

1 **Q. (Reference Application, 2021 Capital Plan, pages 14 and 15) It is stated that NP's**
2 **revenue requirement has remained flat on an inflation-adjusted basis since 2014 and**
3 **NP's contribution to rates has decreased by 20% since the year 2000 on an inflation-**
4 **adjusted basis. Does this suggest that NP's productivity improvements have**
5 **exceeded the rate of inflation by roughly 1% since the year 2000? Please explain.**
6

7 A. No, the referenced data does not suggest that Newfoundland Power's productivity
8 improvements have exceeded the rate of inflation by roughly 1% since 2000.
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10 While improvements in Newfoundland Power's operating efficiency tends to minimize
11 operating costs over the long-term, it is not the only factor that has impacted the
12 Company's contribution to average customer rates since 2000.
13

14 Changes in the Company's contribution to average customer rates would reflect changes
15 in the aggregate amount of Newfoundland Power's revenue requirements, including
16 operating costs, taxes and allowed return on rate base.¹ Changes in Newfoundland
17 Power's contribution to average customer rates would also reflect changes in the
18 Company's customer, energy and demand forecasts for the purposes of setting customer
19 electricity rates.²
20

21 Newfoundland Power's revenue requirements and customer rates are interrogated by the
22 Board on a triennial basis in the context of general rate applications.

¹ For example, factors in determining Newfoundland Power's return on rate base and income taxes have declined since 2000. In 2000, the Company's rate of return on rate base was 10.28%. In 2020, it was 7.04%. In 2000, the Company's income tax rate was 42%. In 2020, it was 30%.

² Customer rates are stated in unit costs. For example, energy sales are priced on a ¢/kWh basis.