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June 26, 2024

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

Attention: Jo-Anne Galarneau
Executive Director and Board Secretary

Re: Newfoundland Power Inc. – Application for July 1, 2024 Customer Rates - Newfoundland and Labrador Hydro's Comments

Newfoundland Power Inc. ("Newfoundland Power") filed its application for July 1, 2024 customer rates on June 12, 2024. On June 19, 2024, Newfoundland Power filed its responses to Requests for Information by Newfoundland and Labrador Hydro ("Hydro") and the Consumer Advocate. The deadline for party submissions on Newfoundland Power's application was set as June 26, 2024.

In correspondence dated June 21, 2024, the Board of Commissioners of Public Utilities ("Board") advised that given the timing of the filing and the schedule for the review process of these applications, Orders can not be issued in time to allow for a July 1 rate implementation for Newfoundland Power's July 1, 2024 customer rates nor Hydro's utility rate adjustment charged to Newfoundland Power, or Hydro's customer rates that are based on Newfoundland Power rates. The Board advised that they would target an implementation date of August 1, 2024, for each of these applications and directed the parties to comment on the impacts of the changed implementation date in their submissions on Newfoundland Power's customer rate application. Hydro's comments on the revised implementation date, and Newfoundland Power's application are as follows.

Revised Implementation Date

Hydro's application, submitted on May 28, 2024, targeted a rate increase of 2.25% for domestic customers with an implementation date of July 1, 2024. The delay in implementation until August 1, 2024, will not change Hydro's application or the customer rate impact targeted for domestic customers.

The impacts to Hydro are in the amount recovered through the proposed changes to the Rate Stabilization Plan ("RSP") Current Plan Adjustment, Conservation and Demand Management Cost Recovery Adjustment and the Project Cost Recovery Rider. The largest impact to Hydro would be the reduction of approximately \$1 million in the amount recovered through the Project Cost Recovery Rider from customers based on forecast sales of 305 GWh for July. Hydro is not proposing any change to its application due to the delayed target implementation date of August 1, 2024, and will absorb the balance of approximately \$1 million through rate mitigation funding.

Newfoundland Power's Application for July 1, 2024 Customer Rates

In Hydro's Request for Information to Newfoundland Power, Hydro asked whether Newfoundland Power considered smoothing rate impacts for customers, and if not, why not. Hydro also requested information on the upcoming and future rate changes and how the rate increase by each component could be smoothed over a four-year period to limit impacts on customers. Newfoundland Power's response did not demonstrate support for smoothing customer rate impacts to the extent suggested by Hydro, and discussed impediments to such a proposal. Newfoundland Power noted that, while they have been actively working towards potential solutions to smooth customer rates between 2025 and 2026, there were factors that inhibited Newfoundland Power's ability to reasonably consider further rate smoothing options. Those factors were the current wholesale rate charged by Hydro, increases in power supply cost requirements and related costs, and Newfoundland Power's need to maintain creditworthiness. Newfoundland Power submitted that the work on the new wholesale rate and anticipated Board Orders on Newfoundland Power's various applications could assist with smoothing rates between 2025 and 2026.

Current Wholesale Rate and Increases in Power Supply Cost Requirements and Related Costs

Hydro notes that while Newfoundland Power has specified increases in power supply costs as a complication in smoothing rates, and as a substantial contributing factor to the 9.3% increase in customer electricity rates proposed in its application, the increased purchase power costs are due to the incremental increase in customer energy sales.¹ As Newfoundland Power noted in its response to NLH-NP-001, the wholesale price from Hydro has not changed since 2019. The variance in supply costs is not specific to the price of the purchased power, but also the difference between forecast and actual energy sales.

Necessity of Maintaining Creditworthiness

Newfoundland Power stated its view that deferring power supply costs incurred in 2023 before there is certainty on Newfoundland Power's 2024 through 2026 cost recovery, in the applications currently before the Board, would create risk associated with its creditworthiness. Earlier in its response, Newfoundland Power cited the Credit Opinion on Newfoundland Power issued by Moody's Investor Services ("Moody's") as an indication that deferred recovery of purchased power costs would negatively impact Newfoundland Power's creditworthiness. Newfoundland Power noted Moody's as stating that ***"The inability to recover any expenses, or the lengthy deferral of cost recovery at NPI, would be credit negative."*** Newfoundland Power also notes Moody's expressed expectation that Newfoundland Power would continue to recover its costs and earn its returns in a timely fashion as an indication that any smoothing over the period suggested by Hydro would have negative credit impacts.

Hydro believes that a timely recovery does not necessarily equate to an immediate recovery, and smoothing the recovery over a defined number of years does not mean the expenses are unable to be recovered. Moody's comments with respect to the inability to recover expenses or a lengthy deferral of cost recovery, were made in the context of Muskrat Falls and rate mitigation.² Hydro does not believe

¹ Newfoundland Power response to NLH-NP-001, p. 6 of 9/23.

² The referenced sentence in the referenced Moody's report, page 10, is immediately followed by paragraphs discussing the issues with the costs of Muskrat Falls, reliability of the Labrador-Island Link, and (at the time) uncertainty of rate mitigation.

that a four-year period of rate smoothing, set out in advance and approved by the Board, would be considered a lengthy deferral with negative credit impacts.

Newfoundland Power provided examples of scenarios wherein Hydro proposed RSP customer rate increases of greater than 10% to Newfoundland Power and the Island Industrial Customers since 2017. Hydro notes that while the 2019 proposed Utility Rate increase was 11.5%, the average end customer impact of this rate change was 5.1%.³

The 2022 and 2023 Island Industrial Customer rate increases were 12.7% and 15.4%, respectively; however, these increases were the result of modified proposals developed in consultation with the Island Industrial Customers to adjust what would have been an initial increase in 2022 of 23.6%. Finally, the 2017 application referenced by Newfoundland Power that would have resulted in an average end customer impact of 18.6% was revised, as noted by Newfoundland Power, pursuant to instruction and findings of the Board. The ultimate end-customer impact was a reduction to 8.5%. These scenarios are examples of situations where adjustments were made to benefit the end customer.

Hydro believes that, notwithstanding Newfoundland Power's response to NLH-NP-001 of this proceeding, there are further opportunities for Newfoundland Power to smooth customer rate increases within the regulatory mechanisms currently available.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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Encl.

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³ The end-customer impact of the customer rate change, inclusive of Newfoundland Power's Municipal Tax Adjustment/Rate Stabilization Account adjustments was 6.4%. Please refer to "Application for October 1, 2019 Customer Rates," Newfoundland Power Inc., September 13, 2019 as referenced in footnote 16 of Newfoundland Power's response to NLH-NP-001 of this proceeding.