Q. Please provide copies of any information provided to the Board by Newfoundland Power during recent general rate proceedings on supply costs recovery practices of other utilities in Canada.

A. Attachments A, B and C provides copies of information and evidence Newfoundland Power provided to the Board on supply cost recovery practices of other Canadian utilities during its 2013/2014 General Rate proceeding.

Request for Information PUB-NP-035
Newfoundland Power's 2013/2014 GRA

Q. 2013-2014 General Rate Application, Company Evidence

Pg. 3-27, lines 11-12 - It is stated that normalization of revenue and supply costs for weather is common for utilities with a substantial heating load. Please provide a list of the utilities that have such recovery mechanisms and describe the recovery mechanism in place for each utility.

A. As indicated in footnote 90, it is common for gas distribution utilities in Canada to have mechanisms that normalize for the effects of weather on revenue and supply costs.

The response to Request for Information PUB-NP-050 provides a description of supply cost recovery mechanisms for Canadian distribution utilities. All of the gas distribution utilities have flow-though mechanisms to provide full recovery of supply costs. The weather normalization mechanisms for the gas distribution utilities in Canada relate to revenue variances. A brief description of each mechanism is provided below.

Gaz Metro has a revenue normalization mechanism for its natural gas distribution and load balancing revenues. This mechanism effectively removes the effects of abnormal weather on revenue.

Enbridge Gas Distribution has a true-up variance account which enables recovery from customers, or repayment to customers, of amounts representing variance in average and forecast average use. This mechanism effectively removes the effects of abnormal weather on revenue.[1]

FortisBC Energy has a Revenue Stabilization Adjustment Mechanism that stabilizes delivery revenues from the residential and commercial classes through a deferral account that captures variances in the forecast versus actual customer use throughout the year. The customer use variances can be due to weather variances or other causes.

Pacific Northern Gas also has a Revenue Stabilization Adjustment Mechanism ("RSAM") that records the revenue impacts of differences between forecast and actual deliveries to residential and small commercial customers. The RSAM mitigates the impact of forecast error on financials (including the effects of weather).

FortisBC has a deferral account that effectively removes the effect of variances from test year supply costs and test year revenues on the financial results of the utility. The forecast variances can be due to weather variances or other causes. These deferral accounts effectively decouple utility revenue from sales variances.

Appendix B to the Cost of Capital evidence of Ms. Kathleen McShane also identifies a number of U.S. utilities that utilize deferral accounts to provide revenue decoupling or weather normalization effects (AGL Resources, Alliant Energy Corp, Atmos Energy,

[1] Mechanism excludes large volume transportation customers.

Consolidated Edison Inc., Integrys, Northwest Natural Gas Co, Piedmont Natural Gas, Vectren Corp, and WGL Holdings Inc.).[2]

Refer also to the response to Request for Information PUB-NP-050.

[2] Revenue Decoupling is generally defined as a rate mechanism designed to eliminate or reduce the dependence of a utility's revenue on sales.

Request for Information PUB-NP-050
Newfoundland Power's 2013/2014 GRA

Q. 2013-2014 General Rate Application, Company Evidence

Volume 2, Report 7, Appendix A - Please provide a detailed explanation of each recovery mechanism for each utility listed, including a comparison to the mechanisms in place for Newfoundland Power.

A. A detailed explanation for each recovery mechanism listed for each utility including a comparison of the supply cost recovery mechanisms in place for Newfoundland Power is provided below.

Electric Distribution Utilities

Maritime Electric

The Energy Cost Adjustment Mechanism ("ECAM") used by Maritime Electric provides for recovery or refund to customers of the variation from test year energy supply costs. Test year supply costs include both purchased and self generated energy supply costs plus transmission charges.

The ECAM adjusts for monthly variances from the average 9.055 ¢ per kWh test year supply cost and the balance is recovered or refunded, as appropriate, over a rolling 12-month period. The PEI Energy Accord currently stipulates the term of the disposition of the balance related to the ECAM.

Comparison to Newfoundland Power

The ECAM of Maritime Electric is comparable to the combined effect of the Energy Supply Cost Variance ("ESCV"), the Demand Management Incentive ("DMI" Account), and the Hydro Equalization component of the Weather Normalization Reserve at Newfoundland Power. However, the DMI Account of Newfoundland Power requires a demand cost variance in excess of ±1% of test year demand costs before a cost deferral is initiated.

FortisBC

The total variance in the cost of purchased power from the forecast test year cost of purchased power is transferred to a purchased power expense variance deferral account. The total variance in revenue from the forecast test year revenue is transferred to a revenue variance deferral account. On the income statement, adding the actual and deferral amounts for the year equals the test year revenue and test year purchased power expense. The deferral accounts attract a short term interest financing charge, which is added to the account to be recovered in 2014 along with the principal amounts from 2012 and 2013.

