

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

REASONS FOR DECISION IN RELATION TO

ORDER NO. P.U. 16(2024)

1 **IN THE MATTER OF** the **Electrical Power**
2 **Control Act, 1994**, SNL 1994, Chapter E-5.1
3 (the “**EPCA**”) and the **Public Utilities Act**,
4 RSNL 1990, Chapter P-47 (the “**Act**”), as
5 amended, and regulations thereunder; and
6

7 **IN THE MATTER OF** an application by
8 Newfoundland Power Inc. pursuant to sections
9 70 and 71 of the Act for approval of: (i) revised
10 rate stabilization and municipal tax adjustments
11 for the period July 1, 2024 to June 30, 2025; and
12 (ii) a revised Schedule of Rates, Tolls and Charges.
13

14 **DECISION SUMMARY**
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16 In Order No. P.U. 16(2024) the Board directed Newfoundland Power to reduce the proposed
17 overall average customer rate increase of 9.3% to 7.0%, to become effective August 1, 2024. The
18 unrecovered portion of Newfoundland Power’s March 31, 2024 rate stabilization account balance
19 will remain in the account and will be considered as part of its application for July 1, 2025 rates.
20 The Board’s Order is intended to reduce concerns in relation to rate shock and contribute to rate
21 stability while providing Newfoundland Power with timely recovery of prudent costs.
22

23 **APPLICATION**
24

25 On June 12, 2024 Newfoundland Power Inc. (“Newfoundland Power”) filed an application (the
26 “Application”) requesting approval of:
27

- 28 (i) a Rate Stabilization Adjustment of 2.448 cents per kWh and a Municipal Tax Adjustment
29 Factor of 1.02407 to be applied to all bills based on electrical consumption on and after
30 July 1, 2024; and
31 (ii) the Schedule of Rates, Tolls and Charges to be effective on all electrical consumption on
32 and after July 1, 2024.

1 The Application proposed an average customer rate increase of 9.3% with average rate increases
2 varying by customer rate class.¹

3

4 The Consumer Advocate, Dennis Browne, K.C. (“the Consumer Advocate”) and Newfoundland
5 and Labrador Hydro (“Hydro”) participated in the Application. Hydro and the Consumer
6 Advocate issued Requests for Information, which were answered by Newfoundland Power on
7 June 19, 2024.

8

9 The Board’s financial consultant, Grant Thornton, filed a report on June 19, 2024. Grant Thornton
10 confirmed the calculation of the proposed Rate Stabilization Adjustment, Municipal Tax
11 Adjustment Factor are appropriate and that customer rates were in accordance with the
12 requirements of Newfoundland Power’s Rate Stabilization Clause and the Municipal Tax Clause.

13

14 On June 21, 2024 the Board advised the parties that an order in relation to the Application would
15 not be issued with sufficient time to allow for the implementation of rates on July 1 given the
16 filing date of the utilities’ applications for July 1, 2024 rate adjustments. The Board advised that
17 August 1, 2024 would be the target implementation date for the rate changes.

18

19 Hydro and the Consumer Advocate filed comments with respect to the Application on June 26,
20 2024 and Newfoundland Power filed its reply on June 28, 2024.

21

22 **SUBMISSIONS**

23

24 The Consumer Advocate and Hydro opposed the Application. While neither party objected to the
25 calculation of the proposed customer rate increases both the Consumer Advocate and Hydro
26 suggested rate smoothing to reduce the magnitude of the increase.

27

28 Newfoundland Power opposed rate smoothing and stated that the proposed increases are
29 needed to provide timely recovery of the increased level of power supply costs. Newfoundland
30 Power confirmed that it would not revise its proposals as a result of the delay in implementation
31 to August 1st and any under recovery would be addressed through the July 1, 2025 adjustment
32 process.

