

1 **Q. (Reference Application, 2022 Capital Plan, page 11) It is stated “... or the long-term**
 2 **effect that fully justified capital expenditures have on minimizing aggregate costs and**
 3 **thus revenue requirements.” What long-term effect will the 2022 Capital Budget**
 4 **Application have on minimizing revenue requirements?**
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6 A. The passage quoted in this Request for Information is part of a sentence in Newfoundland
 7 Power’s 2022 *Capital Plan* that explains the practical limitations of the revenue
 8 requirement estimate resulting from the capital projects proposed for 2022.
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10 The full paragraph is as follows:¹
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12 *“The pro forma estimate is, however, practically limited. It does not*
 13 *include potentially higher revenues from customer growth projects, or the*
 14 *long-term effect that fully justified capital expenditures have on*
 15 *minimizing aggregate costs and thus revenue requirements.”²*
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17 As outlined in the 2022 *Capital Plan*, the effects that fully justified capital expenditures
 18 may have on future revenue requirements cannot be reasonably estimated.³
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20 To illustrate these practical limitations, Newfoundland Power assessed its revenue
 21 requirements and capital investments since its 2013/2014 *General Rate Application*.⁴
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23 Since 2014, Newfoundland Power’s contribution to revenue requirement increased by
 24 approximately 6%. On an inflation-adjusted basis, the Company’s contribution to
 25 revenue requirement decreased by approximately 2%.
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27 While Newfoundland Power’s contribution to revenue requirement decreased slightly, the
 28 Company’s annual capital investments have averaged approximately \$100 million per
 29 year over this period.

¹ See the 2022 *Capital Budget Application, 2022 Capital Plan, Section 2.3.2 Revenue Requirement Perspective*.

² For example, the systematic replacement of deteriorated plant (i.e. during regular work hours) tends to reduce the cost of making emergency repairs due to equipment failures (i.e. during overtime hours). Other capital expenditures enable efficiencies through technology. These effects will also tend to decrease future revenue requirements.

³ The relationship between Newfoundland Power’s capital expenditures and its revenue requirements is not a direct one. See the 2022 *Capital Budget Application, 2022 Capital Plan, Section 2.3 Capital Investment and Customer Costs*, for a fulsome discussion on the relationship between the Company’s capital investments, revenue requirements and customer rates.

⁴ See the 2022 *Capital Budget Application, 2022 Capital Plan, Section 2.3.2 Revenue Requirement Perspective, Table 3*.