

P.U. 7(2003)

IN THE MATTER OF the *Public Utilities Act*
R.S.N. 1990, Chapter P-47 (the “*Act*”);

AND IN THE MATTER OF a General Rate
Application (the “Application”) by Newfoundland
Power Inc. (“Newfoundland Power”) filed pursuant
to Order No. P. U. 22 (2002-2003)

AND IN THE MATTER OF a Mediation Report
filed with respect to certain issues regarding cost of
service allocation, rate structure and tariff matters
arising from the Application.

BEFORE:

Robert Noseworthy
Chair and Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

John William Finn, Q.C.
Commissioner

WHEREAS Newfoundland Power filed the Application with the Board of Commissioners of Public Utilities (the “Board”) on October 11, 2002 for an Order or Orders of the Board approving among other things, the proposed rates for the various customers of Newfoundland Power to be effective May 1, 2003; and

WHEREAS the Application was re-filed to reflect updated financial information on February 10, 2003 with revised proposed rates for the various customers of Newfoundland Power to be effective August 1, 2003; and

WHEREAS at a pre-hearing conference the Board issued Procedural Order No P.U. 27(2002-2003), establishing a Schedule of Dates which set out a time for a technical conference to be held in advance of the hearing; and

WHEREAS with the assistance of a Board appointed mediator, Dr. John Wilson, the parties participated in a mediation of certain issues regarding cost of service allocation, rate structure and tariff matters arising from the Application (the “Issues”); and

WHEREAS the parties reached agreement regarding a proposed resolution of the Issues, save for one issue related to meter reading, and have consented to the filing with the Board a report detailing the outcome of the Mediation (the “Mediation Report”); and

WHEREAS the Mediation Report is attached as Schedule A to this Order; and

WHEREAS in the Mediation Report the parties consent to the Board making its determination on the Issues based on the Cost of Service Documentation as well as the proposals set out in the Mediation Report; and

WHEREAS in the Mediation Report the parties also consent to the admission of all pre-filed testimony and exhibits of witnesses pertaining to the Issues (the “Cost of Service Documentation”), without the calling of those witnesses for the purpose of cross-examination; and

WHEREAS the Mediation Report and the Cost of Service Documentation have been entered as consent documents in the proceeding; and

WHEREAS the Board has considered the Mediation Report and the Cost of Service Documentation and is satisfied that the proposed resolution is reasonable.

IT IS THEREFORE ORDERED:

1. The Board accepts and adopts the Mediation Report attached as Schedule A to this Order, with the exception of paragraph “j” which is replaced as follows to account for a typographical error noted by the parties after consent was given:
 - j. To the extent possible, there should be no adverse customer rate impacts. Any overall revenue change should be distributed equally to each class of customers. With the exception of any change in basic customer charges (see issue “n” below), no customer should have a rate change that produces an annual cost change that is more than twice the system average (unless the dollar impact is minimal).²

2. The Board accepts the proposed resolution of the “Issues on Which the Parties Agree” as set out in the Mediation Report and will incorporate the same in its final decision rendered on the Application.

3. The Board reserves decision on the “Remaining Issue on Which Parties Do Not Agree” as set out in the Mediation Report.

DATED at St. John’s, Newfoundland and Labrador this 5th day of March, 2003.

Robert Noseworthy,
Chair & Chief Executive Officer.

Darlene Whalen, P.Eng.,
Vice-Chairperson.

John William Finn, Q.C.,
Commissioner.

G. Cheryl Blundon,
Director of Corporate Services and
Board Secretary.

SCHEDULE A – MEDIATION REPORT

IN THE MATTER OF the Public
Utilities Act, R.S.N., c. P-42 (the “Act”)

AND

IN THE MATTER OF a General Rate
Application (the “Application”) by
Newfoundland Power Inc. (“Newfoundland
Power”) filed pursuant to Order P.U. 22
(2002-2003)

Mediation Report

In accordance with the mediation process established in this proceeding, the undersigned consenting parties have reached agreement regarding the proposed resolution of the following issues in this case as stated below. This agreement, if approved by the Board, resolves all issues that have been identified by the parties in this proceeding regarding cost of service allocation, rate structure and tariff design matters, except for the issue concerning monthly meter reading (issue “q”, below).

