

1 **Section 3: Finance/Fair Return**

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3 **Q. (Section 3, page 3-21) It is stated “Newfoundland Power’s capital structure also**  
4 **formed part of the settlement agreement reached in relation to the Company’s**  
5 **2022/2023 General Rate Application.” With respect to the settlement agreement**  
6 **reached on the 2022/2023 GRA:**

- 7 a) **A reduction of \$300,000 in 2023 Operating Costs to reflect operating efficiencies**  
8 **was included in the agreement. Does this commit Newfoundland Power to a**  
9 **\$300,000 reduction in operating costs in the 2025 and 2026 Test Years?**
- 10 b) **Please identify the specific operating cost savings associated with the agreed**  
11 **\$300,000 reduction in operating cost in 2023.**
- 12 c) **According to Exhibit 3 (line 15), Newfoundland Power’s operating expenses in**  
13 **2023 was \$73,473,000 which is \$4,604,000 (or 6.7%) higher than operating**  
14 **expenses in 2022. How can a reduction in operating cost of \$300,000 in 2023 be**  
15 **verified?**
- 16 d) **Newfoundland Power agreed to conduct load research and rate design studies.**  
17 **More than 2 years later, what is the status of these studies and what information**  
18 **deriving from these studies has been incorporated in the GRA?**
- 19 e) **Does agreement with the capital structure in the settlement agreement commit**  
20 **Newfoundland Power and the Consumer Advocate to the same capital structure**  
21 **in this GRA?**
- 22 f) **Does agreement on any issue in the settlement agreement commit a signatory**  
23 **party to the same position in this GRA?**

- 24  
25 A. a) No. The settlement agreement for the *2022/2023 General Rate Application* was based  
26 on consideration of the Company’s evidence at that point in time. The evidence the  
27 Company has presented in the *2025/2026 General Rate Application* reflects the  
28 forecast expectations for the 2025 and 2026 test years. The Company’s operating cost  
29 forecast for 2025 and 2026 have different cost pressures and operating efficiencies  
30 that are unique to this Application.
- 31  
32 b) The \$300,000 reduction in operating costs was not related to a specific operating cost.  
33 As such, the Company did not track the specific operating cost savings related to the  
34 reduction. The Company did reduce its overall revenue requirement by \$300,000, as  
35 part of its settlement agreement for the *2022/2023 General Rate Application*, which is  
36 reflected in current customer rates.
- 37  
38 c) See part b) of this response. Since the 2023 test year, the Company has had additional  
39 operating cost pressures related to significant inflationary increases. See the response  
40 to Request for Information PUB-NP-018 for additional information on those  
41 increases.
- 42  
43 d) See the responses to Requests for Information CA-NP-105 and CA-NP-109 for  
44 additional information on the load research study and rate design study, respectively.  
45 As these studies are currently ongoing, information deriving from the studies will not  
46 be available before 2025.

- 1 e) No. The Company’s current capital structure has not changed in over two decades.  
2 The appropriateness of the Company’s capital structure has been recognized by the  
3 Board on a number of occasions. For example, in Order No. P.U. 16 (1998-99), the  
4 Board found that the relatively small size of Newfoundland Power reduced its  
5 financial flexibility.<sup>1</sup> Similarly, in Order No. P.U. 19 (2003), the Board characterized  
6 Newfoundland Power’s capital structure as a “*sound and successful*” one and  
7 observed that a strong equity component was needed to mitigate the impact of the  
8 Company’s small size and low growth potential.<sup>2</sup>  
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10 f) No. See part a) of this response.

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<sup>1</sup> See Order No. P.U. 16 (1998-99), page 37.

<sup>2</sup> See Order No. P.U. 19 (2003), page 45.