

1 **Q.** (Application Volume 1, page 3-25 and page 3-29) It is stated on page 3-25: *The*  
2 *weak economic outlook for Newfoundland and Labrador presents risks to*  
3 *Newfoundland Power’s ability to recover its investment in long-life utility assets and*  
4 *earn a fair return.* and on page 3-29: *These demographic conditions can be expected*  
5 *to exert pressure on the provincial economy, government service delivery and*  
6 *Newfoundland Power’s ability to recover its investment in long-life utility assets.*

7 a) How is NP’s ability to recover its investments in these long-life utility assets  
8 at risk when the Public Utilities Act states that a public utility is entitled to  
9 earn a just and reasonable return on rate base?

10 b) If NP believes recovery of its investments in long-life assets are at risk then  
11 what risk mitigating strategies has it considered? In particular, has it  
12 considered reducing capital expenditures and prolonging the life of existing  
13 assets through enhanced maintenance? What actual risk mitigating actions  
14 has it taken since 2018 and what actions does it plan to take in 2021, 2022  
15 and 2023?

16 c) Please provide a table showing NP’s rate base expressed in constant dollars,  
17 FTE employees, and the ratio of the rate base to the number of FTE  
18 expressed in terms of thousands of dollars per employee for the years 1996 to  
19 2021.  
20

21 A. a) Newfoundland Power is entitled to an *opportunity* to earn a just and reasonable  
22 return on its rate base. This is consistent with the view of the Board. For  
23 example, in Order No. P.U. 32 (2007), the Board described the fair return  
24 standard as follows:  
25

26 “Regulated utilities are given the **opportunity** to earn a fair rate of return. To  
27 be considered fair, the return must be:

- 28 - Commensurate with return on investments of similar risk;
- 29 - Sufficient to assure financial integrity; and
- 30 - Sufficient to attract necessary capital.”

31  
32 *The fair return principle is consistent with both Section 80(1) of the Act and*  
33 *Section 3(a)(iii) of the EPCA.”<sup>1</sup> [emphasis added]*  
34

35 Therefore, Newfoundland Power’s ability to recover its investment in long-life  
36 utility assets is not guaranteed, as implied in this Request for Information.  
37

38 b) Newfoundland Power’s annual capital expenditures are required to meet its  
39 statutory obligations under the *Public Utilities Act* and the *Electrical Power*  
40 *Control Act, 1994.*

41  
42 Approximately ¼ of annual capital expenditures are required to serve new  
43 customers and respond to customers’ increased electrical system requirements.

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<sup>1</sup> See Order No. P.U. 32 (2007), Appendix A, page 6.

1           These expenditures are required to meet the Company's obligation to serve.<sup>2</sup>  
2           Opportunities to reduce these expenditures are limited and generally relate to  
3           assessments of alternatives to identify the least-cost alternative to meet customers'  
4           requirements.

5  
6           Approximately ½ of annual capital expenditures are required to replace plant that  
7           is deteriorated, deficient or failed in service. The replacement of deteriorated,  
8           deficient and failed plant is necessary to meet the Company's obligation of  
9           providing reliable service to customers at the lowest possible cost.<sup>3</sup> The  
10          Company employs a variety of measures to manage these capital expenditures,  
11          including extending the useful service life of assets through electrical system  
12          maintenance. The Company has employed these measures consistently over the  
13          timeframe referenced in this Request for Information. For more information, see  
14          response to Request for Information PUB-NP-010.

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16          c)     See Attachment A to this response for the information requested.

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<sup>2</sup> Section 37(1) of the *Public Utilities Act* requires Newfoundland Power to provide service and facilities that are reasonably safe and adequate and just and reasonable. Section 3(b)(ii) of the *Electrical Power Control Act, 1994* requires the Company to provide customers with equitable access to an adequate supply of power. These requirements comprise the Company's obligation to serve.

<sup>3</sup> See section 3(b)(iii) of the *Electrical Power Control Act, 1994*.

**Average Rate Base and FTEs**  
**(1996 to 2021F)**

**Table 1:  
Average Rate Base and FTEs  
1996 to 2021F**

<b>Year</b>	<b>Average Rate Base (\$millions)<sup>1</sup></b>	<b>FTEs</b>	<b>Rate Base/FTE (\$thousands)</b>
1996	824	855	964
1997	818	831	984
1998	828	776	1,067
1999	836	768	1,089
2000	840	704	1,193
2001	861	675	1,276
2002	882	666	1,324
2003	1,016	667	1,523
2004	1,040	661	1,573
2005	1,059	621	1,705
2006	1,044	623	1,676
2007	1,050	627	1,675
2008	1,070	628	1,704
2009	1,101	645	1,707
2010	1,076	641	1,679
2011	1,035	640	1,617
2012	1,022	653	1,565
2013	1,037	656	1,581
2014	1,066	665	1,603
2015	1,124	653	1,721
2016	1,163	635	1,831
2017	1,172	611	1,918
2018	1,174	619	1,897
2019	1,191	616	1,933
2020	1,208	612	1,974
2021F	1,207	624	1,934

<sup>1</sup> Average rate base expressed in constant 2021 dollars.