Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

IN THE MATTER OF A

GENERAL RATE APPLICATION

FILED BY

NEWFOUNDLAND POWER INC.

DECISION AND ORDER
OF THE BOARD

ORDER NO. P.U. 3(2022) AMENDED

BEFORE:

Darlene Whalen, P. Eng., FEC
Chair and CEO

Dwanda Newman, LL.B.
Vice-Chair

John O'Brien, FCPA, FCA, CISA
Commissioner

Christopher Pike, LL.B.
Commissioner

NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD
NO. P.U. 3(2022) <u>AMENDED</u>

IN THE MATTER OF the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 and the *Public Utilities Act*, RSNL 1990, Chapter P-47 as amended, and subordinate regulations;

AND IN THE MATTER OF a general rate application filed by Newfoundland Power Inc. for approval of, *inter alia*, rates to be charged to its customers for 2022 and 2023.

<u>BEFORE:</u>

Darlene Whalen, P. Eng., FEC
Chair and CEO

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Vice-Chair

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Commissioner

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1.0 APPLICATION AND PROCEEDING

1.1 Application

Newfoundland Power Inc. ("Newfoundland Power") filed a general rate application with the Board of Commissioners of Public Utilities (the "Board") on May 27, 2021 requesting approval of, among other things, an overall average increase in current electricity rates of 0.8% as of March 1, 2022 for the supply of power and energy to its customers (the "Application").[1]

In the Application Newfoundland Power proposed that the Board approve:

1. rates, tolls and charges and rules and regulations governing service, to be effective for all service provided on and after March 1, 2022, which result in an overall average increase in current customer rates of 0.8%;
2. a rate of return on average rate base for 2022 of 7.19% in a range of 7.01% to 7.37% and for 2023 of 6.97% in a range of 6.79% to 7.15%;
3. a forecast average rate base for 2022 of $1,239,558,000 and for 2023 of $1,289,405,000;
4. a forecast revenue requirement from customer rates for 2022 of $715,364,000 and for 2023 of $712,803,000; and
5. the continued suspension of the automatic adjustment formula for setting the allowed rate of return on average rate base for Newfoundland Power in years subsequent to 2023.

The Application also included proposals for Newfoundland Power's calculation of depreciation expense and general expenses capitalized ("GEC") as well as proposals related to amortizations and recovery of customer Conservation Demand Management ("CDM") and electrification costs, Board and Consumer Advocate costs related to the Application, and the forecast 2022 revenue shortfall.

1.2 Application Process

Notice of the Application and pre-hearing conference was published in newspapers throughout the province beginning on June 12, 2021.

The pre-hearing conference was held on July 6, 2021. In Order No. P.U. 26(2021) the Board identified intervenors, established procedural rules and set the schedule for the proceeding.

Registered intervenors for the proceeding were the Government appointed Consumer Advocate, Dennis Browne, QC (the "Consumer Advocate"), represented by Stephen Fitzgerald, and Newfoundland and Labrador Hydro ("Hydro"), represented by Shirley Walsh. Newfoundland Power was represented by Liam O'Brien, Dominic Foley and Lindsay Hollett. The Board was represented by Maureen Greene, QC, Board Hearing Counsel, and Jacqueline Glynn, Legal Counsel, with assistance from Cheryl Blundon, Board Secretary.

[1] In Order No. P.U. 2(2019) the Board ordered Newfoundland Power to file its next general rate application no later than June 1, 2021.

The Application was filed with comprehensive supporting evidence which included professional and expert reports. The expert evidence included a report *Cost of Capital*, prepared by James Coyne of Concentric Energy Advisors, Inc., ("Coyne Report") and a report *2019 Depreciation Study – Calculated Annual Depreciation Accruals Related to Electric Plant as of December 31, 2019*, prepared by Gannett Fleming Valuation and Rate Consultants, LLC ("2019 Depreciation Study").[2]

On September 28, 2021 the Board's financial consultants, Grant Thornton LLP ("Grant Thornton") filed a report with respect to its review of Newfoundland Power's pre-filed evidence ("Grant Thornton Report").[3]

On September 28, 2021 the Consumer Advocate filed a report *Fair Return for Newfoundland Power (NP)* prepared by Laurence Booth of the Rotman School of Management, University of Toronto ("Booth Report").

On November 6, 2021 notice of the hearing was published, inviting participation of interested parties or organizations.[4] The hearing was scheduled to begin on November 23, 2021.

On November 9, 2021 Newfoundland Power filed a report, *Executive Compensation Review*, prepared by Wiclif Ma of Korn Ferry.

A total of 507 Requests for Information ("RFIs") were filed and answered in the proceeding.

1.3 Settlement and Hearing

The Board set aside November 1-5, 2021 for settlement discussions, facilitated by Board Hearing Counsel. On November 23, 2021, at the start of the oral public hearing, a settlement agreement between Newfoundland Power, the Consumer Advocate, Hydro and Board Hearing Counsel was filed (the "Settlement Agreement"). The Settlement Agreement stated that it disposed of all of the issues arising from the Application and specifically addressed a number of issues, including operating costs, forecasting, depreciation, certain amortizations, revenue requirements and return on rate base. The parties advised at the hearing that, as the Settlement Agreement addressed all of the items in the Application, they did not intend to present evidence, examine, cross-examine or present argument beyond that which is reasonably necessary to assist the Board. The hearing was adjourned.

1.4 Amended Application

On December 7, 2021 Newfoundland Power filed an amended application (the "Amended Application") to reflect the agreement of the parties as set out in a Settlement Agreement. The Amended Application proposed approval of:

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[2] Application, Volume 3.

[3] Grant Thornton's annual review of Newfoundland Power for 2020 was placed on the record on October 8, 2021.

[4] The Board received three emails objecting to the proposed rate increase. No other comments or submissions were received.

i) rates, tolls and charges and rules and regulations governing service, to be effective for all service provided on and after March 1, 2022, which result in an overall average decrease in current customer rates of 1.1%;
ii) a rate of return on average rate base for 2022 of 6.61% in a range of 6.43% to 6.79% and for 2023 of 6.39% in a range of 6.21% to 6.57%;
iii) a forecast average rate base for 2022 of $1,239,085,000 and for 2023 of $1,287,450,000;
iv) a forecast revenue requirement from customer rates for 2022 of $704,861,000 and for 2023 of $699,245,000; and
v) the continued suspension of the use of an automatic adjustment formula for setting the allowed rate of return for Newfoundland Power.

The Amended Application also included changes to a number of Application proposals to reflect the Settlement Agreement, including adjustments to the calculation of depreciation expense, GEC and 2022 and 2023 operating expenses, as well as account definition amendments and changes to proposed amortizations and recoveries.

On January 17, 2022 Grant Thornton filed a report of its findings with respect to its review of the Amended Application ("Grant Thornton Amended Application Report"). The report confirmed that the revised forecast average rate base, the rate of return on average rate base and the revised forecast test year revenue requirement for 2022 and 2023 to be recovered in customer rates appropriately incorporate the impact of the Settlement Agreement.[5]

2.0 BOARD DECISIONS

In considering the Amended Application the Board must be satisfied that the proposals are reasonable and consistent with the existing regulatory framework and legislation, with particular reference to the power policy of the province as set out in section 3 of the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 (the "*EPCA*").

The Amended Application reflects the recommendation of the parties as set out in the Settlement Agreement for the resolution of all issues arising out of the Application. In considering the Settlement Agreement the Board must be satisfied that the proposals represent a reasonable balance between the interests of the utility and customers considering, among other things, the requirement for Newfoundland Power to deliver reasonable least-cost reliable electricity to customers and for Newfoundland Power to have the opportunity to earn a just and reasonable return. The Board extends its appreciation to the parties and their counsel for their participation in the comprehensive negotiation process and in arriving at the Settlement Agreement.

The Board's findings on the Amended Application, including the Settlement Agreement proposals, are discussed in the following sections.

[5] Grant Thornton Amended Application Report, page 11.

