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March 3, 2025

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 Approval of the Disposition of Balances within the Hydraulic Resources Optimization Deferral Account

Please find enclosed Newfoundland and Labrador Hydro's ("Hydro") application for approval of the disposition of the Balance of the Hydraulic Resources Optimization Deferral Account ("Deferral Account") as of December 31, 2023.

In the Board of Commissioners of Public Utilities' ("Board") Order No. P.U. 49(2018), the Board approved a Pilot Agreement for the Optimization of Hydraulic Resources ("Pilot Agreement") between Hydro and Nalcor Energy Marketing, the definition of the Deferral Account, and modifications to the existing Rate Stabilization Plan rules.

The approved Pilot Agreement provided for Hydro to track and hold the financial net gains resulting from Pondering and the sale of Spill Energy in the Deferral Account.

Hydro is seeking approval to transfer the balance of \$5,711,673 in the Deferral Account, the total value realized over the period 2018 to 2023, to the Net Revenue from Exports component of the Supply Cost Variance Deferral Account. If approved, this transfer will result in a credit to the Supply Cost Variance Deferral Account, thereby reducing the balance owing from customers.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

A handwritten signature in blue ink, appearing to read "Shirley A. Walsh", written over a horizontal line.

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

Encl.

Ecc:

Jo-Anne Galarneau
Board of Commissioners of Public Utilities

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Board of Commissioners of Public Utilities

Jacqui H. Glynn
Board General

Consumer Advocate

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Glen G. Seaborn, Poole Althouse

Disposition of Balances within the Hydraulic Resources Optimization Deferral Account

March 3, 2025

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 disposition of balances within the Hydraulic Resources Optimization Deferral Account (“*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 is a corporation continued and existing under the *Hydro Corporation Act, 2024*, is a public utility within the meaning of the *Act*, and is subject to the provisions of the *EPCA*.
2. The definition of the Deferral Account was approved by the Board in Order No. P.U. 49(2018).
3. In Board Order No. P.U. 49(2018), the Board also approved the Pilot Agreement for the Optimization of Hydraulic Resources (“*Pilot Agreement*”). In subsequent filings, Hydro applied for extensions to the Pilot Agreement, which were granted in Order No. P.U. 38(2020), Order No. P.U. 31(2021), Order No. P.U. 35(2022), Order No. P.U. 30(2023), and Order No. P.U. 29(2024).
4. The extensions of the Pilot Agreement enable Hydro to continue to capture opportunities to create value for its customers from ponding and the sale of spill energy on a pilot basis, while considering what future agreements may be necessary.
5. The Deferral Account allows Hydro the opportunity to hold and track revenues from its Ponding and Spill activities.

B. Application

6. The balance of the Deferral Account for the period 2018 to 2023 is \$5,711,673 in deferred revenues. The balance in the Deferral Account was calculated in accordance with the definitions approved by the Board in Order No. PU 49(2018); the approved definition is provided in Schedule 1, Attachment 1. Hydro files a "Ponding and Spill Financial Results" report monthly with the Board for the month prior.
7. Hydro proposes to transfer the deferred balances to the Net Revenue from Exports component within the Supply Cost Variance Deferral Account ("SCVDA"), reducing the balance owing from customers. Schedule 1 to this Application provides further evidence to support Hydro's proposal.

C. Newfoundland and Labrador Hydro's Request

8. Hydro requests the Board approve the transfer, from the Deferral Account, of a credit of \$5,711,673 to the Net Revenue from Exports component within the SCVDA.

D. Communications

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

DATED at St. John's in the province of Newfoundland and Labrador on this 3rd day of March 2025.

