

**NO. P.U. 10(2007)**

**IN THE MATTER OF** the  
**PUBLIC UTILITIES ACT, RSNL, 1990,**  
c. P-47, as amended (*the "Act"*)

**AND**

**IN THE MATTER OF** the Purchased Power  
Unit Cost Variance Reserve Account  
(the "Reserve Account") established by  
Order No. P.U. 35 (2005);

**AND**

**IN THE MATTER OF** an application  
by Newfoundland Power Inc. ("NP")  
for an Order of the Board:

- (i) Deferring Consideration of the  
Disposition of the Balance in the  
Reserve Account; and
- (ii) Approving a Revised Definition of the Reserve Account  
in Newfoundland Power's System of Accounts  
Pursuant to Sections 58 and 70 of the Act.

**WHEREAS** NP is a corporation organized and existing under the laws of the Province of  
Newfoundland and Labrador, is a public utility within the meaning of the *Act*, and is also subject to  
the provisions of the *Electrical Power Control Act, 1994*; and

**WHEREAS** in Order No. P.U. 44 (2004) the Board approved, among other things: (i) a demand  
and energy rate to be charged to NP effective January 1, 2005 as proposed by Newfoundland and

Labrador Hydro (“Hydro”) in its application of July 30, 2004; (ii) a three-year phase-in of the demand and energy rate to NP, during which adjustments to the demand and energy rate would be subject to further application by Hydro; and (iii) the establishment of a reserve mechanism as proposed by NP in its submission filed with the Board on September 3, 2004; and

**WHEREAS** the reserve mechanism approved by Order No. P.U. 44 (2004) included the following parameters: (i) an initial deadband of \$588,000 for which no reserve transfers would be required (the “Reserve Deadband”); and (ii) use of forecast unit costs as the basis for comparison against actual unit costs in determining the variance in purchased power costs and the amount, if any, to be transferred to or from the reserve; and

**WHEREAS** in Order No. P.U. 35 (2005), the Board approved the definition of the Reserve Account to be included in NP’s System of Accounts; and

**WHEREAS** NP’s actual unit cost of purchased power for 2006 was less than the forecast unit cost of purchased power by an amount exceeding the Reserve Deadband for 2006 of \$714,000, and the 2006 transfer to the Reserve Account is \$1,342,372.00; and

**WHEREAS** NP is required to file an application with the Board no later than the 1st day of March each year for the disposition of any balance in the Reserve Account, and the balance in the Reserve Account consists entirely of the 2006 transfer of a credit of \$1,342,372.00; and

**WHEREAS** NP will be filing a general rate application to be heard in 2007, and NP submits that matters relating to the Reserve Account, including any impact on customer rates resulting from the disposition of the balance in the Reserve Account, can be most efficiently and effectively considered during the hearing of the general rate application to be filed in 2007; and

**WHEREAS** an amendment to the definition of the Reserve Account is requested to remove the reference to the 3 year phase-in period of the demand and energy wholesale rate that has been superseded by the approval of a revised wholesale rate in Order No. P.U. 8 (2007); and

**WHEREAS** the Board is satisfied that it is appropriate and reasonable to defer the consideration of the Purchased Power Unit Cost Variance Reserve Account to the hearing of NP's general rate application and to amend the definition of the Purchased Power Unit Cost Variance Reserve Account.

**IT IS THEREFORE ORDERED THAT:**

1. Consideration of the Purchased Power Unit Cost Variance Reserve Account will be deferred to the hearing of NP's general rate application to be filed in 2007; and
2. Pursuant to Section 58 of the Act, the revised definition of the Purchased Power Unit Cost Variance Reserve Account, as set out in Schedule A, to be included in NP's System of Accounts is approved.

**Dated** at St. John's, Newfoundland and Labrador, this 24th day of April 2007.

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Robert Noseworthy  
Chair & Chief Executive Officer

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Darlene Whalen, P.Eng.  
Vice-Chair

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Cheryl Blundon  
Board Secretary

**Newfoundland Power Inc.**

**Purchased Power Unit Cost Variance Reserve Account**

**Proposed Definition**

*Purchased Power Unit Cost Variance Reserve Account*

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This account shall be charged or credited with the amount by which the annual Purchased Power Unit Cost Variance exceeds the Reserve Deadband.

When the normalized actual unit cost of purchased power is greater than the forecast unit cost of purchased power, this account shall be charged with the amount by which the Purchased Power Unit Cost Variance exceeds the Reserve Deadband.

When the normalized actual unit cost of purchased power is less than the forecast unit cost of purchased power, this account shall be credited with the amount by which the Purchased Power Unit Cost Variance exceeds the Reserve Deadband.

The amount charged or credited to this account shall be adjusted for applicable income taxes calculated at the statutory income tax rate.

*Purchased Power Unit Cost Variance*

The Purchased Power Unit Cost Variance will be determined annually in the following manner:

1. A variance factor will be determined by calculating the per kilowatt-hour difference between (a) the forecast unit cost of purchased power per kilowatt-hour, and (b) the normalized actual unit cost of purchased power per kilowatt-hour.
2. The variance factor so determined will be multiplied by the normalized actual energy purchases for the year, in kilowatt-hours, to determine the Purchased Power Unit Cost Variance.

The forecast unit cost of purchased power for 2005 is 5.234¢ per kilowatt-hour. For years subsequent to 2005, the forecast unit cost of purchased power will be calculated by:

- (a) applying the wholesale purchased power rate(s) to the forecast billing demand and forecast energy purchases from Newfoundland and Labrador Hydro; and,
- (b) dividing the resulting forecast purchased power cost by the forecast number of kilowatt-hours to be purchased in that year.

The basis for the forecast billing demand and forecast energy purchases will be the demand and energy forecast prepared by Newfoundland Power in the previous year and used in preparing the Company's Capital Budget Application or a General Rate Application, whichever is most appropriate.

The normalized actual unit cost of purchased power will be calculated by:

- (a) applying the wholesale purchased power rate(s) to the actual billing demand and normalized actual energy purchases from Newfoundland and Labrador Hydro (as reported in Return 13 of Newfoundland Power's Annual Report to the Board); and,
- (b) dividing the resulting actual purchased power cost by the normalized actual number of kilowatt-hours purchased in that year.

*Reserve Deadband*

The Reserve Deadband equals \$588,000 for 2005, as ordered by the Board in Order No. P.U. 44 (2004).

The Reserve Deadband equals \$714,000 for 2006, reflecting the adjustment to the demand and energy rate from Newfoundland and Labrador Hydro approved in Order No. P.U. 38 (2005).

The Reserve Deadband equals \$521,000 for 2007, reflecting the demand and energy rate from Newfoundland and Labrador Hydro approved in Order No. P.U. 8 (2007).

*Disposition of any Balance in this Account*

Newfoundland Power shall file an Application with the Board no later than the 1<sup>st</sup> day of March each year for the disposition of any balance in this account.