

WHENEVER. WHEREVER.
We'll be there.



September 16, 2024

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

Attention: Jo-Anne Galarneau
Executive Director and Board Secretary

Dear Ms. Galarneau:

Re: Wholesale Rate Flow-Through Application

On December 12, 2023, Newfoundland Power Inc. ("Newfoundland Power" or the "Company") filed its *2025/2026 General Rate Application* (the "2025/2026 GRA") with the Board of Commissioners of Public Utilities (the "Board") for, among other things, approval of the Company's 2025 and 2026 test year revenue requirements and to establish customer rates effective July 1, 2025.

During the 2025/2026 GRA process, a settlement agreement regarding revising the wholesale rate (the "Wholesale Rate Settlement Agreement") was reached between the Company, Hydro and the Consumer Advocate. The Wholesale Rate Settlement Agreement provided that:

- (i) It is desirable to establish a new wholesale rate effective January 1, 2025, as described in the framework attached to the Wholesale Rate Settlement Agreement (the "Framework");
- (ii) Hydro and Newfoundland Power will each file an application with the Board on or about September 15, 2024 for approval of a new wholesale rate; and
- (iii) The Company should rebase its power supply costs in connection with its application on the wholesale rate.

On September 16, 2024, Hydro filed an application proposing to revise the wholesale rate charged to Newfoundland Power, effective January 1, 2025.

Enclosed please find an application prepared in accordance with the Wholesale Rate Settlement Agreement (the "Application").

Newfoundland Power Inc.

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6
PHONE (709) 737-5500 ext. 6200 • FAX (709) 737-2974 • dfoley@newfoundlandpower.com

Consistent with the Wholesale Rate Settlement Agreement, the Application proposes to (i) flow-through the impacts of the revised wholesale rate on its 2025 and 2026 test year revenue requirements currently before the Board in its 2025/2026 GRA; and (ii) rebase power supply costs into base rate test year revenue requirements. As outlined in the Framework, the overall average customer rate impact of the Application proposals is a customer rate increase of 4.3%, effective July 1, 2025.

The revisions to the proposed 2025 and 2026 test year revenue requirements can be addressed in a compliance application associated with a Board order on the 2025/2026 GRA.

Newfoundland Power is committed to, and supportive of, reasonable customer rate smoothing measures over the 2025 to 2027 timeframe. The Company will work with the parties on this matter in advance of the annual July 1st rate adjustment process for 2025. Consistent with the Framework, any customer rate smoothing measures would defer the 4.3% customer rate impact associated with the Application proposals from July 1, 2025 to July 1, 2026.

An accompanying report provides supporting information for the Application proposals.

A copy of the Application has been forwarded directly to Newfoundland and Labrador Hydro, and Mr. Dennis Browne, K.C., the Consumer Advocate.

Please contact the undersigned with any questions.

Yours truly,



Dominic Foley
Legal Counsel

Enclosures

cc. Shirley Walsh
Newfoundland and Labrador Hydro

Dennis Browne, K.C.
Browne Fitzgerald Morgan & Avis

IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the “Act”); and

IN THE MATTER OF an application by Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) for approval of revisions to its proposed 2025 and 2026 test year revenue requirements for a revised wholesale rate and the rebasing of power supply costs, both effective January 1, 2025 (the “Application”).

TO: The Board of Commissioners of Public Utilities of Newfoundland and Labrador (the “Board”)

THE APPLICATION OF Newfoundland Power SAYS THAT:

A. Background:

1. Newfoundland Power is a corporation duly organized and existing under the laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the Act, and is subject to the provisions of the *Electrical Power Control Act, 1994*.
2. Newfoundland Power is dependent upon Newfoundland and Labrador Hydro (“Hydro”) for the power supply required by the Company to meet its obligation to serve its customers. Currently, Newfoundland Power recovers its power supply costs purchased from Hydro through a combination of base rate test year revenue requirements and regulatory mechanisms which are incorporated into the annual July 1st rate adjustment.
3. In Order No. P.U. 3 (2022), the Board ordered the Company to file its next general rate application (“GRA”) no later than June 1, 2024.
4. On December 12, 2023, Newfoundland Power filed its *2025/2026 General Rate Application* (the “2025/2026 GRA”) with the Board for, among other things, approval of the Company’s 2025 and 2026 test year revenue requirements and to establish customer rates effective July 1, 2025.
5. As part of GRAs, wholesale power supply costs are typically “rebased” to incorporate any amounts being recovered through the annual July 1st rate adjustment into base rate test year revenue requirements.
6. At the time of filing the 2025/2026 GRA, there was uncertainty as to the implementation date of a new wholesale rate, which was expected to incorporate current marginal energy

costs based on energy exports. Given the uncertainty associated with the wholesale rate that would be in effect during the 2025/2026 test year period, the Company did not rebase its power supply costs into its proposed 2025 and 2026 base rate test year revenue requirements in the 2025/2026 GRA.

7. On June 12, 2024, a settlement agreement regarding revising the wholesale rate (the “Wholesale Rate Settlement Agreement”) was reached between the Company, Hydro and the Consumer Advocate. The Wholesale Rate Settlement Agreement provided that:
 - (i) It is desirable to establish a new wholesale rate effective January 1, 2025, as described in the framework attached to the Wholesale Rate Settlement Agreement (“the Framework”);
 - (ii) Hydro and Newfoundland Power will each file an application with the Board on or about September 15, 2024 for approval of a new wholesale rate; and
 - (iii) The Company should rebase its power supply costs in connection with its application on the wholesale rate.

The Wholesale Rate Settlement Agreement recommended that the Board implement the agreement of the parties regarding the settled issues in its order on the 2025/2026 GRA.

8. On September 16, 2024, Hydro filed an application proposing to revise the wholesale rate charged to Newfoundland Power, effective January 1, 2025. The revisions to the wholesale rate are consistent with the Framework. The Company supports Hydro’s application.
9. Board orders regarding Newfoundland Power’s 2025/2026 GRA and this Application will determine the base customer rates to be effective July 1, 2025. As such, a further application of the Company will be necessary to propose base rates to be effective July 1, 2025 incorporating the Board’s orders on these applications (a “Compliance Application”) as more fully described in section 4.0 *Regulatory Process* in the *Wholesale Rate Flow-Through* report.

