

November 1, 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 Adjustment to Wholesale Utility Rate – Hydro's Reply

On September 16, 2024 Newfoundland and Labrador Hydro ("Hydro") filed an application with the Board of Commissioners of Public Utilities ("Board") for an Update to the Wholesale Utility Rate charged to Newfoundland Power Inc. ("Newfoundland Power"), to become effective January 1, 2025.

The application is intended to allow for a more timely update to Hydro's wholesale utility rate to reflect changes in the basis of Hydro's marginal cost in advance of its next general rate application ("GRA") filing. Updating the marginal cost of energy to reflect the opportunity cost of the market value of export sales will reduce the power purchase cost to Newfoundland Power for energy purchased in excess of 2019 Test Year quantities, thereby reducing the additional costs to be recovered through Newfoundland Power's July 1 customer rate applications. The reduction in the marginal cost of energy and therefore the second block rate will also create a benefit for customers through a reduction in the potential volatility associated with the July 1 customer rate change.

Party Comments

Newfoundland Power filed comments indicating support for Hydro's application. The Consumer Advocate, likewise, also filed comments indicating his support for the wholesale rate proposed in Hydro's application.

The Island Industrial Customer Group ("IIC Group") also filed a submission with respect to this application. The IIC Group expressed concern that the application had been made in advance of and outside of Hydro's GRA and did not address the demand rate, which will be reviewed during Hydro's upcoming GRA. As noted in its last update to the Board, Hydro continues to prepare to file its next GRA in the latter half of 2025.¹

The IIC Group expressed concern regarding an isolated adjustment to one rate design component, and referenced Hydro's response to CA-NLH-003, in particular Attachments 1 and 2 to the response. The IIC Group noted that ". . . the proposed adjustment would result in a reduction of approximately \$20 million in net revenues collected in the Supply Cost Variance Deferral Account ("SCVDA") over the 2025 and 2026 period." The IIC Group is concerned that the reduction of net revenues could be exacerbated if there were further delays to Hydro's GRA filing such that the full consideration of the rate is delayed into 2027, or if Newfoundland Power's load is higher than was forecast. The IIC Group expressed concern over uncertainty of the impact of Hydro's proposed wholesale rate adjustment on the Island Industrial

¹ "Quarterly Update – Items Impacting the Delay of Hydro's Next General Rate Application," Newfoundland and Labrador Hydro, September 26, 2024.

Customer rates, and that material reduction in net revenues could impact future rate mitigation for all customers.

Hydro notes that the proposed change in the wholesale rate will result in the same impact on the load variation component of the deferral account whether the change is implemented on January 1, 2025, as proposed, or after the conclusion of Hydro's next GRA. Below is an excerpt from part b) of Hydro's response to CA-NLH-003 of this proceeding:

Given the second block rate for Newfoundland Power is based on Hydro's marginal cost to supply the energy, the overall impact on the SCVDA would be zero, or close to zero, if the forecast marginal cost in the rate reflects actual results. Under the current rate structure, as the load increases, the additional revenue in the Load Variation – Utility component of the SCVDA is offset by additional fuel costs. Under the proposed rate structure, the additional revenue in the Load Variation – Utility component of the SCVDA will be offset by reduced export sales in the Net Revenue from Exports Variance component of the SCVDA.

As explained in Hydro's response, while the Load Variation – Utility component will change as a result of the change in the second block rate, the overall impact on the SCVDA will be zero or close to zero given there will be an offset in the export sales value included in the SCVDA. This is demonstrated in CA-NLH-003, Attachments 1 and 2 and is very similar to the relationship between the Load Variation – Utility component and fuel costs under the current rate structure. Therefore, there is no anticipated adverse impact to Hydro's customers as a result of the proposed change in the second block rate.

The IIC Group also expressed concern regarding the isolated adjustment to one rate design component given forecast increase in the marginal cost of capacity on the Island Interconnected System and the risk that this change could send price signals to customers which are inconsistent with conservation and demand management and rate mitigation objectives.

Hydro agrees with the IIC Group that the marginal cost of capacity is a significant issue facing the Island Interconnected System; that issue will be considered in Hydro's next GRA as part of Hydro's review of the demand rate for all customers, along with the embedded demand costs, to determine proposed changes in demand rates. Hydro is proposing to update the marginal cost of energy underlying the second block rate in advance of its GRA in order to create a benefit to customers through the avoidance of a 2.9% rate impact on July 1, 2026 and the reduction in potential volatility associated with the July 1 customer rate change thereafter.

The proposed second block rate of 9.698¢ per kWh for the winter period and 3.354¢ per kWh for the non-winter period, with the existing demand rate, sends a price signal to customers that it is more expensive to add load during the winter period. The price differential during the winter period is consistent with conservation and demand management and rate mitigation objectives.

Rate changes in between GRA filings, without updating the demand rate, are not historically unusual. The introduction of the Project Cost Recovery Rider was approved in 2022, and rate adjustments resulting from the Rate Stabilization Plan are approved annually. Hydro's consultation with Christensen Associates Energy Consulting ("CA Energy") found that frequent updates to tariff rates are commonly accepted in regulatory practice. CA Energy notes that more frequent updates to rates can reduce balances which may build up over time in deferral accounts.²

² Application for Adjustment to Wholesale Utility Rate," Newfoundland and Labrador Hydro, rev. September 25, 2024 (originally filed September 16, 2024) sch. 1, att. 1, sec. III, p. 5.

A change in the demand rate will impact both Newfoundland Power and the IIC Group and is not being proposed in this application. Any proposed changes to the demand rates are best addressed in the GRA when the cost of service is updated incorporating the Muskrat Falls Project costs. The methodology for calculating the marginal cost of energy reflecting the opportunity cost of the market value of exports is consistent with the 2018 and 2021 updates filed with the Board to inform of the marginal costs on the Island Interconnected System. The methodology for calculating the marginal cost of energy is known, without the completion of a cost of service for an updated test year, and the update to the second block energy charge for Newfoundland Power can occur in advance of the next GRA to more accurately reflect Hydro's marginal cost of energy and provide the noted benefits to customers.

No comments were received from any other parties.

Conclusion

As noted in Hydro's application, approval by the Board of Hydro's proposals will ensure the utilization of the appropriate basis for Hydro's marginal cost of energy and will create a benefit for customers through a reduction in the volatility associated with the July 1 customer rate change related to the marginal cost of energy rate. Hydro respectfully requests that its application be approved as submitted.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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Encl.

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