
Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**IN THE MATTER OF A
GENERAL RATE APPLICATION
FILED BY
NEWFOUNDLAND POWER INC.**

**DECISION AND ORDER
OF THE BOARD**

ORDER NO. P.U. 2(2019)

BEFORE:

**Dwanda Newman, LLB
Vice-Chair**

**James Oxford
Commissioner**

**John O'Brien, FCPA, FCA, CISA
Commissioner**

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

**AN ORDER OF THE BOARD
NO. P.U. 2(2019)**

IN THE MATTER OF the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 and the *Public Utilities Act*, RSNL 1990, Chapter P-47 as amended, and subordinate regulations;

AND IN THE MATTER OF a general rate application filed by Newfoundland Power Inc. for approval of, *inter alia*, rates to be charged to its customers for 2019 and 2020.

BEFORE:

Dwanda Newman, LL.B.
Vice-Chair

James Oxford
Commissioner

John O'Brien, FCPA, FCA, CISA
Commissioner

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PART THREE: BOARD ORDER

1 **PART ONE: APPLICATION AND PROCEEDING**

2
3 **1.0 The Application**

4
5 Newfoundland Power Inc. (“Newfoundland Power”) filed a general rate application with the Board
6 of Commissioners of Public Utilities (the “Board”) on June 1, 2018 requesting approval of, among
7 other things, an overall average increase in current electricity rates of 1.2% as of March 1, 2019
8 for the supply of power and energy to its customers.

9
10 The application originally proposed that the Board approve:

- 11 1. rates, tolls and charges and rules and regulations governing service, to be effective for all
12 service provided on and after March 1, 2019, which result in an overall average increase in
13 current customer rates of 1.2%;
 - 14 2. a rate of return on average rate base for 2019 of 7.47% in a range of 7.29% to 7.65% and
15 for 2020 of 7.49% in a range of 7.31% to 7.67%;
 - 16 3. a forecast average rate base for 2019 of \$1,146,293,000 and for 2020 of \$1,179,357,000;
 - 17 4. forecast revenue requirements from customer rates for 2019 of \$661,467,000 and for 2020
18 of \$664,118,000;
 - 19 5. the continued suspension of the automatic adjustment formula for setting the allowed rate
20 of return on average rate base for Newfoundland Power in years subsequent to 2020;
 - 21 6. a change in its accounting practices regarding capitalization of pension expense associated
22 with Accounting Standards Update 2017-07 issued in 2017 by the Financial Accounting
23 Standards Board;
 - 24 7. the amortization of the recovery of an estimated \$1,000,000 in Board and Consumer
25 Advocate costs related to the application over a 34-month period commencing March 1,
26 2019 and ending December 31, 2021. Board and Consumer Advocate costs in excess of
27 \$1,000,000 be recovered through the Rate Stabilization Account;
 - 28 8. the amortization of a forecast 2019 revenue surplus of an estimated \$919,000 over a 34-
29 month, commencing March 1, 2019 and ending December 31, 2021;
 - 30 9. the addition of a new service offering for LED street and area lighting and a corresponding
31 amendment to Clause II.3 of the Rate Stabilization Clause; and
 - 32 10. changes in the Basic Customer Chargers and Minimum Monthly Charges for (i) unmetered,
33 (ii) single phase, and (iii) three phase service in Rate #2.1 – General Service 0-100 kW
34 (110 kVA).
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1 On November 19, 2018, Newfoundland Power filed an amended application (the “Application”)
2 proposing approval of:

- 3
- 4 1. rates, tolls and charges and rules and regulations governing service, to be effective for all
5 service provided on and after March 1, 2019, which result in no overall average increase
6 in current customer rates;
- 7
- 8 2. the 2019 and 2020 Operating Costs as proposed in the Application;
- 9
- 10 3. the 2019 and 2020 Customer, Energy and Demand forecast as proposed in the Application;
- 11
- 12 4. the capital structure as proposed in the Application;
- 13
- 14 5. 8.5% as the rate of return on common equity to be used in determining a just and reasonable
15 return on rate basis for 2019 and 2020;
- 16
- 17 6. a forecast average rate base for 2019 of \$1,146,176,000 and for 2020 of \$1,179,055,000;
- 18
- 19 7. a rate of return on average rate base for 2019 of 7.01% in a range of 6.83% to 7.19% and
20 for 2020 of 7.04% in a range of 6.86% to 7.22%;
- 21
- 22 8. forecast revenue requirements from customer rates for 2019 of \$672,254,000 and for 2020
23 of \$673,846,000;
- 24
- 25 9. the continued suspension of the automatic adjustment formula for setting the allowed rate
26 of return on average rate base for Newfoundland Power in years subsequent to 2020;
- 27
- 28 10. a change in its accounting practices regarding capitalization of pension expense associated
29 with Accounting Standards Update 2017-07 issued in 2017 by the Financial Accounting
30 Standards Board;
- 31
- 32 11. the calculation of 2019 and 2020 employee future benefit expenses, which include pension
33 plans and other post-employment benefits (“OPEBs”), of \$9,080,000 for 2019 and
34 \$7,566,000 for 2020, based on a discount rate of 3.6%, a return on pension assets of 5.25%
35 and expected average remaining service life of employees of 7.44 years for 2019 and 6.96
36 years for 2020;
- 37
- 38 12. the amortization of the recovery of an estimated \$1,000,000 in Board and Consumer
39 Advocate costs related to the application over a 34-month period commencing March 1,
40 2019 and ending December 31, 2021 with the difference between actual costs and
41 estimated costs to be rebated/collected through the Rate Stabilization Account;
- 42
- 43 13. the amortization of a forecast 2019 revenue surplus of an estimated \$2,482,000 over a 34-
44 month, commencing March 1, 2019 and ending December 31, 2021;

- 1 14. the addition of a new service offering for LED street and area lighting and a corresponding
2 amendment to Clause II.3 of the Rate Stabilization Clause;
3
- 4 15. changes in the Basic Customer Chargers and Minimum Monthly Charges for (i) unmetered,
5 (ii) single phase, and (iii) three phase service in Rate #2.1 – General Service 0-100 kW
6 (110 kVA);
7
- 8 16. the filing of the next General Rate Application no later than June 1, 2021 subject to any
9 directions arising from the Reference on Rate Mitigation Options and Impacts Relating the
10 Muskrat Falls Project Costs;
11
- 12 17. as there shall be no overall increase in Newfoundland Power domestic customer rates on
13 March 1, 2019, and any revenue requirement surplus/shortfall for the 2019 and 2020 test
14 years, as identified in the compliance application, shall be charged to the Rate Stabilization
15 Account in the normal operation of the July 1 adjustment. Any such amounts shall be
16 refunded/collected in the 12 month periods following the 2019 and 2020 Rate Stabilization
17 Account adjustments, respectively; and
18
- 19 18. depreciation expenses for 2019 and 2020 in accordance with the methodology and rates
20 outlined in the 2014 Depreciation Study approved by the Board in Order No. P.U. 18
21 (2016).
22

23 **2.0 Procedural Matters**

24 **2.1 Notice and Intervenors**

25
26
27 Notice of the Application and pre-hearing conference was published in newspapers throughout the
28 province beginning on June 6, 2018. The pre-hearing conference was held on June 27, 2018. In
29 Order No. P.U. 24(2018) the Board identified intervenors, established procedural rules and set the
30 schedule for the proceeding.
31

32 Newfoundland Power was represented by Liam O'Brien and Kelly Hopkins. Registered
33 intervenors for the proceeding were the Government appointed Consumer Advocate, Dennis
34 Browne, QC (the "Consumer Advocate"), assisted by Stephen Fitzgerald, and International
35 Brotherhood of Electrical Workers, Local 1620 ("Local 1620"), represented by Mark Murray and
36 Matthew Gough. Newfoundland and Labrador Hydro ("Hydro") did not intervene.
37

38 The Board was assisted by Jacqueline Glynn, Legal Counsel; Maureen Greene, QC, Board Hearing
39 Counsel; and Cheryl Blundon, Board Secretary.
40

41 On November 7, 2018 notice of the hearing was published inviting participation in the hearing
42 which was scheduled to begin on November 14, 2018.

2.2 Pre-Filed Evidence

Newfoundland Power filed comprehensive supporting material with the Application, which included written evidence, reports and exhibits. Expert evidence for Newfoundland Power was filed by James Coyne of Concentric Energy Advisors Inc. in relation to cost of capital (“Coyne Report”).

On September 25, 2018, the Board’s financial consultants, Grant Thornton LLP (“Grant Thornton”) completed its review of Newfoundland Power’s proposals and filed a report (“Grant Thornton Report”).

On September 25, 2018 expert evidence was filed on behalf of the Consumer Advocate by:

- (i) Dr. Laurence Booth of the Rotman School of Management, University of Toronto in relation to cost of capital (“Booth Report”); and
- (ii) Dr. Sean Cleary of the Smith School of Business, Queen's University in relation to capital structure (“Cleary Report”).

On October 3, 2018 Grant Thornton’s annual reviews of Newfoundland Power for 2015, 2016 and 2017 were placed on the record.

On November 6, 2018 Newfoundland Power filed as rebuttal evidence a report, Executive Compensation Review, prepared by Karl Aboud of Korn Ferry (“Korn Report”).

A total of 394 Requests for Information were filed and answered in the proceeding.

2.3 Negotiation and Settlement Process

The Board set aside October 22-26, 2018 for the parties to engage in settlement discussions which were facilitated by Board Hearing Counsel. Following October 26, 2018, the parties continued with the settlement discussions.

On November 14, 2018 a settlement agreement between Newfoundland Power, the Consumer Advocate and Local 1620 was filed with the Board (the “Settlement Agreement”). The Settlement Agreement stated that it disposed of all of the issues arising from the Application, and specifically addressed a number of issues, including operating costs, forecasting, rate design and structure, certain amortizations, revenue requirements and return on rate base. Local 1620 indicated in the Settlement Agreement that it took no position on the Settled Issues.

2.4 Public Hearing

The public hearing began as scheduled on November 14, 2018. The parties entered the Settlement Agreement into the record and jointly advised that the issues arising from the Application had been settled by negotiation between them in accordance with the Settlement Agreement. As the Settlement Agreement addressed all of the items in the Application, the parties advised that they did not intend to present evidence, examine, cross-examine or present argument beyond that which is reasonably necessary to assist the Board.

1 Newfoundland Power explained that:

2

3 ...a Settlement Agreement has been reached with Consumer Advocate and the IBEW on
4 what we believe to be all of the issues that flow from the application itself and it has been
5 circulated...¹

6

7 The Consumer Advocate indicated that they had “come to the conclusion based on our expert’s
8 advice that this is a good settlement.”² Mr. Fitzgerald stated:

9

10 We think from the Consumer’s point of view it’s the best deal we could get. Again,
11 cognizant of our experts best advice we also looked hard at the 2016 decision and didn’t
12 want to have a hearing for hearing sakes. I think all the terms here are favourable for
13 consumers. We realize, obviously the utility has to protect its interests and I think this
14 Settlement of Agreement achieves both of our goals.³

15

16 Local 1620 explained that they had nothing further to add to the comments by Newfoundland
17 Power and the Consumer Advocate.

18

19 The Board advised that it would review the Settlement Agreement and any further required
20 evidence would be requested.

21

22 **2.5 Revised Application**

23

24 On November 19, 2018 Newfoundland Power filed an amended application reflecting the items
25 agreed to in the Settlement Agreement. On November 23, 2018 additional information was filed
26 in response to the Board’s request for further information related to the Settlement Agreement.

27

28 On December 20, 2018, Grant Thornton filed a report (“Grant Thornton Amended Application
29 Report”) stating that the revised Application was consistent with the Settlement Agreement and
30 with Order No. P.U. 20(2018) which approved rates for Newfoundland Power effective July 1,
31 2018.

