

- 1 **Q. C. Douglas Bowman Report, page 8, Recommendation #7. Mr. Bowman**
2 **recommends that there be a collaborative approach between Newfoundland Power,**
3 **Newfoundland Hydro and the Consumer Advocate on the design of retail rates with**
4 **tail-block energy charges that are more reflective of the marginal cost of energy and**
5 **that the resulting revised rates be implemented on January 1, 2025.**
6
7 **(i) Please explain if Mr. Bowman believes that there should be any consultation**
8 **and feedback from customers prior to changing from the single energy charge**
9 **rate design for Domestic Customers that has applied historically.**
10
11 **(ii) Please explain the process that Mr. Bowman believes is appropriate to review**
12 **and obtain Board approval within the schedule proposed for any revised rates**
13 **that may result from the proposed approach.**
14
15 **A. (i)** The General Service customer rate designs have two-block energy structures, so
16 Mr. Bowman does not believe there is a need for consultations with General
17 Service customers prior to effecting his proposal to reflect marginal energy costs
18 in tail-block energy charges. This change is no different than Newfoundland
19 Power’s proposal to increase all rate components by the proposed 5.5% rate
20 increase except Newfoundland Power’s proposal does not promote efficient
21 consumption decisions. As Newfoundland Power states (PUB-NP-004) with
22 respect to the wholesale rate *“Implementation of a new wholesale rate by January*
23 *1, 2025 would allow for the change in marginal costs to be reflected in the*
24 *wholesale rate within a reasonable timeframe. This is consistent with the*
25 *regulatory principle of practical attributes.”* The same argument applies to retail
26 rates.
27
28 The current rate design for the Domestic customer class includes a basic customer
29 charge and a single block energy charge. Therefore, it would be necessary to add
30 a second block energy charge in order to promote efficient consumption decisions.
31 The first block would be set to ensure recovery of the revenue requirement. It is
32 important to note that according to Newfoundland Power, the proposed energy
33 charge for the Domestic customer class is 2.49 times the marginal cost of energy
34 (see Table 1 of Mr. Bowman’s Pre-filed Evidence). Reflecting marginal costs in
35 rates is consistent with: 1) promoting efficient consumption decisions by
36 customers, 2) government efforts to promote electrification as part of net zero
37 emissions initiatives, 3) the Board’s statement in its decision (page 98) following
38 the 1996 hearing *“Marginal cost and time-of-use design methods should be*
39 *pursued and will direct the Applicant to pursue innovative approaches based on*
40 *such methodology”*, 4) CA Energy Consulting’s statement (page vii)¹ *“We*

¹ See CA Energy Consulting April 1, 2024 report entitled Rate Design Review: Phase 1.

1 *recommend that NP leave its current rate designs in place, adjusting the customer,*
2 *energy, and demand charges to ensure full cost recovery under Hydro's new price*
3 *levels and to better reflect Hydro's marginal costs,"* and 5) statements made by
4 Newfoundland Power's expert witness, Mr. Brockman, in previous rate
5 applications in Newfoundland and Labrador. For example, in his Testimony on
6 Behalf of Newfoundland Power,² he states "*Marginal costs and their trends should*
7 *be reflected in rates to achieve efficiency.*" He goes on to say "*In general, these*
8 *are the same principles that are used to guide rate making in most jurisdictions in*
9 *North America and are reasonable.*"

10
11 Mr. Bowman notes that the Canadian government has embarked on a 2030
12 Emissions Reduction Plan. The government states ³ "*Canadians have been clear:*
13 *they want clean air, good jobs, and a strong economy. Since 2015, the Government*
14 *of Canada has led the fight against climate change. The regulations help to reduce*
15 *emissions from our transportation and are a key component of the 2030 Emissions*
16 *Reduction Plan, which puts Canada on a path to achieve at least a 40 percent*
17 *reduction in emissions below 2005 levels by 2030.*" The government goes on to
18 say "*Under the new Electric Vehicle Availability Standard, auto manufacturers*
19 *and importers must meet annual zero-emission vehicle (ZEV) regulated sales*
20 *targets. The targets begin for the 2026 model year, with a requirement that at least*
21 *20 percent of new light-duty vehicles offered for sale in that year be ZEVs. The*
22 *requirements increase annually to 60 percent by 2030 and 100 percent for 2035.*"
23 Charging domestic customers 14.178 cents/kWh for marginal consumption when
24 the marginal cost of supply ranges from 3 to 5 cents/kWh is contrary to the
25 government's 2030 Emissions Reduction Plan. Mr. Bowman notes that regulators
26 should interpret government policy when rendering their decisions.

27
28 Mr. Bowman recommends that the rate for the Domestic customer class be
29 modified to include a tail-block energy charge that reflects marginal energy costs.
30 He believes that customers should be notified of the change and looks forward to
31 the ideas of Newfoundland Power and NL Hydro on how this might best be
32 accomplished. He notes that NL Hydro's Rate No. 1.2D – Domestic Diesel has a
33 three-block energy charge (along with a basic customer charge) with the first and
34 second block sizes varying by month. The largest first block size is 1000
35 kWh/month in the winter months.

36
37 If there are concerns about immediate implementation of the revised rate, means
38 of alleviating such concerns should be explored such as offering the rate on an

² See Pre-filed Evidence and Exhibits of Larry Brockman submitted October 26, 2006 relating to Newfoundland and Labrador Hydro 2006 General Rate Application (page 5).

³ <https://www.canada.ca/en/environment-climate-change/news/2023/12/canadas-electric-vehicle-availability-standard-regulated-targets-for-zero-emission-vehicles.html>

1 optional basis for an initial period, converting customers to the new rate using a
2 phased approach over time, shadow billing under the rate for a period of time, etc.
3 As noted in Mr. Bowman’s Pre-filed Evidence (page 34) “*As stated in*
4 *Newfoundland Power’s June 1997 report A Study of Innovative Approaches to*
5 *Rate Design Based on Marginal Costs and Time-of-Use Design Principles (CA-*
6 *NP-422, Attachment B, page 18 from the 2008 GRA), the benefits of time-of-day*
7 *and seasonal rates offered on a voluntary basis give customers choices. They can*
8 *also be designed so that customers who are unfairly treated by the standard rates*
9 *are treated more fairly under the voluntary rate. With voluntary rates, only*
10 *customers who are better off choose the rate, so negative customer impacts are*
11 *avoided.” It is very important that Newfoundland Power offer its customers rate*

12 options, and the sooner the better.

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14 (ii) Please see Mr. Bowman’s responses to PUB-CA-017 and PUB-CA-020.