NEWFOUNDLAND AND LABRADOR HYDRO

Shirley A. Walsh
Counsel for the Applicant
Newfoundland and Labrador Hydro,
500 Columbus Drive, P.O. Box 12400
St. John's, NL A1B 4K7
Telephone: (709) 685-4973

Schedule 1

Application for Approval of the Disposition of Balances
within the Hydraulic Resources Optimization Deferral
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1.0 Background

On August 23, 2018, Newfoundland and Labrador Hydro (“Hydro”) filed an application with the Board of Commissioners of Public Utilities (“Board”) for approval of a Pilot Agreement for the Optimization of Hydraulic Resources (“Pilot Agreement”), a Hydraulic Resources Optimization Deferral Account (“Deferral Account”), and revised Rate Stabilization Plan (“RSP”) rules (“Pilot Agreement Application”).

Hydro had entered into a power purchase agreement with Nalcor Energy Marketing (“Energy Marketing”) for the purchase of energy from external markets with an aim to improve reliability and provide lower cost supply to customers of the Island Interconnected System. The Pilot Agreement Application stated that the availability of the Maritime Link and the Labrador-Island Link provides the opportunity for Hydro and Energy Marketing to undertake ponding¹ to create additional value for customers through the use of Hydro's reservoirs.

As noted in the Pilot Agreement Application, the availability of the Maritime Link and the Labrador-Island Link provides an opportunity to sell spill energy, which is excess energy from the Island Interconnected System to Energy Marketing which that otherwise would be spilled. Energy Marketing, in turn, can sell such excess energy to external markets to generate additional revenues. The sales of such energy will have no impact on Hydro’s ability to meet customers’ load requirements nor will it take precedence over Hydro’s commitment to the provision of reliable service.

The Pilot Agreement was approved in Board Order No. P.U. 49(2018), with a term that would expire on the earlier of December 31, 2020 or upon execution and approval by the Board of the longer-term agreement for the optimization of hydraulic resources (“Final Agreement”).² Since the approval of the Pilot Agreement, Hydro and Energy Marketing have worked together to create net gains that will benefit Hydro’s customers. Hydro is now continuing its consideration of the nature of the appropriate replacement agreement(s). The Pilot Agreement includes a provision to ensure there will be no cumulative change in Hydro’s production as a result of ponding activities at the conclusion of the Pilot Agreement. The Pilot Agreement also provides that

¹ Ponding refers to the purchase and import of low cost energy from off-island sources and the export and sale of an offsetting amount of energy at another time when market prices are higher relative to when the import occurred.

² Hydro subsequently applied for extensions to the Pilot Agreement, which were granted in Order No. P.U. 38(2020), Order No. P.U. 31(2021), Order No. P.U. 35(2022), Order No. P.U. 30(2023), and Order No. P.U. 29(2024).

Schedule 1: Application for Approval of the Disposition of Balances within the Hydraulic Resources Optimization Deferral Account

1 Energy Marketing shall bear all financial responsibility and risk in the event that a net gain fails to materialize
2 from ponding activities.

3 The Pilot Agreement Application also proposed the establishment of a Deferral Account and modifications to
4 the RSP rules to appropriately reflect the realization and disposition of net profits from ponding and to
5 ensure that the amount of hydraulic generation dispatched to sell spill energy to Energy Marketing is
6 properly excluded from the calculation of Holyrood fuel costs to be recovered via the RSP.

7 The Pilot Agreement provides for Hydro to track and hold the financial net gains resulting from ponding and
8 the sale of spill energy in the Deferral Account and that Hydro would file a separate application to the Board
9 for approval of the allocation of the net gains between Hydro and Energy Marketing. The Pilot Agreement
10 also provides that should there be a negative balance in the Deferral Account upon termination of the Pilot
11 Agreement, Energy Marketing would reimburse Hydro for the negative amount in the Deferral Account that
12 was attributable to ponding.

13 The definition of the Deferral Account was also approved in Board Order No. P.U. 49(2018); the approved
14 Deferral Account definition is included in Attachment 1.

15 Hydro is now seeking approval to transfer the total balance that has accumulated in the Deferral Account as
16 of December 31, 2023 to the Supply Cost Variance Deferral Account (“SCVDA”) – Net Revenue from Exports
17 component to reduce the balance owing from customers. Balances accumulated after December 31, 2023
18 will be held within the Deferral Account, and a subsequent application will be made to dispose of those
19 balances. Transactions related to 2024 are not yet finalized, and have been excluded from this application.

