

1 **Q. In 2022, Newfoundland and Labrador Hydro (“Hydro”) advised the Board of**
 2 **Commissioners of Public Utilities (“Board”) that, without intervention, the rate**
 3 **increase for the Island Industrial Customers through the annual Rate Stabilization**
 4 **Plan (“RSP”) Adjustment would be approximately 23.6% due to the RSP Current**
 5 **Plan balance and the elimination of the RSP Fuel Rider. Hydro, in consultations**
 6 **with the Island Industrial Customers, filed a proposal with the Board that would**
 7 **materially reduce the rate increase for 2022 and allow the recovery of the RSP**
 8 **Current Plan balance over two years. Hydro believed this would contribute to rate**
 9 **stability, mitigate rate shock and achieve intergenerational equity through the use of**
 10 **a reasonable recovery period for the RSP Current Plan balance. Hydro's proposal**
 11 **was approved in Board Order No. P.U. 5(2022).**

12
 13 **a) Has Newfoundland Power considered smoothing rate impacts for customers? If**
 14 **not, why not?**

15
 16 **b) Please provide the breakdown of the total change by component per year:**

Component	July 1, 2024 (%)	July 1, 2025 (%)	July 1, 2026 (%)	July 1, 2027 (%)
Excess Earnings				
Return on Rate Base Filing				
General Rate Application Filing				
Rate Stabilization Account				
Municipal Tax Adjustment				
Hydro Rate Mitigation				
Total Rate Change				

17 **c) Similar to the example provided, please provide a table showing how the rate**
 18 **increase by component can be smoothed over four years to limit the impact on**
 19 **customers, including the impacts of the proposed wholesale rate settlement.**

Year	Total Proposed Newfoundland Power Increase	2024	2025	2026	2027
	(%)	(%)	(%)	(%)	(%)
2024	7.0	1.75	1.75	1.75	1.75
2025	9.0		3.00	3.00	3.00
2026	3.0			1.50	1.50
2027	1.0				1.0
Total Impact		1.75	4.75	6.25	7.25

20 **d) Please confirm that Newfoundland Power would be compensated for deferring**
 21 **collection of a portion of the RSP balance by interest earned on the account**
 22 **balance.**

1 **A. A. Context**

2
3 ***The Recovery of Purchased Power Costs***

4
5 Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) purchases 93%
6 of its power supply requirements from Hydro. Power supply costs from Hydro to the
7 Company are billed and paid on a monthly basis. Power supply costs are recovered from
8 customers either through base rates or the July 1st rate adjustment.

9
10 The principal purpose of the July 1st rate adjustment is to ensure variations in the
11 Company’s purchased power costs compared to the amount reflected in base customer
12 rates are recovered from, or credited to, customers in a timely manner.

13
14 Table 1 provides a breakdown of the costs to be recovered through the July 1, 2024 rate
15 stabilization adjustment.

Table 1:
July 1st, 2024 Rate Stabilization Adjustment
Estimated Recovery Amounts
(\$millions)

	Amount	Proportion of Total
Power supply costs		
Hydro rate riders ¹	94	64%
Hydro billings > base rate recovery ²	49	34%
Total	143	98%
Other costs (non-power supply cost related) ³	3	2%
Total rate stabilization adjustment billings⁴	146	100%

16 As shown in Table 1, the proposed July 1st rate stabilization adjustment will primarily
17 collect power supply costs over the July 1, 2024 to June 30, 2025 period.

¹ Hydro’s rate riders are outlined in Newfoundland Power’s *July 1, 2024 Customer Rate Application, Schedule 2*.

² Purchased power costs billed by Hydro to the Company in excess of the level reflected in base customer rates are captured by Newfoundland Power’s supply cost mechanisms: the Energy Supply Cost Variance account, the Weather Normalization Reserve and the Demand Management Incentive account.

³ Other costs primarily relate to Newfoundland Power’s conservation and demand management costs and its employee future benefits costs.

⁴ Total rate stabilization adjustment billings are shown in Newfoundland Power’s *July 1, 2024 Customer Rate Application, Schedule 1, page 4, Table 3*.

