

1 **Q. Reference: PUB-NP-004**
2

3 **The Board asks with respect to practice in other Canadian jurisdictions “if rates are**
4 **reset to meet the mid-point of the targeted return on rate base or to recover the explicit**
5 **cost increase being incurred by the utility.” Newfoundland Power responds “In each**
6 **jurisdiction, customer rates are set using the mid-point ROE, in particular when the**
7 **ROE forms part of the revenue requirement calculation. Between COS reviews, an**
8 **actual earned ROE is permissible within the respective ranges and mechanisms**
9 **applicable in each jurisdiction.”**

- 10 **a) If Newfoundland Power is not granted the revenue increase requested in the**
11 **Application, would its rate of return on rate base be expected to fall within the**
12 **range applicable in this jurisdiction?**
- 13 **b) While rates in the surveyed jurisdictions are “set” using the md-point (sic) ROE,**
14 **do any of the jurisdictions “reset” rates between GRAs “to meet the mid-point of**
15 **the targeted return on rate base or to recover the explicit cost increase being incurred**
16 **by the utility” as specified in the Board’s question?**
- 17 **c) Under performance-based regulation, are utilities incented to cut costs by**
18 **allowing them to keep the resulting increase in profits, with the savings owing to**
19 **cost-cutting measures returned to customers in the form of reduced rates (reduced**
20 **from what they would otherwise have been) at the start of the next regulation**
21 **cycle?**
- 22 **d) Are Nova Scotia Power and Maritime Electric (PEI) the only two jurisdictions**
23 **included in the survey that use cost of service regulation similar to NL?**
- 24 **e) Do either of these two jurisdictions “reset” rates between GRAs to meet the mid-**
25 **point of the targeted return on rate base or to recover the explicit cost increase**
26 **being incurred by the utility.” If so, please reconcile this with the statement “It is**
27 **Newfoundland Power’s understanding that Nova Scotia Power and Maritime**
28 **Electric both have limited ability to set customer rates, beyond annual supply cost**
29 **mechanisms, outside of general rate application processes or otherwise directed by**
30 **their respective regulators.”**

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- 32 **A. a) No. Newfoundland Power’s existing financial forecast (i.e. before cost recovery)**
33 **provides for a rate of return on rate base that would be 64 basis points below the**
34 **6.85% regulated rate of return on rate base. That result would be 46 basis points, or**
35 **approximately two and a half times, beyond the bottom of the ±18 basis point range**
36 **established by the Board.¹**
- 37
- 38 **b) Customer rates in each jurisdiction are revised between general rate applications**
39 **based on the specific direction set out by the regulator in those jurisdictions, as**
40 **outlined in the response to Request for Information PUB-NP-004. While that**
41 **direction may not be as specific as the passage provided in this Request for**
42 **Information, any customer rate increase approved by a regulator is, in effect, to**
43 **ensure the utility has the ability to recover its reasonable costs, including its return on**
44 **rate base.**

¹ See the *Application, 2024 Rate of Return on Rate Base, 6.1 Assessing the Need for Cost Recovery*.

- 1 c) Both performance-based regulation (“PBR”) and cost of service (“COS”)
2 jurisdictions use ranges of return on equity. As discussed in response to Request for
3 Information CA-NP-019 part b), one purpose of a range of return is to provide an
4 incentive to the utility to find cost efficiencies. The range of return on equity in PBR
5 jurisdictions is typically larger than the range of return in COS jurisdictions, in theory
6 providing for a larger incentive for a utility in a PBR jurisdiction to find cost
7 efficiencies.²
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- 9 d) Yes, Nova Scotia Power and Maritime Electric are the only other utilities surveyed in
10 Request for Information PUB-NP-004 that are regulated under a cost of service model
11 similar to Newfoundland Power.
12
- 13 e) Newfoundland Power is not aware of customer rates changing for those two utilities
14 between GRAs specific to the passage provided in the Request for Information.

² The ranges of return on equity in Alberta and Ontario are ± 200 basis points and ± 300 basis points, respectively, compared to a range of ± 25 basis points, ± 35 basis points and ± 40 basis points for Nova Scotia Power, Maritime Electric, and Newfoundland Power, respectively. Newfoundland Power’s ± 18 basis point range of return on rate base implies a ± 40 basis point range of return on equity, assuming debt costs remain constant.