

# Office of the Consumer Advocate

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## Via Email

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

**Attention: Jo Galarneau**  
**Executive Director and Board Secretary**

Dear Ms. Galarneau:

**Re: NL Hydro – Application for Adjustment to Wholesale Utility Rate – Revision 1**  
**– Submission of the Consumer Advocate**

On September 16, 2024 Newfoundland and Labrador Hydro (“Hydro”) submitted to the Public Utilities Board (the “Board”) an Application for Adjustment to Wholesale Utility Rate. Subsequently, Hydro filed a revised application (Revision 1) dated September 25, 2024. The September 25, 2024 revision of the application is hereafter referred to as the “Application”.

Hydro, Newfoundland Power and the Consumer Advocate agreed to the application for a revised wholesale rate consistent with the proposed Framework in a Settlement Agreement<sup>1</sup> on Newfoundland Power’s 2025-2026 General Rate Application (GRA). As stated in the Application (para. 7) “*In Newfoundland Power’s 2025–2026 GRA, Hydro agreed to apply to the Board to revise the wholesale rate effective January 1, 2025.*”

Hydro states (Application, para. 8) “*To allow for more timely updates to Newfoundland Power’s wholesale rate to reflect changes in the basis of Hydro’s marginal cost of energy, Hydro is proposing to update the wholesale rate in advance of its next GRA filing, with a proposed effective date of January 1, 2025.*” Hydro requests approval, effective January 1, 2025 (Application, para. 15), of:

- (i) Amendment to the first block of the wholesale rate to a quarterly blocking structure as follows (quarterly kWh per Month): Q1 – January to March 590,000,000, Q2 – April to June 290,000,000, Q3 – July to September 130,000,000, and Q4 – October to December 250,000,000;
- (ii) An updated first block energy rate of 8.515¢ per kWh;
- (iii) An updated seasonal second block energy rate of 9.698¢ per kWh for winter months of December to March and 3.354¢ per kWh for the non-winter months of April to November; and

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<sup>1</sup> Newfoundland Power 2025–2026 General Rate Application; Information Item #2, sch. A.

- (iv) The continuation of a demand rate at the existing \$5.00 per kW per month.

Thus, a key element in the proposed wholesale rate is the introduction of a seasonal adjustment in the second block (or Tier 2) rate: 9.698¢ per kWh in the winter months and 3.354¢ per kWh for the other months.

Following a round of Requests for Information (RFIs), the Board has directed the parties to make written submissions on Hydro's Application by October 25, 2024. This submission documents the Consumer Advocate's position on Hydro's Application.

## COMMENTS OF THE CONSUMER ADVOCATE

1. The Application is consistent with Hydro's commitment in the Settlement Agreement on the 2025-2026 GRA to submit a revised wholesale rate for implementation on January 1, 2025.
2. In accordance with the Settlement Agreement's Framework, on September 16, 2024 Newfoundland Power filed a Wholesale Rate Flow-Through Application. The cover letter to Newfoundland Power's Application states its purpose is to "*(i) flow-through the impacts of the revised wholesale rate on its 2025 and 2026 test year revenue requirements currently before the Board in its 2025/2026 GRA; and (ii) rebase power supply costs into base rate test year revenue requirements.*" The cover letter goes on to say that "*the overall average customer rate impact of the Application proposals is a customer rate increase of 4.3%, effective July 1, 2025*" and "*Consistent with the Framework, any customer rate smoothing measures would defer the 4.3% customer rate impact associated with the Application proposals from July 1, 2025 to July, 1 2026.*" Therefore, the revised wholesale rate would result in a customer rate increase of 4.3% on July 1, 2025 but in an effort to smooth customer rate impacts, the rate increase would be deferred to July 1, 2026 at which time RSA adjustments would offset that increase. We agree with this approach to rate smoothing.
3. CA Energy Consulting provided a report on the proposals in Hydro's Application. That report states (Application, Schedule 1, Attachment 1, page 3 of 20) "*The proposed tariff revision will, among other changes, set the price of Tier 2 energy—the tail block—at Hydro's marginal cost of energy. The overarching objective of the proposed change in Hydro's Utility tariff for NP is resource efficiency: set marginal prices which better adhere to the underlying worth of resources employed in the provision of G&T services, on the margin. As a consequence, electricity consumers will be more fully informed of resource costs—indeed, avoided costs—and thus better able to balance the net benefits of consumption decisions, conservation, and renewable choice options, compared to the underlying resource costs of electricity.*" We agree with the pricing principles put forward in that statement. Still, it must be acknowledged that the proposed wholesale rate is not a perfect reflection of marginal costs; it is not possible to perfectly reflect marginal costs in any rate design because marginal cost can change moment-to-moment due to changes in market conditions or production cost. Therefore, the policy objective should be to ensure that prices are equal to, or approximate marginal costs to the extent that it is possible and cost-effective to do so. The proposed change in the Utility Rate, which recognizes seasonal variation in marginal energy costs and includes provision for annual updates, is consistent with that policy objective.

