

1 Q. **Reference: Application, para. 8**

2 It is stated “On March 30, 2023, Hydro received correspondence from the Minister of Industry,
3 Energy and Technology providing a grant of \$190,404,321 for the purposes of rate mitigation.
4 This grant has been credited to the Rate Mitigation Fund component of the Supply Cost Variance
5 Deferral Account.”

6 a) Please file a copy of the March 30, 2023 correspondence for the record.

7 b) Has the Board approved a specific Rate Mitigation Fund component of the Supply Cost
8 Variance Deferral Account? If so, please provide a copy of the Board’s Order.

9 c) Did the Board order that the funds provided by government be applied to the Rate
10 Mitigation Fund component of the Supply Cost Variance Deferral Account? If so, please
11 provide a copy of the Board’s Order.

12 d) How has Hydro allocated these funds to its various customer classes?

13 e) How do these funds impact the rural rate subsidy?

14

15

16 A. a) Please refer to Newfoundland and Labrador Hydro’s (“Hydro”) response to PUB-NLH-003,
17 Attachment 1 of this proceeding.

18 b) The Board of Commissioners of Public Utilities (“Board”) approved the Rate Mitigation Fund
19 component in its approval of the Supply Cost Variance Deferral Account in Board Order No.
20 P.U. 4(2022).¹ Please refer to CA-NLH-002, Attachment 1 for a copy of Board Order No.
21 P.U. 4(2022).

22 c) The definition of the Rate Mitigation Fund, proposed by Hydro and approved in Board Order
23 No. P.U. 4(2022), states that “Any funding to provide rate mitigation to offset the costs of
24 the Project will be credited to the **Rate Mitigation Fund** component of the deferral

¹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 4(2022), Board of Commissioners of Public Utilities, February 21, 2022, sch. A, p. 1 of 7.

1 account.” Direction on the use of the grant received on March 30, 2023 came from the
2 Government of Newfoundland and Labrador. Please refer to Hydro’s response to
3 PUB-NLH-003, Attachment 1 of this proceeding.

4 **d)** The approved Supply Cost Variance Deferral Account definition does not contain any rules
5 for the allocation of balances between customer classes. This will require a further order
6 from the Board. Hydro anticipates proposing the allocation method for disposition of any
7 balances accumulated in this account after the conclusion of the next General Rate
8 Application.

9 **e)** Please refer to part d) of this response. The rural rate subsidy impact would not be
10 determined until after Hydro proposed an allocation method for disposition.

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

AN ORDER OF THE BOARD

NO. P.U. 4(2022)

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

7 **IN THE MATTER OF** an application by
8 Newfoundland and Labrador Hydro for approval
9 of new deferral accounts, changes to existing
10 deferral accounts, and an accounting deviation,
11 associated with the commissioning of the
12 Muskrat Falls Project, pursuant to section
13 58 of the *Act*; and
14

15 **IN THE MATTER OF** an application by
16 Newfoundland and Labrador Hydro for
17 approval of changes to various deferral
18 account definitions, approval of changes to
19 the rules and regulations applicable to the
20 Rate Stabilization Plan, and other matters
21 reflecting the determinations set out
22 in Order No. P.U. 33(2021).
23
24

25 **WHEREAS** Newfoundland and Labrador Hydro (“Hydro”) is a corporation continued and
26 existing under the *Hydro Corporation Act, 2007*, is a public utility within the meaning of the *Act*,
27 and is also subject to the provisions of the *EPCA*; and
28

29 **WHEREAS** in Order No. P.U. 33(2021) the Board approved, among other things, Hydro’s
30 proposal to establish an account to defer Muskrat Falls Project agreements payments, rate
31 mitigation funding, project cost recovery from customers and supply cost variances and required
32 Hydro to file for the approval of the Board:

