

1 **Q. 2013-2014 General Rate Application, Company Evidence**

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3 **Pg. 3-52 - Newfoundland Power is proposing that the annual balances in the**
4 **Weather Normalization Reserve be dealt with as part of the annual Rate**
5 **Stabilization Adjustment to customer rates on July 1st of each year. Newfoundland**
6 **Power states that the current reserve provisions do not provide for timely recovery**
7 **or credit of balances. Explain the implications for Newfoundland Power and its**
8 **customers of this stated concern with the current timing for recovery or crediting of**
9 **balances and why the proposed change is more appropriate for customers and**
10 **Newfoundland Power.**

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12 A. The principal benefit for Newfoundland Power and its customers of the proposal to deal
13 with annual balances in the Weather Normalization Reserve (the “Reserve”) as part of the
14 annual Rate Stabilization Adjustment to customer rates is regulatory efficiency. If
15 approved, the proposal will establish an efficient means of adjusting customer rates to
16 reflect the effects of weather and hydrology without the need for a separate review to
17 consider Reserve disposition.

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19 Theoretically, when the Reserve was created, it was expected to tend towards zero
20 balances over time. In recent years, however, Reserve balances have been materially
21 impacted by cumulative changes in Newfoundland and Labrador Hydro’s wholesale
22 power rate and changes in the tax rate applicable to Newfoundland Power, resulting in a
23 need to amortize significant Reserve balances through periodic rate adjustments.¹

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25 An efficient rate adjustment mechanism which is consistent with other aspects of supply
26 cost recovery, and operates in a timely manner, is transparent and consistent with sound
27 public utility practice.

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29 In addition, the proposal is appropriate in light of the fact that the Reserve is the only
30 Newfoundland Power regulatory mechanism that does not currently provide for timely
31 recovery or credit of supply cost changes.

¹ Since 2003, outstanding balances in the Weather Normalization Reserve have been continually recovered through amortizations in customer rates. At the end of 2011, the Weather Normalization Reserve had a balance to the credit of customers of approximately \$5 million. This contrasts to a balance owing from customers as at year end 2006 of approximately \$11.8 million. The principal causes of the almost \$17 million swing were (i) the amortization of the recovery of \$6,800,000 over 5 years as approved in Order No. P.U. 32 (2007) and (ii) the effects of warmer than average temperatures and higher than normal stream-flows to the Company’s hydro plants.