33

34 **BOARD FINDINGS**

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36 The Application proposes changes to Newfoundland Power’s Rate Stabilization Adjustment and
37 Municipal Tax Adjustment Factor, in accordance with Newfoundland Power’s established Rate
38 Stabilization and Municipal Tax Adjustment Clauses. Newfoundland Power’s Rate Stabilization
39 Adjustment provides for the recovery of the balance in its Rate Stabilization Account (“RSA”) which
40 primarily is intended to address annual variations in supply costs. The Municipal Tax
41 Adjustment Factor provides for the recovery of Newfoundland Power’s municipal tax costs for the
42 year.

¹ Application Schedule 1 Appendix C. Proposed rate increases range from 1.7% for Rate 4.1 - Street and Area Lighting to 11.9% for Rate 2.4 - General Service over 1000 kVA.

1 In considering the Application, the Board is required to implement the power policy set out in
2 the legislation and apply tests which are consistent with generally accepted sound public utility
3 practice.² This includes principles such as fair return, rate stability, rate shock, predictability,
4 certainty, fair cost apportionment, appropriate price signals and intergenerational equity.

6 **Customer Rate Impacts**

7
8 The average customer rate increase proposed in the Application is 9.3% and two General Service
9 customer classes would have increases in excess of 10%.³ The Board also notes that
10 Newfoundland Power has proposed an additional rate increase of 1.5% for July 1, 2024 in a
11 separate application which is currently before the Board.⁴ Approval of both applications filed by
12 Newfoundland Power for July 1, 2024 rate increases would result in average customer rate
13 increases in 2024 of 10.8%. In addition, Newfoundland Power has advised that rate increases of
14 12.1% are anticipated for July 1, 2025 as a result of its ongoing general rate application and its
15 annual Rate Stabilization Adjustment.⁵ The total anticipated rate increases over the period
16 August 1, 2024 to July 1, 2025 are over 20%.⁶ Rate increases of 10% have historically been
17 considered to raise concerns with respect to rate shock and in the past the Board has reduced
18 such increases to enhance rate stability.⁷ The Board believes that the rate increases proposed in
19 the Application raise the issue of rate shock as two customer classes will have rate increases in
20 excess of 10% and the total of the average rate increases proposed in Newfoundland Power's
21 two July 1, 2024 rate applications exceeds 10%. In addition, the Board is concerned about the
22 magnitude of the rate increases anticipated within the next year which are well beyond the level
23 which would constitute rate shock.

24
25 At the same time the Board acknowledges that the proposed rates were determined in
26 accordance with the approved Rate Stabilization Clause and Municipal Tax Clause. Newfoundland
27 Power stated:

28
29 "The Application reflects the need to adjust current customer rates to recover the
30 increased level of power supply costs. Customer rates reflecting the underlying costs of
31 providing service to customers, to the extent possible, is central to regulatory principles
32 and customer rate setting."⁸

33
34 Newfoundland Power submitted that it is not consistent with regulatory principles or established
35 practice for Hydro to continue billing Newfoundland Power for increases in power supply costs
36 and not allow Newfoundland Power to recover these costs from customers in a timely manner.

² EPCA, s. 4.

³ The proposed rate increases for Rate 2.3 - General Service 110-1000 kVA, is 10.8% and Rate 2.4 - General Service 1000 kVA and over, is 11.9%.

⁴ Newfoundland Power filed a 2024 forecast Rate Base and Rate of Return on Rate Base application on November 23, 2023.

⁵ NLH-NP-001. Newfoundland Power's 2025-2026 general rate application proposes an increase of 5.5% increase for July 1, 2025. In addition, power supply cost increases of 6.6% are anticipated for July 1, 2025.

⁶ NLH-NP-001, page 8. Total estimated impact without rate smoothing is 22.9% (9.3% +1.5%+12.1%).

⁷ See Orders P.U. 14 (2017), P.U. 16(2017) and P.U. 5(2022).

⁸ Newfoundland Power submission, page 5.

1 The Board accepts that the power supply costs proposed for recovery in the Application were
2 prudently incurred in the ordinary course of Newfoundland Power's operations. The Board
3 agrees that the costs of supply should be recovered without any disallowance and that this
4 recovery should be timely. The issue for the Board is how to balance concerns with respect to
5 customer rate impacts with Newfoundland Power's entitlement for timely recovery. While the
6 Board has not previously made adjustments to Newfoundland Power's July 1 rate changes, such
7 adjustments have been made in the past to Hydro rate proposals to address rate shock and rate
8 stability concerns.

