

- 1 **Q. In the discussion of cost flexibility NP discusses the increasing proportion of power**  
2 **costs and fixed costs in its revenue requirement which it judges to be largely outside**  
3 **its control. Is the relevance of this discussion that NP judges it to be riskier than**  
4 **other utilities since the fixed charge in customer rates has not increased**  
5 **proportionately? If so, would NP agree this is a rate design issue that is under the**  
6 **control of the Board? Please indicate how much the fixed charge in Schedule A for**  
7 **rate 1.1 customers, currently forecast at \$16.1 monthly, would have to change to**  
8 **match its forecast fixed costs in Table 3-14.**  
9
- 10 A. No. Newfoundland Power’s evidence relating to the Company’s cost flexibility is not  
11 related to fixed charges in customer rates.  
12  
13 Fixed costs include depreciation, employee future benefits, finance charges and income  
14 taxes. These costs are largely beyond management’s control in a given year. The  
15 increasing proportion of fixed costs on a cents/kWh basis over the last 2 decades reduces  
16 the Company’s flexibility to respond to unexpected changes in the business, such as  
17 lower than forecast sales and higher than expected expenses.<sup>1</sup>

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<sup>1</sup> See the 2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3.3.2: Risk Assessment, page 3-35 to page 3-37.