

1 **Q. Re: IN-NLH-104**

2 Please indicate where the report provided in response to IN-NLH-103 explains the
3 history of the provision “whereby Isolated Rural Domestic customers pay the same
4 rates as NP for the basic customer charge and First Block consumption, and
5 whereby rates charged for additional consumption are adjusted by the average rate
6 of change granted NP from time to time, and the reasons behind it,” and provide
7 additional explanation if required.

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10 **A.** The response to IN-NLH-103, pages 10 – 13, provides details on the history of the
11 lifeline block including, at page 10, the establishment of the lifeline block at 500
12 kWh by Order in Council 184-74. It is further stated that:

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14 *“Order in Council 171-75 provides that, for consumption levels beyond 500*
15 *kWh/mo., “the charge for each additional kWh consumed in any month be*
16 *increased by an amount equal to the average rate of increase approved by the*
17 *Board” for Newfoundland Power.”*

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19 The lifeline block was considered as part of the 2003 GRA, and the Board’s Report
20 on the matter (Board Order No. P.U. 14(2004)) includes additional information on
21 the current basis for the lifeline block and is included as Attachment 1 to this
22 response.

3. Lifeline Block for Rural Isolated Domestic Customers

For Rural Isolated Domestic customers a block rate structure exists where rates rise as increasing blocks of electricity are used. The purpose of the first lower priced block or "lifeline" block is to provide basic electrical requirements such as lighting, cooking, furnace and water pump operation.

The issue of the lifeline block was considered by the Board as part of NLH's 2001 general rate hearing. As noted in Order No. P. U. 7(2002-2003), the Board heard representations from consumers in coastal Labrador during public participation days that the existing lifeline block of 700 kWh per month was inadequate to meet basic electrical needs. The Board ordered NLH to undertake a review of the lifeline block for domestic customers to assess its adequacy.

In December 2002 NLH filed the report A Review of the Adequacy of the Lifeline Block on Diesel Electric Systems, which was revised at the request of the Board and resubmitted March 12, 2003. (CA- 13) In this report NLH suggested that a change in the existing lifeline block has merit owing to the continued rise in the market share for electric hot water heating, seasonal electricity use patterns, and the prominence of diesel system customers located in Labrador. Based on a review of household billing data the report proposed an alternative lifeline which would provide for an increased lifeline block of 1,000 kWh per month in the winter, 700 kWh per month for the summer, and a range between 700 - 1,000 kWh per month for the remaining seasons. If accepted, the proposal would result in an increase in the rural deficit of approximately \$66,000 based on the assumptions outlined in NLH's report. (pgs. 8-9)

In July 2003 the Government issued certain directions to the Board under the authority of Section 5.1 of the *EPCA*, and in particular with reference to the lifeline block for rural domestic customers, directed the Board to:

"(iii) continue the allocation of a monthly block of energy for domestic residential customers in diesel-serviced communities, and that such service be priced at Newfoundland Power's interconnected domestic electricity rate. The monthly lifeline block should be satisfactory to provide for the necessary monthly household requirements, excluding space heating. Subsequent monthly energy blocks for these customers to be charged incrementally higher rates as historically structured and determined. Such rates would increase as per any percentage increase to Island interconnected rates for Newfoundland Power customers; "

In its Application NLH did not propose a change in the lifeline block for domestic customers on Isolated Systems. The parties considered this issue as part of the mediation process. The Mediation Report made the following recommendation:

"y. Hydro's current three block Domestic Diesel rate structure should be replaced with a two block structure with the first block equal to the Alternative Lifeline and the second block set so as to maintain revenue neutrality. Parties further suggest that, before its formal acceptance of this proposal, the Board seek comment on this matter from affected customers during public participation days in this proceeding. "

NLH incorporated this recommendation in its evidence of October 31, 2003. (Revised Evidence, S. D. Banfield, Oct. 31, 2003, pg. 8) NLH's proposal reflected the recommendation in the Mediation Report with respect to revenue neutrality, which means that any changes to the lifeline block should not increase the amount of the rural deficit paid by NP and Labrador Interconnected customers. NLH proposed that, upon approval by the Board of the alternative lifeline block, the rate schedule for No. 1.2D Domestic Diesel would be modified to incorporate the change.

Information about the alternative lifeline block proposal was sent to participants prior to the public presentations in Happy-Valley Goose Bay. Following the presentations in Happy Valley-Goose Bay the Board directed NLH to provide additional information to those who made presentations as well as to the Mayors of all affected communities. NLH provided this information on December 19, 2003 (Information #21) and, by letter on March 2, 2004, confirmed that no enquiries or comments, either verbal or written, were received on the lifeline block proposal.