Comparison to Newfoundland Power

The deferral accounts approved for FortisBC effectively removes the effect of variances from test year supply costs and test year revenues on the financial results of the utility. Newfoundland Power's Weather Normalization Reserve performs a similar function by

deferring the estimated revenue and supply cost effects of changes in energy sales and purchases due to abnormal weather and abnormal water inflows to hydro plants. However, unlike FortisBC, Newfoundland Power's other mechanisms to recover purchased power expense (the ESCV and the DMI Account) only deal with the financial impact of variations in the unit cost of purchased power and not the total variances from test year.

FortisOntario

The electricity bills to customers of FortisOntario have separate line items for commodity, delivery and regulatory costs. Transmission costs are recovered through the delivery charge and generation costs are recovered through the commodity charge using time of use rates.

Variances from the commodity (i.e., energy) and transmission costs incurred by the utility and those recovered in customer rates are recorded in deferral and variance accounts and flowed through to customers through rate riders included in the delivery charge line. The deferral accounts are established in accordance with the Electricity Distribution Rate Handbook approved by the Ontario Energy Board.

Comparison to Newfoundland Power

The deferral and variance accounts for FortisOntario are structured on an unbundled basis and provide for the recovery of the difference between the total supply costs recovered in customer rates and the total supply costs incurred by the utility.

Newfoundland Power's supply cost mechanisms are not designed for an unbundled environment.[1] Newfoundland Power's regulatory mechanisms do not provide an automatic flow-through of all supply cost variances.

Gas Distribution Utilities

Gaz Metro

The cost of natural gas is fully reflected in supply rates billed to customers by means of an automatic monthly adjustment mechanism established for this purpose, whereby variations are levelled over a forward-looking, moving 12-month period.[2]

Gaz Metro has a revenue normalization mechanism for its natural gas distribution and load-balancing revenues based upon normal temperature and normal wind velocity. Gaz Metro reflects the normalization adjustment in revenues using rate stabilization accounts which are recovered over a 5-year period.[3]

[1] The wholesale rate from Newfoundland and Labrador Hydro does not distinguish transmission and generation charges.
[2] Source: Gaz Metro Inc. Annual Information Form, December 16, 2011, page 27.
[3] Source: Gaz Metro Inc.First Quarter of Fiscal 2012, Consolidated Financial Report, page 10.

Comparison to Newfoundland Power
The adjustment mechanism used by Gaz Metro is structured on an unbundled basis and provides for the recovery of the difference between the total supply costs recovered in customer rates and the total supply costs incurred by the utility.

Newfoundland Power's supply cost mechanisms are not designed for an unbundled environment. Newfoundland Power's regulatory mechanisms do not provide an automatic flow-through of all supply cost variances.

Newfoundland Power and Gaz Metro have similar weather normalization mechanisms. However, unlike Gaz Metro, Newfoundland Power has no recovery mechanism in place to recover transfers to the Weather Normalization Reserve.

Union Gas
Union Gas has a mechanism in place to change gas commodity rates on a quarterly basis to ensure that customer rates reflect future gas prices to the extent possible. The difference between the approved and the actual cost of gas incurred is deferred for future recovery or repayment over a 12-month period through the quarterly adjustments to commodity rates.[4]

Comparison to Newfoundland Power
The adjustment mechanism used by Union Gas is structured on an unbundled basis and provides for the recovery of the difference between the total supply costs recovered in customer rates and the total supply costs incurred by the utility.

Newfoundland Power's supply cost mechanisms are not designed for an unbundled environment. Newfoundland Power's regulatory mechanisms do not provide an automatic flow-through of all supply cost variances.

Enbridge Gas Distribution
Enbridge does not profit from the sale of natural gas nor is it at risk for the difference between the cost of natural gas purchased and the price approved by the regulator. The difference is deferred as a receivable from or payable to customers until approval for disposition by the regulator. Enbridge has a quarterly rate adjustment mechanism to reflect changes in natural gas prices.

The distribution volume risk for customers, other than large volume transportation customers, is mitigated by an average use true-up variance account which enables recovery from or repayment to customers amounts representing variances in average and forecast average use. [5]

[4] Source: Union Gas Limited, Annual Information Form, March 17, 2010, page 7.
[5] Source: Enbridge Gas Distribution, 2011 Annual Report, pages 16-17.

Comparison to Newfoundland Power
The adjustment mechanisms used by Enbridge Gas Distribution are structured on an unbundled basis and provides for the recovery of the difference between the total supply costs recovered in customer rates and the total supply costs incurred by the utility.

