

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

AN ORDER OF THE BOARD

NO. P. U. 6(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;

AND

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9 **IN THE MATTER OF** the Purchased
10 Power Unit Cost Variance Reserve
11 Account (the “Reserve Account”)
12 established by Order No. P. U. 35(2005)

AND

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16 **IN THE MATTER OF** the application by
17 Newfoundland Power Inc. (“Newfoundland Power”)
18 for an Order of the Board providing for disposition
19 of the balance in the Reserve Account pursuant
20 to Sections 58 and 80 of the *Act*.

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22
23 **WHEREAS** Newfoundland Power is a corporation duly organized and existing under the laws of
24 the Province of Newfoundland and Labrador, is a public utility within the meaning of the *Act*, and is
25 also subject to the provisions of the *EPCA*; and

26
27 **WHEREAS** on February 29, 2008 Newfoundland Power filed an application, amended on April 25,
28 2008, for the disposition in the balance in the Reserve Account established to flow through amounts
29 in relation to a reserve mechanism put in place with the implementation of a demand and energy rate
30 for Newfoundland Power (the “Application”); and

31
32 **WHEREAS** in Order No. P. U. 44(2004) the Board approved, among other things: i) a demand and
33 energy rate to be charged to Newfoundland Power effective January 1, 2005 as proposed by
34 Newfoundland and Labrador Hydro (“Hydro”) in its application of July 30, 2004; ii) a three-year
35 phase-in of the demand and energy rate to Newfoundland Power, during which adjustments to the
36 demand and energy rate would be subject to further application by Hydro; and iii) the establishment
37 of a reserve mechanism as proposed by Newfoundland Power in its submission filed with the Board
38 on September 3, 2004; and

1 **WHEREAS** the reserve mechanism approved by Order No. P. U. 44(2004) included the following
2 parameters: (i) an initial deadband of \pm \$588,000 for which no reserve transfers would be required
3 (the “Reserve Deadband”); and (ii) use of forecast unit costs as the basis for comparison against
4 actual unit costs in determining the variance in purchased power costs and the amount, if any, to be
5 transferred to or from the reserve; and

6 **WHEREAS** in Order No. P. U. 35(2005) the Board approved the definition of the Reserve Account
7 to be included in Newfoundland Power’s System of Accounts; and

8
9 **WHEREAS** in Order No. P. U. 10(2007) the Board approved a revised definition of the Reserve
10 Account to be included in Newfoundland Power’s System of Accounts, including: i) the removal of
11 reference to a three-year phase-in period; ii) the deferral of consideration of the treatment of the
12 2006 balance in the Reserve Account until the hearing of Newfoundland Power’s 2008 General Rate
13 Application; and iii) a Reserve Deadband for 2007 of \pm \$521,000; and

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15 **WHEREAS** Newfoundland Power is required to file an application with the Board no later than the
16 1st day of March each year for the disposition of any balance in the Reserve Account; and

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18 **WHEREAS** the Board addressed the balance in the Reserve Account as of December 31, 2006 in
19 Order No. P. U. 32(2007); and

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21 **WHEREAS** Newfoundland Power’s actual unit cost of purchased power for 2007 was less than the
22 forecast unit cost of purchased power by an amount exceeding the Reserve Deadband for 2007 and
23 in accordance with Order No. P.U. 10(2007) Newfoundland Power transferred the amount of
24 \$307,653.00 to the Reserve Account; and

25
26 **WHEREAS** Newfoundland Power proposes disposition of the 2007 portion of the balance in the
27 Reserve Account as well as the related income tax effects in 2007 through the July 1, 2008 Rate
28 Stabilization Adjustment by crediting the Rate Stabilization Account (the “RSA”) as of March 31,
29 2008 in the amount of \$481,611, which is the 2007 Reserve Account balance of \$307,653 plus the
30 related income tax effects of \$173,958; and

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32 **WHEREAS** the Board is satisfied that Newfoundland Power’s proposal to dispose of the 2007
33 balance in the Reserve Account by means of a credit in the amount of \$481,611 to the RSA as of
34 March 31, 2008 allows for the timely transfer of this credit to consumers and therefore is appropriate
35 in the circumstances and should be approved; and

36
37 **WHEREAS** the Board is satisfied that an amendment to the Rate Stabilization Clause is necessary
38 to provide for the proposed credit to the balance in the RSA; and

