

1 **Q. Reference: “2024 Rate of Return on Rate Base Application,” Newfoundland Power**
 2 **Inc., November 23, 2023.**

3
 4 **What is Newfoundland Power’s total estimated July 1, 2024 increase, inclusive of**
 5 **the proposed 2024 Revised Revenue Requirement, Rate Stabilization Account, and**
 6 **Municipal Tax Account Adjustments?**

7
 8 **Please outline by component as follows:**

	Existing	Change	Proposed
Revenue from Rates			
Rate Stabilization Account			
Municipal Tax Account			
Customer Billings			
Total Change (\$)			
Total Rate Impact (%)			

9 A. See Table 5 in section 6.2 *Customer Rate Impacts* in the *2024 Rate of Return on Rate*
 10 *Base* report for a breakdown of the customer billing impacts resulting from the 1.5%
 11 proposed customer rate increase included in the Application.

12
 13 In addition to the 1.5% proposed increase as a result of the Application, Newfoundland
 14 Power is anticipating an additional customer rate increase on July 1, 2024 associated with
 15 the annual July 1st rate adjustment. The current estimate of the annual July 1st rate
 16 adjustments, which is largely the result of higher supply costs, is in the range of 6.7% to
 17 7.5%. The total estimated customer rate increase on July 1, 2024 is therefore in the range
 18 of 8.2% to 9.0%¹.

19
 20 The Rate Stabilization Adjustment is recalculated on July 1st of each year to reflect the
 21 accumulated balance in the Company’s Rate Stabilization Account (“RSA”) as of
 22 March 31st of that year and any change in the wholesale rate charged by Newfoundland
 23 and Labrador Hydro (“Hydro”) to Newfoundland Power. Changes to the wholesale rate
 24 reflect the operation of Hydro’s Muskrat Falls Project Cost Recovery (“Project Cost
 25 Recovery”) rider and Rate Stabilization Plan (“RSP”), as well as its Conservation and
 26 Demand Management (“CDM”) Cost Recovery Adjustment.

27
 28 The information below provides the Company’s estimates of both Newfoundland
 29 Power’s and Hydro’s July 1, 2024 rate adjustments. These rate adjustments will not be
 30 finalized until March 31, 2024. The utilities have worked together for the past number of
 31 years to ensure the operation of Hydro’s Project Cost Recovery rider considers
 32 Newfoundland Power’s July 1 rate adjustments.

¹ 1.5% + 6.7% = 8.2%. Given the uncertainties associated with both Newfoundland Power’s and Hydro’s annual July 1st rate adjustment, a table in the format requested is not available.

1 ***Newfoundland Power's Estimated July 1, 2024 Rate Adjustments***

2
3 The Company's annual July 1st rate adjustment is based, in large part, on its March 31st
4 RSA balance and the change in the RSA balance from the previous year.²

5
6 Table 1 provides Newfoundland Power's estimated RSA balance as of March 31, 2024
7 and its actual March 31, 2023 balance currently reflected in customer rates.

**Table 1:
Estimated RSA Balance – March 31, 2024
(\$ millions)**

RSA Balance as of November 30, 2023	7
<u>Energy Supply Cost Mechanism Transfers</u>	
Energy Supply Cost Variance ("ESCV") Account	32
Weather Normalization Reserve ("WNR")	4
Other transfers and activity ³	7
Estimated RSA Balance as of March 31, 2024	50
RSA Balance as of March 31, 2023	(5)
Difference	55
Estimated Customer Rate Impact⁴	6.7%

8 The Company's RSA balance is estimated to be \$50 million on March 31, 2024, or
9 \$55 million higher than the \$5 million March 31, 2023 credit balance currently reflected
10 in customer rates. The resulting estimated customer rate impact on July 1, 2024 is,
11 therefore, an increase of 6.7%.

12
13 The change in Newfoundland Power's RSA balance is largely the result of changes in its
14 supply cost mechanisms.