2.1 Capital Structure and Return on Equity for Rate Setting

The Application proposed, for rate setting purposes, a return on equity for the 2022 and 2023 test years of 9.8%, with a deemed common equity ratio of 45%.[6]

Grant Thornton reviewed the calculations of the components of capital structure, average common equity and return on average common equity, including verification of the data and methodology used. Based on its review Grant Thornton confirmed that the calculation of the proposed capital structure for 2022 and 2023 is consistent with Order No. P.U. 2(2019) and that no discrepancies were noted in the calculations of the forecast and proposed rate of return on average common equity for 2021, 2022 and 2023.[7]

The parties agreed in the Settlement Agreement that the capital structure as proposed in the Application should be approved for rate setting purposes and that the rate of return on common equity to be used in determining a just and reasonable return on rate base for 2022 and 2023 should be 8.5%.[8]

The Amended Application proposed, for rate setting purposes, a return on equity for the 2022 and 2023 test years of 8.5%, with a deemed common equity ratio of 45%.[9]

As a part of its review of the Amended Application Grant Thornton calculated that, as a result of the change in return on common equity from 9.8% to 8.5% pursuant to the Settlement Agreement, the return on rate base in the test year revenue requirement decreased by $7,280,000 for 2022 and $7,569,000 for 2023.[10]

In determining whether a rate of return on common equity of 8.5% and common equity ratio of 45% as recommended in the Settlement Agreement and proposed in the Amended Application should be accepted for use in setting Newfoundland Power's 2022 and 2023 rates the Board must consider whether it would provide Newfoundland Power the opportunity to earn a just and reasonable return while providing for the provision of least-cost reliable service.[11]

The Board notes that the rate of return on common equity of 8.5% and common equity ratio of 45% recommended by the parties in the Settlement Agreement and proposed in the Amended Application are the same as were used in setting Newfoundland Power's rates in its last two general rate applications.[12] The recommended rate of return on common equity and common equity ratio for setting Newfoundland Power's 2022 and 2023 test year rates are within the range of the recommendations of the cost of capital experts in this proceeding. According to Mr. Coyne, Newfoundland Power's required cost of equity is 9.8% and a common equity ratio of 45% remains reasonable while Dr. Booth recommended return on equity of 7.50% with a common equity ratio

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[6] Application, Volume 1, page 3-16.
[7] Grant Thornton Report, pages 13-14.
[8] Settlement Agreement, page 3.
[9] Amended Application, page 3.
[10] Grant Thornton Amended Application Report, pages 4 and 5.
[11] Section 80 of the *Public Utilities Act* and sections 3 and 4 of the *EPCA*.
[12] Order Nos. P.U. 18(2016) and P.U. 2(2019).

of 40%.[13] Both Dr. Booth, the Consumer Advocate's expert, and Mr. Coyne, Newfoundland Power's expert, agree that there has not been a material change in Newfoundland Power's business risk since 2018.[14] In terms of the economic and financial conditions Dr. Booth believes that the conditions in 2021 were in many respects similar to 2016 and 2018, although according to Mr. Coyne there are indications that Newfoundland Power's cost of equity is higher than was authorized by the Board in Newfoundland Power's last general rate application.[15] The Board notes that, according to Mr. Coyne, the average return on equity allowed for Canadian investor-owned electric utilities in 2021 was approximately 8.87%.[16]

The Board notes that Newfoundland Power has maintained a solid financial profile and investment grade credit rating from both Moody's Investors Service ("Moody's") and DBRS Morningstar ("DBRS") and this has contributed to its continued access to capital markets on reasonable terms.[17] According to Dr. Booth Newfoundland Power's bond ratings from Moody's and DBRS are higher than normal for a regulated Canadian utility.[18] Both Moody's and DBRS recognize Newfoundland Power's longstanding 45% common equity component of its capital structure as a key credit strength.[19] The Board notes that, if the rate of return on common equity of 8.5% and deemed common equity component of 45% recommended in the Settlement Agreement are accepted for use in setting Newfoundland Power's 2022 and 2023 test year rates, Newfoundland Power's credit metrics would meet or exceed the expectations of the credit rating agencies, and the pro forma earnings test interest coverage metric used by Newfoundland Power when issuing First Mortgage Bonds would exceed the requirement in its Deed of Trust and Mortgage.[20]

Based on the evidence, including the reports of the experts and the credit rating agencies, and considering the agreement of the parties, the Board is satisfied that a rate of return on common equity for Newfoundland Power for rate setting purposes for 2022 and 2023 of 8.5% with a common equity ratio of no greater than 45% will provide Newfoundland Power with the opportunity to earn a just and reasonable return on rate base consistent with the fair return principle and the provision of least-cost reliable service.

The Board accepts the Settlement Agreement recommendation and the Amended Application proposal that, for 2022 and 2023, a rate of return on common equity of 8.5%, with a deemed common equity component of 45%, should be used in setting the allowed rate of return on rate base for the 2022 and 2023 test years.

[13] Coyne Report, page 81; Booth Report, page 98.
[14] Coyne Report, pages 67 and 79; Booth Report, page 51.
[15] Booth Report, page 35, Coyne Report, page28.
[16] Coyne Report, page 49.
[17] PUB-NP-030, page 3.
[18] Booth Report, page 95.
[19] PUB-NP-030, page 2.
[20] PUB-NP-029; PUB-NP-030; PUB-NP-031; Application, Exhibit 4, *Moody's Credit Rating Report*, November 16, 2020 and *DBRS Rating Report*, October 19, 2020; *DBRS Rating Report*, October 19, 2021, filed by Newfoundland Power in correspondence dated November 9, 2021.

2.2 Customer, Energy and Demand Forecast

The Customer, Energy and Demand forecast is the foundation of Newfoundland Power's planning forecast and a key input in developing estimates of capital and operating expenditures. The Application included a Customer, Energy and Demand Forecast which set out the assumptions and inputs used in developing Newfoundland Power`s customer and energy sales forecast for 2021-2023 and which forecasts:

i) an increase in the number of customers by 0.4% in each of 2021 and 2022, and by 0.3% in 2023;
ii) a decrease in energy sales of 0.2% in 2021, 0.4% in 2022, and 0.7% in 2023; and
iii) an increase in demand of 3.9% in 2021, no change in 2022, and a decrease of 0.7% in 2023.[21]

Grant Thornton reviewed the Customer, Energy and Demand Forecast and determined that the overall forecast methodology used by Newfoundland Power is consistent with the 2019/2020 general rate application. Grant Thornton noted that the current forecast period includes additional assumptions regarding the market penetration of heat pumps and the economic impacts of COVID-19. Grant Thornton reviewed the underlying assumptions based on supporting evidence provided by Newfoundland Power and found no exceptions.[22]

The Settlement Agreement acknowledged that there is considerable uncertainty in the load forecasting owing to the Muskrat Falls Project, government rate mitigation plans and COVID-19 which is expected to continue into the 2023 test year. The Settlement Agreement recommended that the 2022 and 2023 Customer, Energy and Demand Forecast as proposed in the Application should be approved and that it not be revised for price elasticity effects following the issuance of a final order of the Board on the Application. The Settlement Agreement also stated that Newfoundland Power would conduct a Load Research Study and a Retail Rate Design Review, with a detailed framework for each, including a cost estimate, to be provided to the parties in 2022 for input. The parties agreed that a deferral account will be created to recover the costs incurred to conduct the studies with the amortization of the deferral account balance to be determined in Newfoundland Power's next general rate application.[23]

The Amended Application recommended approval of the 2022 and 2023 Customer, Energy and Demand Forecast proposed in the Application, including no revision for price elasticity effects following the Board's final order, as well as approval of the creation of a deferral account to recover the costs incurred to conduct the Load Research Study and a Retail Rate Design Review.

The Board is satisfied that the Customer, Energy and Demand Forecast proposed in the Application and agreed to in the Settlement Agreement is reasonable and should be accepted for determining the 2022 and 2023 test year load forecasts and revenue requirements. As set out in the Settlement Agreement the test year load forecast will not be revised for elasticity effects following the Board's

[21] Application, Volume 2, Tab 3: *Customer, Energy and Demand Forecast, May 2021*; Application, Volume 1, pages 5-1 to 5-6. The number of customers served by Newfoundland Power is forecast at 272,253 in 2022 and 273,165 in 2023.
[22] Grant Thornton Report, page 6.
[23] Settlement Agreement, page 3.

order on the Amended Application. The Board also accepts the agreement of the parties with respect to the Load Research Study and a Retail Rate Design review to be undertaken by Newfoundland Power.

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals in relation to the 2022 and 2023 Customer, Energy and Demand Forecast, including that there will be no revision for price elasticity effects following the final order of the Board.

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals with respect to a Load Research Study and a Retail Rate Design Review and will direct Newfoundland Power to conduct the study and review, with the costs to be charged to a deferral account.

2.3 Regulatory Accounting and Amortizations

The Application included proposals for minor changes to the calculation of GEC to account for changes in Newfoundland Power's operations and also to remove pension costs from GEC to be capitalized by way of a labour loader. The Application also proposed to increase the amortization period for CDM program costs incurred after January 1, 2021 from seven to ten years and to amortize electrification program costs over ten years.

