

1 **Q. Reference: CA-NP-014**
2

3 **It is stated “The 2022/2023 General Rate Order established a range of rate of return**
4 **on rate base of 36 basis points ($\pm 0.18\%$) from the approved rate of return on rate**
5 **base for 2022, 2023 and, in effect, 2024. This range is consistent with longstanding**
6 **regulatory practice of the Board.”**

7 **a) What does Newfoundland Power mean when it says “and, in effect, 2024”? How**
8 **is the range established for 2024 different from the range established for 2022**
9 **and 2023?**

10 **b) What is the purpose of the range of rate of return on rate base, and why is it**
11 **necessary?**

12 **c) How has the range of rate of return on rate base come into play since the Order**
13 **on the 2022-2023 GRA was issued?**

14 **d) How has the range of rate of return on rate base benefitted Newfoundland**
15 **Power?**

16 **e) How has the range of rate of return on rate base benefitted customers?**
17

18 **A. a) Since 1998, the Board has set a just and reasonable return on rate base for**
19 **Newfoundland Power on an annual basis along with a range of ± 18 basis points,**
20 **including most recently in Order. No. P.U. 3 (2022) (the “2022/2023 GRA Order”).¹**
21 **While the 2022/2023 GRA Order does not explicitly state that the same range of**
22 **return on rate base will be used for 2024, the Company expects that the Board would**
23 **not set a new range for the Company’s 2024 Rate of Return on Rate Base Application,**
24 **and instead, would revisit and re-confirm or revise, as appropriate, during the**
25 **Company’s next General Rate Application.²**
26

27 **b) The purpose of the range is largely practical. It recognizes that actual earned returns**
28 **may fluctuate within a zone and still be considered fair, and that factors outside a**
29 **utility’s control influence returns and therefore exactness may not be possible. The**
30 **Newfoundland and Labrador Court of Appeal considered the Board’s practice of**
31 **utilizing a range of permissible rates of return in Section 101 of the Public Utilities**
32 **Act (Newfoundland)(Re), referred to as the “Stated Case”, as follows:**
33

34 *Obviously, the striking of a balance between the interests of the utility and the*
35 *consumer, whilst at the same time attempting to comply with the Board’s*
36 *obligation to approve rates which will produce a fair return to the utility, cannot*
37 *be done with the precision of a simple mathematical calculation. Realistically, the*
38 *balance can only be struck within a reasonable range.³*
39

¹ For a fulsome discussion, see section 2.0 Regulatory Practice in the 2024 Rate of Return on Rate Base Report filed with the Application.

² This would be consistent with the Board’s orders on the Company’s three previous rate of return on rate base applications. See Orders No. P.U. 051 (2014), P.U. 41 (2017) and P.U. 36 (2020).

³ See the *Public Utilities Act (Newfoundland) (Re)*, Section 101, 164 Nfld & PEIR 60, para. 66.

1 In addition, the use of a range encourages efficiency, as utilities that prudently
 2 manage their costs may be able to earn at the higher end of the range as compared to
 3 those that do not. This benefit was highlighted in the Stated Case:

4
 5 *By expressing a range, however, the Board leaves open to the utility the flexibility*
 6 *of earning more than the mid-point up to the maximum end of the range so as, in*
 7 *effect, to give the benefit of the doubt to the utility that the expert evidence*
 8 *favouring the upper end of the range turns out to be the more accurate and to*
 9 *provide an incentive to the utility towards managerial efficiency.*⁴

10
 11 The Board has described the use of a range as giving a utility “motivation to strive.”⁵
 12 When revising the range of return on rate base to its current ± 18 basis points, the
 13 Board observed that the expanded range would “provide an incentive for the company
 14 to improve productivity.”⁶

- 15
 16 c) The 2022/2023 GRA Order approved a rate of return on average rate base for 2022 of
 17 6.61%, in a range of 6.43% to 6.79%, and the rate of return on average rate base for
 18 2023 of 6.39%, in a range of 6.21% to 6.57%.

19
 20 Table 1 provides the approved rate of return on average rate base and the
 21 actual/forecast rate of return on rate base for years since the 2022/2023 GRA Order
 22 was issued.

Table 1:

Approved and Actual/Forecast Rate Base and Return on Rate Base

	2022	2023
Approved Range of Return on Rate Base (%)	6.43 to 6.79	6.21 to 6.57
Midpoint of Approved Range (%)	6.61	6.39
Actual/Forecast Return on Rate Base (%)	6.72	6.85

- 23 d) As discussed in part b) of this response, the use of a range is practical in nature and
 24 recognizes and attempts to address the imprecise nature of balancing the interests of
 25 customers and a utility. It recognizes the influence of factors beyond a utility’s
 26 control on returns, and incents cost control and efficiency within the utility. In
 27 Newfoundland Power’s view, this benefits both the Company and the customer.
 28
 29 e) See part d).

⁴ See the *Public Utilities Act (Newfoundland) (Re)*, Section 101, 164 Nfld & PEIR 60, para. 69.

⁵ See Order P.U. 1991-6.

⁶ See Order No. P.U. 36 (1998-99), page 70.