33 (i) a Supply Cost Variance Deferral Account definition reflecting the determinations
34 of the Board to be effective on the date upon which Hydro is required to begin
35 payments under the Muskrat Falls Power Purchase Agreement (“Muskrat Falls
36 PPA”);

- 1 (ii) Revised Rate Stabilization Plan (“RSP”) Rules and Revised Energy Supply Cost
2 Variance Deferral Account and Holyrood Conversion Rate Deferral Account
3 definitions reflecting the determinations of the Board to be effective on the same
4 date as the Supply Cost Variance Deferral Account; and
5 (iii) a Holyrood Thermal Generating Station Accelerated Depreciation Deferral
6 Account definition reflecting the determinations of the Board to be effective
7 January 1, 2022; and
8

9 **WHEREAS** on January 21, 2022 Hydro filed an application requesting approval of the following
10 effective November 1, 2021:

- 11 (i) Supply Cost Variance Deferral Account definition;
12 (ii) Rate Stabilization Rules for Balance Disposition;
13 (iii) Revised Energy Supply Cost Variance Deferral Account: Rules for Balance
14 Disposition;
15 (iv) Holyrood Conversion Rate Deferral Account: Rules for Balance Disposition;
16 (iv) Discontinuance of the existing RSP Rules and the existing rules related to the
17 Revised Energy Supply Cost Variance Deferral Account and Holyrood Conversion
18 Rate Deferral Account; and
19 (v) Holyrood Thermal Generating Station Accelerated Depreciation Deferral Account
20 definition (the “Application”); and
21

22 **WHEREAS** the Application submitted that the proposed Supply Cost Variance Deferral Account
23 definition reflects the Board’s directions in Order No. P.U. 33(2021), including that financing
24 charges on plan balances be calculated based on short-term borrowing costs; and
25

26 **WHEREAS** the Application explained that, as Hydro’s initial payment under the Muskrat Falls
27 PPA was due part way through November 2021 and there is no obvious approach to apportion the
28 November cost variances between the old and new deferral account, the Supply Cost Variance
29 Deferral Account is proposed to become effective as of November 1, 2021 which reflects the
30 month, not the date, the payments under the Muskrat Falls PPA were implemented; and
31

32 **WHEREAS** the Application also explained that, to avoid duplication of the deadband that will
33 apply to the Revised Energy Supply Cost Variance Deferral Account in 2021, Hydro proposes to
34 apply the cost variance threshold to the Other Island Interconnected System Supply Costs
35 component of the deferral account commencing in 2022; and
36

37 **WHEREAS** the Application also explained that, to continue the separation of historical balances
38 in the RSP as directed in Order No. P.U. 33(2021), the Rate Stabilization Rules for Balance
39 Disposition do not include the existing rules requiring monthly transfers of supply cost variances
40 as of November 1, 2021; and
41

42 **WHEREAS** the Application also proposed that the hydraulic production variation component of
43 the Current Plan balances of the RSP be recovered over a fixed four-year period, rather than
44 recovery of 25% of the previous year-end balance which would not provide for definitive
45 conclusion of the amortization period; and

1 **WHEREAS** the Application stated that the definitions of the Revised Energy Supply Cost
2 Variance Deferral Account and the Holyrood Conversion Rate Deferral Account have been revised
3 to discontinue transfers into these accounts as of November 1, 2021, and that Hydro will file an
4 application by March 31, 2022 for the disposition of the October 31, 2021 balance in each account;
5 and.