2.3.1 <u>General Expenses Capitalized</u>

On April 30, 2020 the Board requested Newfoundland Power provide a report describing its capitalization practices relating to capital asset additions, including a jurisdictional scan of capitalization practices used by other utilities across Canada.[24] In February 2021 the Board requested that Newfoundland Power include with its next general rate application a review of its methodology and cost ratios used to determine GEC, an explanation as to why pension costs are included in its GEC calculation, and the impact on revenue requirement and customer rates if the pension costs were charged directly to capital projects by way of a labour loader.

The Application included Newfoundland Power's review with respect to GEC which determined that the use of the incremental cost method for the calculation of GEC continues to be reasonable on the basis that i) it results in relatively stable allocations, ii) limits the allocation of general expenses to only those necessary to bring an asset into service and recovers those costs over the life of the asset, and iii) provides overall capitalization amounts that are reasonably consistent with other Canadian utilities.[25] Newfoundland Power concluded that, excluding pension costs, its methodology for calculating GEC is consistent with established regulatory principles of the Board and sound public utility practice.

The Application proposed changes to the calculation of GEC to remove general expenses for printing services and add general expenses for information systems. Changes to the existing cost ratios are also proposed to account for changes in Newfoundland Power's operations since the

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[24] The report was submitted on August 14, 2020 and included with the Application in Volume 2, Tab 6, Attachment 1.
[25] Application, Volume 1, page 3-48.

matter was last considered by the Board in 1999. These changes to the calculation of GEC are proposed to be effective January 1, 2023 and would decrease 2023 revenue requirement by approximately $0.1 million.

The Application also proposed that, effective January 1, 2023, pension costs be removed from the GEC calculation and be directly charged to capital projects by way of a labour loader. This proposed change will increase the 2023 forecast revenue requirement by $1,427,000 due to income tax effects. According to the Application allocation of pension costs directly to capital projects is consistent with sound public utility practice and Newfoundland Power's current treatment of Other Post-Employment Benefits (OPEB) costs.[26] The Application also noted that the income tax effects of this proposed change in allocation will reverse over time, resulting in a decrease in revenue requirements in subsequent years such that, ultimately, there would be no impact on the total revenue requirement recovered through customer rates over the service lives of the related capital assets.

Grant Thornton reviewed the GEC methodology set out in the Application and found that the incremental method is an acceptable methodology to determine the GEC, is supported by the jurisdictional survey results filed with the Application, and that the GEC results have been consistent year over year.[27] Grant Thornton concluded that the allocation of pension costs directly to capital projects by way of a labour loader is also consistent with the survey results and that the income tax effects in relation to the pension cost allocation are appropriate.[28]

The Settlement Agreement recommended that the proposed revisions to Newfoundland Power's GEC calculation be approved, effective January 1, 2023, subject to using a deferral account to offset the impact of the proposed change in capitalizing pension costs, with amortization of the recovery of $1,427,000 over a 5-year period commencing January 1, 2023.[29]

The Amended Application requested approval of the revisions to the proposed GEC calculation as set out in the Application, amended to reflect the Settlement Agreement recommendations.

The Board notes the GEC methodology proposed in the Amended Application is consistent with prior practices of Newfoundland Power and offers stability in GEC allocations. According to the evidence filed with the Application all proposed general expenses in the GEC calculation are consistent with the definition of Capitalized Overheads in the Federal Energy Regulatory Commission ("FERC") System of Accounts.[30] The removal of pension costs from the GEC calculation and charging these costs directly to capital projects is also consistent with sound public utility practice and would result in a more accurate allocation of general expenses to capital projects. The use of a deferral account to defer the increase in revenue requirement associated with the removal of the pension costs from GEC calculation, as recommended by the Settlement Agreement, will mitigate the impact of this change on customer rates.

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[26] Application, Volume 1, page 3-52.
[27] Grant Thornton Report, page 47/4-8.
[28] Grant Thornton Report, page 50/34-37.
[29] Settlement Agreement, page 4.
[30] Application, Volume 2, Tab 6: *Review of General Expenses Capitalized*, Appendix A.

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals with respect to the revisions to Newfoundland Power's GEC calculation and will approve the changes, effective January 1, 2023, as well as the amortization of the associated increase in revenue requirement of $1,427,000 over a five-year period.

2.3.2 Recovery of CDM and Electrification Program Costs

In Order No. P.U. 13(2013) the Board approved a CDM Cost Deferral Account and the amortization of CDM program costs over a seven-year period through the Rate Stabilization Clause. The Application proposed to increase the amortization of CDM program costs incurred commencing January 1, 2021 from seven to ten years on the basis that this amortization period generally corresponds with the average useful life of the technologies captured by CDM programs. This increase in amortization would reduce revenue requirements in 2022 and 2023 by approximately $280,000 and $587,000 respectively.[31] The Application also included a proposed revision to Clause II.7 of the Rate Stabilization Clause to reflect the proposed change in the amortization period.

The Settlement Agreement recommended approval of Newfoundland Power's proposed increase in the amortization period from seven to ten years for customer CDM program costs incurred after January 1, 2021 as well as the corresponding amendment to Clause II.7 of the Rate Stabilization Clause, and also recommended that the same ten-year period be used for CDM program costs incurred prior to January 1, 2021.

The Board is satisfied the amortization period for CDM program costs should be increased from seven years to ten years. The evidence shows that this practice is consistent with current public utility practice and the change will result in lower revenue requirements for 2022 and 2023 associated with Newfoundland Power's CDM programs.

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals in relation to the increase in the amortization period for customer CDM program costs from seven years to ten years, commencing January 1, 2021 for both historical balances and annual charges, and will approve the associated amendments to Clause II.7 of the Rate Stabilization Clause.

The Application also included a proposed Electrification Cost Deferral Account to provide for the deferral of costs incurred in implementing its Customer Electrification Portfolio. The account would also be credited with any government funding received related to electrification programs and any revenues associated with the operation of company-owned charging stations. The existing Clause II.9 of the Rate Stabilization Clause is proposed to be replaced with a new clause to allow for the Electrification Cost Recovery Transfer from the Electrification Cost Deferral Account, with these costs also proposed to be amortized over a ten-year period.

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[31] In its 2021 Electrification, Conservation and Demand Management Application filed with the Board on December 16, 2020 Newfoundland Power proposed approval of an Electrification Cost Deferral Account, with the amortization period for electrification program costs to be determined as part of the next general rate application.[31] Application, Volume 1, pages C 3-54 and 3-55.

The Settlement Agreement recommended that all electrification infrastructure and program costs be removed from the proposed 2022 and 2023 revenue requirement and rate base. The Settlement Agreement also proposed an amended definition of the proposed Electrification Cost Deferral Account to include costs associated with approved electric vehicle charging infrastructure capital costs until otherwise ordered by the Board and any funding received from Government related to electric vehicle charging infrastructure. The amended definition also states that the account will not be included in Newfoundland Power's calculation of rate base until otherwise ordered by the Board. [32]

The Amended Application proposed approval of the amended Electrification Cost Deferral Account as set out in the Settlement Agreement and the proposal in the Application to replace Clause II.9 of the Rate Stabilization Clause with an amended clause to allow for the amortization of electrification program costs over a ten-year period.

In its review of the Amended Application Grant Thornton requested Newfoundland Power to confirm that it is seeking approval of the proposed Clause II.9 and whether any electrification costs are proposed to be recovered from the Rate Stabilization Account in 2022 and 2023. Newfoundland Power provided the following response:

> As the electrification cost deferral account did not exist in 2021, there were no charges to the account in 2021. Therefore, there would be no transfer from the account to the Rate Stabilization Account in 2022.
>
> If the electrification deferral account is approved in 2022 …there will be transfers to the account in 2022 and thus recovery through the RSA in the 2023 transfer (1/10th of the 2022 balance). It would only be associated with electrification infrastructure and program related costs in accordance with Board orders, such as the EV charger supplemental capital expenditures approved by the Board in Order No. P.U. 30 (2021), per the account definition.[33]

Grant Thornton concluded that they were not aware if the recovery of costs charged annually to the Electrification Cost Deferral Account over a ten-year period was intended to be included in the Settlement Agreement as it was not specifically addressed.

In Order No. P.U. 30(2021) the Board approved the proposed supplemental 2021 capital expenditures for the deployment of electric vehicle charging stations in the amount of approximately $1.5 million with the recovery of these expenditures to be addressed in a subsequent order of the Board. The Board has allowed for the deferral of these costs with the question of how these approved capital expenditures will be recovered from customers to be addressed in a subsequent order of the Board. The Board is satisfied that the Electrification Cost Deferral Account proposed in the Amended Application should be approved to allow for the deferral of electrification program costs, including charging infrastructure capital costs, until the Board has made a determination on the 2021 Electrification, Conservation and Demand Management Application. The Board notes that the amended Electrification Cost Deferral Account definition

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[32] The Amended Electrification Cost Deferral Account Definition was attached as Schedule "A" to the Settlement Agreement.