1 The estimated customer rate impact associated with the recovery of power supply in the
2 July 1, 2024 rate adjustment has been known to the parties since late 2023.⁵ Further,
3 Hydro's Request for Information appears to suggest that Hydro would continue to bill
4 Newfoundland Power for Hydro's costs, with the expectation that Newfoundland Power
5 would not flow-through those costs to customers. In the Company's view, such an
6 approach would not be consistent with regulatory principles or established practice of the
7 Board.

8 ***The Importance of the Timely Recovery of Purchased Power Costs***

10 The cost of electricity supply from Hydro is Newfoundland Power's single largest cost
11 and represents approximately 70% of Newfoundland Power's cost of providing service to
12 its customers.

14 Supply cost mechanisms, such as the Company's rate stabilization adjustment, that
15 permit full recovery of supply costs by investor-owned distribution utilities are
16 commonplace in Canadian regulatory practice.⁶

18 The timely recovery of Newfoundland Power's costs, including its supply costs is
19 required to maintain the Company's sound credit rating, as required by the *Electrical*
20 *Power Control Act, 1994 ("EPCA")*.⁷ In its Credit Opinion on Newfoundland Power,
21 dated April 30, 2024 (the "Moody's Report"), Moody's Investor Services ("Moody's")
22 provided its expectation that the Company will continue to recover its costs and earn its
23 allowed returns in a timely fashion.⁸

25 For example, the Moody's Report states:

27 *"NPI faces uncertainties due to the timing and size of expected rate increases*
28 *associated with the cost of power purchased from NL Hydro. **The inability to***
29 *recover any expenses, or the lengthy deferral of cost recovery at NPI, would be*
30 *credit negative."⁹ [emphasis added]*

32 Specific to the rate stabilization adjustment, and related Rate Stabilization Account
33 ("RSA"), Moody's stated:

34 *"...the RSA facilitates recovery of purchased power costs in excess of those*
35 *forecasted for ratemaking purposes. This is particularly important since the*
36
37

⁵ See, for example, the response to Request for Information NLH-NP-008 filed as part of Newfoundland Power's 2024 Rate of Return on Rate Base Application on December 21, 2023.

⁶ Newfoundland Power's supply cost mechanisms have been reviewed as part of its 2025/2026 General Rate Application. See the response to Request for Information PUB-NP-071 and The Brattle Group, *Report on Newfoundland Power's Deferral Accounts*, prepared by Philip Q. Hanser and Adam Wyonzek, April 24, 2024; both filed as part of the Company's 2025/2026 General Rate Application.

⁷ See the EPCA, section 3(a)(iii).

⁸ See the Moody's Report, page 2, filed with the Board as part of the Company's 2025/2026 General Rate Application on May 2, 2024.

⁹ Ibid., page 4.

1 *marginal cost of power that NPI obtains from NL Hydro exceeds the average*
2 *supply costs embedded in customer rates... While the company has not yet filed an*
3 *RSA adjustment for 1 July 2024, there are likely to be increases in customer rates*
4 *based on growth in the RSA at FYE 2023. **We have assumed the company will***
5 *recover these costs over the following 12 months in line with precedent.*¹⁰
6 *[emphasis added]*

8 ***Hydro Examples of Customer Rate Increases***

9
10 In its Request for Information, Hydro provides that in 2022, it deferred recovery of its
11 costs to the Island Industrial Customers (“IIC”) to reduce the approximate 23.6% rate
12 increase to the IIC at that time.

13
14 Newfoundland Power observes that Hydro’s deferred cost recovery in 2022 was
15 \$2.8 million, which achieved a customer rate reduction of 10.9% (from 23.6% to
16 12.7%).¹¹ For comparison, if Newfoundland Power deferred \$2.8 million in costs, it
17 would result in an initial customer rate reduction of 0.3%.¹²

18
19 Further, while Hydro provides one example of deferring costs, Hydro does not
20 acknowledge its proposed RSP customer rate increases of greater than 10% to
21 Newfoundland Power and the IIC since 2017.

