

Office of the Consumer Advocate

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January 11, 2024

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-017 to CA-NP-029

Further to the above-captioned, enclosed are the Consumer Advocate's Requests for Information numbered CA-NP-017 to CA-NP-029.

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

Yours truly,



Dennis Browne, KC
Consumer Advocate

Encl.

/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-017 – CA-NP-029**

Issued: January 12, 2024

- 1 CA-NP-017 (Reference CA-NP-004) It is stated “*This 2024 return on rate base application follows the same approach as prior applications approved by the Board for the 2015, 2018 and 2021 forecast years.*”
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- 4 a) Please confirm that Newfoundland Power did not request an increase in
- 5 customer rates in any of these three applications and provide the reasons
- 6 why.
- 7 b) Please confirm that the Board did not approve an increase in customer rates
- 8 in any of these three applications.
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- 10 CA-NP-018 (Reference CA-NP-005) It is stated “*The Company’s 2024 return on rate base application proposes a change in customer rates in order for Newfoundland Power to have a reasonable opportunity to earn the just and reasonable return determined for 2024.*”
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- 14 a) What regulatory mechanisms are in place to provide Newfoundland Power
- 15 a “*reasonable opportunity to earn a just and reasonable return*”? In
- 16 Newfoundland Power’s opinion, are these mechanisms adequate? How
- 17 might they be improved?
- 18 b) Is there a legal clause or regulatory principle that “guarantees”
- 19 Newfoundland Power’s return in every year?
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- 21 CA-NP-019 (Reference CA-NP-014) 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.*”
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- 26 a) What does Newfoundland Power mean when it says “*and, in effect, 2024*”? How is the range established for 2024 different from the range established for 2022 and 2023?
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- 29 b) What is the purpose of the range of rate of return on rate base, and why is it necessary?
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- 31 c) How has the range of rate of return on rate base come into play since the Order on the 2022-2023 GRA was issued?
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- 33 d) How has the range of rate of return on rate base benefitted Newfoundland Power?
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- 35 e) How has the range of rate of return on rate base benefitted customers?
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- 37 CA-NP-020 (Reference NLH-NP-001) Please provide a revised Attachment A in which the 2022 Test Year and 2022 Actuals are included. Also, include a line after “Earnings applicable to common shares” that gives the corresponding return on rate base (in \$000s) and another line that gives the return on debt for each year in the revised table.
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- 43 CA-NP-021 (Reference NLH-NP-009(a)) The RFI asks “*why it is appropriate for Newfoundland Power to receive an increase to the total rate base outside of a*
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1 *test year.* Newfoundland Power responded *“In Order No. P.U. 3 (2022), the*
 2 *Board ordered, among other things, that Newfoundland Power file an*
 3 *application on or before November 15, 2023 for approval of the Company’s*
 4 *2024 forecast average rate base and rate of return on rate base, maintaining*
 5 *the common equity ratio and return on common equity accepted for rate*
 6 *setting in that order.”* Newfoundland Power goes on to say that it filed the
 7 Application *“in compliance with the Board’s order.”*

- 8 a) Please confirm that Newfoundland Power’s forecast average rate base for
 9 2024 is \$1,357,684,000 and that Newfoundland Power’s forecast rate of
 10 return on rate base for 2024 of 6.21% is calculated using that average rate
 11 base.
 12 b) Please confirm that Newfoundland Power is requesting a 1.5% increase in
 13 customer rates in 2024 in order to achieve a 6.82% rate of return on rate
 14 base, as given in Appendix of 2024 Rate of Return on Rate Base, not
 15 6.85%.
 16 c) In P.U.3 (2022) is Newfoundland Power directed to formulate and propose
 17 a new regulated rate of return on rate base for 2024?
 18 d) Does the Board’s Order indicate that it is appropriate for Newfoundland
 19 Power to receive an increase in rate base in 2024 as requested in the RFI?
 20 If so, please provide the specific reference in the Order.
 21 e) Does the Board’s Order specify that Newfoundland Power will be granted
 22 an increase in customer rates if it forecasts that its rate of return on rate
 23 base will fall short of the mid-point of the range of return on rate base
 24 approved in the Board?
 25 f) Does the Board’s Order specify that Newfoundland Power will be granted
 26 an increase in customer rates if it forecasts that its rate of return on rate
 27 base will fall short of the mid-point, but within the range of return on rate
 28 base approved by the Board?
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30 CA-NP-022