6
7 **WHEREAS** the Application also stated that the definition of the Holyrood Thermal Generating
8 Station Accelerated Depreciation Deferral Account has been revised to allow for variances in
9 excess of \$2.5 million for 2022, and for 2023 if it is not a test year, and for the account to be
10 effective January 1, 2022; and

11
12 **WHEREAS** the Application was copied to: Newfoundland Power Inc. (“Newfoundland Power”);
13 the Consumer Advocate, Dennis Browne, Q.C. (the “Consumer Advocate”); a group of Island
14 Industrial Customers: Corner Brook Pulp and Paper Limited, NARL Refining Limited Partnership
15 and Vale Newfoundland and Labrador Limited (the “Industrial Customer Group”); Praxair Canada
16 Inc.; Teck Resources Limited; and Iron Ore Company of Canada; and

17
18 **WHEREAS** the Board and the Industrial Customer Group filed Requests for Information which
19 were answered by Hydro on February 8, 2022; and

20
21 **WHEREAS** on February 14, 2022 Newfoundland Power advised it had no comment on the
22 Application; and

23
24 **WHEREAS** the Board did not receive any other comments on the Application; and

25
26 **WHEREAS** on February 15, 2022 Hydro filed its reply requesting that the Board approve the
27 Application; and

28
29 **WHEREAS** the Board is satisfied that the proposals in the Application reflect the determinations
30 of the Board in Order No. P.U. 33(2021).

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

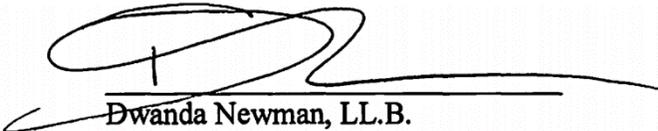
- 34
35 **1. The Supply Cost Variance Deferral Account as set out in Schedule A, with an effective**
36 **date of November 1, 2021, is approved.**
37
38 **2. The Rate Stabilization Plan Rules for Balance Disposition as set out in Schedule B,**
39 **with an effective date of November 1, 2021, is approved.**
40
41 **3. The Revised Energy Supply Cost Variance Deferral Account: Rules for Balance**
42 **Disposition as set out in Schedule C, with an effective date of November 1, 2021, is**
43 **approved.**
44
45 **4. The Holyrood Conversion Rate Deferral Account: Rules for Balance Disposition as**
46 **set out in Schedule D, with an effective date of November 1, 2021, is approved.**

- 1 5. The discontinuance of the existing RSP Rules and the existing rules related to the
2 Revised Energy Supply Cost Variance Deferral Account and Holyrood Conversion
3 Rate Deferral Account as of November 1, 2021, is approved.
4
5 6. The Holyrood Thermal Generating Station Accelerated Depreciation Deferral
6 Account as set out in Schedule E, with an effective date of January 1, 2022, is
7 approved.
8
9 7. Hydro shall pay all expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador, this 21st day of February, 2022.



Darlene Whalen, P. Eng., FEC
Chair and Chief Executive Officer



Dwanda Newman, LL.B.
Vice-Chair



John O'Brien, FCPA, FCA, CISA
Commissioner



Christopher Pike, LL.B., FCIP
Commissioner



Cheryl Blundon
Board Secretary

Newfoundland and Labrador Hydro Supply Cost Variance Deferral Account Definition

Newfoundland and Labrador Hydro's ("Hydro") Supply Cost Variance Deferral Account is established to smooth rate impacts for Hydro's Utility customer, Newfoundland Power Inc. ("Newfoundland Power"), and Island Industrial customers and to provide Hydro the opportunity to recover supply cost variances between the forecasts reflected in customer rates and the actual costs incurred.

The formulae used to calculate the account's activity are outlined below. Positive values denote amounts owing from customers to Hydro whereas negative values denote amounts owing from Hydro to customers.

Section A

1.0 Muskrat Falls Project ("Project") Cost Variances

The **Project Cost Variances** will reflect the variance from test year costs for the Muskrat Falls Purchase Power Agreement ("Muskrat Falls PPA") and the Transmission Funding Agreement ("TFA").

Project Cost Variances will be calculated monthly based on the following formula:

$$(A - A_T) + (B - B_T)$$

Where:

A = Actual Purchased Power Expense from Muskrat Falls PPA Charges;

A_T = Test Year Purchased Power Expense from Muskrat Falls PPA Charges;

B = Actual Purchased Power Expense from TFA Charges; and

B_T = Test Year Purchased Power Expense from TFA Charges.