This agreement pertains to the parties’ recommendations in this proceeding and does not preclude parties from advocating alternative positions on the same or similar issues in other proceedings as they may deem appropriate. The agreement does not resolve cost of capital, accounting and related revenue requirement issues in this proceeding.

As a result of this agreement, reached through the mediation process, the parties consent to the admission in the record of this case of all prefiled testimony and exhibits pertaining to (1) cost of service allocation; (2) rate structure design; and (3) tariff rules and regulations, without the calling of witnesses for the purpose of cross-examination on these issues. The consenting

parties recommend that the Board make its determination on these issues based on the parties' prefiled testimony and exhibits and the parties agreed upon proposed resolution of these issues as stated in this Mediation Report.

I. Issues on Which All Parties Agree

- a. Newfoundland Power's ("NP's") cost of service study filed in this proceeding is fundamentally appropriate and in general compliance with Board Orders from previous hearings that have accepted NP's use of embedded cost of service studies as a guide in determining the revenue requirement increases or decreases to be applied to each class.
- b. The following changes to NP's cost of service methodology, which received temporary Board Approval in NP's 1996 General Rate Proceeding, should be approved in this case:
 - Classification of NP's hydraulic plant using system load factor on energy rather than 100 per cent demand;
 - Allocation of NP's generating plant using a Single Coincident Peak allocation ("1CP") rather than Non-Coincident Peak allocation ("NCP");
 - Allocation of NP's transmission plant using 1CP rather than NCP;
 - Allocation of purchased power transmission demand costs using 1CP rather than NCP;

- Allocation of purchased power generation demand costs using 1CP rather than NCP;
 - Allocation of NP's funding of Newfoundland Hydro's rural deficit based on allocated class costs (with the rural deficit amount removed from determination of allocators to class cost).
- c. The Board should approve two additional changes to NP's cost of service methodology:
- General expenses (i.e., General System Costs and Administration and General Costs) should be functionalized and classified based on the assumption that a portion of these costs is related to net utility plant (capital labor expense as a percentage of capital labor expense plus operating labor expense), rather than assuming (as previously) that all of these costs relate to operating and maintenance (O&M) expense.
 - The cost of service study should use normalized revenue and normalized purchased power expense rather than actual revenue and purchased power expense, unadjusted for normalization, as previously.
- d. The Board should approve NP's use of an NCP allocation for distribution demand costs even though this differs from the 1CP allocator that Newfoundland Hydro was directed to use for distribution demand costs in Order No. P.U. 7 (2002-2003).

- e. The Board should approve an additional \$425,000 in capital expenditures by NP for the metering, meter reading equipment and computer software needed to implement a new load research program to obtain customer class demand information for representative samples from each customer class that is required in allocating demand costs among customer groups. The amount actually spent for this purpose shall be documented by NP and reported to the Board and parties to this mediation prior to NP's next rate filing.
- f. The Board should approve tail block rate increases above the average class increase for Rates 2.2, 2.3 and 2.4 so as to better reflect short-run marginal energy costs in these tail block rates.
- g. The Board should approve the elimination of minimum monthly ("ratcheted") demand charges, linked to the customer's maximum demand during the previous twelve months, in General Service Rates 2.2, 2.3 and 2.4.
- h. The Board should retain the Curtailable Service Option Credit of \$29/kva in Rates 2.3 and 2.4 and require NP to inform customers of the possibility of significant future changes in this credit.¹
- i. The Board should approve NP's proposed merger of street light and area lighting rates for the 400W MV fixtures with the 250W HPS fixtures that replace them.

The Board should also approve NP's proposed removal from the Schedule of

¹ It is noted that whereas NP states the \$29 credit "is reasonable," the CA's position is that until there are cost-reflective wholesale power purchase rates (from Newfoundland Hydro), benefits to NP from the Curtailable Service Option will be hidden, and there is now little evidence to suggest changing the current option. The implication is that while all parties agree that the Curtailable Service Option Credit should now be retained as is, a change may be appropriate if Hydro's wholesale rates change.

