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June 12, 2023

Board of Commissioners  
of Public Utilities  
P.O. Box 21040  
120 Torbay Road  
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon  
Director of Corporate Services  
and Board Secretary

Dear Ms. Blundon:

**Re: 2023 Supplemental Capital Expenditure Application – Memorial Substation Power Transformer Replacement - Consumer Advocate's Request for Re-hearing of Application**

## **A. Introduction**

On March 3, 2023, Newfoundland Power Inc. ("Newfoundland Power" or the "Company") filed an application proposing supplemental capital expenditures of \$1,614,000 to replace a failed power transformer at Memorial Substation, MUN-T2 (the "Application"). The Board issued Order No. P.U. 14 (2023) approving the Application on May 31, 2023. The Board's order was issued following a review process for the Application that included requests for information and comments from the parties.

On June 5, 2023, the Consumer Advocate filed with the Board a request to rehear the Application. The Board established June 12, 2023, as the deadline for parties to file comments in response to the Consumer Advocate's request. These are Newfoundland Power's comments.

## **B. Consumer Advocate's Request**

The Consumer Advocate has requested a rehearing of the Application pursuant to section 28 of the *Board of Commissioners of Public Utilities Regulations, 1996* (the "Regulations"). The Consumer Advocate's request is based on an allegation that the Board's decision to approve the Application violates a longstanding regulatory principle and legislative requirement that electricity rates be fair and non-discriminatory.<sup>1</sup>

Underpinning the Consumer Advocate's request is an observation that Memorial University is the sole beneficiary of the project to replace the power transformer at Memorial Substation. The Consumer Advocate further states that Memorial University is charged the same rate as

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<sup>1</sup> See the Consumer Advocate's *Request for Re-hearing Newfoundland Power's Application re Memorial Substation Power Transformer Replacement*, June 5, 2023, page 1.

## **Newfoundland Power Inc.**

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other General Service Rate 2.4 customers, but under different circumstances and conditions, thereby violating provincial legislation. To support this view, the Consumer Advocate states there is no evidence that other customers within this rate class are served by comparable, dedicated assets.

The Consumer Advocate refers to Hydro's submission in relation to the Supplemental Application and the requirement for Hydro's Industrial Customer rates to require specifically assigned charges for its Island Industrial Customers. The Consumer Advocate states that while the Board has not specifically addressed this point in its Order, it has addressed this concern in previous Orders approving the use of specifically assigned charges for Hydro's Island Industrial Customers.<sup>2</sup>

Based on the foregoing, the Consumer Advocate alleges that the Board's decision to approve the Application without requiring a contribution from Memorial University effectively results in other customers within General Service Rate 2.4 providing a subsidy to the university.<sup>3</sup>

### **C. Newfoundland Power's Response**

The Consumer Advocate's position that the replacement of power transformer MUN-T2 should be funded by Memorial University has been thoroughly interrogated as part of this proceeding and was properly considered by the Board in issuing its order approving the Application.

#### ***The Role of MUN-T2***

The Consumer Advocate states that Memorial Substation contains two mutually redundant transformers and that MUN-T2 exists to provide redundancy within the substation.<sup>4</sup> This is incorrect as the total load of the university is approximately 19 MVA, which exceeds the capacity rating of the other power transformer at Memorial Substation, MUN-T1.<sup>5</sup> As such, the replacement of power transformer MUN-T2 is necessary to meet Newfoundland Power's statutory obligation of providing adequate supply to Memorial University as one of its customers.

The power transformer in question, MUN-T2, has supplied Memorial University for 47 years. The power transformer was installed in response to load growth on the university campus, including the construction of the Health Sciences Centre. This increased load on Memorial University's campus has persisted. The operation of power transformer MUN-T2 remains necessary to meet the load requirements of the university campus and, when replaced, the associated costs would continue to be recovered through the rates paid by the university for the service it receives from Newfoundland Power.

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<sup>2</sup> See the Consumer Advocate's *Request for Re-hearing Newfoundland Power's Application re Memorial Substation Power Transformer Replacement*, June 5, 2023, page 2.

<sup>3</sup> *Ibid.*, page 3.

<sup>4</sup> See the Consumer Advocate's *Request for Re-hearing Newfoundland Power's Application re Memorial Substation Power Transformer Replacement*, June 5, 2023, pages 2, 3 and 4.

<sup>5</sup> See the response to request for information CA-NP-019.

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The record of this proceeding demonstrates that Newfoundland Power also ensures fairness in the costs recovered from customers by seeking customer contributions to fund special facilities that are in excess of what is required to meet a customer's load. For example, Memorial University was required to make a contribution of approximately \$4.0 million for the construction of Long Pond Substation as a special facility in 2019. Long Pond Substation was constructed at the request of Memorial University to provide redundancy and improve reliability to the St. John's campus, rather than to meet campus load requirements.<sup>6</sup>

Newfoundland Power's treatment of Memorial University's costs in relation to the MUN-T2 transformer and the customer contribution required for the redundancy requested by Memorial University to be installed at the Long Pond Substation are consistent with Newfoundland Power's General Service Rate 2.4 and Newfoundland Power's Contribution in Aid of Construction ("CIAC") Policy. Memorial University has been a General Service Rate 2.4 customer since it was first established.<sup>7</sup> Newfoundland Power's customer rates and policies have been routinely reviewed and approved by the Board and have been determined to be just and reasonable.

### ***Comparison to Hydro's Island Industrial Rates***

The Consumer Advocate states that Memorial University should pay specifically assigned charges similar to Hydro's Island Industrial Customers. In addition to Specifically Assigned Charges, the rates charged by Hydro to its Island Industrial Customers vary in other ways compared to Newfoundland Power's General Service Rate 2.4. This includes different energy and demand charges. The appropriateness of Hydro's Island Industrial Rate components are reviewed and approved following a Hydro general rate application. Similarly, the appropriateness of Newfoundland Power's General Service Rate 2.4 is reviewed and approved following a Newfoundland Power general rate application.

