Newfoundland and Labrador Hydro
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March 10, 2023

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Cheryl Blundon
Director of Corporate Services & Board Secretary

Re: Application for the Recovery of Deferred 2022 Isolated Systems Supply Costs

Please find enclosed Newfoundland and Labrador Hydro's ("Hydro") application for approval to recover the deferred 2022 Isolated Systems Supply Costs ("Application").

In Board Order No. P.U. 22(2017),[1] the Board of Commissioners of Public Utilities ("Board") approved the definition of the Isolated Systems Supply Cost Variance Deferral Account. An application is required annually by March 31st for the disposition of the balance in the account. In addition, the annual application must include information regarding the proposed method of collection or refund of the balance from or to a customer class or classes, as well as Hydro's efforts during the year to minimize costs on the isolated systems.

In correspondence dated February 21, 2023, the Board advised that it requires Hydro to file its application for the July 1, 2023 revised Utility Rate by April 17, 2023. To meet this timeline, Hydro is filing its application for recovery of the balance in the Isolated Systems Supply Cost Variance Deferral Account earlier than it historically has to enable the recoverable amount to be reflected in the Utility Rate to become effective July 1, 2023. Hydro normally includes its Annual Report on the Rural Deficit in its application regarding the Isolated Systems Supply Cost Variance Deferral Account to detail Hydro's efforts to minimize costs on the isolated systems. However, due to the early filing, the 2022 Annual Report on the Rural Deficit is not yet complete. That report will be filed on March 31, 2023. Hydro has instead included in its evidence, as Schedule 1 of the Application, an update on the major initiatives it has utilized to minimize costs on the isolated systems.

Hydro is seeking approval of the proposed allocation of the 2022 costs in the Isolated Systems Supply Cost Variance Deferral Account, totaling approximately $9 million, which proposals are consistent with the methodologies approved for the 2015, 2016, and 2017 Deferred Supply Costs in Board Order No. P.U. 22(2017), and the Deferred Supply Costs from 2015 through to 2021, as approved in Board Order Nos. P.U. 22(2017); P.U. 16(2019),[2] P.U. 21(2019),[3] P.U. 13(2020),[4] P.U. 15(2021),[5] and P.U. 16(2022),[6] respectively.

[1] *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 22(2017), Board of Commissioners of Public Utilities, June 14, 2017.
[2] *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 16(2019), Board of Commissioners of Public Utilities, May 7, 2019.
[3] *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 21(2019), Board of Commissioners of Public Utilities, June 6, 2019.
[4] *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 13(2020), Board of Commissioners of Public Utilities, May 1, 2020.
[5] *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 15(2021), Board of Commissioners of Public Utilities, May 12, 2021.
[6] *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 16(2022), Board of Commissioners of Public Utilities, May 6, 2022.

Hydro proposes to recover the 2022 costs in the Isolated Systems Supply Cost Variance Deferral Accounts through a transfer of approximately $8.7 million to Newfoundland Power Inc.'s ("Newfoundland Power") Rate Stabilization Plan Current Plan Account balance. If approved, this transfer will result in collection beginning July 1, 2023 for Newfoundland Power. The amount allocated to the Hydro Rural Labrador Interconnected Customers of approximately $0.3 million would be debited to Hydro's net income.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

Shirley A. Walsh
Senior Legal Counsel, Regulatory
SAW/sk.kd

Encl.

ecc:

Board of Commissioners of Public Utilities
Jacqui H. Glynn
PUB Official Email

Consumer Advocate
Dennis M. Browne, KC, Browne Fitzgerald Morgan Avis & Wadden
Stephen F. Fitzgerald, Browne Fitzgerald Morgan Avis & Wadden
Sarah G. Fitzgerald, Browne Fitzgerald Morgan Avis & Wadden
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Teck Resources Limited
Shawn Kinsella

Island Industrial Customer Group
Paul L. Coxworthy, Stewart McKelvey
Denis J. Fleming, Cox & Palmer
Dean A. Porter, Poole Althouse

Application for the Recovery of Deferred 2022 Isolated Systems Supply Costs

March 10, 2023

An application to the Board of Commissioners of Public Utilities

newfoundland labrador hydro

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

IN THE MATTER OF an application by Newfoundland and Labrador Hydro ("Hydro") for the recovery of the 2022 balances in the Isolated Systems Supply Cost Variance Deferral Account, pursuant to Sections 70(1) and 80 of the *Act*.

