

**Section 1: Introduction/Proposal Not to Rebase Power Supply Costs**

- Q. Volume 1, Section 1, page 1-9, lines 5-8. It is stated that Newfoundland and Labrador Hydro (“Hydro”) currently expects its earliest timeframe for filing its general rate application to be the latter half of 2024. Further, Additional Information, PUB Information Request (i), page 2 of 5 states: “For these reasons, Newfoundland Power believes it is likely that a new wholesale rate will be implemented as early as January 1, 2025 and no later than January 1, 2026. As such, Newfoundland Power submits that its approach to not rebase power supply energy costs in its 2025 and 2026 test years is reasonable.” However, based on recent correspondence from Hydro with respect to its next General Rate Application (GRA), Hydro will not be filing its GRA until 2025.**
- a) Would it be reasonable to rebase the power supply costs, particularly for 2025, given the most recent information from Hydro regarding the delay in filing its next GRA from the date anticipated at the time Newfoundland Power filed its application?**
- b) Does Newfoundland Power agree that, based on the duration of the regulatory process for recent Hydro general rate applications, it may be early 2027 before a final wholesale rate is implemented if Hydro does not file its general rate application until 2025? If not, why not.**
- c) Assuming a revised wholesale rate structure is not in effect until 2027, would it be reasonable and consistent with regulatory practice and good utility practice for Newfoundland Power’s 2025 and 2026 test years revenue requirements to reflect rebased power supply costs? If the wholesale rate structure is not in effect until 2027, please explain why the Board should approve 2025 and 2026 test years which do not include Newfoundland Power’s rebased power supply costs given that this will result in the delayed recovery of significant 2025 and 2026 power supply costs through the Rate Stabilization Adjustments in July of 2026 and 2027.**
- d) What information is Newfoundland Power planning to provide its customers to ensure transparency with respect to the customer rate impacts resulting from its GRA proposals, including the impacts of the Rate Stabilization Adjustments in 2026 and 2027?**
- A. a) At the time Newfoundland Power’s GRA was prepared, Hydro indicated that its next GRA could be filed as early as the latter half of 2024.<sup>1</sup> This timeline would have allowed for the implementation of a new wholesale rate for the Company as early as January 1, 2025 (i.e. on an interim basis) and no later than January 1, 2026 as part of Hydro’s next GRA.**

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<sup>1</sup> In its September 29, 2023 letter *Re: Quarterly Update – Items Impacting the Delay of Hydro’s Next General Rate Application*, Hydro provided that it expected the earliest timeframe for its next GRA to be the latter half of 2024.

1 Hydro now expects to file its next GRA in 2025.<sup>2</sup> In Newfoundland Power’s view,  
2 this latest delay precludes the ability to implement a new wholesale rate for the  
3 Company that reflects marginal costs as part of a Hydro GRA in a timely manner.  
4

5 Newfoundland Power is currently discussing with Hydro the possibility of  
6 implementing a new wholesale rate on January 1, 2025. The implementation of a new  
7 wholesale rate would be effected through a separate application by Hydro, as opposed  
8 to being part of its next GRA. Newfoundland Power would then file a subsequent  
9 application to “flow-through” the new wholesale rate to its customers.<sup>3</sup> Applications  
10 of a similar nature have occurred in 2015, 2017 and 2019 and were approved by the  
11 Board.<sup>4</sup>  
12

13 There are a number of customer benefits stemming from the implementation of a new  
14 wholesale rate on January 1, 2025, including:  
15