In final submission (pg. 43) the CA supported a change in the lifeline block consistent with the three-tier proposal. In an effort to resolve the concerns of those most affected the CA recommended that the proposal be put into effect on a one year trial basis. If residents are satisfied following that one year trial the proposal can be adopted into the future. Lacking such support a new lifeline can be developed which is consistent with the findings of NLH's report.

NLH submitted that the proposal to increase the lifeline block to reflect seasonal usage, without increasing the rural deficit, is a reasonable compromise and meets some of the concerns of the customers with respect to increased consumption in the colder months. NLH leaves the question of whether the lifeline block should be increased or maintained at the current 700 kWh per month to the judgment of the Board. (Final Argument , NLH, pgs. 68/28-31; 69/1-3)

The Board notes that the alternate lifeline block proposal set out in NLH's report, determined from a survey of its rural isolated customers, more closely matches the seasonal consumption patterns of rural domestic customers than the current lifeline block. Currently these customers have access to an annual block of 8,400 kWh (at 700 kWh per month). Under the lifeline block proposed in NLH's report the annual lifeline block allocation will increase to 10,200 kWh, which means that these customers will have access to an additional 1,800 kWh at NP's domestic rate, instead of at the higher energy rate charged for consumption over the existing lifeline block. In the Board's view the proposed lifeline block based on seasonal consumption better reflects the intent of the lifeline block policy, which is to provide for necessary monthly household requirements, excluding space heating.

The Board acknowledges the recommendation of the Mediation Report that any changes to the lifeline block should maintain revenue neutrality and hence not increase the rural deficit. NLH's October 31, 2003 proposal incorporated this recommendation by increasing the rate charged for electricity usage above the lifeline block to recover the shortfall. The Board notes however the wording of the direction from Government regarding the continuance of the lifeline block and, in particular, the direction that *"subsequent monthly energy blocks for these customers be charged incrementally higher rates as historically*

structured and determined." The Board interprets this direction to mean that it must continue the existing structure and determination of the rates above the monthly lifeline block. The existing three-tiered block rate structure will therefore be continued with the rates determined as in the past. As directed by Government, the rates above the lifeline block will increase by the average rate change approved by the Board for NP's Island Interconnected customers, consistent with existing policy.

In considering changes to rural rate policies the Board also has to be cognizant of the impact of these changes on the amount of the subsidy that has to be paid by the Labrador Interconnected customers and by the customers of NP. In its report NLH indicated that the implementation of the proposed seasonal lifeline block in conjunction with the existing inverted rate structure would increase the rural deficit by approximately \$66,000. As discussed above the Board has been directed to continue the existing rate structure for consumption above the lifeline block and the determination of associated rates. As a result the Board is not able to accept the recommendation of the Mediation Report with respect to revenue neutrality when considering any changes to the lifeline block. However, as the Board is satisfied that the proposed seasonal lifeline block better reflects the necessary monthly household electricity requirements, excluding space heating, for Rural Isolated Domestic customers, the Board finds any corresponding increase in the rural deficit is justified. The Board also accepts NLH's position that this rate structure should remain in place until its next general rate application.

The Board will direct the implementation of a Seasonal Lifeline Block for NLH's Rural Isolated Domestic customers, both Island and Labrador, as set out below:

| Seasonal Lifeline Block for NLH Diesel Systems | | |
|--|----------------------------|---|
| Month | Existing Lifeline (kWh) | Alternative Seasonal Lifeline Including Hot Water (kWh) |
| January | 700 | 1,000 |
| February | 700 | 1,000 |
| March | 700 | 900 |
| April | 700 | 900 |
| May | 700 | 800 |
| June | 700 | 800 |
| July | 700 | 700 |
| August | 700 | 700 |
| September | 700 | 700 |
| October | 700 | 800 |
| November | 700 | 900 |
| December | 700 | 1,000 |
| Total kWh | 8,400 | 10,200 |
| Monthly Average kWh | 700 | 850 |

Rural Isolated Domestic customers will continue to pay the same rate as NP's domestic customers for consumption within the Seasonal Lifeline Block. The existing block structure for these customers for energy consumption above the Seasonal Lifeline Block will be maintained. The existing policy of automatically adjusting the rates for consumption above the lifeline block by the average rate change approved by the Board for NP will continue to apply.