Newfoundland Power's supply cost mechanisms are not designed for an unbundled environment. Newfoundland Power's regulatory mechanisms do not provide an automatic flow-through of all supply cost variances.

Newfoundland Power does not have a true-up variance account which enables deferral of amounts representing the impact of variances in average versus forecast average use. Newfoundland Power's Weather Normalization Reserve does provide recovery of the impact of sales variability due to abnormal weather.

AltaGas Utilities
AltaGas shows a separate Gas Cost Recovery Rate (GCRR) on customer bills. The GCRR is the amount charged to recover the cost incurred to purchase the natural gas used by customers. The GCRR is set each month based upon an estimated cost of gas. If the cost of gas is higher or lower than the estimate, the GCRR is updated the next month to recover or refund the difference.[6]

Comparison to Newfoundland Power
The adjustment mechanisms used by AltaGas Utilties recovers supply costs though an unbundled rate. Newfoundland Power's supply cost mechanisms are not designed for an unbundled environment. Newfoundland Power's regulatory mechanisms do not provide an automatic flow-through of all supply cost variances.

FortisBC Energy
FortisBC Energy use two primary deferral mechanisms to decrease the volatility in rates caused by such factors as fluctuations in gas supply costs and the significant impacts of weather and other changes on use rates. The first relates to recovery of gas costs through two deferral accounts which capture all variances (overages and shortfalls) from forecasts gas costs. The deferral accounts are called the Commodity Cost Reconciliation Account (CCRA) and the Midstream Cost Reconciliation Account (MCRA).

The second mechanism stabilizes delivery revenues from the residential and commercial classes through a deferral account that captures variances in the forecast versus actual customer use throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism (RSAM). If customer use rates vary from the forecast levels used to set the rates, whether due to weather variances or other causes, the delivery charge differences are recorded in the RSAM deferral account.[7]

[6] Source: AltaGas Utilities homepage; www.altagasutilities.com.
[7] Source: FortisBC Energy Inc. Annual Information Form dated March 22, 2012, page 12.

The BCUC has issued guidelines for quarterly calculations to be prepared to determine whether customer rate adjustments are needed to reflect the market price of natural gas and to ensure that rate stabilization account balances are recovered on a timely basis.

Comparison to Newfoundland Power
The deferral accounts for gas cost recovery used by FortisBC Energy are structured on an unbundled basis and provides for the recovery of the difference between the total supply costs recovered in customer rates and the total supply costs incurred by the utility.

Newfoundland Power's supply cost mechanisms are not designed for an unbundled environment. Newfoundland Power's regulatory mechanisms do not provide an automatic flow-through of all supply cost variances.

Newfoundland Power does not have a revenue stabilization mechanism that recovers the impact of all forecast variances comparable to FortisBC Energy. Newfoundland Power's Weather Normalization Reserve does provide recovery of the impact of sales variability due to abnormal weather.

Pacific Northern Gas
The commodity of the cost of gas is purchased at market prices and passed on to customers. Any variances in gas commodity prices paid by the utility from those included in current retail rates are deferred for subsequent refund to or recovery from customers. The Gas Cost Variance Account is utilized to record variances in the actual cost of gas and the cost reflected in customer rates.

PNG also has a Revenue Stabilization Adjustment Mechanism ("RSAM") that records the revenue impacts of differences between forecast and actual deliveries from residential and small commercial customers. The RSAM mitigates the impact of forecast error on financials (including the effects of weather). The balance in the RSAM will be recovered in future rates.[8]

When deliveries to customers vary from forecast, balances accumulate in the accounts which are recovered, or refunded, as appropriate in future rates to customers.

Comparison to Newfoundland Power
The Gas Cost Variance Account used by PNG is structured on an unbundled basis and provides for the recovery of the difference between the total supply costs recovered in customer rates and the total supply costs incurred by the utility.

Newfoundland Power's supply cost mechanisms are not designed for an unbundled environment. Newfoundland Power's regulatory mechanisms do not provide an automatic flow-through of all supply cost variances.

[8] Source: Pacific Northern Gas Ltd., Annual Information Form, March 3, 2011, pages 23-24 and 32-33.

Newfoundland Power does not have a revenue stabilization mechanism that recovers the impact of all forecast variances comparable to PNG. Newfoundland Power's Weather Normalization Reserve does provide recovery of the impact of sales variability due to abnormal weather.

