

March 12, 2024

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Jo-Anne Galarneau
Executive Director and Board Secretary

Re: Application for the Recovery of Deferred 2023 Isolated Systems Supply Costs

Please find enclosed Newfoundland and Labrador Hydro's ("Hydro") application for approval to recover the deferred 2023 Isolated Systems Supply Costs ("Application").

In the Board of Commissioners of Public Utilities ("Board") Order No. P.U. 22(2017),¹ the Board approved the definition of the Isolated Systems Supply Cost Variance Deferral Account. An application is required annually by March 31 for the disposition of the balance in the account. In addition, the annual application must include information regarding the proposed method of collection or refund of the balance from or to a customer class or classes, as well as Hydro's efforts during the year to minimize costs on the isolated systems.

This Application is made in advance of the March 31 deadline to enable the recoverable amount to be reflected in the Utility rate for which Hydro must file an application by April 17 as per direction from the Board in correspondence dated February 21, 2023.² Hydro has included in its evidence, as Schedule 1 of the Application, an update on the major initiatives it has utilized to minimize costs on the isolated systems.³

Hydro is seeking approval of the proposed allocation of the 2023 costs in the Isolated Systems Supply Cost Variance Deferral Account, totaling approximately \$12.1 million. The proposals are consistent with the methodologies approved for the 2015, 2016, and 2017 Deferred Supply Costs in Board Order No. P.U. 22(2017), and the Deferred Supply Costs from 2015 to 2022, as approved in Board Order No.'s P.U. 22(2017), P.U. 16(2019),⁴ P.U. 21(2019),⁵ P.U. 13(2020),⁶ P.U. 15(2021),⁷ P.U. 16(2022),⁸ and P.U. 7(2023),⁹ respectively.

¹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 22(2017), Board of Commissioners of Public Utilities, June 14, 2017.

² "Newfoundland and Labrador Hydro - Application for July 1, 2022 Utility Rate Adjustments as per Order No. P.U. 19(2022) - To NLH - Response to January 26, 2023 Update and Schedule for Filing July 1, 2023 Rate Adjustments," Board of Commissioners of Public Utilities, February 21, 2023.

³ Hydro will file its 2023 Report on the Rural Deficit ("Report") with its 2023 Annual Return by April 2, 2024 as there are inputs necessary for that Report that are not available in sufficient time to include the Report with this Application.

⁴ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 16(2019), Board of Commissioners of Public Utilities, May 7, 2019.

⁵ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 21(2019), Board of Commissioners of Public Utilities, June 6, 2019.

⁶ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 13(2020), Board of Commissioners of Public Utilities, May 1, 2020.

⁷ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 15(2021), Board of Commissioners of Public Utilities, May 12, 2021.

⁸ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 16(2022), Board of Commissioners of Public Utilities, May 6, 2022.

⁹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 7(2023), Board of Commissioners of Public Utilities, April 13, 2023.

Hydro proposes to recover the 2023 costs in the Isolated Systems Supply Cost Variance Deferral Account through a transfer of approximately \$11.6 million to Newfoundland Power Inc.'s ("Newfoundland Power") Rate Stabilization Plan Current Plan Account balance. If approved, this transfer will result in collection beginning July 1, 2024 for Newfoundland Power. The amount allocated to the Hydro Rural Labrador Interconnected customers of approximately \$0.5 million would be debited to Hydro's net income.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Shirley A. Walsh
Senior Legal Counsel, Regulatory
SAW/kd

Encl.

ecc:

Board of Commissioners of Public Utilities

Jacqui H. Glynn
Board General

Consumer Advocate

Dennis M. Browne, KC, Browne Fitzgerald Morgan & Avis
Stephen F. Fitzgerald, Browne Fitzgerald Morgan & Avis
Sarah G. Fitzgerald, Browne Fitzgerald Morgan & Avis
Bernice Bailey, Browne Fitzgerald Morgan & Avis

Linde Canada Inc.

Sheryl E. Nisenbaum
Peter Strong

Newfoundland Power Inc.

Dominic J. Foley
Lindsay S.A. Hollett
Regulatory Email

Teck Resources Limited

Shawn Kinsella

Island Industrial Customer Group

Paul L. Coxworthy, Stewart McKelvey
Denis J. Fleming, Cox & Palmer
Dean A. Porter, Poole Althouse

Application for the Recovery of Deferred 2023 Isolated Systems Supply Costs

March 12, 2024

An application to the Board of Commissioners of Public Utilities



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

IN THE MATTER OF an application by Newfoundland and Labrador Hydro (“Hydro”) for the recovery of the 2023 balances in the Isolated Systems Supply Cost Variance Deferral Account, pursuant to Sections 70(1) and 80 of the *Act* (“Application”).