32

33

34 **PART TWO: BOARD DECISIONS**

35

36 **3.0 Settlement Agreement**

37

38 In considering the Application the Board must be satisfied that the proposals are reasonable and
39 consistent with the existing regulatory framework and legislation, with particular reference to the
40 power policy of the province as set out in section 3 of the *Electrical Power Control Act, 1994*,
41 SNL 1994, Chapter E-5.1 (the “*EPCA*”). In this case, the Board must also consider the
42 recommendations of the parties as set out in the Settlement Agreement.

¹ Transcript, November 14, 2018, page 6/2-7

² Transcript, November 14, 2018, page 16/23-25

³ Transcript, November 14, 2018, page 17/10-19

1 The Settlement Agreement sets out the parties' agreement on the following issues:
2

- 3 • 2019 and 2020 Operating Costs;
- 4 • 2019 and 2020 Customer, Energy and Demand Forecast;
- 5 • cost of service and rate design;
- 6 • amortization of hearing costs;
- 7 • 2019 and 2020 employee future benefit expenses;
- 8 • change in accounting practices regarding capitalization of pension expenses;
- 9 • depreciation expenses for 2019 and 2020;
- 10 • capital structure;
- 11 • rate of return;
- 12 • 2019 and 2020 forecast average rate base;
- 13 • test year 2019 and 2020 revenue requirements;
- 14 • return on rate base;
- 15 • amortization of revenue surplus;
- 16 • continued suspension of the Automatic Adjustment Formula;
- 17 • revenue requirement surplus/shortfall for the 2019 and 2020 test years be charged to
18 Rate Stabilization Account; and
- 19 • the date of filing the next General Rate Application.

20 21 **3.1 Operating Costs**

22
23 The Application proposed approval of Operating Costs of \$62,698,000 in 2019 and \$63,648,000
24 in 2020.

25
26 The Settlement Agreement stated that the 2019 and 2020 Operating Costs as proposed in the
27 Application should be approved.

28
29 Grant Thornton reviewed the Operating Costs forecasts for 2019 and 2020 and advised that they
30 did not appear unreasonable.

31
32 **The Board accepts the Settlement Agreement in relation to the 2019 and 2020 Operating**
33 **Costs filed in the Application to be used in calculating the 2019 and 2020 test year forecasts**
34 **of revenue requirement, rate base and rate of return on rate base for the purpose of**
35 **determining customer rates.**

36 37 **3.2 Customer, Energy and Demand Forecast**

38
39 The Application included the 2019 and 2020 Customer, Energy and Demand Forecast which
40 forecasted an increase in the number of customers of 0.6% in 2018, 2019, and 2020. Further,
41 energy sales were forecast to decrease by 0.1% in 2018 and 0.5% in 2019, and increase by 0.1%
42 in 2020. Demand was forecast to increase by 0.6% in 2018 and decrease by 0.5% in 2019 and
43 0.2% in 2020. Demand purchases from Hydro were forecast to increase by 0.6% in 2018 and

1 decrease by 0.6% in 2019 and 0.2% in 2020. These forecasts include the impacts of both price
2 elasticity and energy and demand management programs.⁴

3
4 The Settlement Agreement stated that the 2019 and 2020 Customer, Energy and Demand Forecast
5 as proposed in the Application should be approved.

6
7 As indicated by Grant Thornton, the Customer, Energy and Demand Forecast forms the foundation
8 of Newfoundland Power's planning process and is a key input in developing estimates of capital
9 expenditures and revenue from electrical sales and expenditures on purchased power. Grant
10 Thornton confirmed that the methodology used by Newfoundland Power for forecasting as
11 described in the Customer, Energy and Demand Forecast was consistent with that used in the
12 2016/2017 General Rate Application.⁵

13
14 **The Board accepts the Settlement Agreement in relation to the 2019 and 2020 Customer,**
15 **Energy and Demand Forecast filed in the Application to be used in calculating the 2019 and**
16 **2020 test year forecasts of revenue requirement, rate base and rate of return on rate base for**
17 **the purpose of determining customer rates.**

18 19 **3.3 Cost of Service and Rate Design**

20
21 In Order No. P.U. 18(2016) the Board approved separate Basic Customer Charges under General
22 Service Rate #2.1. In this Application, Newfoundland Power proposed changes to the Basic
23 Customer Charges and Minimum Monthly Charges for unmetered, single phase and three phase
24 service in Rate #2.1 to better reflect differences in the cost of providing each service. The Basic
25 Customer Charge as of June 1, 2018 is \$17.20 for unmetered, \$21.20 for single phase and \$27.20
26 for three phase. Newfoundland Power has proposed the Basic Customer Charge to be \$12.18 for
27 unmetered, \$20.18 for single phase and \$32.18 for three phase.⁶ The differences in Basic Customer
28 Charges for unmetered, single phase and three phase service are intended to reflect differences in
29 the cost of each service. The monthly customer cost of unmetered is \$20.80, single phase is \$28.90
30 and three phase is \$41.90. The cost of providing single phase service is \$8.10 more than the cost
31 of providing unmetered service. The cost of providing three phase service is \$13.00 more than the
32 cost of providing single phase service.⁷

33
34 The Settlement Agreement stated that the Board should approve the proposed changes to the Basic
35 Customer Charges in Rate #2.1 – General Service 0-100kW (110 kVA) to more accurately reflect
36 differences in the cost of providing such service.

37
38 **The Board accepts the Settlement Agreement in relation to Newfoundland Power's proposed**
39 **changes to the Basic Customer Charges and Minimum Monthly Charges for (i) unmetered,**
40 **(ii) single phase and (iii) three phase service in Rate #2.1 – General Service 0-100kW**

⁴ Application, pages 5-3 to 5-5. The number of customers served by Newfoundland Power is forecast at 269,683 in 2019 and 271,222 in 2020.

⁵ Grant Thornton Report, page 19/39-40

⁶ The June 1, 2018 filing proposed the Basic Customer Charge to be \$12.50 for unmetered, \$20.50 for single phase and \$32.50 for three phase.

⁷ Application, page 5-13/5-9

1 **(110kVa) and will approve the associated changes in the Schedule of Rates, Tolls and**
 2 **Charges.**

3.4 LED Street and Area Lighting

6 The Application proposed to introduce Light Emitting Diode (“LED”) service for Street and Area
 7 Lighting customers. The proposed LED street and area lighting are categorized in 4 ways,
 8 corresponding to existing High Pressure Sodium (“HPS”) street light fixtures with similar outputs.
 9 These are: (i) LED 100 (7,500 – 10,500 lumens), (ii) LED 150 (13,000 – 16,000 lumens), (iii) LED
 10 250 (22,000 – 25,000 lumens) and (iv) LED 400 (43,500-46,500 lumens). The proposed rates are
 11 LED 100, \$15.77, LED 150, \$17.25, LED 250, \$22.12 and LED 400, \$25.10.⁸

13 The proposed LED rates are between 8% and 39% lower than equivalent HPS rates.⁹

15 The Settlement Agreement stated that the parties agreed to the addition of this new service offering
 16 for LED street and area lighting, the proposed rates and a corresponding amendment to Clause II.3
 17 of the Rate Stabilization Clause.

19 The Board finds that this service offering would be beneficial to customers and would offer lower
 20 rates compared to the HPS rates.

22 **The Board accepts the Settlement Agreement in relation to the new LED street and area**
 23 **lighting service offering and the amendment to Clause II.3 of the Rate Stabilization Clause**
 24 **as proposed in the Application and will approve the associated changes in the Schedule of**
 25 **Rates, Tolls and Charges and the Rules and Regulations.**

3.5 Hearing Costs

29 The Application proposed that an estimated \$1.0 million in Board and Consumer Advocate hearing
 30 related costs be recovered over a 34-month period commencing March 1, 2019 and ending
 31 December 31, 2021 and that any difference between actual costs and the estimated costs be
 32 rebated/collected through the Rate Stabilization Account.

34 The Settlement Agreement stated that the parties agreed to the recovery of Board and Consumer
 35 Advocate hearing costs over a 34-month period commencing March 1, 2019 and ending December
 36 31, 2021. For rate setting purposes it was agreed that Board and Consumer Advocate hearing costs
 37 shall be estimated at \$1.0 million and that any difference between actual costs and the costs
 38 estimated for rate setting purposes would be collected through the Rate Stabilization Account.

40 **The Board accepts the Settlement Agreement in relation to hearing costs and will approve**
 41 **the amortization of estimated hearing costs in an amount of \$1.0 million over a 34-month**
 42 **period commencing March 1, 2019 to December 31, 2021, with any difference between actual**
 43 **cost and the estimated costs to be rebated/collected through the Rate Stabilization Account.**

⁸ The June 1, 2018 filing proposed rates for LED 100, \$15.85, LED 150, \$17.30, LED 250, \$22.71 and LED 400, \$24.97.

⁹ Application, page 5-10/4

3.6 Employee Future Benefits Expense

The Application proposed employee future benefits expense, which includes pension plans and other post-employment benefits, of \$9,080,000 for 2019 and \$7,566,000 for 2020 based on a discount rate of 3.6%, a return on pension assets of 5.25%, and an expected average remaining service life of employees of 7.44 years for 2019 and 6.96 years for 2020. The Application stated that Newfoundland Power expects total employee future benefits to decrease by approximately \$18.8 million from 2015 to 2020.¹⁰

The Settlement Agreement stated that the parties agreed with the calculation of 2019 and 2020 employee future benefits expense as proposed in the Application.

Grant Thornton reviewed the forecast expense for employee future benefits for 2019 and 2020 and the support provided by Newfoundland Power's actuaries and advised that it found no discrepancies.

The Board accepts the Settlement Agreement in relation to employee future benefits expense for 2019 and 2020.

3.7 Change in Accounting Practices - Pension Expenses

The Application proposed the approval of a change in accounting practices regarding capitalization of pension expenses associated with Accounting Standards Update 2017-07. In March 2017, the Financial Accounting Standards Board ("FASB") issued *Accounting Standards Update 2017-01 – Improving the Presentation of the Net Periodic Pension Costs and Net Periodic Post-Retirement Benefit Cost*. This update impacts how Newfoundland Power accounts for pension costs in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). These changes require that only the current service cost component of pension and other post-employment benefits are eligible for capitalization. Further these accounting changes provide guidance on how the amount capitalized should reflect the proportion of labour costs that are related to capital work. These new requirements were effective under U.S. GAAP January 1, 2018.¹¹

The test year revenue requirement for pension expense set out in the Application is approximately \$2.2 million lower in 2019 and \$2.1 million lower in 2020 as a result of proposed changes in capitalization of pension expenses.¹²

The Settlement Agreement stated that the parties agreed that Newfoundland Power's change in accounting practices regarding capitalization of pension expenses associated with Accounting Standards Update 2017-07 be approved.

Grant Thornton reviewed the change in accounting practices relating to the capitalization of pension expenses as proposed in the Application and advised that it agreed with Newfoundland Power's conclusions.

¹⁰ Application, page 3-7/10-11, Table 3-7/8-11

¹¹ Application, page 3-39/1-8 and page 3-40/7-11

¹² Application, page 3-42/13-14

1 **The Board accepts the Settlement Agreement in relation to the proposed changes to**
 2 **accounting practices regarding capitalization of pension expenses associated with**
 3 **Accounting Standards Update 2017-07 and will approve the change in accounting policy.**

4 5 **3.8 Depreciation Expense**

6
7 The Application proposed approval of depreciation expenses for 2019 and 2020 in accordance
 8 with the methodology and rates outlined in the 2014 Depreciation Study approved by the Board in
 9 Order No. P.U. 18(2016).¹³

10
11 The Settlement Agreement stated that the Board should approve the depreciation expenses for
 12 2019 and 2020 in accordance with the methodology and rates outlined in the 2014 Depreciation
 13 Study.

