Q. The Net Metering Policy Framework states at page 2:

> ***Therefore, the primary driver for a net metering policy in Newfoundland and Labrador is not to encourage the development of renewable energy, but to provide customers with the option to offset their own energy usage through small-scale renewable generation they develop themselves.***

Would the annual expiration of the net excess generation better accomplish this primary driver than annual compensation for the net excess generation? Did Newfoundland Power consider this option to "zero out" any unused credits?

A. Yes, Newfoundland Power has considered the option to "zero out", or attribute a $0 value, to excess energy credits at annual settlement.

The provincial regulatory legislative scheme and principles of sound rate design lend greater support to the use of the marginal cost of system energy for the annual settlement of credits than the use of either retail rates or a $0 value.

The use of retail rates does not appear appropriate in light of the current cost outlook for the Island Interconnected system. Using retail rates for the annual settlement of credits upon implementation of the Net Metering Service Option would be inconsistent with forward looking ratemaking and the least cost, non-discriminatory provision of service to customers. In addition, it does not provide a reasonable degree of predictability and certainty for Newfoundland Power customers wishing to net meter.

The use of a $0 value for the annual settlement of credits places no economic value whatsoever on energy supplied by customer-owned generating resources and actually consumed by Newfoundland Power's customers. In Newfoundland Power's view, such a valuation cannot be said to be a fair apportionment of electricity costs between participating and non-participating customer groups. In a $0 value scenario, the kWhs so valued represent, in effect, the cost-free provision of energy by participating net metering customers to non-participating customers via the agency of Newfoundland Power. Such a state of affairs seems inconsistent with the "user-pay" notion which underpins cost of service regulation. It also raises potential issues of rate discrimination.[1]

The use of the 2nd Block Energy Charge for the annual settlement of credits will ensure "…that, on a continuing basis, Newfoundland Power pays a reasonable approximation of system marginal energy costs for those credits. This is consistent with the least cost principle."[2] Use of the 2nd Block Energy Charge will also reduce the risk of undue rate

[1] The potential for discrimination between groups of ratepayers presented by a $0 value may be at least part of the reason that use of the $0 value is often legislated.

[2] See Company Evidence, page 22, lines 13-15.

discrimination by reason of cross subsidization.[3] Use of the 2nd Block Energy Charge helps ensure the least cost, non-discriminatory provision of service.

In addition, use of the 2nd Block Energy Charge for the settlement of annual credits is consistent with regulatory principles. Such an approach should provide the greatest degree of predictability and certainty for customers that is reasonably possible in the current environment. Basing the annual settlement of credits on the 2nd Block Energy Charge, as proposed in the Net Metering Service Option, is also a fair and reasonable approach from the perspective of both participating and non-participating customers.[4]

[3] See Company Evidence, page 26, lines 10-13. Given the uncertainty associated with the interconnection of Muskrat Falls, in Newfoundland Power's view, a re-examination of the pricing associated with the Net Metering Service Option will still be prudent following interconnection.

[4] As indicated in the response to Request for Information PUB-NP-001, the Board has recognized Bonbright's principles as tests that are consistent with generally accepted sound public utility practice. Bonbright considers features such as fairness in apportioning costs amongst different ratepayer groups, predictability, certainty and freedom from interpretative controversy as attributes of a sound rate structure. See *Principles of Public Utility Rates (2nd ed.)*, Bonbright, Danielsen and Kamerschen, Public Utilities Reports Inc., March 1988, page 382, *et. seq.*