

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

**AN ORDER OF THE BOARD**

**NO. P.U. 10(2025)**

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 and Labrador Hydro for an  
9 Order approving Hydro’s target return on  
10 equity, the resulting return on rate base, and  
11 revisions to Hydro’s Return on Equity Rate  
12 Change Deferral Account and Excess Earnings  
13 Account definitions, pursuant to sections 58  
14 and 80 of the **Act**.  
15  
16

17 **WHEREAS** Newfoundland and Labrador Hydro (“Hydro”) is a corporation continued and existing  
18 under the **Hydro Corporation Act, 2024**, SNL 2024, Chapter H-18, is a public utility within the  
19 meaning of the **Act**, and is also subject to the provisions of the **EPCA**; and  
20

21 **WHEREAS** Order in Council OC2009-063 directed the Board to set the same target return on  
22 equity (“ROE”) to be used in the calculation of the return on rate base for all future general rate  
23 applications (“GRA”) filed by Hydro as was most recently set for Newfoundland Power Inc.  
24 (“Newfoundland Power”); and  
25

26 **WHEREAS** in Board Order No. P.U. 49(2016) the Board determined that Hydro’s target ROE  
27 should be subject to an adjustment process in the years between GRAs so that it continues to be  
28 the same as Newfoundland Power’s ROE; and  
29

30 **WHEREAS** in Board Order No. P.U. 30(2019) the Board approved the definitions of the Excess  
31 Earnings Account and the ROE Rate Change Deferral Account, including the methodology to  
32 determine the change in Hydro’s revenue requirement by rate class and rate design resulting  
33 from an ROE change; and  
34

35 **WHEREAS** in Order No. P.U. 3(2025) the Board approved an increase in Newfoundland Power’s  
36 ROE from 8.50% to 8.60%, effective January 1, 2025; and

1 **WHEREAS** on January 29, 2025, Hydro filed an application requesting approval of the following  
2 (the “Application”):

- 3
- 4 (i) ROE of 8.60% effective January 1, 2025;
  - 5 (ii) A Return on Rate Base of 5.45% effective January 1, 2025;
  - 6 (iii) A revised 2019 Test Year Revenue Requirement of \$643,504,433;
  - 7 (iv) A revised ROE Rate Change Deferral Account definition effective January 1, 2025;
  - 8 (v) A revised Excess Earnings Account definition effective January 1, 2025; and
  - 9 (vi) A deviation to the currently approved methodology to update the rate structure for  
10 Newfoundland Power, Island Industrial Customers, Hydro Rural Labrador  
11 Interconnected Customers, and Labrador Industrial Customers to reflect an ROE of  
12 8.60% in the next test year; and
- 13

14 **WHEREAS** utilizing the methodology approved in Order No. P.U. 30(2019), the increase in ROE  
15 results in an:

- 16 (i) increase in revenue requirement of \$463,000 and a revised 2019 Test Year Revenue  
17 Requirement of \$643,504,433; and
  - 18 (ii) increase in Return on Rate Base from 5.43% to 5.45%; and
- 19

20 **WHEREAS** as a result of the increase in the ROE, Hydro normally would be required to make an  
21 application to change rates for customers, however, based on the materiality of the revenue  
22 requirement adjustments by customer group, the required domestic rate increases arising from  
23 the rate mitigation plan, and Hydro’s intent to file a GRA in the second half of 2025, Hydro  
24 proposes to deviate from making an application and record the monthly revenue requirement  
25 impact of the change in the ROE Rate Change Deferral Account until the next test year; and

26

27 **WHEREAS** the Application proposes an amendment to the ROE Rate Change Deferral Account to  
28 dispose of the balances attributable to Newfoundland Power and the Island Industrial Customers  
29 by transferring to the Supply Cost Variance Deferral Account Utility Customer Balance and  
30 Industrial Customer Balance as of March 31 of each year; and

31

32 **WHEREAS** the Application also proposes to amend the Excess Earnings Account definition to  
33 include the revised 2019 Test Year return on rate base of 5.45%; and

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35 **WHEREAS** the Application was copied to: Newfoundland Power; the Consumer Advocate, Dennis  
36 Browne, KC; a group of Island Industrial Customers: Corner Brook Pulp and Paper Limited, Braya  
37 Renewable Fuels (Newfoundland) GP Inc., and Vale Newfoundland and Labrador Limited; the  
38 communities of Sheshatshiu, Happy Valley-Goose Bay, Wabush, and Labrador City (the “Labrador  
39 Interconnected Group”); Teck Resources Limited; and Linde Canada Inc.; and

40

41 **WHEREAS** the Board issued requests for information which Hydro answered on February 18,  
42 2025; and

1 **WHEREAS** on February 21, 2025 and March 3, 2025, Newfoundland Power and the Labrador  
2 Interconnected Group, respectively, advised that they had no comments on the Application and  
3 no other comments were received; and

4  
5 **WHEREAS** on March 3, 2025 Hydro noted that no comments were received and asked that the  
6 Board approve the Application as filed; and

7  
8 **WHEREAS** the Board is satisfied that the methodology applied to determine the change in  
9 Hydro's revenue requirement by rate class as a result of the increase in ROE from 8.50% to 8.60%,  
10 and the resulting increase in the return on rate base from 5.43% to 5.45%, is in accordance with  
11 Board Order No. P.U. 30(2019); and

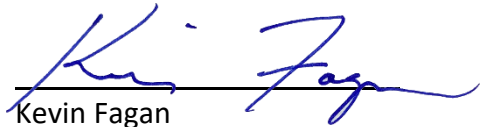
12  
13 **WHEREAS** the Board is satisfied that the proposed changes to the ROE Rate Change Deferral  
14 Account definition and the Excess Earnings Account definition, effective January 1, 2025 should  
15 be approved; and

16  
17 **WHEREAS** the Board agrees that the proposal to deviate from the approved rate implementation  
18 process for Newfoundland Power, Island Industrial Customers, Hydro Rural Labrador  
19 Interconnected Customers, and Labrador Industrial Customers to reflect a ROE of 8.60% in the  
20 next test year is appropriate and should be approved.