B. Newfoundland Power Proposals:

10. Consistent with the Wholesale Rate Settlement Agreement, the Application proposes:
 - (i) Revisions to the proposed 2025 and 2026 test year revenue requirements of (\$11,783,000) and (\$6,756,000), respectively, associated with the implementation of the revised wholesale rate effective January 1, 2025;
 - (ii) Revisions to the proposed 2025 and 2026 test year revenue requirements of \$40,165,000 and \$35,495,000, respectively, associated with the rebasing of power supply costs effective January 1, 2025; and

- (iii) Revisions to the proposed 2025 and 2026 test year revenue requirements for revenue shortfall and financing cost impacts associated with the proposals described in subparagraphs 10(i) and 10(ii).

all as more fully described in the *Wholesale Rate Flow-Through* report.

- 11. The revisions to the proposed 2025 and 2026 test year revenue requirements can be addressed in the Compliance Application.

C. Order Requested:

- 12. Newfoundland Power requests that the Board make an Order approving, pursuant to section 80 of the Act:

- (i) Revisions to the proposed 2025 and 2026 test year revenue requirements of (\$11,783,000) and (\$6,756,000), respectively, associated with the implementation of the revised wholesale rate effective January 1, 2025;
- (ii) Revisions to the proposed 2025 and 2026 test year revenue requirements of \$40,165,000 and \$35,495,000, respectively, associated with the rebasing of power supply costs effective January 1, 2025; and
- (iii) Revisions to the proposed 2025 and 2026 test year revenue requirements for revenue shortfall and financing cost impacts associated with the proposals described in subparagraphs 12(i) and 12(ii).

D. Communications:

- 13. Communication with respect to this Application should be forwarded to the attention of Dominic Foley and Liam O'Brien, Counsel to Newfoundland Power.

DATED at St. John's, Newfoundland and Labrador, this 16th day of September, 2024.

NEWFOUNDLAND POWER INC.



Dominic Foley and Liam O'Brien
Newfoundland Power Inc.
P.O. Box 8910
55 Kenmount Road
St. John's, NL A1B 3P6

Telephone: (709) 737-5500 ext. 6200
Telecopier: (709) 737-2974
Email: dfoley@newfoundlandpower.com
lobrien@curtisdawe.com

IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the “Act”); and

IN THE MATTER OF an application by Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) for approval of revisions to its proposed 2025 and 2026 test year revenue requirements for a revised wholesale rate and the rebasing of power supply costs, both effective January 1, 2025 (the “Application”).

AFFIDAVIT

I, Paige London, of the City of St. John’s, in the Province of Newfoundland and Labrador, Chartered Professional Accountant, make oath and say as follows:

1. THAT I am Vice President, Finance and Chief Financial Officer of Newfoundland Power Inc.;
2. THAT I have read and understand the foregoing Application; and
3. THAT, to the best of my knowledge, information and belief, all matters, facts and things set out in this Application are true.

SWORN TO before me at the City of St. John’s in the Province of Newfoundland and Labrador this 16th day of September, 2024:


Executive Assistant


Paige London

JENNIFER RIDEOUT
A Commissioner for Oaths
In and for the Province of Newfoundland and Labrador
My commission expires on December 31, 2029

Wholesale Rate Flow-Through Report

Table of Contents

	Page
1.0 Introduction.....	1
1.1 The 2025/2026 General Rate Application.....	1
1.2 Hydro’s Wholesale Rate Revision Application	2
1.3 Newfoundland Power’s Wholesale Rate Flow-Through Application.....	3
2.0 The Revised Wholesale Rate	3
2.1 Impact on Test Year Power Supply Costs.....	3
2.2 Customer Benefits	4
3.0 Revenue Requirement and Customer Rate Impacts.....	5
3.1 Rebasing Power Supply Costs.....	5
3.2 2025 Revenue Shortfall and Financing Effects.....	6
3.3 Revenue Requirement	7
3.4 Customer Rates	8
4.0 Regulatory Process.....	8
5.0 Conclusion	9

Appendix A: The Wholesale Rate Settlement Agreement and Framework

Appendix B: 2025 and 2026 Test Year Power Supply Cost Impacts

Appendix C: 2025 and 2026 Test Year Revenue Requirement Impacts

1.0 Introduction

1.1 The 2025/2026 General Rate Application

On December 12, 2023, Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) filed its *2025/2026 General Rate Application* (the “2025/2026 GRA”) with the Board of Commissioners of Public Utilities (the “Board”) for, among other things, approval of the Company’s 2025 and 2026 test year revenue requirements and to establish customer rates effective July 1, 2025.

As part of general rate applications (“GRAs”), wholesale power supply costs are typically “rebased” to incorporate amounts being recovered through the annual July 1st rate adjustment into base rate test year revenue requirements.¹ At the time of filing the 2025/2026 GRA, there was uncertainty in the implementation date of a new wholesale rate. It was expected that the wholesale rate would be redesigned as part of Newfoundland and Labrador Hydro’s (“Hydro”) next GRA, which was anticipated to be in the latter half of 2024, to reflect current marginal energy costs based on energy exports. This timeline would have allowed for the implementation of a new wholesale rate as early as January 1, 2025 (on an interim basis). Given the uncertainty associated with the wholesale rate that would be in effect during the 2025/2026 test year period, the Company did not rebase its power supply costs into its 2025 and 2026 test year revenue requirements in its 2025/2026 GRA.

Following the filing of the 2025/2026 GRA, Hydro revised the expected timing of filing its next GRA to 2025. Due to this anticipated delay, Newfoundland Power and Hydro began discussions on the possibility of revising the wholesale rate in advance of Hydro’s next GRA.

On June 12, 2024, a settlement agreement regarding revising the wholesale rate (the “Wholesale Rate Settlement Agreement”) was reached between the Company, Hydro and the Consumer Advocate.²

The Wholesale Rate Settlement Agreement provided that:

- (i) It is desirable to establish a new wholesale rate effective January 1, 2025, as described in the framework attached to the Wholesale Rate Settlement Agreement (“the Framework”);
- (ii) Hydro and Newfoundland Power will each file an application with the Board on or about September 15, 2024 for approval of a new wholesale rate; and
- (iii) The Company should rebase its power supply costs in connection with its application on the wholesale rate.

