

# Office of the Consumer Advocate

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May 8, 2024

The Board of Commissioners of Public Utilities  
Prince Charles Building  
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St. John's, NL A1A 5B2

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

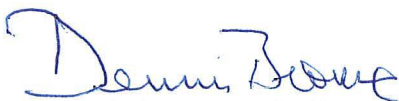
Dear Ms. Galarneau:

**Re: Newfoundland Power Inc. – 2025-2026 General Rate Application**  
**Requests for Information**

Further to the above-captioned, enclosed are the Consumer Advocate's Requests for Information numbered CA-PUB-001 to CA-PUB-010.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours truly,



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

Encl.

/bb

cc **Newfoundland Power Inc.**  
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**IN THE MATTER OF** the *Public Utilities Act*,  
R.S.N.L. 1990, Chapter P-47, as amended, (the  
“Act”); and

**IN THE MATTER OF** a General Rate Application  
by Newfoundland Power Inc. (“Newfoundland Power”):  
to establish customer electricity rates for 2025 and  
2026 (the “Application”).

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**CONSUMER ADVOCATE  
REQUESTS FOR INFORMATION  
CA-PUB-001 to CA-PUB-010**

**Issued: May 8, 2024**

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1 CA-PUB-001 (Reference April 17, 2024 Brattle Report entitled Review of  
 2 Newfoundland Power Load Forecasting Methodology) It is stated  
 3 (page 24) *“The Company has under-forecasted its domestic load*  
 4 *four out of five times during the last five-year period, which*  
 5 *implies that the Company was able to collect more revenues from*  
 6 *the domestic class as a result of under forecasting domestic sales.”*  
 7 The current wholesale rate for power purchased by Newfoundland  
 8 Power has a tail-block energy charge of 18.165 cents/kWh.  
 9 Further, Newfoundland Power is proposing a rate for its Domestic  
 10 customer class with an energy charge of 14.178 cents/kWh. The  
 11 marginal cost of energy is expected to be in a range of 3 and 5  
 12 cents/kWh. Please comment on the following scenarios:  
 13

- 14 a) Under a scenario with the current wholesale rate and the  
 15 proposed Domestic Class rate, if Newfoundland Power under-  
 16 forecasts sales to its Domestic Class, it would expect to lose  
 17 3.99 cents/kWh (18.165 – 14.178) on each kWh sold above  
 18 forecast.  
 19 b) Under a scenario with a revised wholesale rate with a tail-block  
 20 energy charge of 4 cents/kWh based on the marginal cost of  
 21 energy and the proposed Domestic Class rate, if Newfoundland  
 22 Power under-forecasts sales to its Domestic Class, it would  
 23 expect to earn 10.178 cents/kWh (4 – 14.178) on each kWh  
 24 sold above forecast.  
 25 c) Under a scenario with a revised wholesale rate with a tail-block  
 26 energy charge of 4 cents/kWh based on the marginal cost of  
 27 energy and a revised Domestic Class rate with a tail-block  
 28 energy charge of 4 cents/kWh (plus a loss-adjustment factor)  
 29 based on the marginal cost of energy, if Newfoundland Power  
 30 under-forecasts sales to its Domestic Class, the increase in  
 31 purchase costs would for the most part be cancelled out by the  
 32 increase in revenues (4 – 4) and the revised rates would  
 33 promote more efficient consumption decisions by both  
 34 Newfoundland Power and the Domestic Customer class.  
 35

36 CA-PUB-002 (Reference April 17, 2024 Brattle Report entitled Review of  
 37 Newfoundland Power Load Forecasting Methodology) It is  
 38 indicated (page 17) that the energy forecasting model is missing a  
 39 key determinant of electricity sales, namely, a weather variable.  
 40

- 41 a) Did Newfoundland Power inform Brattle, or has Brattle  
 42 determined, whether the dependent variable, i.e. average use,  
 43 is measured in terms of actuals or weather-adjusted?

- 1 b) If the average-use figures used by Newfoundland Power were  
 2 weather adjusted then would it be appropriate to include  
 3 weather variables, such as CDD or HDD, in the regression  
 4 specification?
- 5 CA-PUB-003 (Reference April 24, 2024 Brattle Report entitled Report on  
 6 Newfoundland Power's Deferral Accounts) It is stated (page 6)  
 7 "*However, as load requirements on NP's system increase, the*  
 8 *marginal supply cost exceeds the average supply cost recovered in*  
 9 *rates.*"
- 10 a) Is the converse also true? For example, as load requirements  
 11 on NP's system decrease, do the marginal supply cost savings  
 12 exceed the average supply cost recovered in rates?
- 13 b) The report goes on to say (page 6) "*This result is then*  
 14 *multiplied by the weather-normalized annual purchases in*  
 15 *kWh minus the test year annual purchases in kWh.*" Is it  
 16 appropriate to weather-normalize annual purchases? Are NP's  
 17 revenues and supply cost more directly impacted by actual  
 18 sales or weather-normalized sales?
- 19
- 20 CA-PUB-004 (Reference April 24, 2024 Brattle Report entitled Report on  
 21 Newfoundland Power's Deferral Accounts) It is stated (page 14)  
 22 "***Recommendation:*** *The Board should redefine the ESCV deferral*  
 23 *to account for both the costs and revenues associated with energy*  
 24 *supply. Amending the deferral account to track variance in both*  
 25 *revenues and costs will limit the variability in NP's ROE*  
 26 *associated with energy supply and ensure the matching of costs*  
 27 *and revenues by both being deferred.*"
- 28
- 29 a) Would the variability of NP's ROE be further reduced if the  
 30 tail-block energy charge in the wholesale rate were better  
 31 aligned with the tail-block energy charges in NP's retail rates?
- 32 b) How would aligning the tail-block energy charge in the  
 33 wholesale rate with the tail-block energy charges in NP's retail  
 34 rates impact the need for, definitions and operation of NP's  
 35 deferral accounts?
- 36
- 37 CA-PUB-005 (Reference, April 24, 2024 Brattle Report entitled Report on  
 38 Newfoundland Power's Deferral Accounts) It is stated (page 17)  
 39 "*Excess Earnings or Earnings Sharing Mechanisms ("ESM") are*  
 40 *common amongst many utilities within Canada. However, all of*  
 41 *these ESMs look at excess earnings from an ROE basis and not*  
 42 *from the return on rate base as is done with NP.*" Table 1 in the

