

Volume 2: Cost of Service Study**Q. (Section 5, page 5-7)**

- a) What is the purpose of a cost of service study, and how is it being used by Newfoundland Power in this GRA?**
- b) What components of the cost of service study depend on load research data?**

A. a) Cost of service studies are conducted on a regular basis to evaluate the reasonableness of cost recovery by class of service and as a step in the accepted process for establishing customer rates. Newfoundland Power's Cost of Service Study was filed in the Company's *2025/2026 General Rate Application*.¹ This is normal practice for Newfoundland Power.²

Recovery of the cost of service is generally accepted as a basic standard in assessing the reasonableness of a utility's rates.³ Newfoundland Power assesses the fairness of its customer rates by comparing the revenue collected from each class with the cost to serve that class, as determined through an embedded cost of service study (the "revenue-to-cost ratio"). Maintaining revenue-to-cost ratios for each class within a range of 90% to 110% has been an accepted approach to achieving fairness in rate design by avoiding undue cross-subsidization among the various rate classes.⁴ The revenue-to-cost ratio for all of Newfoundland Power's customer rate classes are within the 90% to 110% range.⁵

- b) Newfoundland Power's Load Research Study will examine the load characteristics of a statistically meaningful sample of customers in the various customer rate classes. The Load Research Study will determine coincident peak and non-coincident peak load factors for Newfoundland Power's customer rate classes. In the Cost of Service Study, these load factors are used to allocate the Company's demand related costs to the customer rate classes.⁶

¹ See Newfoundland Power's *2025/2026 General Rate Application, Volume 2, Supporting Materials, Reports, 4. Cost of Service Study*.

² See for example, Newfoundland Power's *2022/2023 General Rate Application, Volume 2, Supporting Materials, Reports, 4. Cost of Service Study* and Newfoundland Power's *2019/2020 General Rate Application, Volume 2, Supporting Materials, Reports, 4. Cost of Service Study*.

³ Bonbright, *Principles of Public Utility Rates*, Columbia University Press, 1988, *Chapter 5: Cost of Service as the Basic Standard of Reasonableness*, page 108.

⁴ This is consistent with the views of the Board as expressed in Order No. P.U. 7 (1996-1997), which states: "The Board agrees with the philosophy that it is not necessary to achieve a 100% revenue to cost ratio for all classes and takes no exception to a variance of up to 10%..."

⁵ See Newfoundland Power's *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 5, Customer Rates, 5.3.1 Embedded Cost of Service Study, Table 5-5, page 5-7*.

⁶ See Newfoundland Power's *2025/2026 General Rate Application, Volume 2, Supporting Materials, Reports, 4. Cost of Service Study, Schedule 4.1*.