Reference: Section 3: Finance

Q. Volume 1, page 3-54. Newfoundland Power is proposing to increase the amortization period for CDM program costs from seven years to ten years for costs incurred commencing January 1, 2021 and notes that the amortization period of 10 years is consistent with current public utility practice. However, Newfoundland Power is proposing to continue with a seven-year amortization period for costs prior to 2021. Explain why Newfoundland Power is not proposing to extend the amortization period for the prior costs to ten years. Provide the impact on revenue requirement, rates and return on rate base if the recovery period for costs prior to 2021 is extended to ten years and update Table 3-19 on page 3-55 to include this additional alternative.

A. In Order No. P.U. 13 (2013), the Board ordered *"the amortization of annual customer energy conservation program costs over seven years with recovery through the Rate Stabilization Account."*[1] The amortization of CDM program costs over 7 years was assessed to be reasonably consistent with public utility practice at that time.[2]

Newfoundland Power reassessed the amortization of CDM program costs following development of the *Electrification, Conservation and Demand Management Plan: 2021-2025* (the "2021 Plan"). The assessment showed current public utility practice is to amortize CDM program costs over 10 years.[3] The assessment also showed that amortizing program costs over 10 years is consistent with the average life of the technologies in the 2021 Plan.[4]

In Newfoundland Power's view, CDM program costs incurred up to 2021 should continue to be amortized over 7 years in accordance with Order No. P.U. 13 (2013). CDM program costs incurred in relation to the 2021 Plan should be amortized over 10 years in accordance with current public utility practice and the average life of the technologies to be installed under the 2021 Plan.

[1] See Order No. P.U. 13 (2013), page 7.
[2] See Newfoundland Power's *2013/2014 General Rate Application, Volume 1, Application and Company Evidence, Section 3: Finance*, page 3-49.
[3] See the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3: Finance,* page 3-54, footnote 146.
[4] Ibid., footnote 148.

Table 1 provides *pro forma* impacts on 2022 and 2023 revenue requirements if historical CDM program balances were to be recovered over 10 years commencing in 2022.[5]

Table 1:
10-Year Amortization of Historical CDM Program Balances
***Pro Forma* 2022 and 2023 Revenue Requirements**
($000s)

	2022PF	**2023PF**
Operating Costs[6]	(1,577)	(1,181)
Return on Rate Base	57	103
Income Taxes	18	32
***Pro Forma* Revenue Requirement**	**(1,502)**	**(1,046)**
Adjustments		
Other Transfers to Rate Stabilization Account ("RSA")	1,577	1,181
***Pro Forma* Revenue Requirement from Base Rates**	**75**	**135**

Increasing the amortization period for historical CDM program balances from 7 years to 10 years would reduce the *pro forma* 2022 and 2023 revenue requirements by approximately $1.5 million and $1.0 million, respectively. The full effect of the decrease would be reflected in customer rates effective July 1, 2022, when the annual RSA adjustment is revised to reflect the lower amortization amount. The overall estimated customer rate impact as a result of the change in amortization period is a reduction of approximately 0.2%.[7]

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[5] In accordance with Order No. P.U. 13 (2013), the amortization of annual CDM program costs are recovered through the RSA. While the amortization of CDM program costs are included as operating costs as part of revenue requirement, they are further deducted as part of *"other transfers to RSA"* thereby having minimal impact on revenue requirement from base rates. See, for example, the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits*, *Exhibit 7*, page 1, lines 3 and 19.

[6] See Table 2, Alternative C in this response to Request for Information for the difference in total amortization expense resulting from extending the amortization period for historical CDM amounts from 7 years to 10 years.

[7] On March 1, 2022, it is estimated that customer rates would increase by approximately 0.02% to reflect the increase in revenue requirement from base rates. On July 1, 2022, it is estimated that customer rates would decrease by approximately 0.22% as a result of the lower RSA balance to be recovered through the annual July 1st rate adjustment.

Table 2 provides an updated Table 3-19 from page 3-55 to include the additional alternative ("C") as requested.

Table 2:
CDM Program Costs
***Pro forma* Forecast Deferral and Amortizations**
2021F to 2025F
($000s)

	2021F	**2022F**	**2023F**	**2024F**	**2025F**
(A) 7-Year Amortization Period					
Deferral	(6,530)	(7,170)	(7,006)	(6,305)	(6,560)
Forecast Amortization[8]	-	933	1,957	2,958	3,859
Historical Amortization[9]	5,890	5,256	4,596	3,568	2,603
Total Amortization	**5,890**	**6,189**	**6,553**	**6,526**	**6,462**
(B) 10-Year Amortization Period					
Deferral	(6,530)	(7,170)	(7,006)	(6,305)	(6,560)
Forecast Amortization	-	653	1,370	2,071	2,701
Historical Amortization	5,890	5,256	4,596	3,568	2,603
Total Amortization	**5,890**	**5,909**	**5,966**	**5,639**	**5,304**
Difference in Total Amortization from (A)	**-**	**(280)**	**(587)**	**(887)**	**(1,158)**
(C) 10-Year Amortization Period for Historical					
Deferral	(6,530)	(7,170)	(7,006)	(6,305)	(6,560)
Forecast Amortization	-	653	1,370	2,071	2,701
Historical Amortization	5,890	3,679	3,415	3,115	2,497
Total Amortization	**5,890**	**4,332**	**4,785**	**5,186**	**5,198**
Difference in Total Amortization from (B)	**-**	**(1,577)**	**(1,181)**	**(453)**	**(106)**

8 Forecast amortizations reflect CDM program costs incurred over the period 2021 to 2025.
9 Historical amortizations reflect CDM program costs incurred prior to 2021.