The Company agrees with the Board that any significant change to the rates charged to Memorial University, such as the introduction of specifically assigned charges for dedicated assets and modifications to energy and demand charges, would require a full review, likely through a general rate application.<sup>8</sup>

### ***Newfoundland Power's Customer Rates***

Newfoundland Power ensures fairness in the rates charged to its customers through its cost of service methodology. Fairness is ensured by examining the revenue and costs of providing service to each rate class, including General Service Rate 2.4.<sup>9</sup> A customer rate is judged to be fair if the revenue-to-cost ratio is within a range of 90% to 110%, meaning the revenue and cost of providing that service are roughly equal. The Cost of Service Study completed for

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<sup>6</sup> See the response to request for information NLH-NP-002.

<sup>7</sup> See Order No. P.U. 17 (1987).

<sup>8</sup> See Order No. P.U. 14 (2023), page 5, lines 12 to 15.

<sup>9</sup> Newfoundland Power's classes of service include rates for Domestic customers and three classes of General Service Customers: (i) rate 2.1, which corresponds to 100 kVA; (ii) rate 2.3, which corresponds to 110-1000 kVA, and (iii) rate 2.4, which corresponds to 1000 kVA and over.

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Newfoundland Power's *2022/2023 General Rate Application* showed a revenue-to-cost ratio of 102.3% for General Service Rate 2.4 customers.<sup>10</sup> This indicates the revenue collected from these customers through electricity rates covers the cost of providing them with service.

In an attempt to draw a comparison between Memorial University and other General Service Rate 2.4 customers, the Consumer Advocate stated that a single supply point for a typical household is a pole or pad mounted transformer that supplies not only that household, but several other households as well. The Consumer Advocate's comparison of Residential Service and General Service Rate 2.4 customers is misleading. Newfoundland Power's General Service Rate 2.4 customers are its largest customers and have varying degrees of capacity requirements. Each of these customers requires dedicated transformers to provide service. As Newfoundland Power's largest customer, Memorial University requires more transformer capacity than other General Service Rate 2.4 customers. Similarly, Memorial University contributes the most revenue towards the cost of serving the General Service Rate 2.4 class.

Newfoundland Power's cost of service methodology was noted by the Board in its order approving the Application. Specifically, the Board noted that the recovery through customer rates of costs to replace MUN-T2 is consistent with the cost of service methodology accepted by the parties in Newfoundland Power's most recent general rate application and approved by the Board in Order No. P.U. 3 (2022).<sup>11</sup> Newfoundland Power adds that, while the Consumer Advocate alleges the Board's decision violates longstanding regulatory principles, the Company has previously demonstrated its methodology is consistent with generally accepted standards for ensuring reasonableness in customer rates.<sup>12</sup>

The issue of a customer contribution, as raised by the Consumer Advocate, was addressed by the Board in issuing its order approving the Application. The Board found that the university is entitled to continue to receive service from its original supply point, Memorial Substation. The Board agreed with Newfoundland Power that requiring a customer contribution for the replacement of MUN-T2 would call into question its previous contribution for a special facility at Long Pond Substation.<sup>13</sup> Newfoundland Power supports the Board's findings and submits there continues to be no basis upon which to demand a contribution from Memorial University for the replacement of power transformer MUN-T2.

While Newfoundland Power disagrees with the Consumer Advocate that the replacement of an existing asset creates an issue of fairness in customer rates, the Company observes that the load profile of Memorial University is expected to change substantially in the coming years. The current forecast for Memorial University indicates its load is expected to increase from approximately 19 MVA in 2023 to 50 MVA by 2025 due to the electrification of its oil-fired boiler

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<sup>10</sup> See Newfoundland Power's *2022/2023 General Rate Application, Volume 1, Section 5: Customer Rates*, page 5-7, Table 5-5.

<sup>11</sup> See Order No. P.U. 14 (2023), page 5, lines 4 to 7.

<sup>12</sup> See Newfoundland Power's *2022/2023 General Rate Application, Volume 1, Section 5: Customer Rates*, page 5-7, lines 3 to 6.

<sup>13</sup> See Order No. P.U. 14 (2023), page 5, lines 7 to 12.

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system and the construction of new buildings.<sup>14</sup> Newfoundland Power has also commenced discussions with the university regarding the potential establishment of a Capacity Assistance Agreement in relation to its electric boilers. In the Company's view, a review of the rates charged to Memorial University would be appropriate when these changes materialize to ensure the university continues to pay rates that are consistent with the cost of providing it with electrical service.

#### **D. Conclusion**

Newfoundland Power submits that the Consumer Advocate has not established a reasonable basis for rehearing the application in accordance with the requirements of the Regulations. Section 28 of the Regulations permits a party to apply to the Board to rehear an Application after a final order to receive further evidence. Section 28 states the application for rehearing must state the nature and purpose of this evidence and the findings or fact of law claimed to be erroneous.

In Newfoundland Power's view, the Consumer Advocate's request does not meet this standard. The Consumer Advocate has not clearly articulated what further evidence is required to be furnished or proven any error in fact or law. Rather, the Consumer Advocate presents a viewpoint that was thoroughly interrogated as part of this proceeding and properly considered by the Board in issuing its order. A rehearing of the Application is therefore unwarranted.

If you have any questions regarding the enclosed, please contact the undersigned.

Yours truly,



Dominic Foley  
Legal Counsel

ec. Shirley Walsh  
Newfoundland and Labrador Hydro

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Browne Fitzgerald Morgan & Avis

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<sup>14</sup> See the request for information CA-NP-008.