[33] Grant Thornton Amended Application Report, page 10.

included in the Settlement Agreement and the Amended Application, states that the "recovery of annual amortizations of costs in this account shall be through the Company's Rate Stabilization Clause or as otherwise ordered by the Board."[34] With respect to the proposed amortization of the costs over a ten-year period through the Rate Stabilization Clause the Board is not satisfied that this proposal should be approved at this time but should be considered as part of the 2021 Electrification, Conservation and Demand Management Application.

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals with respect to the establishment of an Electrification Cost Deferral Account and will approve the account definition as proposed but will not approve the proposed amendment to Clause II.9 of the Rate Stabilization Clause at this time.

2.4 Operating Costs

The Application proposed approval of forecast operating costs to be included in revenue requirement of $67,495,000 for 2022 and $73,226,000 for 2023.[35]

Grant Thornton reviewed the operating cost forecasts for 2022 and 2023 in the Application and noted the key variances for each year between 2019 actual and 2023 forecast. Grant Thornton concluded that, based on their review and analysis, nothing had come to their attention to indicate that the forecast 2021, 2022 and 2023 operating costs are unreasonable on an overall basis.[36]

The Settlement Agreement recommended that the 2022 and 2023 operating costs as proposed in the Application be approved with, the following amendments:

i) Effective for the fiscal year ended December 31, 2022, only 50% of expenses associated with the cash flow component of the corporate target of Newfoundland Power's short-term incentive program will be recovered in customer rates.
ii) All electrification infrastructure and programming costs will be removed from the proposed revenue requirement and rate base for 2022 and 2023. Electrification infrastructure costs approved by the Board will be charged to the Electrification Cost Deferral Account proposed in Schedule A of the Settlement Agreement.
iii) Operating costs for 2023 will be reduced by $300,000 to reflect operating efficiencies.[37]

A number of other Settlement Agreement proposals also affect the operating costs to be included in revenue requirement:

i) Actual hearing costs for the Board and the Consumer Advocate will be recovered through the Rate Stabilization Account instead of being amortized.
ii) The amortization period for customer CDM program costs incurred before and after January 1, 2021 will be increased from seven to ten years.

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[34] Amended Application, Exhibit 13.
[35] Application Volume 1, page 4-4. Forecast operating costs for 2022 include proposed hearing cost recovery of $294,000, new electrification program amortization of $134,000 and a decrease in existing CDM program amortization of $280,000. Forecast operating costs for 2023 include $353,000 for hearing costs, electrification amortization of $435,000, a decrease of $587,000 in existing CDM programming amortizations and an increase of $3,289,000 for changes in general expenses capitalized proposed in the Application to be effective January 1, 2023.
[36] Grant Thornton Report, pages 17-19.
[37] Settlement Agreement, pages 2 and 3.

The Amended Application proposed approval of forecast operating costs to be included in revenue requirement of $64,996,000 for 2022 and $70,725,000 for 2023.[38]

Grant Thornton confirmed that, consistent with the Settlement Agreement, the revised 2022 and 2023 operating cost reductions of $2,499,000 and $2,501,000 include the impact of the Settlement Agreement proposals set out above.[39]

The Board notes that Grant Thornton has confirmed reductions in operating costs as a result of the Settlement Agreement of approximately $2.5 million for both 2022 and 2023. The lower operating costs proposed in the Amended Application reflect the agreement of the parties to change the amortization period for CDM program costs incurred before January 1, 2021, which has been accepted by the Board. These operating costs also reflect the removal of the amortizations related to electrification programming costs. This is consistent with the direction of the Board and the agreement of the parties that all costs associated with electrification infrastructure and programming be removed from the proposed revenue requirement and rate base. Based on the evidence the recommended reduction in short-term incentive costs for the 2022 and 2023 test years, the efficiency reduction in operating costs for the 2023 test year, and the recovery of actual hearing costs through the Rate Stabilization Account also reduce the operating costs for the 2022 and 2023 test years.

The Board is satisfied that the total operating costs for the 2022 and 2023 test years proposed in the Amended Application reflect the recommendations of the parties in the Settlement Agreement and the associated reductions in operating costs are reasonable and will not adversely affect service or reliability.

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals in relation to the 2022 and 2023 operating costs to be used in calculating the 2022 test year revenue requirement and the 2023 test year revenue requirement.

2.5 Depreciation

The Application proposed approval of the calculation of forecast depreciation expense of $70,956,000 for 2022 and $75,252,000 for 2023 reflecting the methodology and depreciation rates set out in the 2019 Depreciation Study. The forecast depreciation expense for 2022 and 2023 includes recovery of an accumulated reserve variance of approximately $1.9 million a year over the average remaining service life of the affected asset classes as recommended in the 2019

[38] Amended Application, Exhibit 7.

[39] Grant Thornton Amended Application Report, pages 3 and 4.The decrease in the 2022 operating costs include a reduction in the amortization of hearing costs of $294,000, a reduction of $26,000 in short-term incentive program costs, a reduction of the amortization of CDM costs of $2,045,000 related to the forecast and historical costs being amortized over 10 years, and a reduction in the amortization of electrification costs of $134,000 as a result of the removal of these costs from test year forecast. The decrease in the 2023 operating costs include a reduction in the amortization of hearing costs of $353,000, a reduction of $27,000 in short-term incentive program costs, a reduction of the amortization of CDM costs of $1,386,000 related to the forecast and historical costs being amortized over 10 years, and a reduction in the amortization of electrification costs of $435,000 as a result of the removal of these costs from test year forecast, and a reduction of $300,000 in operating costs to reflect operating efficiencies for 2023.

Depreciation Study.[40] On August 24, 2021 Newfoundland Power advised that an error had been identified in the calculation of the depreciation expenses and requested that the corrections be incorporated in the compliance application following the Board's order.[41] The Board granted the request.[42]

Grant Thornton reviewed Newfoundland Power's forecast depreciation expense for 2022 and 2023 and concluded that, with the exception of the errors identified, the depreciation rates used to calculate the forecast depreciation expenses for 2022 and 2023 agree to those recommended in the 2019 Depreciation Study and Newfoundland Power's pre-filed evidence.[43]

The Settlement Agreement recommended that the Board approve the forecast depreciation expense for 2022 and 2023 in accordance with the methodology and rates outlined in the 2019 Depreciation Study, subject to:

i) correction for the appropriate service life of the Customer Information System (from 10 to 18 years); and
ii) removal of electric vehicle charging stations from plant investment.[44]

In its review of the Amended Application Grant Thornton noted that the forecast depreciation expense decreased by $24,000 for 2022 as a result of the removal of electric vehicle charging stations from plant investment and by $794,000 for 2023 as a result of correcting the appropriate service life of the Customer Information System and the removal of electric vehicle charging stations from plant investment. Grant Thornton concluded that appropriate evidence was provided to support the revisions as a result of the Settlement Agreement.[45]

The Board is satisfied that the proposed depreciation expense proposed in the Amended Application reflects the recommendations of the parties in the Settlement Agreement. The Board notes that the proposed changes in the individual depreciation rates for differing asset classes recommended in the 2019 Depreciation Study result in lower forecast depreciation expense for 2022 and 2023.

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals in relation to the calculation of depreciation expense for 2022 and 2023.

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[40] Application, Volume 1, pages 3-7 and 3-8.
[41] Newfoundland Power advised that the proposed depreciation expense for the Customer Information System assets reflected depreciation for a shorter than the intended service life (10 years rather than 18) and that the EV Charging Stations were depreciated over a longer than intended service life (30 years rather than 10).
[42] Letter from Board to Newfoundland Power dated August 25, 2021.
[43] Grant Thornton Report, page 36.
[44] Settlement Agreement, page 2.
[45] Grant Thornton Amended Application Report, pages 3-5.

2.6 Other Proposed Deferrals

2.6.1 Hearing Costs Recovery

The Application proposed that the estimated $1.0 million in costs to be billed to Newfoundland Power for the costs of the Board and the Consumer Advocate as a result of the Application be recovered in customer rates over a 34-month period commencing on March 1, 2022 and ending December 31, 2024. The Application proposed that any difference between actual and estimated Board and Consumer Advocate costs for rate setting purposes be rebated or recovered through the Rate Stabilization Account.[46]

The Settlement Agreement recommended that actual Board and Consumer Advocate costs related to the Application be recovered through the Rate Stabilization Account.[47]

The Board notes that the recovery of actual Board and Consumer Advocate costs through the Rate Stabilization Account will result in forecast hearing costs being removed from the revenue requirement for 2022 and 2023 and that the actual hearing costs, which will be lower as the matter was settled, will be recovered through the Rate Stabilization Account.