2.0 Rate Mitigation Fund

Any funding to provide rate mitigation to offset the costs of the Project will be credited to the **Rate Mitigation Fund** component of the deferral account.

3.0 Project Cost Recovery

Charges applied to customers to recover Project costs will be credited to the **Project Cost Recovery** component of the deferral account and tracked by customer class.

4.0 Holyrood Thermal Generating Station (“Holyrood TGS”) Fuel Cost Variance

Holyrood TGS Fuel Cost Variances will be calculated monthly based on the following formula:

$$(C - C_T)$$

Where:

C = Actual Holyrood TGS Fuel Cost incurred in the month to supply firm energy to customers on the Island Interconnected System; and

C_T = Test Year Holyrood TGS Fuel Cost in the month to supply firm energy to the customers on the Island Interconnected System.

5.0 Other Island Interconnected System Supply Cost Variance

The account shall be charged or credited monthly with the **Other Island Interconnected System Supply Cost Variance** incurred by Hydro on the Island Interconnected System that is in excess of the Cost Variance Threshold in the calendar year.

Variations resulting from both the price and volume of the following thermal generation sources shall be charged or credited to this account:

- Holyrood Combustion Turbine;
- Hardwoods Gas Turbine;
- Stephenville Gas Turbine;
- St. Anthony Diesel Plant; and
- Hawkes Bay Diesel Plant.

Variations resulting from the volume of the following on-island power purchases shall be charged or credited to this account:

- Nalcor Exploits;
- Star Lake;
- Rattle Brook;
- Corner Brook Pulp and Paper Limited (“CBPP”) Cogeneration;
- St. Lawrence wind; and
- Fermeuse wind.

Variations from the price and volume of firm energy power purchases from CBPP shall be charged or credited to this account.

Variations resulting from the cost of off-island power purchases shall also be charged or credited to this account. Off-island power purchase costs shall not include any expenditure related to Muskrat Falls PPA, TFA or the Interim TFAs.

The **Other Island Interconnected System Supply Cost Variance** will be determined monthly by the following formula:

$$D + E + F + G$$

D = Test Year Thermal Generation Variances resulting from both price and volume;

Where:

D = (Actual Thermal Generation Cost in providing firm energy – Test Year Thermal Generation Cost).

E = Test Year Off-Island Power Purchase Variances resulting from both price and volume;

Where:

E = (Actual Off-Island Power Purchase Cost – Test Year Off-Island Power Purchase Cost).

F = Test Year Power Purchase Variances resulting from volume;

Where:

F = (Actual kWh Purchases – Test Year kWh Purchases) x (Test Year Purchase Cost in \$/kWh).

G = Variances based on firm energy purchases from CBPP;

Where:

G = (Actual CBPP Power Purchase Cost – Capacity Assistance Adjustment) – (Test Year CBPP Firm Energy Power Purchase Cost).

“Capacity Assistance Adjustment” shall represent any change in fixed capacity assistance payments as a result of firm energy purchases from CBPP.

The **Cost Variance Threshold** equals $\pm\$500,000^1$ in a calendar year.

¹ The effective date of the cost variance threshold commences January 1, 2022.

6.0 Net Revenue from Exports Variance

The **Net Revenue from Exports Variance** is computed on monthly basis by the following formula:

$$(H_T - H)$$

Where:

Net Revenue from Exports reflect the revenues from Hydro exports less the costs incurred to export energy.

H_T = Test Year Net Revenues from Exports (\$); and

H = Actual Net Revenues from Exports (\$).

The account will be credited in December with an estimate of net export sales that occurred during the year but the actual settlement value will not be finalized until the following period. The account will be adjusted in the following period for any difference between the estimated and actual value.

Revenues from non-firm sales on the Island Interconnected System supplied by hydraulic generation will also be credited to the Net Revenue from Exports Variance component.

