

1 Q. **Reference: Application**

2 Do most distribution companies have consistent and predictable rates, particularly those that  
3 are allowed direct pass-through of power purchase costs like Newfoundland Power, compared  
4 to generation and transmission companies like Hydro owing to very large and sporadic  
5 investment requirements? Are Hydro's operations and planning complicated by the fact that it  
6 has to deal with two larger interconnected systems, and a number of small isolated systems,  
7 compared to Newfoundland Power which deals with a single interconnected system? Are these  
8 valid reasons why Hydro's rates are less predictable than Newfoundland Power's rates? Are  
9 there other reasons as well?

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12 A. Newfoundland and Labrador Hydro ("Hydro") has not conducted a review of this matter and  
13 therefore cannot provide a fully informed opinion on the stability of rates among distribution  
14 utilities in Canada. However, Hydro observes that the rates to the customers of Newfoundland  
15 Power Inc. ("Newfoundland Power") include the cost paid by Newfoundland Power to Hydro for  
16 service. Therefore, the stability of the rates to the customers of Newfoundland Power is largely  
17 dependent upon the stability of the wholesale rate paid by Newfoundland Power to Hydro.  
18 Hydro also observes that the ability to flow-through variances in purchased power expense does  
19 not necessarily contribute to customer rate stability, as customer rate stability would still be  
20 influenced by the frequency of the rate changes and the recovery periods to deal with the flow-  
21 through of deferred purchased power costs.

22 From a rate stability perspective, fuel cost variability has contributed to customer rates on the  
23 Island Interconnected System changing more frequently due to Hydro's changes in costs  
24 compared to rate changes resulting from Newfoundland Power's changes in costs. The  
25 uncertainty with respect to the final rate mitigation plan to deal with the recovery of Muskrat  
26 Falls Project costs is contributing to customer uncertainty with respect to future customer rates.