Newfoundland and Labrador Hydro
Hydro Place. 500 Columbus Drive
P.O. Box 12400. St. John's. NL
Canada A1B 4K7
t. 709.737.1400 I f. 709.737.1800
nlhydro.com

March 12, 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 the Recovery of Deferred 2024 Isolated Systems Supply Costs

Please find enclosed Newfoundland and Labrador Hydro's ("Hydro") application for approval to recover the deferred 2024 Isolated Systems Supply Costs ("Application").

In the Board of Commissioners of Public Utilities ("Board") Order No. P.U. 22(2017), 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.[1] 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.[2]

Hydro is seeking approval of the proposed allocation of the 2024 costs in the Isolated Systems Supply Cost Variance Deferral Account, totaling approximately $6.7 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), P.U. 21(2019), P.U. 13(2020), P.U. 15(2021), P.U. 16(2022), and P.U. 7(2023), respectively.

Hydro proposes to recover the 2024 costs in the Isolated Systems Supply Cost Variance Deferral Account through a transfer of approximately $6.5 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, 2025 for Newfoundland Power. The amount allocated to the Hydro Rural Labrador Interconnected customers of approximately $0.2 million would be debited to Hydro's net income.

[1] "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.
[2] Hydro will file its 2024 Report on the Rural Deficit with its 2024 Annual Return by April 1, 2025 as there are inputs necessary for that report that are not available in sufficient time to include the report with this Application.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

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

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
Douglas W. Wright
Regulatory Email

Teck Resources Limited
Shawn Kinsella

Island Industrial Customer Group
Paul L. Coxworthy, Stewart McKelvey
Denis J. Fleming, Cox & Palmer
Glen G. Seaborn, Poole Althouse

Application for the Recovery of Deferred 2024 Isolated Systems Supply Costs

March 12, 2025

An application to the Board of Commissioners of Public Utilities

newfoundland labrador hydro

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 2024 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*, *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 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).

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.

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 2024 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 2024 Deferred Supply Costs

7. Hydro seeks approval of the disposition of $6,725,263 in 2024 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 2024 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 $6,462,978, and the remaining $262,285 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 2024 Isolated Systems Supply Cost Variance Deferral Account to the respective RSP Current Plan balance for Newfoundland Power as of March 31, 2025. If approved, this proposal will result in the recovery of the 2024 deferred supply costs through the RSP Current Plan adjustment starting July 1, 2025 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 *Act* approving:

    i) A 2024 debit transfer of $6,725,263 to the Isolated Systems Supply Cost Variance Deferral Account; and

    ii) The transfer, effective March 31, 2025, from the Isolated Systems Supply Cost Variance Deferral Account, of a debit of $6,462,978 to the Newfoundland Power RSP Current Plan balance, and the $262,285 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 permits Hydro to recover prudently incurred supply costs consistent with Section 70(1) of the *Act.*

E. Communications

13. 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, this 12th 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

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1.0 Background

In Order No. P.U. 22(2017), 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 applied in computing the deferred supply costs in 2024 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.

The following provides Hydro's proposed approach for recovery of the deferred 2024 isolated systems supply costs, totalling approximately $6.7 million,[1] the proposed approach for allocation by customer class, and 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 $6,725,263 transferred to the Isolated Systems Supply Cost Variance Deferral Account in 2024 are:

- Newfoundland Power Inc. ("Newfoundland Power"): $6,462,978; and
- Hydro Rural Labrador Interconnected Customers: $262,285.[2]

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.[3]

[1] Differences may exist in dollar amounts presented in this evidence as compared to the associated appendix due to rounding.
[2] The Hydro Rural Labrador Interconnected customers' portion is proposed to be written off to Hydro's net income.
[3] 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. Singular Photovoltic projects were put in-service between 2022 and 2024 in Hopedale, Rigolet, Nain, Postville, Black Tickle and Port Hope Simpson, with two in St. Lewis, which also reduce diesel consumption.

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

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

2.1 2024 Transfer and Proposed Allocation

Table 1 summarizes the 2024 transfer to the Isolated Systems Supply Cost Variance Deferral Account. Detailed calculations supporting Table 1 are included in Appendix A.

Table 1: 2024 Isolated Systems Supply Cost Variance Deferral Account Summary ($)

Particulars	Supply Cost Variances	Deadband	Net
2024 Transfer	7,225,263	500,000	6,725,263

In 2024, Hydro incurred $7,225,263 more isolated system supply costs as a result of higher actual fuel prices compared to the 2019 Test Year forecast. The 2024 supply costs from all sources averaged the equivalent of 9.85¢/kWh higher than the approved 2019 Test Year price. The disposition amount, after adjusting for the Deadband of $500,000, is approximately $6,725,263.

For disposition of the Isolated Systems Supply Cost Variance Deferral Account, Hydro proposes to calculate Newfoundland Power's portion of the 2024 transfer based on the proportion of the 2019 Test Year Rural Deficit allocated to Newfoundland Power.[4] This allocation approach is consistent with past practice.

Table 2 outlines Hydro's proposed allocation of the 2024 transfers to the Isolated Systems Supply Cost Variance Deferral Account.

[4] 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 2024 Transfers to the Isolated Systems Supply Cost Variance Deferral Account ($)

2024 Transfer (Net of Deadband)	Newfoundland Power	Rural Labrador Interconnected Allocation
6,725,263	6,462,978	262,285

Newfoundland Power's portion of the Isolated Systems Supply Cost Variance Deferral Account is $6,462,978 based on the 2019 Test Year Rural Deficit allocation. Hydro further proposes that the portion of the 2024 transfer to the Isolated Systems Supply Cost Variance Deferral Account allocated to Hydro Rural Labrador Interconnected customers be written off to Hydro's net income.