Volume 2, Report 7 Supply Cost Mechanisms, Appendix A
Newfoundland Power's 2013/2014 GRA

Supply Cost Recovery Practices for Regulated Investor-owned Distribution Utilities in Canada

	Province	Supply Cost in Customer Rates	Flow-through Mechanism	Mechanism Description
Electric Utilities				
Maritime Electric	PEI	Yes	Yes	Energy Cost Adjustment Mechanism that provides for recovery or refund to customers of the variation from test year energy supply costs. (See Note 1)
FortisOntario	Ontario	Yes	Yes	Variance account to capture price differentials between the actual supply cost and supply cost reflected in customer rates. (See Note 2)
FortisAlberta	Alberta	No	Not Required	(See Note 3)
ATCO Electric	Alberta	No	Not Required	(See Note 3)
FortisBC	BC	Yes	Yes	The difference in costs of purchased power from forecast in 2012 and 2013 is deferred to be flowed through to customers in 2014. Revenue variances which arise from load variations are also flowed through to customers.
Gas Utilities				
GazMetro	Quebec	Yes	Yes	Rate stabilization regulatory mechanisms to account for the impacts of weather and the cost of energy. Balance disposition in subsequent year(s).
Union Gas	Ontario	Yes	Yes	Rates are adjusted on a quarterly basis and the difference between the cost of gas reflected in rates and the actual cost of gas is deferred. Disposition of the forecast balances in the deferral account occurs over the subsequent 12 months.
Enbridge Gas Distribution	Ontario	Yes	Yes	The difference between the cost of gas in rates and the actual cost of gas is deferred to be recovered from, or refunded to, customers through a quarterly adjustment mechanism. There is also a true-up account to recover the financial impact of variances from forecast average use for residential and commercial sectors.
ATCO Gas	Alberta	No	Not Required	(See Note 3)
AltaGas Utilities	Alberta	Yes	Yes	A Gas Cost Recovery Rate (GCRR) is updated monthly to ensure the actual cost of gas is recovered from customers. (See Note 4)
FortisBC Energy	BC	Yes	Yes	Rate stabilization mechanisms to mitigate the effect on earnings of volume volatility due to the effects of weather and natural gas cost volatility. (See Note 5)
Pacific Northern Gas	BC	Yes	Yes	Regulatory mechanisms to mitigate the effect on earnings of volume volatility and natural gas cost volatility. (See Note 6)

Notes:

(1) The Energy Cost Adjustment Mechanism ("ECAM") adjusts for monthly variances from the 9.055 ¢ per kWh test year energy supply cost, and the balance is recovered or refunded, as appropriate, over a rolling 12-month period. The PEI Energy Accord currently stipulates the term of the disposition of the balance related to the ECAM.

(2) The Electricity Distribution Rate Handbook approved by the Ontario Energy Board provides for a purchased power variance/deferral account for distribution utilities to capture price differentials between the actual electricity supply costs and the supply cost reflected in customer rates.

(3) FortisAlberta, ATCO Electric, and ATCO Gas own and operate assets that provide distribution service under Alberta Energy and Utilities Board approved distribution tariffs. Distribution tariffs provide for a recovery of the cost of distribution service including a fair return. Electricity and gas supply costs are not considered a cost of these utilities' provision of distribution service. Supply costs are a separate component on customers' bills.

(4) The GCRR is updated monthly to reflect an estimate of the cost of gas and gas supply-related management and administration costs for the upcoming month and to adjust for any deficit or surplus from the previous month.

(5) Two rate stabilization mechanisms are used at FortisBC Energy.

The first relates to recovery of gas costs through two deferral accounts which capture all variances (overages and shortfalls) from forecasts gas costs. The deferral accounts are called the Commodity Cost Reconciliation Account (CCRA) and the Midstream Cost Reconciliation Account (MCRA).

The second mechanism stabilizes delivery revenues from the residential and commercial classes through a deferral account that captures variances in the forecast versus actual customer use throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism (RSAM). If customer use rates vary from the forecast levels used to set the rates, whether due to weather variances or other causes, Terasen records the delivery charge differences in the RSAM deferral account.

The BCUC has issued guidelines for quarterly calculations to be prepared to determine whether customer rate adjustments are needed to reflect the market price of natural gas and to ensure that rate stabilization account balances are recovered on a timely basis.

(6) Two rate stabilization mechanisms are used at Pacific Northern Gas.

The first in the Gas Cost Variance Account which is utilized to record variances in the actual cost of gas and the cost reflected in customer rates.

The Revenue Stabilization Adjustment Mechanism adjusts revenue from residential and small commercial customers by a deferral account that records differences between forecast and actual deliveries.

When deliveries to customers vary from forecast, balances accumulate in the accounts which are recovered, or refunded, as appropriate in future rates to customers.