

1 Q. **Reference: Response to Request for Information NP-NLH-018.**

2 Does the definition of Hydro's existing Energy Supply Cost Deferral account provide for monthly
3 interest charges at Hydro's weighted average cost of capital? Please provide the definition of
4 the account.

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7 A. No, the definition of Newfoundland and Labrador Hydro's ("Hydro") existing Revised Energy
8 Supply Cost Variance Deferral Account does not provide for monthly interest charges to be
9 applied to the balance. However, Hydro does include the forecast balance from this deferral
10 account in its test year rate base in determining test year revenue requirement for setting
11 customer rates. So from a rate-setting perspective, Hydro's weighted average cost of capital is
12 effectively applied in determining the amount to be recovered from customers.

13 Between test years, the balances in the Revised Energy Supply Cost Variance Deferral have been
14 approved for recovery through the RSP¹ Current Plan accounts of both Newfoundland Power
15 Inc. and the Island Industrial customers. Hydro notes that the RSP attracts monthly financing at
16 the approved test year weighted average cost of capital.

17 NP-NLH-028, Attachment 1 provides the requested deferral account definition.

¹ Rate Stabilization Plan ("RSP").

Proposed Supply Cost Variance Deferral Account Definition

The Supply Cost Variance Deferral Account of Newfoundland and Labrador Hydro (“Hydro”) is established to smooth rate impacts for Hydro’s Utility customer, Newfoundland Power Inc. (“Newfoundland Power”), and Island Industrial customers and to provide Hydro the opportunity to recover supply cost variances between the forecasts reflected in customer rates and the actual costs incurred.

The formulae used to calculate the plan’s activity are outlined below. Positive values denote amounts owing from customers to Hydro whereas negative values denote amounts owing from Hydro to customers.

Section A

1.0 Muskrat Falls Project (“Project”) Cost Variances

The **Project Cost Variances** will reflect the variance from test year costs for the Muskrat Falls Purchase Power Agreement (“Muskrat Falls PPA”) and the Transmission Funding Agreement (“TFA”).

Project Cost Variances will be calculated monthly based on the following formula:

$$(A - A_T) + (B - B_T)$$

Where:

A = Actual Purchased Power Expense from Muskrat Falls PPA Charges;

A_T = Test Year Purchased Power Expense from Muskrat Falls PPA Charges;

B = Actual Purchased Power Expense from TFA Charges; and

B_T = Test Year Purchased Power Expense from TFA Charges.

2.0 Rate Mitigation Fund

Any funding provided by the Government of Newfoundland and Labrador to provide rate mitigation to offset the costs of the Project will be credited to the **Rate Mitigation Fund**.

3.0 Project Cost Recovery

Charges applied to customers to recover Project costs will be credited to the **Project Cost Recovery** component of the deferral account and tracked by customer class.

4.0 Holyrood Thermal Generating Station (“Holyrood TGS”) Fuel Cost Variance

Holyrood TGS Fuel Cost Variances will be calculated monthly based on the following formula:

$$(C - C_T)$$

Where:

C = Actual Holyrood TGS Fuel Cost incurred in the month to supply firm energy to customers on the Island Interconnected System; and

C_T = Test Year Holyrood TGS Fuel Cost in the month to supply firm energy to the customers on the Island Interconnected System.

The balance in the Rate Stabilization Plan (“RSP”) Hydraulic Production Variation component shall be transferred to the **Holyrood TGS Fuel Cost Variance** component upon the effective date of the initial approval of the Supply Cost Variation Deferral Account.

5.0 Other Island Interconnected System Supply Cost Variance

The balances in the Revised Energy Supply Cost Variance Deferral Account and the Holyrood Conversion Rate Deferral Account will be transferred to this account on the effective date of the Supply Cost Variance Deferral Account.

This account shall be charged or credited monthly with the **Other Island Interconnected System Supply Cost Variance** incurred by Hydro on the Island Interconnected System that is in excess of the Cost Variance Threshold in the calendar year.

Variations resulting from both the price and volume of the following thermal generation sources shall be charged or credited to this account:

- Holyrood Combustion Turbine;
- Hardwoods Gas Turbine;
- Stephenville Gas Turbine;
- St. Anthony Diesel Plant; and
- Hawkes Bay Diesel Plant.

