

1     **Q.     Reference: Response to PUB-NLH-005**

2             **a)** Describe the mechanism by which Newfoundland Power's Test Year rate change is held  
3                 constant as cost of service allocations change and identify the instrument that fixes the  
4                 rate change, including Order in Council OC2024-062 if applicable, and the provision that  
5                 authorizes the offsetting adjustment to the project cost recovery rider.

6             **b)** State whether Newfoundland Power's net revenue requirement is itself fixed for the  
7                 Test Year, confirming or correcting the description of the third line of PUB-NLH-005,  
8                 Table 3 as returning Newfoundland Power to a capped revenue requirement of  
9                 \$636,815,801.

10            **c)** From CA-NLH-146, the rate mitigation amounts for Newfoundland Power, Island  
11                 Industrial, and Rural Island Interconnected customers sum to \$501,963,983. State  
12                 whether the \$501,963,983 is an input to the calculation or a residual produced by it.  
13                 Identify which quantity is held constant when allocations change (i.e. rate change,  
14                 project cost recovery rider rate, or the rate mitigation draw). Provide the basis by which  
15                 a reduction in the mitigation applied to one class is reflected in the others. Reconcile  
16                 why the total mitigation fell by approximately \$8.9 million in the sensitivity at PUB-NLH-  
17                 005, Table 3 while it is identical in both runs at CA-NLH-146.

18            **d)** State the share of any change in allocated cost that reaches the rates of each class after  
19                 the mitigation adjustment, and provide the calculation.

20            **e)** When the project cost recovery rider is adjusted to hold a class's rate change constant  
21                 following a change in its allocated cost, identify what absorbs the difference (i.e the rate  
22                 mitigation draw, Hydro, or another class). Provide the calculation for an assumed  
23                 increase and decrease of \$1 million in Newfoundland Power's allocated cost.

24  
25  
26     **A.     a)** The mechanism by which Newfoundland Power Inc.'s ("Newfoundland Power") test year  
27                 rate change is held constant as cost of service allocations change is rate mitigation. Changes

1 in cost of service allocations would be offset by rate mitigation to fix the rate change in  
2 accordance with Order in Council OC2024-062, which requires Newfoundland and Labrador  
3 Hydro (“Hydro”) to target the rate increases for domestic rate class customers attributable  
4 to Hydro’s costs at 2.25% per year.

5 Rate changes occur July 1 each year, so the proposal, as described in Chapter 6, Section  
6 6.4.1 of Hydro’s 2026 General Rate Application, is to transfer the estimated Project Cost  
7 Recovery Rider revenue, which became effective on July 1, 2026, to base rates for the 2027  
8 Test Year, resetting the Project Cost Recovery Rider to nil. In its July 1, 2027 Utility Rate  
9 Adjustment Application, Hydro will then target the 2.25% increase on July 1, 2027 using the  
10 Project Cost Recovery Rider.

11 The Project Cost Recovery Rider was approved in Board of Commissioners of Public Utilities  
12 Order No. P.U.19(2022) to begin recovery of the Muskrat Falls Project costs. Since  
13 implementation on July 1, 2022, the Project Cost Recovery Rider has been used to target  
14 annual rate changes, including targeting rate changes in accordance with the rate mitigation  
15 plan effective July 1, 2024. The Project Cost Recovery Rider is the variable component to  
16 target specific rate increases.

17 **b)** Newfoundland Power’s net revenue requirement is fixed for the test year based on the test  
18 year load forecast. In Hydro’s response to PUB-NLH-005 of this proceeding, the target  
19 revenue requirement should have been \$620,996,143 to reflect the scenario of using  
20 Newfoundland Power’s load forecast for the 2027 Test Year.

21 **c)** The \$501,963,983 is an input into the calculation to target the test year revenue  
22 requirement for Newfoundland Power of \$636,815,801. The quantity that is held constant  
23 when allocations change is the target revenue requirement for Newfoundland Power, which  
24 is fixed based on the test year load forecast as described in Chapter 6, Section 6.4.1. If the  
25 allocated costs to Newfoundland Power increase/decrease, rate mitigation will be adjusted  
26 to target the same revenue requirement.

27 The rate mitigation didn’t change in CA-NLH-146 because the question requested to keep all  
28 inputs unchanged other than the demand energy split.

1       **d)** As discussed in part c), the target revenue requirement for Newfoundland Power is fixed for  
2       the test year, so when a cost allocation increases the revenue requirement, rate mitigation  
3       is applied to bring the revenue requirement back to the target. The amount of mitigation  
4       applied is shared between the customer groups on the Island Interconnected System. The  
5       share of any cost that reaches each class depends on the allocation of the cost driving the  
6       change compared to the allocation of rate mitigation, which is based on system load factor.

7       PUB-NLH-167, Attachment 1 demonstrates the change in cost assignment when a  
8       generation cost increases and is classified using system load factor, as 100% demand and  
9       100% energy. While you will see variances when the cost increase is allocated differently  
10      than rate mitigation, customers are allocated their share of the cost increase and recovery  
11      of Muskrat Falls Project costs are adjusted using rate mitigation to target Newfoundland  
12      Power's revenue requirement. All customer classes receive their proportionate share of rate  
13      mitigation.

14      **e)** The Project Cost Recovery Rider is not adjusted to hold a class's rate change constant  
15      following changes in its allocated cost; the variable is rate mitigation to target revenue  
16      requirement in the test year. The project cost recovery rider is used to target rate changes  
17      between test years, with the offsetting impact being rate mitigation in the Long-Term  
18      Supply Cost Variance Deferral Account. PUB-NLH-167, Attachment 1 demonstrates the  
19      changes when cost allocation changes among customer groups.