¹ Variances in energy supply costs from the latest test year are captured in the Company’s Energy Supply Cost Variance (“ESCV”) account and are recovered through the July 1st rate adjustment. In the subsequent GRA, the test year power supply costs are “rebased” using the current wholesale rate and the test year energy purchases forecast and the ESCV account resets to zero.

² The *Wholesale Rate Settlement Agreement* is provided in Appendix A to this report.

The Wholesale Rate Settlement Agreement recommended that the Board implement the agreement of the parties regarding the settled issues in its order on the 2025/2026 GRA.

1.2 Hydro's Wholesale Rate Revision Application

On September 16, 2024, Hydro filed an application proposing to revise the wholesale rate charged to Newfoundland Power, effective January 1, 2025.

Consistent with the Framework, the revised wholesale rate is based on Hydro's 2019 test year revenue requirement, with no change in the total revenue requirement.³ The only change is in the energy revenues collected between the first and second energy blocks.

Table 1 provides a comparison of the current and revised wholesale rate.⁴

**Table 1:
Wholesale Rate Comparison**

	Current⁵	Revised⁶
First block energy rate	2.444 ¢/kWh	8.515 ¢/kWh
Second block energy rate – December to March	18.165 ¢/kWh	9.698 ¢/kWh
Second block energy rate – April to November	18.165 ¢/kWh	3.354 ¢/kWh
Demand rate	\$5.00 /kW	\$5.00 /kW

The revised second block energy rate is based on 2025 forecast marginal energy costs including an average rate for a winter block (December to March) and an average rate for all remaining months (April to November). The first block energy rate is based on collecting Hydro's 2019 test year energy revenues minus those collected in the second block. There is no change in the demand rate.

The proposed revisions to the wholesale rate are consistent with the Framework. Further, as noted in the Framework, Hydro intends to revise the wholesale rate on an annual basis to reflect an updated marginal cost forecast, which will be further analyzed in its next GRA.⁷

The Company supports Hydro's application.

³ See page 3 of Hydro's application.

⁴ Excluding rate riders.

⁵ The current wholesale rate was approved by the Board in Order No. P.U. 30 (2019) and is based on Hydro's 2019 test year revenue requirement. The second energy block rate of 18.165¢ per kWh in the current wholesale rate is based on the cost of fuel at Holyrood, which was the marginal cost of energy at that time.

⁶ As detailed in Appendix B to the report, the blocking structure amounts have also been revised consistent with the Framework.

⁷ See page 13 of Hydro's application.

1.3 Newfoundland Power’s Wholesale Rate Flow-Through Application

The Company’s *Wholesale Rate Flow-Through Application* (the “Application”) proposes to flow-through the impacts of the revised wholesale rate on its 2025 and 2026 test year revenue requirements currently before the Board in its 2025/2026 GRA. The approach taken to flow-through the impacts of the new wholesale rate is similar to past flow-through applications approved by the Board.⁸

Consistent with the recommendations presented to the Board in the Wholesale Rate Settlement Agreement, the Application also proposes to rebase power supply costs into base rate test year revenue requirements. As there is now certainty on the wholesale rate that will be in effect in the test years, it is appropriate to recover the 2025 and 2026 forecast power supply costs through base rate revenue requirements.

The impact on Newfoundland Power’s test year revenue requirements and its customer rates for these proposals, as set out in the 2025/2026 GRA, are detailed in sections 2 and 3 of this report.

The Board has not yet issued its order on the Company’s 2025/2026 GRA. As such, Newfoundland Power does not yet have approved 2025 and 2026 revenue requirements, or approved customer rates effective July 1, 2025.

Section 4 of this report discusses the regulatory process to set customer rates effective July 1, 2025, incorporating the Board’s decisions on both the Application and the Company’s 2025/2026 GRA.

2.0 The Revised Wholesale Rate

2.1 Impact on Test Year Power Supply Costs

Newfoundland Power’s 2025 and 2026 test year power supply costs as included in the 2025/2026 GRA are based on the current wholesale rate.⁹

Table 2 on the following page summarizes the change in the Company’s 2025 and 2026 test year power supply costs resulting from the revised wholesale rate.

⁸ See Order Nos. P.U. 7 (1990), P.U. 22 (2002-2003), P.U. 19 (2004) (Amended), P.U. 42 (2006), P.U. 18 (2015), P.U. 23 (2017), P.U. 20 (2018) and P.U. 31 (2019).

⁹ See the 2025/2026 GRA, 3.2.2 Power Supply.

**Table 2:
Change in Test Year Power Supply Costs
(\$000s)**

	Current¹⁰	Revised	Change
2025 Test Year	530,628	518,845	(11,783)
2026 Test Year	522,388	515,632	(6,756)

Revision of the wholesale rate effective January 1, 2025 will result in a decrease in 2025 and 2026 test year power supply costs of \$11.8 million and \$6.8 million, respectively.

Appendix B to this report provides the calculation of the change in the 2025 and 2026 test year power supply costs.¹¹

2.2 Customer Benefits

The primary customer benefits associated with the implementation of a new wholesale rate on January 1, 2025 are lower power supply costs and customer rate stability.

Lower Power Supply Costs

The Muskrat Falls Project was commissioned in April 2023, which results in a material shift in marginal energy costs. Implementation of the revised wholesale rate on January 1, 2025 allows for the change in marginal costs to be reflected in the wholesale rate within a reasonable timeframe following commissioning.

The revised wholesale rate reduces the incremental energy rate charged by Hydro to Newfoundland Power from the current rate of 18.165¢ per kWh to 9.698¢ per kWh and 3.354¢ per kWh in the winter and non-winter periods, respectively. As a result, the new wholesale rate provides lower power supply costs for customers as compared to the current rate through lower incremental energy costs.¹²

Customer Rate Stability

A new wholesale rate will result in less volatility in the annual July 1st rate adjustments, providing rate stability for customers.¹³

¹⁰ See the 2025/2026 GRA, Exhibit 7: 2025 and 2026 Revenue Requirements.