Variations resulting from the volume of the following on-island power purchases shall be charged or credited to this account:

- Nalcor Exploits;
- Star Lake;
- Rattle Brook;
- Corner Brook Pulp and Paper Limited (“CBPP”) Cogeneration;

- St. Lawrence wind; and
- Fermeuse wind.

Variations from the price and volume of firm energy power purchases from CBPP shall be charged or credited to this account.

Variations resulting from the cost of off-island power purchases shall also be charged or credited to this account. Off-island power purchase costs shall not include any expenditure related to Muskrat Falls PPA, TFA or the Interim TFAs.

The **Other Island Interconnected System Supply Cost Variance** will be determined monthly by the following formula:

$$D + E + F + G$$

D = Test Year Thermal Generation Variances resulting from both price and volume;

Where:

D = (Actual Thermal Generation Cost in providing firm energy – Test Year Thermal Generation Cost).

E = Test Year Off-Island Power Purchase Variances resulting from both price and volume;

Where:

E = (Actual Off-Island Power Purchase Cost – Test Year Off-Island Power Purchase Cost).

F = Test Year Power Purchase Variances resulting from volume;

Where:

F = (Actual kWh Purchases – Test Year kWh Purchases) x (Test Year Purchase Cost in \$/kWh).

G = Variances based on firm energy purchases from CBPP;

Where:

G = (Actual CBPP Power Purchase Cost – Capacity Assistance Adjustment) – (Test Year CBPP Firm Energy Power Purchase Cost).

“Capacity Assistance Adjustment” shall represent any change in fixed capacity assistance payments as a result of firm energy purchases from CBPP.

The **Cost Variance Threshold** equals \pm \$500,000 in a calendar year.

6.0 Net Revenue From Exports Variance

The **Net Revenue from Exports Variance** is computed on monthly basis by the following formula:

$$(H_T - H)$$

Where:

Net Revenue from Exports reflect the revenues from Hydro exports less the costs incurred to export energy.

H_T = Test Year Net Revenues from Exports (\$); and

H = Actual Net Revenues from Exports (\$).

The account will be credited with an estimate of net export sales that occurred during the year in December but the actual settlement value will not be finalized until the following period. The account will be adjusted in the following period for any difference between the estimated and actual value.

Revenues from non-firm sales on the Island Interconnected System supplied by hydraulic generation will also be credited to the Net Revenue from Exports Variance component.

7.0 Transmission Tariff Revenue Variance

For the purpose of this deferral account, Transmission Tariff Revenues reflect the transmission revenues paid by third parties to enable exports. The **Transmission Tariff Revenue Variance** is computed on monthly basis by the following formula:

$$(I_T - I)$$

Where:

I_T = Test Year Transmission Tariff Revenues paid by third parties (\$); and

I = Actual Transmission Tariff Revenues paid by third parties (\$).

8.0 Load Variation

Firm: Firm load variation is determined based on the revenue variation for firm energy sales compared with the test year Cost of Service Study firm sales. It is calculated separately for Newfoundland Power firm sales and Island Industrial firm sales on a monthly basis, in accordance with the following formula:

$$(J_T - J_A) \times K_R$$

Where:

J_T = Test Year Cost of Service Firm Sales, by customer class (kWh);

J_A = Actual Firm Sales, by customer class (kWh); and

K_R = Firm Energy Rate, by customer class.

Where the rate designs include more than one energy block, the excess energy rate will apply in computing **Load Variation** transfers.

9.0 Rural Rate Alteration

The **Rural Revenue Adjustment** transfers to Newfoundland Power: (i) changes in Hydro Rural revenues resulting from changes in Rural Rates between test years, and (ii) changes in Rural revenues on the Island Interconnected System as a result of changes in Rural load between test years. The **Rural Revenue Adjustment** is calculated on a monthly basis, in accordance with the following formula:

$$[(N_T - N_A) \times O_T] + [(P_T - P_A) \times Q_T]$$

Where:

N_T = Test Year Cost of Service rural rates;

N_A = Existing rural rates;

O_T = Test Year Billing Units (kWh, bills, billing demand);

P_T = Test Year kWh sales for Hydro Rural Island Interconnected (excluding street and area lighting);

P_A = Actual kWh sales for Hydro Rural Island Interconnected (excluding street and area lighting);
and

Q_T = Test Year rates per class for Rural Island Interconnected system (excluding street and area lighting).

