

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P.U. 32(2013)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1 (the
3 "*EPCA*") and the *Public Utilities Act, RSNL 1990*,
4 Chapter P-47 (the "*Act*"), as amended, and regulations
5 thereunder; and
6

7 **IN THE MATTER OF** an application by
8 Newfoundland and Labrador Hydro for approval
9 of the Rate Stabilization Plan rules pursuant
10 to section 71 of the *Act*.
11

12 **WHEREAS** Newfoundland and Labrador Hydro ("Hydro") is a corporation continued and
13 existing under the *Hydro Corporation Act*, is a public utility within the meaning of the *Act*, and
14 is also subject to the provisions of the *EPCA*; and
15

16 **WHEREAS** on July 30, 2013 Hydro, in compliance with direction of the Lieutenant
17 Government in Council, filed an application with the Board requesting approval of, among other
18 things, changes to the Island Industrial customers' rates and to the Rate Stabilization Plan rules;
19 and
20

21 **WHEREAS** in Order No. P.U. 29(2013) the Board ordered, among other things, that Hydro file
22 revised Rate Stabilization Plan rules to be effective September 1, 2013 on an interim basis; and
23

24 **WHEREAS** on October 18, 2013 Hydro filed an application for approval of the revised Rate
25 Stabilization Plan rules; and
26

27 **WHEREAS** the Board has reviewed the Rate Stabilization Plan rules filed by Hydro and finds
28 that the rules are in compliance with Order No. P.U. 29(2013) and should be approved on an
29 interim basis.
30

31 **IT IS THEREFORE ORDERED THAT:**
32

- 33 1. The Rate Stabilization Plan rules proposed by Hydro in its application and attached
34 hereto as Schedule "A" are approved on an interim basis.
35
- 36 2. Hydro shall pay the expenses of the Board incurred in connection with this matter.

DATED at St. John's, Newfoundland and Labrador this 1st day of November, 2013.

Andy Wells
Chair & Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

Dwanda Newman, LL.B.
Commissioner

Cheryl Blundon
Board Secretary

1 NEWFOUNDLAND AND LABRADOR HYDRO
2 RATE STABILIZATION PLAN (INTERIM)
3
4

5 The Rate Stabilization Plan of Newfoundland and Labrador Hydro (Hydro) is established for Hydro's
6 Utility customer, Newfoundland Power, and Island Industrial customers to smooth rate impacts for
7 variations between actual results and Test Year Cost of Service estimates for:

- 8
9 - hydraulic production;
10 - No. 6 fuel cost used at Hydro's Holyrood generating station;
11 - customer load (Utility and Island Industrial); and
12 - rural rates.
13

14 The formulae used to calculate the Plan's activity are outlined below. Positive values denote amounts
15 owing from customers to Hydro whereas negative values denote amounts owing from Hydro to
16 customers.
17
18

19 Section A: Hydraulic Production Variation
20

21 **1. Activity:**

22 Actual monthly production is compared with the Test Year Cost of Service Study in accordance with
23 the following formula:
24

$$\{(A - B) \div C\} \times D$$

26 Where:

- 27
28 A = Test Year Cost of Service Net Hydraulic Production (kWh)
29 B = Actual Net Hydraulic Production (kWh)
30 C = Test Year Cost of Service Holyrood Net Conversion Factor (kWh /bbl.)
31 D = Monthly Test Year Cost of Service No. 6 Fuel Cost (\$/Can /bbl.)
32

33 **2. Financing:**

34 Each month, financing charges, using Hydro's approved Test Year weighted average cost of capital,
35 will be calculated on the balance.
36

37 **3. Hydraulic Variation Customer Assignment:**

38 Customer assignment of hydraulic variations will be performed annually as follows:
39

$$(E \times 25\%) + F$$

41 Where:

- 42
43 E = Hydraulic Variation Account Balance as of December 31, excluding financing charges
44 F = Financing charges accumulated to December 31
45

46 The total amount of the Hydraulic Customer Assignment shall be removed from the Hydraulic
47 Variation Account.

1 **4. Customer Allocation:**

2 The annual customer assignment will be allocated among the Island Interconnected customer groups
3 of (1) Newfoundland Power; (2) Island Industrial Firm; and (3) Rural Island Interconnected. The
4 allocation will be based on percentages derived from 12 months-to-date kWh for: Utility Firm and
5 Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island
6 Interconnected bulk transmission energy.