The Board accepts the Settlement Agreement recommendation and the Amended Application proposal in relation to the recovery of actual Board and Consumer Advocate costs through the Rate Stabilization Account […]

2.6.2 Forecast Revenue Shortfall

The Application proposed to amortize a 2022 revenue shortfall in the amount of $1,262,000, associated with the implementation of customer rates on March 1, 2022, over a 34-month period commencing on March 1, 2022 and ending December 31, 2024. The Application stated that the proposed treatment of the 2022 revenue shortfall is consistent with past practice of the Board.[48]

The Settlement Agreement recommended that the amortization of a forecast 2022 revenue shortfall of approximately $930,000 over a 34-month period, commencing March 1, 2022 and ending December 31, 2024, should be approved as modified by any relevant Board orders issued subsequent to the filing of the Application.[49]

Grant Thornton recalculated the 2022 forecast revenue shortfall of $930,000 as set in the Amended Application and the amortization of the 2022 revenue shortfall included in the 2022 and 2023 revenue requirement.[50] Grant Thornton, in its review of the Amended Application, noted that the changes in the 2022 revenue shortfall were primarily due to a reduction in the return on equity to

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[46] Application, Volume 1, page 3-59.

[47] Settlement Agreement, page 4. Clause II.6 allows for the Rate Stabilization Account to be adjusted by any other amount by order of the Board.

[48] Application Volume 1, page 3-59.

[49] Settlement Agreement, page 4. The variance in Application and Settlement Agreement amounts for forecast 2022 revenue shortfall is attributable to revisions for revenue requirement.

[50] Grant Thornton Amended Application Report, page 3, Note 2.

8.5%. Based on its review Grant Thornton concluded that there was appropriate evidence to support the revisions in the Amended Application as a result of the Settlement Agreement.[51]

The Board accepts the Settlement Agreement recommendation and the Amended Application proposal in relation to the approval of the amortization of a forecast revenue shortfall of approximately $930,000 through the Rate Stabilization Account, over a 34-month period, commencing March 1, 2022 and ending December 31, 2024.

2.6.3 Proposed Deferral Accounts

The Amended Application also requests approval of two new deferral accounts as a result of the Settlement Agreement: i) a Load Research and Rate Design Cost Deferral Account; and ii) a Pension Capitalization Cost Deferral Account.[52]

The proposed Load Research and Rate Design Cost Deferral Account will capture the costs associated with a Load Research Study and a Retail Rate Design Study, to be conducted by Newfoundland Power pursuant to the Settlement Agreement.[53]

The Pension Cost Capitalization Deferral Account will capture the costs resulting from the change in capitalizing pension costs from the indirect method via general expenses capitalized to the direct method via a labour loader as of January 1, 2023.[54]

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals in relation to the establishment of a Load Research and Rate Design Cost Deferral Account and a Pension Capitalization Cost Deferral Account and will approve the account definitions as proposed.

2.7 Forecast Average Rate Base and Rate of Return on Rate Base

The Application proposed: i) a forecast average rate base of $1,239,558,000 for 2022 and $1,289,405,000 for 2023, and ii) a rate of return on average rate base for 2022 of 7.19% in a range of 7.01% to 7.37% and for 2023 of 6.97% in a range of 6.79% to 7.15%.[55] The Application also proposed the continued suspension of the automatic adjustment formula for adjusting the allowed return on rate base for Newfoundland Power on an annual basis.[56]

2.7.1 Forecast Average Rate Base

Grant Thornton reviewed the calculations of forecast average rate base for 2022 and 2023 set out in the Application and confirmed that the proposed average rate base is in accordance with established practice and reflects Newfoundland Power's proposals in the Application with respect

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[51] Grant Thornton Amended Application Report, page 11.
[52] Amended Application, Exhibits 15 and 16.
[53] See Section 2.2 of this Order.
[54] See Section 2.3.1 of this Order.
[55] Application Volume 1, page 3.
[56] Application, page 2.

to the change in accounting for GEC, regulatory deferral accounts, the 2019 Depreciation Study and the updated calculations related to the rate base allowances.[57]

The Settlement Agreement recommended that the Board approve a forecast average rate base for 2022 of $1,239,085,000 and 2023 of $1,287,665,000.

The Amended Application proposed approval of a forecast average rate base for 2022 of $1,239,085,000 and for 2023 of $1,287,450,000.[58] In its review of the Amended Application, Grant Thornton requested an explanation for the variation in the 2023 average rate base between the Settlement Agreement and the Amended Application. Newfoundland Power explained that its review to ensure the Amended Application correctly reflected the Settlement Agreement resulted in a reduction of $215,000 in the forecast 2023 average rate base to reflect the removal in 2023 of $460,000 in capital costs related to the Electrification Program.[59] Grant Thornton reviewed the forecast average rate base and concluded that it appropriately incorporates the Settlement Agreement.[60]

The Board is satisfied that the forecast average rate base for 2022 and 2023 proposed in the Amended Application reflects the recommendations in the Settlement Agreement with respect to the changes in plant investment (correction for the appropriate service life in the Customer Information System and removal of Electric Vehicle Charging Stations), changes in cost recovery deferrals and resulting impacts on accumulated deferred income tax and cash working capital allowances.[61]

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals in relation to the forecast average rate base and will approve a forecast average rate base for 2022 of $1,239,085,000 and for 2023 of $1,287,450,000.

2.7.2 Rate of Return on Average Rate Base

The Application proposed a rate of return on average rate base for 2022 of 7.19% in a range of 7.01% to 7.37% and for 2023 of 6.97% in a range of 6.79% to 7.15%.[62]

Grant Thornton reviewed the calculations of the forecast return on average rate base for 2022 and 2023 set out in the Application and concluded that the forecast return included in the Application was calculated in accordance with established practice and the proposed rate of return on average rate base accurately reflects the proposals in the Application.[63]
The Settlement Agreement recommended that the Board approve a rate of return on average rate base for 2022 of 6.61% in a range of 6.43% to 6.79% and for 2023 of 6.39% in range of 6.21% to 6.57%.[64]

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[57] Grant Thornton Report, pages 10-11.
[58] Amended Application, page 3.
[59] Grant Thornton Amended Application Report, page 9.
[60] Grant Thornton Amended Application Report, page 11.
[61] Grant Thornton Amended Application Report, pages 6-7.
[62] Application, page 3.
[63] Grant Thornton Report, page 12.
[64] Settlement Agreement, page 4.

The Amended Application proposed a rate of return on average rate base for 2022 of 6.61% in a range of 6.43% to 6.79% and for 2023 of 6.39% in range of 6.21% to 6.57%.

The Board notes that the decrease in the forecast return on rate base in the Amended Application is the result of the decrease in the return on common equity from 9.8% as proposed in the Application to 8.5% as recommended in the Settlement Agreement and accepted by the Board. Grant Thornton confirmed the calculation of the average rate base and return on average rate base for 2022 and 2023 set out in the Application and the changes in the forecast average rate base for 2022 and 2023 proposed in the Amended Application as a result of the Settlement Agreement recommendations.

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals in relation to the rate of return on average rate base and will approve a rate of return on average rate base for 2022 of 6.61%, in a range of 6.43% to 6.79%, and for 2023 of 6.39%, in range of 6.21% to 6.57%.

2.7.3 Automatic Adjustment Formula

The Settlement Agreement recommended that the Board approve the continued suspension of the use of an automatic adjustment formula, as proposed in the Application.

The use of an automatic adjustment formula was approved by the Board in 1998 to determine changes to Newfoundland Power's return on equity between general rate applications based on forecast changes in long-term Canada bond yields. The use of the formula was suspended in 2013 on the basis of abnormally low bond yields which raised concerns about the operation of the formula in establishing a fair return for Newfoundland Power. The formula has been suspended since that time. In the Application Newfoundland Power noted that long-term Canada bond yields are still very low, justifying the continued suspension of the automatic adjustment formula consistent with Canadian regulatory practice.[65]

The Board accepts the Settlement Agreement recommendation and the Amended Application proposal in relation to the continued suspension of the automatic adjustment formula.

