

1 Q. In the Executive Summary, page ii, commencing at line 18, Hydro proposes that its  
2 use of a payout rate reflective of system marginal generation costs to apply to net  
3 excess generation instead of the use of the retail rate.

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5 (a) Please provide, in practical terms, what this will mean for Hydro's  
6 customers.

7 (b) How will the system marginal generation costs to apply be calculated?

8 (c) What will that rate be?

9 (d) How will that calculation compare to the use of the retail rate? Please  
10 elaborate.

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13 A. (a) The customer's net energy use will be billed using the retail rates for all  
14 billing months with the exception of the settlement month on the Annual Review  
15 Date. If customers do not have unused energy credits during the settlement  
16 process, the proposal to use marginal costs will have no impact on customers.

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18 Settlement processes are common in net metering programs to identify any  
19 customers that have developed a significant credit throughout the year. The  
20 objective of the net metering policy is to provide customers with the option to  
21 offset their own energy usage. Incenting net metering customers to sell energy to  
22 the system at an energy rate that may far exceed its value to the system is not  
23 consistent with the net metering policy objective.

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25 In Canada, about half of the jurisdictions that have a net metering policy offer  
26 customers a cash payment at the end of a 12 month period in their settlement

1 process. In the other half of the jurisdictions, any unused credit is absorbed by the  
2 utility at the end of the designated period and the customer receives no payment.<sup>1</sup>

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4 Hydro is proposing to provide customers a bill credit for unused credits in the  
5 settlement process. The use of marginal costs will impact the value of customer  
6 generation only if the customer is in a generation credit position on the Annual  
7 Review Date.<sup>2</sup>

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9 Hydro is proposing that the generation credit at the time of the annual review be  
10 credited back to customers based on a value that more closely reflects system  
11 marginal costs:

- 12 • For the Island Interconnected System customers, Hydro is proposing to use  
13 the wholesale excess energy rate that applies to Newfoundland Power. The  
14 excess energy rate is set to reflect the marginal cost of No. 6 fuel consumed  
15 at Hydro's Holyrood Thermal Generating Station and currently equals 9.509¢  
16 per kWh. The current Domestic energy charge for Island Interconnected  
17 customers is 9.719¢ per kWh.<sup>3</sup>
- 18 • As stated in Hydro's response to CA-NLH-001(d), after commissioning of the  
19 Muskrat Falls Project, the marginal cost of energy will be based on market  
20 prices and is forecast to be approximately 4 cents per kWh, on average.<sup>4</sup>

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<sup>1</sup> See page 28 of Navigant report titled "Net Metering Standard Industry Practices Study" attached as Appendix C to Schedule 1 to the Application.

<sup>2</sup> The Annual Review Date occurs every 12 months and is defined as the end of the twelfth billing period from the start date. The start date is the day and month when the customer first takes service under the net metering program.

<sup>3</sup> The current compliance application proposes an increase in the wholesale excess block rate from 9.509¢ per kWh to 10.422¢ per kWh. There is also a 1.5% increase proposed for retail rates (9.719¢x1.015=9.865¢ estimated energy rate for the Domestic class).

<sup>4</sup> Table 1 on page 4 of Marginal Cost Report, Part II: prepared by Christensen Associates Energy Consulting for Hydro and filed on February 26, 2016.

- 1 Hydro plans to reflect the forecast marginal cost in the marginal energy  
2 charge to Newfoundland Power reflected in the wholesale rate.<sup>5</sup> Domestic  
3 rates are forecast to exceed 20¢ per kWh to provide full recovery of the cost  
4 of serving customers including Muskrat Falls Project cost.
- 5 • For the Labrador Interconnected System customers, Hydro is proposing to  
6 use the Imbalance Energy Rate that applies to excess energy use by  
7 Labrador industrial Customers.<sup>6</sup> This rate is updated monthly to reflect the  
8 value of energy in the export market; the rate was 4.608¢ per kWh for  
9 January 2017. This compares to the current Domestic energy rate of 3.28¢.<sup>7</sup>
  - 10 • For the Isolated Diesel System customers, Hydro is proposing to use the  
11 excess energy rate in the published Schedule of Rates, Rules & Regulations.  
12 Hydro considers this rate a reasonable proxy for the marginal cost of No. 2  
13 diesel fuel. For Government Departments on diesel systems that are  
14 charged rates that reflect full embedded costs, Hydro is proposing to use the  
15 excess energy charges approved for the comparable non-Government rate.  
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- 17 (b) Please see Hydro's response to item (a) above.
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- 19 (c) Please see Hydro's response to item (a) above.

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<sup>5</sup> See Section 4 of the Rate Design Review Report prepared by Christensen Associates Energy Consulting for Hydro and filed with the Board on June 15, 2016.

<sup>6</sup> The Imbalance Energy Rate that applies to excess energy use by Labrador industrial Customers is attached in Appendix G to Schedule 1 of Hydro's Application.

<sup>7</sup> The current compliance application proposes an increase of 0.8% for retail rates on the Labrador Interconnected System (with the exception of Street and Area Lighting).

1 (d) Table 1 provides a comparison of the retail excess energy rate and the  
 2 proposed net excess generation pay-out rate for customers on the Island  
 3 Interconnected System.

**Table 1**  
**Comparison of Pay-out Rates for Net Excess Generation**  
**Island Interconnected System**

<b>Rate</b>	<b>Retail Pay-out Rate (Excess Block) (¢ per kWh)</b>	<b>Proposed Pay-out Rate<sup>8</sup> (¢ per kWh)</b>
1.1 Domestic	9.719¢	9.509¢
2.1 G.S. 0-100 kW	6.848¢	9.509¢
2.3 G.S. 110 -1000 kVA	6.150¢	9.509¢
2.4 G.S. 1000 kVA and Over	6.082¢	9.509¢

4 Table 2 provides a comparison of the retail excess energy rate and the proposed net  
 5 excess generation pay-out rate for customers on the Labrador Interconnected  
 6 System.

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<sup>8</sup> Hydro's current 2013 Compliance Application proposes an increase in the wholesale excess block rate from 9.509¢ per kWh to 10.422¢ per kWh. There is also a 1.5% increase proposed for retail rates (9.719¢x1.015=9.865¢ estimated energy rate for the Domestic class).

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**Table 2**  
**Comparison of Pay-out Rates for Net Excess Generation**  
**Labrador Interconnected System**

<b>Rate</b>	<b>Retail Pay-out Rate (Excess Block) (¢ per kWh)</b>	<b>Proposed Pay-out Rate<sup>9</sup> (¢ per kWh)</b>
1.1 Domestic	3.280¢	4.608¢
2.1 G.S. 0-10 kW	5.240¢	4.608¢
2.2 G.S. 10-100 kW	2.433¢	4.608¢
2.3 G.S. 110 -1000 kVA	2.103¢	4.608¢
2.4 G.S. 1000 kVA and Over	1.733¢	4.608¢

2 As stated in Hydro's response to item (a), for the Isolated Systems Hydro is proposing to  
3 use the excess energy charges in Non-Government diesel rates as the pay-out for net  
4 excess generation in the settlement process.

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<sup>9</sup> The proposed pay-out rate provided equals the imbalance rate on the Labrador Interconnected system for January 2017. The current compliance application proposes a 0.8% increase in the retail rates (3.305¢ per kWh for the Domestic class).