- 22
23
 - 24 • On January 27, 2017, Hydro filed an application with the Board that, combined
25 with the annual operation of Hydro’s Rate Stabilization Plan, would have resulted
26 in an estimated average end customer impact of 18.6% on July 1, 2017. In Order
27 No. P.U. 14 (2017), the Board noted concerns of rate shock associated with
28 Hydro’s proposed customer rate increase. The Board stated that the estimated
29 customer rate increase was “*such a significant increase that it may be argued it*
30 *would cause rate shock.*”¹³ The Board also noted in that decision that “*annual rate*
31 *impacts for retail customers...have historically been in the range of +/- 10%.*”¹⁴

32 On May 18, 2017, Hydro filed an application setting out revised proposals based
33 on the findings and determinations of the Board in Order Nos. P.U. 14 (2017) and
34 P.U. 16 (2017). Hydro’s revised proposals included an increase of 12.6% in the
35 Utility Rate charged to Newfoundland Power on July 1, 2017.¹⁵ The end-customer
36 impact of the customer rate change was reduced from 18.6% to 8.5%.

¹⁰ Ibid., page 4.

¹¹ See Hydro’s letter to the Board, *Re. Application for Approval of the Island Industrial Customer Rate Stabilization Plan Adjustments*, dated February 4, 2022.

¹² \$2.8 million / existing customer billings of \$826.2 million = 0.3%.

¹³ See Board Order No. P.U. 14 (2017), page 17, lines 2 to 3.

¹⁴ Ibid., page 16, lines 26 to 27.

¹⁵ Hydro’s May 18, 2017 Application was approved in Order No. P.U. 22 (2017).

- 1 • In 2019, Hydro proposed an increase of 11.5% in the Utility Rate charged to
2 Newfoundland Power on October 1, 2019.¹⁶ The end-customer impact of the
3 customer rate change was 6.4%.
- 4
- 5 • In 2022, the IIC customer rate increase was 12.7%.¹⁷
- 6
- 7 • In 2023, the IIC customer rate increase was 15.4%.¹⁸
- 8

9 **B. Response**

- 10
- 11 a) Yes, Newfoundland Power has been actively working towards potential solutions to
12 smooth customer rates. These efforts are focused on smoothing customer rates
13 between 2025 and 2026. There are three primary factors that inhibited the Company's
14 ability to reasonably consider rate smoothing options for the July 1, 2024 customer
15 rate increase.

16

17 **1) *The current wholesale rate charged by Hydro to Newfoundland Power charges***
18 ***incremental energy used by customers at a high marginal rate, creating***
19 ***customer rate volatility and with current electrification efforts, higher overall***
20 ***costs for customers.***

21

22 The current wholesale rate implemented in 2019 includes a second block energy
23 rate of 18.165¢ per kWh, which is based on the cost of fuel at Holyrood, the
24 marginal cost of energy at that time.

25

26 Subject to review and approval of the Board, Newfoundland Power and Hydro
27 have agreed to revise the wholesale rate effective January 1, 2025 to reflect
28 current marginal energy costs, based on energy exports with the Labrador-Island
29 Link being commissioned in 2023.¹⁹

30

31 A new wholesale rate will reduce the incremental energy rate charged by Hydro
32 to Newfoundland Power from the current rate of 18.165¢ per kWh to an estimated
33 10¢ per kWh and 3.5¢ per kWh in the winter and non-winter periods,
34 respectively.

35

36 The new wholesale rate will result in lower power supply costs for customers
37 compared to the current rate. As an example, each incremental kWh of energy
38 used by a customer that converts from oil-to-electric heating is costed at
39 18.165¢ per kWh under the current wholesale rate. With a new wholesale rate this

¹⁶ See Newfoundland Power's letter to the Board, *Re. Application for October 1, 2019 Customer Rates*, dated September 13, 2019.

¹⁷ See Hydro's letter to the Board, *Re. Application for Approval of the Island Industrial Customer Rate Stabilization Plan Adjustments*, dated February 4, 2022.

¹⁸ See Hydro's letter to the Board, *Re. Application for Approval of the Island Industrial Customer Rate Stabilization Plan Adjustments Effective January 1, 2023*, dated January 13, 2022.

¹⁹ See the Settlement Agreement dated June 12, 2024 signed by the Company, Hydro and the Consumer Advocate, filed as Information Item #2 in respect of the Company's *2025/2026 General Rate Application*.

1 charge will be reduced by more than half on average, resulting in lower power
2 supply energy costs for customers.

