

June 28, 2024

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

Attention: Jo-Anne Galarneau
Executive Director and Board Secretary

Dear Ms. Galarneau:

Re: Application for July 1, 2024 Customer Rates – Reply Comments

Background

On May 28, 2024, Newfoundland and Labrador Hydro (“Hydro”) filed an application with the Board of Commissioners of Public Utilities of Newfoundland and Labrador (the “Board”) for approval of an increase in the Utility rate charged to Newfoundland Power Inc. (“Newfoundland Power” or the “Company”), effective July 1, 2024. Hydro’s application was filed beyond the Board’s required filing date of April 17, 2024.¹

On June 12, 2024, Newfoundland Power filed an application requesting approval of: (i) the rate stabilization and municipal tax adjustments (“RSA/MTA Rate Adjustments”) to be applied to customer rates for the period July 1, 2024 to June 30, 2025; and (ii) a schedule of customer rates to be effective as of July 1, 2024 (the “Application”). The proposed customer rates were determined in accordance with the Rate Stabilization and Municipal Tax Clauses included in the Company’s *Schedule of Rates, Rules & Regulations* and incorporated Hydro’s proposed increase in the Utility rate charged to Newfoundland Power.

On June 19, 2024, Grant Thornton LLP filed a report with the Board, which provided a review of the proposals in the Application. The report found that Newfoundland Power’s calculations of its RSA/MTA Rate Adjustments, as well as its proposed customer rates, were appropriate.²

¹ In its letter to Hydro dated February 21, 2023 regarding Hydro’s Utility rate adjustments for July 1, 2023, the Board stated: “*the Board requires that Hydro file its application for the July 1, 2023 revised Utility Rate by April 17, 2023, and for Hydro to follow a similar timeline for future years until further notice from the Board.*”

² See page 2 of Grant Thornton LLP’s report, *Newfoundland Power Inc., July 1, 2024 Customer Rates Application*, dated June 19, 2024.

On June 21, 2024, the Board provided direction on both Hydro's and Newfoundland Power's applications. The Board stated that, given the timing of the filings and the schedule for the review process of the applications, orders cannot be issued in time to allow for a July 1, 2024 rate implementation. The Board stated it would target an implementation date of August 1, 2024 for the rate adjustments proposed in both applications, and that the parties can address the targeted implementation date in their comments on Newfoundland Power's application.

On June 26, 2024, the Consumer Advocate and Hydro filed comments on Newfoundland Power's Application.

The Board set July 2, 2024 for Newfoundland Power's reply to the parties' comments on the Application.

Newfoundland Power's Comments

The Delayed Implementation Date

Newfoundland Power confirms that it will not be revising its Application proposals as a result of the delay in the implementation date of the customer rate change. To maintain compliance with prior orders of the Board, and to avoid undue complexity, calculating the RSA/MTA Rate Adjustments effective July 1, 2024 as outlined in the Application is appropriate.

The Company submits that the only change to the normal July 1st customer rate adjustment process is the postponement of rate implementation. Any under recovery resulting from the delayed rate implementation will be "trued up" through the July 1, 2025 rate adjustment process.

This approach is consistent with the process in 2019 when the annual July 1st customer rate change was delayed to October 1, 2019 to coincide with the implementation of customer rates resulting from Hydro's 2017 General Rate Application.

Accordingly, Newfoundland Power submits that the Board can approve the Application proposals as filed, with the exception of the revision to the effective date of the proposed customer rates.

Reply to the Consumer Advocate's Comments

The Consumer Advocate does not take issue with the calculation of the customer rates proposed in the Application.³

³ See page 2 of the Consumer Advocate's submission.

The Consumer Advocate’s submission primarily addresses customer rate increases over the next two years. The Consumer Advocate acknowledges Newfoundland Power’s commentary in its response to Request for Information NLH-NP-001, which states that the Company has been actively working towards potential solutions to smooth customer rates between 2025 and 2026, and that current factors inhibit its ability to consider rate smoothing options for July 1, 2024. The Consumer Advocate highlights Newfoundland Power’s position that the implementation of a new wholesale rate by January 1, 2025 will provide certainty that Rate Stabilization Account (“RSA”) balances will decline by March 31, 2026, which will in turn provide an opportunity to smooth customer rates by shifting some of the anticipated July 1, 2025 customer rate increase to the July 1, 2026 timeframe.

Based on the above, the Consumer Advocate requests that the Board take all measures necessary to ensure customer rates are smoothed in these circumstances and notes that the Board can instruct counsel to meet with the parties accordingly.⁴

Newfoundland Power is supportive of future discussions among the parties to consider rate smoothing options between 2025 and 2026. This is consistent with the settlement agreement dated June 12, 2024, between the Company, the Consumer Advocate and Hydro regarding the Wholesale Rate Revision Framework, filed in relation to the Company’s *2025/2026 General Rate Application*.⁵ The framework provides that, as part of its flow through application associated with a new wholesale rate, Newfoundland Power will consider a mechanism to offset the customer rate impact of rebasing power supply costs (estimated to be 4.3%) on July 1, 2025 and defer its impact to July 1, 2026.⁶

Reply to Hydro’s Comments

Hydro’s submission concludes that “...*there are further opportunities for Newfoundland Power to smooth customer rate increases within the regulatory mechanisms currently available.*”⁷ Newfoundland Power does not agree with this assertion.

