

Section 1: Introduction/Proposal Not to Rebase Power Supply Costs

Q. Excerpt from P.U. 7(2002-2003), page 59 states: “NLH is proposing that the cost of No. 6 fuel to be included in rates be set at \$20 Cdn/bbl and not at the average forecast price of \$25.91 Cdn/bbl set out in Forecasting: Production and Fuel Costs. NLH proposes to book the difference between the actual price and the embedded price of \$20 Cdn/bbl in the Rate Stabilization Plan to be recovered at a later time. NLH is proposing this approach because of the magnitude of rate increase that would be required with a higher fuel price.”

This Order further states at page 60: “While the Board is cognizant of the impact of using the forecast fuel prices in setting rates, it is not convinced that the proposal by NLH to use a lower price than forecast is the best approach in the current circumstances. The Board is required to set rates based on forecast costs for a test period and believes that the most prudent course of action is to set the fuel price at or near the price forecasted for the test year. The Board believes that this is the only way to avoid the current situation of having an ever increasing balance in the RSP with no short term hope of recovery. This approach is also consistent with the generally accepted regulatory principle of matching costs and revenues. The Board also believes it is important to maintain the relationship between the price of fuel and electricity rates so that correct price signals are reflected in rates to consumers.”

- a) Please provide the similarities and differences of Newfoundland Power’s proposal to not rebase purchase power costs in its 2025 and 2026 test years to Newfoundland and Labrador Hydro’s proposed approach described above.**
- b) Please explain why it would be appropriate for the Board to deviate in its decision on this Application from its previous decision to set rates based on forecast costs consistent with the generally accepted regulatory principle of matching costs and revenues in determining test year revenue requirements.**
- c) Please provide any relevant regulatory precedent in this jurisdiction or elsewhere for Newfoundland Power’s proposal to not rebase power supply costs in establishing customer base rates in a general rate application.**
- d) Please explain (i) the benefit to customers of Newfoundland Power’s proposal to not rebase purchased power costs in determining the 2025 and 2026 test year revenue requirements and (ii) how it is consistent with regulatory principles.**
- A. a) The main differences between Hydro’s proposal described above and Newfoundland Power’s proposed approach to not rebasing its power supply energy costs are:**
- Hydro’s proposal appears to have been based on the shifting of costs from one period to another. In Hydro’s case, the underlying forecast cost was not changing and the proposal was more focused on managing the customer rate impact at that time.**
- Newfoundland Power’s approach differs in that the underlying cost (i.e. the wholesale rate for 2025 and 2026) is uncertain at this time. Depending on the**

1 wholesale rate in effect in 2025 and 2026, power supply energy costs
2 recovered from customers will differ.

- 3
4 • In Hydro's situation, the marginal cost of energy was fuel. As such, it was
5 important to have electricity rates that maintained that marginal cost signal.
6

7 In Newfoundland Power's situation, the marginal cost of energy on the Island
8 Interconnected System has shifted from the cost of fuel to the cost of energy
9 exports. This change in marginal cost is not consistent with the current
10 wholesale rate. Therefore, not rebasing power supply costs in the Company's
11 GRA based on the current wholesale rate can allow for this price signal to be
12 reflected in customer rates as early as January 1, 2025.¹
13

14 The similarity between Hydro's proposal and Newfoundland Power's proposed
15 approach is that if the current wholesale rate remains in effect in 2025 and 2026, not
16 rebasing power supply costs would have a similar effect to Hydro's proposal in that it
17 would ultimately result in the shifting of costs from one period to another.
18

- 19 b) In the Company's view, the situation causing uncertainty for Newfoundland Power's
20 power supply energy costs for 2025 and 2026 is unique. The commissioning of the
21 Muskrat Falls Project was a generational event which, among other things, had a
22 material effect on the marginal cost of energy on the Island Interconnected System.
23

24 Newfoundland Power does not have control over its power supply costs. Hydro
25 continues to delay the filing of its next GRA, which will reflect costs associated with
26 the Muskrat Falls Project.² As such, the timing of a new wholesale rate following
27 Hydro's next GRA is largely out of the Company's control.
28

29 The Company is, however, currently in discussions with Hydro on the
30 implementation of a new wholesale rate effective January 1, 2025. See the response
31 to Request for Information PUB-NP-004 for a discussion on customer benefits, as
32 well as alignment with generally accepted regulatory principles.
33

34 Given the unique circumstances, in Newfoundland Power's view, it is reasonable to
35 implement a new wholesale rate on January 1, 2025. The implementation of such rate
36 on January 1, 2025 would supersede the requirement to rebase power supply energy
37 costs based on the current wholesale rate as part of the Company's 2025/2026
38 *General Rate Application*.
39

- 40 c) Newfoundland Power is not aware of a similar situation. More broadly, the
41 commissioning of the Muskrat Falls Project has had many challenging effects for all
42 stakeholders in Newfoundland and Labrador. For example, Hydro has delayed its
43 next GRA, which was expected to implement a new wholesale rate, from 2020 to at

¹ See the response to Request for Information PUB-NP-004.

² See Hydro's December 15, 2023 letter *Re: Quarterly Update – Items Impacting the Delay of Hydro's Next General Rate Application*. See also part c) to this response.

1 least 2025 on account of activities associated with project commissioning and rate
2 mitigation. Further, the commissioning of the Muskrat Falls Project also led to the
3 creation and approval of Hydro’s Supply Cost Variance Deferral Account, which has
4 resulted in the deferral of the majority of Hydro’s supply costs related to Muskrat
5 Falls since 2022.

6
7 d) See part a) of response to Request for Information PUB-NP-004.