14
15 Grant Thornton reviewed Newfoundland Power's forecast depreciation expenses of \$62,314,000
 16 for 2019 and \$64,797,000 for 2020.¹⁴ Based on its review, Grant Thornton confirmed that the
 17 depreciation rates used to calculate the proposed forecast depreciation expense for 2019 and 2020
 18 agree to those recommended in the 2014 Depreciation Study and Newfoundland Power's pre-filed
 19 evidence, and that the depreciation expenses has been calculated in accordance with these
 20 depreciation rates.¹⁵

21
22 **The Board accepts the Settlement Agreement in relation to the calculation of depreciation**
 23 **expenses based on the rates in the 2014 Depreciation Study for 2019 and 2020.**

24 25 **3.9 Cost of Capital**

26
27 The Application proposed, for rate setting purposes, a return on equity for the test years 2019 and
 28 2020 of 8.5%, with a deemed common equity ratio of 45%.¹⁶

29
30 The Settlement Agreement stated that the capital structure as proposed in the Application should
 31 be approved for ratemaking purposes and also recommended that the rate of return on common
 32 equity to be used in determining a just and reasonable return on rate base for 2019 and 2020 should
 33 be 8.5%.

34 35 3.9.1 Cost of Capital Evidence

36
37 Newfoundland Power's expert, Mr. James Coyne, stated that the global economy is stronger today
 38 than it was in October 2015. Mr. Coyne concluded that interest rates have reached a low point and

¹³ In Order No. P.U. 13(2013) the Board ordered that Newfoundland Power file a depreciation study (the "2014 Depreciation Study") relating to plant in-service as of December 31, 2014 as part of its next General Rate Application. In Order No. P.U. 18(2016) the Board approved Newfoundland Power's use of the depreciation rates and methodology as recommended in the 2014 Depreciation Study.

¹⁴ Application, pages 3-6, Table 3-4

¹⁵ Grant Thornton Report, page 23/27-31

¹⁶ The June 1, 2018 filing had proposed, for rate setting purposes, a return on equity of 9.5% with a deemed common equity ratio of 45%.

1 will increase upwards which must be accounted for in the required equity return.¹⁷ In Mr. Coyne's
2 view Newfoundland Power has higher business risk today than in 2015, considering
3 Newfoundland Power's small size relative to other investor-owned electric utilities, the
4 macroeconomic and demographic trends in the province; the operating risks associated with the
5 Newfoundland Power's service territory, upcoming changes in the power supply, and competition
6 from alternative fuels.¹⁸ In terms of the capital structure, Mr. Coyne expressed the opinion that the
7 current common equity ratio remains the minimum appropriate level given Newfoundland Power's
8 financial and business risks.¹⁹ In terms of the return on equity, Mr. Coyne stated that multiple
9 approaches should be used as no one financial model can exactly pinpoint the correct return on
10 equity. The average of Mr. Coyne's results for return on equity for each of his proxy groups for all
11 three methods used was 9.55%.²⁰

12
13 The Consumer Advocate's expert, Dr. Lawrence Booth, took the position that financial conditions
14 are now easier than was evident in 2016. In Dr. Booth's view current market conditions in U.S.
15 and Canada are getting close to the top of the economic cycle, but due to the effects of monetary
16 easing policies, long term interest rates are at extremely low levels. According to Dr. Booth, while
17 short term interest rates are increasing forecast Long Canada bond yields are actually lower now
18 than in 2016.²¹ Dr. Booth believes that there has been no material change in Newfoundland
19 Power's business risk since 2016 and continues to assess Newfoundland Power as a typical low
20 risk Canadian utility.²² Dr. Booth acknowledged the weak outlook for the provincial economy and
21 the significance of electricity cost increases flowing from the Muskrat Falls Project but expressed
22 the opinion that these risks are not so significant as to cause Newfoundland Power to become an
23 above average business risk utility.²³ In terms of assessing a return on equity, Dr. Booth used both
24 CAPM and DCF analysis of the overall Canadian and U.S. stock markets as well as U.S. gas and
25 electric companies to inform his judgment. Dr. Booth also considered independent third parties'
26 views of the long term returns for defined pension plans and the overall historic returns for the
27 Canadian equity markets in assessing the reasonableness of his recommended return on equity.²⁴
28 Dr. Booth estimated a fair return, based on an adjusted CAPM to be in the range 6.73% to 7.78%
29 with a mid-point of 7.26% and, based on a DCF calculation for the overall equity market return to
30 be in the range of 8.00% to 9.00%.²⁵ Dr. Booth concluded that balancing these values he continued
31 to judge a fair return on equity for Newfoundland Power to be 7.50% despite the fact that the
32 capital market conditions are unambiguously better than in 2016. Dr. Booth strongly recommended
33 that the Board reduce the 8.5% return set in 2016 since all the normal indicators point to a lower
34 return on equity.

35
36 Dr. Sean Cleary, a second expert presented by the Consumer Advocate, recommended that
37 Newfoundland Power's common equity component be lowered to 40%, which would bring it in

¹⁷ Coyne Report, page 17/14-16

¹⁸ Coyne Report, page 48/18-23

¹⁹ Coyne Report, page 68/26-28

²⁰ Coyne Report, page 3, Figure 1

²¹ Booth Report, September 2018, page 5/7-10

²² Booth Report, page 70/3-10

²³ Booth Report pages 73/18-28

²⁴ Booth Report, page 63/7-28

²⁵ Booth Report, page 63/7-22

1 line with Canadian averages.²⁶ Dr. Cleary expected the current Canadian economy to grow steadily
 2 throughout 2019 and 2020 while the Newfoundland and Labrador economy was expected to
 3 display flat economic growth in 2018 and positive growth in 2019. In Dr. Cleary's opinion
 4 Newfoundland Power is a low risk utility and therefore does not require a higher equity ratio than
 5 40%.

6 7 3.9.2 Board Findings 8

9 In Order Nos. P.U. 43(2009), P.U. 13(2013) and P.U. 18(2016) the Board explained that “to be
 10 considered fair the return must be commensurate with the return on investments of similar risk and
 11 sufficient to assure financial integrity and to attract necessary capital.”²⁷ All three of these
 12 requirements must be met and no one requirement takes precedence over the other two.
 13 Determining a fair return involves an assessment of both the utilities capital structure and return
 14 on equity, in the context of the current capital market conditions and the utility's risk profile. In
 15 Newfoundland Power's last general rate application, the Board determined that a rate making
 16 return on common equity of 8.5%, with a deemed common equity of 45% would provide
 17 Newfoundland Power the opportunity to earn a just and reasonable return on rate base consistent
 18 with the fair return principle and the provision of least cost reliable service.²⁸

19
20 In terms of capital structure, the Board has accepted a capital structure of 45% equity for rate
 21 setting for Newfoundland Power since 1996. Newfoundland Power's capital structure is
 22 recognized by credit rating agencies as a strength, which positively impacts its credit worthiness.²⁹
 23 In Order Nos. P.U. 13(2013) and P.U. 18(2016) the Board noted the importance of Newfoundland
 24 Power's strong equity position and found that the deemed common equity ratio of 45% should not
 25 be lowered. Based on the evidence and the recommendation of the parties in the Settlement
 26 Agreement, the Board accepts a common equity ratio for rate setting purposes of no greater than
 27 45%.

28
29 In terms of return on equity, there is often different opinions on the financial models or
 30 combination of models which should be relied upon, however the models most often referred to
 31 are the Capital Asset Pricing Model (“CAPM”) and the Discounted Cash Flow method (“DCF”).
 32 The Board has in the past placed primary emphasis on CAPM with appropriate adjustments but
 33 has looked to the results of the DCF model as well as other evidence and information.
 34

35 The Board notes that the experts presented by Newfoundland Power and the Consumer Advocate
 36 suggested a rate of return ranging between 7.50% and 9.55%. Based on the evidence a return on
 37 common equity of 8.5% would result in credit metrics for Newfoundland Power as follows:³⁰

²⁶ Cleary Report, page 36/9-12

²⁷ See also *Public Utilities Act*, RSNL 1990, Chapter, P-47 (the “Act”), section 80 and the *Electrical Power Control Act, 1994*, SNL 1994, Chapter P-47, section 3.

²⁸ Order No. P.U. 18(2016)

²⁹ DBRS Report on Newfoundland Power dated October 4, 2018

³⁰ Application, Exhibit 5, page 1

	<u>2019</u>	<u>2020</u>
Rate of return on Rate Base (%)	7.01	7.04
Pre-tax Interest Coverage (times)	2.4	2.4
Cash Flow Interest Coverage (times)	3.9	3.9
Cash Flow Debt Coverage (%)	17.0	16.9

1 The evidence showed that a cash flow debt coverage ratio of 17% would be in the range suggested
2 by Moody's and that Newfoundland Power's Deed of Trust and Mortgage requires an earning test
3 interest coverage of 2.0 times or higher to issue additional bonds.³¹ Newfoundland Power stated
4 in relation to its credit metrics:

5
6 Newfoundland Power observes that returns on equity of 8.5% to 9.5% with an equity
7 capitalization of 45% for 2019 and 2020 provide for reasonable stable pro-forma credit
8 metrics. In the Company's view, this range of returns on equity is not expected to be
9 problematic with respect to existing credit metrics.³²

10
11 Based on the evidence and the recommendations of the parties in the Settlement Agreement, the
12 Board is satisfied that a fair rate of return on equity for Newfoundland Power for rate setting
13 purposes for 2019 and 2020 is 8.5%.

14
15 **The Board accepts the Settlement Agreement that for 2019 and 2020, a rate making return**
16 **on common equity of 8.5%, with a deemed common equity component of 45%, will provide**
17 **Newfoundland Power with the opportunity to earn a just and reasonable return on rate base**
18 **consistent with the fair return principle and the provision of least cost reliable service.**

19 20 **3.10 Forecast Average Rate Base**

21
22 The Application proposed a revised forecast average rate base of \$1,146,176,000 for 2019 and
23 \$1,179,055,000 for 2020.³³

24
25 The Settlement Agreement stated that the Board should approve the forecast average rate base for
26 2019 of \$1,145,882,000 and 2020 of \$1,178,756,000 as modified by any relevant Board orders
27 issued subsequent to the filing of the Application.

28
29 Grant Thornton reviewed the forecast average rate base and concluded that it appropriately
30 incorporates the impact of the July 1, 2018 rate change approved in Order No. P.U. 20(2018) and
31 the Settlement Agreement.³⁴

32
33 **The Board accepts the Settlement Agreement in relation to forecast average rate base and**
34 **will approve the forecast average rate base for 2019 of \$1,146,176,000 and 2020 of**
35 **\$1,179,055,000 to be used for rate making purposes.**

³¹ Application, Exhibit 4, Moody's Credit Rating Report, page 2; and PUB-NP-084, page 2

³² PUB-NP-083, page 1/29-32

³³ The June 1, 2018 filing had proposed the forecast average rate base for 2019 of \$1,146,293,000 and for 2020 of \$1,179,357,000.

³⁴ Grant Thornton Amended Application Report, page 8/11-13

3.11 Revenue Requirement

The Application requested approval of the revenue requirement for 2019 of \$672,254,000 and for 2020 of \$673,846,000.³⁵

The Settlement Agreement stated that the Board may accept and approve the 2019 and 2020 revenue requirement forecast as proposed in the Application.

Grant Thornton reviewed the revised revenue requirement forecasts for 2019 and 2020 and found that Newfoundland Power's calculations were in accordance with the Settlement Agreement and the Application.³⁶

The Board accepts the Settlement Agreement in relation to forecast revenue requirement for 2019 of \$672,254,000 and 2020 of \$673,846,000 to be used for rate making purposes.

3.12 Rate of Return on Average Rate Base

The Application proposed a rate of return on average rate base for 2019 of 7.01% in a range of 6.83% to 7.19% and for 2020 of 7.04% in range of 6.86% to 7.22%.³⁷

The Settlement Agreement stated that the return on average rate base for 2019 of 7.02% in a range of 6.84% to 7.20% and for 2020 of 7.05% in range of 6.87% to 7.23% should be approved as modified by any relevant Board orders issued subsequent to the filing of the Application.

Grant Thornton reviewed the Application and found that the revised rate of return on average rate base was in accordance with the Settlement Agreement and Order No. P.U. 20(2018).³⁸

The Board accepts the Settlement Agreement and will approve the proposed rate of return on average rate base for 2019 of 7.01% in a range of 6.83% to 7.19% and for 2020 of 7.04% in range of 6.86% to 7.22%.

