

August 24, 2021

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

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Dear Ms. Blundon:

Re: 2022/2023 General Rate Application

1. Background

Pursuant to Order No. P.U. 2 (2019), Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) filed its 2022/2023 general rate application (the “Application”) with the Board on May 27, 2021. The Board established a schedule in respect of the Application, with a first round of Requests for Information (“RFIs”) to be filed by August 2, 2021 and replies to the RFIs to be filed by August 23, 2021.

Requests for Information were issued by the Board on July 29, 2021 and by each of the Consumer Advocate and Newfoundland and Labrador Hydro on August 2, 2021.

Late in the process of responding to the RFIs, the Company identified an error in its application of depreciation rates to certain assets not yet in service. Details on the error and a description of the impact to the Application are provided below.

2. The Depreciation Error

In advance of filing the Application, Newfoundland Power commissioned a review of its depreciation rates, which was conducted by Gannett Fleming Valuation and Rate Consultants, LLC (“Gannett Fleming”) based on plant in service as of December 31, 2019 (the “2019 Study”).¹ The 2019 Study identified two new depreciable groups that were beyond the study period: (i) the new Customer Information System (“CIS”), expected to be in service in 2023, and (ii) assets related to electric vehicle charging stations (“EV Charging Stations”), expected to be

¹ See the 2022/2023 General Rate Application, Volume 3, Expert Evidence, Depreciation Study: Mr. John Wiedmayer.

in service in 2021. Gannett Fleming recommended an 18-year service life for the CIS and a 10-year service life for EV Charging Stations.²

In calculating the comparative depreciation rates, each of the CIS and EV Charging Stations were inadvertently included in existing depreciation functions outlined in the 2019 Study rather than being allocated new, separate, depreciation functions corresponding with the recommended service lives for these assets.³ As a result, the proposed depreciation expenses contained in the Application are a result of CIS assets being depreciated over a shorter than intended service life (10 years rather than 18) and EV Charging Stations being depreciated over a longer than intended service life (30 years rather than 10).

3. Impacts to Application Proposals

Correcting for the appropriate service lives, and therefore, depreciation rates, of CIS and EV Charging Stations results in a decrease to proposed revenue requirements of approximately \$265,000 in 2022 and \$280,000 in 2023. See Attachment A for details on the revisions to 2022 and 2023 proposed revenue requirements.

The Application proposed that the Board approve an overall average increase in Newfoundland Power's current customer rates of 0.8%. Correcting for the depreciation rates of CIS and EV Charging Stations results in a decrease of 0.05% to customer rates, or a proposed overall average increase in customer rates of approximately 0.7%.⁴

The decrease of 0.05% to proposed customer rates results in an increase of less than 1 GWh to the Company's 2022 and 2023 sales forecasts due to price elasticity effects.

4. Requested Relief

The magnitude of the error and its resulting impacts on revenue requirement, customer rates and sales forecast is small, however, the resulting revisions to the Application would be widespread. Revisions would also be widespread throughout the Company's responses to the 350 RFIs received on the Application.

² Ibid., pages I-6 - I-7.

³ Approximately \$30.6 million of CIS assets were included in the "Computer software" function, which has a service life of 10 years, and approximately \$1 million was included in "Computer hardware", which has a service life of 5 years. EV Charging Stations were included in the "Distribution" function, which has a service life of 30 years.

⁴ Difference due to impact of rounding [$0.77\% - 0.05\% = 0.72\%$]. See the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Exhibit 10*, column "F" for calculation of 0.77% [$5,611,000 \div 732,350,000 = 0.0077$, or approximately 0.8%].

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It is the Company's view that the most efficient approach to addressing the error is for Newfoundland Power to provide revised figures in its application in compliance with an order of the Board on the Application. This will ensure that the consideration of the merits of the Application can proceed in accordance with the established schedule and avoid delay associated with a revision to the Application and exhibits.

Should the Board determine that an amendment to the Application is required at this time, Newfoundland Power estimates that it would require 2-3 weeks to prepare the 1st revision of the Application, a Summary of Revisions, revised responses to RFIs filed on August 23, 2021 and a concordance of the revisions.

If you have any questions regarding the enclosed, please feel free to contact the undersigned.

Yours truly,



Lindsay Hollett
Legal Counsel

c. Shirley Walsh
Newfoundland and Labrador Hydro

Dennis Browne, QC
Consumer Advocate

Newfoundland Power Inc.

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Newfoundland Power Inc.

**Proposed Revenue Requirement Impacts Resulting from the Depreciation Error
(Preliminary Assessment)
(\$000s)**

	2022			2023		
	As Filed ¹	Changes	Revised	As Filed ¹	Changes	Revised
1 Costs						
2 Power Supply Cost	464,811	36 ²	464,847	459,924	127 ²	460,051
3 Operating Costs	67,495	-	67,495	73,226	-	73,226
4 Employee Future Benefit Costs	8,745	-	8,745	2,771	-	2,771
5 Deferred Cost Recoveries and Amortizations	(892)	(367) ³	(1,259)	444	180 ³	624
6 Depreciation	70,956	58 ⁴	71,014	75,252	(603) ⁴	74,649
7 Income Taxes	22,154	3 ⁵	22,157	24,198	3 ⁵	24,201
8	633,269	(270)	632,999	635,815	(293)	635,522
9						
10 Return on Rate Base	89,173	6 ⁵	89,179	89,844	14 ⁵	89,858
11						
12 Proposed Revenue Requirement	722,442	(264)	722,178	725,659	(279)	725,380
13						
14 Adjustments						
15 Other Revenue	(5,924)	-	(5,924)	(6,473)	-	(6,473)
16 Interest on Security Deposits	18	-	18	18	-	18
17 Energy Supply Cost Variance Adjustments	4,871	-	4,871	-	-	-
18 Demand Management Incentive Adjustments	-	-	-	-	-	-
19 Other Transfers to RSA	(6,043)	-	(6,043)	(6,401)	-	(6,401)
20	(7,078)	-	(7,078)	(12,856)	-	(12,856)
21						
22 Proposed Revenue Requirement from Rates	715,364	(264)	715,100	712,803	(279)	712,524

¹ See Volume 1, Application, Company Evidence and Exhibits, Exhibit 7 2022 and 2023 Revenue Requirements.

² Power supply costs are higher due to price elasticity effects associated with the 0.05% change in customer rates.

³ Due to the change in the 2022 Revenue Shortfall associated with the 0.05% change in customer rates.

⁴ The higher depreciation in 2022 is due to the shorter service life associated with the EV Charging Stations. The lower depreciation in 2023 is due to the longer service life associated with the CIS, partially offset by the shorter service life associated with the EV Charging Stations.

⁵ Due to changes in rate base associated with the changes in depreciation and the 2022 Revenue Shortfall noted above.