9 10 **Rate Smoothing**

11
12 Rate smoothing was suggested by both Hydro and the Consumer Advocate. Hydro submitted that
13 timely recovery of costs by Newfoundland Power does not necessarily equate to immediate
14 recovery. According to Hydro smoothing the recovery of the RSA balance would not have
15 negative credit consequences for Newfoundland Power as delayed recovery would not be
16 interpreted as an inability of Newfoundland Power to recover RSA balances. Hydro suggested a
17 four-year period of rate smoothing. The Consumer Advocate did not set out a specific
18 recommended approach for rate smoothing.

19
20 Newfoundland Power opposed rate smoothing and submitted that current circumstances do not
21 allow for a reasonable rate smoothing proposal for 2024. According to Newfoundland Power the
22 implementation of a new wholesale rate is fundamental to any rate smoothing as it will provide
23 greater cost certainty and reduce customer rate volatility as well as cash flow volatility for
24 Newfoundland Power. Newfoundland Power submitted that rate smoothing over four years as
25 suggested by Hydro would mean that power supply costs incurred in 2023 would not be fully
26 recovered until mid-2028. In Newfoundland Power's view this fails to consider year-over-year
27 cost recovery and customer rate implications and would exacerbate the cost recovery and
28 customer rate issues that the Rate Stabilization Clause exists to address in a timely manner.
29 Newfoundland Power submitted that the timely recovery of its costs, including its supply costs,
30 is required to maintain its sound credit rating, as required by the **EPCA**.⁹ Newfoundland Power
31 cited commentary by Moody's Investor Services to the effect that it expects full recovery of
32 Newfoundland Power's additional power supply costs incurred in 2023 based on established cost
33 recovery mechanisms starting on July 1, 2024. According to Newfoundland Power the four-year
34 deferral suggested by Hydro downplays its financial position for 2024 to 2026.

35
36 The Board agrees that there is material rate uncertainty over the next several years. There may
37 be rate increases associated with Newfoundland Power's 2024 rate of return on rate base
38 application and its 2025-26 general rate application, both of which are currently before the
39 Board. As well, Hydro has advised that it plans to file an application later in 2024 for a new
40 wholesale rate for Newfoundland Power. There is particular uncertainty with respect to 2027 as
41 a result of Hydro's anticipated general rate application, the potential for supply cost changes and
42 the end of Newfoundland Power's 2025-2026 test year period. Given these uncertainties the
43 Board agrees with Newfoundland Power that it is not appropriate to implement a four-year rate

⁹ NLH-NP-001.

1 smoothing plan at this time. This, however, does not preclude the Board addressing concerns in
2 relation to rate shock and rate stability for 2024.

3
4 While there is uncertainty as to the actual increases which will be experienced in the coming
5 years, the Board believes that it is reasonable to consider the best available information as to the
6 anticipated rate changes over the 2024 to 2026 period when assessing the appropriate approach
7 for 2024. Based on evidence the total average customer rate increases over this period are
8 projected to be approximately 20.7%.¹⁰ This would be approximately 7.0% per year if averaged
9 over the three-year period. The Board notes that if the average rate increase proposed in the
10 Application was limited to 7.0% it is anticipated that this would bring the proposed increases for
11 the General Service customers below 10% and no customer class would experience a greater
12 than 10% rate increase. Further, if Newfoundland Power's ongoing 2024 rate of return on rate
13 base application is approved, the total average increase for 2024 would not exceed 8.5%.¹¹