TO: The Board of Commissioners of Public Utilities ("Board")

THE APPLICATION OF HYDRO STATES THAT:

A. Background

1. Hydro, a corporation continued and existing under the *Hydro Corporation Ac*t, is a public utility within the meaning of the *Act* and is subject to the provisions of the *EPCA.*

2. In its 2013 Amended General Rate Application, Hydro proposed the creation of the Isolated Systems Supply Cost Variance Deferral Account, the Energy Supply Cost Variance Deferral Account, and the Holyrood Conversion Rate Deferral Account for deferral and recovery of variances from its test year forecast of certain supply-related costs. The Board approved the definitions for these deferral account in Order No. P.U. 22(2017).[1]

3. In Order No. P.U. 4(2022),[2] the Board approved the Supply Cost Variance Deferral Account to become effective November 1, 2021, which discontinued transfers to the Revised Energy Supply Cost Variance Deferral Account and the Holyrood Conversion Rate Deferral Account. In that Order, the Board also approved revised deferral account definitions requiring Hydro to file an application for the disposition of the October 31, 2021 balances in the Revised Energy Supply Cost Variance Deferral Account and the Holyrood Conversion Rate Deferral Account no later than March 31, 2022.

[1] *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 22(2017), Board of Commissioners of Public Utilities, June 14, 2017.
[2] Public Utilities Act, RSNL 1990, c P-47, Board Order No. P.U. 4(2022), Board of Commissioners of Public Utilities, February 21, 2022.

4. Board Order No. P.U. 16(2022)[3] subsequently approved the balances in the Revised Energy Supply Cost Variance Deferral Account and the Holyrood Conversion Rate Deferral Account for 2021, and the allocation of those balances. As there are no further transfers into those accounts, no further applications are necessary.

5. There was no change to the Isolated Systems Supply Cost Variance Deferral Account, and the approved account definition requires Hydro to file an application for the approval of the disposition of the December 31st balance in the Isolated Systems Supply Cost Variance Deferral Account no later than March 31st of each year.

6. The Isolated Systems Supply Cost Variance Deferral Account provides Hydro with the opportunity to recover variances in the price of supply sources on Hydro's isolated systems. The account is credited or charged with the difference between the approved test year price and the actual price of fuel and purchases used to serve Hydro's customers on its isolated systems in a calendar year.

7. The approved definition of the Isolated Systems Supply Cost Variance Deferral Account includes:

    i) A cost variance threshold of +/- $500,000;

    ii) The requirement for an annual application for the disposition of any balance;

    iii) The requirement to specify the proposed method of collection or refund from a customer class or classes; and

    iv) The requirement to provide information regarding the efforts made by Hydro during the year to minimize costs on the isolated systems.

B. Application

8. The balances of the Isolated Systems Supply Cost Variance Deferral Account include the deferred 2022 supply costs that are the subject of the application for disposition. Schedule 1 to this application provides the evidence supporting Hydro's proposal.

[3] Public Utilities Act, RSNL 1990, c P-47, Board Order No. P.U. 16(2022), Board of Commissioners of Public Utilities, May 6, 2022.

Disposition of 2022 Deferred Supply Costs

9. Hydro seeks approval of the disposition of $9,037,722 in 2022 deferred supply costs (net of the cost variance thresholds) to be transferred to the Isolated Systems Supply Cost Variance Deferral Account, as detailed in Schedule 1, Appendix A.

Allocation of Deferred Balances

10. Hydro proposes to allocate the 2022 deferred amount in the Isolated Systems Supply Cost Variance Deferral Account between Newfoundland Power Inc. ("Newfoundland Power") and Hydro Rural Labrador Interconnected System Customers based on the approved 2019 Test Year Rural Deficit allocation, which allocated 96.1% of the rural cost variances to Newfoundland Power. The remaining 3.9% allocated to Hydro Rural Labrador Interconnected System Customers is proposed to be absorbed by Hydro's net income, consistent with the historical allocation of similar costs in the Rate Stabilization Plan ("RSP"). This proposed allocation results in a charge to Newfoundland Power of $8,685,251 and the remaining $352,471 allocated to Hydro Rural Labrador Interconnected System Customers being applied as a debit to Hydro's net income.

Balance Recovery

11. Hydro proposes to transfer the balances associated with the 2022 Isolated Systems Supply Cost Variance Deferral Account deferred to the respective RSP Current Plan balances for Newfoundland Power as of March 31, 2023. If approved, this proposal will result in the recovery of the 2022 deferred supply costs through the RSP Current Plan adjustment starting July 1, 2023 for Newfoundland Power.