15
16 Changes in the Company's purchased power expense related to variances in customer
17 load requirements are captured by the ESCV Account.⁵ Transfers to the ESCV Account
18 are costed at the difference between the current second block wholesale energy rate of
19 18.165 ¢/kWh charged by Hydro to Newfoundland Power and the average supply cost
20 energy rate of 6.940 ¢/kWh recovered through base electricity rates. ESCV Account
21 transfers to the RSA occur annually on December 31st. The forecast ESCV transfer to the
22 RSA on December 31, 2023 is \$32 million, which is \$28 million higher than the ESCV

² Newfoundland Power also has a Municipal Tax Account, however annual changes to that adjustment are typically relatively low.

³ Includes the operation of the Demand Management Incentive Account, Pension Expense Variance Deferral Account, Other Post-Employment Benefits Variance Deferral Account and annual CDM Amortization.

⁴ \$55 million / existing customer billings of \$826 million = 6.7%.

⁵ The ESCV Account was first approved in Order No. P.U. 32 (2007) and continued by Order No. P.U. 43 (2009).

1 transfer to the RSA on December 31, 2022 of \$4 million. The estimated rate impact of the
2 additional purchased power expense to Hydro is an increase of 3.4%.⁶

3
4 Newfoundland Power's WNR normalizes the effects of weather and hydrology on the
5 Company's sales revenues and purchased power expense.⁷ Sales revenues are normalized
6 using the end block for each rate class. Purchased power expense is normalized using the
7 second block wholesale energy rate of 18.165 ¢/kWh. WNR transfers to the RSA occur
8 annually on March 31st. The forecast WNR transfer to the RSA on March 31, 2024 is
9 \$4 million, which is \$13 million higher than the WNR credit transfer to the RSA on
10 March 31, 2023 of \$9 million.⁸ The estimated rate impact of this change is an increase of
11 1.6%.⁹

12
13 The total estimated change in the Company's RSA balance due to its supply cost
14 mechanisms results in a total estimated customer rate increase of 5%.¹⁰

15 16 ***Hydro's Estimated July 1, 2024 Rate Adjustments***

17
18 At this time, Newfoundland Power does not have specific details of Hydro's anticipated
19 July 1, 2024 rate adjustments.

20
21 Hydro's Project Cost Recovery rider was implemented on July 1, 2022 following Order
22 in Council OC2022-120 which permitted Hydro to begin recovery of Muskrat Falls
23 project costs through customer rates. The Project Cost Recovery rider was approved at a
24 rate of 0.798 ¢/kWh.¹¹ The estimated customer rate impact of implementing the rider on
25 July 1, 2022 was a rate increase of 6.1%.¹²

26
27 As part of the *Reliability and Resource Adequacy Study Review* proceeding, Hydro
28 indicated an estimated customer rate increase of 7.5% on July 1, 2024.¹³ In the
29 Company's view, this customer rate increase would likely be achieved by increasing the
30 Project Cost Recovery rider.

31
32 Newfoundland Power observes that Hydro also estimated a customer rate increase of
33 7.5% for July 1, 2023.¹⁴ However, given the July 1, 2023 customer rate increase of 6.9%

⁶ \$28 million / existing customer billings of \$826 million = 3.4%.

⁷ The Hydro Component of the Weather Normalization Reserve was approved in Order No. P.U. 32 (1968) and the Degree Day Component was approved in Order No. P.U. 1 (1974).

⁸ The change in the WNR reflects colder than normal weather in 2023 versus warmer than normal weather in 2022.

⁹ \$13 million / existing customer billings of \$826 million = 1.6%.

¹⁰ 3.4% + 1.6% = 5.0%. Other transfers and activity comprises the remaining forecast 1.7% increase. See Table 1 on page 2 of 5.

¹¹ See Order No. P.U. 19 (2022).

¹² At the time, there was a potential 6.4% decrease in customer rates from the annual July 1st rate adjustments and the Project Cost Recovery rider was designed to offset the customer rate decrease. See Hydro's *Application for July 1, 2022 Utility Rate Adjustments*, May 27, 2022, page 4, paragraph 20.