7.0 Transmission Tariff Revenue Variance

For the purpose of this deferral account, Transmission Tariff Revenues reflect the transmission revenues paid by third parties to enable exports. The **Transmission Tariff Revenue Variance** is computed on monthly basis by the following formula:

$$(I_T - I)$$

Where:

I_T = Test Year Transmission Tariff Revenues paid by third parties (\$); and

I = Actual Transmission Tariff Revenues paid by third parties (\$).

8.0 Load Variation

Firm: Firm load variation is determined based on the revenue variation for firm energy sales compared with the test year Cost of Service Study firm sales. It is calculated separately for Newfoundland Power firm sales and Island Industrial firm sales on a monthly basis, in accordance with the following formula:

$$(J_T - J_A) \times K_R$$

Where:

J_T = Test Year Cost of Service Firm Sales, by customer class (kWh);

J_A = Actual Firm Sales, by customer class (kWh); and

K_R = Firm Energy Rate, by customer class.

Where the rate designs include more than one energy block, the excess energy rate will apply in computing **Load Variation** transfers.

9.0 Rural Rate Alteration

The **Rural Revenue Adjustment** transfers to Newfoundland Power: (i) changes in Hydro Rural revenues resulting from changes in Rural Rates between test years, and (ii) changes in Rural revenues on the Island Interconnected System as a result of changes in Rural load between test years. The **Rural Revenue Adjustment** is calculated on a monthly basis, in accordance with the following formula:

$$[(N_T - N_A) \times O_T] + [(P_T - P_A) \times Q_T]$$

Where:

N_T = Test Year Cost of Service rural rates;

N_A = Existing rural rates;

O_T = Test Year Billing Units (kWh, bills, billing demand);

P_T = Test Year kWh sales for Hydro Rural Island Interconnected (excluding street and area lighting);

P_A = Actual kWh sales for Hydro Rural Island Interconnected (excluding street and area lighting); and

Q_T = Test Year rates per class for Rural Island Interconnected System (excluding street and area lighting).

The **Rural Revenue Adjustment** will be allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion that the Rural Deficit was allocated in the approved Test Year Cost of Service Study. The portion allocated to Hydro Rural Labrador Interconnected will be removed from the plan and written off to Hydro's net income (loss).

10.0 Greenhouse Gas Credit Revenues Variance

The **Greenhouse Gas Credit Revenues Variance** is computed on monthly basis, beginning on January 1, 2021, by the following formula:

$$(T_T - T)$$

Where:

T_T = Test Year Greenhouse Gas Credit Revenues (\$); and

T = Actual Greenhouse Gas Credit Revenues (\$).

Section B

1.0 Plan Balances

Separate plan balances for the Utility and Island Industrial customers will be maintained in this account as required. Transfers to the Utility balance will continue to reflect the monthly adjustments for the **Rural Rate Alteration**. No other transfers to the Utility balance and Industrial Customer balance will occur until further approval is obtained from the Board of Commissioners of Public Utilities ("Board").

2.0 Financing Costs

Financing charges on the plan balances will be calculated monthly using a financing rate calculated based on Hydro's short-term borrowing costs. The calculation of the annual short-term borrowing rate is as follows:

$$(U + V + W) \text{ divided by } (X + Y)$$

Where:

U = Credit Facility Interest and fees;

V = Promissory Note Interest and fees;

W = Recoverable portion of debt guarantee fees associated with promissory note balances;

X = Weighted Average Credit Facility Debt; and

Y = Weighted Average Promissory Note Debt Balances.

Schedule A

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For the period of January to November the interest rate used will be the rate calculated based on the prior year-end. In the month of December, the interest expense will be trued up for the current year as the interest rate will be re-calculated and applied to the deferral account balance outstanding at the end of each month, inclusive of compound interest.

3.0 Customer Allocation

Customer Allocation of balances in the Supply Cost Variance Deferral Account will be subject to further approval by the Board.