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1 **WHEREAS** the Board has determined that it is appropriate to amend the Rate Stabilization Clause
2 to include general language which contemplates additional amounts ordered by the Board to be
3 included in the RSA on a one-time basis.
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6 **IT IS THEREFORE ORDERED THAT:**
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- 8 1. The Board approves the amended Rate Stabilization Clause set out in Schedule “A” to this
9 Order, which adds clause 6 to the Rate Stabilization Account at page 5 of 5.
10
11 2. The Board approves the disposition of the 2007 balance in the Purchased Power Unit Cost
12 Variance Reserve Account by means of a credit to the Rate Stabilization Account, as of
13 March 31, 2008, of \$481,611.
14
15 3. Newfoundland Power shall pay all expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador, this 29th day of May 2008.

Andrew Wells
Chair and Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

G. Cheryl Blundon
Board Secretary

Schedule “A”

Order No. P. U. 6(2008)

NEWFOUNDLAND POWER INC.

RATE STABILIZATION CLAUSE

The Company shall include a rate stabilization adjustment in its rates. This adjustment shall reflect the accumulated balance in the Company's Rate Stabilization Account ("RSA") and any change in the rates charged to the Company by Newfoundland and Labrador Hydro ("Hydro") as a result of the operation of its Rate Stabilization Plan ("RSP").

I. RATE STABILIZATION ADJUSTMENT ("A")

The Rate Stabilization Adjustment ("A") shall be calculated as the total of the Recovery Adjustment Factor and the Fuel Rider Adjustment.

The Recovery Adjustment Factor shall be recalculated annually, effective the first day of July in each year, to amortize over the following twelve (12) month period the annual plan recovery amount designated to be billed by Hydro to the Company, and the balance in the Company's RSA.

The Recovery Adjustment Factor expressed in cents per kilowatt-hour and calculated to the nearest 0.001 cent shall be calculated as follows:

$$\frac{B + C}{D}$$

Where:

B = the annual plan recovery amount designated to be billed by Hydro during the next twelve (12) months commencing July 1 as a result of the operation of Hydro's RSP.

C = the balance in the Company's RSA as of March 31st of the current year.

D = the total kilowatt-hours sold by the Company for the 12 months ending March 31st of the current year.

The Fuel Rider Adjustment shall be recalculated annually, effective the first day of July in each year, to reflect changes in the RSP fuel rider applicable to Newfoundland Power. The Fuel Rider Adjustment expressed in cents per kilowatt-hour and calculated to the nearest 0.001 cent shall be calculated as follows:

$$\frac{E}{D} \times F$$

NEWFOUNDLAND POWER INC.
RATE STABILIZATION CLAUSE

I. RATE STABILIZATION ADJUSTMENT ("A") (Cont'd)

Where:

- D = corresponds to the D above.
- E = the total kilowatt-hours of energy (including secondary energy) sold to the Company by Hydro during the 12 months ending March 31 of the current year.
- F = the fuel rider designated to be charged to Newfoundland Power through Hydro's RSP.

The Rate Stabilization Adjustment ("A") shall be recalculated and be applied as of the effective date of a new wholesale mill rate by Hydro, by resetting the Fuel Rider Adjustment included in the Rate Stabilization Adjustment to zero.

II. RATE STABILIZATION ACCOUNT ("RSA")

The Company shall maintain a RSA which shall be increased or reduced by the following amounts expressed in dollars:

1. At the end of each month the RSA shall be:
 - (i) increased (reduced) by the amount actually charged (credited) to the Company by Hydro during the month as the result of the operation of its Rate Stabilization Plan.
 - (ii) increased (reduced) by the excess cost of fuel used by the Company during the month calculated as follows:

$$(G/H - P) \times H$$

Where:

- G = the cost in dollars of fuel and additives used during the month in the Company's thermal plants to generate electricity other than that generated at the request of Hydro.
- H = the net kilowatt-hours generated in the month in the Company's thermal plants other than electricity generated at the request of Hydro.

NEWFOUNDLAND POWER INC.

RATE STABILIZATION CLAUSE

II. RATE STABILIZATION ACCOUNT ("RSA") (Cont'd)

P = the 2nd block base rate in dollars per kilowatt-hour paid during the month by the Company to Hydro for firm energy.