3.13 Revenue Surplus

The Application proposed the amortization of a forecast revenue surplus of \$2,482,000 over a 34-month period, commencing March 1, 2019 and ending December 31, 2021.³⁹ In the additional information filed on November 23, 2018, Newfoundland Power explained that the forecast revenue

³⁵ The June 1, 2018 filing had proposed the revenue requirement for 2019 of \$661,467,000 and for 2020 of \$664,118,000.

³⁶ Grant Thornton Amended Application Report, page 8

³⁷ The June 1, 2018 filing had proposed the rate of return on average rate base for 2019 7.47% in a range of 7.29% to 7.65% and for 2020 of 7.49% in range of 7.31% to 7.67%. These proposals were updated for the implementation of the July 1, 2018 customer rates pursuant to Order No. P.U. 20(2018) which approved an increase in Newfoundland Power's customer rates resulting from the increase in the wholesale electricity rate charged to Newfoundland Power by Newfoundland and Labrador Hydro.

³⁸ Grant Thornton Amended Application Report, page 8

³⁹ The June 1, 2018 filing had proposed the amortization of a forecast 2019 revenue surplus of an estimated \$919,000.

1 surplus was a result of the implementation of the general rate application proposals and the terms
2 of the Settlement Agreement.

3
4 The Settlement Agreement stated that the Board should approve the amortization of a forecast
5 revenue surplus of \$2,482,000 over a 34 month period commencing March 1, 2019 and ending
6 December 31, 2021, as modified by any relevant Board orders issued subsequent to the filing of
7 the Application.

8
9 **The Board accepts the Settlement Agreement in relation to the approval of the amortization
10 of a forecast revenue surplus of \$2,482,000 over a 34-month period, commencing March 1,
11 2019 and ending December 31, 2021.**

12 13 **3.14 Automatic Adjustment Formula**

14
15 The Application proposed the continued suspension of the automatic adjustment formula for
16 setting the allowed rate of return for Newfoundland Power.

17
18 The Settlement Agreement recommended that the Board approve the continued suspension of the
19 use of the automatic adjustment formula in years subsequent to 2020 until Newfoundland Power's
20 next general rate application.

21
22 **The Board accepts the Settlement Agreement in relation to the automatic adjustment
23 formula and is satisfied, based on the evidence, that the continued suspension of the
24 automatic adjustment formula is appropriate.**

25 26 **3.15 Revenue Requirement Surplus/Shortfall**

27
28 The Application proposed that, to ensure that there shall be no overall increase in domestic
29 customer rates on March 1, 2019, any revenue requirement surplus/shortfall for 2019 and 2020 be
30 charged to the Rate Stabilization account in the normal operation of the July 1 adjustment. Any
31 such amounts would be refunded/collected in the 12 month periods following the 2019 and 2020
32 Rate Stabilization Account adjustments. The Application calculated the revenue shortfall for 2019
33 to be \$145,000 and for 2020 to be \$258,000.⁴⁰

34
35 The Settlement Agreement stated that to ensure no change in domestic customers rates the Board
36 should approve charging the Rate Stabilization Account at July 1 each year for any revenue
37 requirement surplus or shortfall for the 2019 and 2020 test years, with the collection of these
38 amounts in the 12 month periods following the changes.

39
40 Grant Thornton reviewed the Application and recalculated the revenue shortfall and found it to be
41 in accordance with the Settlement Agreement.⁴¹

42
43 **The Board accepts the Settlement Agreement in relation to the approval of the revenue
44 requirement surplus/shortfall estimated to be \$145,000 for 2019 and \$258,000 for 2020, and**

⁴⁰ Application Exhibit 7, pages 1 and 2

⁴¹ Grant Thornton Amended Application Report, page 4 - note 7 and page 5 - note 7

1 the surplus/shortfall shall be charged to the Rate Stabilization Account each July 1 and
 2 refunded/collected in the 12 month periods following the 2019 and 2020 Rate Stabilization
 3 Account adjustments.

4 5 **3.16 Next General Rate Application**

6
7 The Settlement Agreement stated that the Board should direct Newfoundland Power to file its next
 8 general rate application no later than June 1, 2021 subject to any directions arising from the
 9 Muskrat Falls Reference.

10
11 **The Board accepts the Settlement Agreement and will direct that Newfoundland Power file**
 12 **its next general rate application no later than June 1, 2021, subject to any further directions**
 13 **of the Board.**

14 15 **4.0 Costs**

16
17 Newfoundland Power shall pay the costs of the Board arising from this Application, including the
 18 costs of the Consumer Advocate, pursuant to sections 90(1) and 117(3) of the *Act*.

19 20 21 **PART THREE: BOARD ORDER**

22 23 **IT IS THEREFORE ORDERED THAT:**

24 25 26 **Rate Base, Return on Rate Base and Range of Return**

- 27
28 **1. The forecast average rate base for 2019 of \$1,146,176,000 and for 2020 of \$1,179,055,000**
 29 **are approved.**
- 30
31 **2. The rate of return on average rate base for 2019 of 7.01% in a range of 6.83% to 7.19%**
 32 **and for 2020 of 7.04% in a range of 6.86% to 7.22% are approved.**
- 33
34 **3. Newfoundland Power shall file an application on or before November 15, 2020 for**
 35 **approval of the 2021 forecast average rate base and rate of return on rate base**
 36 **maintaining the ratemaking common equity ratio and return on common equity**
 37 **accepted for rate making purposes in this Order.**
- 38
39 **4. The use of an automatic adjustment formula shall continue to be suspended pending a**
 40 **further Order of the Board.**
- 41
42 **5. Newfoundland Power shall, unless otherwise directed by the Board, file its next general**
 43 **rate application, no later than June 1, 2021.**

1 **Depreciation**

- 2
- 3 **6. Newfoundland Power's proposal to use the depreciation rates recommended in the 2014**
- 4 **Depreciation Study as approved in Order P.U. No. 18(2016) for the calculation of**
- 5 **depreciation expense with effect from January 1, 2019 is approved.**
- 6

7 **Other Regulatory Matters**

- 8
- 9 **7. The amortization from March 1, 2019 to December 31, 2021 of the estimated hearing**
- 10 **costs in the amount of \$1.0 million is approved, and any difference between actual costs**
- 11 **and the estimated costs shall be rebated/collected through the Rate Stabilization**
- 12 **Account.**
- 13
- 14 **8. The amortization from March 1, 2019 to December 31, 2021 of a forecast revenue**
- 15 **surplus for 2019 of \$2,482,000 resulting from the March 1, 2019 implementation of rates**
- 16 **is approved.**
- 17
- 18 **9. The revenue requirement shortfall estimated to be \$145,000 for 2019 and \$258,000 for**
- 19 **2020 shall be charged to the Rate Stabilization Account at July 1 each year and such**
- 20 **amounts shall be refunded/collected in the 12 month periods following 2019 and 2020**
- 21 **Rate Stabilization Account adjustments.**
- 22
- 23 **10. The proposed change in accounting policy regarding the capitalization of pension**
- 24 **expenses associated with Accounting Standards Update 2017-07 issued by the Financial**
- 25 **Accounting Standards Board is approved.**
- 26

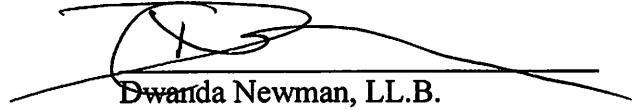
27 **Rates, Rules and Regulations**

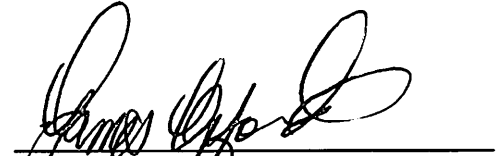
- 28
- 29 **11. Newfoundland Power's proposed changes to the rules and regulations covering service,**
- 30 **and proposed changes to rate design and structure are approved.**
- 31
- 32 **12. The Schedule of Rates, Tolls and Charges of Newfoundland Power as set out in Schedule**
- 33 **A, to be effective for all electrical consumption on and after March 1, 2019 is approved.**
- 34
- 35 **13. The Rules and Regulations of Newfoundland Power as set out in Schedule B to be**
- 36 **effective on or after March 1, 2019 are approved.**
- 37

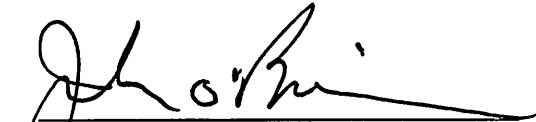
38 **Costs**


- 39
- 40 **14. Newfoundland Power shall pay the costs and expenses of the Board arising from the**
- 41 **Application, including the expenses of the Consumer Advocate incurred by the Board.**

DATED at St. John's, Newfoundland and Labrador, this 24th day of January, 2019.


Dwanda Newman, LL.B.
Vice-Chair


James Oxford
Commissioner


John O'Brien, FCPA, FCA, CISA
Commissioner


Cheryl Blundon
Board Secretary

**NEWFOUNDLAND POWER INC.
RATE #1.1
DOMESTIC SERVICE**

Availability:

For Service to a Domestic Unit or to buildings or facilities which are on the same Serviced Premises as a Domestic Unit and used by the same Customer exclusively for domestic or household purposes, whether such buildings or facilities are included on the same meter as the Domestic Unit or metered separately.

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments)

Basic Customer Charge:

Not Exceeding 200 Amp Service \$16.01 per month
Exceeding 200 Amp Service \$21.01 per month

Energy Charge:

All kilowatt-hours @11.391¢ per kWh

Minimum Monthly Charge:

Not Exceeding 200 Amp Service \$16.01 per month
Exceeding 200 Amp Service \$21.01 per month

Discount:

A discount of 1.5% of the amount of the current month's bill will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

**NEWFOUNDLAND POWER INC.
RATE #1.1S
DOMESTIC SEASONAL - OPTIONAL**

Availability:

Available upon request for Service to Customers served under Rate #1.1 Domestic Service who have a minimum of 12 months of uninterrupted billing history at their current Serviced Premises.

Rate:

The Energy Charges provided for in Rate #1.1 Domestic Service Rate shall apply, subject to the following adjustments:

Winter Season Premium Adjustment (Billing Months of December through April):

All kilowatt-hours @ 0.953¢ per kWh

Non-Winter Season Credit Adjustment (Billing Months of May through November):

All kilowatt-hours @ (1.297)¢ per kWh

Special Conditions:

1. An application for Service under this rate option shall constitute a binding contract between the Customer and the Company with an initial term of 12 months commencing the day after the first meter reading date following the request by the Customer, and renewing automatically on the anniversary date thereof for successive 12-month terms.
2. To terminate participation on this rate option on the renewal date, the Customer must notify the Company either in advance of the renewal date or no later than 60 days after the anniversary/renewal date. When acceptable notice of termination is provided to the Company, the Customer's billing may require adjustment to reverse any seasonal adjustments applied to charges for consumption after the automatic renewal date.

**NEWFOUNDLAND POWER INC.
RATE #2.1
GENERAL SERVICE 0-100 kW (110 kVA)**

Availability:

For Service (excluding Domestic Service) where the maximum demand occurring in the 12 months ending with the current month is less than 100 kilowatts (110 kilovolt-amperes).

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments)

Basic Customer Charge:

Unmetered	\$12.18 per month
Single Phase	\$20.18 per month
Three Phase	\$32.18 per month

Demand Charge:

\$9.36 per kW of billing demand in the months of December, January, February and March and \$6.86 per kW in all other months. The billing demand shall be the maximum demand registered on the meter in the current month in excess of 10 kW.

Energy Charge:

First 3,500 kilowatt-hours	@ 11.283¢ per kWh
All excess kilowatt-hours	@ 8.449¢ per kWh

Maximum Monthly Charge:

The Maximum Monthly Charge shall be 19.696 cents per kWh plus the Basic Customer Charge, but not less than the Minimum Monthly Charge. The Maximum Monthly Charge shall not apply to Customers who avail of the Net Metering Service Option.