4.0 Balance Disposition

Disposition of balances in the Supply Cost Variance Deferral Account will be subject to further approval by the Board.

5.0 Balance Transfers

The balances in the Supply Cost Variance Deferral Account shall be adjusted by other amounts as ordered by the Board.

Newfoundland and Labrador Hydro Rate Stabilization Plan Rules for Balance Disposition

The Rate Stabilization Plan of Newfoundland and Labrador Hydro (“Hydro”) was established for Hydro’s Utility customer, Newfoundland Power Inc. (“Newfoundland Power”), and Island Industrial customers to smooth rate impacts for variations between actual results and Test Year Cost of Service estimates for:

- hydraulic production;
- No. 6 fuel cost used at Hydro’s Holyrood Thermal Generating Station;
- customer load (Utility and Island Industrial); and
- rural rates.

In Board Order No. P.U. 33(2021), the Board of Commissioners of Public Utilities (“Board”) approved the Supply Cost Variance Deferral Account to deal with future supply cost variances on the Island Interconnected System beginning in the month in which Hydro was required to begin payments under the Muskrat Falls Purchase Power Agreement (i.e., November 2021). The approval of the Supply Cost Variance Deferral Account discontinued transfers to the Rate Stabilization Plan (“RSP”), effective as of the implementation of the Supply Cost Variance Deferral Account, resulting from variations in future costs associated with the Test Year Cost of Service estimates for the items listed above. However, the Board directed that the RSP balances be maintained for the transparent and timely recovery of historical balances. The following rules provide for the disposition of historical balances in accordance with the RSP Rules previously approved by the Board.

Section A: Hydraulic Production Variation Balance Disposition

1.0 Financing

Each month, financing charges, using Hydro’s approved test year weighted average cost of capital, will be calculated on the balance.

2.0 Hydraulic Variation Customer Assignment

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

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

Where:

E = Hydraulic Variation Account Balance as of October 31, 2021 excluding financing charges;
and

F = Financing charges accumulated to December 31 for each year.

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

3.0 Customer Allocation

The annual customer assignment will be allocated among the Island Interconnected customer groups of (i) Newfoundland Power; (ii) Island Industrial Firm; and (iii) Rural Island

Interconnected. The allocation will be based on percentages derived from 12 months-to-date kWh up to October 31, 2021 for Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

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

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

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

1.0 Customer Allocation: Load and Fuel Activity Historical Balance

The year-to-date total for fuel price variation as of October 31, 2021 and the year-to-date total for the load variation as of October 31, 2021 will be allocated among the Island Interconnected customer groups of (i) Newfoundland Power; (ii) Island Industrial Firm; and (iii) Rural Island Interconnected. The allocation will be based on percentages derived from 12 months-to-date kWh as of October 31, 2021 for Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The year-to-date portion of the fuel price variation as of October 31, 2021 and the year-to-date portion of the load variation as of October 31, 2021, which is initially allocated to Rural Island Interconnected, will be re-allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study.

The amount allocated to regulated Labrador Interconnected customers will be removed from the plan and written off to Hydro's net income (loss).

2.0 Customer Allocation: Rural Rate Alteration Activity Historical Balance

The rural rate alteration as of October 31, 2021 will be allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study. The portion allocated to regulated Labrador Interconnected will be removed from the plan and written off to Hydro's net income (loss).

3.0 Plan Balances

Separate plan balances for Newfoundland Power and the Island Industrial customer class will be maintained. The RSP balances shall be adjusted by other amounts as ordered by the Board. Financing charges on the plan balances will be calculated monthly using Hydro's approved test year weighted average cost of capital.