¹¹ The change in power supply costs is determined by applying the demand and energy components of the revised wholesale rate to Newfoundland Power's 2025 and 2026 test year energy and peak demand forecast.

¹² Additional energy purchases beyond Hydro's 2019 test year level of 5,801 GWh would be costed at a marginal rate based on energy exports as opposed to 18.165¢ per kWh based on the cost of fuel at Holyrood. Actual 2023 energy purchases were 5,806 GWh. As such, any sales growth beyond 2023 levels would be costed at the lower marginal rate, resulting in lower overall costs for customers. 2025 and 2026 test year energy purchases are 5,904 GWh and 5,862 GWh respectively.

¹³ For example, the annual July 1st rate adjustment on July 1, 2022 (excluding implementation of the Muskrat Falls rider) was an average decrease in customer rates of 6.4%, as compared to the July 1, 2023 rate adjustment which resulted in an average increase in customer rates of 6.9%.

Table 3 illustrates the reduction in annual July 1st customer rate volatility resulting from a revised wholesale rate.¹⁴

**Table 3:
Customer Rate Volatility Illustration
Current vs. Revised Wholesale Rate
(Based on 2026 Test Year Data)**

	Current	Revised
Second block wholesale rate (¢/kWh) ¹⁵	18.165	5.460
Average energy rate (¢/kWh) ¹⁶	7.545	7.430
Difference (¢/kWh)	10.620	(1,970)
Energy purchases variance (GWh) ¹⁷	+100	+100
Power Supply Costs (\$000s)¹⁸	10,620	(1,970)
Customer Rate Impact¹⁹	1.2%	(0.2%)

Based on the illustration, July 1st customer rates could vary by $\pm 0.2\%$ based on a variance in energy purchases of ± 100 GWh under the revised wholesale rate.²⁰ The customer rate volatility impact of $\pm 0.2\%$ is 1% lower than the volatility of $\pm 1.2\%$ being experienced under the current wholesale rate, based on a variance in energy purchases of ± 100 GWh.

3.0 Revenue Requirement and Customer Rate Impacts

3.1 Rebasing Power Supply Costs

The Wholesale Rate Settlement Agreement provides that Newfoundland Power should rebase its power supply costs in connection with its application on the wholesale rate. Consistent with the agreement, the Application proposes to revise its 2025 and 2026 revenue requirements to rebase its power supply costs into base rate revenue requirements, effective January 1, 2025.²¹

¹⁴ Variances in actual energy purchases from test year amounts are charged, or credited, to customers through the annual July 1st rate adjustment.

¹⁵ For the purposes of the analysis, a weighted average 2nd block was used in the revised wholesale rate scenario. Actual variances will be determined based on monthly variances in energy purchases and 2nd block rates, consistent with current practice.

¹⁶ Determined by dividing total 2026 test year purchased power energy costs by total energy purchases.

¹⁷ For the purposes of this illustration, a variance of +100 GWh is used. A variance of -100 GWh would have the opposite effect.

¹⁸ Determined by multiplying the energy purchases variance by the difference between the second block wholesale rate and the average energy rate.

¹⁹ Determined by dividing the variance amount by existing customer billings (July, 1 2024) of \$884.0 million.

²⁰ As the second block energy rate is less than the average energy rate, a positive variance in energy purchases will result in a negative variance in customer rates and vice versa.

²¹ The power supply costs included in the proposed test year revenue requirements include the rebasing of demand costs. As such, the rebasing of power supply costs in this Application relates only to energy costs.

As shown in Appendix C, the rebasing of power supply energy costs will increase 2025 and 2026 test year base rate revenue requirements by \$40.2 million and \$35.5 million, respectively. As a result of rebasing, there are no forecast transfers to the Company’s RSA in 2025 and 2026 to be recovered through the July 1st rate adjustment.

3.2 2025 Revenue Shortfall and Financing Effects

The proposed revisions to test year revenue requirements for the implementation of a new wholesale rate and the rebasing of power supply costs both impact the Company’s 2025 revenue shortfall amount and subsequent amortization.²²

Table 4 provides the amortization schedule for the 2025 revenue shortfall proposed in the 2025/2026 GRA and the revenue requirement impact of the change in the 2025 revenue shortfall resulting from the proposals in the Application.

**Table 4:
2025 Revenue Shortfall
Revenue Requirement Impact
(\$000s)**

	2025	2026	2027
2025 Revenue Shortfall (proposed in 2025/2026 GRA) ²³	(13,409)	6,704	6,704
2025 Revenue Shortfall (revised for Application proposals) ²⁴	(25,989)	12,994	12,994
Revenue Requirement Impact	(12,580)	6,290	6,290

The increase in the 2025 revenue shortfall primarily reflects the rebasing of power supply costs, effective January 1, 2025 to match the effective date of the revised wholesale rate. It is necessary for power supply costs to be rebased into base rate revenue requirements on January 1, 2025 to ensure the ESCV account also reflects the change in the wholesale rate beginning on the same date. With the proposed customer rate change being July 1, 2025, there is a larger shortfall in the first six months of the year associated with power supply costs.

²² In a two-test year GRA, the first year will have a revenue shortfall or surplus based on (i) the ratemaking test year revenue requirement (the second year) and (ii) the rate implementation date in the first year.

²³ See the *2025/2026 GRA, 3.5.5 2025 Revenue Shortfall*. The 2025 revenue shortfall in the GRA is \$16,761,000 and is proposed to be amortized over a 30-month period, July 1, 2025 to December 31, 2027. This represents an amortization of \$558,700 per month. For 2025, it represents amortization over a six-month period, or \$3,352,200 (\$16,761,000 - \$3,352,200 = \$13,408,800). For 2026 and 2027, this represents \$6,704,400 per year.

²⁴ Including the Application proposals, the revised 2025 revenue shortfall is \$32,486,000. The monthly amortization is \$1,082,867 per month. For 2025, it represents amortization over a six-month period, or \$6,497,202 (\$32,486,000 - \$6,497,202 = \$25,988,798). For 2026 and 2027, this represents \$12,994,404 per year.

While an earlier customer rate implementation date would reduce the 2025 revenue shortfall, there are benefits associated with limiting the number of customer rate changes within a calendar year, where practicable, and July 1st is the standard annual customer rate change date.

