

1 **Q. The current and forecast growth in the number of customers for Newfoundland**  
2 **Power is modest. In addition, Mr. Perry (page 54 of his evidence) points out that**  
3 **Gannett Fleming's recommendation for reduced depreciation rates reflects higher**  
4 **construction standards employed by Newfoundland Power over the past 20 years**  
5 **and improved maintenance and service life for the Company's vehicle fleet. Why**  
6 **then is Newfoundland Power adding to its Rate Base at a much higher rate than the**  
7 **growth in the number of customers rather than at a lower rate?**  
8

9 A. As illustrated in Newfoundland Power's response to CA-615, after 1997, rate base has  
10 grown at a higher rate than the number of customers.  
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12 The investment in plant and equipment required to provide reliable service to our  
13 customers is a key component of rate base. Over the past five years Newfoundland  
14 Power's annual capital budgets have focused on the replacement of deteriorated assets,  
15 investment in assets related to growth in energy sales and the number of customers, and  
16 technology investment aimed at improving customer service and operational productivity.  
17

18 Since the 1998 capital budget, only 14 per cent of the total budget has been assigned to  
19 investment in assets pertaining to growth in energy sales and the number of customers, as  
20 compared to 48 per cent for the replacement of deteriorated assets.  
21

22 The growth in rate base is only partially tied to the growth in the number of customers. A  
23 greater portion of the growth in rate base is attributable to the amount of investment  
24 required to replace deteriorated plant.