

1 **Reference: Section 4: Finance**

2

3 **Q. Volume 1, page 3-4. RSA interest in Table 3-2 indicates a significant increase from**
4 **2021F to 2022F. What is Newfoundland Power forecasting its RSA balance to be as**
5 **of March 31, 2022 and March 31, 2023 and what is contributing to the increase?**

6

7 **A.** Table 1 provides the forecast rate stabilization account (“RSA”) balances as of March 31,
8 2022 and 2023 under the Company’s existing and proposed scenarios.

Table 1:
Forecast RSA Balance¹
As of March 31st
(\$000s)

	2022	2023
Existing	(29,159)	(29,035)
Proposed	(30,185)	(9,785)

9 Forecast interest on the RSA, as shown in Table 3-2, reflects the interest calculated on the
10 monthly balance in the RSA for 2019 to 2023 under existing rates.² The increase in
11 interest owing to customers from 2019 to 2023 is due to the higher credit balances in the
12 RSA.³ These credit balances are primarily due to the normal operation of the Energy
13 Supply Cost Variance regulatory mechanism.

14

15 The Energy Supply Cost Variance identifies the change in purchased power cost that is
16 related to the difference between: (i) purchasing energy at the 2nd block energy charge in
17 the wholesale rate, which reflects marginal energy costs; and (ii) the test year energy
18 supply cost, which reflects average energy costs.⁴ The current 2nd block rate is
19 18.165¢/kWh, which reflects the cost of production at Newfoundland and Labrador
20 Hydro’s (“Hydro”) Holyrood generating station. Current customer rates reflect an
21 average supply cost rate of 7.439¢/kWh.

¹ The credit balances in the RSA reflect amounts owing to customers.

² See the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3.2.1: Revenue*, Table 3-2: Other Revenue, page 3-4.

³ For example, the average monthly credit balance in the RSA is forecast to be \$17.0 million in 2021 and \$27.2 million in 2022 under existing rates.

⁴ See Newfoundland Power’s *Rate Stabilization Clause*, effective July 1, 2021. The Energy Supply Cost Variance Reserve was approved in Order No. P.U. 32 (2007) and for continued use in Order No. P.U. 43 (2009). Test year energy supply costs are reflected in customer rates.

1 The difference of 10.726¢/kWh,⁵ coupled with the decline in energy sales experienced
2 since the Company's last general rate application has resulted in larger energy supply
3 cost variances being transferred to the RSA as compared to previous years.⁶
4

5 See *Section 2.3 Energy Supply Cost Variance Clause* of the *Supply Cost Mechanisms*
6 *Report* filed as Attachment A to response to Request for Information PUB-NP-041 for
7 further information on the operation of the Energy Supply Cost Variance.
8

9 As part of the Company's 2022/2023 *General Rate Application*, forecast supply costs
10 will be reconciled with forecast revenue from energy sales during the test period. As a
11 result of the rebalancing of 2022 and 2023 supply costs, the forecast credit balance in the
12 RSA is forecast to decrease under proposed rates.⁷
13

14 Changes in supply cost dynamics post-Muskrat Falls may also impact the amount of the
15 energy supply cost variances in 2022 and 2023. Marginal energy costs are forecast to be
16 substantially lower upon commissioning of the Muskrat Falls Project. For example, the
17 latest marginal cost estimates from Hydro indicate a marginal energy rate of
18 approximately 4.2 ¢/kWh, which is significantly less than the 18.165¢/kWh reflected in
19 current customer rates.⁸
20

21 RSA transfers in 2022 and 2023 will ultimately depend on the energy variances from the
22 2022 and 2023 test years and the wholesale rate in effect in those years.

⁵ 18.165¢/kWh - 7.439¢/kWh = 10.726¢/kWh.

⁶ For example, due to lower energy sales in 2020, Newfoundland Power purchased 5,604.309 GWh from Hydro, or 199.891 GWh less than the 2020 test year forecast of 5,804.200 GWh. The Energy Supply Cost Variance transfer to the RSA on December 31, 2020 was therefore \$21.4 million [199.891 GWh x 10.726¢/kWh].

⁷ For example, as energy sales and purchases would be rebalanced under proposed customer rates, there would be no forecast Energy Supply Cost Variance in 2023.

⁸ See, for example, the 2022/2023 *General Rate Application, Volume 2, Supporting Materials, Tab 7, Electrification, Conservation and Demand Management Plan: 2021-2025*, page 3 and Schedule H.