7
8 The portion of the hydraulic customer assignment which is initially allocated to Rural Island
9 Interconnected will be re-allocated between Newfoundland Power and regulated Labrador
10 Interconnected customers in the same proportion which the Rural Deficit was allocated in the
11 approved Test Year Cost of Service Study.

12
13 The Newfoundland Power and Island Industrial customer allocations shall be included with the
14 Newfoundland Power and Island Industrial RSP balances respectively as of December 31 each year.
15 The Labrador Interconnected Hydraulic customer allocation shall be written off to Hydro's net
16 income (loss).

17
18 **Section B: Fuel Cost Variation, Load Variation and Rural Rate Alteration**

19
20 **1. Activity**

21 **1.1 Fuel Cost Variations**

22 This is based on the consumption of No. 6 Fuel at the Holyrood Generating Station:

23
24
$$(G - D) \times H$$

25 Where:

26
27 D = Monthly Test Year Cost of Service No. 6 Fuel Cost (\$/Can /bbl.)

28 G = Monthly Actual Average No. 6 Fuel Cost (\$/Can /bbl.)

29 H = Monthly Actual Quantity of No. 6 Fuel consumed less No. 6 fuel consumed for non-firm
30 sales (bbl.)

31
32 **1.2 Load Variations**

33 **Firm:** Firm load variation is comprised of fuel and revenue components. The load variation is
34 determined by calculating the difference between actual monthly sales and the Test Year Cost of
35 service Study sales, and the resulting variance in No. 6 fuel costs and sales revenues. It is
36 calculated separately for Newfoundland Power firm sales and Industrial firm sales, in accordance
37 with the following formula:

38
39
$$(I - J) \times \{(D \div C) - K\}$$

40
41
42 Where:

43
44 C = Test Year Cost of Service Holyrood Net Conversion Factor (kWh /bbl.)

45 D = Monthly Test Year Cost of Service No. 6 Fuel Cost (\$/Can /bbl.)

46 I = Actual Sales, by customer class (kWh)

47 J = Test Year Cost of Service Sales, by customer class (kWh)

48 K = Firm energy rate, by customer class

1 **Secondary:** Secondary load variation is based on the revenue variation for Utility Firmed-Up Secondary
2 energy sales compared with the Test Year Cost of Service Study, in accordance with the following
3 formula:

$$(J - I) \times L$$

4
5
6 Where:

7
8 I = Actual Sales (kWh)

9 J = Test Year Cost of Service Sales (kWh)

10 L = Secondary Energy Firming Up Charge
11
12

13 **1.3 Rural Rate Alteration**

14 (a) Newfoundland Power Rate Change Impacts:

15 This component is calculated for Hydro's rural customers whose rates are directly or
16 indirectly impacted by Newfoundland Power's rate changes, with the following formula:

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

17
18
19 Where:

20
21 M = Cost of Service rate ¹

22 N = Existing rate

23 O = Actual Units (kWh, bills, billing demand)
24

25 (b) Rural Labrador Interconnected Automatic Rate Adjustments:

26 This component reflects the impact of the automatic rate adjustments for Hydro's rural
27 customers on the Labrador Interconnected system, which arise from the phase-in of the
28 application of the credit from secondary energy sales to CFB Goose Bay to the rural
29 deficit.
30

31 Monthly adjustments will be subject to revision when a new Test Year Cost of Service is
32 approved by the Public Utilities Board for Hydro. The amount of the automatic rate
33 adjustment is (\$98,295.)
34
35

36 **2. Monthly Customer Allocation: Load and Fuel Activity**

37 Each month, the load variation will be held in a separate account in the Plan, until its disposition is
38 ordered by the Board of Commissioners of Public Utilities.

