

**Q. CA 11.0 NP**

**Reference:** 2006 Accounting Policy Application, para. 20

**Preamble:** NP is not requesting a PUB determination that either the forecast revenue requirement or the return on rate base is just and reasonable.

**Is NP of the view that it would be contrary to the PUB's accepted regulatory practice as described in Order P.U. 19 (2003) to approve a rate increase in the absence of a General Rate Application that allows the Board to make a determination that the company's revenue requirement is just and reasonable? If not, please explain the company's position.**

- A. No. It is not the Board's accepted regulatory practice to always require a General Rate Application ("GRA") to update the test year revenue requirement used to determine the schedule of rates, tolls and charges ("Customer Rates"). But, the Board has, on at least 2 occasions, approved a change in a material utility accounting policy and allowed for recovery of cost impacts in a way that did not immediately affect Customer Rates<sup>1</sup>, without a GRA.

*Test Year Parameters*

By Order Nos. P.U. 19 (2003) and P.U. 23 (2003), the Board approved the establishment of the 2004 test year parameters for use in calculating the Company's rate of return on rate base and Customer Rates. In August 2003, Customer Rates were approved based on the 2004 test year parameters. Since that time, two of the test year parameters have been updated, along with Customer Rates.

Customer Rates have been revised based on updated 2004 test year parameters to reflect (i) an increase in the purchased power rate paid to Newfoundland and Labrador Hydro ("Hydro") and (ii) the operation of the Automatic Adjustment Formula (the "Formula"). These rate changes were implemented without the requirement for Newfoundland Power to file a GRA.

*Increased Purchased Power Costs*

By Order No. P.U. 19 (2004), the Board approved an increase in Customer Rates to provide for recovery of additional purchased power costs resulting from a rate increase by Hydro which was approved by Order No. P.U. 17 (2004).

Customer Rates were increased by adjusting the 2004 test year parameters to reflect the change in forecast test year purchased power expense as a result of the increase in the purchased power rate paid to Hydro.

<sup>1</sup> See response to Request for Information CA 12.0 NP.

1       *The Formula*

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3       By Order Nos. P.U. 16 (1998-99), P.U. 36 (1998-99) and P.U. 19 (2003), the Board  
4       ordered the establishment of the Formula for use in determining the Company's rate of  
5       return on rate base and in setting Customer Rates in years subsequent to a test year. By  
6       Order No. P.U. 50 (2004), through the application of the Formula, the Board approved a  
7       change in Customer Rates to reflect a decrease in the return on rate base for 2005.  
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9       In January 2005, Customer Rates were decreased to reflect a change in 2004 test year  
10       parameters resulting from the operation of the Formula.<sup>2</sup>  
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12       *Concluding*

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14       Changes to Customer Rates that impact revenue requirement are implemented without  
15       the requirement of a GRA when the Board determines that the reason for the change  
16       from the test year parameters is reasonable. The Board's approach is consistent with  
17       Section 80 of the *Public Utilities Act*.  
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19       Changes to revenue requirement to reflect changes in the wholesale purchased power  
20       rate and the operation of the Formula without a GRA reflect the fact that the Board had  
21       tested, in a public hearing, both the purchased power cost and the Formula methodology.  
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23       Approval of the use of 2005 Unbilled Revenue in 2006, without a GRA, to offset  
24       increased 2006 depreciation expense, associated tax effects, and 2006 tax obligations  
25       arising from the tax settlement would be conceptually consistent with the Board's past  
26       practice. The forecast of depreciation expense is fully transparent, as it is based upon  
27       depreciation rates and capital expenditures which have been approved by the Board.  
28       The depreciation true-up embedded in Customer Rates is a fully tested value, the amount  
29       of which is transparently ascertainable in the context of the 2004 test year parameters.<sup>3</sup>

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<sup>2</sup> Operation of the Formula also resulted in adjustments to Customer Rates in 2000 and 2002. In 2000, Customer Rates were increased by 0.7% to provide for \$2.4 million in additional test year revenue. In 2002, Customer Rates were decreased by 0.6% to reduce test year revenue by \$1.9 million.

<sup>3</sup> See Company Evidence, page 21, lines 2 to 4 and note 10.