

Office of the Consumer Advocate

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December 13, 2023

Via Email

The Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: **Jo-Anne Galarneau**
Executive Director and Board Secretary


Dear Ms. Galarneau:

Re: Newfoundland Power Inc. - 2024 Rate of Return on Rate Base Application
Requests for Information CA-NP-001 to CA-NP-016

Further to the above-captioned, enclosed are the Consumer Advocate's Requests for Information numbered CA-NP-001 to CA-NP-016.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours truly,



Dennis Browne, KC
Consumer Advocate

/jm

cc **Newfoundland Power Inc.**
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IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended (the “*Act*”), and

IN THE MATTER OF an application by Newfoundland Power Inc. (“*Newfoundland Power*” or the “*Company*”) for approval of a 2024 forecast average rate base and rate of return on rate base and to establish customer electricity rates for 2024 (the “*Application*”).

**CONSUMER ADVOCATE
REQUESTS FOR INFORMATION
CA-NP-001 – CA-NP-016**

Issued: December 13, 2023

- 1 CA-NP-001 (2024 Rate of Return on Rate Base, page 1 of 8) Newfoundland Power is
 2 proposing to change existing customer rates on July 1, 2024 to recover a
 3 proposed increase in its revenue requirement in 2024 of \$11,835,000.
 4 a) Why is Newfoundland Power proposing a July 1, 2024 implementation
 5 date as opposed to an alternative date for the proposed rate increase?
 6 b) If the proposed \$11,835,000 were to be recovered in rates starting February
 7 1, 2024, what would be the impact on the 2024 average rate base?
 8 c) If the Board were to allow recovery of \$9 million with recovery in rates
 9 starting on February 1, 2024, what would be Newfoundland Power's return
 10 on rate base for 2024 and its 2024 average rate base?
 11
- 12 CA-NP-002 (2024 Rate of Return on Rate Base, page 1 of 8) Newfoundland Power is
 13 proposing to change existing customer rates on July 1, 2024 to recover a
 14 proposed increase in its revenue requirement in 2024 of \$11,835,000.
 15 a) Does July 1 correspond to the date when Newfoundland Power typically
 16 implements the Rate Stabilization Adjustment?
 17 b) What components are typically included in a Rate Stabilization
 18 Adjustment?
 19 c) What Rate Stabilization Adjustment is included in rates today? Please
 20 provide a breakdown by component in cents/kWh.
 21 d) What is Newfoundland Power's current estimate of the Rate Stabilization
 22 Adjustment that will be implemented on July 1, 2024?
 23
- 24 CA-NP-003 In Order No. P.U. 36(2021)-Reasons for Decision, the Board "*acknowledges*
 25 *the rate pressures which are expected in association with the commissioning*
 26 *of the Muskrat Falls Project. The Board believes that, given the*
 27 *circumstances, both Newfoundland Power and Hydro should renew their*
 28 *efforts to provide evidence which demonstrates that every effort is being made*
 29 *to reduce costs for customers while ensuring the continued provision of*
 30 *reliable service.*"
 31 a) What actions has Newfoundland Power taken to reduce costs for customers
 32 since publication of that Order?
 33 b) In particular, what cost reductions has Newfoundland Power identified to
 34 help address its forecast 2024 revenue shortfall?
 35
- 36 CA-NP-004 (2024 Rate of Return on Rate Base, page 2 of 8) It is stated "*This 2024 return*
 37 *on rate base application follows the same approach as prior applications*
 38 *approved by the Board for the 2015, 2018 and 2021 forecast years.*" For the
 39 record, please file copies of the Board's Orders on each of these applications.
 40
- 41 CA-NP-005 (2024 Rate of Return on Rate Base, page 2 of 8) It is stated "*The Company's*
 42 *2024 return on rate base application proposes a change in customer rates in*
 43 *order for Newfoundland Power to have a reasonable opportunity to earn the*
 44 *just and reasonable return determined for 2024.*"

Please provide a table starting with the year 2001 and ending with 2023 that provides Newfoundland Power's: debt/equity ratio, rate of return on equity, rate of return on rate base, and allowed range of return on rate base. For the year 2023, please provide the most up-to-date available estimates.