20 Hydro’s proposed approach for the disposition of deferred revenue totalling \$5,711,673, is described below,
21 including details of the annual activity and amounts included in the Deferral Account. The balance activity for
22 the Deferral Account is included in Table 1.

23 The extension of the Third Amended and Restated Pilot Agreement for the Optimization of Hydraulic
24 Resources to December 31, 2025 enables Hydro to continue to capture opportunities to create value for its
25 customers from ponding and the sale of spill energy on a pilot basis, while considering what future
26 agreements may be necessary.

2.0 Hydraulic Resource Optimization Deferral Account

The Deferral Account appropriately reflects the realization of net profits from ponding. The Pilot Agreement provides for Hydro to track and hold the financial net gains resulting from ponding and the sale of spill energy in the Deferral Account. The activity and proceeds from ponding and spill activity from 2018 to 2023 is summarized below.

2.1 Ponding Activities and Spill Avoidance

2.1.1 2018 Activities

Ponding

In 2018 a total of 2.0 GWh was ponded. On December 21, 2018, pursuant to the approved Pilot Agreement, Hydro elected to purchase the 2.0 GWh of ponded energy for use by its customers. At that time, Hydro required additional energy for water management purposes and the cost of the ponded energy was below current market pricing. As such, the ponded energy met the standard of least cost; therefore, Hydro elected to use that ponded energy.

At the end of 2018, the balance of ponded energy was 0.0 GWh.

2.1.2 2019 Activities

Ponding

Through 2019, Energy Marketing imported 15.9 GWh of energy from markets when prices were below average, and sold a portion of these imports.³ The sales of ponded energy were either made to Hydro at cost or sold to external markets, resulting in a net profit of \$0.3 million being added to the Deferral Account.

On September 3, 2019, Hydro elected to purchase 2.6 GWh of ponded energy for use by its customers. At that time, Hydro's energy in storage was below established minimum storage limits and Hydro required additional energy to support its hydraulic energy in storage in advance of the winter. Hydro elected to purchase the balance of ponded energy as the cost of the ponded energy was below the current market pricing and significantly below the cost of island thermal generation that would have been required to supply this energy had ponded energy or imports not been available.

³ On June 23, 2019, 1.2 GWh of ponded energy was recorded as spilled.

1 At the end of 2019, the balance of ponded energy was 3.2 GWh.

2 **Spill Avoidance**

3 In 2019, Energy Marketing sold power under Hydro’s direction to external markets to avoid spill from Island
4 Interconnected System reservoirs (“Spill Export Revenue”).⁴ This activity resulted in sales of 2.9 GWh, and
5 provided a net benefit of \$0.1 million to customers, which was reflected in the Deferral Account.

6 The cumulative net profit held in the Deferral Account was \$0.3⁵ million.

7 **2.1.3 2020 Activities**

8 **Ponding**

9 Through 2020, Energy Marketing imported 16.7 GWh of energy from markets when prices were below
10 average, and sold a portion of these imports. The sales of ponded energy were either made to Hydro at cost,
11 or sold to external markets resulting in a net profit of \$0.7 million being added to the Deferral Account during
12 2020.

13 During 2020, Hydro elected to purchase 4.1 GWh of ponded energy for use by its customers as the cost of
14 ponded energy was below the current market pricing and significantly below the cost of island thermal
15 generation that would have been required to supply this energy had ponded energy or imports not been
16 available.

17 At the end of 2020, the balance of ponded energy was -0.4 GWh.

⁴ Spill Export Revenue is the revenue from the sale of spill energy to Energy Marketing in order to avoid the spill of water from Hydro’s reservoirs.