There are also relatively minor financing effects given the changes to the wholesale rate and the rebasing of power supply costs on January 1, 2025.²⁵

3.3 Revenue Requirement

Table 5 summarizes the 2025 and 2026 revenue requirement impacts for the Application proposals.

**Table 5:
Revenue Requirement Impacts
2025 and 2026 Test Years
(\$000s)**

	2025 TY	2026 TY
Revised wholesale rate	(11,783)	(6,756)
Rebasing	40,165	35,495
2025 revenue shortfall	(12,580)	6,290
Financing effects	(652)	(114)
Revenue Requirement Impact	15,150	34,915

Appendix C details the 2025 and 2026 test year revenue requirement impacts.

While any impacts would be expected to be minor, the 2025 revenue shortfall and financing cost impacts associated with the Application proposals outlined in Appendix C could vary as a result of the Board's order on the 2025/2026 GRA.²⁶ For this reason, the Application does not propose specific amounts for the revisions to the proposed 2025 and 2026 test year revenue requirements related to the 2025 revenue shortfall and financing cost impacts.

Final adjustments for these revenue requirement components can be determined in the compliance application associated with the Board's order on the 2025/2026 GRA.²⁷

²⁵ The financing impacts are outlined in the *Revenue Shortfall and Financing Effects* column in Appendix C.

²⁶ Revisions to test year forecasts following a Board order on a GRA typically impact proposed revenue shortfall/surplus and financing cost amounts.

²⁷ For further discussion on regulatory process, see section 4.0 of this report.

3.4 Customer Rates

The customer rate impact associated with the Application proposals is an overall average increase of 4.3%.²⁸ The customer rate impact is consistent with the estimated impact outlined in the Framework.²⁹ Consistent with customer rate proposals in the GRA, Newfoundland Power would apply the average 4.3% increase to each class of service, to the extent possible.

In the Framework, Newfoundland Power provided that it would consider a mechanism to offset the customer rate impact associated with rebasing power supply costs on July, 1 2025 and deferring its impact to July 1, 2026. Subsequently, the Board issued Order No. P.U. 16 (2024) associated with the July 1st rate adjustment (“July 1, 2024 RSA/MTA Application”), which directed the Company to take steps to smooth customer rates, beginning on July 1, 2024. The order also directed Newfoundland Power to address customer rate smoothing over the 2025 to 2027 timeframe in its July, 1 2025 RSA/MTA Application.³⁰

Newfoundland Power is committed to, and supportive of, reasonable customer rate smoothing measures over the 2025 to 2027 timeframe. The Company will work with the parties on this matter in advance of the annual July 1st rate adjustment process for 2025. Consistent with the Framework, any customer rate smoothing measures would defer the 4.3% customer rate impact associated with the Application proposals from July 1, 2025 to July, 1 2026.³¹

4.0 Regulatory Process

Board orders on the Application and Newfoundland Power’s 2025/2026 GRA will both impact customer rates to be effective July 1, 2025. In general, the order on the 2025/2026 GRA will set the revenue requirements, excluding power supply costs to be reflected in base rates while the order on the Application will set the power supply costs to be reflected in base rates.

Together, the two Board orders will determine the base rates to be effective July 1, 2025.

²⁸ Change in 2026 test year revenue requirement (in \$000s) of \$34,915 + municipal tax effects of \$860 = change in customer billings of \$35,775. Change in customer billings of \$35,775 / existing customer billings of \$835,762 (see *Exhibit 10* in the *2025/2026 GRA*) = 4.3%.

²⁹ Newfoundland Power notes that the 4.3% impact is also consistent with the rebasing scenario using the current wholesale rate provided in in *Schedule A, Attachment 1* of *PUB Information Request (i)* filed with the Board on December 13, 2023. Beyond the benefit of lower power supply costs that will start January 1, 2025 and continue indefinitely under the new wholesale rate, the rebasing of power supply costs as proposed in the Application will result in a zero forecast ESCV balance on December 31, 2025. This is because the Application proposes the rebasing of power supply costs effective January 1, 2025 to match the date of the new wholesale rate. This compares to a forecast ESCV balance of \$24.4 million as of December 31, 2025 under the rebasing scenario provided in *PUB Information Request (i)*, as power supply costs were rebased as of the effective date of the rate change (July 1, 2025) in that scenario, consistent with longstanding practice. That \$24.4 million ESCV balance as of December 31, 2025 would create an additional customer rate pressure of approximately 2.9% on July 1, 2026 (\$24.4 million / existing customer billings of \$835.8 million that will not occur if the Application is approved.

³⁰ Order No. P.U. 16 (2024) - Reasons for Decision, page 6, lines 3-6.

³¹ Consistent with customer rate smoothing approach used the for July 1, 2024 customer rate change, the deferral of the 4.3% customer rate impact on July 1, 2025 would be achieved through limiting the recovery of Newfoundland Power’s RSA at March 31, 2025.

The July 1, 2025 RSA/MTA Application will provide the final rates to be effective July 1, 2025. That application will include customer rate smoothing proposals in compliance with Order No. P.U. 16 (2024) and consistent with the Framework.

The Company respects that the Board will set the process for July 1, 2025 customer rates. To assist the Board in determining that process, Newfoundland Power suggests the following:

- The Company will file one combined application in compliance with both the Board order on the Application and on the 2025/2026 GRA (the “Compliance Application”) six weeks following the issuance of the later of the two orders. For example, if both orders were issued on December 31, 2024, Newfoundland Power would file its Compliance Application in mid-February, 2025.

The Compliance Application would include all proposals that impact base rates to be effective July 1, 2025 including base rate revenue requirements, average rate base, return on rate base and the 2025 revenue shortfall amount.

Board orders on both the Application and the 2025/2026 GRA by December 31, 2024 would allow the Application proposals to be effective on January 1, 2025.³² Without both orders by year-end 2024, further regulatory mechanisms would be necessary to ensure there are no adverse impacts on Newfoundland Power, Hydro or customers associated with the implementation of a new wholesale rate on January 1, 2025.³³

- Both the Board’s order on the Compliance Application and Hydro’s annual July 1st utility rate adjustment application impact the Company’s July 1, 2025 RSA/MTA Application.