1

- Hydro's schedule of rates for its rural customers not affected by the December 6th, 2006 Government directive.
- For customers affected by the December 6th, 2006 Government directive, the Cost of Service rate equals the phased-in 2007 Forecast Cost of Service Rates for diesel rate classes 1.2D, 2.1D and 2.2D.
- No Rural Rate Alternation will arise from the phase-in of 2007 Forecast Cost of Service rates for the customers affected by the December 6th, 2006 Government directive.

1 Each month, the year-to-date total for fuel price variation will be allocated among the Island
2 Interconnected customer groups of (1) Newfoundland Power; (2) Island Industrial Firm; and (3) Rural
3 Island Interconnected. The allocation will be based on percentages derived from 12 months-to-date
4 kWh for: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy,
5 and Rural Island Interconnected bulk transmission energy.
6

7 The year-to-date portion of the fuel price variation which is initially allocated to Rural Island
8 Interconnected will be re-allocated between Newfoundland Power and regulated Labrador
9 Interconnected customers in the same proportion which the Rural Deficit was allocated in the
10 approved Test Year Cost of Service Study.
11

12 The current month's activity for Newfoundland Power, Island Industrials and regulated Labrador
13 Interconnected customers will be calculated by subtracting year-to-date activity for the prior month
14 from year-to-date activity for the current month. The current month's activity allocated to regulated
15 Labrador Interconnected customers will be removed from the Plan and written off to Hydro's net
16 income (loss).
17

18 **3. Monthly Customer Allocation: Rural Rate Alteration Activity**

19 Each month, the rural rate alteration will be allocated between Newfoundland Power and regulated
20 Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in
21 the approved Test Year Cost of Service Study. The portion allocated to regulated Labrador
22 Interconnected will be removed from the Plan and written off to Hydro's net income (loss).
23

24 **4. Plan Balances**

25 Separate plan balances for Newfoundland Power and for the Island Industrial customer class will be
26 maintained. Financing charges on the plan balances will be calculated monthly using Hydro's
27 approved Test Year weighted average cost of capital.
28
29

30 **Section C: Fuel Price Projection**

31
32 A fuel price projection will be calculated to anticipate forecast fuel price changes and to determine fuel
33 riders for the rate adjustments. For industrial customers, this will occur in October each year, for
34 inclusion with the RSP adjustment effective January 1. For Newfoundland Power, this will occur in April
35 each year, for inclusion with the RSP adjustment effective July 1.
36

37 **1. Industrial Fuel Price Projection:**

38 In October each year, a fuel price projection for the following January to December shall be made
39 to estimate a change from Test Year No. 6 Fuel Cost. Hydro's projection shall be based on the
40 change from the average Test Year No. 6 fuel purchase price, in Canadian dollars per barrel,
41 determined from the forecast oil prices provided by the PIRA Energy Group, and the current US
42 exchange rate. The calculation for the projection is:
43

44
$$[(S - T) \times U] - V \times W$$

1 Where:

2
3 S = the September month-end PIRA Energy Group average monthly forecast for No. 6 fuel
4 prices at New York Harbour for the following January to December
5 T = Hydro's average Test Year contract discount (US \$/bbl)
6 U = the monthly average of the \$Cdn / \$US Bank of Canada Noon Exchange Rate for the month
7 of September
8 V = average Test Year Cost of Service purchase price for No. 6 Fuel (\$Can /bbl.)
9 W = the number of barrels of No. 6 fuel forecast to be consumed at the Holyrood Generating
10 Station for the Test Year.
11

12 The industrial customer allocation of the forecast fuel price change will be based on 12 months-
13 to-date kWh as of the end of September and is the ratio of Industrial Firm invoiced energy to the
14 total of: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy,
15 and Rural Island Interconnected bulk transmission energy.
16

17 The amount of the forecast fuel price change, in Canadian dollars, and the details of an estimate
18 of the fuel rider based on 12 months-to-date kWh sales to the end of September will be reported
19 to industrial customers, Newfoundland Power, and the Public Utilities Board, by the 10th working
20 day of October.
21

