

Volume 2: Cost of Service Study

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2
3 **Q. Newfoundland Power states (CA-NP-159 pertaining to the 2024 Capital Budget**
4 **Application) "The loss of any transformer at MUN Substation would not have any**
5 **effect on customers other than Memorial University." Therefore, the MUN**
6 **transformers and all low-voltage switchgear benefit only Memorial University. Yet**
7 **(CA-NP-154 pertaining to the 2024 Capital Budget Application), \$2.1 million of the**
8 **approximately \$6 million (\$1.6 million for MUN-T2 replacement and the \$4.4**
9 **million for the MUN Substation) proposed to be spent at MUN Substation would be**
10 **recovered from all customers and the remaining \$3.9 million would be collected**
11 **from all Rate 2.4 general service customers.**
- 12 a) Why?
 - 13 b) Does this reflect how these costs are assigned in the 2025 and 2026 Test Years?
 - 14 c) Specifically, identify all costs relating to the Memorial and Long Pond
15 Substations including the transmission lines that feed these substations that are
16 included in the 2025 and 2026 Test Years and indicate how much of each cost is
17 allocated to Memorial University, Rate 2.4 customers, all General Service
18 customer classes, and all customers served by Newfoundland Power.
- 19
- 20 A. a) See the response to Request for Information CA-NP-137.
 - 21
 - 22 b) Newfoundland Power prepared an embedded cost of service study to reflect 2022
23 costs, adjusted to reflect current customer rates and cost of service changes related to
24 the execution of the Company's LED Street Lighting Replacement Plan.¹ The
25 referenced capital expenditures are planned for 2024 and therefore do not form part of
26 Newfoundland Power's 2022 Cost of Service Study.²

¹ See the 2025/2026 General Rate Application, Volume 1, Section 5.3.1 Embedded Cost of Service Study.

² Similarly, costs and revenue associated with Memorial University's electric boiler project are not reflected in the Company's 2022 Cost of Service Study.

- 1 c) Table 1 provides estimates the impact that the referenced \$6 million in capital
 2 expenditures has on the cost components in the 2025 and 2026 revenue requirements.
 3 The estimates provided below are reflective of the revenue requirement impacts in
 4 each year.

Table 1:
Pro Forma Annual Revenue Requirement Impact
(Estimate for Both 2025 and 2026 Test Years)
(\$000s)

Cost Component	Estimate
Operating costs	42
Depreciation	186
Taxes	80
Return on rate base	434
Total	742

- 5 As provided in its 2022 cost of service study, the revenue-to-cost ratio for each class
 6 of service is between 90% and 110%.³ As such, Newfoundland Power is proposing to
 7 apply an average increase to each class of service, to the extent possible.
 8
 9 The impact on the overall average customer rate increase associated with the revenue
 10 requirement impact of \$0.7 million outlined in Table 1 is an estimated 0.1%.⁴

³ See the *2025/2026 General Rate Application, Volume 1, Section 5.3.1 Embedded Cost of Service Study*.

⁴ Estimated impact of \$742 /existing customer rates of \$835,762 = 0.09%.

1 For illustration purposes only, Table 2 provides an estimated impact that
 2 incorporating the costs outlined in Table 1, and allocating the costs only to General
 3 Service Rate #2.4, would have on the revenue-to-cost ratios outlined in the 2022 Cost
 4 of Service Study.

Table 2:
Pro Forma Revenue-to-Cost Ratios Analysis (%)

Class of Service	Pro Forma Scenario⁵	2022 Study⁶	Difference
Domestic Rate #1.1	96.6	96.5	0.1
General Service Rate #2.1	108.0	107.9	0.1
General Service Rate #2.3	107.6	107.5	0.1
General Service Rate #2.4	103.9	105.8	(1.9)
Street and Area Lighting Rate #4.1	97.2	97.2	-

5 In the *pro forma* scenario that all costs associated with the referenced \$6 million are
 6 added to the 2022 Cost of Service Study and are allocated only to General Service
 7 Rate #2.4, the revenue-to-cost ratios for each class of service would remain between
 8 90% and 110%.⁷

9
 10 For further information associated with the cost of service associated with Memorial
 11 University, see the response to Request for Information PUB-NP-105.

12
 13 Further, Newfoundland Power has commenced a Rate Design Review in 2023, which
 14 is anticipated to be completed by 2026. In addition to the Rate Design Review,
 15 Newfoundland Power also plans to complete a review of the rates charged to
 16 Memorial University due to the anticipated large changes in their load profile in the
 17 coming years due to the planned installation of electric boilers, the addition of new
 18 buildings, and the potential establishment of a capacity assistance agreement. This
 19 review will provide an analysis of all costs associated with providing service to
 20 Memorial University and consider if any changes to the Company's General Service
 21 Rate #2.4 rate structures are appropriate. Newfoundland Power anticipates these
 22 analyses to inform its customer rate proposals in its next general rate application.

⁵ The scenario assumes that the \$0.7 million in costs outlined in Table 1 are only allocated to General Service Rate #2.4 and the costs allocated to the remaining classes are reduced by \$0.7 million a pro-rated basis. This has been provided only to illustrate that even in this extreme scenario, there would be no impact on the customer rates proposed in the Application.

⁶ See the *2025/2026 General Rate Application, Volume 1, Section 5.3.1 Embedded Cost of Service Study*.

⁷ Maintaining revenue-to-cost ratios for each class within a range of 90% to 110% has been an accepted approach to achieving fairness in rate design by avoiding undue cross-subsidization among the various classes. This is consistent with the views of the Board as expressed in Order No. P.U. 7 (1996-97), which states: "*The Board agrees with the philosophy that it is not necessary to achieve a 100% revenue to cost ratio for all classes and takes no exception to a variance of up to 10%.*"