TO: The Board of Commissioners of Public Utilities (“Board”)

THE APPLICATION OF HYDRO STATES THAT:

A. Background

1. Hydro, a corporation continued and existing under the *Hydro Corporation Act, 2007*,¹ is a public utility within the meaning of the *Act*, and is subject to the provisions of the *EPCA*.
2. The definition of the Isolated Systems Supply Cost Variance Deferral Account, proposed in Hydro’s 2013 Amended General Rate Application, was approved by the Board in Order No. P.U. 22(2017).²
3. The approved account definition requires Hydro to file an application for approval of the disposition of the December 31 balance in the Isolated Systems Supply Cost Variance Deferral Account no later than March 31 of each year.
4. The Isolated Systems Supply Cost Variance Deferral Account allows Hydro the opportunity to recover variances in the price of supply sources on Hydro’s isolated systems. The account is credited or charged with the difference between the approved test year price and the actual price of fuel and variances in power purchases from the approved test year, all used to serve Hydro’s customers on its isolated systems in a calendar year.

¹ *Hydro Corporation Act, 2007*, SNL 2007 c H-17.

² *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 22(2017), Board of Commissioners of Public Utilities, June 14, 2017.

5. The approved definition of the Isolated Systems Supply Cost Variance Deferral Account includes:
- i) A cost variance threshold of +/- \$500,000;
 - ii) The requirement for an annual application for the disposition of any balance;
 - iii) The requirement to specify the proposed method of collection or refund from a customer class or classes; and
 - iv) The requirement to provide information regarding the efforts made by Hydro during the year to minimize costs on the isolated systems.

B. Application

6. The balance of the Isolated Systems Supply Cost Variance Deferral Account include the deferred 2023 supply costs that are the subject of the application for disposition. Schedule 1 to this Application provides the evidence supporting Hydro's proposal.

Disposition of 2023 Deferred Supply Costs

7. Hydro seeks approval of the disposition of \$12,059,436 in 2023 deferred supply costs (net of the cost variance thresholds) to be transferred to the Isolated Systems Supply Cost Variance Deferral Account, as detailed in Schedule 1, Appendix A to this Application.

Allocation of Deferred Balances

8. Hydro proposes to allocate the 2023 deferred supply costs in the Isolated Systems Supply Cost Variance Deferral Account between Newfoundland Power Inc. ("Newfoundland Power") and Hydro Rural Labrador Interconnected customers based on the approved 2019 Test Year Rural Deficit allocation, which allocated 96.1% of the rural cost variances to Newfoundland Power. The remaining 3.9% allocated to Hydro Rural Labrador Interconnected customers is proposed to be absorbed by Hydro's net income consistent with the historical allocation of similar costs in the Rate Stabilization Plan ("RSP"). This proposed allocation results in a charge to Newfoundland Power of \$11,589,118, and the remaining \$470,318 allocated to Hydro Rural Labrador Interconnected customers applied as a debit to Hydro's net income.

Balance Recovery

9. Hydro proposes to transfer the balances associated with the 2023 Isolated Systems Supply Cost Variance Deferral Account to the respective RSP Current Plan balance for Newfoundland Power as of March 31, 2024. If approved, this proposal will result in the recovery of the 2023 deferred supply costs through the RSP Current Plan adjustment starting July 1, 2024 for Newfoundland Power.

C. Order Requested

10. Hydro hereby requests that the Board make an Order pursuant to Sections 70(1) and 80 of the Act³ approving:
- i) A 2023 debit transfer of \$12,059,436 to the Isolated Systems Supply Cost Variance Deferral Account; and
 - ii) The transfer, effective March 31, 2024, from the Isolated Systems Supply Cost Variance Deferral Account, of a debit of \$11,589,118 to the Newfoundland Power RSP Current Plan balance, and the \$470,318 debit allocated to Hydro Rural Labrador Interconnected customers to be applied to reduce Hydro's net income.

D. Reasons for Approval

11. The balance in the Isolated Systems Supply Cost Variance Deferral Account were prudently incurred in the provision of least-cost, reliable service and calculated in accordance with the definitions approved by the Board in Order No. P.U. 22(2017).
12. Approval of this Application provides a reasonable balance of the interests of the customers and the utility and permit Hydro to recover prudently incurred supply costs consistent with Section 70(1) of the Act.⁴

E. Communications

13. Communications with respect to this application should be forwarded to Shirley A. Walsh, Senior Legal Counsel, Regulatory for Hydro.

³ *Public Utilities Act*, RSNL 1990, c P-47, s 70(1) and 80.