(iii) reduced by the price differential of firm-up secondary energy calculated as follows:

$$(P - J) \times K$$

Where:

J = the price in dollars per kilowatt-hour paid by the Company to Hydro during the month for secondary energy supplied by Deer Lake Power and delivered as firm energy to the Company.

K = the kilowatt-hours of such secondary energy supplied to the Company during the month.

P = corresponds to P above.

(iv) reduced (increased) by the amount billed by the Company during the month as the result of the operation of the Rate Stabilization Clause calculated as follows:

$$\frac{L \times A}{100}$$

Where:

L = the total kilowatt-hours sold by the Company during the month.

A = the Rate Stabilization Adjustment in effect during the month expressed in cents per kilowatt-hour.

(v) increased (reduced) by an interest charge (credit) on the balance in the RSA 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.

2. On the 31st of December in each year, the RSA shall be increased (reduced) by the amount that the Company billed customers under the Municipal Tax Clause for the calendar year is less (or greater) than the amount of municipal taxes paid for that year.

NEWFOUNDLAND POWER INC.

RATE STABILIZATION CLAUSE

II. RATE STABILIZATION ACCOUNT ("RSA") (Cont'd)

3. The annual kilowatt-hours used in calculating the Rate Stabilization Adjustment to the monthly streetlighting rates are as follows:

	Fixture Size (watts)				
	100	150	175	250	400
Mercury Vapour	-	-	840	1,189	1,869
High Pressure Sodium	546	802	-	1,273	1,995

4. On December 31st, 2007, the RSA shall be reduced (increased) by the amount that the increase in the Company's revenue for the year resulting from the change in base rates attributable to the flow through of Hydro's wholesale rate change, effective January 1, 2007, is greater (or less) than the amount of the increase in the Company's purchased power expense for the year resulting from the change in the base rate charged by Hydro effective January 1, 2007.

The methodology to calculate the RSA adjustment at December 31, 2007 is as follows:

Calculation of increase in Revenue:

2007 Revenue with Flow-through (Q)	\$ -
2007 Revenue without Flow-through (R)	\$ -
Increase in Revenue (S = Q – R)	\$ -

Calculation of increase in Purchased Power Expense:

2007 Purchased Power Expense with Hydro Increase (T)	\$ -
2007 Purchased Power Expense without Hydro Increase (U)	\$ -
Increase in Purchased Power Expense (V = T – U)	\$ -

Adjustment to Rate Stabilization Account (W = S – V)	\$ -
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Where:

- Q = Normalized revenue from base rates effective January 1, 2007.
- R = Normalized revenue from base rates determined based on rates pursuant to the operation of the Automatic Adjustment Formula for 2007.
- T = Normalized purchased power expense from Hydro's wholesale rate effective January 1, 2007 (not including RSP rate).
- U = Normalized purchased power expense determined based on Hydro's wholesale rate effective January 1, 2006 (not including RSP rate).

NEWFOUNDLAND POWER INC.

RATE STABILIZATION CLAUSE

II. RATE STABILIZATION ACCOUNT ("RSA") (Cont'd)

5. On December 31st of each year from 2008 up to and including 2010, the Rate Stabilization Account (RSA) shall be increased (reduced) by the Energy Supply Cost Variance.

This Energy Supply Cost Variance identifies the change in purchased power cost that is related to the difference between purchasing energy at the 2nd block energy charge in the wholesale rate and the test year energy supply cost reflected in customer rates.

The Energy Supply Cost Variance expressed in dollars shall be calculated as follows:

$$\frac{(A - B) \times (C - D)}{100}$$

Where:

- A = the wholesale rate 2nd block charge per kWh.
B = the test year energy supply cost per kWh determined by applying the wholesale energy rate to the test year energy purchases and expressed in ¢ per kWh.
C = the weather normalized annual purchases in kWh.
D = the test year annual purchases in kWh.

6. The RSA shall be adjusted by any other amount as ordered by the Board.

III. RATE CHANGES

The energy charges in each rate classification (other than the energy charge in the "Maximum Monthly Charge" in classifications having a demand charge) shall be adjusted as required to reflect the changes in the Rate Stabilization Adjustment. The new energy charges shall be determined by subtracting the previous Rate Stabilization Adjustment from the previous energy charges and adding the new Rate Stabilization Adjustment. The new energy charges shall apply to all bills based on consumption on and after the effective date of the adjustment