C. Order Requested

12. Hydro hereby requests that the Board make an Order pursuant to Sections 70(1) and 80 of the *Act* approving:

    i) A 2022 debit transfer of $9,037,722 to the Isolated Systems Supply Cost Variance Deferral Account; and

    ii) The transfer, effective March 31, 2023, from the Isolated Systems Supply Cost Variance Deferral Account, of a debit of $8,685,251 to the Newfoundland Power RSP Current Plan balance and the $352,471 debit allocated to Hydro Rural Labrador Interconnected Customers to be applied to reduce Hydro's net income.

D. Reasons for Approval

13. The balances in the Isolated Systems Supply Cost Variance Deferral Account were prudently incurred in the provision of least-cost, reliable service and calculated in accordance with the definitions approved by the Board in Order No. P.U. 22(2017).

14. Approval of this application provides a reasonable balance of the interests of the customers and the utility and permits Hydro to recover prudently incurred supply costs consistent with Section 70(1) of the *Act.*

E. Communications

15. Communications with respect to this application should be forwarded to Shirley A. Walsh, Senior Legal Counsel, Regulatory for Hydro.

DATED at St. John's, in the province of Newfoundland and Labrador, this 10th day of March 2023.

NEWFOUNDLAND AND LABRADOR HYDRO

Shirley A. Walsh
Counsel for the Applicant
Newfoundland and Labrador Hydro,
500 Columbus Drive, P.O. Box 12400
St. John's, NL A1B 4K7
Telephone: (709) 685-4973

Schedule 1

Evidence

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1.0 Background

In Order No. P.U. 22(2017),[1] the Board of Commissioners of Public Utilities ("Board") approved the definition of the Isolated Systems Supply Cost Variance Deferral Account. The approved deferral account definition that applied in computing the deferred supply costs in 2022 is included as Attachment 1.

Newfoundland and Labrador Hydro's ("Hydro") application is seeking approval of the balance that has accumulated in the Isolated Supply Cost Variance Deferral Account and recovery of these costs.

This evidence provides Hydro's proposed approach for recovery of the deferred 2022 isolated systems supply costs, totalling approximately $9.0 million,[2] the proposed approach for allocation by customer class, and provides details on the calculations of the amounts in the Isolated Systems Supply Cost Variance Deferral Account.

Based on the proposed methodology, the allocations of the $9,037,722 transferred to the Isolated Systems Supply Cost Variance Deferral Account in 2022 are:

- Newfoundland Power Inc. ("Newfoundland Power"): $8,685,251; and
- Hydro Rural Labrador Interconnected Customers: $352,471.[3]

2.0 Isolated Systems Supply Cost Variance Deferral Account

Hydro purchases diesel fuel to supply customers in its isolated systems. Due to its nature as a commodity, the price of diesel fuel is subject to the volatility of the commodity market and is outside of Hydro's control. As such, the Isolated Systems Supply Cost Variance Deferral Account permits Hydro to defer price variances from the approved test year related to fuel and power purchases in Hydro's isolated systems. This deferral account does not allow for the recovery of variances as a result of changes in supply volume.

Hydro has three main supply sources for its isolated systems: (i) diesel fuel consumed in its diesel generation plants, (ii) purchases from Hydro-Québec to serve customers on the L'Anse-au-Loup System, and (iii) purchases of wind energy in the community of Ramea on the south coast of the Island.[4] Changes

[1] *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 22(2017), Board of Commissioners of Public Utilities, June 14, 2017.
[2] Differences may exist in dollar amounts presented in this evidence as compared to the associated appendix due to rounding.
[3] The Hydro Rural Labrador Interconnected Customers' portion is proposed to be written off to Hydro's net income.
[4] A power purchase agreement in Mary's Harbour helps to reduce diesel consumption in that area but is not included in the 2019 Test Year. New solar installations during 2022 will also help reduce diesel consumption.

in the price of diesel also directly impact the purchase price that Hydro pays to serve customers on the L'Anse-au-Loup System, and for wind generation supplying Ramea.

The Isolated Systems Supply Cost Variance Deferral Account includes a Supply Cost Variance Threshold ("Deadband") of +/- $500,000 per calendar year. As such, Hydro is only permitted to defer annual cost variances in excess of +/- $500,000 resulting from price changes relative to the test year cost of supply.

2.1 2022 Transfer and Proposed Allocation

Table 1 summarizes the 2022 transfer to the Isolated Systems Supply Cost Variance Deferral Account. Detailed calculations supporting Table 1 are included in Appendix A.