- 16 • The Muskrat Falls Project was commissioned in April 2023, which results in a  
17 material shift in marginal energy costs.<sup>5</sup> Implementation of a new wholesale  
18 rate by January 1, 2025 would allow for the change in marginal costs to be  
19 reflected in the wholesale rate within a reasonable timeframe. This is  
20 consistent with the regulatory principle of practical attributes.<sup>6</sup>  
21
- 22 • The change in the wholesale rate would be relatively straight forward.  
23 Hydro’s overall 2019 test year revenue requirement used to determine the  
24 current wholesale rate would not change. The change could potentially be an  
25 adjustment of revenue recovery between the first and second block only. See  
26 response to Request for Information PUB-NP-007 for further information.  
27
- 28 • Additional energy purchases beyond Hydro’s 2019 test year level of  
29 5,801 GWh would be costed at a marginal rate based on energy exports  
30 (estimated to be 3.5¢ per kWh) as opposed to 18.165¢ per kWh based on the  
31 cost of fuel at Holyrood. Actual 2023 energy purchases were 5,806 GWh. As  
32 such, any sales growth beyond 2023 levels would be costed at the lower  
33 marginal rate, resulting in lower overall costs for customers. This is also  
34 consistent with the regulatory principle of practical attributes, and is  
35 consistent with the Board’s recognition of the importance that correct price  
36 signals are reflected in rates to customers.<sup>7</sup>  
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- 38 • Government electrification initiatives are continuing beyond January 1, 2025,  
39 most notably the electrification of the boilers at Memorial University.

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<sup>2</sup> See Hydro’s December 15, 2023 letter *Re: Quarterly Update – Items Impacting the Delay of Hydro’s Next General Rate Application*.

<sup>3</sup> This process would be separate and follow the completion of Newfoundland Power’s GRA process.

<sup>4</sup> See Order Nos. P.U. 18 (2015), P.U. 23 (2017) and P.U. 31 (2019).

<sup>5</sup> See PUB Information Request (i), Schedule A for further information.

<sup>6</sup> The regulatory principle of practical attributes provides that rates should be simple, understandable and publicly acceptable with a minimum of controversy upon implementation.

<sup>7</sup> See Order No. P.U. 7 (2002-2003), page 60.

1 Implementation of a new wholesale rate on January 1, 2025 would allow for  
2 these initiatives to be costed at an appropriate marginal rate. This is consistent  
3 with the regulatory principle of fair cost appointment and practical attributes.  
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- 5 • A new wholesale rate would result in less volatility in the annual July 1<sup>st</sup> rate  
6 adjustments, which would be good for customers.<sup>8</sup> This is consistent with the  
7 regulatory principle of rate stability.  
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- 9 • A new wholesale rate would allow the Company to better plan its customer  
10 rate designs.  
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12 In Newfoundland Power's view, there are no customer benefits in maintaining the  
13 current wholesale rate beyond January 1, 2025.  
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15 For these reasons, Newfoundland Power maintains that it was reasonable to not  
16 rebase power supply energy costs in its 2025 and 2026 test year revenue requirements  
17 as part of its GRA filing. Further, the Company believes it is reasonable to implement  
18 a new wholesale rate on January 1, 2025 through a separate application, which would  
19 allow for its implementation ahead of Hydro's next GRA.  
20

- 21 b) Newfoundland Power agrees if the implementation of a new wholesale rate was  
22 delayed until Hydro's next GRA, it could be 2027 before a final wholesale rate is  
23 approved and implemented.  
24
- 25 c) Newfoundland agrees that if there were certainty that the current wholesale rate was  
26 to remain in place until December 31, 2026, then it would be reasonable to rebase  
27 power supply energy costs based on the current wholesale rate as part of the  
28 Company's *2025/2026 General Rate Application*.  
29

30 As detailed in part a) of this response, Newfoundland Power believes the  
31 implementation of a new wholesale rate on January 1, 2025 is reasonable.  
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- 33 d) Newfoundland Power has been transparent in communicating the customer rate  
34 proposals effective July 1, 2025 included in its Application.  
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36 Customer rate impacts will differ depending on the implementation date of a new  
37 wholesale rate. In the Company's view, communicating the customer rate impacts of  
38 the recovery of power supply energy costs once there is more certainty on the  
39 wholesale rate that will be in effect in 2025 and 2026 is appropriate.

40 The Company continues to prioritize its discussions with Hydro to gain certainty on  
41 its wholesale rate for 2025 and 2026, with the goal of implementing a new wholesale  
42 rate on January 1, 2025.

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<sup>8</sup> For example, the annual July 1<sup>st</sup> 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%.