⁴ *Supra*, f.n. 3, s 70(1).

DATED at St. John's, in the province of Newfoundland and Labrador, this 12th day of March 2024.

NEWFOUNDLAND AND LABRADOR HYDRO



Shirley A. Walsh
Counsel for the Applicant
Newfoundland and Labrador Hydro,
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St. John's, NL A1B 4K7
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Schedule 1

Evidence



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Appendix A: 2023 Transfer to the Isolated Systems Supply Cost Variance Deferral Account (Unaudited)

List of Attachments

Attachment 1: Approved Account Definition

1.0 Background

In Order No. P.U. 22(2017),¹ the Board of Commissioners of Public Utilities (“Board”) approved the definition of the Isolated Systems Supply Cost Variance Deferral Account. The approved deferral account definition that applied in computing the deferred supply costs in 2023 is included as Attachment 1.

Newfoundland and Labrador Hydro’s (“Hydro”) application is seeking approval of the balance that has accumulated in the Isolated Systems Supply Cost Variance Deferral Account and recovery of these costs.

This evidence provides Hydro’s proposed approach for recovery of the deferred 2023 isolated systems supply costs, totalling approximately \$12.1 million,² the proposed approach for allocation by customer class, and provides details on the calculations of the amounts in the Isolated Systems Supply Cost Variance Deferral Account.

Based on the proposed methodology, the allocations of the \$12,059,436 transferred to the Isolated Systems Supply Cost Variance Deferral Account in 2023 are:

- Newfoundland Power Inc. (“Newfoundland Power”): \$11,589,118; and
- Hydro Rural Labrador Interconnected Customers: \$470,318.³

2.0 Isolated Systems Supply Cost Variance Deferral Account

Hydro purchases diesel fuel to supply customers in its isolated systems. Due to its nature as a commodity, the price of diesel fuel is subject to the volatility of the commodity market and is outside of Hydro’s control. As such, the Isolated Systems Supply Cost Variance Deferral Account permits Hydro to defer price variances from the approved test year related to fuel and power purchases in Hydro’s isolated systems. This deferral account does not allow for the recovery of variances as a result of changes in supply volume.

Hydro has three main supply sources for its isolated systems: (i) diesel fuel consumed in its diesel generating stations, (ii) purchases from Hydro-Québec to serve customers on the L’Anse-au-Loup System, and (iii) purchases of wind energy in the community of Ramea on the south coast of the Island.⁴

¹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 22(2017), Board of Commissioners of Public Utilities, June 14, 2017.

² Differences may exist in dollar amounts presented in this evidence as compared to the associated appendix due to rounding.

³ The Hydro Rural Labrador Interconnected customers’ portion is proposed to be written off to Hydro’s net income.

⁴ A power purchase agreement in Mary’s Harbour helps to reduce diesel consumption in that area but is not included in the 2019 Test Year.

1 Changes in the price of diesel also directly impact the purchase price that Hydro pays to serve customers
 2 on the L’Anse-au-Loup System and for wind generation supplying Ramea.

3 The Isolated Systems Supply Cost Variance Deferral Account includes a supply cost variance threshold
 4 (“Deadband”) of +/- \$500,000 per calendar year. As such, Hydro is only permitted to defer annual cost
 5 variances in excess of +/- \$500,000 resulting from price changes relative to the test year cost of supply.

6 **2.1 2023 Transfer and Proposed Allocation**

7 Table 1 summarizes the 2023 transfer to the Isolated Systems Supply Cost Variance Deferral Account.

8 Detailed calculations supporting Table 1 are included in Appendix A.

Table 1: 2023 Isolated Systems Supply Cost Variance Deferral Account Summary (\$)

	Supply Cost		
Particulars	Variations	Deadband	Net
2023 Transfer	12,559,436	500,000	12,059,436

9 In 2023, Hydro incurred \$12,559,436 more isolated system supply costs as a result of higher actual fuel
 10 prices compared to the 2019 Test Year forecast. The 2023 supply costs from all sources averaged the
 11 equivalent of 16.9¢/kWh higher than the approved 2019 Test Year price. The disposition amount, after
 12 adjusting for the Deadband of \$500,000, is approximately \$12,059,436.

13 For disposition of the Isolated Systems Supply Cost Variance Deferral Account, Hydro proposes to
 14 calculate Newfoundland Power’s portion of the 2023 transfer based on the proportion of the 2019 Test
 15 Year Rural Deficit allocated to Newfoundland Power.⁵ This allocation approach is consistent with past
 16 practice.

17 Table 2 outlines Hydro’s proposed allocation of the 2023 transfers to the Isolated Systems Supply Cost
 18 Variance Deferral Account.