CA-NP-006

(2024 Rate of Return on Rate Base, page 3 of 8) It is stated "*Forecast changes to average rate base principally reflect changes in annual capital expenditures and depreciation expense.*"

- a) Please provide a table starting with the year 2001 and ending with 2022 that provides Newfoundland Power's: average rate base at year end, net plant investment, and the ratio of net plant investment to average rate base at year end.
- b) Please provide a table that gives Newfoundland Power's average rate base and the value of the GDP deflator for 2001 and forecasts for each for 2024, and indicate the percentage change in each over that period.

CANP-007

(2024 Rate of Return on Rate Base, page 3 of 8) In Table 1, a forecast of average rate base for 2024 is given as \$1,360 million.

- a) Please confirm that this figure includes \$115.3 million in capital expenditures proposed in Newfoundland Power's 2024 CBA that is still under consideration by the Board.
- b) If the Board does not approve all of the \$115.3 million proposed in the 2024 CBA, would Newfoundland Power refile the Application with revised figures?

CA-NP-008

(2024 Rate of Return on Rate Base, page 3 of 8) In the sentence preceding Table 1 and the sentence following Table 1, reference is made to the 2023 forecast average rate base but Table 1 uses the term "2023 Test Year" and gives the figure for it as \$1,288 million while Appendix A gives the 2023 forecast for average rate base as \$1,289.7 million.

- a) Please clarify these figures and terms.
- b) What is the purpose of Table 1?
- c) Please provide revised Table 1 that includes average rate base for 2022, and the percentage increases from 2022 to 2023 and from 2023 to 2024.

CA-NP-009

(2024 Rate of Return on Rate Base, Tables 1 through 6) Please provide revised Tables 1 through 6 for the following scenarios:

- a) With 2024 average rate base reduced by the \$1.6 million approved in Board Order No. P.U. 14(2023).
- b) With rate base reduced by the \$1.6 million expenditure approved in Board Order No. P.U. 14(2023) plus the \$4.351 million expenditure proposed in the 2024 CBA for the Memorial Substation Refurbishment and Modernization Project.

- 1 c) With rate base reduced by the \$1.6 million expenditure approved in Board
 2 Order No. P.U. 14(2023) plus the \$4.351 million expenditure proposed in
 3 the 2024 CBA for the Memorial Substation Refurbishment and
 4 Modernization Project plus an additional \$2.6 million proposed in the 2024
 5 CBA.
 6 d) With rate base reduced by the \$1.6 million expenditure approved in Board
 7 Order No. P.U. 14(2023) plus the \$115.3 million proposed, but not yet
 8 approved, in the 2024 CBA.
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CA-NP-010

(2024 Rate of Return on Rate Base, page 5 of 8) It is stated "*Under this facility, the Company is forecasting 2024 short-term debt costs of approximately 5.5%.*"

- 13 a) Please provide details of the analysis used to develop this forecast,
 14 including whether an outside financial advisor played a role in developing
 15 that forecast.
 16 b) Has the forecast changed since the Application was filed?
 17 c) On December 5, 2023, the Bank of Canada made its scheduled
 18 interest rate announcement and held its policy rate unchanged
 19 (bankofcanada.ca/2023/12/fad-press-release-2023-12-06/). Has, or will,
 20 Newfoundland Power reconsider its interest rate forecast in light of that
 21 announcement?
 22

CA-NP-011

(2024 Rate of Return on Rate Base, page 5 of 8) It is stated "*The revised 2023 test year revenue requirement is \$11.8 million higher than the amount used to set existing customer rates as a result of the revisions required to reflect Newfoundland Power's 2024 forecast average rate base and rate of return on rate base.*" How much of this relates to the change in rate base and how much relates to the change in the cost of debt?
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CA-NP-012