10.0 Isolated Systems Supply Cost Variance

The balances in the Isolated Systems Supply Cost Variance Deferral Account will be transferred to this account on the effective date of the Supply Cost Variance Deferral Account.

This account shall be charged or credited with the amount by which Hydro's Isolated Systems Supply Cost Variance exceeds the Supply Cost Variance Threshold in a calendar year.

The **Isolated Systems Supply Cost Variance** will be determined by the following formula:

$$R \times (S_A - S_T)$$

Where:

R = Total actual supply produced and purchased (kWh) on Hydro's isolated systems;

S_A = (Total actual cost of No. 2 fuel used to provide energy plus the total actual cost of purchases) divided by the total of the (actual kWh production and the actual kWh purchases) in \$/kWh; and

S_T = (Total Test Year cost of No. 2 fuel used to provide energy plus the total Test Year cost of purchases) divided by the (total of the Test Year kWh production and the Test Year kWh purchases) in \$/kWh.

The **Supply Cost Variance Threshold** equals \pm \$500,000 in a calendar year.

11.0 Greenhouse Gas Credit Revenues Variance

The **Greenhouse Gas Credit Revenues Variance** is computed on monthly basis by the following formula:

$$(T_T - T)$$

Where:

T_T = Test Year Greenhouse Gas Credit Revenues (\$); and

T = Actual Greenhouse Gas Credit Revenues (\$).

Section B

1.0 Rate Stabilization Plan ("RSP") Conclusion

1.1 Plan Balances

The separate RSP Current Plan balances for Newfoundland Power and the Island Industrial customer class will be transferred to this account on the effective date of the Supply Cost Variance Deferral Account.

Separate plan balances will be maintained in this account. Transfers to the Utility balance and the Industrial balance will continue to be required on a monthly basis as a result of the disposition of RSP Current Plan balances and the RSP fuel rider amounts currently reflected in the approved RSP adjustments.¹ Transfers to the Utility balance will continue to reflect the monthly adjustments for the **Rural Rate Alteration**.

¹ These billing adjustments are applied in accordance with Board approvals of annual RSP rate updates (i.e., fuel riders and recovery rate adjustments).

No other transfers to the Utility balance and Industrial Customer balance will occur until further approval is obtained by the Board of Commissioners of Public Utilities (“Board”).

1.2 Conclusion of RSP Fuel Riders and Disposition of RSP Current Plan Balances

Newfoundland Power

The RSP fuel rider, established based on the Newfoundland Power Fuel Price Projection amount, shall be set to zero in 2022. The disposition of the remaining RSP Current Plan balances will be addressed in the application to the Board for the discontinuance of the RSP fuel rider.

The revision to the Utility Rate RSP adjustments described above is scheduled for July 1, 2022. However, the timing of the required rate revision will depend of the implementation schedule for the rate mitigation plan.

Island Industrial

The RSP fuel rider established based on the Island Industrial customer Fuel Price Projection amount shall be set to zero in 2022. The disposition of the remaining RSP Current Plan Balances will be addressed in the applications to the Board for the discontinuance of the RSP fuel riders.

The revision to Industrial Customer RSP rate adjustments described above is scheduled for January 1, 2022. However, the timing of the required rate revision will depend of the implementation schedule for the rate mitigation plan.

Section C

1.0 Financing Costs

Financing charges on the plan balances will be calculated monthly using Hydro's approved test year weighted average cost of capital.

2.0 Customer Allocation

Customer Allocation of balances in the Supply Cost Variance Deferral Account will be subject to a further approval by the Board. However, the **Rural Rate Alteration** and the **Isolated Systems Supply Cost Variance** will not be allocated for recovery from Island Industrial customers.

3.0 Balance Disposition

Disposition of balances in the Supply Cost Variance Deferral Account will be subject to a further approval by the Board.

4.0 Balance Transfers

The balances in the Supply Cost Variance Deferral Account shall be adjusted by other amounts as ordered by the Board.