⁵ Allocation is 96.1% for Newfoundland Power and 3.9% for customers on the Hydro Rural Labrador Interconnected System for the 2019 Test Year. This allocation is consistent with the historical disposition of the balance in this account. Island Industrial Customers do not have an amount owing, as they do not pay for recovery of the Rural Deficit.

Table 2: Customer Allocation of 2023 Transfers to the Isolated Systems Supply Cost Variance Deferral Account (\$)

2023 Transfer (Net of Deadband)	Newfoundland Power	Rural Labrador Interconnected Allocation
12,059,436	11,589,118	470,318

- 1 Newfoundland Power's portion of the Isolated Systems Supply Cost Variance Deferral Account is
 2 \$11,589,118 based on the 2019 Test Year Rural Deficit allocation. Hydro further proposes that the
 3 portion of the 2023 transfer to the Isolated Systems Supply Cost Variance Deferral Account allocated to
 4 Hydro Rural Labrador Interconnected customers be written off to Hydro's net income.
- 5 Table 3 provides the historical balances in the Isolated Systems Supply Cost Variance Deferral Account
 6 for disposition.

Table 3: Isolated Systems Supply Cost Variance Deferral Account Historical Balances for Disposition (\$)⁶

Year	Amount
2015	-
2016	(2,186,570)
2017	(1,106,821)
2018	1,089,319
2019	(346,657)
2020	(3,997,976)
2021	(2,510,273)
2022	9,037,722
	(21,256)

- 7 Table 3 shows that the actual average supply cost for serving isolated systems has generally been lower
 8 than the approved test year cost resulting in credit balances in the deferral account being credited to
 9 Newfoundland Power. The increase in 2022 is the result of significantly higher fuel prices compared to
 10 2021.

⁶ Net of cost variance threshold.

1 **2.2 Cost Management in Isolated Systems**

2 The definition of the Isolated Systems Supply Cost Variance Deferral Account, approved in Board
3 Order No. P.U. 22(2017), requires Hydro to provide information regarding the efforts it has made to
4 minimize costs on the isolated systems within its annual application for recovery. A summary of Hydro's
5 major initiatives is as follows:

6 **Cost Effective Renewables**

7 Hydro is actively engaged with Indigenous groups and stakeholders, with a particular focus on
8 communities served primarily by diesel-powered generation, to foster development of cost-effective
9 renewables. The standard model for such developments involve a third party developing and operating
10 the renewables, with Hydro purchasing the output at a cost below that which would be incurred to
11 generate equivalent energy in Hydro's diesel generating stations. In addition to the previously
12 developed renewable projects in Makkovik, Mary's Harbour, and Ramea, six new photovoltaic projects⁷
13 were put into service from 2022 to 2023. The new photovoltaic projects resulted in the displacement of
14 approximately 68 MWh of diesel generation in 2023. Hydro continues to work with renewable energy
15 developers to enable further renewable energy integration.

16 **Hydro-Québec Power Purchase Contract**

17 Hydro executed a new Power Purchase Agreement with Hydro-Québec for the L'Anse-au-Loup System
18 effective September 1, 2021.⁸ This agreement enables Hydro to continue to purchase surplus
19 hydroelectric energy from Hydro-Québec's Lac Robertson Plant to supply Hydro's customers in the
20 L'Anse-au-Loup area. This agreement will continue to enable Hydro to supply the majority of customer
21 load in L'Anse-au-Loup with deliveries from Hydro-Québec at 50% of the cost of diesel generation. The
22 approximate savings in 2023 were \$3.8 million relative to the cost of using diesel generation.

23 **Mary's Harbour Mini Hydro Facility**

24 The Mary's Harbour mini hydro facility began operations in September 2019. The photovoltaic and
25 battery energy storage facility began operations in November 2021. Together, they've generated

⁷ Photovoltaic projects were put into service in Hopedale, Rigolet, Nain, Postville, St. Lewis, and Black Tickle.

⁸ The previous agreement expired August 31, 2021. The new agreement shall remain in force until December 31, 2045 unless it is terminated, at any time, by one party upon date of sending a written notice to the other party at least 12 months prior to the effective termination date.

1 approximately 938 MWh in 2023, displacing diesel fuel generation. The purchase of energy from this
2 facility resulted in net savings of approximately \$40,000 in 2023.

3 **3.0 Conclusion**

4 In 2023, Hydro is proposing to transfer \$12,059,436 to the Isolated Systems Supply Cost Variance
5 Deferral Account with \$11,589,118 allocated to Newfoundland Power. The remaining \$470,318,
6 allocated to Rural Labrador Interconnected customers based on a proportion of the 2019 Test Year Rural
7 Deficit, will be written off to Hydro's net income.