22 **2. Newfoundland Power Fuel Price Projection:**

23 In April each year, a fuel price projection for the following July to June shall be made to estimate
24 a change from Test Year No. 6 Fuel Cost. Hydro's projection shall be based on the change from
25 the average Test Year No. 6 fuel purchase price, in Canadian dollars per barrel, determined from
26 the forecast oil prices provided by the PIRA Energy Group, and the current US exchange rate.
27 The calculation for the projection is:

$$28 \quad \quad \quad \{[(X - T) \times Y] - V\} \times W$$

29 Where:

30
31
32 T = Hydro's average Test Year contract discount (US \$/bbl)
33 V = average Test Year Cost of Service purchase price for No. 6 Fuel (\$Can /bbl.)
34 W = the number of barrels of No. 6 fuel forecast to be consumed at the Holyrood Generating
35 Station for the Test Year. For the 2007 Test Year, test year barrels are reduced by 589,208
36 based on the reduction in forecast Island Industrial customer load caused by the shutdown of
37 one of the paper machines at Corner Brook Pulp and Paper and the shutdown of Abitibi
38 Consolidated (Grand Falls).
39 X = the average of the March month-end PIRA Energy Group average monthly forecast for No. 6
40 fuel prices at New York Harbour for the following July to December, and the most recent
41 long-term PIRA Energy Group average annual forecast for No. 6 fuel prices at New York
42 Harbour for the following January to June.
43 Y = the monthly average of the \$Cdn / \$US Bank of Canada Noon Exchange Rate for the month
44 of March.

1 The Newfoundland Power customer allocation of the forecast fuel price change will be based on
2 12 months-to-date kWh as of the end of March and is the ratio of Newfoundland Power Firm and
3 Firmed-Up Secondary invoiced energy to the total of: Utility Firm and Firmed-Up Secondary
4 invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk
5 transmission energy. For the 12 months-to-date (April 2008 - March 2009) Industrial Firm
6 invoiced energy is reduced by 87,991,636 kWh to reflect the forecast reduction in Abitibi
7 Consolidated (Grand Falls) load.
8

9 The amount of the forecast fuel price change, in Canadian dollars, and the details of the resulting
10 fuel rider applied to the adjustment rate will be reported to Newfoundland Power, industrial
11 customers, and the Public Utilities Board, by the 10th working day of April.
12
13

14 **Section D: Adjustment**

16 **1. Newfoundland Power**

17 As of March 31 each year, Newfoundland Power's adjustment rate for the 12-month period
18 commencing the following July 1 is determined as the rate per kWh which is projected to collect:
19

20 Newfoundland Power March 31 Balance

22 less projected recovery / repayment of the balance for the following three months (if any),
23 estimated using the energy sales (kWh) for April, May and June from the previous year
24

25 plus forecast financing charges to the end of the 12-month recovery period (i.e., June in the
26 following calendar year),
27

28 divided by the 12-months-to-date firm plus firmed-up secondary kWh sales to the end of March.
29

30 A fuel rider shall be added to the above adjustment rate, based on the Newfoundland Power Fuel
31 Price Projection amount (as per Section C.2 above) divided by 12-months-to-date kWh sales to the
32 end of March.
33

34 When new Test Year base rates come into effect, if a fuel rider forecast (either March or September)
35 is more current than the test year fuel forecast, a fuel rider will be implemented at the same time as
36 the change in base rates reflecting the more current fuel forecast and the new test year values.
37

38 Otherwise, the fuel rider portion of the RSP Adjustment will be set to zero upon implementation of
39 the new Test Year Cost of Service rates, until the time for the next fuel price projection.
40

41 **2. Island Industrial Customers**

42 As of December 31 each year, the adjustment rate for industrial customers for the 12-month period
43 commencing January 1 is determined as the rate per kWh which is projected to collect:
44

45 Industrial December 31 Balance

47 plus forecast financing charges to the end of the following calendar year,
48

49 divided by 12-months-to-date kWh sales to the end of December.

1 A fuel rider shall be added to the above adjustment rate, based on the Industrial Fuel Price Projection
2 (as per Section C.1 above) amount divided by 12-months-to-date kWh sales to the end of December.
3

4 When new Test Year base rates come into effect, if a fuel rider forecast (either March or September)
5 is more current than the test year fuel forecast, a fuel rider will be implemented at the same time as
6 the change in base rates reflecting the more current fuel forecast and the new test year values.