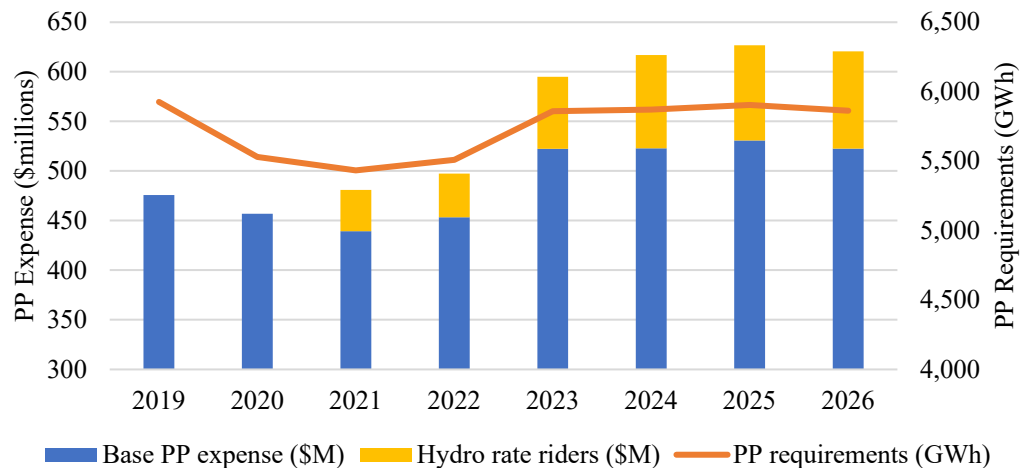
3
4 The implementation of a new wholesale rate is fundamental to any rate smoothing
5 solution, as it provides greater cost certainty and reduces customer rate volatility
6 as well as Newfoundland Power’s cash flow volatility.

7
8 **2) Power supply cost requirements and related costs increased significantly in**
9 **2023, with the new cost levels forecast to continue into the future.**

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11 Figure 1 shows Newfoundland Power’s purchased power (“PP”) requirements
12 over the 2019 to 2026 forecast period.²⁰

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**Figure 1:
Purchased Power Requirements
2019 to 2026 Forecast**



14 Purchased power costs over the 2023 to 2026 forecast period have increased by
15 approximately 30% from 2019 to 2022 levels. The increase is power supply costs
16 results in increases in customer rates. As shown in Figure 1, higher power supply
17 costs that will begin to be recovered on July 1, 2024 are not a one-time cost that
18 could be smoothed. Rather, it represents the beginning of a “new normal” level of
19 increased power supply costs.

20 This is because of the incremental increase in customer energy sales in 2023 that
21 is forecast to be sustained throughout the 2024 to 2026 period. Effectively,
22 increased costs that were incurred in 2023 will also be incurred in 2024, 2025, and
23 2026.

²⁰ The current wholesale rate was implemented in 2019. “Base PP expense” and “PP requirements” refers to Hydro’s power supply billings to Newfoundland Power. “Hydro rate riders” refers to the amount set to be recovered through the July 1st rate adjustment of that year through Hydro’s rate riders.

1 Customer rates need to reflect the underlying costs of providing service to
2 customers, to the extent possible. The current customer rate increase reflects the
3 need to adjust current customer rates to recover the increased level of power
4 supply costs. This concept is central to regulatory principles and customer rate
5 setting.
6

7 For example, in Order No. P.U. 33 (2021) on the discontinuance of Hydro's RSP
8 and establishment of its Supply Cost Variance Deferral Account, the Board
9 denied Hydro's proposal to defer historical balances not associated with the
10 Muskrat Falls project and stated:

11
12 *"The Board agrees that these accounts should be concluded but has*
13 *significant concerns in relation to the proposal to defer the recovery of*
14 *existing balances until after the conclusion of Hydro's next general rate*
15 *application. The recovery of the balances in the Revised Energy Supply Cost*
16 *Variance Deferral Account, the Holyrood Conversion Rate Deferral Account*
17 *and a portion of the Hydraulic Production Variation balance would normally*
18 *begin in the year after being incurred... These balances are not related to the*
19 *Muskrat Falls Project and the proposed transfer to the new account would not*
20 *provide for the transparent collection of these balances apart from the*
21 *unrelated Muskrat Falls Project costs. To be consistent with the principle of*
22 *intergenerational equity the Board believes that there should be timely*
23 *recovery of supply costs incurred prior to the commissioning of the Muskrat*
24 *Falls Project.*"²¹
25

26 **3) Newfoundland Power must maintain its creditworthiness to provide for**
27 **continued access to low-cost financing for customers.**
28