8 Consistent with past practice, Hydro proposes to recover the amount attributable to Newfoundland
9 Power through a transfer to the Rate Stabilization Plan Current Plan balance effective March 31, 2024.
10 This approach would provide recovery from customers over a 12-month period, beginning July 1, 2024
11 for Newfoundland Power. If approved, Hydro will absorb approximately \$470,318 as a loss to its net
12 income. The estimated billing impact related to this application is a 1.9% increase in the wholesale rate
13 for Newfoundland Power (1.4% increase to the end consumer) on July 1, 2024.⁹

⁹ Based on 2023 Actual billing units.

Appendix A

2023 Transfer to the Isolated Systems Supply Cost Variance Deferral Account

(Unaudited)



2023 Isolated Systems Supply Cost Variance Deferral Account

Particulars	Hydro-Québec			Total ²
	Diesel	Purchases	Other ¹	
A: 2023 Actual Supply Produced and Purchased (kWh)	55,964,196	18,071,508	273,000	74,308,704
B: 2023 Actual Cost / 2023 Actual Produced and Purchased (\$/kWh) [B1 / B2]	0.51077	0.20989	0.50742	0.4376
C: 2019 Test Year Cost / 2019 Test Year Produced and Purchased (\$/kWh) [C1 / C2]	0.33300	0.13132	0.23785	0.2686
Isolated Supply Costs [A x (B-C)]				12,559,436
Cost Variance Threshold				500,000

Isolated Systems Supply Cost Variance Deferral Balance

B1: 2023 Actual Cost of No. 2 Fuel + Purchases (\$)	28,584,842	3,793,051	138,527	32,516,420
B2: 2023 Actual Supply Produced and Purchased (kWh)	55,964,196	18,071,508	273,000	74,308,704
C1: 2019 Test Year Cost of No. 2 Fuel + Purchases (\$)	18,200,175	3,348,796	164,000	21,712,971
C2: 2019 Test Year Supply Produced and Purchased (kWh)	54,655,724	25,501,800	689,500	80,847,024

¹ Other consists of purchases of wind generation at Ramea.

² Numbers may not add due to rounding.

Attachment 1

Approved Account Definition



NEWFOUNDLAND AND LABRADOR HYDRO
ISOLATED SYSTEMS SUPPLY COST VARIANCE DEFERRAL ACCOUNT

This account shall be charged or credited with the amount by which Hydro's Isolated Systems Supply Cost Variance exceeds the Supply Cost Variance Threshold in a calendar year.

The *Isolated Systems Supply Cost Variance* will be determined by the following formula:

$$A \times (B-C)$$

Where:

A = Total actual supply produced and purchased (kWh) on Hydro's isolated systems.

B = (Total actual cost of No. 2 fuel used to provide energy plus the total actual cost of purchases) divided by the total of the (actual kWh production and the actual kWh purchases) in \$/kWh.

C = (Total Test Year cost of No. 2 fuel used to provide energy plus the total Test Year cost of purchases) divided by the (total of the Test Year kWh production and the Test Year kWh purchases) in \$/kWh.

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

Disposition of any Balance in this Account

Hydro shall file an Application for the disposition of any balance in this account with the Board no later than the 31st day of March each year. This Application shall detail the proposed method of collection or refund and from which customer class(s), and the efforts made by Hydro during the year to minimize costs on the Isolated systems.

Affidavit



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

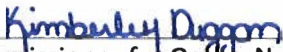
IN THE MATTER OF an application by Newfoundland and Labrador Hydro (“Hydro”) for the recovery of the 2023 balances in the Isolated Systems Supply Cost Variance Deferral Account, pursuant to Sections 70(1) and 80 of the Act (“Application”).

AFFIDAVIT

I, Dana Pope, of St. John’s in the province of Newfoundland and Labrador, make oath and say as follows:

- 1) I am Vice President, Regulatory and Stakeholder Relations (Acting) for Newfoundland and Labrador Hydro, the applicant named in the attached Application.
- 2) I have read and understand the foregoing Application.
- 3) To the best of my knowledge, information, and belief, all of the matters, facts, and things set out in this Application are true.

SWORN at St. John’s in the province of Newfoundland and Labrador this 12th day of March 2024, before me:



Commissioner for Oaths, Newfoundland and Labrador

KIMBERLEY DUGGAN
A Commissioner for Oaths in and for
the Province of Newfoundland and Labrador.
My commission expires on December 31, 2027.



Dana Pope, CPA (CA), MBA