⁵ 2019 net profits may not add due to rounding

1 **Spill Avoidance**

2 In 2020, Energy Marketing sold power under Hydro’s direction to external markets to avoid spill from Island
3 Interconnected System Reservoirs. This activity avoided spilled energy, resulted in sales of 11.1 GWh, and
4 provided a net benefit of \$0.3 million to customers which was reflected in the Deferral Account.

5 The cumulative net profit held in the Deferral Account was \$1.3 million.⁶

6 **2.1.4 2021 Activities**

7 **Ponding**

8 Through 2021, Energy Marketing imported 1.0 GWh of energy from markets when prices were below
9 average, and sold 12.7 GWh of energy when prices were above average. Prior to exporting energy to avoid
10 spill, Hydro assumed the negative ponding balance of 6.7 GWh⁷ from prior ponding exports as spill exports,
11 bringing the ponded balance to 0.0 GWh during the first week of May. The sales of ponded energy, excluding
12 the 6.7 GWh transferred to spill exports, resulted in a net profit of \$0.5 million being added to the Deferral
13 Account.

14 At the end of 2021, the balance of ponded energy was -5.4 GWh.⁸

15 **Spill Avoidance**

16 In 2021 Energy Marketing sold power under Hydro’s direction to external markets to avoid spill from Island
17 Interconnected System reservoirs. This activity resulted in sales of 24.0 GWh,⁹ and provided a net benefit of
18 \$0.8 million to customers which was reflected in the Deferral Account.

19 The cumulative net profit held in the Deferral Account was \$2.5 million.¹⁰

⁶ 2020 net profits may not add due to rounding

⁷ Hydrology levels allowed energy to be sold during favourable market conditions to be replaced with the purchase of lower cost energy at a later time.

⁸ Opening balance 2021 + 2021 Purchases + 2021 Transfer to Spill Exports – 2021 Exports = -0.4 + 1.0 + 6.7 - 12.7 = -5.4 GWh.

⁹ Includes 6.7 GWh transferred from ponded energy that provided a net benefit of \$0.5 million.

¹⁰ 2021 net profits may not add due to rounding

1 **2.1.5 2022 Activities**

2 **Ponding**

3 Through 2022, Energy Marketing exported approximately 19.5 GWh of ponded energy on behalf of Hydro.
4 Hydro transferred 15.1 GWh of prior ponded exports to spill exports in 2022.¹¹ The sales of ponded energy,
5 excluding the 15.1 GWh transferred to spill exports, resulted in a net profit of \$0.8 million, which was then
6 added to the Deferral Account.

7 At the end of 2022 the balance of ponded energy was -9.8 GWh.¹²

8 **Spill Avoidance**

9 In 2022, Energy Marketing sold power under Hydro’s direction to external markets to avoid spills from Island
10 Interconnected System reservoirs. This activity resulted in sales of about 25.7 GWh,¹³ and provided a net
11 benefit of \$2.3 million¹⁴ to customers, which was reflected in the Deferral Account in 2022.

12 The cumulative net profit held in the Deferral Account was \$5.7 million.

13 **2.1.6 2023 Activities**

14 **Ponding**

15 In January 2023, Hydro assumed the 2022 year end balance as spill exports. There were no ponding activities
16 during 2023.

17 At the end of 2023 the balance of ponded energy was 0.0 GWh and the cumulative net profit held in the
18 Deferral Account was \$5.7 million.

¹¹ The ponding balance of -15.1 GWh from prior ponding export was reallocated as spill exports. Hydrology levels allowed energy sold during favourable market conditions to be replaced with the purchase of lower cost energy at a later date.

¹² Opening balance 2022 + 2022 Transfer to Spill Exports – 2022 Exports = -5.4 + 15.1 – 19.5 = -9.8 GWh.

Export sales remove ponded energy from the cumulative balance and import purchases from the market add ponded energy to the cumulative balance. Transfers of export sales also have a positive impact on the ponded energy balance. The negative balance at the end of 2022 is a reflection of more export sales than import activities during the year along with the transfer of ponded energy sales to spill avoidance.