Table 3 provides the historical balances in the Isolated Systems Supply Cost Variance Deferral Account for disposition.

Table 3: Isolated Systems Supply Cost Variance Deferral Account Historical Balances for Disposition ($)[5]

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
2023	12,059,436
	12,038,180

Table 3 shows that the actual average supply cost for serving isolated systems was lower than the approved test year cost from 2016 to 2021, with the exception of 2018, resulting in credit balances in the deferral account being credited to Newfoundland Power. The increase in 2022 and 2023 is the result of significantly higher fuel prices compared to previous years.

[5] Net of cost variance threshold.

2.2 Cost Management in Isolated Systems

The definition of the Isolated Systems Supply Cost Variance Deferral Account, approved in Board Order No. P.U. 22(2017), requires Hydro to provide information regarding the efforts it has made to minimize costs on the isolated systems within its annual application for recovery. Additional information on Hydro's efforts to minimize costs in isolated systems will be provided in the Rural Deficit Report, scheduled to be filed with the Board on April 1, 2025. A summary of Hydro's major initiatives is as follows:

Cost Effective Renewables

Hydro is actively engaged with Indigenous groups and stakeholders, with a particular focus on communities served primarily by diesel-powered generation, to foster development of cost-effective renewables. The standard model for such developments involve a third party developing and operating the renewables, with Hydro purchasing the output at a cost below that which would be incurred to generate equivalent energy in Hydro's diesel generating stations. In addition to the previously developed renewable projects in Makkovik, Mary's Harbour, and Ramea, eight new photovoltaic projects were put into service in 2022 to 2024. The photovoltaic projects resulted in the displacement of approximately 117 MWh of diesel generation in 2024. Hydro continues to work with renewable energy developers to enable further renewable energy integration.

Hydro-Québec Power Purchase Contract

Hydro executed a new Power Purchase Agreement with Hydro-Québec for the L'Anse-au-Loup System effective September 1, 2021.[6] This agreement enables Hydro to continue to purchase surplus hydroelectric energy from Hydro-Québec's Lac Robertson Plant to supply Hydro's customers in the L'Anse-au-Loup area. This agreement will continue to enable Hydro to supply the majority of customer load in L'Anse-au-Loup with deliveries from Hydro-Québec at 50% of the cost of diesel generation. The approximate savings in 2024 were $4.2 million relative to the cost of using diesel generation.

[6] 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.

Mary's Harbour Mini Hydro Facility

The Mary's Harbour mini-hydro facility began operations in September 2019. The photovoltaic and battery energy storage facility began operations in November 2021. Together, they've generated approximately 965 MWh in 2024, displacing diesel fuel generation. The purchase of energy from this facility resulted in net savings of approximately $37,000 in 2024.

3.0 Conclusion

In 2024, Hydro is proposing to transfer $6,725,263 to the Isolated Systems Supply Cost Variance Deferral Account with $6,462,978 allocated to Newfoundland Power. The remaining $262,285, allocated to Rural Labrador Interconnected customers based on the 2019 Test Year Rural Deficit allocation, will be written off to Hydro's net income.

Consistent with past practice, Hydro proposes to recover the amount attributable to Newfoundland Power through a transfer to the Rate Stabilization Plan Current Plan balance effective March 31, 2025. This approach would provide recovery from customers over a 12-month period, beginning July 1, 2025 for Newfoundland Power. If approved, Hydro will absorb approximately $262,285 as a loss to its net income. The estimated billing impact related to this application is a 1.1% increase in the wholesale rate for Newfoundland Power (0.9% increase to the end consumer) on July 1, 2025.[7] This impact is prior to updating the project cost recovery rider on July 1, 2025, which will ensure the overall impact on Domestic customer rates does not exceed 2.25%, in accordance with the Government of Newfoundland and Labrador's rate mitigation plan.[8]

[7] Based on 2024 Actual billing units.
[8] Order in Council OC 2024-062, Government of Newfoundland and Labrador, May 7, 2024.

Appendix A

2024 Transfer to the Isolated Systems Supply Cost Variance Deferral Account

(Unaudited)

2024 Isolated Systems Supply Cost Variance Deferral Account

Particulars	Diesel	Hydro-Québec Purchases	Other[1]	Total[2]
A: 2024 Actual Supply Produced and Purchased (kWh)	50,154,146	22,968,072	171,360	73,293,578
B: 2024 Actual Cost / 2024 Actual Produced and Purchased ($/kWh) [B1 / B2]	0.45195	0.18195	0.37077	0.3671
C: 2019 Test Year Cost / 2019 Test Year Produced and Purchased ($/kWh) [C1 / C2]	0.33300	0.13132	0.23785	0.2686
Isolated Supply Costs [A x (B-C)]				7,225,263
Cost Variance Threshold				500,000
Isolated Systems Supply Cost Variance Deferral Balance				**6,725,263**
B1: 2024 Actual Cost of No. 2 Fuel + Purchases ($)	22,667,088	4,178,994	63,534	26,909,616
B2: 2024 Actual Supply Produced and Purchased (kWh)	50,154,146	22,968,072	171,360	73,293,578
C1: 2019 Test Year Cost of No. 2 Fuel + Purchases ($)	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 x (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 ±$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 for the recovery of the 2024 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 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 12th day of March 2025, before me:

Kimberley Duggan
Commissioner for Oaths, Newfoundland and Labrador

DPope
Dana Pope, CPA (CA), MBA

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