

Volume 2: Cost of Service Study

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2
3 **Q. In the Board’s July 7, 2023 response to the Consumer Advocate’s request for a re-**
4 **hearing of the MUN-T2 Transformer Replacement project, the Board notes that**
5 **Newfoundland Power’s submission states “Memorial University contributes the most**
6 **revenue towards the cost of serving the General Service Rate 2.4 class.”**
7 **a) Why is Memorial University contributing the most revenue towards the cost of**
8 **servicing Rate 2.4 customers?**
9 **b) Is the cost of service study flawed, and as a result, Memorial University is paying**
10 **a rate that recovers more than the cost that the University imposes on the**
11 **system?**
12 **c) Does the fact that Memorial University is contributing the most revenue toward**
13 **the cost of serving the Rate 2.4 class a valid reason for not requiring a**
14 **contribution in aid of construction from Memorial University for facilities that**
15 **benefit only Memorial University?**
16 **d) What changes in the cost of service study are proposed by Newfoundland Power**
17 **in this GRA to correct this problem?**
18 **e) Should the customer classes be restructured so that a more accurate rate can be**
19 **developed for Memorial University? Should Memorial University be treated as a**
20 **separate customer class to correct the problem that it is contributing the most**
21 **revenue toward the cost of serving the Rate 2.4 class?**
22 **f) What criteria are used to classify a customer as a General Service Rate 2.4**
23 **customer and how does Memorial University fit the criteria?**
24
25 **A. a) Memorial University is contributing the most revenue towards the cost of serving the**
26 **General Service Rate #2.4 customer rate class because it is the largest customer in**
27 **that rate class.**
28
29 **b) No, Newfoundland Power’s cost of service study is not flawed.¹ The Company**
30 **specifically reviewed cost recovery within the General Service Rate #2.4 customer**
31 **rate class as part of its *Retail Rate Review*.² The evaluation found that cost recovery**

¹ The Company’s cost of service methodology has been approved by the Board since it was reviewed in detail as part of the Company’s 2003/2004 *General Rate Application*. In Newfoundland Power’s 2003/2004 *General Rate Application*, Newfoundland Power presented detailed evidence on its cost of service study methodology. Through a mediation process, the parties at the hearing recommended the approval of the cost of service study methodology. In Order No. P.U. 19 (2003), the Board approved the recommendations as presented in the evidence and the Mediation Report. In Order No. P.U. 32 (2007), the Board stated that it was satisfied that Newfoundland Power’s cost of service study and methodology were appropriate to be used in establishing 2008 customer rates. At Newfoundland Power’s 2010, 2013/2014, 2016/2017, 2019/2020, and 2022/2023 general rate applications, the results of the Company’s cost of service studies were accepted for use in establishing customer rates.

² Newfoundland Power’s current customer rates reflect the recommendations of the *Retail Rate Review* conducted in 2010. The *Retail Rate Review* consisted of comprehensive review of Newfoundland Power’s domestic and general service rates, and an evaluation of alternative rates. The review commenced following Newfoundland Power’s 2008 *General Rate Application* and was completed in 2010. Recommendations from the review were implemented, as appropriate, in subsequent years. Proposals approved by the Board in Order No. P.U. 2 (2019) included implementation of the recommendations outlined in the *Retail Rate Review*. In Order No. P.U. 3 (2022), the Board directed Newfoundland Power to conduct a new Load Research Study and Retail Rate Design Review as proposed by the Company.

- 1 associated with Memorial University was comparable to cost recovery of other
2 General Service Rate #2.4 customers.³
3
- 4 c) Newfoundland Power determines whether a Contribution in Aid of Construction
5 (“CIAC”) is required from a customer in accordance with its CIAC Policy. See the
6 response to Request for Information CA-NP-137 for further information regarding
7 Memorial University and the CIAC Policy.
8
- 9 d) No problem has been identified. The referenced comments simply reflect that
10 Memorial University, as the largest General Service Rate #2.4 customer, contributes
11 the most revenue towards the cost of serving the General Service Rate 2.4 customer
12 rate class.
13
- 14 e) See the responses to part b) and part d). In addition, and as stated previously,
15 Newfoundland Power observes that the load profile of Memorial University is
16 expected to change substantially in the coming years due to the electrification of its
17 oil-fired boiler system and the construction of new buildings. In the Company’s view,
18 a review of the rates charged to Memorial University would be appropriate when
19 these changes materialize to ensure the university continues to pay rates that are
20 consistent with the cost of providing it with electrical service.⁴
21
- 22 f) General Service Rate #2.4 applies to Newfoundland Power customers with a
23 maximum demand of 1,000 kVA or greater.⁵ Memorial University meets this criteria
24 as its maximum demand was over 18,000 kVA in 2023.

³ See the response to Request for Information PUB-NP-105 for additional information.

⁴ See for example, Newfoundland Power’s June 12, 2023 letter *Re: 2023 Supplemental Capital Expenditure Application – Memorial Substation Power Transformer Replacement – Consumer Advocate’s Request for Re-hearing of Application*, pages 4-5.

⁵ See Newfoundland Power’s *Schedule of Rates, Rules and Regulations, Effective July 1, 2023*, page 25.