Section 5: Customer Rates

Q.

a) Please discuss why it is appropriate to propose customer rates based on a 2026 test year.

b) Assuming a Board decision on the General Rate Application could be implemented in January 2025 with a 2025 test year, what would be Newfoundland Power's forecast revenue shortfall for 2026?

c) What would the customer rate increase be for the scenario presented in part (b)? In the response, provide the rate increase reflecting (i) the rebasing of supply costs for 2025 and (ii) with no-rebasing of supply costs as proposed by Newfoundland Power.

A.

a) It is appropriate to propose customer rates based on a 2026 test year for the following reasons:

(i) It is consistent with the *Electrical Power Control Act, 1994* ("EPCA") which states that customer rates should be established, wherever practicable, based on forecast costs for that supply of power for one or more years.[1]

(ii) It is consistent with past practice of the Board. The Board has approved customer rates based on two test years in a general rate application ("GRA") for more than a decade for both Newfoundland Power and Newfoundland and Labrador Hydro.[2]

(iii) It is consistent with regulatory efficiency, which provides for lower costs for customers. Newfoundland Power's 2025/2026 GRA allows for two years of the Company's costs to be reviewed for the purposes of setting customer rates in one proceeding. The estimated cost of a GRA is $1 million, which does not include Newfoundland Power's costs to prepare its GRA including the cost to retain experts.[3]

(iv) It is consistent with the orderly establishment of customer rates. Newfoundland Power's 2025/2026 GRA, when paired with the July 1st rate adjustment, would result in one customer rate change in the two-year period, 2025 and 2026.[4] In a scenario where the Company's 2025 and 2026 costs and customer rates are reviewed separately, customer rates could change three times in one year (January 1, 2025, July 1, 2025 and January 1, 2026).

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[1] See section 3(a)(ii) of the *Electrical Power Control Act, 1994.*

[2] The Board has approved customer rates associated with the following Newfoundland Power GRAs since 2012: 2013/2014 GRA, 2016/2017 GRA, 2019/2020 GRA and the 2022/2023 GRA. The Board has also approved customer rates associated with Hydro's 2015 GRA (which also included 2014 test year revenue requirements) and its 2017 GRA (which included 2018 and 2019 test years).

[3] See the *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3.5.3 Hearing Costs.*

[4] Excludes any potential impacts associated with Hydro's next GRA.

(v) It is consistent with sound public Canadian utility practice. The Island Regulatory and Appeals Commission (the "IRAC") approved customer rates for a three-year period, 2023 to 2025, following a full review of Maritime Electric's customer rate application filed on June 20, 2022.[5] Nova Scotia Power filed an application on January 27, 2022 to change rates over the three-year period, 2022 to 2024.[6] Further, fulsome reviews of utility costs are typically completed every five years in British Columbia, Alberta and Ontario.[7]

b) Newfoundland Power has not completed a comprehensive analysis associated with implementing a 2025 test year at this time, including the impact it would have on the Company's 2026 financial position.[8]

For purposes of this response, Newfoundland Power estimates its 2026 revenue shortfall, assuming implementation of customer rates on January 1, 2025 based on a 2025 test year, to be approximately $10 million.[9]

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5 See page 2 of IRAC Order UE23-04, April 24, 2023.

6 See page 11 of Nova Scotia Utility and Review Board Decision M10431, February 2, 2023.

7 FortisBC's electricity rates are set over a five-year period using a Multi-Year Rate Plan approach. In Alberta, utilities are regulated on five-year performance-based ratemaking ("PBR") terms. In Ontario, the Ontario Energy Board ("OEB") has three rate-setting options, which also provides for a full review of costs every five years.

8 The preparation of a test year includes the development of a revenue requirement and customer rates based on a specific customer rate implementation date, the rebasing of employee future benefit and power supply costs (e.g. demand costs), incorporation of proposals specific to that GRA and other adjustments such as for price elasticity and RSA balances. For the subsequent year (2026 in this scenario), the forecast year would be impacted by the proposals associated with the latest approved test year, including the operation of regulatory mechanisms, such as the DMI Account, PEVDA and OPEVDA.

9 Based on forecast increases in operating costs, depreciation expense and average rate base in 2026 forecast compared to 2025 forecast.

c) Table 1 provides *pro forma* customer rate impacts for the scenarios requested.[10]

Table 1:
***Pro Forma* 2025 Revenue Requirement and Customer Rate Impacts**
($millions)

Pro forma revenue requirement[11]	782.2
Existing revenue requirement[12]	751.3
Change in revenue requirement	**30.9**
Customer billing effects[13]	4.5
Total change in customer billings	**35.4**
Pro forma customer rate impact[14]	**4.2%**
Rebasing of power energy supply costs[15]	4.5%
Pro forma customer rate impact, including rebasing	**8.7%**

[10] The analysis excludes price elasticity effects associated with the change in rate impact resulting from using a 2025 test year and rebasing of power supply energy costs.

[11] See the *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Exhibit 7,* page 1 of 2. The pro forma 2025 revenue requirement is estimated as the 2025 revenue requirement of $768.8 million less removal of the impact of the 2025 revenue shortfall of ($13.4) million.

[12] See the *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Exhibit 7,* page 1 of 2.

[13] *Pro forma* customer billing effects related to RSA, MTA and price elasticity.

[14] $35.4 million change / 2025 existing customer billings of $842.8 million.

[15] Based on the customer rate impact difference between rebasing and no rebasing in the January 1, 2025 rate implementation date scenario provided in the response to Request for Information PUB-NP-006.