

1 **Q. C. Douglas Bowman Report, page 3, line 35 to page 4, line 5.**
2

3 **(i) In Mr. Bowman’s opinion is a revision of the Newfoundland Hydro wholesale**
4 **rate to reflect updated marginal costs a necessary pre-condition before rate**
5 **design modifications can be made for Newfoundland Power’s customers to**
6 **improve the marginal cost pricing signal for those customers? If yes, please**
7 **explain why and if not, why does Mr. Bowman recommend that a revised**
8 **wholesale rate be implemented by January 1, 2025?**
9

10 **(ii) Please explain the regulatory process that in Mr. Bowman’s opinion is**
11 **appropriate, including the participation of stakeholders, to review any**
12 **proposed wholesale rate revision and revised Newfoundland Power customer**
13 **rates to reflect the updated wholesale rate. In the response include how, in Mr.**
14 **Bowman’s opinion, the views and interests of Newfoundland Hydro’s**
15 **Industrial Customers with respect to a revised wholesale rate for**
16 **Newfoundland Power would be accommodated in the process.**
17

18 **A. (i) Mr. Bowman does not believe it is a necessary precondition that the wholesale rate**
19 **be updated before retail rate design modifications are made to reflect marginal**
20 **energy costs. Although Mr. Bowman recommends that both the wholesale rate and**
21 **the retail rates be designed to better reflect the marginal cost of energy in the tail-**
22 **block energy charges, changes in the retail rates should be made whether or not**
23 **changes are made to the wholesale rate. He notes that NL Hydro likewise believes**
24 **that a change in the wholesale rate is not a necessary precondition in its response**
25 **to CA-NLH-010.**
26

27 In PUB-NP-004a respecting the wholesale rate, Newfoundland Power states “*The*
28 *Muskrat Falls Project was commissioned in April 2023, which results in a material*
29 *shift in marginal energy costs. Implementation of a new wholesale rate by January*
30 *1, 2025 would allow for the change in marginal costs to be reflected in the*
31 *wholesale rate within a reasonable timeframe. This is consistent with the*
32 *regulatory principle of practical attributes.*” Newfoundland Power goes on to say
33 (PUB-NP-004a) “*there are no customer benefits in maintaining the current*
34 *wholesale rate beyond January 1, 2025.*” Mr. Bowman agrees, and points out that
35 these statements are equally relevant to retail rates. As pointed out in Mr.
36 Bowman’s Pre-filed Evidence (pages 31 and 32) with respect to retail rates “*Tail-*
37 *block energy charges for all customer classes are well above marginal energy*
38 *costs, so are sending inefficient price signals to customers. For example, a*
39 *Domestic customer who is considering buying an electric vehicle would be*
40 *comparing vehicle charging costs at 14.178 cents/kWh rather than the true cost of*
41 *charging at about 5.7 cents/kWh. This distorts customer decisions on purchases of*
42 *electric versus combustion fired vehicles at a time when governments are*

1 *promoting electric vehicle ownership and utilities, including Newfoundland*
2 *Power, own and operate electric vehicle charging stations in the province.” Mr.*
3 *Bowman also points out (page 34 of his Pre-filed Evidence) “The Board states in*
4 *its decision (page 98) following the 1996 hearing “Marginal cost and time-of-use*
5 *design methods should be pursued and will direct the Applicant to pursue*
6 *innovative approaches based on such methodology”.*
7

8 In summary, Mr. Bowman believes it is appropriate to reflect marginal costs in
9 retail rate designs to promote efficient consumption decisions by customers
10 regardless of the wholesale rate design. However, it is preferable that both the
11 wholesale rate and the retail rates be designed to reflect marginal energy costs by
12 January 1, 2025. In addition to promoting efficient consumption decisions,
13 wholesale and retail rate designs that reflect marginal costs tend to balance out load
14 forecasting errors. For example, if both the wholesale rate and retail rates have tail-
15 block energy charges that reflect marginal costs, for example 4 cents/kWh, if sales
16 are under-forecast, Newfoundland Power would be subject to increased costs of
17 power purchases of 4 cents/kWh, but these costs would be balanced out by
18 increased revenues of 4 cents/kWh.
19

