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

## AN ORDER OF THE BOARD

## NO.  P. U. 20(2008)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act*, RSNL 1994, Chapter E-5.1 (the
3 "*EPCA*") and the *Public Utilities Act,* RSNL 1990,
4 Chapter P-47 (the "*Act*") as amended, and their
5 subordinate regulations;
6
7 **AND**
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9 **IN THE MATTER OF** an amended application
10 by Newfoundland and Labrador Hydro ("Hydro")
11 for the approval, pursuant to Sections 78 and 80 of the *Act*,
12 for inclusion in rate base of certain Interconnection
13 expenditures incurred by Hydro, and for the deferral and
14 recognition of certain power purchase costs incurred by
15 Hydro, all with respect to two wind energy purchase agreements.
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19 **WHEREAS** Hydro is a corporation continued and existing under the *Hydro Corporation Act*, is a
20 public utility within the meaning of the *Act* and is also subject to the provisions of the *EPCA*; and
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22 **WHEREAS** Hydro has entered into power purchase agreements (the "Power Purchase
23 Agreements") with the Newind Group Inc., the developer of a wind generation facility located at
24 Ryan's Hill, between St. Lawrence and Lawn on the Burin Peninsula (the "Newind Facility"), and
25 also with Skypower Corp, the developer of a wind generation facility situated near Fermeuse on the
26 southern shore of the Avalon Peninsula (the "Skypower Facility"); and
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28 **WHEREAS** both the Newind Facility and the Skypower Facility (collectively the "Wind Farms")
29 are in Newfoundland Power's service territory and therefore the necessary interconnection of the
30 Wind Farms into the Island Interconnected Grid will occur at locations within the service territory of
31 Newfoundland Power; and

**WHEREAS** on May 14, 2008 Newfoundland Power applied to the Board for approval to proceed with the construction of the interconnection plant required so that energy can be delivered from the Wind Farms into the Island Interconnected Grid through Newfoundland Power's transmission system; and

**WHEREAS** in Order No. P.U. 18(2008) the Board approved Newfoundland Power's proposal to proceed with capital expenditures, totaling $1,503,000, associated with the interconnection of the Wind Farms to Newfoundland Power's transmission system; and

**WHEREAS** Hydro has entered into an agreement with Newfoundland Power to reimburse Newfoundland Power for its capital expenditures associated with the interconnection of the Wind Farms (the "Interconnection Costs"); and

**WHEREAS** according to the terms of the Power Purchase Agreements Hydro is to be reimbursed for the Interconnection Costs by the developers of the Newind Facility and the Skypower Facility, to specified contractual limits; and

**WHEREAS** Hydro has advised that it anticipates that the Interconnection Costs will exceed the specified contractual limits in the Power Purchase Agreements as there have been cost overruns since the original estimates of the Interconnection Costs; and

**WHEREAS** Hydro has determined that, in accordance with generally accepted accounting principles, the unrecoverable Interconnection Costs must be recorded as an operating expense in the year in which it is incurred unless there is an Order of the Board allowing the expense to be amortized; and

**WHEREAS** on June 24, 2008 Hydro filed an application applying for approval to defer recognition of the Interconnection Costs which cannot be recovered in accordance with the Power Purchase Agreements from the developers of the Newind Facility and the Skypower Facility, estimated to be approximately $500,000, together with the associated financing charges; and

**WHEREAS** Hydro proposes to defer the recovery of the unrecoverable Interconnection Costs over a 20 year period on the basis that: i) these expenditures would bring long-term benefits for ratepayers for the 20 year term of the Power Purchase Agreements; and ii) recording these costs in one year would negatively impact Hydro's earnings in that year; and

**WHEREAS** the Board has in the past approved the amortization of an extraordinary cost where it has determined that the recognition of the costs in accordance with generally accepted accounting principles would cause a rate shock or a shock to a utility's earnings that is considered unreasonably high; and

**WHEREAS** the Board is not persuaded that the unrecoverable Interconnection Costs are extraordinary or that, considering the nature and magnitude of the expense, a deferral and amortization over a 20 year period is desirable or necessary to avoid rate shock or an unreasonably high shock to Hydro's earnings; and

**WHEREAS** Hydro has advised that the anticipated in-service date of the Wind Farms is late in 2008; and

**WHEREAS** Hydro has advised that the operation of the Wind Farms will result in estimated fuel savings of $12.5 million in the 2009 calendar year; and

**WHEREAS** the Board is satisfied that it would be appropriate in this circumstance to defer the recognition of the unrecoverable Interconnection Costs until 2009, to align with the period in which anticipated operating savings associated with the operation of the Wind Farms will begin to be realized.

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

1. Hydro's proposal to set up a deferral account for the unrecoverable Interconnection Costs associated with the Power Purchase Agreements, at an estimated cost of $500,000, together with financing costs, is approved (the "Deferral Account").
2. Hydro's proposal to include the unamortized balance of the Deferral Account in the rate base for 2008 is approved.
3. Hydro shall recognize the balance of the Deferral Account as an expense in 2009.
4. Hydro shall pay the expenses of the Board incurred in connection with this Application.

**DATED** at St. John's, Newfoundland and Labrador, this 3rd day of September 2008.

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Andrew Wells
Chair & Chief Executive Officer

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Darlene Whalen, P.Eng.
Vice-Chair

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Dwanda Newman, LL.B.
Commissioner

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G. Cheryl Blundon
Board Secretary