Newfoundland Power will file its July 1, 2025 RSA/MTA Application approximately two weeks following the issuance of the latest of the Board’s order on the Compliance Application or Hydro’s annual July 1st utility rate adjustment application. For example, if the order on the Compliance Application was issued and Hydro’s application was filed in mid-April 2025, Newfoundland Power would file its annual July 1st customer rate application in early May, 2025.

5.0 Conclusion

All proposals included in the Application are consistent with the Wholesale Rate Settlement Agreement and the associated Framework. The Application proposals to flow-through a revised

³² The Application is proposing that the 2025 and 2026 test year revenue requirements proposed in the 2025/2026 GRA be revised for the new wholesale rate and rebasing of power supply costs, effective January 1, 2025. Accordingly, the approval of the test year revenue requirements ahead of, or on the same date as, the approval of the Application, would allow the Application proposals to be effective on January 1, 2025.

³³ Without an order on the 2025/2026 GRA by December 31, 2024, customer rates in 2025 will continue to reflect the 2023 test year revenue requirements. In that scenario, a regulatory mechanism would be necessary to ensure there are no adverse impacts from the flow through of a new wholesale rate on January 1, 2025. The regulatory mechanism would be similar, if not the same, as the mechanism outlined in paragraph II.4 of the *Rate Stabilization Clause* on page 17 of Newfoundland Power’s *Schedule of Rates, Rules and Regulations*, effective August 1, 2024.

wholesale rate and rebasing power supply costs set the power supply costs to be recovered through 2025 and 2026 base rate revenue requirements.

Addressing the Board's order on the Application and on the 2025/2026 GRA in a combined compliance application will allow matters impacting July 1, 2025 base rates to be approved in an orderly fashion. Final customer rates incorporating the approved base rates, along with customer rate smoothing, can then be approved by the Board as part of the annual July 1st customer rate process for 2025.

Newfoundland Power is committed to, and supportive of, reasonable customer rate smoothing measures over the 2025 to 2027 timeframe. The Company will work with the parties on this matter in advance of the annual July 1st rate adjustment process for 2025.

**Appendix A:
The Wholesale Rate Settlement Agreement and Framework**

IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the “Act”); and

IN THE MATTER OF an application by Newfoundland Power Inc. (“Newfoundland Power” or the “Applicant”) to establish customer electricity rates for 2025 and 2026 (the “Application”).

**Settlement Agreement
for the Proposed Resolution of Issues Arising
from the Application**

WHEREAS the Applicant has filed the Application with the Board of Commissioners of Public Utilities of Newfoundland and Labrador (the “Board”);

AND WHEREAS the Consumer Advocate, Newfoundland and Labrador Hydro (“Hydro”), and the International Brotherhood of Electrical Workers, Local 1620 (“IBEW”) have been granted Intervenor status by the Board;

AND WHEREAS the Applicant, the Consumer Advocate and Hydro (the “Parties”) have engaged in negotiations;

AND WHEREAS the Parties, along with the IBEW and Board hearing counsel, have entered into a Settlement Agreement dated June 4, 2024, for the resolution of certain issues arising from the Application (the “Initial Settlement Agreement”); and

AND WHEREAS the Parties have agreed to make further joint recommendations to the Board for the resolution of additional issues arising from the Application.

A. Terms of Agreement

1. The Parties jointly advise the Board that in addition to the issues settled in the Initial Settlement Agreement, additional issues arising from the Application have been settled by negotiation between them in accordance with this Settlement Agreement (the “Settled Issues”).
2. The Parties recommend that the Board implement the agreement of the Parties regarding the Settled Issues in its order on the Application.

3. At the hearing of the Application, the Parties do not intend to present evidence, examine, cross-examine or present argument in relation to the Settled Issues beyond that which is reasonably necessary to assist the Board's understanding, and to explain or clarify the Parties' agreement concerning the Settled Issues, except insofar as may be necessary to address issues that have not been settled by this Agreement.
4. This Settlement Agreement does not dispose of all issues arising from the Application. It does not limit the rights of the Parties to present evidence, examine, cross-examine and present argument at the hearing of the Application on issues that have not been settled by this Agreement.
5. This Agreement is without prejudice to the positions the Parties may take in proceedings other than the Application. It sets no precedent for any issue addressed in this Agreement in any future proceeding or forum.

B. Settled Issues

Wholesale Rate

6. The Parties agree that it is desirable to establish a new wholesale rate that reflects current marginal energy costs. Hydro and Newfoundland Power have agreed to apply to the Board to revise the wholesale rate effective January 1, 2025, as more particularly described in the Wholesale Rate Revision Framework provided at Schedule A (the "Framework").
7. Hydro will file its application for a new wholesale rate with the Board on or about September 15, 2025 subject to the Framework and the principles outlined therein, and Newfoundland Power will file its flow-through application on the same date. The applications will be subject to review by the Board and the final wholesale rate will be established by an order of the Board.
8. The Parties agree that the Board should order the Applicant to rebase its power supply costs as part of its flow-through application.

[Signature page follows]

AGREED to effective the 12th day of June, 2024.

For Newfoundland Power:

Andrew Hallett.

For the Consumer Advocate:

[Signature]

For Newfoundland and Labrador Hydro:

SWalsh

Schedule A

Wholesale Rate Revision Framework

WHOLESALE RATE REVISION FRAMEWORK

June 2024

Introduction

- The current wholesale rate was approved by the Board in Order No. P.U. 30 (2019) and is based on Hydro's 2019 test year revenue requirement. The second energy rate block rate of 18.165¢ per kWh in the wholesale rate is based on the cost of fuel at Holyrood, which was the marginal cost of energy at that time.
- Newfoundland Power and Hydro have agreed to revise the wholesale rate effective January 1, 2025 to reflect current marginal energy costs, based on energy exports with the Labrador-Island Link being commissioned in 2023.
- The revised wholesale rate will be in place until a further order of the Board, anticipated to be associated with Hydro's next general rate application. Further adjustments to the revised wholesale rate would be considered at that time.
- Customer benefits of the revised wholesale rate implemented on January 1, 2025 include lower marginal power supply energy costs and a reduction in July 1st customer rate change volatility. The revised wholesale rate will also reduce cash flow volatility for Newfoundland Power.