Rates and Regulations, the charges for the 1,000W MV fixture, the 700W MV fixture, and the 150W HPS post top fixture, since these no longer exist on NP's system.

- j. To the extent possible, there should be no adverse customer rate impacts. Any overall revenue change should be distributed equally to each class of customers. With the exception of any change in basic customer charges (see disagreed issue "a", below), no customer should have a rate change that produces an annual cost change that is more than twice the system average (unless the dollar impact is minimal).²
- k. The Board should approve a change to Regulation 9(o) to reduce the application fee for a customer name change from \$14.00 to \$8.00 (the current new service fee).
- l. The Board should approve the removal of clause 9(n) to eliminate charges for the preparation of account statements for billing information prior to the most recent twelve months.
- m. The Board should approve a change to Regulation 9(f) and a proposed new clause 12(g) permitting charging the reconnect fee to new customers in apartments where a reconnection is required subsequent to a request by a landlord to disconnect an apartment. Such customers will not be required to pay the new service application fee.

² It is noted that possible future rate changes, such as those that may be justified by the results of future load research, may warrant a redistribution of revenue responsibility between rate classes and/or annual cost changes for some customers that differ significantly from the system average.

- n. The current basic monthly customer charges for domestic (residential) service and small general service rate 2.1 should be reduced by \$1.00. The revenue loss associated with this change should be made up by adjusting the energy component of these same rates so that the change does not impact customers in other rate classes. NP also agrees that (1) it will not propose a basic customer charge increase as a result of any wholesale rate increase in Hydro's 2003 GRA proceeding, and (2) in its next GRA, NP will cap the customer charge recovery of distribution costs allocated to customers at 50% of these allocated distribution costs for these rate classes, with the remainder to be recovered through energy charges. Distribution costs are distribution network costs beyond the service drop and do not include customer specific costs such as meters, meter reading, billing and service drops.
- o. The Board should proceed, as planned, to consider implementation of improved cost-reflective wholesale power rates to be charged to NP by Newfoundland and Labrador Hydro. To facilitate that process, the Board should schedule (and provide such notice as may be required for) a one-day consultation to take place within 30 days after Hydro's GRA filing, wherein Hydro would discuss and provide information to stakeholders on Hydro's proposed wholesale power rate design.
- p. The Board should direct NP (in consultation with the C.A. and Board Staff) to propose a "peer group" of utilities and performance measures upon which to evaluate NP's performance. Upon Board approval of the peer group and performance measures, NP will collect and report statistical information relative

to the peer group performance annually. NP should be entitled to recover its reasonable documented costs of this effort.

II. Remaining Issue on Which Parties Do Not Agree

- q. The CA recommends that the wording of the first sentence of “Rules and Regulations 8. Meter Reading” should be revised to read:

With the exception of circumstances beyond its reasonable control, the company shall read meters monthly.

NP recommends retaining the present language which states:

Where reasonably possible the Company shall read meters monthly provided that the Company may, at its discretion, read meters at some other interval and estimate the reading for the intervening months.

The C.A. believes that customers who receive estimated bills often think that the estimates are high and that they would prefer an actual meter reading rather than an estimated bill. NP believes that its estimates are reasonably accurate, that there are few customer complaints and that the estimation process during summer vacation months saves costs (approximately \$40,000) by reducing the need for temporary employees. The parties agree that the resolution of this issue does not require the calling of expert cost of service or rate design witnesses, and that the Board panel will be able to resolve the issue based on arguments that the parties will make in their briefs and on hearing examination of the parties’ policy and revenue requirements witnesses.

Notice of Consent to Mediation Report

Agreed to this 26th day of February, 2003.

For Newfoundland Power Inc.

For the Consumer Advocate

For Newfoundland and Labrador Hydro

John W. Wilson, Mediator

H:\Dr. Wilson-Mediation Agreement\3-MediationAgreement-Feb26-03.doc