Minimum Monthly Charge:

Unmetered	\$12.18 per month
Single Phase	\$20.18 per month
Three Phase	\$32.18 per month

Discount:

A discount of 1.5% of the amount of the current month's bill will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding metering [in particular Regulation 7(n)], transformation [in particular Regulation 9(k)], and other conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #2.3
GENERAL SERVICE 110 kVA (100 kW) - 1000 kVA

Availability:

For Service where the maximum demand occurring in the 12 months ending with the current month is 110 kilovolt-amperes (100 kilowatts) or greater but less than 1000 kilovolt-amperes.

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments)

Basic Customer Charge: \$49.49 per month

Demand Charge:

\$7.89 per kVA of billing demand in the months of December, January, February and March and \$5.39 per kVA in all other months. The billing demand shall be the maximum demand registered on the meter in the current month.

Energy Charge:

First 150 kilowatt-hours per kVA of billing demand,
up to a maximum of 50,000 kilowatt-hours @ 9.610¢ per kWh
All excess kilowatt-hours @ 7.729¢ per kWh

Maximum Monthly Charge:

The Maximum Monthly Charge shall be 19.696 cents per kWh plus the Basic Customer Charge. The Maximum Monthly Charge shall not apply to Customers who avail of the Net Metering Service Option.

Discount:

A discount of 1.5% of the amount of the current month's bill will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding metering [in particular, Regulation 7(n)], transformation [in particular Regulation 9(k)], and other conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

**NEWFOUNDLAND POWER INC.
RATE #2.4
GENERAL SERVICE 1000 kVA AND OVER**

Availability:

For Service where the maximum demand occurring in the 12 months ending with the current month is 1000 kilovolt-amperes or greater.

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments)

Basic Customer Charge: \$86.23 per month

Demand Charge:

\$7.59 per kVA of billing demand in the months of December, January, February and March and \$5.09 per kVA in all other months. The billing demand shall be the maximum demand registered on the meter in the current month.

Energy Charge:

First 75,000 kilowatt-hours @ 9.265¢ per kWh
All excess kilowatt-hours @ 7.654¢ per kWh

Maximum Monthly Charge:

The Maximum Monthly Charge shall be 19.696 cents per kWh plus the Basic Customer Charge. The Maximum Monthly Charge shall not apply to Customers who avail of the Net Metering Service Option.

Discount:

A discount of 1.5% of the amount of the current month's bill will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding metering [in particular, Regulation 7(n)], transformation [in particular, Regulation 9(k)], and other conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #4.1
STREET AND AREA LIGHTING SERVICE

Availability:

For Street and Area Lighting Service where the electricity is supplied by the Company and all fixtures, wiring and controls are provided, owned and maintained by the Company.

Monthly Rate: (Includes Municipal Tax and Rate Stabilization Adjustments)

	Sentinel/Standard	Post Top
High Pressure Sodium		
100W (8,600 lumens)	\$17.46	\$18.84
150W (14,400 lumens)	21.53	-
250W (23,200 lumens)	29.93	-
400W (45,000 lumens)	41.06	-
Light Emitting Diode		
LED 100 (7,500 – 10,500 lumens)	\$15.77	-
LED 150 (13,000 – 16,000 lumens)	17.25	-
LED 250 (22,000 – 25,000 lumens)	22.12	-
LED 400 (43,500 – 46,500 lumens)	25.10	-

Special poles used exclusively for lighting service*

Wood	\$6.28
30' Concrete or Metal, direct buried	8.97
45' Concrete or Metal, direct buried	14.69
25' Concrete or Metal, Post Top, direct buried	6.68

Underground Wiring (per run)*

All sizes and types of fixtures	\$15.31
---------------------------------	---------

* Where a pole or underground wiring run serves two fixtures paid for by different parties, the above rates for such poles and underground wiring may be shared equally between the two parties.

General:

Details regarding conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

**NEWFOUNDLAND POWER INC.
CURTAILABLE SERVICE OPTION
(for Rates #2.3 and #2.4 only)**

Availability:

For Customers billed on Rate #2.3 or #2.4 that can reduce their demand ("Curtail") by between 300 kW (330 kVA) and 5000 kW (5500 kVA) upon request by the Company during the Winter Peak Period. The Winter Peak Period is between 8 a.m. and 9 p.m. daily during the calendar months of December, January, February and March. The ability of a Customer to Curtail must be demonstrated to the Company's satisfaction prior to the Customer's availing of this rate option.

Customers that reduce their demand in aggregate will be treated as a single Customer under this rate option. The aggregated Customer must provide a single point of contact for a request to Curtail.

Credit for Curtailing:

If the Customer Curtails as requested for the duration of a Winter, the Company shall credit to the Customer's account the Curtailment Credit during May billing immediately following that Winter. The Curtailment Credit shall be determined by one of the following options:

Option 1:

The Customer will contract to reduce demand by a specific amount during Curtailment periods (the "Contracted Demand Reduction"). The Curtailment Credit for Option 1 is determined as follows:

Curtailment Credit = Contracted Demand Reduction x \$29 per kVA

Option 2:

The Customer will contract to reduce demand to a Firm Demand level which the Customer's maximum demand must not exceed during a Curtailment period. The Curtailment Credit for Option 2 is determined as follows:

Maximum Demand Curtailed = (Maximum Winter Demand - Firm Demand)

Period Load Factor =
$$\frac{\text{kWh usage during Peak Period}}{(\text{Maximum Demand during Peak Period} \times 1573 \text{ hours})}$$

Curtailment Credit = ((Maximum Demand Curtailed x 50%) + (Maximum Demand Curtailed x 50% x Peak Period Load Factor)) x \$29 per kVA

Limitations on Requests to Curtail:

Curtailment periods will:

1. Not exceed 6 hours duration for any one occurrence.
2. Not be requested to start within 2 hours of the expiration of a prior Curtailment period.
3. Not exceed 100 hours duration in total during a winter period.

The Company shall request the Customer to Curtail at least 1 hour prior to the commencement of the Curtailment period.

**NEWFOUNDLAND POWER INC.
CURTAILABLE SERVICE OPTION
(for Rates #2.3 and #2.4 only)**

Failure to Curtail:

Failure to Curtail under Option 1 occurs when a Customer does not reduce its demand by the Contracted Demand Reduction for the duration of a Curtailment period. Failure to Curtail under Option 2 occurs when a Customer does not reduce its demand to the Firm Demand level or below for the duration of a Curtailment period.

The Curtailment Credit will be reduced for failure to Curtail in a winter period as follows:

1. For the first 5 curtailment requests the Curtailment Credit will be reduced 25% for each failure to Curtail.
2. After the 5th curtailment 50% of the remaining Curtailment Credit, if any, will become vested ("Vested Curtailment Credit").
3. For all remaining curtailment requests the Curtailment Credit will be reduced by 12.5% for each additional failure to Curtail.

If a Customer fails to Curtail four times during a winter period, then:

1. The Customer shall only be entitled to the Vested Curtailable Credit, if any.
2. The Customer will no longer be entitled to service under the Curtailable Service Option.

Notwithstanding the previous paragraph, no Curtailment Credit will be provided if the number of failures to Curtail equals the number of Curtailment requests.

Termination/Modification:

The Company requires six months written notice of the Customer's intention to either discontinue the Curtailable Service Option or to modify the Contracted Demand Reduction or Firm Demand level.

General:

Services billed on this Service Option will have approved load monitoring equipment installed. For a customer that Curtails by using its own generation in parallel with the Company's electrical system, all Company interconnection guidelines will apply, and the Company has the option of monitoring the output of the Customer's generation. All costs associated with equipment required to monitor the Customer's generation will be charged to the Customer's account.

**NEWFOUNDLAND POWER INC.
NET METERING SERVICE OPTION
(for Rates #1.1, #1.1S, #2.1, #2.3, and #2.4 only)**

Availability:

For Customers who use generation on their Serviced Premises to offset part or all of the electrical energy requirements of the Serviced Premises. Energy generated in excess of the requirements of the Serviced Premises is permitted to be credited against the Customer's energy purchases from the Company in accordance with this rate option.

Net Metering Service is available for any Serviced Premises that is supplied from the Company's distribution system, is billed under one of the Company's metered service rates, and which has generation electrically connected to it that meets the requirements of these provisions. Net Metering Service is not available for unmetered service accounts.

In order to avail of the Net Metering Service Option, Customers must submit a completed Net Metering Service Application to the Company demonstrating the Customer's eligibility for Net Metering Service.

Availability of the Net Metering Service Option will be closed once the provincial aggregate generating capacity for Net Metering Service of 5.0 MW has been met.

Customers that avail of the Net Metering Service Option must maintain compliance with all requirements of this Option. The Company shall have the right to verify compliance through inspection or testing.

Metering:

Net Metering Service will ordinarily be metered using a Company-supplied single meter capable of registering the flow of electrical energy in two directions. The meter will separately capture both the energy supplied to the Customer by the Company and the energy supplied to the Company by the Customer.

At the Company's option, the output of the Customer's generation may be metered separately. In that case, the Customer shall provide the Company with the access necessary to install and maintain the required metering equipment.

The Customer shall pay all costs to upgrade the metering equipment for Net Metering Service if the existing electrical meter at the Serviced Premises is not capable of safely and reliably measuring both the energy supplied to the Customer by the Company and the energy supplied to the Company by the Customer.

**NEWFOUNDLAND POWER INC.
NET METERING SERVICE OPTION
(for Rates #1.1, #1.1S, #2.1, #2.3, and #2.4 only)**

Billing:

Each account availing of Net Metering Service will be billed on the rate normally applicable to the Customer's class of Service.

The Customer's net monthly bill will be determined by deducting the Customer Generation Credit from the total of all charges for Service. The Customer Generation Credit equals the Generation Energy Credit, in kilowatt-hours ("kWh") multiplied by the rate applicable to the Customer's class of Service during the billing month.

The "Generation Energy Credit" is the sum of the kWh energy supplied by the Customer to the Company during the billing month plus Banked Energy Credits. The Generation Energy Credit for a billing month shall not exceed the energy supplied by the Company to the Customer during that month.

"Banked Energy Credits" are the amount of kWh energy supplied by the Customer to the Company that exceeds the kWh energy supplied by the Company to the Customer. Banked Energy Credits in excess of those used to calculate the Generation Energy Credit for a billing month will be carried forward to the following month.

The balance of the Customer's Banked Energy Credits carried forward will be settled annually by means of a credit on the Customer's bill for the Annual Review Billing Month. The Annual Review Billing Month will be determined by the Customer, in consultation with the Company, during the process of implementing Net Metering Service. Settlement of Banked Energy Credits will be computed based upon the then-current 2nd block energy charge in Newfoundland and Labrador Hydro's Utility Rate applicable to service provided to the Company.

Whenever a Customer's participation in the Net Metering Service Option is discontinued, any unused Banked Energy Credits will be settled with a credit on the Customer's next bill.

All customers must pay Harmonized Sales Tax (HST) on the energy supplied by the Company to the Customer during the billing month. If a Customer availing of Net Metering Service is required by law to collect HST on the energy they supply to the Company, the Company will pay HST to the Customer based on the amount of the Customer Generation Credit. It is the Customer's responsibility to notify the Company in writing if they are required to collect HST on the energy they supply to the Company.

**NEWFOUNDLAND POWER INC.
NET METERING SERVICE OPTION
(for Rates #1.1, #1.1S, #2.1,#2.3, and #2.4 only)**

Special Conditions:

Special conditions in this clause do not supersede, modify or nullify the conditions accompanying the metered rate schedules applicable to the Customer's class of Service.

To avail of Net Metering Service, a single Customer must own and maintain responsibility for the Serviced Premises, the generation and the electrical facilities connecting it to the Company's distribution system.

