not confirmed, please explain.

(g) Please confirm that the long-term growth rate of 8.21% (as in part (f)) used to estimate the expected market risk premium using the constant growth DCF is more than double Mr. Coyne's estimate of Canadian nominal GDP growth (of 3.73%).

(h) Can Mr. Coyne please reconcile the huge discrepancy between this MRP estimate with more commonly used MRP estimates in the 3-6% range that are based on the expectations of market professionals and on historical observations? For example, the MRP for Canadian stocks over the 1900-to-2015 period had an arithmetic average of 5.2% and a geometric average of 3.3%.[1]

(i) Please provide the number of companies included in the S&P 500 Index that is used to estimate the U.S. MRP that did not have a valid

[1] Dimson, Elroy, Paul Marsh and Mike Staunton, "Long-Term Asset Returns," in *Financial Market History,* CFA Institute Research Foundation, December 2016.

dividend yield, and hence were not included in the estimation of the MRP.

(j) Please provide the number of companies included in the S&P 500 Index that did not have a valid earnings growth estimate, and hence were not included in the estimation of the MRP.

(k) Please provide the number of firms actually used to estimate the MRP in JMC-6.

(l) Please confirm that the average long-term growth estimates provided in JMC-6 for the remaining firms in the S&P 500 Index after eliminating the firms noted in part (j) was 10.80%, and that the expected return on the Index was 13.30% according to Mr. Coyne's calculations. If not confirmed, please explain.

(m) Please confirm that the long-term growth rate of 10.8% (as in part (k)) used to estimate the expected market risk premium using the constant growth DCF is more than double Mr. Coyne's estimate of U.S. nominal GDP growth (of 4.35%).

(n) Can Mr. Coyne please reconcile the huge discrepancy between these MRP estimates with more commonly used MRP estimates in the 3-6% range that are based on the expectations of market professionals and on historical observations? For example, the MRP for

U.S. stocks over the 1900-to-2015 period had an arithmetic average of 5.8% and a geometric average of 4.4%.[2]

CA-NP-118 Figure 21 on page 41 reports the Allowed ROEs for 6 Canadian Utilities.

(a) Please explain why Mr. Coyne did NOT also include the Allowed ROEs for ENMAX (8.5%), EPCOR (8.5%), HydroQuebec Distribution (8.20%) and Saskatchewan Power Corporation (8.5%).

(b) Please confirm that if these four utilities were included, the average Allowed ROE would be 8.72% and not 8.92%, while the median would be 8.5%. If not confirmed, please provide the resulting average and median as calculated by Mr. Coyne.

CA-NP-119 Figure 22 on page 45 reports the Allowed Equity Ratios for 6 Canadian Utilities.

(a) Please explain why Mr. Coyne did NOT also include the Allowed Equity Ratios for ENMAX (37%), EPCOR (37%), HydroQuebec Distribution (35%) and Saskatchewan Power Corporation (40%).

[2] Dimson, Elroy, Paul Marsh and Mike Staunton, "Long-Term Asset Returns," in *Financial Market History,* CFA Institute Research Foundation, December 2016.

(b) Please confirm that if these four utilities were included, the average Allowed Equity Ratio would be 38.05% and not 38.6%, while the median would be 37.25%. If not confirmed, please provide the resulting average and median as calculated by Mr. Coyne.

CA-NP-120 Figure 23 on page 46 reports the Allowed Equity Ratios for 6 U.S. Utilities.

Explain why these 6 utilities were chosen. List utilities that were excluded and explain why.

CA-NP-121 On page 46 Mr. Coyne states:

"Comparison to the Canadian proxy group is not possible because Emera Inc. is the only company in the Canadian peer group that has relevant credit metrics from Moody's. Enbridge Inc. is rated by Moody's, but has different credit metrics that do not align with these categories. Canadian Utilities Limited and Valener, Inc. are not rated by Moody's."

(a) Please explain why Mr. Coyne did not simply compare NP to the Canadian utilities using the credit metrics used by DBRS, since all five Canadian utilities have debt ratings from DBRS.

(b) Please provide a comparison of NP to the Canadian utilities using the credit metrics used by DBRS.

(c) In JMC-2 in Appendix A of Mr. Coyne's 2015 evidence, Mr. Coyne compared the S&P credit metrics for NP to all four Canadian utilities included in his current Canadian Proxy group. JMC-2 showed that (after excluding Valener)[3]: NP had a much lower Debt to Capital ratio (55%) than the average (64%); NP had a higher EBITDA to Interest Coverage ratio (4.52) than the average (4.12); NP had a slightly lower FFO to Interest Coverage ratio (3.61) than the average (4.06); NP had a higher FFO / Debt ratio (17.5%) than the average (13.7%); and, NP had a much lower Debt to EBITDA ratio (3.30) than the average (5.54). Therefore, at the time NP was above average according to these metrics. Please explain why Mr. Coyne did not replicate this analysis during these proceedings.

(d) Please update JMC-2 from Appendix A of Mr. Coyne's 2015 NP evidence, and provide all supporting data and worksheets.

CA-NP-122 Figure 24 on page 50 reports 2016 Retail Electric Customers for NP and some Canadian and U.S. utilities.

(a) Please confirm that of the six Canadian utilities provided in the figure, four of them have less

[3] Mr. Coyne excluded Valener in a similar analysis of S&P credit metrics in Table 20 (page 94) of evidence he provided in the 2017-18 Alberta Generic Cost of Capital on the basis that "Valener is structured as an equity partnership and has little debt in its holding company structure except that which has been used in Gaz Metro. Valener's S&P rating has been removed since 1/12/2016."

customers than NP, while the remaining two (i.e., Nova Scotia Power and Fortis Alberta) are fairly close in size. If not confirmed, please explain.

(b) Please confirm that all six Canadian utilities have much lower Allowed Equity ratios than NP, ranging from 37% to 40%. If not confirmed, please explain.

(c) Please explain why the group of 28 U.S. utilities provided in this Figure is so different than the 6 U.S. utilities reported in Figure 23 (Allowed Equity Ratios for 6 U.S. Utilities) on page 46.

(d) Please provide the Allowed Equity Ratios for all 28 U.S. utilities reported in Figure 24.

CA-NP-123 On page 56 Mr. Coyne states:

"This heat pump competition has a tendency to reduce the average electricity use per customer for Newfoundland Power."

Please provide empirical evidence, including all data and worksheets, that support this assertion.

CA-NP-124 Please provide a copy of the DBRS report referenced in footnote 88.

CA-NP-125 Provide annual net profit after tax for Newfoundland Power for years 2017, 2016, 2015, and 2014.

CA-NP-126 Provide the estimated annual net profit after tax for Newfoundland Power for 2018.

CA-NP-127 Credit Rating Reports: Moddy's and DBRS, Exhibit 4

"NPI's allowed Return on Equity (ROE) is 8.50% for 2016-2018, and we view the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) as one of the more supportive regulators in Canada because regulatory decisions are timely and balanced, deferral accounts reduce the risks from factors beyond management's control and **NPI's 45% equity capital is among the highest authorized levels in Canada**"

(a) Provide by year from 2014 to 2018 the Newfoundland Power power net annual profit after tax as if Newfoundland Power allowed equity was set @ 40%.

(b) Provide by year from 2014 to 2018 the Newfoundland Power power net annual profit after tax as if Newfoundland Power allowed equity was set @ 37.5%.

**<u>DATED</u>** at St. John's, Newfoundland and Labrador, this 30th day of July, 2018.

Per: ______________________________
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