

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

**AN ORDER OF THE BOARD
NO. P.U. 30(2010)**

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1 (the
3 “*EPCA*”) and the *Public Utilities Act*, RSNL 1990,
4 Chapter P-47 (the “*Act*”) and regulations thereunder;

5
6 **AND**
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8 **IN THE MATTER OF** an application by
9 Newfoundland Power Inc. (“Newfoundland
10 Power”) for an order approving the deferred
11 recovery of certain costs for 2011, pursuant to
12 Sections 58 and 80 of the *Act*.

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15 **Background**

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17 In Order No P. U. 32(2007), the Board ordered, among other things, the amortization over a
18 three-year period, concluding in 2010, of the following amounts (the “Amortizations”):

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20 (a) \$16,446,000 of an accounting accrual for unbilled revenue arising from
21 the adoption of the accrual method of revenue recognition;
22 (b) \$4,087,000 in revenue related to municipal tax timing reconciliation;
23 (c) \$11,586,000 in deferred 2006 and 2007 depreciation costs;
24 (d) \$1,147,000 in deferred 2007 replacement energy costs associated with the
25 Rattling Brook Hydro Generating Plant refurbishment;
26 (e) a \$1,342,000 balance in the Purchased Power Unit Cost Variance Reserve
27 Account; and
28 (f) \$1,250,000 in estimated hearing costs associated with Newfoundland
29 Power’s 2008 general rate application
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31 The net amount of the Amortizations resulted in a reduction in Newfoundland Power’s revenue
32 requirement in the amount of \$2,363,000 for each of 2008, 2009 and 2010. In 2009
33 Newfoundland Power filed a general rate application adopting a 2010 test year revenue
34 requirement which reflected the last year of the Amortizations effectively reducing the revenue
35 requirement by \$2,363,000. In Order No. P. U. 46(2009) the Board approved rates for
36 Newfoundland Power based on this 2010 test year revenue requirement without addressing the
37 inevitable revenue shortfall in 2011 caused by the expiry of the credit associated with the
38 Amortization.

1 **The Application**

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3 On August 31, 2010 Newfoundland Power submitted an application (the “Application”) proposing to defer recovery, until a further Order of the Board, of the amount of \$2,363,000 in 4 2011 to offset the net impact of the expiring Amortizations. Newfoundland Power states in its 5 Application that the conclusion of the expiring Amortizations will result in a forecast rate of 6 return on rate base for 2011 of 7.91%, which is lower than the rate of return on rate base of 7 8.23% in a range of 8.05% to 8.41% approved by the Board in Order No. P. U. 46(2009). 8 Newfoundland Power requests that the Board make an Order approving:
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11 “(i) *pursuant to Sections 58 and 80 of the Act the deferred recovery, until a further Order of*
12 *the Board, of costs totaling \$2,363,000 due to the conclusion in 2010 of the 2010*
13 *Expiring Amortizations; and*

14
15 (ii) *such further, other or alternate matters which may, upon the record of proceedings in*
16 *respect of this Application, appear just and reasonable in all of the circumstances.”*
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18 On September 15, 2010 the Consumer Advocate advised that he would not oppose the creation 19 of the deferral account provided that recovery of the amounts in the deferral account without a 20 full review of the costs is not approved. Hydro advised the Board on September 16, 2010 that it 21 had no comments on the matter.
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23 The Board’s financial consultant, Grant Thornton, submitted a report to the Board on October 24 13, 2010 and concluded that:

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26 *“...the proposed treatment requested by the Company is an appropriate means of dealing with*
27 *the shortfall in revenue requirement for 2011 and is consistent with the treatment previously*
28 *approved in P. U. 40(2005) and P. U. 39(2006). Grant Thornton also confirms that the 2011*
29 *forecast average rate base with the proposed recovery would be within the approved range of*
30 *average return on rate base.”*
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32 On November 2, 2010 Newfoundland Power responded to the comments of the Consumer 33 Advocate, stating that there was no evidence before the Board to support a different approach in 34 this proceeding.
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36 **Decision**

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38 The Board notes that the Consumer Advocate does not take issue with the creation of the deferral 39 account as proposed by Newfoundland Power. The Consumer Advocate’s concern is the future 40 recovery of these costs in the absence of a full review of all costs and revenue changes in the 41 context of a general rate application. The Consumer Advocate states:
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43 *“...a full GRA review of costs may determine that there is a revenue surplus in the absence of the*
44 *revenue requirement impact of the expiring deferrals. In that case, only a portion of the amount*
45 *that NP is proposing to defer would be recoverable through a rate increase.”*

1 The Consumer Advocate also states his concern with Newfoundland Power addressing the
2 expiration of amortizations in the manner proposed since Newfoundland Power decides whether
3 to make an application for a deferral account to capture revenue requirement impact. According
4 to the Consumer Advocate this could result in inequities. Newfoundland Power submits that the
5 expiring amortizations were fully anticipated at the time of the 2010 general rate application and
6 that the proposal before the Board is to treat all the expiring Amortizations, which involve
7 amounts owing to and from customers, in the same manner.

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9 The Board agrees with Newfoundland Power that the matter of the expiring Amortizations was
10 included in the evidence and testimony of the 2010 general rate application. The impact on
11 2010 test year costs of the expiring Amortizations was set out by Newfoundland Power at the
12 time, which clearly showed revenue shortfalls for the years 2011 to 2013. While no proposals
13 to deal with the revenue shortfall were brought forward at the time Newfoundland Power
14 indicated that the impact of the expiring amortizations would possibly require further regulatory
15 action. (PUB-NP-12, 2010 GRA) The Board notes that Newfoundland Power's revenue
16 requirement was tested during the general rate application and approved by the Board and with
17 the anticipated expiry of the credit resulting from the Amortizations it is reasonable for
18 Newfoundland Power to expect to recover the shortfall in the revenue requirement for 2011.

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20 The Consumer Advocate's suggestion that the approval by the Board of recovery of any amounts
21 in the deferral account be conditional on a full review of the forecasts supporting the 2011
22 revenue shortfall is not consistent with the Board's past treatment of deferred revenues/costs and
23 may deny Newfoundland Power the opportunity to earn a fair and reasonable return.
24 Accordingly the Board finds that Newfoundland Power's proposal to defer recovery of costs in
25 2011 of \$2,363,000 arising from the expiry of certain amortizations in 2010 should be approved.

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28 **IT IS THEREFORE ORDERED THAT:**

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30 1. The deferred recovery of \$2,363,000 in 2011 due to the conclusion in 2010 of the
31 Amortizations is approved until a further Order of the Board.
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33 2. The proposed definition of the 2011 Cost Deferral Account, as set out in Schedule "A" to
34 this Order, is approved.
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36 3. Newfoundland Power shall pay all expenses of the Board arising from this Application.

Dated at St. John's, Newfoundland and Labrador this 29th day of November 2010.

Andy Wells
Chair and Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

Dwanda Newman, LL.B.
Commissioner

James Oxford
Commissioner

G. Cheryl Blundon
Board Secretary

Newfoundland Power Inc.

2011 Cost Recovery Deferral Account

Proposed Definition

This account shall be charged with the amount by which the actual annual fixed amortizations of regulatory deferrals in 2011 differs from the fixed amortizations of regulatory deferrals included in Newfoundland Power's 2010 test year. The amount charged shall be adjusted for applicable income taxes calculated at the statutory income tax rate.

Disposition of the Balance in this Account

The disposition of this cost recovery deferral amount will be subject to a future order of the Board.