(Reference PUB-NP-004) The Board asks with respect to practice in other
 31 Canadian jurisdictions *“if rates are reset to meet the mid-point of the targeted*
 32 *return on rate base or to recover the explicit cost increase being incurred by*
 33 *the utility.”* Newfoundland Power responds *“In each jurisdiction, customer*
 34 *rates are set using the mid-point ROE, in particular when the ROE forms part*
 35 *of the revenue requirement calculation. Between COS reviews, an actual*
 36 *earned ROE is permissible within the respective ranges and mechanisms*
 37 *applicable in each jurisdiction.”*

- 38 a) If Newfoundland Power is not granted the revenue increase requested in
 39 the Application, would its rate of return on rate base be expected to fall
 40 within the range applicable in this jurisdiction?
 41 b) While rates in the surveyed jurisdictions are “set” using the md-point ROE,
 42 do any of the jurisdictions “reset” rates between GRAs *“to meet the mid-*
 43 *point of the targeted return on rate base or to recover the explicit cost*
 44 *increase being incurred by the utility”* as specified in the Board’s question?

- 1 c) Under performance-based regulation, are utilities incented to cut costs by
 2 allowing them to keep the resulting increase in profits, with the savings
 3 owing to cost-cutting measures returned to customers in the form of
 4 reduced rates (reduced from what they would otherwise have been) at the
 5 start of the next regulation cycle?
 6 d) Are Nova Scotia Power and Maritime Electric (PEI) the only two
 7 jurisdictions included in the survey that use cost of service regulation
 8 similar to NL?
 9 e) Do either of these two jurisdictions “reset” rates between GRAs *to meet*
 10 *the mid-point of the targeted return on rate base or to recover the explicit*
 11 *cost increase being incurred by the utility.” If so, please reconcile this with*
 12 *the statement “It is Newfoundland Power’s understanding that Nova Scotia*
 13 *Power and Maritime Electric both have limited ability to set customer*
 14 *rates, beyond annual supply cost mechanisms, outside of general rate*
 15 *application processes or otherwise directed by their respective*
 16 *regulators.”*

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 18 CA-NP-023

(Reference NLH-NP-007) Newfoundland Power states *“The driver of the forecast excess earnings in 2023 is a higher forecast return on debt compared to the Company’s 2023 test year return on debt.”*

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 21 a) By how much is the 2023 forecast return on debt higher than the 2023 test
 22 year return on debt? If it had been another \$1 million higher then by how
 23 much would that have increased excess earnings?
 24 b) Is 2023 forecast revenue, including “other revenue,” higher compared to
 25 2023 test year revenue and, if so, by how much? If it had been another \$1
 26 million higher then by how much would that have increased excess
 27 earnings?
 28 c) Please provide an update of Newfoundland Power’s excess earnings and
 29 rate of return on rate base in 2023.
 30 d) By how much in dollars did 2023 earnings exceed earnings necessary to
 31 meet the midpoint of the range of rate of return on rate base approved by
 32 the Board?
 33 e) By how much in dollars did 2023 earnings exceed earnings necessary to
 34 meet the low end of the range of rate of return on rate base approved by
 35 the Board?

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 37 CA-NP-024

(Reference NLH-NP-010 and CA-NP-003). NLH-NP-010 asks why Newfoundland Power *“believes that it is appropriate to request a rate increase at this time for higher costs related to rate base and debt costs but does not consider other financial impacts that may result in the cost savings that led Newfoundland Power to forecast excess earnings in 2023.”* CA-NP-003b also relates to potential cost savings, inquiring of Newfoundland Power whether it considered cost saving measures specifically in light of its 2024 forecast

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1 revenue shortfall based on its proposed increase in the regulated rate of return
2 on rate base.

