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P. U. 35 (2005)

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

AND

IN THE MATTER OF an application by
Newfoundland Power Inc. (“Newfoundland Power”)
for approval of changes to its System of Accounts
pursuant to Section 58 of the *Act* and Order No.
P.U. 44 (2004) (the “Order”).

WHEREAS the Applicant is a corporation duly organized and existing under the laws of the
Province of Newfoundland and Labrador, is a public utility within the meaning of the Act, and is
subject to the provisions of the *Electrical Power Control Act, 1994*; and

WHEREAS Newfoundland Power purchases the majority of the electrical power it supplies to
its customers from Newfoundland and Labrador Hydro (“Hydro”); and

WHEREAS in Order No. P.U. 14 (2004), the Board ordered Hydro to file, no later than July 31,
2004, an application for a demand and energy rate for Newfoundland Power, using the embedded
cost of service for Hydro’s 2004 test year; and

1 **WHEREAS** on July 30, 2004, Hydro filed an application with the Board for a demand and
2 energy rate for Newfoundland Power; and

3
4 **WHEREAS** on September 3, 2004, Newfoundland Power filed a response to Hydro's
5 application which, among other things, proposed that a reserve mechanism be established to
6 mitigate the effects of purchased power expense variations resulting from the implementation of
7 the demand and energy rate; and

8
9 **WHEREAS** in the Order, the Board approved, among other things:

- 10 1. the demand and energy rate to be charged to Newfoundland Power effective January 1, 2005
11 as proposed by Hydro in its application of July 30, 2004;
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13 2. a three-year phase-in of the demand and energy rate to Newfoundland Power, during which
14 adjustments to the demand and energy rate will be subject to further application by Hydro;
15 and
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17 3. the establishment of a reserve mechanism as proposed by Newfoundland Power in its
18 submission filed with the Board on September 3, 2004; and
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21 **WHEREAS** the reserve mechanism approved by the Order included the following parameters:

- 22 1. an initial deadband of \$588,000 for which no reserve transfers would be required; and
23
24 2. the use of forecast unit costs as the basis for comparison against actual unit costs in
25 determining the variance in purchase power costs and the amount, if any, to be transferred to
26 or from the reserve; and
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28 **WHEREAS** it is appropriate that a definition of the Purchased Power Unit Cost Variance
29 Reserve Account be included in Newfoundland Power's System of Accounts.

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1 **IT IS THEREFORE ORDERED THAT:**

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3 Pursuant to Section 58 of the *Act*, the Board approves the definition of the Purchased
4 Power Unit Cost Variance Reserve Account attached hereto and marked Schedule “A”
5 for inclusion in Newfoundland Power’s System of Accounts to be effective for 2005.

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7 **DATED** at St. John’s, Newfoundland and Labrador, this 14th day of December 2005.

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Robert Noseworthy
Chair and Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

G. Cheryl Blundon
Board Secretary

Schedule "A"

Newfoundland Power Inc.

Purchased Power Unit Cost Variance Reserve Account

Definition

Purchased Power Unit Cost Variance Reserve Account

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This account shall be charged or credited with the amount by which the annual Purchased Power Unit Cost Variance exceeds the Reserve Deadband.

When the normalized actual unit cost of purchased power is greater than the forecast unit cost of purchased power, this account shall be charged with the amount by which the Purchased Power Unit Cost Variance exceeds the Reserve Deadband.

When the normalized actual unit cost of purchased power is less than the forecast unit cost of purchased power, this account shall be credited with the amount by which the Purchased Power Unit Cost Variance exceeds the Reserve Deadband.

The amount charged or credited to this account shall be adjusted for applicable income taxes calculated at the statutory income tax rate.

Purchased Power Unit Cost Variance

The Purchased Power Unit Cost Variance will be determined annually in the following manner:

1. A variance factor will be determined by calculating the per kilowatt-hour difference between (a) the forecast unit cost of purchased power per kilowatt-hour, and (b) the normalized actual unit cost of purchased power per kilowatt-hour.
2. The variance factor so determined will be multiplied by the normalized actual energy purchases for the year, in kilowatt-hours, to determine the Purchased Power Unit Cost Variance.

The forecast unit cost of purchased power for 2005 is 5.234¢ per kilowatt-hour. For years subsequent to 2005, the forecast unit cost of purchased power will be calculated by:

- (a) applying the wholesale purchased power rate(s) to the forecast billing demand and forecast energy purchases from Newfoundland and Labrador Hydro; and,
- (b) dividing the resulting forecast purchased power cost by the forecast number of kilowatt-hours to be purchased in that year.

The basis for the forecast billing demand and forecast energy purchases will be the demand and energy forecast prepared by Newfoundland Power in the previous year and used in preparing the Company's Capital Budget Application or a General Rate Application, whichever is most appropriate.

The normalized actual unit cost of purchased power will be calculated by:

- (a) applying the wholesale purchased power rate(s) to the actual billing demand and normalized actual energy purchases from Newfoundland and Labrador Hydro (as reported in Return 13 of Newfoundland Power's Annual Report to the Board); and,
- (b) dividing the resulting actual purchased power cost by the normalized actual number of kilowatt-hours purchased in that year.

Reserve Deadband

The Reserve Deadband equals \$588,000 for 2005, as ordered by the Board in Order No. P.U. 44 (2004). The Reserve Deadband will be adjusted for 2006 and 2007 to reflect adjustments to the demand and energy rate from Newfoundland and Labrador Hydro during the three-year rate phase-in period approved by the Board in Order No. P.U. 44 (2004).

Disposition of any Balance in this Account

Newfoundland Power shall file an Application with the Board no later than the 1st day of March each year for the disposition of any balance in this account.