The Revised Wholesale Rate

- The revised wholesale rate is based on Hydro's 2019 test year revenue requirement, with no change in the total revenue requirement. There would only be a change in the energy revenues collected between the first and second energy blocks. As such, there would be no customer rate impact associated with Hydro's application to revise the wholesale rate.
 - Second block energy rate is based on 2025 forecast marginal energy rates including an average rate for a winter block (December to March) and an average rate for all remaining months (April to November).
 - First block energy rate is based on collecting Hydro's 2019 test year energy revenues minus those collected in the second block.
 - There is no change at this time in other wholesale rate components, such as the demand rate.

- A draft of the revised wholesale rate is provided in Attachment A.
 - The final wholesale rate applied for by Hydro may have adjustments to the attached version related to any available update to 2025 marginal energy costs before filing as well as any agreed upon changes in the blocking structure.
 - Hydro and Newfoundland Power also to review the practicality of updating the marginal energy costs on an annual basis.

Process

- Hydro files an application with the Board to revise the wholesale rate on or about September 16, 2024 subject to the following principles:
 - Wholesale rate implementation on January 1, 2025 would have no customer rate impact.
 - There would be no adverse impact to Hydro’s industrial customers.
 - Customer rate changes are maintained consistent with OC2024-062 and the Government of Newfoundland and Labrador’s rate mitigation plan.
- At this point, no issues have been identified which would prevent filing an application for approval of a change in the wholesale rate structure.
- Newfoundland Power would file its application on the same date so both applications could be considered together by the Board.
 - The application would “flow-through” the impact of the revised wholesale rate on Newfoundland Power’s approved 2025 and 2026 test year revenue requirements.
 - Power supply costs would be rebased as part of Newfoundland Power’s application. Customer rate revisions from rebasing power supply costs for 2025 and 2026 would occur on the same date of the customer rate increase associated with Newfoundland Power’s GRA, which is proposed to be July 1, 2025.
- A Board order by mid-December, 2024 would allow the new wholesale rate to be implemented on January 1, 2025.

Estimated Revenue Requirement and Customer Rate Impacts

- Table 1 on the following page provides the overall customer rate impact difference between the current wholesale rate and the revised wholesale rate.

Table 1:
Estimated Revenue Requirement Impacts: Power Supply Costs
(\$millions)

	2025	2026
Draft new wholesale rate	519	516
Current wholesale rate	531	522
Difference	(12)	(6)
Estimated customer rate impact (July 1, 2025)		-0.7%

- The estimated customer rate impact is based on the 2026 revenue requirement associated with power supply costs and excludes 2025 revenue shortfall impacts.
 - The 2025 revenue shortfall would increase by an estimated \$13 million – amortization impact of ~\$6 million, or 0.7% increase (July 1, 2025). This results in an offsetting impact with the -0.7% in Table 1.

- Base on the above offsetting impacts, the rebasing of power supply costs with the revised wholesale rate would be an estimated 4.3% on July 1, 2025, which is substantially the same impact as the rebasing impact with the current wholesale rate.
 - The revised wholesale rate would provide certainty associated with RSA balances declining by March 31, 2026, resulting in a rate decrease on July, 1, 2026 associated with the RSA (in the range of 4% to 5%).
 - There is potential to smooth the customer rate impacts between July 1, 2025 and July 1, 2026. As part of its flow-through application, Newfoundland Power will consider a mechanism to offset the customer rate impact associated with rebasing power supply costs on July, 1 2025 and deferring its impact to July 1, 2026.

**Draft Revsied Whoelsale Rate (June 2024)
Based on Hydro's 2019 Test Year Billing Determinints**

	Blocks						
Q1	590						
Q2	290		1st BI Mills		Excess Mills		
Q3	130		84.02		100.70	Winter Dec, Jan, Feb & Mar	Demand \$/kW
Q4	250		84.02		34.87	Other Apr to Nov	\$ 5.00

Re : Purchased Power Expense (\$000s)

Month	Energy Charges						Demand Charges						Purchased Power
	Purchased GWH	1st Block GWh	Mills /KWH	Total 1st Block	Excess GWh	Mills /KWH	Total Excess	Native Peak	Credit	Billing Demand	\$/kW	Total Demand	
January	715.4	590.0	84.02	\$ 49,572	125.4	100.70	\$ 12,631	1,392.74	129.054	1,263.689	\$ 5.00	\$ 6,318	\$ 68,521
February	648.5	590.0	84.02	49,572	58.5	100.70	5,891	1,392.74	129.054	1,263.689	5.00	6,318	61,781
March	646.0	590.0	84.02	49,572	56.0	100.70	5,635	1,392.74	129.054	1,263.689	5.00	6,318	61,526
April	527.7	290.0	84.02	24,366	237.7	34.87	8,290	1,392.74	129.054	1,263.689	5.00	6,318	38,974
May	421.7	290.0	84.02	24,366	131.7	34.87	4,594	1,392.74	129.054	1,263.689	5.00	6,318	35,278
June	345.2	290.0	84.02	24,366	55.2	34.87	1,924	1,392.74	129.054	1,263.689	5.00	6,318	32,608
July	307.9	130.0	84.02	10,923	177.9	34.87	6,203	1,392.74	129.054	1,263.689	5.00	6,318	23,444
August	300.5	130.0	84.02	10,923	170.5	34.87	5,945	1,392.74	129.054	1,263.689	5.00	6,318	23,186
September	314.5	130.0	84.02	10,923	184.5	34.87	6,435	1,392.74	129.054	1,263.689	5.00	6,318	23,676
October	413.7	250.0	84.02	21,005	163.7	34.87	5,708	1,392.74	129.054	1,263.689	5.00	6,318	33,032
November	495.5	250.0	84.02	21,005	245.5	34.87	8,560	1,392.74	129.054	1,263.689	5.00	6,318	35,883
December	664.1	250.0	84.02	21,005	414.1	100.70	41,697	1,392.74	129.054	1,263.689	5.00	6,318	69,020
Total	<u>5,800.7</u>	<u>3,780.0</u>		<u>\$ 317,596</u>	<u>2,020.7</u>		<u>\$ 113,512</u>					<u>\$ 75,821</u>	<u>\$ 506,929</u>

Total purchased power provided by existing wholesale rate structure \$ 506,967

Difference (38)

**Appendix B:
2025 and 2026 Test Year Power Supply Cost Impacts**

Newfoundland Power Inc.