2.8 Revenue Requirement

The Application requested approval of a revenue requirement of $715,364,000 for 2022 and $712,803,000 for 2023.[66] Grant Thornton confirmed the inputs and calculations for the proposed 2022 and 2023 revenue requirement to be recovered in customer rates.[67]

The Settlement Agreement recommended that the revenue requirement for 2022 of $704,843,000 and for 2023 of $699,260,000 be approved as modified by any relevant Board orders issued

[65] Application, Volume 1, pages 3-45 to 3-46.
[66] Application, Volume 1, Exhibit 7.
[67] Grant Thornton Report, page 54.

subsequent to the filing of the Application. The Settlement Agreement sets out that the recommended revenue requirement for 2022 and 2023 reflects the following revisions:

a) correction of the calculation of depreciation expense;
b) recovery of expenses associated with the cash flow component of the corporate target of Newfoundland Power's short-term incentive program being capped at 50%;
c) removal of $300,000 from 2023 operating costs;
d) change to the rate of return on common equity to be used in determining a return on rate base for 2022 and 2023;
e) removal of electrification infrastructure and program costs;
f) use of a deferral account to offset the impact of the proposed change in capitalizing pension costs;
g) amortization of a forecast 2022 revenue shortfall; and
h) removal of the estimated Board and Consumer Advocate costs related to the Application.[68]

The Amended Application proposes approval of a revised revenue requirement for 2022 of $704,861,000 and $699,245,000 for 2023.[69] In its review of the Amended Application Grant Thornton requested an explanation for the variations in the 2022 and 2023 forecast revenue requirement between the Settlement Agreement and the Amended Application. Newfoundland Power provided the following explanation:

> Similar to the Compliance Filing of the 2020 GRA, a final quality assurance process was completed on the Amended Application financial forecasts. As a result of this review, a number of minor adjustments were made to ensure the Amended Application correctly reflected the terms of the Settlement Agreement.
>
> The impact of these adjustments is minimal. The result is an increase in revenue requirements of $18,000 in 2022 and reduction in revenue requirements of $15,000 in 2023 compared to the Settlement Agreement forecasts.[70]

Grant Thornton reviewed the revised revenue requirement forecasts for 2022 and 2023 and found that Newfoundland Power's calculations were in accordance with the Settlement Agreement and the Application.[71]

The Board is satisfied that the proposed revenue requirement to be recovered in customer rates set out in the Amended Application reflects the Settlement Agreement proposals and should be approved.

The Board accepts the Settlement Agreement recommendations and the Amended Application proposals in relation to revenue requirement and accepts, for rate setting purposes, a test year revenue requirement of $704,861,000 for 2022 and a test year revenue requirement of $699,245,000 for 2023.

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[68] Settlement Agreement, page 5.
[69] Amended Application, page 4.
[70] Grant Thornton Amended Application Report, page 9.
[71] Grant Thornton Amended Application Report, page 11.

2.9 Rates, Rules and Regulations

The Amended Application proposes a 1.1% average decrease in Newfoundland Power customer rates for each class of service, effective March 1, 2022 as set out in Schedule A of the Amended Application. The Amended Application also proposes approval of Newfoundland Power's rules and regulations.

Grant Thornton confirmed that Newfoundland Power's schedule of rates as set out in Schedule A of the Amended Application incorporates the terms of the Settlement Agreement.[72]

The Board accepts the Amended Application proposals in relation to Newfoundland Power's rates, rules and regulations and will approve the proposed Schedule of Rates to be effective for electrical consumption on and after March 1, 2022, and the proposed Rules and Regulations, to be effective March 1, 2022, with the exception of the proposed changes to Clause II.9 of the Rate Stabilization Clause.

2.10 Next General Rate Application

The Settlement Agreement did not address the matter of the filing of Newfoundland Power's next general application. The Board notes that there is uncertainty in relation to rate mitigation and Muskrat Falls but does not think this uncertainty impacts the requirement for the Board to review Newfoundland Power costs and expenses on the established three-year cycle.

The Board will require Newfoundland Power file its next general rate application no later than June 1, 2024, subject to any further direction of the Board.

2.11 Costs

Newfoundland Power will be required to pay the costs of the Board arising from this Application, including the costs of the Consumer Advocate, pursuant to sections 90(1) and 117(3) of the *Public Utilities Act.*

[72] Grant Thornton Amended Application Report, page 8.

3.0 BOARD ORDER

<u>IT IS THEREFORE ORDERED THAT:</u>

<u>Rate Base and Rate of Return on Rate Base</u>

1. **The forecast average rate base for 2022 of $1,239,085,000 and the forecast average rate base for 2023 of $1,287,450,000 are approved.**

2. **The rate of return on average rate base for 2022 of 6.61%, in a range of 6.43% to 6.97%, and the rate of return on average rate base for 2023 of 6.39%, in a range of 6.21% to 6.57%, are approved.**

3. **The use of an automatic adjustment formula shall continue to be suspended until further Order of the Board.**

4. **Newfoundland Power shall file an application on or before November 15, 2023 for approval of the 2024 forecast average rate base and rate of return on rate base, maintaining the common equity ratio and return on common equity accepted for rate setting in this Order.**

5. **Newfoundland Power shall, unless otherwise directed by the Board, file its next general rate application no later than June 1, 2024.**

<u>Depreciation</u>

6. **The calculation of depreciation expense, with effect from January 1, 2022 using the depreciation rates and methodology recommended in the 2019 Depreciation Study, as amended, is approved.**

<u>Other Regulatory Matters</u>

7. **The amortization of a forecast revenue shortfall for 2022 of $930,000 through the Rate Stabilization Account, over a 34-month period commencing March 1, 2022 and ending December 31, 2024, is approved.**

8. **The amortization of actual hearing costs for the Board and the Consumer Advocate through the Rate Stabilization Account […] is approved.**

9. **The change in the calculation of general expenses capitalized to remove pension costs, effective January 1, 2023, is approved.**

10. Newfoundland Power shall conduct a Load Research Study and a Retail Rate Design Review with a detailed framework and cost estimate for each to be filed by December 31, 2022.

11. The increase in the amortization period for customer CDM program costs from seven years to ten years, commencing January 1, 2021 for both historical balances and annual charges, and the associated amendments to Clause II.7 of the Rate Stabilization Clause are approved.

Rates, Rules and Regulations

12. Newfoundland Power's Schedule of Rates, as set out in Schedule A, to be effective for all electrical consumption on and after March 1, 2022, is approved.

13. Newfoundland Power's Rules and Regulations, to be effective on and after March 1, 2022, are approved, with the exception of the proposed changes in relation to Clause II.9 of the Rate Stabilization Clause.

14. Newfoundland Power shall file revised Rules and Regulations to reflect the Board's determinations in this Order.

Deferral Accounts

15. The Pension Capitalization Cost Deferral Account to amortize the forecast revenue requirement increase of $1,427,000 associated with the change in the calculation of general expenses capitalized, as set out in Schedule B, is approved.

16. The Load Research and Rate Design Cost Deferral Account to defer the costs of the Load Research Study and Retail Rate Design Review, as set out in Schedule C, is approved.

17. The Electrification Cost Deferral Account, as set out in Schedule D, is approved.

Costs

18. Newfoundland Power shall pay the costs and expenses of the Board arising from the Application, including the expenses of the Consumer Advocate incurred by the Board.

DATED at St. John's, Newfoundland and Labrador, this 25th day of February, 2022.

Darlene Whalen, P. Eng., FEC
Chair and Chief Executive Officer

Dwanda Newman, LL.B.
Vice-Chair

John O'Brien, FCPA, FCA, CISA
Commissioner

Christopher Pike, LL.B., FCIP
Commissioner

Cheryl Blundon
Board Secretary

NEWFOUNDLAND POWER INC.
RATE #1.1
DOMESTIC SERVICE

Availability:

For Service to a Domestic Unit or to buildings or facilities which are on the same Serviced Premises as a Domestic Unit and used by the same Customer exclusively for domestic or household purposes, whether such buildings or facilities are included on the same meter as the Domestic Unit or metered separately.

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments)

Basic Customer Charge:
Not Exceeding 200 Amp Service .... $15.81 per month
Exceeding 200 Amp Service .... $20.81 per month

Energy Charge:
All kilowatt-hours .... @12.381¢ per kWh

Minimum Monthly Charge:
Not Exceeding 200 Amp Service .... $15.81 per month
Exceeding 200 Amp Service .... $20.81 per month

Discount:

A discount of 1.5% of the amount of the current month's bill will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #1.1S
DOMESTIC SEASONAL - OPTIONAL

Availability:

Available upon request for Service to Customers served under Rate #1.1 Domestic Service who have a minimum of 12 months of uninterrupted billing history at their current Serviced Premises.

Rate:

The Energy Charges provided for in Rate #1.1 Domestic Service Rate shall apply, subject to the following adjustments:

Winter Season Premium Adjustment (Billing months of December through April):
All kilowatt-hours .... @ 0.953¢ per kWh

Non-Winter Season Credit Adjustment (Billing Months of May through November):
All kilowatt-hours .... @ (1.297)¢ per kWh

Special Conditions:

1. An application for Service under this rate option shall constitute a binding contract between the Customer and the Company with an initial term of 12 months commencing the day after the first meter reading date following the request by the Customer, and renewing automatically on the anniversary date thereof for successive 12-month terms.