21  
22  
23 **IT IS THEREFORE ORDERED THAT:**


- 24  
25 1. The target return on equity to be used in calculating the allowed rate of return on rate base,  
26 effective January 1, 2025, of 8.60% is approved.  
27  
28 2. The rate of return on rate base of 5.45%, in the range of 5.25% to 5.65%, to be effective  
29 January 1, 2025, is approved.  
30  
31 3. The revised 2019 Test Year Revenue Requirement of \$643,504,433 is approved.  
32  
33 4. The Return on Equity Rate Change Deferral Account definition to be effective January 1,  
34 2025 is approved, as set out in Schedule A.  
35  
36 5. The Excess Earnings Account definition to be effective January 1, 2025 is approved, as set  
37 out in Schedule B.  
38  
39 6. The deviation to the approved rate implementation process for Newfoundland Power  
40 Limited, Island Industrial Customers, Hydro Rural Labrador Interconnected Customers, and  
41 Labrador Industrial Customers to reflect a return on equity of 8.60% in the next test year is  
42 approved.  
43  
44 7. Hydro shall pay all expenses of the Board arising from this Application.

**DATED** at St. John's, Newfoundland and Labrador, this 19<sup>th</sup> day of March, 2025.



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Kevin Fagan  
Chair and Chief Executive Officer



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John O'Brien, FCPA, FCA, CISA  
Commissioner



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Jo-Anne Galarneau  
Executive Director and Board Secretary

## **NEWFOUNDLAND AND LABRADOR HYDRO**

### **Return on Equity (ROE) Rate Change Deferral Account**

#### **Purpose**

As per Board Order No. P.U. 49(2016), Newfoundland and Labrador Hydro's (Hydro's) target Return on Equity (ROE) percentage must be adjusted as required to equal the ROE approved for Newfoundland Power. The purpose of the ROE Rate Change Deferral Account is to defer recovery of the change in test year revenue requirement that will occur due to the customer rate implementation date differing from the effective date of the approved ROE percentage.

#### **Methodology**

As a result of changes in the ROE percentage between test years, the methodology originally filed as Sections 1 to 5 of Exhibit 12 to the 2017 GRA filing and included as Attachment 1 will be used in determining the change in revenue requirement by rate class and rate design.

#### **Rate Implementation Process**

The implementation process for changing customer rates that result from ROE revenue requirement adjustments shall include:

- a) an application by Hydro to change rates for Hydro Rural Labrador Interconnected and Labrador Interconnected Industrial Customers reflecting the allocated revised test year revenue requirement based on the effective date of revised test year ROE;
- b) proposals by Hydro to change rates for Newfoundland Power and Island Industrial Customers reflecting the revised test year ROE revenue requirements to accompany Hydro's applications for the July 1 rate adjustments.

#### **Balance Accumulation**

The annual ROE revenue requirement adjustments for Newfoundland Power and Island Industrial Customers reflecting the revised test year ROE percentage will be converted to monthly revenue requirement adjustments to be recorded in the ROE Rate Change Deferral Account for each month of delayed rate implementation.

If the effective date of revised customer rates on the Labrador Interconnected System is subsequent to the effective date of the approved revised test year ROE, Hydro will record the test year revenue requirement impacts of delayed rate implementation in the ROE Rate Change Deferral Account.

#### **Disposition**

On March 31 of each year, the balance attributable to Newfoundland Power will be transferred to the Utility Customer Balance in the Supply Cost Variance Deferral Account (SCVDA) for disposition according to the rules approved for this account.

On March 31 of each year, the balance attributable to Island Industrial Customers will be transferred to the Industrial Customers Balance in the SCVDA for disposition according to the rules approved for this account.

Any balances related to Labrador Interconnected customers will be proposed for disposition at Hydro's next General Rate Application.

**NEWFOUNDLAND AND LABRADOR HYDRO  
Excess Earnings Account**

**Definition of Excess Earnings Account**

This account shall be credited with excess earnings in the event the result of the following formula is greater than zero:

$$A - (B \times C)$$

Where:

- A = Actual return on rate base, calculated as net interest expense, plus net income, plus cost of service exclusions
- B = Actual average rate base, December 31
- C = Upper limit of return on rate base, defined as Test Year Return on Rate Base + 20 basis points

The disposition of any balance in the account is to be determined by the Board.

The upper limit return on rate base for 2018 and 2019 are presented in the following table.

	<b>2018</b>	<b>2019</b>	<b>2019 Revised</b>
<b>Approved Return on Rate Base</b>	5.50%	5.43%	5.45%
<b>Upper Limit Range</b>	0.20%	0.20%	0.20%
<b>Upper Limit Return on Rate Base</b>	5.70%	5.63%	5.63%