To qualify for Net Metering Service, the Customer's generation must meet the following requirements:

- i) be designed not to exceed the annual energy requirements of the buildings and facilities metered together on the Serviced Premises;
- ii) have a manufacturer's nameplate capacity rating totaling not more than 100 kW, except where a lower rating is stipulated by the Company for technical reasons;
- iii) be electrically connected through Customer-owned electrical facilities to the Serviced Premises to which Net Metering Service is being provided;
- iv) produce electrical energy from a renewable energy source, including wind, solar, photovoltaic, geothermal, tidal, wave, biomass energy or other renewable energy sources that may be approved by the Company on a case-by-case basis; and
- v) meet all applicable safety and performance standards established by the Canadian Electrical Code, the Public Safety Act and the Company's Interconnection Requirements.

All Customer-owned wiring, equipment and devices associated with generation utilized for Net Metering Service shall conform to the Company's interconnection requirements.

The Customer will retain the rights to any renewable energy credits or greenhouse gas-related credits arising from the use of renewable energy sources to generate electricity in accordance with this Option.

A Customer availing of Net Metering Service is responsible for all costs associated with their own facilities. The Customer shall also be required to pay all costs incurred by the Company to modify the utility supply for the provision of Net Metering Service, and for necessary engineering or technical studies required in connection with the provision of Net Metering Service to the Customer.

The approval of an application for Net Metering Service will be subject to the applicant entering into a Net Metering Interconnection Agreement with the Company.

If an applicant approved for Net Metering Service does not proceed with operation of its generation in accordance with its approval within two years from the date of the Company's approval of the application, the approval will be rescinded.

**NEWFOUNDLAND POWER INC.
NET METERING SERVICE OPTION
(for Rates #1.1, #1.1S, #2.1,#2.3, and #2.4 only)**

Approval of Net Metering Service may be revoked if a Customer is found to be in violation of provisions of the Company's Rules and Regulations.

If participation in the Net Metering Service Option is discontinued, the Customer must re-apply to the Company to avail of the Net Metering Service Option.

**NEWFOUNDLAND POWER INC.
RULES AND REGULATIONS**

1. INTERPRETATION:

- (a) In these Rates, Rules and Regulations the following definitions shall apply:
- (i) "Act" means The Public Utilities Act RSN 1970 c. 322 as amended from time to time.
 - (ii) "Applicant" means any person who applies for Service.
 - (iii) "Board" means the Board of Commissioners of Public Utilities of Newfoundland and Labrador.
 - (iv) "Company" means Newfoundland Power Inc.
 - (v) "Customer" means any person who accepts or agrees to accept Service.
 - (vi) "Disconnected" or "Disconnect" in reference to a Service means the physical interruption of the supply of electricity thereto.
 - (vii) "Discontinued" or "Discontinue" in reference to a Service means to terminate the Customer's on-going responsibility with respect to the Service.
 - (viii) "Domestic Unit" means a house, apartment or other similar residential unit which is normally occupied by one family, or by a family and no more than four other persons who are not members of that family, or which is normally occupied by no more than six unrelated persons.
 - (ix) "Service" means any service(s) provided by the Company pursuant to these Regulations.
 - (x) "Serviced Premises" means the premises at which Service is delivered to the Customer.
- (b) Unless the context requires otherwise these Rates, Rules and Regulations shall be interpreted such that
- (i) words imparting male persons include female persons and corporations.
 - (ii) words imparting the singular include the plural and vice versa.

2. CLASSES OF SERVICE:

- (a) The Company shall provide the following classes of Service:
- (i) Domestic Service
 - (ii) General Service, 0-100 kW (110 kVA)
 - (iii) General Service, 110 kVA (100 kW) - 1000 kVA
 - (iv) General Service, 1000 kVA and Over
 - (v) Street and Area Lighting Service
- (b) The terms and conditions relating to each class of Service shall be those approved by the Board from time to time.
- (c) Service, other than Street and Area Lighting Service, shall be metered except where the energy consumption is relatively low and constant and, in the opinion of the Company, can be readily determined without metering.

**NEWFOUNDLAND POWER INC.
RULES AND REGULATIONS**

- (d) The Customer shall use the Service on the Serviced Premises only. The Customer shall not resell the Service in whole or in part, except that the Customer may include the cost of Service in charges for the lease of space, or as part of the cost of other services provided by the Customer.

3. APPLICATION FOR SERVICE:

- (a) An Applicant, when required by the Company, shall complete a written Electrical Service Contract.
- (b) An application for Service, when accepted by the Company, constitutes a binding contract between the Applicant and the Company which cannot be assigned.
- (c) The person who signs an application for Service shall be personally liable for Service provided pursuant thereto, unless that person has authority to act for another person denoted as the Applicant on the application for Service.
- (d) The Company may in its discretion refuse to provide Service to an Applicant where:
 - (i) the Applicant fails or refuses to complete an application for Service.
 - (ii) the Applicant provides false or misleading information on the application for Service.
 - (iii) the Applicant or the owner or an occupant of the Serviced Premises has a bill for any Service which is not paid in full 30 days or more after issuance.
 - (iv) the Applicant fails to provide the security or guarantee required under Regulation 4.
 - (v) the Applicant is not the owner or an occupant of the Serviced Premises.
 - (vi) the Service requested is already supplied to the Serviced Premises for another Customer who does not consent to having his Service Discontinued.
 - (vii) the Applicant does not pay a charge described in Regulation 9 (b), (c), or (d).
 - (viii) the Applicant otherwise fails to comply with these Regulations.
- (e) A Customer who has not completed an application for Service shall do so within 5 days of a request having been made by the Company in writing.

**NEWFOUNDLAND POWER INC.
RULES AND REGULATIONS**

4. SECURITY FOR PAYMENT:

- (a) An Applicant or a Customer shall give such reasonable security for the payment of charges as may be required by the Company pursuant to its Customer Deposit Policy as approved by the Board, from time to time.
- (b) The Company may in its discretion require special guarantees from an Applicant or Customer whose location or load characteristics would require abnormal investment in facilities or who requires Service of a special nature.

5. SERVICE STANDARDS - METERED SERVICES:

- (a) Service shall normally be provided at one of the following nominal standard secondary voltages depending upon the requirements of the load to be served and the availability of a three-phase supply:

Single-phase, 3 wire, 120/240 volts
Three-phase, 4 wire, 120/208 volts wye
Three-phase, 4 wire, 347/600 volts wye

Service at any other supply voltage may be provided in special cases at the discretion of the Company.

- (b) Service to customers who are provided Domestic Service shall be supplied at single phase 120/240 volts or as part of a multiunit building, at single phase 120/208 volts. The Company may, if requested by the customer, provide three phase service if a contribution in aid of construction is paid to the Company in accordance with Regulation 9(c).
- (c) The Company shall not be required to provide services at 50 hertz except to those Serviced Premises receiving 50 hertz power continuously since May 13, 1977.
- (d) The Company shall determine the point at which power and energy is delivered from the Company's facilities to the Customer's electrical system.
- (e) Service entrances shall be in a location satisfactory to the Company and, except as otherwise approved by the Company, shall be wired for outdoor meters.
- (f) Where the Company has reason to believe that Service to a Customer has or will have load characteristics which may cause undue interference with Service to another Customer, the Customer shall upon written notice by the Company provide and install, at his expense and within a reasonable period of time, the equipment necessary to eliminate or prevent such interference.

**NEWFOUNDLAND POWER INC.
RULES AND REGULATIONS**

- (g) (i) Any Customer having a connected load or a normal operating demand of more than 25 kilowatts, in areas served by underground wiring or where space limitations or aesthetic reasons make it impractical to use a pole mounted transformer bank or pad transformer, shall, on request of the Company, provide at its expense a suitable vault or enclosure on the Serviced Premises for exclusive use by the Company for its equipment necessary to supply and maintain service to the Customer.
- (ii) Where either the service requirements of a Customer or changes to a Customer's electrical system necessitate the installation of additional equipment to the Company's system which cannot be accommodated in the Company's existing vaults or structures, the Customer shall, on request of the Company, provide at the Customer's expense such additional space in its vault or enclosure as the Company shall require to accommodate the additional equipment.
- (h) The Customer shall not use a Service for across the line starting of motors rated over 10 horsepower, except where specifically approved by the Company.
- (i) For Services having rates based on kilowatt demand, the average power factor shall not be less than 90%. The Company, in its discretion, may make continuous tests of power factor or may test the Customer's power factor from time to time. If the Customer's power factor is lower than 90%, the Customer shall upon written notice by the Company provide, at his expense, power factor corrective equipment to ensure that a power factor of not less than 90% is maintained.
- (j) The Company shall provide transformation for Service up to 500 kVA where the required service voltage is one of the Company's standard service voltages and installation is in accordance with the Company's standards. In other circumstances, the Company, on such conditions as it deems acceptable, may provide the transformation.
- (k) All Customer wiring and installations shall be in compliance with all statutory and regulatory requirements including the Canadian Electrical Code, Part 1, and, where applicable, in accordance with the Company's specifications. However, the provision of Service shall not in any way be construed as acceptance by the Company of the Customer's electrical system.
- (l) The Customer shall provide such protective devices as may be necessary to protect his property and equipment from any disturbance beyond the reasonable control of the Company.

**NEWFOUNDLAND POWER INC.
RULES AND REGULATIONS**

6. SERVICE STANDARDS - STREET AND AREA LIGHTING SERVICE:

- (a) For Street and Area Lighting Service the Company shall use its best efforts to provide illumination during the hours of darkness for a total of approximately 4200 hours per year. The Company shall, subject to Regulation 9 (i) make all repairs necessary to maintain service.
- (b) The Company shall supply the energy required and shall provide and maintain the illuminating fixtures and lamps together with necessary overhead or underground conductors, control equipment and other devices.
- (c) The Company shall not be required to provide Street And Area Lighting Service where, in the opinion of the Company, the normal Service is unsuitable for the task or where the nature of the activities carried out in the area would likely result in damage to the poles, wiring or fixtures.
- (d) The Company shall provide a range of fixture sizes utilizing an efficient lighting source in accordance with current standards in the industry and shall consult with the Customer regarding the most appropriate use of such fixtures for any specific installation.
- (e) The location of fixtures for Street and Area Lighting Service shall be determined by the Company in consultation with the Customer. After poles and fixtures have been installed they shall not be relocated except at the expense of the Customer.
- (f) The Company does not guarantee that fixtures used for Street And Area Lighting Service will illuminate any specific area.
- (g) The Company shall not be required to provide additional Street And Area Lighting Service to a Customer where on at least two occasions in the preceding twelve months, his bill for such Service has been in arrears for more than 30 days.

7. METERING:

- (a) Service to each building shall be metered separately except as provided in Regulation 7(b).
- (b) Service to buildings and facilities on the same Serviced Premises which are occupied by the same Customer may, subject to Regulation 7(c), be metered together provided the Customer supplies and maintains all distribution facilities beyond the point of supply.
- (c) Except as provided in Regulation 7(d), Service to each new Domestic Unit shall be metered separately.
- (d) Where an existing Domestic Unit is subdivided into two or more new Domestic Units, Service to the new Domestic Units may, in the discretion of the Company, be metered together.

**NEWFOUNDLAND POWER INC.
RULES AND REGULATIONS**

- (e) Where four or more Domestic Units are metered together, the Basic Customer Charge shall be multiplied by the number of Domestic Units.
- (f) Where the Service to a Domestic Unit has a connected load for commercial or non-domestic purposes exceeding 3000 watts, exclusive of space heating, the Service shall not qualify for the Domestic Service Rate.
- (g) The Company shall not be required to provide more than one meter per Service, however submetering by the Customer for any purpose not inconsistent with these Regulations, is permitted.
- (h) Subject to Regulations 7(c) and 7(g) Service to different units of a building may, at the request of the Customer, be combined on one meter or be metered separately.
- (i) Maximum demand for billing purposes shall be determined by demand meter or, at the option of the Company, may be based on:
 - (i) 80% of the connected load, where the demand does not exceed 100 kW, or
 - (ii) the smallest size transformer(s) required to serve the load if it is intermittent in nature such as X-Ray, welding machines or motors that operate for periods of less than thirty minutes, or
 - (iii) the kilowatt-hour consumption divided by an appropriate number of hours use where demand is less than 10 kW.
- (j) When charges are based on maximum demand the metering shall normally be in kVA if the applicable rate is in kVA and in kW if the applicable rate is in kW.