4. Nevertheless, the proposed change in the utility rate would have little practical effect in supporting efficiency as long as the prices to the ultimate consumers of electricity, the retail buyers, do not come closer to marginal costs. If Newfoundland Power, the main electricity retailer on the IIS, were to adjust its retail rates to provide for tail-block rates that corresponded to the proposed second-block wholesale rate then retail customers could make their electricity consumption decisions in accordance with marginal cost, which is necessary requirement for allocative efficiency. Additionally, equality of tail-block retail and wholesale rates would be even more supportive of rate stability because any difference between test-year forecast and actual electricity sales would lead to changes in power costs and revenues that offset one another, so the associated July 1 adjustments would no longer be needed. Thus, the proposed change in the wholesale utility rate is a step towards improved retail rates, but of little value without a flow-through to retail rates.
5. Consistent with the preceding comment, in IC-NLH-015, CA Energy Consulting states “*The customer’s winter peak price signal will consist of their Tier 2 energy price plus their perceived likelihood of setting a new peak, multiplied by the demand price. The utility customer will want to consider this marginal price in its own retail rate setting. If carried out properly, the resulting retail prices would provide for a better balance of the net benefits and costs from consumption decisions. Simply put, Newfoundland and Labrador Hydro’s revised utility rate structure facilitates improved retail pricing.*” We agree entirely with CA Energy Consulting that the proposed utility rate structure is valuable because it facilitates improved retail pricing. That is the necessary next step, although revising the wholesale rate is not necessary pre-condition for reflecting marginal costs in retail rates. For example, the current curtailable service rate option offered by Newfoundland Power was designed to reflect the marginal value of capacity on the Island system rather than the capacity charge in the wholesale rate.
6. Reflecting marginal costs in retail rates is accepted practice in Canada and the United States. In its April 1, 2024 report entitled Rate Design Review: Phase 1 for Newfoundland Power, CA Energy Consulting notes that (page 55) Newfoundland Power seems well positioned with its current rate designs for the General Service classes that are structured to provide marginal cost-based price signals. In fact, CA Energy Consulting recommends that Newfoundland Power leave current rate designs in place and adjust customer, demand and energy charges to collect the revenue requirement and more adequately reflect changes in Hydro's marginal costs. Thus, based on that expert opinion, moving to the next step can be done in a timely manner.
7. While adjustments to rates based on current rate designs are entirely feasible at this time, the introduction of AMI (Advanced Metering Infrastructure) would permit further improvements over time. In a comprehensive study of AMI undertaken by Util-Assist Inc. entitled “Business Case Report for Next Generation Metering (NGM) - Newfoundland and Labrador Hydro,” dated June 15, 2020 it was recommended that NL Hydro replace its current metering system with smart meters (CA-NLH-012 pertaining to Hydro’s 2025 Capital Budget Application, Attachment 1, page 26 of 64) “... based on it being the better investment, proven out both technically and financially, in both the near and long-terms and it represents the best path forward for Newfoundland and Labrador Hydro.” We see no reason why that conclusion would not also apply to Newfoundland Power.

## SUMMARY

The Consumer Advocate supports the change in the wholesale rate proposed in the Application. The utilities have committed to ensuring that there would be no increase in customer rates arising from the proposal and the proposal has the potential to reduce volatility associated with July 1 rate adjustments. Importantly, the proposal facilitates changes to retail rate designs that embody efficient pricing.

Please contact the undersigned if you have any questions on this submission.

Yours truly,



**Dennis Browne, KC**  
**Consumer Advocate**

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cc **Newfoundland Power Inc.**

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