2. To terminate participation on this rate option on the renewal date, the Customer must notify the Company either in advance of the renewal date or no later than 60 days after the anniversary/renewal date. When acceptable notice of termination is provided to the Company, the Customer’s billing may require adjustment to reverse any seasonal adjustments applied to charges for consumption after the automatic renewal date.

NEWFOUNDLAND POWER INC.
RATE #2.1
GENERAL SERVICE 0-100 kW (110 kVA)

Availability:

For Service (excluding Domestic Service) where the maximum demand occurring in the 12 months ending with the current month is less than 100 kilowatts (110 kilovolt-amperes).

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments)

Basic Customer Charge:

Unmetered .... $11.91 per month
Single Phase .... $19.91 per month
Three phase .... $31.91 per month

Demand Charge:
$9.71 per kW of billing demand in the months of December, January, February and March and $7.21 per kW in all other months. The billing demand shall be the maximum demand registered on the meter in the current month in excess of 10 kW.

Energy Charge:
First 3,500 kilowatt-hours .... @ 12.241¢ per kWh
All excess kilowatt-hours .... @ 9.283¢ per kWh

Maximum Monthly Charge:

The Maximum Monthly Charge shall be 21.026 cents per kWh plus the Basic Customer Charge, but not less than the Minimum Monthly Charge. The Maximum Monthly Charge shall not apply to Customers who avail of the Net Metering Service Option.

Minimum Monthly Charge:

Unmetered .... $11.91 per month
Single Phase .... $19.91 per month
Three Phase .... $31.91 per month

Discount:

A discount of 1.5% of the amount of the current month's bill will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding metering [in particular Regulation 7 (n)], transformation [in particular Regulation 9(k)], and other conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #2.3
GENERAL SERVICE 110 kVA (100 kW) - 1000 kVA

Availability:

For Service where the maximum demand occurring in the 12 months ending with the current month is 110 kilovolt-amperes (100 kilowatts) or greater but less than 1000 kilovolt-amperes.

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments)

Basic Customer Charge: .... $48.89 per month

Demand Charge:
$8.15 per kVA of billing demand in the months of December, January, February and March and $5.65 per kVA in all other months. The billing demand shall be the maximum demand registered on the meter in the current month.

Energy Charge:
First 150 kilowatt-hours per kVA of billing demand,
up to a maximum of 50,000 kilowatt-hours .... @ 10.466¢ per kWh
All excess kilowatt-hours .... @ 8.507¢ per kWh

Maximum Monthly Charge:

The Maximum Monthly Charge shall be 21.026 cents per kWh plus the Basic Customer Charge. The Maximum Monthly Charge shall not apply to Customers who avail of the Net Metering Service Option.

Discount:

A discount of 1.5% of the amount of the current month's bill will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding metering [in particular, Regulation 7(n)], transformation [in particular Regulation 9(k)], and other conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #2.4
GENERAL SERVICE 1000 kVA AND OVER

Availability:

For Service where the maximum demand occurring in the 12 months ending with the current month is 1000 kilovolt-amperes or greater.

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments)

Basic Customer Charge: .... $85.20 per month

Demand Charge:
$7.82 per kVA of billing demand in the months of December, January, February and March and $5.32 per kVA in all other months. The billing demand shall be the maximum demand registered on the meter in the current month.

Energy Charge:
First 75,000 kilowatt-hours .... @ 10.105¢ per kWh
All excess kilowatt-hours .... @ 8.427¢ per kWh

Maximum Monthly Charge:

The Maximum Monthly Charge shall be 21.026 cents per kWh plus the Basic Customer Charge. The Maximum Monthly Charge shall not apply to Customers who avail of the Net Metering Service Option.

Discount:

A discount of 1.5% of the amount of the current month's bill will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding metering [in particular, Regulation 7(n)], transformation [in particular, Regulation 9(k)], and other conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #4.1
STREET AND AREA LIGHTING SERVICE

Availability:

For Street and Area Lighting Service where the electricity is supplied by the Company and all fixtures, wiring and controls are provided, owned and maintained by the Company.

Monthly Rate: (Includes Municipal Tax and Rate Stabilization Adjustments)

	Sentinel/Standard	Post Top
High Pressure Sodium		
100W (8,600 lumens)	$18.10	$19.29
150W (14,400 lumens)	22.60	-
250W (23,200 lumens)	32.23	-
400W (45,000 lumens)	45.27	-
Light Emitting Diode		
LED 100	$15.94	-
LED 150	17.97	-
LED 250	21.77	-
LED 400	25.17	-

Special poles used exclusively for lighting service*

Wood	$6.12
30' Concrete or Metal, direct buried	8.55
45' Concrete or Metal, direct buried	14.15
25' Concrete or Metal, Post Top, direct buried	6.06

Underground Wiring (per run)*

All sizes and types of fixtures	$14.42

* Where a pole or underground wiring run serves two fixtures paid for by different parties, the above rates for such poles and underground wiring may be shared equally between the two parties.

General:

Details regarding conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
CURTAILABLE SERVICE OPTION
(for Rates #2.3 and #2.4 only)

Availability:

For Customers billed on Rate #2.3 or #2.4 that can reduce their demand ("Curtail") by between 300 kW (330 kVA) and 5000 kW (5500 kVA) upon request by the Company during the Winter Peak Period. The Winter Peak Period is between 8 a.m. and 9 p.m. daily during the calendar months of December, January, February and March. The ability of a Customer to Curtail must be demonstrated to the Company's satisfaction prior to the Customer's availing of this rate option.

Customers that reduce their demand in aggregate will be treated as a single Customer under this rate option. The aggregated Customer must provide a single point of contact for a request to Curtail.

Credit for Curtailing:

If the Customer Curtails as requested for the duration of a Winter, the Company shall credit to the Customer's account the Curtailment Credit during May billing immediately following that Winter. The Curtailment Credit shall be determined by one of the following options:

Option 1:
The Customer will contract to reduce demand by a specific amount during Curtailment periods (the "Contracted Demand Reduction"). The Curtailment Credit for Option 1 is determined as follows:

Curtailment Credit = Contracted Demand Reduction x $29 per kVA

Option 2:
The Customer will contract to reduce demand to a Firm Demand level which the Customer's maximum demand must not exceed during a Curtailment period. The Curtailment Credit for Option 2 is determined as follows:

Maximum Demand Curtailed = (Maximum Winter Demand - Firm Demand)

$$\text{Peak Period Load Factor} = \frac{\text{kWh usage during Peak Period}}{(\text{Maximum Demand during Peak Period x 1573 hours})}$$

Curtailment Credit = ((Maximum Demand Curtailed x 50%) + (Maximum Demand Curtailed x 50% x Peak Period Load Factor)) x $29 per kVA

Limitations on Requests to Curtail:

Curtailment periods will:
1. Not exceed 6 hours duration for any one occurrence.
2. Not be requested to start within 2 hours of the expiration of a prior Curtailment period.
3. Not exceed 100 hours duration in total during a winter period.

The Company shall request the Customer to Curtail at least 1 hour prior to the commencement of the Curtailment period.

NEWFOUNDLAND POWER INC.
CURTAILABLE SERVICE OPTION
(for Rates #2.3 and #2.4 only)

Failure to Curtail:

Failure to Curtail under Option 1 occurs when a Customer does not reduce its demand by the Contracted Demand Reduction for the duration of a Curtailment period. Failure to Curtail under Option 2 occurs when a Customer does not reduce its demand to the Firm Demand level or below for the duration of a Curtailment period.

The Curtailment Credit will be reduced for failure to Curtail in a winter period as follows:

1. For the first 5 curtailment requests the Curtailment Credit will be reduced 25% for each failure to Curtail.

2. After the 5th curtailment 50% of the remaining Curtailment Credit, if any, will become vested ("Vested Curtailment Credit").

3. For all remaining curtailment requests the Curtailment Credit will be reduced by 12.5% for each additional failure to Curtail.

If a Customer fails to Curtail four times during a winter period, then:

1. The Customer shall only be entitled to the Vested Curtailable Credit, if any.

2. The Customer will no longer be entitled to service under the Curtailable Service Option.

Notwithstanding the previous paragraph, no Curtailment Credit will be provided if the number of failures to Curtail equals the number of Curtailment requests.

Termination/Modification:

The Company requires six months written notice of the Customer's intention to either discontinue Curtailable Service Option or to modify the Contracted Demand Reduction or Firm Demand level.

General:

Services billed on this Service Option will have approved load monitoring equipment installed. For a customer that Curtails by using its own generation in parallel with the Company's electrical system, all Company interconnection guidelines will apply, and the Company has the option of monitoring the output of the Customer's generation. All costs associated with equipment required to monitor the Customer's generation will be charged to the Customer's account.