- 3 a) Given that Newfoundland Power is proposing an increase in 2024
4 customer rates to address that revenue shortfall, is it not incumbent on
5 Newfoundland Power to demonstrate that it explored cost-cutting
6 measures?
- 7 b) Once Newfoundland Power determined the extent of its revenue shortfall,
8 what specific cost-cutting measures did it identify to help address it before
9 deciding to seek a rate increase?
- 10 c) According to NLH-NP-001 Attachment A, Newfoundland Power's
11 operating expenses for 2023F and 2024F (Before Recovery) are \$73.473
12 million and \$78.775 million, respectively. That is a \$5.3 million (or 7.2%)
13 increase in operating expenses. Please explain why such a large increase
14 in operating expenses is anticipated.
- 15 d) According to NLH-NP-001 Attachment A, Newfoundland Power's
16 depreciation expenses for 2023F and 2024F (Before Recovery) are
17 \$74.869 million and \$79.775 million, respectively. That is a \$4.7 million
18 (or 6.3%) increase. Please explain why such a large increase in
19 depreciation expenses is anticipated.
- 20 e) Please provide a table comparing Newfoundland Power's actual (2020
21 through 2023) and forecast (2024) operating expenses and depreciation
22 expenses to those included in the test years for the relevant GRA.
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24 CA-NP-025

(Reference 2024 Return on Rate Base, page 3 of 8) According to Footnote 14,
25 the increase in average rate base is based on 2023 capital expenditures of
26 \$122.9 million approved in Order No. P.U. 38 (2022), 2023 capital
27 expenditures of \$1.6 million approved in Order No. P.U. 14 (2023), and the
28 2024 Capital Budget Application which is currently under review by the Board
29 which proposes capital expenditures of \$115.3 million. Does Newfoundland
30 Power expect any savings owing to projects and programs included in the 2023
31 and 2024 Capital Budget Applications, such as reduced transmission and
32 distribution losses, and reduced labour costs owing to productivity gains, and
33 if so, are they incorporated in the revenue requirement calculation for 2024?
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35 CA-NP-026

(Reference 2024 Return on Rate Base, page 4 of 8) Using 45% for deemed
36 equity and 55% for debt, and using, as given in Table 2 for 2023T, 8.5% for
37 the rate of return on equity and 4.67% for the rate of return on debt yields a
38 regulated rate of return on rate base of 6.39% as given in Table 2 for 2023T.
39 However, a similar calculation using Table 2's 8.5% for the rate of return on
40 equity and 5.27% for the rate of return on debt for 2024F yields a 6.72%
41 regulated rate of return on rate base for 2024F. Table 2 however gives the
42 regulated rate of return on rate base for 2024F as 6.85%. Please explain why
43 this calculation for 2024F gives a different figure for 2024F than in Table 2.

- 1 CA-NP-027 (Reference 2024 Return on Rate Base) In Appendix B, what is the purpose of
2 showing the calculation of Newfoundland Power's weighted average cost of
3 capital?
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- 5 CA-NP-028 (Reference 2024 Return on Rate Base) Please provide a table showing
6 Newfoundland Power's labour costs for the past 10 years through 2023, and
7 forecast for 2024, 2025 and 2026, as follows: year, number of full-time
8 equivalents (annualized), number of contractors (annualized), total annual
9 labour costs associated with full-time equivalents, total annual labour costs
10 associated with contractors, average hourly salary of full-time equivalents,
11 average hourly salary of contractors, total annual cost of labour. Please show
12 salaries and benefits separately, and in total.
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- 14 CA-NP-029 (Reference 2024 Return on Rate Base) Why did Newfoundland Power not
15 request an extension for filing this application, which presumes the Board will
16 approve the entirety of its 2023 Capital Budget Application, in light of the fact
17 at the time of filing the Board had not yet issued an order regarding that Capital
18 Budget Application?

DATED at St. John's, Province of Newfoundland and Labrador, this 12th day of January, 2024.

Per: 

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