(Reference Wholesale Rate Flow-Through Report)

Q. a) Is the overarching objective of the proposed change in the wholesale rate to reduce volatility of July 1 rate adjustments?
b) To achieve economic efficiency, is it not essential that the price faced by electricity end-users be equal to marginal cost?
c) What changes in NP's volume and timing of electricity purchases from Hydro are expected as a result of the proposed change in the wholesale rate?
d) Will the proposed change in the wholesale rate affect how NP manages it hydro plants?
e) Will the proposed change in the wholesale rate affect NP's behaviour in any way?
f) Would efficiency be improved if NP were to update its retail rates to better reflect the proposed wholesale rate?

A. a) On June 12, 2024, a settlement agreement regarding revising the wholesale rate (the "Wholesale Rate Settlement Agreement") was reached between Newfoundland Power, Hydro and the Consumer Advocate.

As outlined in the framework attached to the Wholesale Rate Settlement Agreement, the primary reasons for revising the wholesale rate are:

- To reflect current marginal energy costs, based on energy exports with the Labrador-Island Link being commissioned in 2023.

- To achieve customer benefits of lower marginal power supply energy costs and a reduction in volatility associated with the July 1st customer rate change.

b) Customer rate designs include consideration of a number of factors in addition to economic efficiency. These include revenue sufficiency, fairness, rate simplicity, stability, predictability, and understandability. These factors are commonly referred to as Bonbright Principles.[1]

Current retail rates on the Island Interconnected System are more closely aligned with Hydro's marginal energy costs and proposed wholesale rate structure than they have been in the past. For example, General Service customer rates on the Island Interconnected System currently include a declining energy rate structure. This is more consistent with Hydro's proposed change in its wholesale rate which reflects the market value of export sales as opposed to an inclining energy rate structure in all months of the year that reflects the high cost of fuel at the Holyrood Thermal Generating Station.

For further information on the issues associated with implementing retail rate design changes as described in this Request for Information at this time, see Newfoundland

[1] Bonbright, James C., Albert L. Danielsen, and David R. Kamerschen. Principles of Public Utility Rates. 2nd Ed. Arlington, Virginia: Public Utility Reports, Inc: 1988: pp. 382-384.

Power's rebuttal evidence filed as part of the Company's *2025/2026 General Rate Application* process.[2]

c) The proposed changes to Hydro's wholesale rate are designed to maintain Newfoundland Power's 2019 Test Year power purchase expense and cash flows.[3] The revision of the wholesale rate will not impact Newfoundland Power's energy purchases, how the Company manages its hydro plants, or its behavior in any way.[4]

d) See part c).

e) See part c).

f) See part b).

[2] *Newfoundland Power 2025/2026 General Rate Application: Rebuttal Evidence, May 28, 2024*, pages 18 to 21.

[3] See Hydro's Application for Adjustment to Wholesale Utility Rate – Revision 1, Schedule 1, Evidence Supporting Proposed Wholesale Utility Rate Adjustment, Page 8, Line 3 to Page 10 Line 1.

[4] Newfoundland Power already considers current marginal costs in its investment decisions, such as those related to conservation, energy and demand management programs and capital projects associated with the Company's hydro plants. The revised wholesale rate will therefore align the wholesale rate with Newfoundland Power's investment analyses that incorporate marginal costs.