¹³ Includes 15.1 GWh transferred from ponded energy that provided a net benefit of \$1.6 million.

¹⁴ 2022 net profits may not add due to rounding.

1 **2.1.7 Summary**

2 Table 1 summarizes the balance in the Hydraulic Resources Optimization Deferral Account over the period
3 2018 to 2023.

Table 1: Deferral Account Balance Summary (\$) ¹⁵

Year	Activity (\$)	Balance (\$)
2018	--	--
2019	272,369	272,369
2020	995,270	1,267,639
2021	1,279,931	2,547,570
2022	3,164,103	5,711,673
2023	--	5,711,673

4 **3.0 Conclusion**

5 Hydro is proposing to transfer \$5,711,673, the total value realized from ponding activities from 2018 to 2023,
6 from the Deferral Account to the Net Revenue from Exports component of the SCVDA to reduce the balance
7 owing from customers.

¹⁵ In 2024, Energy Marketing exclusively engaged in the export of energy to the external market as part of its ponding operations. The ponding operations comprise 170 MWh of spill exports and 4,774 MWh of ponding exports. The accumulated balance as of December 31, 2024 was approximately -4.77 GWh and \$130,567. Activity related to the 2024 transactions is not finalized and is excluded from disposition at this time.

Attachment 1

Approved Account Definition



Newfoundland and Labrador Hydro
Hydraulic Resources Optimization Deferral Account

This account shall be charged and credited with the monthly revenues and costs associated with hydraulic optimization activities. The Hydraulic Resources Optimization Deferral Account shall be calculated by the following formula, in dollars:

$$\text{Monthly Transfer} = \text{Net Pondering Revenue} + \text{Spill Export Revenue}$$

Net Pondering Revenue is the net effect of all pondering activities and is calculated as follows:

$$\text{Net Pondering Revenue} = A - B + C + D$$

A = Pondering Exports (Hydro's revenues from the sale of pondering energy to Nalcor Energy Marketing ("Energy Marketing")). These revenues shall be calculated net of all transmission losses and Actual Net Costs¹ incurred by Energy Marketing in selling Pondering Exports into external markets.

B = Pondering Imports (Hydro's costs of purchasing pondering energy from Energy Marketing). These costs shall include the electricity purchases costs paid by Energy Marketing, including all transmission losses, and Actual Net Costs incurred by Energy Marketing in purchasing Pondering Imports.

C = Pondering Spill (Reimbursement by Energy Marketing to Hydro for the cost of Pondering Imports that are spilled, if applicable). Should Pondering Spill occur, Energy Marketing will reimburse Hydro on a last-in/first-out basis as the most recently purchased Pondering Imports will be assumed to be spilled first.

D = Cost of Pondering Imports used to serve Hydro's customers, if applicable. The unit cost of Pondering Imports used to serve Hydro's customers will be based on the average cost of all Pondering Imports in Hydro's reservoirs at the time Pondering Imports are used by Hydro.

Spill Export Revenue is the revenue from the sale of spill energy to Energy Marketing in order to avoid the spill of water from Hydro's reservoirs and is calculated as follows:

Spill Export Revenue = Hydro's revenues from the sale of Spill Energy, net of all transmission losses and Actual Net Costs incurred by Energy Marketing in selling Spill Energy into external markets.

Disposition of any Balance in this Account

Hydro will file a separate application for the Board's approval of the disposition of any balance in the Hydraulic Resources Optimization Deferral Account.

¹ As defined in the Pilot Agreement for Optimization of Hydraulic Resources

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 for the disposition of balances within the Hydraulic Resources Optimization 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 Affairs and Stakeholder Relations 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 3rd day of March 2025, before me:



Commissioner for Oaths, Newfoundland and Labrador



Dana Pope, CPA (CA), MBA

RENEE REARDON
A Commissioner for Oaths in and for
the Province of Newfoundland and Labrador.
My commission expires on December 31, 2029.