

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

2
3 **Q. Volume 1, Section 3, page 3-39, lines 1-2.**

- 4 **a) Provide all capital and operating costs incurred from 2019 to 2023 that have**
5 **arisen solely due to severe weather conditions that caused unplanned customer**
6 **outages and identify those costs that were not recovered and their impact on**
7 **Newfoundland Power’s financial position in the year in which the costs were**
8 **incurred.**
- 9 **b) Has Newfoundland Power not achieved its approved return on equity in any**
10 **year since 2010 due to the inclusion of costs arising from severe weather events?**
11 **If yes, provide the approved return on equity and the actual return for each year**
12 **that the approved return was not achieved.**

- 13
14 A. a) Significant customer outages due to severe weather are becoming more frequent in
15 Newfoundland Power’s service territory. Over the last decade, major events caused
16 outages to Newfoundland Power’s customers in nine of 10 years. This compares to
17 four years with major events over the prior decade.¹

18
19 The cost of restoring service to customers following severe weather conditions can be
20 both capital and operating in nature. See Attachment A for an estimate of annual
21 capital and operating costs incurred by the Company over the period 2010 to 2023 in
22 response to severe weather.

23
24 For Newfoundland Power, capital expenditures relating to a major storm may be
25 included in the *Reconstruction* or *Transmission Line Maintenance* capital programs,
26 or the *Allowance for Unforeseen Items* capital project, depending on the nature, scope
27 and magnitude of the damage.² Where the damages are significant enough, the
28 Company may submit a supplementary capital budget application to approve the
29 expenditure or replenish the Allowance for Unforeseen Items capital project if
30 necessary.³ The Company has filed such applications in the past.⁴

31
32 Operating costs related to restoring service to customers following severe weather
33 conditions are expensed by Newfoundland Power as incurred. From 2019 to 2023,
34 Newfoundland Power incurred annual operating costs ranging from approximately
35 \$335,000 to nearly \$1.2 million in response to severe weather. Since 2010, annual
36 operating costs in response to severe weather have ranged as high as \$1.9 million in
37 2010 associated with Hurricane Igor. Responding to a similar event in 2024 could
38 cost upwards of \$3 million.⁵

¹ These events are generally caused by severe weather conditions, such as ice storms, wind storms and tropical storms. See the *2025/2026 General Rate Application, Volume 1, Section 2: Customer Operations*, page 2-22.

² See the response to Request for Information PUB-NP-056.

³ Allowance for Unforeseen Items is described in the Board’s *Capital Budget Application Guidelines (Provisional)* effective January 2022 at *Section V.A.7*, page 5 of 18. These guidelines also include direction on when supplemental approval of additional amounts is required and requirements for reporting to the Board.

⁴ See, for example, Order No. P.U. 35 (2010) approved a supplementary amount of \$1,900,000 for capital expenditures incurred as a result of damage related to Hurricane Igor in September 2010.

⁵ \$1.9 million in 2010 adjusted for inflation.

1 Depending on the magnitude of restoration effort, the Company will reassess its
2 financial position and its alternatives. The alternatives available to management
3 generally depend on the timing and magnitude of an event. For example, when events
4 occur early in the year, management has more time and options available to manage
5 its costs. Management will take all reasonable steps to manage its operations to allow
6 the Company the opportunity to earn its return in that year.

7
8 Newfoundland Power has earned its return on equity in each year since 2010. While
9 the Company earned its return in those years, the storm restoration efforts and costs,
10 in isolation, provided a negative impact to Newfoundland Power's return.

11
12 Storm restoration efforts can result in relatively high costs. The impact that storm
13 restoration efforts can have on a utility's financial position is recognized in the utility
14 industry. For example, The Edison Electric Institute has stated: "*Because of the high*
15 *costs utilities incur in their storm restoration efforts, there is a potential for large*
16 *financial losses for individual utilities.*"⁶ As a recent example, Maritime Electric
17 incurred approximately \$35.9 million in storm restoration costs associated with
18 Hurricane Fiona in 2022.

19
20 Given the unpredictable, and potentially significant nature, of storm events,
21 Newfoundland Power submits that responding to these events presents an ongoing
22 risk of volatility to the Company's annual earnings and ability to earn its allowed
23 return.

24
25 b) See part a) of this response.

⁶ See page 15 of the Edison Electric Institute's February 2005 report *After the Disaster: Utility Restoration Cost Recovery*.

**Severe Weather Conditions
Estimated Costs
2010 to 2023**

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Estimated Costs
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(\$000s)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Capital Costs	7,531	372	635	498	100	-	37	324	359	166	294	414	321	85
Operating Costs	1,940	372	1,625	145	125	-	149	885	572	335	947	1,157	670	484