

1 **Section 5: Customer Rates**

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3 **Q. (Section 5, page 5-7) It is stated “Newfoundland Power assesses the fairness of its**
4 **customer rates by comparing the revenue collected from each class with the cost to**
5 **serve that class, as determined through an embedded cost of service study (the**
6 **“revenue-to-cost ratio”).”**

7 **a) Is this the only measure of fairness of customer rates used by Newfoundland**
8 **Power?**

9 **b) How relevant is this test given that Newfoundland Power’s last load research**
10 **study was completed in 2006, 18 years ago?**

11 **c) When is the current load research study expected to be completed?**

12
13 **A. a) Maintaining revenue-to-cost ratios for each customer rate class within a range of 90%**
14 **to 110% is an accepted approach to achieving fairness in rate design by avoiding**
15 **undue cross-subsidization among the various classes. This is consistent with the**
16 **longstanding view of the Board as expressed in Order No. P.U. 7 (1996-97), which**
17 **states:**

18
19 *“The Board agrees with the philosophy that it is not necessary to achieve a 100%*
20 *revenue to cost ratio for all classes and takes no exception to a variance of up to*
21 *10%.”*

22
23 **b) Newfoundland Power periodically completes load research studies to ensure**
24 **estimates of class demand requirements remain reasonably accurate for cost of**
25 **service purposes. Load research studies take multiple years to complete and are**
26 **expensive for utilities to conduct. Newfoundland Power’s most recent load research**
27 **study was based on customer load data collected over three winter seasons from**
28 **December 2003 to March 2006. The corresponding load research study was**
29 **completed on June 16, 2006 and was filed as part of the Company’s 2008 General**
30 **Rate Application. Newfoundland Power’s load research study prior to the 2006 load**
31 **research study was completed 12 years prior, from 1992 to 1994.**

32
33 **Load research from recent years would not have been useful for the purpose of**
34 **allocating costs between customer rate classes due to the COVID-19 pandemic.¹**
35 **From 2020 through 2022, the COVID-19 pandemic resulted in abnormal customer**
36 **usage patterns. As a result, load research data collected during this period would not**
37 **have been appropriate for the purpose of cost allocation.**

38
39 **Commencement of an updated load research study formed part of the Settlement**
40 **Agreement in relation to Newfoundland Power’s 2022/2023 General Rate**
41 **Application.² The timing of the updated load research study is appropriate since the**
42 **COVID-19 pandemic has concluded and customer load profiles are no longer**

¹ On March 18, 2020 a public health emergency was declared in Newfoundland and Labrador due to the COVID-19 pandemic. Newfoundland and Labrador ended its COVID-19 public health emergency in March 2022.

² See Order No. P.U. 3 (2022) Amended No. 2, page 7, lines 10-13.

1 influenced by public safety measures. Updated load research during the study period
2 will also capture the effects of recently introduced electrification initiatives including
3 oil-to-electric conversions, heat pump adoption, and increased adoption of electric
4 vehicles. Any material changes in electricity rates due to recovery of Muskrat Falls
5 Project costs and government rate mitigation plans are also more likely to occur
6 during the study period.³
7

8 Since completing the 2006 Load Research Study, Newfoundland Power has obtained
9 customer information and completed various load research analyses aimed at
10 providing insight on particular demand management options and respective customer
11 usage patterns. This includes completing comprehensive market potential studies
12 every five years, which consider customer usage effects from current and future
13 market technologies such as heat pumps and electric vehicles.⁴ It also includes
14 gathering information and usage data associated with heat pumps.⁵ To date, there has
15 been no indication that it would be unreasonable to base demand allocations in annual
16 cost of service studies on the results of the 2006 Load Research Study.
17

- 18 c) Newfoundland Power anticipates initial results from the updated load research study
19 results to be available in 2025 following the 2024-2025 winter season. If required,
20 and in consultation with the Company's load research consultant, the load research
21 study may be extended to future winter seasons in accordance with the Load Research
22 and Rate Design Framework.⁶

³ In its December 15, 2023 letter *Re: Quarterly Update – Items Impacting the Delay of Hydro's Next General Rate Application*, Hydro stated that, "Contingent on the finalization of the details of the Government's rate mitigation plan, Hydro expects to file its next GRA in 2025."

⁴ For Newfoundland Power's latest potential study, see the *2022/2023 General Rate Application, Volume 2, Supporting Materials, Tab 7, Electrification, Conservation and Demand Management Plan: 2021-2025, Schedule C*.

⁵ Newfoundland Power filed its *Econoler Heat Pump Load Study – Annual Results Report*, October 26, 2021 with the Board as Appendix B to the *2021 Conservation and Demand Management Report*, April 1, 2022. The *Econoler Heat Pump Load Study – Fourth Winter Savings Final Report*, dated February 14, 2024, supported the results of the *Econoler* October 26, 2021 report.

⁶ Newfoundland Power's *Load Research and Rate Design Framework* was filed with the Board on December 30, 2022. Due to supply chain constraints, Newfoundland Power was unable to acquire the necessary interval load meters for the 2023-2024 winter season.