

1 **Volume 2: Cost of Service**
2

- 3 **Q. References: “2025/2026 General Rate Application,” Newfoundland Power Inc.,**
4 **December 12, 2023, vol. 2, Reports, “Cost of Service Study,” app. A, sch. 5.2 and**
5 **sch. 5.3 and part a) of Newfoundland Power’s response to CA-NP-003 filed as part**
6 **of the ongoing 2024 Return on Rate Base Application proceeding**
7 **a) In Schedule 5.3, Newfoundland Power increased Street Light Revenue by \$4,432**
8 **for the “Required Rate Change to meet 8.36% RORB.” Please explain why LED**
9 **street lights require a rate change to meet a 8.36% return on rate base**
10 **(“RORB”) and whether or not this rate change is proposed elsewhere in the**
11 **2025/2026 General Rate Application.**
12 **b) Please provide the “detail analysis of all LED fixtures at January 1, 2022”**
13 **referenced in Schedules 5.2 and 5.3. If any LED Street light *pro forma***
14 **adjustments are not detailed in the analysis, please provide additional**
15 **supporting calculations.**
16 **c) Why did Newfoundland Power feel that it was appropriate to implement**
17 ***pro forma* adjustments on their street light expenses because of the LED Street**
18 **Light Replacement Program but not for other initiatives that will impact the**
19 **Cost of Service Study in the future, such as the initiatives described in part a) of**
20 **Newfoundland Power’s response to CA-NP-003 filed as part of the ongoing**
21 **2024 Return on Rate Base Application proceeding?**

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23 **A. a) The average increase in customer rates proposed in the Application of 5.5% is based**
24 **on Newfoundland Power’s 2025 and 2026 proposed revenue requirements. Given**
25 **revenue-to-cost ratios for each class of service in the cost of service study is between**
26 **90% and 110%, Newfoundland Power is proposing to apply the average increase to**
27 **each class of service.¹**

28
29 The *pro forma* adjustments in the cost of service study, including the adjustment
30 related to the *LED Street Lighting Replacement Plan* (the “Plan”), are only used to
31 assess the revenue-to-cost ratios for cost allocation purposes, and have no impact on
32 the revenue requirements and customer rates proposed in the Application.²

¹ For further information on the purpose of Newfoundland Power’s cost of service study, see the *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 5, Customer Rates, 5.3.1 Embedded Cost of Service Study*.

² For clarity, the proposed 2024 revenue requirement outlined in the *2024 Rate of Return on Rate Base Application* would also have no impact on the *2022 Cost of Service Study*.

1 Table 1 provides the total *pro forma* adjustments included in the 2022 *Cost of Service*
2 *Study*.

Table 1:
2022 *Cost of Service Study*
***Pro Forma* Adjustments**
(\$000s)

Return and Taxes ³	1,586
Purchase Power Expense ⁴	(919)
Operating Expenses ⁵	29
Depreciation Expense ⁶	<u>628</u>
Total <i>Pro Forma</i> Street Lighting Cost Savings	1,324
Revenue Savings related to Street Lighting ⁷	(1,254)
Revenue Adjustment ⁸	<u>(1,845)</u>
Total <i>Pro Forma</i> Revenue Savings	(3,099)
2022 <i>Pro Forma</i> Cost of Service Study Adjustments	4,423

3 The Plan began in 2021 and is expected to be completed by the end of 2026. The Plan
4 involves replacing all of the Company's HPS fixtures with LED fixtures.⁹
5 Implementation of the Plan in 2021 resulted in an annual reduction in Newfoundland
6 Power's street lighting operating costs of approximately \$1.8 million. The annual
7 reduction in operating costs can only be sustained by completing the capital work
8 outlined in the Plan by 2026.

9
10 By the end of 2022, only a portion of the capital costs had been expended and
11 therefore reflected in the 2022 *Cost of Service Study*. To allow for an assessment of
12 the street lighting revenue-to-cost ratios, which includes all cost and revenue impacts
13 associated with the Plan, the *pro forma* adjustments were made to the 2022 *Cost of*
14 *Service Study* to reflect the expected remaining costs and revenue impacts related to
15 the Plan, as detailed in Table 1.

³ Additional return from increase in rate base reflecting the additional LED fixtures.

⁴ Approximate purchase power savings resulting from lower usage from LED fixtures compared to high pressure sodium ("HPS") fixtures.

⁵ Reflecting impact of inflation on 2022 street light operating expenses to 2026.

⁶ Depreciation impacts from additional rate base for the LED streetlight additions through 2026.

⁷ Revenue savings from additional LED fixtures replacing the outstanding HPS fixtures through 2026.

⁸ Revenue adjustment to reflect March 1, 2022 rate decrease approved in Order No. P.U. 3 (2022) for January and February 2022.

⁹ See Newfoundland Power's 2021 *Capital Budget Application* for fulsome information on the *LED Street Lighting Replacement Plan*.

1 There is also a *pro forma* adjustment related to a revenue adjustment to reflect the
2 March 1, 2022 rate decrease approved in Order No. P.U. 3 (2022) to be in place for
3 the full year. Adjusting a cost of service study in this manner is standard practice.
4

5 The adjustment outlined in Schedule 5.3 in the *2022 Cost of Service Study* is required
6 so that total 2022 revenue and costs after the *pro forma* adjustments remain equal.¹⁰
7 The adjustment has a minimal impact on 2022 revenue-to-cost ratios and does not
8 impact any proposals included in the *2025/20256 General Rate Application*.
9

10 b) See part a).

11
12 c) See part a).

¹⁰ See, for example, Schedule 1.5 in the *2022 Cost of Service Study* of the *2025/2026 General Ration Application*, Volume 2, *Supporting Materials*.