- 20 (ii) First, a clarification. The question states “*revised Newfoundland Power customer*
21 *rates to reflect the updated wholesale rate.*” Mr. Bowman is not recommending
22 that retail rates be revised to reflect the updated wholesale rate. He is
23 recommending that retail rates be revised to reflect marginal energy costs in tail-
24 block energy charges regardless of what might happen with the wholesale rate.
25

26 Mr. Bowman notes that Newfoundland Power provides its vision of a regulatory
27 process that would enable implementation of a re-designed wholesale rate by
28 January 1, 2025 (PUB-NP-132). Key components follow:
29

30 *To allow for an implementation date of January 1, 2025, Hydro would target*
31 *a filing date of its application to revise the wholesale rate in August 2024,*
32 *but no later than September 2024. Newfoundland Power would file a*
33 *subsequent application to flow through the revision in the wholesale rate to*
34 *its customers. A Board order approving Newfoundland Power’s application*
35 *would be required by mid-November to ensure any customer rate revisions*
36 *or compliance matters could be dealt with in a timely manner ahead of*
37 *January 1, 2025.*
38

39 *The Company anticipates that the regulatory approval process would take*
40 *approximately three months. This expectation is based on the process*
41 *associated with the annual July 1st rate adjustments, which typically takes*
42 *two to three months to process both utility applications and implement*

1 *customer rates. Certain July 1st rate adjustments have considered the flow-*
2 *through of a revised wholesale rate, including in 2015, 2017 and 2019, all of*
3 *which were completed within a two- to three-month timeline.*
4

5 Mr. Bowman believes this schedule can be achieved while incorporating the views
6 of NL Hydro's other customer classes, including the Industrial Customers. As
7 noted by Newfoundland Power (PUB-NP-004) "*The change in the wholesale rate*
8 *would be relatively straight forward. Hydro's overall 2019 test year revenue*
9 *requirement used to determine the current wholesale rate would not change. The*
10 *change could potentially be an adjustment of revenue recovery between the first*
11 *and second block only."* Mr. Bowman agrees, a change of this type to the wholesale
12 rate is relatively straightforward as the rate design itself is not being changed. The
13 revised rate would be sent to NL Hydro's other customer classes for comment with
14 an explanation that the rate is being modified to better reflect marginal energy costs
15 in the Muskrat Falls era. This would entail a change in the second block energy
16 charge, the first block energy charge, and possibly a change to the size of the first
17 energy block. Presumably, NL Hydro would not be proposing changes to the rates
18 of Hydro's other customer classes, at least at this point in time.
19

20 Mr. Bowman is of the opinion that changes to retail rates would proceed along a
21 parallel path independent of the process associated with the wholesale rate. As
22 stated in Mr. Bowman's Pre-filed Evidence, Recommendation #7, the Board
23 should order *.design of retail rates with tail-block energy charges that are more*
24 *reflective of the marginal cost of energy. The revised rate structures should be*
25 *included as part of the Board's Order on this GRA for implementation on January*
26 *1, 2025."* Mr. Bowman anticipates that Newfoundland Power, NL Hydro and the
27 Consumer Advocate would start on the redesigned rates during the negotiation
28 period currently scheduled for May 21 – 24, 2024. The three parties would agree
29 on a scope of work, objectives and schedule for the study during negotiations.
30 Newfoundland Power would produce revised rates consistent with the scope of
31 work, objectives and schedule, and provide draft retail rates for discussion among
32 the parties by mid-July, 2024. The parties would provide comments and
33 suggestions within three weeks. Newfoundland Power would develop revised rates
34 to take into consideration the comments and suggestions of the parties. A report
35 with the revised rates would be submitted to the Board by September 1, 2024 for
36 inclusion in the Board's Order on the GRA. Upon acceptance by the Board,
37 Newfoundland Power would embark on a customer education program relating to
38 the new rate designs. In fact, only the Domestic customer class would be subject
39 to a change in rate design to accommodate the addition of a second block energy
40 charge.