(2024 Rate of Return on Rate Base, Table 5) In the Board's communication dated November 27, 2023 relating to NP's 2025/2026 GRA, it is stated "*The Board directs that Newfoundland Power provide detailed information as to customer rate impacts and rate stabilization account balances for 2025 and 2026, including financing charges, for the two different approaches to the recovery of wholesale power supply costs.*" In an effort to give customers a more complete picture of rate impacts, please provide a revised Table 5 showing customer rate impacts incorporating rebased wholesale power supply costs that incorporate forecast variances in power supply costs for 2024.
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CA-NP-013

(2024 Rate of Return on Rate Base, page 2 of 8) It is stated "*Customer rates approved by the Board must yield an appropriate level of revenue for a utility to have a reasonable opportunity to earn the just and reasonable return determined by the Board.*" Since the Order was issued on the 2022/2023 GRA, has Newfoundland Power earned a "just and reasonable return"? More
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specifically, is Newfoundland Power earning a rate of return on rate base that is within the range approved in the 2022/2023 GRA? Please explain.

CA-NP-014

(2024 Rate of Return on Rate Base, page 2 of 8) It is stated "*The 2022/2023 General Rate Order established a range of rate of return on rate base of 36 basis points ($\pm 0.18\%$) from the approved rate of return on rate base for 2022, 2023 and, in effect, 2024.*" This range is consistent with longstanding regulatory practice of the Board."

- a) Please confirm that the information in Tables 1 through 6 is relative to information included in the 2023 Test Year with adjustments made to rate base and the cost of debt while all other data and information in the 2023 Test Year is unchanged.
- b) The changes applied to rate base and the cost of debt reflect changes since the 2023 Test Year was filed. Has anything else changed since the 2023 Test Year was filed as part of the 2022/2023 GRA that has not been identified and quantified in this Application?
- c) As noted, the Order on the 2022/2023 GRA established a range of rate of return on rate base of 36 basis points. Did the Board Order establish this range for the sake of establishing future rates until the next GRA is filed, or is the range intended to apply to Newfoundland Power's actual rate of return on rate base? Please cite statements made in the Board's Order that support Newfoundland Power's position.
- d) In Newfoundland Power's opinion, should the Board consider its actual rate of return on rate base in its decision on this Application? More specifically, if Newfoundland Power's actual rate of return on rate base is well-above the approved range, should the Board take this into consideration in its Order on the Application, or does Newfoundland Power consider actual experience immaterial to the Application?
- e) Does the Board require Newfoundland Power to report its actual rate of return on rate base between GRAs? If so, please file all reports provided by Newfoundland Power to the Board with respect to return on rate base filed since the 2022/2023 GRA.
- f) What process is followed if Newfoundland Power's actual rate of return on rate base exceeds, or falls short of, the midpoint, but falls within the approved range on rate of return of rate base? Is there a sharing of the revenue excess or shortfall relative to the midpoint with customers?
- g) What process is followed if Newfoundland Power's actual rate of return on rate base exceeds, or falls short of, the approved range on rate of return of rate base? Is there a sharing of the revenue excess or shortfall relative to the range with customers?
- h) If Newfoundland Power's actual return is above the established range, would it file a GRA for a rate reduction? What has Newfoundland Power done in the past in such situations?

i) If Newfoundland Power’s actual return is below the established range, would it file a GRA for a rate increase? What has Newfoundland Power done in the past in such situations?

CA-NP-015

On a table, please provide the return on equity, year over year, from 2018 to the present and in a second column state the regulated earnings for the same period and in a third column state any overearnings for that particular year.

CA-NP-016

Do other regulators in Atlantic Canada establish a range of rate of return and what happens when the utility in these jurisdictions exceed that rate of return?

DATED at St. John’s, Newfoundland and Labrador, this 13th day of December, 2023.

Per: 

Dennis Browne, KC

Consumer Advocate

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