Revised 2025 and 2026 Test Year Power Supply Costs
Adjusted for the flow-through of Hydro's revised wholesale rate change
(S000s)

	2025 Test Year Forecast ¹						
	Purchased Energy (GWh)	Billing Demand (MW)	Demand - Energy Rate				Total
			Demand Charge	1 st Block	2 nd Block Winter	2 nd Block Other	
Revised 2025 Test Year ²	5,903.7	1,346.205	80,772	321,867	68,755	47,451	518,845
2025 Test Year ³	5,903.7	1,346.205	80,772	96,782	197,809	155,265	530,628
Change	-	-	-	225,085	(129,054)	(107,814)	(11,783)

	2026 Test Year Forecast ¹						
	Purchased Energy (GWh)	Billing Demand (MW)	Demand - Energy Rate				Total
			Demand Charge	1 st Block	2 nd Block Winter	2 nd Block Other	
Revised 2026 Test Year ²	5,862.1	1,334.811	80,089	321,867	67,022	46,654	515,632
2026 Test Year ³	5,862.1	1,334.811	80,089	96,782	194,563	150,954	522,388
Change	-	-	-	225,085	(127,541)	(104,300)	(6,756)

¹ See the 2025/2026 GRA, Volume 1, Exhibit 7.

² Based upon Hydro's proposed wholesale rate, effective January 1, 2025:

Demand	5.00	\$/kW
1 st Block January to March - 590 GWh	8.515	¢/kWh
1 st Block April to June - 290 GWh	8.515	¢/kWh
1 st Block July to September - 130 GWh	8.515	¢/kWh
1 st Block October to December - 250 GWh	8.515	¢/kWh
2 nd Block Winter Dec to Mar	9.698	¢/kWh
2 nd Block Other Apr to Nov	3.354	¢/kWh

³ Based upon Hydro's current wholesale rate, effective October 1, 2019:

Demand	5.00	\$/kW
1 st Block November to April - 410 GWh	2.444	¢/kWh
1 st Block May to October - 250 GWh	2.444	¢/kWh
2 nd Block	18.165	¢/kWh

**Appendix C:
2025 and 2026 Test Year Revenue Requirement Impacts**

Newfoundland Power Inc.

Revised 2025 Test Year Revenue Requirement

*Adjusted for the flow-through of Hydro's wholesale rate change and rebasing of power supply costs
(\$000s)*

	<u>2025 Test Year (Proposed)</u> ¹	<u>Impacts of Revised Utility Base Rate</u> ²	<u>Rebasing</u> ³	<u>Revenue Shortfall and Financing Effects</u>	<u>2025 Test Year (Revised)</u>
Costs					
Power Supply Cost	530,628	(11,783)	-	-	518,845
Operating Costs	81,903	-	-	-	81,903
Employee Future Benefit Costs	8,122	-	-	-	8,122
Deferred Cost Recoveries and Amortizations	(11,571)	-	-	(12,580)	(24,151)
Depreciation	83,143	-	-	-	83,143
Income Taxes	27,466	-	-	53	27,519
Return on Rate Base	719,691	(11,783)	-	(12,527)	695,381
Return on Rate Base	104,049	-	-	(731)	103,318
		-			
2025 Revenue Requirement	823,740	(11,783)	-	(13,258)	798,699
Adjustments					
Other Revenue	(9,223)	-	-	26	(9,197)
Interest on Security Deposits	72	-	-	-	72
Energy Supply Cost Variance Adjustments	(40,165)	-	40,165	-	-
Demand Management Incentive Adjustments	-	-	-	-	-
Other Transfers to RSA	(5,654)	-	-	-	(5,654)
	(54,970)	-	40,165	26	(14,779)
2025 Revenue Requirement from Base Rates	768,770	(11,783)	40,165	(13,232)	783,920

¹ See the 2025/2026 GRA, Volume 1, Exhibit 7, page 1 of 2.

² See Appendix B.

³ Rebasing of power supply energy costs.

Newfoundland Power Inc.

Revised 2026 Test Year Revenue Requirement

*Adjusted for the flow-through of Hydro's wholesale rate change and rebasing of power supply costs
(\$000s)*

	<u>2026 Test Year (Proposed)</u>	<u>Revised Utility Base Rate</u>	<u>Rebasing</u>	<u>Revenue Shortfall and Financing Effects</u>	<u>2026 Test Year (Revised)</u>
Costs					
Power Supply Cost	522,388	(6,756)	-	-	515,632
Operating Costs	84,940	-	-	-	84,940
Employee Future Benefit Costs	1,812	-	-	-	1,812
Deferred Cost Recoveries and Amortizations	9,888	-	-	6,290	16,178
Depreciation	86,691	-	-	-	86,691
Income Taxes	27,541	-	-	53	27,594
	<u>733,260</u>	<u>(6,756)</u>	<u>-</u>	<u>6,343</u>	<u>732,847</u>
Return on Rate Base	104,667	-	-	(167)	104,500
2026 Revenue Requirement	837,927	(6,756)	-	6,176	837,347
Adjustments					
Other Revenue	(6,860)	-	-	-	(6,860)
Interest on Security Deposits	72	-	-	-	72
Energy Supply Cost Variance Adjustments	(35,495)	-	35,495	-	-
Demand Management Incentive Adjustments	-	-	-	-	-
Other Transfers to RSA	(6,042)	-	-	-	(6,042)
	<u>(48,325)</u>	<u>-</u>	<u>35,495</u>	<u>-</u>	<u>(12,830)</u>
2026 Revenue Requirement from Base Rates	<u>789,602</u>	<u>(6,756)</u>	<u>35,495</u>	<u>6,176</u>	<u>824,517</u>

¹ See the 2025/2026 GRA, Volume 1, Exhibit 7, page 2 of 2.

² See Appendix B.

³ Rebasing of power supply energy costs.