Table 1: 2022 Isolated Systems Supply Cost Variance Deferral Account Summary ($)

Particulars	Supply Cost Variances	Deadband	Net
2022 Transfer	9,537,722	500,000	9,037,722

In 2022, Hydro incurred $9,537,722 more isolated system supply costs as a result of higher actual fuel prices when compared to the 2019 Test Year forecast. The 2022 supply costs from all sources averaged the equivalent of 12.9¢/kWh higher than the approved 2019 Test Year price. The disposition amount, after adjusting for the Deadband of $500,000, is approximately $9,037,722.

For disposition of the Isolated Systems Supply Cost Variance Deferral Account, Hydro proposes to calculate Newfoundland Power's portion of the 2022 transfer based on the proportion of the 2019 Test Year Rural Deficit allocated to Newfoundland Power.[5] This allocation approach is consistent with past practice.

Table 2 outlines Hydro's proposed allocation of the 2022 transfers to the Isolated Systems Supply Cost Variance Deferral Account.

[5] Allocation is 96.1% for Newfoundland Power and 3.9% for customers on the Hydro Rural Labrador Interconnected System for the 2019 Test Year. This allocation is consistent with the historical disposition of the balance in this account. Island Industrial Customers do not have an amount owing, as they do not pay for recovery of the Rural Deficit.

Table 2: Customer Allocation of 2022 Transfers to the Isolated Systems Supply Cost Variance Deferral Account ($)

2022 Transfer (Net of Deadband)	Newfoundland Power	Rural Labrador Interconnected Allocation
9,037,722	8,685,251	352,471

Newfoundland Power's portion of the Isolated Systems Supply Cost Variance Deferral Account is $8,685,251 based on the 2019 Test Year Rural Deficit allocation. Hydro further proposes that the portion of the 2022 transfer to the Isolated Systems Supply Cost Variance Deferral Account allocated to Hydro Rural Labrador Interconnected Customers be written off to Hydro's net income.

Table 3 provides the historical balances in the Isolated Systems Supply Cost Variance Deferral Account for disposition.

Table 3: Isolated Systems Supply Cost Variance Deferral Account Historical Balances for Disposition (net of cost variance threshold)

Year	Amount
2015	-
2016	(2,186,570)
2017	(1,106,821)
2018	1,089,319
2019	(346,657)
2020	(3,997,976)
2021	(2,510,273)
	(9,058,978)

Table 3 shows that the actual average supply cost for serving Isolated Systems has generally been lower than the approved test year cost resulting in credit balances in the deferral account being credited to Newfoundland Power.

2.2 Cost Management in Isolated Systems

The definition of the Isolated Systems Supply Cost Variance Deferral Account, approved in Board Order No. P.U. 22(2017), requires Hydro to provide information regarding the efforts it has made to minimize costs on the isolated systems within its annual application for recovery. A summary of Hydro's major initiatives is as follows:

Cost Effective Renewables

Hydro is actively engaged with Indigenous groups and stakeholders, with a particular focus on communities served primarily by diesel powered generation, to foster development of cost-effective renewables. The standard model for such developments involve a third party developing and operating the renewables, with Hydro purchasing the output at a cost below that which would be incurred to generate equivalent energy in Hydro's diesel generating stations. In addition to the previously developed renewable projects in Makkovik, Mary's Harbour, and Ramea, four new solar photovoltaic projects were put into service in Hopedale, Rigolet, Nain, and Postville during 2022. The new projects combined can provide up to 73 kW of renewable power to our isolated diesel systems. Hydro continues to work with renewable energy developers to enable further renewable energy integration and anticipates additional projects to be developed in the coming year.

Hydro-Québec Power Purchase Contract

Hydro executed a new Power Purchase Agreement with Hydro-Québec for the L'Anse-au-Loup System effective September 1, 2021.[6] This agreement enables Hydro to continue to purchase surplus hydroelectric energy from Hydro-Québec's Lac Robertson Plant to supply Hydro's customers in the L'Anse-au-Loup area. This agreement will continue to enable Hydro to supply the majority of customer load in L'Anse-au-Loup with deliveries from Hydro-Québec at 50% of the cost of diesel generation. The approximate savings in 2022 were $5.4 million relative to the cost of using diesel generation.

Mary's Harbour Mini Hydro Facility

The Mary's Harbour mini hydro facility began operations in September 2019. The photovoltaic and battery energy storage facility began operations in November 2021. Together they generated approximately 705 MWh in 2022, displacing diesel fuel generation. The purchase of energy from this facility resulted in net savings of approximately $32,000 in 2022.

