

1 Q. **Reference: Evidence on Rate Stabilization Plan – Surplus Refund Plan**

2 The Rural Rate Alteration provision in Hydro's RSP provides:

3 "Newfoundland Power Rate Change Impacts: This component is calculated for

4 Hydro's rural customers whose rates are directly or indirectly impacted by

5 Newfoundland Power's rate changes, with the following formula:

6
$$(M-N) \times O$$

7 Where:

8 M=Cost of Service Rate;

9 N=Existing Rate;

10 O=Actual Units (kWh, bills, billing demand)"

11 (Newfoundland and Labrador Hydro 2013 General Rate Application, Rate Schedules,

12 Section B: Fuel Cost Variation, Load Variation and Rural Rate Alteration, 1.4 Rural

13 Rate Alteration, pages 10 and 11 of 47)

14 The formula $(M-N) \times O$ appears to operate only in the event of a Newfoundland

15 Power rate change. Orders in Council OC2013-089, OC2013-090, and OC2013-091

16 specify that the refund of the Newfoundland Power RSP surplus "shall not be in the

17 form of an electricity rate adjustment". Therefore, how is the Rural Rate Alteration

18 provision engaged by the refund of the Newfoundland Power RSP surplus?

19

20

21 A. The Rural Rate Alteration is engaged in that "N" in the formula, is the existing

22 "Effective Rate" as described in the response to SR-PUB-NLH-002.

23

24 In the case at hand, the NP RSP Surplus is, in essence, a rebate to customers

25 resulting from "M", the Cost of Service rate, being too high when it was last set in

26 2007. The Cost of Service rate in 2007 included Holyrood fuel costs to supply

27 significant island industrial pulp and paper production which subsequently shut

1 down. In hindsight, Newfoundland Power customers' rates were too high, hence,
2 Rural Customers' rates, whose rates are based on NP customers' rates, were also
3 too high.

4
5 The refund of the Newfoundland Power RSP Surplus to Rural Customers is in
6 keeping with the rural rates policies approved by the Board most recently in Order
7 No. P.U. 14(2007) and reflected in Section 16 of Hydro's Rules and Regulations.
8 "The Policies for Automatic Rate Changes", with respect to Rural Customers on the
9 Island Interconnected and L'Anse au Loup systems, states as follows: "As
10 Newfoundland Power changes its rates, Hydro will automatically adjust all rates
11 such that these customers pay the same rates as Newfoundland Power customers."

12
13 With regard to Isolated Systems Customers, it becomes clearer that Government's
14 intention on rates policies is with respect to the effective rate that Rural Customers
15 pay. Rate changes for electricity consumption above the Lifeline Block is described
16 as follows: "Rates charged for consumption above this block will be automatically
17 adjusted by the average rate of change granted Newfoundland Power from time to
18 time" (emphasis added).

19
20 In keeping with the Board approved policy with regard to rural rates for Island
21 Interconnected, L'Anse au Loup and Isolated Customers, it is Hydro's view that
22 effective rates for Rural Customers should be reduced to reflect the lower than
23 anticipated costs of Holyrood fuel which have been reflected in rural rates since
24 2007.