Impact of Cost Increases Offset by Rate Mitigation<sup>1</sup>

**Cost of Service Allocators**

| Cost                          | Allocator          | Amount      | Demand    | Energy    |
|-------------------------------|--------------------|-------------|-----------|-----------|
| Muskrat Falls Power Purchases | System Load Factor | 1,000,000   | 497,100   | 502,900   |
| Fuels - Gas Turbine           | Demand             | 1,000,000   | 1,000,000 |           |
| Fuels-No. 6 Fuel              | Energy             | 1,000,000   |           | 1,000,000 |
| Rate Mitigation               | System Load Factor | (1,000,000) | (497,100) | (502,900) |

**Customer Allocation**

|                             |        |        |
|-----------------------------|--------|--------|
| Newfoundland Power          | 88.74% | 84.84% |
| Island Industrial           | 4.98%  | 8.65%  |
| Island Rural Interconnected | 6.28%  | 6.51%  |

**Scenario 1 - Cost Increase Allocated using System Load Factor**

**Muskrat Falls Power Purchases**

|                             |                  |                |                |
|-----------------------------|------------------|----------------|----------------|
| Newfoundland Power          | 867,787          | 441,127        | 426,660        |
| Island Industrial           | 68,256           | 24,756         | 43,501         |
| Island Rural Interconnected | 63,957           | 31,218         | 32,739         |
|                             | <u>1,000,000</u> | <u>497,100</u> | <u>502,900</u> |

**Rate Mitigation**

|                             |                    |                  |                  |
|-----------------------------|--------------------|------------------|------------------|
| Newfoundland Power          | (867,787)          | (441,127)        | (426,660)        |
| Island Industrial           | (68,256)           | (24,756)         | (43,501)         |
| Island Rural Interconnected | (63,957)           | (31,218)         | (32,739)         |
|                             | <u>(1,000,000)</u> | <u>(497,100)</u> | <u>(502,900)</u> |

**Variance**

|                             |          |          |          |
|-----------------------------|----------|----------|----------|
| Newfoundland Power          | -        | -        | -        |
| Island Industrial           | -        | -        | -        |
| Island Rural Interconnected | -        | -        | -        |
|                             | <u>-</u> | <u>-</u> | <u>-</u> |

**Scenario 2 - Cost Increase Allocated 100% Demand**

**Fuels - Gas Turbine**

|                             |                  |                  |          |
|-----------------------------|------------------|------------------|----------|
| Newfoundland Power          | 887,400          | 887,400          | -        |
| Island Industrial           | 49,800           | 49,800           | -        |
| Island Rural Interconnected | 62,800           | 62,800           | -        |
|                             | <u>1,000,000</u> | <u>1,000,000</u> | <u>-</u> |

**Rate Mitigation**

Target

|                             |                    |                  |                  |
|-----------------------------|--------------------|------------------|------------------|
|                             | <u>(1,022,601)</u> | <u>(508,335)</u> | <u>(514,266)</u> |
| Newfoundland Power          | (887,400)          | (451,097)        | (436,303)        |
| Island Industrial           | (69,799)           | (25,315)         | (44,484)         |
| Island Rural Interconnected | (65,402)           | (31,923)         | (33,479)         |
|                             | <u>(1,022,601)</u> | <u>(508,335)</u> | <u>(514,266)</u> |

**Variance**

|                             |                 |                |                  |
|-----------------------------|-----------------|----------------|------------------|
| Newfoundland Power          | -               | 436,303        | (436,303)        |
| Island Industrial           | (19,999)        | 24,485         | (44,484)         |
| Island Rural Interconnected | (2,602)         | 30,877         | (33,479)         |
|                             | <u>(22,601)</u> | <u>491,665</u> | <u>(514,266)</u> |

**Scenario 3 - Cost Increase Allocated 100% Energy**

**Fuels-No. 6 Fuel**

|                             |                  |          |                  |
|-----------------------------|------------------|----------|------------------|
| Newfoundland Power          | 848,400          | -        | 848,400          |
| Island Industrial           | 86,500           | -        | 86,500           |
| Island Rural Interconnected | 65,100           | -        | 65,100           |
|                             | <u>1,000,000</u> | <u>-</u> | <u>1,000,000</u> |

**Rate Mitigation**

Target

|                             |                  |                  |                  |
|-----------------------------|------------------|------------------|------------------|
|                             | <u>(977,659)</u> | <u>(485,994)</u> | <u>(491,665)</u> |
| Newfoundland Power          | (848,400)        | (431,271)        | (417,129)        |
| Island Industrial           | (66,732)         | (24,203)         | (42,529)         |
| Island Rural Interconnected | (62,528)         | (30,520)         | (32,007)         |
|                             | <u>(977,659)</u> | <u>(485,994)</u> | <u>(491,665)</u> |

**Variance**

|                             |               |                  |                |
|-----------------------------|---------------|------------------|----------------|
| Newfoundland Power          | -             | (431,271)        | 431,271        |
| Island Industrial           | 19,768        | (24,203)         | 43,971         |
| Island Rural Interconnected | 2,572         | (30,520)         | 33,093         |
|                             | <u>22,341</u> | <u>(485,994)</u> | <u>508,335</u> |

<sup>1</sup> Numbers may not add due to rounding.