

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

**ORDER NUMBER: P.U. 7 (2002-2003)**

**APPENDIX A**

**IN THE MATTER OF** the *Public Utilities Act*, (R.S.N. 1990, Chapter P-47 (the “Act”))

**AND**

**IN THE MATTER OF** an Application by Newfoundland and Labrador Hydro for approvals of: (1) Under Section 70 of the Act, changes in the rates to be charged for the supply of power and energy to its Retail Customer, Newfoundland Power, its Rural Customers and its Industrial Customers; (2) Under Section 71 of the Act, its Rules and Regulations applicable to the supply of electricity to its Rural Customers; (3) Under Section 71 of the Act, the contracts setting out the terms and conditions applicable to the supply of electricity to its Industrial Customers; and (4) Under Section 41 of the Act, its 2002 Capital Budget.

**TO: The Board of Commissioners of Public Utilities (the “Board”)**

**THE APPLICATION** of Newfoundland and Labrador Hydro (the “Applicant”)

**STATES that: -**

1. The Applicant is a corporation continued and existing under the Hydro Corporation Act, is a public utility within the meaning of the Act and is subject to the provisions of the *Electrical Power Control Act, 1994* (“EPCA, 1994”).
2. The last referral by the Applicant to the Board with respect to rates charged Newfoundland Power (“NP”) and Rural Customers took place in 1991 under *The Electrical Power Control Act* (“EPCA”) and, subsequently, the Board in its Report dated April 13, 1992 (the 1992 Report) recommended that the rate to be charged

by the Applicant to its Retail Customer, NP continue to be 45.31 mills/kWh. The Board made a number of other recommendations, as set out in its 1992 Report, including recommendations on policies regarding rates for Rural Customers, and financial targets for the Applicant. As well, the Board recommended that the Applicant's cost of service methodology be further examined.

3. The recommendations set out in the 1992 Report were accepted by the Lieutenant-Governor in Council pursuant to the EPCA, except those with respect to rates charged Isolated Rural Customers for consumption in excess of 700 kWh per month and preferential rates charged to certain Rural Customers.
4. On June 26, 1992, the Applicant referred to the Board its proposed cost of service methodology and, subsequently, the Board in its report dated February, 1993 (the "1993 Report") made a number of recommendations concerning the cost of service methodology, including that the recommended methodology be used by the Applicant at its next rate application, which is this current Application. These recommendations were accepted by the Lieutenant-Governor in Council.
5. Since the 1992 Report, the Board has issued two reports concerning the rates the Applicant charges its Rural Customers. The first report dated October 10, 1995 (the "1995 Report") was written in response to a reference dated April 27, 1993 by the Lieutenant-Governor in Council to the Board under Section 12 of the EPCA. On July 29, 1996 the Board issued a revised report (the "1996 Report") which contains a number of recommendations on the policies to be used in setting rates charged Rural Customers.
6. On January 19, 1996 amendments to the *Hydro Corporation Act* and the EPCA, 1994 became effective which made the Applicant fully subject to the jurisdiction of the Board.

7. On January 31, 1996, the Lieutenant-Governor in Council, under Section 5 of the EPCA, 1994, referred to the Board the issue of the rates to be paid by rural customers in the area from L'Anse au Clair to Red Bay (the "L'Anse au Loup System") upon the completion of the transmission line connecting this area with the Lac Robertson hydro-electric project in Quebec. The Board in its report, dated July 12, 1996, which was accepted by the Lieutenant-Governor in Council, recommended, that the rates to be charged these customers be the rates charged by the Applicant to Rural Island Interconnected Customers.
8. By Order No. P.U. 12 (1996-97), dated March 4, 1997, the Board ordered that the rates charged NP and Rural Customers be adjusted to reflect savings arising from the implementation of the Value Added Tax. By Order No. P.U. 20 (1997-98) dated March 5, 1998, the Board ordered that rates charged Island Industrial Customers be adjusted to reflect savings arising from the implementation of Harmonized Sales Tax.
9. On November 19, 1999, the Applicant applied to the Board for an interim order to reduce the rates charged its Industrial Customers to reflect the requirement in the EPCA, 1994, to eliminate from their rates their portion of the subsidy associated with serving Rural Customers. Order No. P.U. 23 (1999-2000) issued by the Board approved interim rates for Industrial Customers until November 30, 2000 and subsequently by Order No. P.U. 25 (2000-2001), the Board extended the interim rates approved by Order No. P.U. 23 (1999-2000) until December 31, 2001 and made a number of other recommendations, including that the industrial rates would be finalized pursuant to a hearing based upon a general rate application to be filed by the Applicant in May, 2001.
10. On December 18, 2000 the Board issued Order No. P.U. 31 (2000-2001) approving the Applicant's 2001 Capital Budget.