29 The recovery of Newfoundland Power's costs for the period 2024 to 2026 is
30 currently under review by the Board with respect to the Company's *2024 Rate of*
31 *Return on Rate Base Application* and its *2025/2026 General Rate Application*.
32 The deferral of recovery of power supply costs that were incurred in 2023 beyond
33 July 1, 2025 was not contemplated in those proceedings.
34

35 Deferring power supply costs incurred in 2023 before there is certainty on the
36 Company's 2024 through 2026 cost recovery would, in Newfoundland Power's
37 view, create risk associated with its creditworthiness as outlined previously in this
38 response.
39

40 While these factors did not allow for a reasonable rate smoothing proposal for the
41 upcoming July 1, 2024 rate increase, Newfoundland Power does believe there is an
42 opportunity to consider rate smoothing options between 2025 and 2026.
43

44 First, the factors that inhibited the ability to smooth the July, 1 2024 rate increase are
45 expected to be resolved before that timeframe. A new wholesale rate is expected to be

²¹ See Order No. P.U. 33 (2021), pages 5 to 6.

1 implemented, which could occur as early as January 1, 2025. Board orders on
 2 Newfoundland Power's *July 1, 2024 Customer Rate Application, 2024 Rate of Return*
 3 *on Rate Base Application* and *2025/2026 General Rate Application* are anticipated to
 4 be issued in 2024.

5
 6 Second, a revised wholesale rate will provide certainty that RSA balances will decline
 7 by March 31, 2026, resulting in a rate decrease on July 1, 2026 associated with the
 8 RSA (in the range of 4% to 5%, estimated as 4.5% in Table 2 in part b)). This
 9 provides an opportunity to smooth customer rates by shifting some of the anticipated
 10 July 1, 2025 customer rate increase to the July 1, 2026 timeframe.

11
 12 b) Table 2 provides a breakdown of the estimated customer rate changes over the 2024
 13 to 2027 forecast period.²² The table assumes a revised wholesale rate is implemented
 14 on January 1, 2025. The table also outlines how customer rates could reasonably be
 15 smoothed between 2025 and 2026 as described in the response to part a).

Table 2:
Customer Rate Estimates for 2024 to 2027 and Potential Rate Smoothing

	2024 (July 1)	2024 (Unknown)	2025 (July 1)	2026 (July 1)	2027 (July 1)
Power supply costs					
Hydro Rate Mitigation	2.3%	-	2.3%	2.3%	2.3%
RSA – supply costs	7.3%	-	-	(4.5%)	-
Power supply cost rebasing	-	-	4.3%	-	-
Sub-total	9.6%	-	6.6%	(2.2%)	2.3%
Non-power supply costs					
NP 2024 Return on Rate Base ²³	-	1.5%	-	-	-
NP 2025/2026 GRA	-	-	5.5%	-	-
RSA – other costs	(0.2%)	-	-	-	-
MTA	(0.1%)	-	-	-	-
Sub-total	(0.3%)	1.5%	5.5%	-	-
Total estimated impact without rate smoothing	9.3%	1.5%	12.1%	(2.2%)	2.3%
Potential rate smoothing effect	-	-	(4.3%)	4.3%	-
Total estimated impact with rate smoothing	9.3%	1.5%	7.8%	2.1%	2.3%

²² For consistency purposes, customer rate impacts are based on existing customer billings (i.e. 2023 RSA/MTA billings). Customer rate impacts beyond July 1, 2024 (except for the set Hydro Rate Mitigation annual increase) will be diluted as existing annual customer billings of \$826.2 million are proposed to increase to \$903.4 million on July 1, 2024. For example, based on the \$903.4 million in proposed customer billings, the \$12.1 million increase in customer billings proposed in the Company's *2024 Rate of Return on Rate Base Application* would be estimated to have a customer rate impact of 1.3%, as opposed to the 1.5% customer rate impact when dividing by the existing customer billings of \$826.2 million.

²³ Newfoundland Power observes that the Board considered options of how to dispose of the Company's 2023 excess earnings balance as part of the Company's *2024 Rate of Return on Rate Base Application*.

- 1 c) See part b) for an example of how customer rates could be reasonably smoothed over
- 2 the 2024 to 2027 period.
- 3
- 4 d) Newfoundland Power can confirm that interest is charged on RSA balances on a
- 5 monthly basis.