

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

**AN ORDER OF THE BOARD
NO. P. U. 22(2011)**

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1 (the
3 “*EPCA*”) and the *Public Utilities Act*, RSNL 1990,
4 Chapter P-47 (the “*Act*”) and regulations thereunder;

5
6 **AND**
7

8 **IN THE MATTER OF** an application by
9 Newfoundland Power Inc. for an order approving
10 the deferred recovery of certain costs for 2012,
11 pursuant to Sections 58 and 80 of the *Act*.

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13
14 **WHEREAS** Newfoundland Power Inc. (“Newfoundland Power”) is a corporation duly
15 organized and existing under the laws of the Province of Newfoundland and Labrador, is a public
16 utility within the meaning of the *Act*, and is also subject to the provisions of the *EPCA*; and

17
18 **WHEREAS** on September 16, 2011 Newfoundland Power filed an application for approval of
19 the deferred recovery of certain costs and a revised definition of the 2011 Cost Recovery
20 Deferral Account (the “Application”); and

21
22 **WHEREAS** in Order No P.U. 32(2007) the Board ordered, among other things, the amortization
23 over a three-year period, concluding in 2010, of the following amounts (the “Amortizations”):

- 24
25 (a) \$16,446,000 of an accounting accrual for unbilled revenue arising from
26 the adoption of the accrual method of revenue recognition;
27 (b) \$4,087,000 in revenue related to municipal tax timing reconciliation;
28 (c) \$11,586,000 in deferred 2006 and 2007 depreciation costs;
29 (d) \$1,147,000 in deferred 2007 replacement energy costs associated with the
30 Rattling Brook Hydro Generating Plant refurbishment;
31 (e) a \$1,342,000 balance in the Purchased Power Unit Cost Variance Reserve
32 Account; and
33 (f) \$1,250,000 in estimated hearing costs associated with Newfoundland
34 Power’s 2008 general rate application

1 **WHEREAS** the net amount of the Amortizations resulted in a reduction in Newfoundland
2 Power's revenue requirement in the amount of \$2,363,000 for each of 2008, 2009 and 2010 and
3 by Order No. P. U. 46(2009) the Board approved rates for Newfoundland Power based on a 2010
4 test year revenue requirement; and

5
6 **WHEREAS** by Order No. P. U. 30(2010) the Board approved the deferred recovery of the net
7 amount of the Amortizations of \$2,363,000 in 2011 and the definition of the 2011 Cost Recovery
8 Deferral Account; and

9
10 **WHEREAS** by Order No. P. U. 32(2010) the Board approved a rate of return on rate base for
11 Newfoundland Power of 7.96% in a range of 7.78% to 8.14%; and

12
13 **WHEREAS** as a result of the conclusion in 2010 of the Amortizations Newfoundland Power's
14 forecast regulated return on rate base for 2012 would be 7.60%; and

15
16 **WHEREAS** if the proposed deferred recovery is approved Newfoundland Power's forecast
17 regulated return on rate base would be 7.79%; and

18
19 **WHEREAS** on October 5, 2011 the Consumer Advocate advised that his position was as
20 expressed with respect to Newfoundland Power's 2010 application requesting a similar Order of
21 the Board and that he would not oppose the creation of the deferral account provided that
22 recovery of the amounts in the deferral account without a full review of the costs is not
23 approved; and

24
25 **WHEREAS** in Order No. P. U. 30(2010) the Board stated that the Consumer Advocate's
26 comments were not consistent with the Board's past treatment of deferred revenues/costs and
27 acceptance of his position may deny Newfoundland Power the opportunity to earn a fair and
28 reasonable return; and

29
30 **WHEREAS** on October 12, 2011 Newfoundland Power, in responding to the comments of the
31 Consumer Advocate, pointed out that the Board's financial consultant concluded last year that
32 the proposed treatment was appropriate and further argued that the approval is equally
33 appropriate for the regulated 2012 revenue shortfall; and

34
35 **WHEREAS** the Board is satisfied that, as was found in Order No. P. U. 30(2010), regulatory
36 relief is necessary to allow Newfoundland Power to have a reasonable opportunity to earn a just
37 and reasonable return in 2012 and Newfoundland Power's proposal to defer recovery of costs in
38 2012 of \$2,363,000 arising from the expiry of the Amortizations is appropriate and should be
39 approved.

1 **IT IS THEREFORE ORDERED THAT:**
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- 3 1. The deferred recovery of \$2,363,000 in 2012 due to the conclusion in 2010 of the
4 Amortizations is approved until a further Order of the Board.
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6 2. The proposed definition of the 2011 and 2012 Cost Deferral Account, as set out in
7 Schedule "A" to this Order, is approved.
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9 3. Newfoundland Power shall pay all expenses of the Board arising from this Application.

Dated at St. John's, Newfoundland and Labrador this 27th day of October, 2011.

Andy Wells
Chair and Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

Dwanda Newman, LL.B.
Commissioner

James Oxford
Commissioner

G. Cheryl Blundon
Board Secretary

Newfoundland Power Inc.

2011 and 2012 Cost Recovery Deferral Account

Proposed Definition

This account shall be charged with the amount by which the actual annual fixed amortizations of regulatory deferrals in 2011 and 2012 differ from the fixed amortizations of regulatory deferrals included in Newfoundland Power's 2010 test year. The amount charged shall be adjusted for applicable income taxes calculated at the statutory income tax rate.

Disposition of the Balance in this Account

The disposition of this cost recovery deferral amount will be subject to a future order of the Board.