7 Otherwise, the fuel rider portion of the RSP Adjustment will be set to zero upon implementation of
8 the new Test Year Cost of Service rates, until the time for the next fuel price projection.
9

10
11 **Section E: Historical Plan Balances:**
12

13 **1. August 2002 Balance:**

14 Newfoundland Power and Island Industrial customer balances accumulated in the Plan as at August
15 2002 will be recovered over a 5-year collection period, with adjustment rates established each
16 December 31, commencing December 31, 2002. Financing charges on the plan balances will be
17 calculated monthly using Hydro's approved Test Year annual weighted average cost of capital.
18

19 **Newfoundland Power**

20 The adjustment rate for each year of the five-year adjustment period will be determined as follows:
21

$$22 \quad A = (B - C + D) \div E \div F$$

23
24 Where:

25
26 A = adjustment rate (\$ per kWh) for the 12-month period commencing the following July 1.

27 B = Balance December 31

28 C = projected recovery to the following June 30 (if any), estimated using the most recent energy
29 sales (kWh) for the period January to June.

30 D = projected financing charges to the following June 30

31 E = number of years remaining in the adjustment period

32 F = energy sales (kWh) (firm and firmed-up secondary) to Newfoundland Power for the most
33 recent 12 months ended December 31
34

35 Recovery and financing will be applied to the balance each month. At the end of the five-year
36 recovery period, any remaining balance will be added to the plan then in effect.
37

38
39 **Island Industrial Customers, excluding Teck Cominco Limited [Exempted pursuant to Order
40 No. P.U.1(2007)]**

41 The adjustment rate for each year of the five-year adjustment period will be determined as follows:
42

$$43 \quad G = H \div I \div J$$

1 Where:

2
3 G = adjustment rate (\$ per kWh) for the 12-month period commencing the following January 1.

4 H = Balance December 31

5 I = number of years remaining in the adjustment period

6 J = firm energy sales (kWh) to Industrial Customers, excluding sales to Teck Cominco Limited, for
7 the most recent 12 months ended December 31

8
9 Recovery and financing will be applied to the balance each month. At the end of the five-year
10 recovery period, any remaining balance will be added to the plan then in effect.

11
12 **2. RSP Balance, December 31, 2003:**

13 Newfoundland Power and Island Industrial customer balances accumulated in the Plan as at
14 December 31, 2003 will be consolidated with the outstanding August 2002 customer balances as of
15 December 31, 2003, and will be included with the Newfoundland Power and Island Industrial
16 customer balances respectively for rate-setting purposes as of December 31, 2003.

17
18
19 **Section F: RSP Surplus:**

20
21 **1. August 31, 2013 Balance:**

22 The net load variation for Newfoundland Power and the Industrial Customers from January 1, 2007 to
23 August 31, 2013, including financing (the RSP Surplus), will be removed from the respective
24 customer class balance, and allocated based upon direction provided by Government in Orders in
25 Council OC2013-089 and OC2013-207. The balances which remain after this amount is removed
26 will form the adjusted August 31, 2013 current plan balances for each customer class.

27
28 The Industrial Customer class allocated amount will be used, firstly, to reduce the Industrial
29 Customer class adjusted August 31, 2013 RSP balance to zero. The remaining Industrial Customer
30 class allocated amount will be segregated until its disposition is ordered by the Board of
31 Commissioners of Public Utilities.

32
33 The monthly RSP adjustment resulting from the Teck Resources Limited RSP Adjustment rate of
34 (1.111) ¢ per kWh, approved by the Board of Commissioners of Public Utilities in Order No. P.U.
35 29(2013), shall be segregated from the other components of the Industrial Customer RSP until its
36 disposition is ordered by the Board of Commissioners of Public Utilities.

37
38 The Newfoundland Power allocated amount of the RSP Surplus will be segregated held until such
39 time as its disposition occurs in accordance with an Order of the Board of Commissioners of Public
40 Utilities through a refund in accordance with Order in Council OC2013-089.