¹³ See footnote 3 in the response to Request for Information PUB-NLH-236.

¹⁴ Ibid.

1 resulting from both Newfoundland Power’s and Hydro’s July 1st rate adjustments,
2 ultimately Hydro did not increase its Project Cost Recovery rider at that time.¹⁵
3

4 ***Newfoundland Power’s View on the July 1, 2024 Rate Adjustment***

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6 The current wholesale rate charged by Hydro to Newfoundland Power is designed so that
7 any change in energy purchases from the level set in Hydro’s last general rate application
8 (“GRA”) are charged at the second block rate. The current second block energy rate of
9 18.165 ¢/kWh is based on the cost of fuel burned at the Holyrood Thermal Generating
10 Station (“Holyrood”), which was the marginal cost of energy when the wholesale rate
11 was approved by the Board in Order No. P.U. 30 (2019).¹⁶
12

13 The Muskrat Falls Project was fully commissioned in April 2023. Since Newfoundland
14 and Labrador is now interconnected to the North American grid, Hydro has the ability to
15 import energy from, and sell energy to, other jurisdictions. Therefore, opportunity costs
16 associated with importing and exporting energy to these jurisdictions is now considered
17 Hydro’s marginal cost of energy.¹⁷ These opportunity costs are significantly lower than
18 the marginal cost of fuel at Holyrood.¹⁸ As an example, Hydro’s realized export
19 electricity price for the nine months ended 2023 was approximately 4 ¢/kWh.¹⁹
20

21 Newfoundland Power expects that the wholesale rate will be changed as part of Hydro’s
22 GRA, or at an earlier date via a stand-alone application, to include a second block energy
23 rate that reflects lower marginal energy costs.²⁰
24

25 Delays in Hydro’s GRA filing have resulted in the unintended consequence of having
26 increased customer load requirements being costed at 18.165 ¢ kWh following Muskrat
27 Falls commissioning.²¹ This is reflected in the estimated 5% increase on
28 July 1, 2024 associated with the operation of Newfoundland Power’s supply cost
29 mechanisms.
30

31 The Company believes that Hydro should consider the above dynamics when
32 determining its July 1st rate adjustments.

¹⁵ See Hydro’s *Application for July 1, 2023 Utility Rate Adjustments, Effective July 1, 2023*, April 17, 2023, Paragraphs 19, 20, 21, 22.

¹⁶ The current wholesale rate was approved by the Board in Order No. P.U. 30 (2019) as part of Hydro’s *2017 General Rate Application* and became effective October 1, 2019.

¹⁷ See Newfoundland and Labrador Hydro’s *Marginal Cost Study Update – 2021, Summary Report*, March 7, 2022, page 3, lines 7-16.

¹⁸ See Hydro’s *Marginal Cost Projection 2024 – 2040 dated December 2022*.

¹⁹ See Hydro’s *Interim Management and Discussion Analysis* for the third quarter of 2023.

²⁰ See, for example, Hydro’s *Wholesale and Island Industrial Rate Design Review Update Report* filed with the Board on September 30, 2019.

²¹ In its December 15, 2023 letter *Re: Quarterly Update – Items Impacting the Delay of Hydro’s Next General Rate Application*, Hydro provided that it expects to file its next GRA in 2025. The delay in Hydro’s GRA is due in part to completion of the Provincial Government’s rate mitigation plan, which could impact the overall revenue to be recovered by Hydro in a new wholesale rate. The Provincial Government has taken initial steps in its rate mitigation plan. See the Provincial Government’s news release: *Implementing Initial Steps of Rate Mitigation*, March 31, 2023.

1 Newfoundland Power looks forward to discussions with Hydro on the July 1st rate
2 adjustment as well as on the implementation of a new wholesale rate as soon as it feasible
3 to do so.²²

²² For further information on the implementation of a new wholesale rate, see Schedule A to the Company's 2025/2026 General Rate Application – Additional Information filed with the Board on December 13, 2023.