3.0 Conclusion

In 2022, Hydro is proposing to transfer $9,037,722 to the Isolated Systems Supply Cost Variance Deferral Account with $8,685,251 allocated to Newfoundland Power. The remaining $352,471, allocated to Rural Labrador Interconnected based on the proportion of the 2019 Test Year Rural Deficit, will be written off to Hydro's net income.

[6] The previous agreement expired August 31, 2021.

Consistent with past practice, Hydro proposes to recover the amount attributable to Newfoundland Power through a transfer to the Rate Stabilization Plan Current Plan balance effective March 31, 2023. This approach would provide recovery from customers over a 12-month period, beginning July 1, 2023 for Newfoundland Power. If approved, Hydro will absorb approximately $352,471 as a loss to its net income. The estimated billing impact related to this application is a 1.7% increase in the wholesale rate for Newfoundland Power (1.1% end consumer) on July 1, 2023.[7]

[7] Based on 2022 Actual billing units.

Appendix A

2022 Transfer to the Isolated Systems Supply Cost Variance Deferral Account

(Unaudited)

2022 Isolated Systems Supply Cost Variance Deferral Account

Particulars	Diesel	Hydro-Québec Purchases	Other[1]	Total
A: 2022 Actual Supply Produced and Purchased (kWh)	48,391,917	25,124,778	424,680	73,941,375
B: 2022 Actual Cost / 2022 Actual Produced and Purchased ($/kWh) [B1 / B2]	0.49386	0.21320	0.33103	0.3976
C: 2019 Test Year Cost / 2019 Test Year Produced and Purchased ($/kWh) [C1 / C2]	0.33300	0.13132	0.23785	0.2686
Isolated Supply Costs [A x (B-C)]				9,537,722
Cost Variance Threshold				500,000
Isolated Systems Supply Cost Variance Deferral Balance				**9,037,722**
B1: 2022 Actual Cost of No. 2 Fuel + Purchases ($)	23,898,820	5,356,651	140,582	29,396,053
B2: 2022 Actual Supply Produced and Purchased (kWh)	48,391,917	25,124,778	424,680	73,941,375
C1: 2019 Test Year Cost of No. 2 Fuel + Purchases ($)	18,200,175	3,348,796	164,000	21,712,971
C2: 2019 Test Year Supply Produced & Purchased (kWh)	54,655,724	25,501,800	689,500	80,847,024

[1] Other consists of purchases of wind generation at Ramea.

Attachment 1

Approved Account Definition

NEWFOUNDLAND AND LABRADOR HYDRO
ISOLATED SYSTEMS SUPPLY COST VARIANCE DEFERRAL ACCOUNT

This account shall be charged or credited with the amount by which Hydro's Isolated Systems Supply Cost Variance exceeds the Supply Cost Variance Threshold in a calendar year.

The ***Isolated Systems Supply Cost Variance*** will be determined by the following formula:

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

Where:

A = Total actual supply produced and purchased (kWh) on Hydro's isolated systems.

B = (Total actual cost of No. 2 fuel used to provide energy plus the total actual cost of purchases) divided by the total of the (actual kWh production and the actual kWh purchases) in $/kWh.

C = (Total Test Year cost of No. 2 fuel used to provide energy plus the total Test Year cost of purchases) divided by the (total of the Test Year kWh production and the Test Year kWh purchases) in $/kWh.

The ***Supply Cost Variance Threshold*** equals ±$500,000 in a calendar year.

Disposition of any Balance in this Account
Hydro shall file an Application for the disposition of any balance in this account with the Board no later than the 31st day of March each year. This Application shall detail the proposed method of collection or refund and from which customer class(s), and the efforts made by Hydro during the year to minimize costs on the Isolated systems.

Affidavit

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

IN THE MATTER OF an application by Newfoundland and Labrador Hydro ("Hydro") for the recovery of the 2022 balances in the Isolated Systems Supply Cost Variance Deferral Account, pursuant to Sections 70(1) and 80 of the *Act*.

AFFIDAVIT

I, Kevin Fagan, of St. John's in the province of Newfoundland and Labrador, make oath and say as follows:

1) I am Vice President, Regulatory and Stakeholder Relations for Newfoundland and Labrador Hydro, the applicant named in the attached application.
2) I have read and understand the foregoing application.
3) To the best of my knowledge, information, and belief, all of the matters, facts, and things set out in this application are true.

SWORN at St. John's in the Province of Newfoundland and Labrador this 10th day of March 2023, before me:)

Kimberley Duggan
Commissioner for Oaths, Newfoundland and Labrador

KIMBERLEY DUGGAN
A Commissioner for Oaths in and for
the Province of Newfoundland and Labrador.
My commission expires on December 31, 2027.

Kevin Fagan