11. The Rate Stabilization Plan (“RSP”) was implemented in 1986 following the Board’s Report dated August 6, 1985 which accepted the RSP as proposed by the Applicant with certain modifications. One of the provisions of the RSP is that the Applicant is required to initiate an application before the Board if the net balance in the RSP, applicable to retailers, reaches \$50 million, either positive or negative (the “RSP cap”).
12. In an Interim Report dated November 10, 1988 the Board recommended rates for customers in Wabush effective January 1, 1989 and further stated that if a surplus were achieved in Wabush, it was to be refunded to customers (the “Wabush surplus”). The Applicant proposes that this issue be addressed in the Application as further explained in the evidence filed with this Application.
13. In order to maintain a sound financial position and to comply with the requirements set out in the Act and the EPCA, 1994, the Applicant proposes to alter the rates charged to its retail customer, NP, its Rural Customers and its Industrial Customers, as of January 1, 2002.
14. The Applicant proposes:
  - (1) that the rate charged NP be increased, as of January 1, 2002 to 48.0 mills/kWh;
  - (2) that the existing policy be continued of allowing the Applicant, as NP changes its rates, to automatically adjust the rates which it charges its Island Rural Interconnected Customers, its customers served from the L’Anse au Loup System, and its Isolated Rural Customers, other than Government Departments and Agencies, for the first 700 kWh per month of consumption, so that such rates are the same as the rates charged by NP to its customers;

- (3) that the existing policy be continued of allowing the Applicant to change the rates charged for consumption over 700 kWh per month of electricity sold to Isolated Rural Customers, other than Government Departments and Agencies, by the average rate of change (i.e. increase or decrease) granted to NP from time to time;
- (4) that the “preferential rates” policies which traditionally have been made available to certain Rural Customers (fish plants and selected other organizations) be continued for the present;
- (5) that the rate classifications for Labrador Interconnected Customers be changed so that all customers served from that grid are subject to a common rate classification and that the rates charged as of January 1, 2002, to customers served from the Labrador Interconnected System be as set out in Schedule A, pp. 13-27 attached hereto;
- (6) that the rates charged as of January 1, 2002 to Industrial Customers for firm service be a demand charge of \$7.01 per kW per month, an energy charge of 23.09 mills/kWh and the relevant annual specifically assigned charges;
- (7) that the purchase price of No. 6 Fuel oil used for the purposes of the RSP be changed from the current \$12.50 per barrel to \$20 per barrel, with effect from January 1, 2002;
- (8) that the RSP cap for NP be increased to \$100 million;

- (9) that the following financial targets based on current market conditions be set by the Board as appropriate;

long term:

Return on Equity (ROE) - 11% to 11.5%

Debt/Equity Ratio - 60:40

Return on Rate Base - 9.5%

And that for the interim for this Application, the Board allow an ROE of 3%, which results in a Return on Rate Base of 7.4%;

- (10) that the estimated 2002 average rate base be \$1,370,471,000;
- (11) that the just and reasonable rate of return for the Applicant on the estimated average rate base for 2002 be 7.4%;
- (12) an accounting treatment for the net salvage value of assets and certain changes in the service lives of certain assets as described in the evidence filed in support of this Application;
- (13) Amendments to its Rules and Regulations which govern the provision of service to its Rural Customers; and
- (14) to seek the approval of the Board for contracts with its Industrial Customers.