If the demand is recorded on a kVA meter but the applicable rate is based on a kW demand, the recorded demand may be decreased by ten percent (10%) and the result shall be treated as the kW demand for billing purposes.

If the demand is recorded on a kW meter but the applicable rate is based on a kVA demand, the recorded demand may be increased by ten percent (10%) and the result shall be treated as the kVA demand for billing purposes.
- (k) The Customer shall ensure that meters and related equipment are visible and readily accessible to the Company's personnel and are suitably protected. Unless otherwise approved by the Company, meters shall be located outdoors and shall not subsequently be enclosed.

**NEWFOUNDLAND POWER INC.
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- (l) If a meter is located indoors and Company employees are unable to obtain access to read the meter at the normal reading time for three consecutive months, the Customer shall upon written notice given by the Company, provide for the installation of an outdoor meter at his expense.
- (m) In the event that a dispute arises regarding the accuracy of a meter, and the Company is unable to resolve the matter with the Customer then either the Customer or the Company shall have the right to request an accuracy test in accordance with the requirements of the Electricity Inspection Act of Canada. Should the test indicate that the meter accuracy is not within the allowable limits, the Customer's bill shall be adjusted in accordance with the provisions of the said Act and all costs involved in the removal and testing of the meter shall be borne by the Company. Should the test confirm the accuracy of the meter, the costs involved shall be borne by the party requesting the test. The Company may require a Customer to deposit with the Company in advance of testing, an amount sufficient to cover the costs involved.
- (n) Metering shall normally be at secondary distribution voltage level but may at the option of the Company be at the primary distribution level. When metering is at the primary distribution voltage (4 - 25 kV) the monthly demand and energy consumption shall be reduced by 1.5%.

8. METER READING:

- (a) Where reasonably possible the Company shall read meters monthly provided that the Company may, at its discretion, read meters at some other interval and estimate the reading for the intervening month(s). Areas which consist primarily of cottages will have their meters read four times per year and the Company will estimate the readings for all other months.
- (b) If the Company is unable to obtain a meter reading due to circumstances beyond its reasonable control, the Company may estimate the reading.
- (c) If due to any cause a meter has not correctly recorded energy consumption or demand, then the probable consumption or demand shall be estimated in accordance with the best data available and used to determine the relevant charge.

9. CHARGES:

- (a) Every Customer shall pay the Company the charges approved by the Board from time to time for the Service(s) provided to the Customer or provided to the Serviced Premises at the Customer's request.

**NEWFOUNDLAND POWER INC.
RULES AND REGULATIONS**

- (b) Where a Customer requires Service for a period of less than three (3) years, the Customer shall pay the Company a “Temporary Connection Fee”. The Temporary Connection Fee is calculated as the estimated labour cost of installing and removing lines and equipment necessary for the Service plus the estimated cost of non-salvageable material. The payment may be required in advance or, subject to credit approval, billed to the Customer.
- (c) Where special facilities are required or requested by the Customer or any facility is relocated at the request of the Customer, the Customer shall pay the Company the estimated additional cost of providing the special facilities and the estimated cost of the relocation less any betterment. The payment may be required in advance or, subject to credit approval, billed to the Customer.
- (d) The Customer shall pay the Company in advance or on such other terms approved by the Board from time to time any contribution in aid of construction as may be determined by the methods prescribed by the Board.
- (e) The Customer shall pay the Company the amount set forth in the rate for all poles required for Street and Area Lighting Service which are in addition to those installed by the Company for the distribution of electricity. This charge shall not apply to Company poles and communications poles used jointly for Street and Area Lighting Service and communications attachments.
- (f) Where a Service is Disconnected pursuant to Regulation 12(a), b(ii), (c) or (d) and the Customer subsequently requests that the service be reconnected, the Customer shall pay a reconnection fee.

Where a Service is Disconnected pursuant to Regulation 12(g) and an Applicant subsequently requests that the service be reconnected, the Applicant shall pay a reconnection fee. Applicants that pay the reconnection fee will not be required to pay the application fee.

The reconnection fee shall be \$20.00 where the reconnection is done during normal office hours or \$40.00 if it is done at other times.

- (g) Where a Service, other than a Street and Area Lighting Service, is Discontinued pursuant to Regulation 11(a), or Disconnected pursuant to Regulations 12(a), b(ii), (c) or (d) and the Customer subsequently requests that the Service be restored within 12 months, the Customer shall pay, in advance, the minimum monthly charges that would have been incurred over the period if the Service had not been Discontinued or Disconnected.

**NEWFOUNDLAND POWER INC.
RULES AND REGULATIONS**

- (h) (i) Where a Street and Area Lighting Service is Discontinued pursuant to Regulation 11 (a), (b) or (c), or 9 (i), or when a Customer requests removal of existing fixtures, poles, and/or underground wiring, the Customer shall pay at the time of removal an amount equal to the unrecovered capital cost, plus the cost of removal less any salvage value of only the poles and/or underground wiring to be Discontinued or removed.
- (ii) If a Customer requests the subsequent replacement of the fixture, either immediately or at any time within 12 months by another, whether or not of the same type or size, the Customer shall pay, in advance, an amount equal to the unrecovered capital cost of the fixture removed, plus the cost of removal, less any non-luminaire salvage, as well as the monthly charges that would have been incurred over the period if the Service had not been Discontinued.
- (iii) Where a Street and Area Lighting Service is Discontinued, any pole dedicated solely to the Street and Area Lighting Service may, at the Customer's request, remain in place for up to 24 months from the date of removal of the fixture, during which time the Customer shall continue to pay the prescribed monthly charge for the pole and underground wiring.
- (i) Where Street and Area Lighting fixtures or lamps are wantonly, wilfully, or negligently damaged or destroyed (other than through the negligence of the Company), the Company, at its option and after notifying the Customer by letter, shall remove the fixtures and the monthly charges for these fixtures will cease thirty days after the date of the letter. However, if the Customer contacts the Company within thirty days of the date on the letter and agrees to pay the repair costs in advance and all future repair costs, the Company will replace the fixture and rental charges will recommence. If any future repair costs are not paid within three months of the date invoiced, the Company, after further notifying the Customer by letter, may remove the fixtures. In all such cases the fixtures shall not be replaced unless the Customer pays to the Company in advance all amounts owing prior to removal plus the cost of removing the old fixtures and installing the new fixtures.
- (j) Where a Service other than Street and Area Lighting Service is not provided to the Customer for the full monthly billing period or where Street and Area Lighting Service is not provided for more than seven (7) days during the monthly billing period, the relevant charge to the Customer for the Service for that period may be prorated except where the failure to provide the Service is due to the Customer or to circumstances beyond the reasonable control of the Company.
- (k) Where a Customer's Service is at primary distribution or transmission voltage and the Customer provides his own transformation and all other facilities beyond the designated point of supply the monthly demand charge shall, subject to the minimum monthly charge, be reduced as follows:
- | | |
|------------------------------------|----------------|
| (i) for supply at 4 kV to 25 kV | \$0.40 per kVA |
| (ii) for supply at 33 kV to 138 kV | \$0.90 per kVA |

**NEWFOUNDLAND POWER INC.
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- (l) Where a Customer's monthly demand has been permanently reduced because of the installation of peak load controls, power factor correction, or by rendering sufficient equipment inoperable, by any means satisfactory to the Company, the monthly demands recorded prior to the effective date of such reduction may be adjusted when determining the Customer's demand for billing purposes thereafter. Should the Customer's demand increase above the adjusted demands in the following 12 months, the Customer will be billed for the charges that would have been incurred over the period if the demand had not been adjusted.
- (m) Charges may be based on estimated readings or costs where such estimates are authorized by these Regulations.
- (n) An application fee of \$8.00 will be charged for all requests for Customer name changes and connection of new Served Premises. Landlords will be exempted from the application fee for name changes at Service Premises for which a landlord agreement pursuant to Regulation 11(f) is in effect.

10. BILLING:

- (a) The Company shall bill the Customer monthly for charges for Service. However, when a Service is disconnected or a bill is revised the Company may issue an additional bill.
- (b) The charges for Street and Area Lighting Service may be included as a separate item on a bill for any other Service.
- (c) Bills are due and payable when issued. Payment shall be made at such place(s) as the Company may designate from time to time. Where a bill is not paid in full by the date that a subsequent bill is issued and the amount outstanding is \$50.00 or more, the Company may charge interest at a rate equal to the prime rate charged by chartered banks on the last day of the previous month plus five percent.
- (d) Where a Customer's cheque or automated payment is not honoured by their financial institution, a charge of \$16.00 may be applied to the Customer's bill.
- (e) Where a Customer is billed on the basis of an estimated charge an adjustment shall be made in a subsequent bill should such estimate prove to be inaccurate.
- (f) Where between normal meter reading dates, one Customer assumes from another Customer the responsibility for a metered Service, or a Service is Discontinued, the Company may base the billing on an estimate of the reading as of the date of change.
- (g) Where a Customer has been underbilled due to an error on the part of the Company or due to an act or omission by a third party, the Customer may, at the discretion of the Company, be relieved of the responsibility for all or any part of the amount of the underbilling.

**NEWFOUNDLAND POWER INC.
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11. DISCONTINUANCE OF SERVICE:

- (a) A Service may be Discontinued by the Customer at any time upon prior notice to the Company provided that the Company may require 10 days prior notice in writing.
- (b) A Service may be Discontinued by the Company upon 10 days prior notice in writing to the Customer if the Customer:
 - (i) provided false or misleading information on the application for the Service.
 - (ii) fails to provide security or guarantee for the Service required under Regulation 4.
- (c) A Service may be Discontinued by the Company without notice if the Service was Disconnected pursuant to Regulation 12, and has remained Disconnected for over 30 consecutive days.
- (d) When the Company accepts an application for Service, any prior contract for the same Service shall be Discontinued except where an agreement for that service is signed by a landlord under Regulation 11(f).
- (e) Where a Service has been Discontinued, the Service may, at the option of the Company and subject to Regulation 12(a), remain connected.
- (f) A landlord may sign an agreement with the Company to accept charges for Service provided to a rental premise for all periods when the Company does not have a contract for Service with a tenant for that premise.

12. DISCONNECTION OF SERVICE:

- (a) The Company shall Disconnect a Service within 10 days of receipt of a written request from the Customer.
- (b) The Company may Disconnect a Service without notice to the Customer:
 - (i) where the Service has been Discontinued,
 - (ii) on account of or to prevent fraud or abuse,
 - (iii) where in the opinion of the Company the Customer's electrical system is defective and represents a danger to life or property,
 - (iv) where the Customer's electrical system has been modified without compliance with the Electrical Regulations,
 - (v) where the Customer has a building or structure under the Company's wires which is within the minimum clearances recommended by the Canadian Standards Association, or
 - (vi) when ordered to do so by any authority having the legal right to issue such order.

**NEWFOUNDLAND POWER INC.
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- (c) The Company may, in accordance with its Collection Policies filed with the Board, Disconnect a Service upon prior notice to the Customer if the Customer has a bill for any Service which is not paid in full 30 days or more after issuance.
- (d) The Company may Disconnect a Service upon 10 days prior notice to the Customer if the Customer is in violation of any provision of these Regulations.
- (e) The Company may refuse to reconnect a Service if the Customer is in violation of any provisions of these Regulations or if the Customer has a bill for any Service which is unpaid.
- (f) The Company may Disconnect a Service to make repairs or alterations. Where reasonable and practical the Company shall give prior notice to the Customer.
- (g) The Company may Disconnect the Service to a rental premises where the landlord has an agreement with the Company authorizing the Company to Disconnect the Service for periods when the Company does not have a contract for Service with a tenant of that premises.