14
15 The Board acknowledges Newfoundland Power's concerns with respect to the timely recovery of
16 prudent costs. The Board notes that with an average customer rate increase of 7.0% beginning
17 on August 1, 2024, Newfoundland Power would immediately begin to recover its March 31, 2024
18 RSA balance and would have substantial recovery of this balance by June 30, 2025. The
19 unrecovered balance would remain in the RSA to be considered as a part of Newfoundland
20 Power's July 1, 2025 rate proposals. This is consistent with the expectations of Moody's Investor
21 Services as cited by Newfoundland Power since it would provide full and timely recovery based
22 on established mechanisms. While Newfoundland Power raised concerns with respect to its
23 financial position and negative credit impacts, it did not provide evidence such as credit or other
24 financial metrics to demonstrate that the deferral of a portion of the RSA balance for
25 consideration as part of the July 1, 2025 rate changes would have negative impacts. The Board is
26 satisfied based on the evidence that a 7% average rate increase on August 1, 2024 with the
27 deferral of the uncollected portion of the March 31, 2024 RSA balance to be addressed in
28 Newfoundland Power's July 1, 2025 application would provide for timely recovery of costs
29 consistent with the legislation and regulatory practice and would not have negative impacts on
30 Newfoundland Power's credit worthiness or financial position.

31 32 **Conclusion**

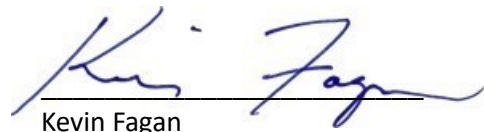
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34 The Board finds that the average customer rate increases proposed in the Application should be
35 reduced from approximately 9.3% to 7%, effective August 1, 2024. Newfoundland Power should
36 file a revised Rate Stabilization Adjustment to be applied to all bills based on electrical
37 consumption for the period August 1, 2024 to June 30, 2025 to provide for an average customer
38 rate increase of approximately 7.0%, including the customer rate impacts of the proposed
39 Municipal Tax Adjustment Factor. The Board is satisfied that the proposed Municipal Tax
40 Adjustment Factor should be approved as it is in accordance with established rules and
41 regulations and Board orders and Grant Thornton confirmed the calculation. Newfoundland
42 Power should file a revised Schedule of Rates, Tolls and Charges to reflect the proposed Municipal
43 Tax Adjustment Factor and a revised Rate Stabilization Adjustment.

¹⁰ NLH-NP-001, page 8. The proposed average rate increases for 2024 are approximately 9.3% and 1.5%. The potential increases on July 1, 2025 are approximately 12.1%. A rate decrease of 2.2% is projected for July 1, 2026.

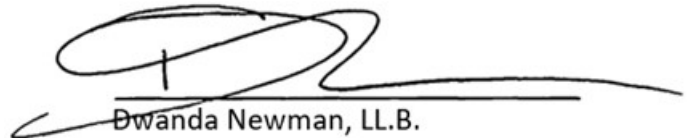
¹¹ The 7% increase in this Application plus the 1.5% increase proposed in the 2024 return on rate base application.

1 The portion of Newfoundland Power's March 31, 2024 RSA balance which will not be collected
2 over the August 1, 2024 to June 30, 2025 period should be maintained in the account to be
3 addressed as a part of Newfoundland Power's March 31, 2025 RSA balance. When Newfoundland
4 Power files an application for July 1, 2025 rates it should address issues related to rate shock,
5 rate stability and the timely recovery of prudent costs in the context of the information available
6 at the time regarding the rate increases which are expected over the period 2025 to 2027.

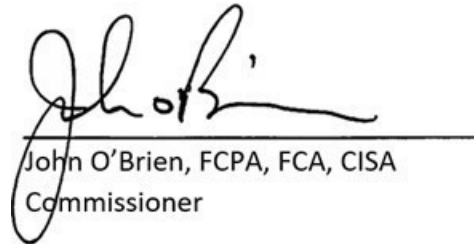
DATED at St. John's, Newfoundland and Labrador, this 24th day of July 2024.



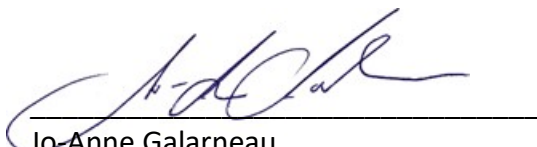
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