15. The Applicant proposes, at this time, to provide evidence from three expert witnesses: Kathleen McShane, Douglas Hall and John Brickhill. Their areas of expertise and their qualifications are set out in the Evidence filed with this Application.
16. Communications with respect to this Application should be forwarded to Counsel for the Applicant, Maureen P. Greene, Q.C., Vice-President Human Resources, General Counsel & Corporate Secretary, Newfoundland and Labrador Hydro, P.O. Box 12400, St. John's, Newfoundland, A1B 4K7, phone 737-1465.

**The Applicant requests that the Board make an Order as follows:**

- (1) fixing and determining the 2002 rate base of the Applicant at \$1,370,471,000;
- (2) determining a just and reasonable rate of return for 2002 on average rate base of 7.4%;
- (3) Approving, pursuant to Section 70 of the Act, the rate of 48.0 mills/kWh to be charged NP;
- (4) Increasing the RSP cap for NP to \$100 million;
- (5) Approving, pursuant to Section 70 of the Act, the rate of \$7.01 per kW per month demand charge and an energy charge of 23.09 mills per kWh to be charged Island Industrial Customers for firm power and energy, plus the annual specifically assigned charge as follows:



Abitibi-Consolidated Inc. (Grand Falls)	\$ 107,549
Abitibi-Consolidated Inc. (Stephenville)	83,691
Corner Brook Pulp and Paper Limited	73,444
North Atlantic Refining Limited	154,097

- (6) Approving, pursuant to Section 70 of the Act, the rate for non-firm service to Industrial Customers as set out in Schedule A, p. 3 to this Application;
- (7) Approving, pursuant to Section 70 of the Act, the rate of 6.95 mills per kWh as a wheeling fee to be charged Abitibi-Consolidated Inc. as set out in Schedule A, p. 4 to this Application;
- (8) Approving, pursuant to Section 70 of the Act, the firming up charge of 8.76 mills per kWh for secondary energy supplied by Corner Brook Pulp and Paper Limited to the Applicant and delivered as firm power and energy to NP;
- (9) Approving, pursuant to Section 70 of the Act, the continuation of the existing policy for setting rates charged Island Interconnected Rural and L'Anse au Loup System Customers;
- (10) Approving, pursuant to Section 70 of the Act, the continuation of the existing policy for setting the rates charged Isolated Rural System Customers, with the exception of Government Departments and Agencies;
- (11) Approving, pursuant to Section 70 of the Act, the rates for Government Departments and Agencies as set out in Schedule A, pp. 10-12 to this Application;

- (12) Approving the rates for street and area lighting in Rural Isolated and Rural Interconnected Systems set out in Schedule A, pp. 8-9 to this Application;
- (13) Approving, pursuant to Section 70 of the Act, the rates for Labrador Interconnected System Customers as set out in Schedule A, pp. 13-27 to this Application;
- (14) Approving, pursuant to Section 70 of the Act, the Rules and Regulations applicable to providing service to Rural Customers as set out in Schedule B to this Application;
- (15) Approving, pursuant to Section 71 of the Act, the contracts with Industrial Customers as set out in Schedule C to this Application;
- (16) Approving, pursuant to Section 41 (3) (a) of the Act, the construction or purchase of improvements in Section A of the 2002 Capital Budget as set out in Schedule D to this Application;
- (17) Approving pursuant to Section 41 (3) (b) of the Act, the leases for 2002 as set out in Section D of the 2002 Capital Budget as set out in Schedule D to this Application;
- (18) Approving the changes proposed in the Applicant's depreciation policies;
- (19) Determining the disposition of the Wabush surplus;
- (20) Consolidating this Application with the Application relating to Industrial Rates in which Order No. P.U. 25 (2000-2001) was issued; and

- (21) Granting such alternative, additional or further relief as the Board shall consider fit and proper in the circumstances.

**DATED** at St. John's, Newfoundland this 31<sup>st</sup> day of May 2001.

**NEWFOUNDLAND AND LABRADOR HYDRO**

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