First, Hydro suggests an approach whereby power supply costs incurred in 2023 by the Company would not be fully recovered until mid-2028.⁸ Hydro submits that a four-year period of rate smoothing would not have negative credit impacts for Newfoundland Power.⁹

⁴ Ibid.

⁵ See the Company’s *2025/2026 General Rate Application*, Information Item #2.

⁶ See Schedule A to the Settlement Agreement, dated June 12, 2024.

⁷ See page 3 of Hydro’s comments.

⁸ Hydro’s suggested approach is outlined in part c) to its Request for Information NLH-NP-001.

⁹ See page 3 of Hydro’s comments.

The Company respectfully submits that Hydro provides no evidence supporting its opinion and that it downplays Newfoundland Power's existing financial position for 2024 to 2026. Further, Hydro fails to consider commentary made by Moody's Investor Services ("Moody's") specifically related to Newfoundland Power's recovery of additional power supply costs incurred in 2023. Moody's states, "*We expect the Company to fully recover these costs based on established cost recovery mechanisms starting on 1 July 2024.*"¹⁰

Second, Hydro's proposed approach does not sufficiently address that power supply requirements and related costs increased significantly in 2023, and are forecast to be sustained in the future.

The additional power supply costs in 2023 are not a one-time cost. A deferral of 2023 costs as suggested by Hydro in its approach fails to consider the year-over-year cost recovery and customer rate implications.¹¹ In fact, Hydro's approach would exacerbate cost recovery and customer rate issues that the Rate Stabilization Clause exists to address in a timely manner.¹²

Third, Hydro does not sufficiently address the importance that a new wholesale rate has the ability to smooth customer costs and associated rate impacts.

Currently, each incremental kWh of energy used by a customer is costed at 18.165¢ per kWh, which can occur due to changes in both customer energy usage and weather. Since the implementation of the current wholesale rate in 2019, Newfoundland Power's RSA balance has fluctuated between a low of (\$27.8) million as of March 31, 2022 and a high of \$51.7 million as of March 31, 2024.

The implementation of a new wholesale rate is fundamental to any rate smoothing solution, as it will provide greater cost certainty and reduce customer rate volatility, as well as cash flow volatility for Newfoundland Power.

Finally, Hydro's suggested approach involves Hydro continuing to bill Newfoundland Power for increases in Hydro's power supply costs, with the expectation that Newfoundland Power would not recover those costs from customers in a timely manner. In the Company's view, such an approach would not be consistent with regulatory principles or established practice of the Board.

¹⁰ See the Moody's Report, page 1, filed with the Board as part of the Company's *2025/2026 General Rate Application* on May 2, 2024.

¹¹ For example, if \$40 million in power supply cost recovery is not incorporated into customer rates on July 1, 2024, that gap, and associated customer rate pressure, would continue to exist and accumulate along with the unrecovered costs from the prior year.

¹² The proposed customer rates in the Application were determined in accordance with the Rate Stabilization and Municipal Tax Clauses included in the Company's *Schedule of Rates, Rules & Regulations* which were approved by Board in Order No. P.U. 3 (2022).

Overall, Hydro's suggested approach is not practical as it does not fully consider all relevant factors. While current factors do not allow for a reasonable rate smoothing proposal for the July 1, 2024 customer rate increase, Newfoundland Power does believe there is an opportunity to consider rate smoothing options between 2025 and 2026 as outlined in part a) of the response to Request for Information NLH-NP-001.

Concluding

The proposed customer rates in the Application were determined in accordance with the Rate Stabilization and Municipal Tax Clauses included in the Company's *Schedule of Rates, Rules & Regulations* and incorporate Hydro's proposed increase in the Utility rate charged to Newfoundland Power. The Company's calculations were confirmed by Grant Thornton LLP. There is no impact on the Application proposals resulting from the delay in the implementation date of the customer rate change, which is currently targeted by the Board to occur on August 1, 2024. Newfoundland Power submits that the Board can approve the Application, with the exception of ordering the new effective date of the proposed customer rates.

The Application reflects the need to adjust current customer rates to recover the increased level of power supply costs. Customer rates reflecting the underlying costs of providing service to customers, to the extent possible, is central to regulatory principles and customer rate setting. With respect to the potential for rate smoothing, the Company submits that the implementation of a new wholesale rate, along with greater clarity on Newfoundland Power's cost recovery over the coming years, will enable the Company to consider rate smoothing options between 2025 and 2026.

We trust that the foregoing and enclosed are found to be in order. If you have any questions, please feel free to contact the undersigned.

Yours truly,



Lindsay Hollett
Senior Legal Counsel

Enclosures

cc. Shirley Walsh
Newfoundland and Labrador Hydro

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