NEWFOUNDLAND POWER INC.
NET METERING SERVICE OPTION
(for Rates #1.1, #1.1S, #2.1,#2.3, and #2.4 only)

Availability:

For Customers who use generation on their Serviced Premises to offset part or all of the electrical energy requirements of the Serviced Premises. Energy generated in excess of the requirements of the Serviced Premises is permitted to be credited against the Customer’s energy purchases from the Company in accordance with this rate option.

Net Metering Service is available for any Serviced Premises that is supplied from the Company’s distribution system, is billed under one of the Company’s metered service rates, and which has generation electrically connected to it that meets the requirements of these provisions. Net Metering Service is not available for un-metered service accounts.

In order to avail of the Net Metering Service Option, Customers must submit a completed Net Metering Service Application to the Company demonstrating the Customer’s eligibility for Net Metering Service.

Availability of the Net Metering Service Option will be closed once the provincial aggregate generating capacity for Net Metering Service of 5.0 MW has been met.

Customers that avail of the Net Metering Service Option must maintain compliance with all requirements of this Option. The Company shall have the right to verify compliance through inspection or testing.

Metering:

Net Metering Service will ordinarily be metered using a Company-supplied single meter capable of registering the flow of electrical energy in two directions. The meter will separately capture both the energy supplied to the Customer by the Company and the energy supplied to the Company by the Customer.

At the Company’s option, the output of the Customer’s generation may be metered separately. In that case, the Customer shall provide the Company with the access necessary to install and maintain the required metering equipment.

The Customer shall pay all costs to upgrade the metering equipment for Net Metering Service if the existing electrical meter at the Serviced Premises is not capable of safely and reliably measuring both the energy supplied to the Customer by the Company and the energy supplied to the Company by the Customer.

NEWFOUNDLAND POWER INC.
NET METERING SERVICE OPTION
(for Rates #1.1, #1.1S, #2.1,#2.3, and #2.4 only)

Billing:

Each account availing of Net Metering Service will be billed on the rate normally applicable to the Customer's class of Service.

The Customer's net monthly bill will be determined by deducting the Customer Generation Credit from the total of all charges for Service. The Customer Generation Credit equals the Generation Energy Credit, in kilowatt-hours ("kWh") multiplied by the rate applicable to the Customer's class of Service during the billing month.

The "Generation Energy Credit" is the sum of the kWh energy supplied by the Customer to the Company during the billing month plus Banked Energy Credits. The Generation Energy Credit for a billing month shall not exceed the energy supplied by the Company to the Customer during that month.

"Banked Energy Credits" are the amount of kWh energy supplied by the Customer to the Company that exceeds the kWh energy supplied by the Company to the Customer. Banked Energy Credits in excess of those used to calculate the Generation Energy Credit for a billing month will be carried forward to the following month.

The balance of the Customer's Banked Energy Credits carried forward will be settled annually by means of a credit on the Customer's bill for the Annual Review Billing Month. The Annual Review Billing Month will be determined by the Customer, in consultation with the Company, during the process of implementing Net Metering Service. Settlement of Banked Energy Credits will be computed based upon the then-current 2nd block energy charge in Newfoundland and Labrador Hydro's Utility Rate applicable to service provided to the Company.

Whenever a Customer's participation in the Net Metering Service Option is discontinued, any unused Banked Energy Credits will be settled with a credit on the Customer's next bill.

All customers must pay Harmonized Sales Tax (HST) on the energy supplied by the Company to the Customer during the billing month. If a Customer availing of Net Metering Service is required by law to collect HST on the energy they supply to the Company, the Company will pay HST to the Customer based on the amount of the Customer Generation Credit. It is the Customer's responsibility to notify the Company in writing if they are required to collect HST on the energy they supply to the Company.

NEWFOUNDLAND POWER INC.
NET METERING SERVICE OPTION
(for Rates #1.1, #1.1S, #2.1,#2.3, and #2.4 only)

Special Conditions:

Special conditions in this clause do not supersede, modify or nullify the conditions accompanying the metered rate schedules applicable to the Customer's class of Service.

To avail of Net Metering Service, a single Customer must own and maintain responsibility for the Serviced Premises, the generation and the electrical facilities connecting it to the Company's distribution system.

To qualify for Net Metering Service, the Customer's generation must meet the following requirements:

i) be designed not to exceed the annual energy requirements of the buildings and facilities metered together on the Serviced Premises;
ii) have a manufacturer's nameplate capacity rating totaling not more than 100 kW, except where a lower rating is stipulated by the Company for technical reasons;
iii) be electrically connected through Customer-owned electrical facilities to the Serviced Premises to which Net Metering Service is being provided;
iv) produce electrical energy from a renewable energy source, including wind, solar, photovoltaic, geothermal, tidal, wave, biomass energy or other renewable energy sources that may be approved by the Company on a case-by-case basis; and
v) meet all applicable safety and performance standards established by the Canadian Electrical Code, the Public Safety Act and the Company's Interconnection Requirements.

All Customer-owned wiring, equipment and devices associated with generation utilized for Net Metering Service shall conform to the Company's interconnection requirements.

The Customer will retain the rights to any renewable energy credits or greenhouse gas-related credits arising from the use of renewable energy sources to generate electricity in accordance with this Option.

A Customer availing of Net Metering Service is responsible for all costs associated with their own facilities. The Customer shall also be required to pay all costs incurred by the Company to modify the utility supply for the provision of Net Metering Service, and for necessary engineering or technical studies required in connection with the provision of Net Metering Service to the Customer.

The approval of an application for Net Metering Service will be subject to the applicant entering into a Net Metering Interconnection Agreement with the Company.

If an applicant approved for Net Metering Service does not proceed with operation of its generation in accordance with its approval within two years from the date of the Company's approval of the application, the approval will be rescinded.

NEWFOUNDLAND POWER INC.
NET METERING SERVICE OPTION
(for Rates #1.1, #1.1S, #2.1,#2.3, and #2.4 only)

Approval of Net Metering Service may be revoked if a Customer is found to be in violation of provisions of the Company's Rules and Regulations.

If participation in the Net Metering Service Option is discontinued, the Customer must re-apply to the Company to avail of the Net Metering Service Option.

NEWFOUNDLAND POWER INC.
PENSION CAPITALIZATION COST DEFERRAL ACCOUNT

Pension Capitalization Cost Deferral Account

This account shall be charged with amounts equal to cost impacts resulting from the change in capitalizing pension costs from the indirect method via general expenses capitalized to the direct method via a labour loader, effective January 1, 2023.

Charges to the account will be amortized over a 5-year period commencing January 1, 2023.

Transfers to, and from, the account will be tax-effected.

NEWFOUNDLAND POWER INC.
LOAD RESEARCH AND RATE DESIGN COST DEFERRAL ACCOUNT

Load Research and Rate Design Cost Deferral Account

This account shall be charged with the costs incurred in conducting a Load Research Study and a Retail Rate Design Review (collectively, the “Studies”).

These costs include: the development of a detailed framework for each of the Studies in 2022; and costs to conduct each of the Studies in accordance with the framework.

Transfers to, and from, the proposed account will be tax-effected.

The disposition of any balance in this account will be subject to a future order of the Board.

**NEWFOUNDLAND POWER INC.
ELECTRIFICATION COST DEFERRAL ACCOUNT**

Electrification Cost Deferral Account

This account shall be charged with the costs incurred in implementing the Customer Electrification Program Portfolio in accordance with Board orders and approved electric vehicle charging infrastructure capital costs until otherwise ordered by the Board.

Electrification program costs include: detailed program development, promotional materials, advertising, pre and post customer installation checks, incentives, processing applications and incentives, training of employees and trade allies, program evaluation costs and the costs to operate Company-owned charging stations.

This account shall also be charged the costs of major studies such as pilot programs, comprehensive customer surveys and potential studies that cost greater than $100,000.

This account shall be credited with the receipt of government funding related to electrification programs and electric vehicle charging infrastructure as well as any revenues associated with the operation of Company-owned charging stations.

The account shall exclude electrification expenditures that are general in nature and not associated with a specific electrification program, such as costs associated with providing electrification awareness, and general planning, research and supervision costs.

The account shall be increased (reduced) by an interest charge (credit) on the balance in the account at the beginning of the month, at a monthly rate equivalent to the mid-point of the Company's allowed rate of return on rate base. The account will not be included in the Company’s calculation of rate base until otherwise ordered by the Board.

Transfers to, and from, the proposed account will be tax-effected.

This account will maintain a linkage of all costs recorded in the account to the year the cost was incurred.

Recovery of annual amortizations of costs in this account shall be through the Company’s Rate Stabilization Clause or as otherwise ordered by the Board.

Newfoundland & Labrador
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