13. PROPERTY RIGHTS:

- (a) The Customer shall provide the Company with space and cleared rights-of-way on private property for the line(s) and facilities required to serve the Customer.
- (b) The Company shall have the right to install, remove or replace such of its property as it deems necessary.
- (c) The Customer shall provide the Company with access to the Serviced Premises at all reasonable hours for purposes of reading a meter or installing, replacing, removing or testing its equipment, and measuring or checking the connected load.
- (d) All equipment and facilities provided by the Company shall remain the property of the Company unless otherwise agreed in writing.
- (e) The Customer shall not unreasonably interfere with the Company's access to its property.
- (f) The Customer shall not attach wire, cables, clotheslines or any other fixtures to the Company's poles or other property except by prior written permission of the Company.
- (g) The Customer shall allow the Company to trim all trees in close proximity to service lines in order to maintain such lines in a safe manner.
- (h) The Customer shall not erect any buildings or obstructions on any of the Company's easement lands or alter the grade of such easements by more than 20 centimetres, without the prior approval of the Company.

**NEWFOUNDLAND POWER INC.
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14. COMPANY LIABILITY:

The Company shall not be liable for any failure to supply Service for any cause beyond its reasonable control, nor shall it be liable for any loss, damage or injury caused by the use of Services or resulting from any cause beyond the reasonable control of the Company.

15. GENERAL:

- (a) No employee, representative or agent of the Company has the authority to make any promise, agreement or representation, whether verbal or otherwise, which is inconsistent with these Regulations and no such promise, agreement or representation shall be binding on the Company.
- (b) Any notice under these Regulations will be considered to have been given to the Customer on the date it is received by the Customer or three days following the date it was delivered or mailed by the Company to the Customer's last known address, whichever is sooner.

**NEWFOUNDLAND POWER INC.
RATE STABILIZATION CLAUSE**

The Company shall include a rate stabilization adjustment in its rates. This adjustment shall reflect the accumulated balance in the Company's Rate Stabilization Account ("RSA") and any change in the rates charged to the Company by Newfoundland and Labrador Hydro ("Hydro") as a result of the operation of its Rate Stabilization Plan ("RSP").

I. RATE STABILIZATION ADJUSTMENT ("A")

The Rate Stabilization Adjustment ("A") shall be calculated as the total of the Recovery Adjustment Factor and the Fuel Rider Adjustment.

The Recovery Adjustment Factor shall be recalculated annually, effective the first day of July in each year, to amortize over the following twelve (12) month period the annual plan recovery amount designated to be billed by Hydro to the Company, and the balance in the Company's RSA.

The Recovery Adjustment Factor expressed in cents per kilowatt-hour and calculated to the nearest 0.001 cent shall be calculated as follows:

$$\frac{B1 + B2 + C}{D}$$

Where:

- B1 = the annual plan recovery amount designated to be billed by Hydro during the next twelve (12) months commencing July 1 as a result of the operation of Hydro's RSP.
- B2 = the annual plan recovery amount designated to be billed by Hydro during the next twelve (12) months commencing July 1 as a result of the operation of Hydro's CDM Cost Recovery Adjustment.
- C = the balance in the Company's RSA as of March 31st of the current year.
- D = the total kilowatt-hours sold by the Company for the 12 months ending March 31st of the current year.

The Fuel Rider Adjustment shall be recalculated annually, effective the first day of July in each year, to reflect changes in the RSP fuel rider applicable to Newfoundland Power. The Fuel Rider Adjustment expressed in cents per kilowatt-hour and calculated to the nearest 0.001 cent shall be calculated as follows:

$$\frac{E \times F}{D}$$

**NEWFOUNDLAND POWER INC.
RATE STABILIZATION CLAUSE**

I. RATE STABILIZATION ADJUSTMENT ("A") (Cont'd)

Where:

- D = corresponds to the D above.
- E = the total kilowatt-hours of energy (including secondary energy) sold to the Company by Hydro during the 12 months ending March 31 of the current year.
- F = the fuel rider designated to be charged to Newfoundland Power through Hydro's RSP.

The Rate Stabilization Adjustment ("A") shall be recalculated and be applied as of the effective date of a new wholesale mill rate by Hydro, by resetting the Fuel Rider Adjustment included in the Rate Stabilization Adjustment to zero.

II. RATE STABILIZATION ACCOUNT ("RSA")

The Company shall maintain a RSA which shall be increased or reduced by the following amounts expressed in dollars:

1. At the end of each month the RSA shall be:
 - (i) increased (reduced) by the amount actually charged (credited) to the Company by Hydro during the month as the result of the operation of its Rate Stabilization Plan.
 - (ii) increased (reduced) by the excess cost of fuel used by the Company during the month calculated as follows:

$$(G/H - P) \times H$$

Where:

- G = the cost in dollars of fuel and additives used during the month in the Company's thermal plants to generate electricity other than that generated at the request of Hydro.
- H = the net kilowatt-hours generated in the month in the Company's thermal plants other than electricity generated at the request of Hydro.

**NEWFOUNDLAND POWER INC.
RATE STABILIZATION CLAUSE**

II. RATE STABILIZATION ACCOUNT (“RSA”) (Cont’d)

P = the 2nd block base rate in dollars per kilowatt-hour paid during the month by the Company to Hydro for firm energy.

(iii) reduced by the price differential of firmed-up secondary energy calculated as follows:

$$(P - J) \times K$$

Where:

J = the price in dollars per kilowatt-hour paid by the Company to Hydro during the month for secondary energy supplied by Deer Lake Power and delivered as firm energy to the Company.

K = the kilowatt-hours of such secondary energy supplied to the Company during the month.

P = corresponds to P above.

(iv) reduced (increased) by the amount billed by the Company during the month as the result of the operation of the Rate Stabilization Clause calculated as follows:

$$\frac{L \times A}{100}$$

Where:

L = the total kilowatt-hours sold by the Company during the month.

A = the Rate Stabilization Adjustment in effect during the month expressed in cents per kilowatt-hour.

(v) increased (reduced) by an interest charge (credit) on the balance in the RSA at the beginning of the month, at a monthly rate equivalent to the mid-point of the Company's allowed rate of return on rate base.

2. On the 31st of December in each year, the RSA shall be increased (reduced) by the amount that the Company billed customers under the Municipal Tax Clause for the calendar year is less (or greater) than the amount of municipal taxes paid for that year.

**NEWFOUNDLAND POWER INC.
RATE STABILIZATION CLAUSE**

II. RATE STABILIZATION ACCOUNT ("RSA") (Cont'd)

3. The annual kilowatt-hours used in calculating the Rate Stabilization Adjustment to the monthly street lighting rates are as follows:

	<u>Fixture Size (watts)</u>			
	<u>100</u>	<u>150</u>	<u>250</u>	<u>400</u>
High Pressure Sodium	454	714	1,260	1,953

	<u>Fixture Type</u>			
	<u>LED 100</u>	<u>LED 150</u>	<u>LED 250</u>	<u>LED 400</u>
Light Emitting Diode	218	290	475	664

4. On December 31, 2018, the RSA shall be reduced (increased) by the amount that the increase in the Company's revenue for the year resulting from the change in base rates attributable to the flow through of Hydro's wholesale rate change, effective July 1, 2018, is greater (or less) than the amount of the increase in the Company's purchased power expense for the year resulting from the change in the base rate charged by Hydro effective July 1, 2018.

The methodology to calculate the RSA adjustment at December 31, 2018 is as follows:

Calculation of increase in Revenue:	
2018 Revenue with Flow-through (Q)	\$ -
2018 Revenue without Flow-through (R)	<u>\$ -</u>
Increase in Revenue (S = Q – R)	\$ -
Calculation of increase in Purchased Power Expense:	
2018 Purchased Power Expense with Hydro Increase (T)	\$ -
2018 Purchased Power Expense without Hydro Increase (U)	<u>\$ -</u>
Increase in Purchased Power Expense (V = T – U)	\$ -
Adjustment to Rate Stabilization Account (W = S – V)	\$ -

Where:

- Q = Normalized revenue from base rates effective July 1, 2018.
R = Normalized revenue from base rates determined based on rates effective July 1, 2017.
T = Normalized purchased power expense from Hydro's wholesale rate effective July 1, 2018 (not including RSP rate).
U = Normalized purchased power expense determined based on Hydro's wholesale rate effective July 1, 2017 (not including RSP rate).

**NEWFOUNDLAND POWER INC.
RATE STABILIZATION CLAUSE**

II. RATE STABILIZATION ACCOUNT ("RSA") (Cont'd)

5. On December 31st of each year from 2008 until further order of the Board, the Rate Stabilization Account (RSA) shall be increased (reduced) by the Energy Supply Cost Variance.

This Energy Supply Cost Variance identifies the change in purchased power cost that is related to the difference between purchasing energy at the 2nd block energy charge in the wholesale rate and the test year energy supply cost reflected in customer rates.

The Energy Supply Cost Variance expressed in dollars shall be calculated as follows:

$$\frac{(A - B) \times (C - D)}{100}$$

Where:

- A = the wholesale rate 2nd block charge per kWh.
- B = the test year energy supply cost per kWh determined by applying the wholesale energy rate to the test year energy purchases and expressed in ¢ per kWh.
- C = the weather normalized annual purchases in kWh.
- D = the test year annual purchases in kWh.
6. The RSA shall be adjusted by any other amount as ordered by the Board.
7. On March 31st of each year, beginning in 2014, the Rate Stabilization Account shall be increased on a before tax basis, by the CDM Cost Recovery Transfer.

The CDM Cost Recovery Transfer, expressed in dollars, will be calculated to provide for the recovery of costs charged annually to the Conservation and Demand Management Cost Deferral Account (the "CDM Cost Deferral") over a seven-year period, commencing in the year following the year in which the CDM Cost Deferral is charged to the Conservation and Demand Management Cost Deferral Account.

The CDM Cost Deferral Account will identify the year in which each CDM Cost Deferral was incurred.

**NEWFOUNDLAND POWER INC.
RATE STABILIZATION CLAUSE**

II. RATE STABILIZATION ACCOUNT ("RSA") (Cont'd)

The CDM Cost Recovery Transfer for each year will be the sum of individual amounts representing 1/7th of each CDM Cost Deferral, which individual amounts shall be included in the CDM Cost Recovery Transfer for seven years following the year in which the CDM Cost Deferral was recorded.

8. On March 31st of each year, beginning in 2013, the Rate Stabilization Account shall be increased (reduced), on a before tax basis, by the balance in the Weather Normalization Reserve accrued in the previous year.

III. RATE CHANGES

The energy charges in each rate classification shall be adjusted as required to reflect the changes in the Rate Stabilization Adjustment. The new energy charges shall be determined by subtracting the previous Rate Stabilization Adjustment from the previous energy charges and adding the new Rate Stabilization Adjustment. The new energy charges shall apply to all bills based on consumption on and after the effective date of the adjustment.

**NEWFOUNDLAND POWER INC.
MUNICIPAL TAX CLAUSE**

I. MUNICIPAL TAX ADJUSTMENT (“MTA”)

The Company shall include a MTA in its rates to reflect taxes charged to the Company by municipalities.

A MTA factor shall be calculated annually, effective the first day of July in each year, to collect over the following twelve (12) month period, an amount to cover municipal taxes. The MTA factor rounded to the nearest fifth decimal shall be calculated as follows:

$$\frac{X}{Y} + 1.00000$$

Where:

- X = the amount of all municipal taxes paid by the Company in the previous calendar year.
- Y = the amount of revenue earned by the Company in the previous calendar year less the amount collected by the Company under the Municipal Tax Clause in that year.

The MTA factor shall apply to all charges in all rate descriptions. These charges shall be adjusted annually effective the first day of July in each year to reflect changes in the MTA factor. The new charges rounded to the nearest significant number expressed in the rate descriptions shall be determined by multiplying each charge by the MTA factor. The new charges shall apply to all bills based on consumption on and after the first day of July.

The MTA factor shall be applied after application of the Rate Stabilization Adjustment.

Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
120 TORBAY ROAD, ST. JOHN'S, NL

Website: www.pub.nl.ca

E-mail: ito@pub.nl.ca

Telephone: 1-709-726-8600

Toll free: 1-866-782-0006