1 response to CA-NP-079 shows that for every year from 1998 to  
 2 2023 inclusive Newfoundland Power earned an actual rate of  
 3 return on equity greater than the approved rate of return on equity.  
 4 Does the information from Table 1 provide any insight as to why  
 5 these other ESMs are structured on a ROE basis?  
 6

7 CA-PUB-006 (Reference April 24, 2024 Brattle Report entitled Report on  
 8 Newfoundland Power's Deferral Accounts) It is stated (page 20)  
 9 "*Constructing an excess earnings mechanism based on the return*  
 10 *on rate base of a utility creates perverse incentives.*" Please  
 11 elaborate on these perverse incentives.  
 12

13 CA-PUB-007 (Reference April 24, 2024 Brattle Report entitled Report on  
 14 Newfoundland Power's Deferral Accounts) It is stated (page 20)  
 15 "**Recommendation:** *While it is understood that this issue has been*  
 16 *previously considered and the Court of Appeal determined there*  
 17 *are limits on the Board's jurisdiction in this matter, it would be*  
 18 *beneficial for NP and its customers if an ESM based on its*  
 19 *approved ROE could be put in place to provide NP with proper*  
 20 *incentives and to avoid any unintended consequences resulting*  
 21 *from the current excess earnings methodology that determines*  
 22 *excess earnings through return on rate base.*" If the Board were to  
 23 decide that an ESM based on an approved ROE is not feasible in  
 24 this GRA owing to legal or other reasons, and that excess earnings  
 25 must continue to be defined with respect to the rate of return on  
 26 rate base then:

- 27 a) Would it be an improvement to redefine the amount of excess  
 28 earnings as earnings above the approved rate of return on rate  
 29 base (not the upper limit of the range) and that these excess  
 30 earnings be shared equally between NP and customers?  
 31 b) In order to avoid perverse incentives and unintended  
 32 consequences, what alternate ESM does Brattle suggest,  
 33 considering that NP has a lengthy history of earning annual  
 34 rates of return on equity greater than the approved rates of  
 35 return on equity while rarely having any excess earnings under  
 36 the current ESM?  
 37

38 CA-PUB-008 (Reference April 24, 2024 Brattle Report entitled Report on  
 39 Newfoundland Power's Deferral Accounts) It is stated (page  
 40 24) "*NP has a similar amount and treatment of deferral*  
 41 *coverage to other utilities. However, many of these other*  
 42 *utilities have some form of incentive regulation that requires*  
 43 *them to find efficiencies for large portions of their costs. NP*

1 *lacks this additional incentive to reduce costs and find*  
 2 *efficiencies while also benefiting from a similar amount of*  
 3 *deferral account coverage.” What changes would Brattle*  
 4 *recommend to the Board to alleviate this concern?*

5  
 6 CA-PUB-009

(Reference May 1, 2024 Grant Thornton Supplemental Report)  
 7 It is stated (page 2) “*We have noted that in the 2022/2023 GRA,*  
 8 *the Company partially offset those differences by excluding the*  
 9 *energy supply cost variance account and the rate stabilization*  
 10 *account in the calculation of the cash working capital*  
 11 *variance. In the 2025/2026 GRA the Company has also*  
 12 *included offsetting adjustments to the cash working capital*  
 13 *variance in relation to the energy supply cost variance account*  
 14 *and the rate stabilization account in its calculation of the cash*  
 15 *working capital variance.”*

- 16 a) Does Grant Thornton support this approach? Is this  
 17 approach consistent with generally accepted accounting  
 18 principles and practice elsewhere in Canada?  
 19 b) The report goes on to say (page 2) “*An alternative approach*  
 20 *to addressing variances in the cash working capital amount*  
 21 *is to consider if the methodology used to calculate the*  
 22 *allowance that is included in average rate base requires a*  
 23 *revision.” What revisions would Grant Thornton*  
 24 *recommend?*

25  
 26 CA-PUB-010

(Reference May 1, 2024 Grant Thornton Supplemental Report)  
 27 It is stated that Newfoundland Power’s preference (page 2) “*is*  
 28 *to monitor the progress towards resolving the large differences*  
 29 *through the adoption of the new wholesale rate.”*

- 30 a) Does Grant Thornton have reason to believe that the  
 31 adoption of a new wholesale rate will resolve the large  
 32 differences? How would implementation of a new  
 33 wholesale rate “significantly reduce” volatility associated  
 34 with power supply costs?  
 35 b) Does Grant Thornton believe that it is appropriate to  
 36 continue with these large differences when it is not known  
 37 if a new wholesale rate will be implemented in time for a  
 38 Board Order on this GRA, or possibly even before the next  
 39 GRA expected to be filed three years from now?

**DATED** at St. John's, Newfoundland and Labrador, this 8<sup>th</sup> day of May, 2024.

Per:  \_\_\_\_\_

**Dennis Browne, KC**

**Consumer Advocate**

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