Section C: Adjustment

1.0 Newfoundland Power

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

Newfoundland Power March 31 Balance

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

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

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

2.0 Island Industrial Customers

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

Industrial December 31 Balance

plus forecast financing charges to the end of the following calendar year;

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

Newfoundland and Labrador Hydro
Revised Energy Supply Cost Variance Deferral Account: Rules for Balance Disposition

Background

The Revised Energy Supply Deferral Account enabled Newfoundland and Labrador Hydro (“Hydro”) to defer certain price and volume variances from the approved test year for specific supply costs on Hydro’s Island Interconnected System. The Revised Energy Supply Deferral Account was comprised of four main sections: (i) variations in the price and volume of standby thermal generation; (ii) variations in the price and volume of off-island power purchases; (iii) variations in volume only from on-island power purchases; and (iv) fuel cost variations at the Holyrood Thermal Generating Station (“Holyrood TGS”) as a result of variations in energy production from sources specifically covered by the Revised Energy Supply Cost Variance Deferral Account.

The approval of the Supply Cost Variance Deferral Account, effective November 1, 2021, discontinued transfers to the Revised Energy Supply Cost Variance Deferral Account. Supply costs variances for the above components (with the exception of Holyrood TGS fuel costs) incurred from November 1, 2021, will be transferred to the Other Island Interconnected System Supply Costs component of the Supply Cost Variance Deferral Account.

Board Order No. P.U. 33(2021) directed the maintenance of this account for the transparent and timely recovery of historical balances.

Disposition of any Balance in this Account

Hydro shall file an application with the Board of Commissioners of Public Utilities for the disposition of the October 31, 2021 balance in this account no later than the 31st day of March, 2022. Disposition will be inclusive of a Cost Variance Threshold equal to \pm \$500,000.

**Newfoundland and Labrador Hydro
Holyrood Conversion Rate Deferral Account: Rules for Balance Disposition**

Background

The Holyrood Conversion Rate Deferral Account permits Newfoundland and Labrador Hydro (“Hydro”) to defer costs that result from differences between the actual and test year No. 6 fuel conversion rate. The Holyrood Thermal Generating Station (“Holyrood TGS”) conversion rate can be affected by unit loading, fuel BTU¹ content, and station services. Generally, higher unit loading at the Holyrood TGS will improve the conversion rate and result in fuel savings; conversely, lower unit loading at the Holyrood TGS will reduce the conversion rate and result in higher fuel costs. Further, fuel BTU content that is lower than Hydro’s specification results in a lower conversion rate and consumption of more fuel to achieve the same level of energy production.

The approval of the Supply Cost Variance Deferral Account, effective November 1, 2021, discontinued transfers to the Holyrood Conversion Rate Deferral Account. Supply costs variances related to Holyrood TGS fuel incurred from November 1, 2021 will be transferred to the Holyrood TGS Fuel Cost Variances component of the Supply Cost Variance Deferral Account.

Board Order No. P.U. 33(2021) directed the maintenance of this account for the transparent and timely disposition.

Disposition of any Balance in this Account

Hydro shall file an application with the Board for the disposition of the October 31, 2021 balance in this account no later than the 31st day of March, 2022. Disposition will be inclusive of a Cost Variance Threshold equal to \pm \$500,000.

¹ British Thermal Unit (“BTU”).

Schedule E

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Effective: January 1, 2022

**Newfoundland and Labrador Hydro
Holyrood TGS Accelerated Depreciation Deferral Account Definition**

Newfoundland and Labrador Hydro's ("Hydro") Holyrood Thermal Generation Station ("Holyrood TGS") Accelerated Depreciation Deferral Account is established to defer for future recovery any difference in excess of ± 2.5 million between the accelerated depreciation expense for the Holyrood TGS in 2022 and 2023 (if 2023 is not a test year in a general rate application) and the accelerated depreciation expense for the Holyrood TGS included in the approved 2019 Test Year. If 2023 is a test year in Hydro's next general rate application, no transfer to the deferral account will be made for cost differences in 2023.

The disposition of the balance in this account will be subject to a further Order of the Board of Commissioners of Public Utilities.