Q. (Reference Application, Use of Historical Averages for Budget Estimation, pages 4 and 5) NP reviews recent decisions of Canadian regulators including British Columbia, Alberta and Ontario.

a) Do each of these three decisions relate to overall growth in capital as opposed to growth in individual capital projects and programs?

b) Do each of these three jurisdictions employ performance-based regulation?

c) Do each of these three jurisdictions employ what is effectively a cap on overall capital spending based on historical capital spending?

d) What would NP capital budgets be in 2025, 2026, 2027, 2028 and 2029 if its overall capital spending were capped at an average of the capital spending in the previous 3 and 5 years? Please provide a table comparing capital spending under the 3- and 5-year scenarios to the capital spending forecast for years 2025 through 2029

e) For all the NP proposed 2025 expenditures that are based on the use of historical averages: (i) if they were aggregated into a single total and the Board were to approve that total and allow NP to allocate the funds across those programs/projects at its discretion, would that flexibility be advantageous to NP? (ii) If the Board were to approve 95% of the total, how would NP decide on the allocation of this reduced envelope for those expenditures?

A. a) The FortisBC Energy Inc. example relates to growth capital related amounts.[1]

The Alberta example relates to capital funding provide by the "K-bar" portion of the performance-based regulation ("PBR") formula used in that jurisdiction.[2]

The Alectra Utilities Corporation ("Alectra") example is associated with Alectra's application for incremental capital expenditures related to cable projects.[3]

[1] See section *1.3.3.1 FEI Growth Capital* of FortisBC's *Application for Approval of a Multi-Year Rate Plan for 2020 through 2024*. As provided in section *1.3.3 Capital Forecast* of the filing, FortisBC Energy Inc.'s growth capital consists of expenditures for the installation of new mains, services, meters, and distribution system improvements to support customer additions. Under the *Multi-Year Rate Plan* ("MRP"), FortisBC's capital recovery is based on its capital forecasts. See, for example, page ii of Orders G-165-20 and G-166-20.

[2] Capital is funded under various parts of the PBR formula in Alberta. For example, see page 45 of Decision 27388-D01-2023 (October 4, 2023) which states: *"The Commission finds that supplemental capital funding, in addition to revenues provided under I-X and other available mechanisms (such as Y and Z factors) is required for the PBR3 term. This funding will consist of a K-bar and Type 1 capital tracker mechanisms, as well as alternative remuneration on a pilot basis."*

[3] See Decision EB-2023-0004.

b) A PBR approach is used to set electricity rates in Ontario and Alberta.[4] In British Columbia, FortisBC's MRP is not a traditional PBR plan, and instead is a hybrid model that contains elements of cost of service ("COS").[5]

c) Newfoundland Power does not agree with this statement. For information on how customer rates are set in other jurisdictions, including consideration of capital expenditures, see the response to Request for Information PUB-NP-004 filed as part of the Company's *2024 Rate of Return on Rate Base Application*. See also parts a) and b) of this response.

d) Table 1 provides the requested scenarios.

Table 1:
Capital Spending Comparison
($000s)

Forecast	2025	2026	2027	2028	2029
Current Forecast	127,951	136,929	153,297	197,340	199,138
Pro forma Three-Year Average	128,472	131,026	132,879	136,490	139,165
Pro forma Five-Year Average	127,013	132,369	134,269	136,657	139,034

e) i) All capital programs included in the *2025 Capital Budget Application* are necessary for Newfoundland Power to meet its obligations under the *Public Utilities Act* and the *Electrical Power Control Act, 1994*. Each program has its own purpose and requirements, as such it is appropriate for the programs to be proposed separately. The Company sees no added value in having one program for all scopes of work provided by the current individual programs.

ii) The Company cannot offer details on how it would proceed under this hypothetical scenario. Any changes to proposed capital expenditures would be made with consideration given to the Board's order and any relevant context.

See response to Request for Information PUB-NP-005 for further information.

[4] In Ontario, the Ontario Energy Board has three rate setting options to provide a utility with the flexibility to adopt a method that best meets its needs. While two of the three incentive rate options follow a traditional formulaic PBR approach, the third option allows a utility to follow a custom incentive rate approach to set rates over a five-year term based on a forecast of costs which is similar to the COS approach. For further information on the rate setting options in Ontario, see the Ontario Energy Board's *Handbook for Utility Rate Applications,* October 13, 2016, pages 23 to 24.

[5] See British Columbia Utilities Commission's ("BCUC") Decision and Orders G-165-20 and G-166-20, page 170. The BCUC states that FortisBC's MRPs *"are not a true or traditional form of performance-based incentive plans. Instead, they are a hybrid and somewhat unique model, as they contain elements more commonly found in COS ratemaking regimes, such as the use of forecasts instead of formulas."*