

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

AN ORDER OF THE BOARD

NO. P.U. 39(2017)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1
3 (the “*EPCA*”) and the *Public Utilities Act*, RSNL
4 1990, Chapter P-47, as amended (the “*Act*”), and
5 regulations thereunder; and
6

7 **IN THE MATTER OF** an application filed by
8 Newfoundland and Labrador Hydro for the recovery
9 of 2015 and 2016 balances in the Isolated Systems
10 Supply Cost Variance Deferral Account, the Energy
11 Supply Cost Variance Deferral Account, and the
12 Holyrood Conversion Rate Deferral Account, pursuant
13 to sections 70(1) and 80 of the *Act*.
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16 **The Application**
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18 On October 11, 2017 Newfoundland and Labrador Hydro (“Hydro”) filed an application for
19 approval to recover the 2015 and 2016 balances in the supply cost deferral accounts approved in
20 Order No. P.U. 22(2017) (the “Application”). The Application proposed:

- 21 (i) approval of the 2015 and 2016 balances in the Isolated Systems Supply Cost
22 Variance Deferral Account, the Energy Supply Cost Variance Deferral Account,
23 and the Holyrood Conversion Rate Deferral Account;
24 (ii) the transfer of the net balance of \$42,209,568 to the Hydraulic Variation Account
25 of the Rate Stabilization Plan (“RSP”), effective December 31, 2017;
26 (iii) allocation of the 2016 balance in the Isolated Systems Supply Cost Variance
27 Deferral Account based on the 2015 Test Year Rural Deficit Allocation; and
28 (iv) a one-time transfer between the Newfoundland Power Inc. (“Newfoundland
29 Power”) and the Island Industrial Customers RSP Current Plan, effective
30 December 31, 2017, to ensure cost recovery based on 2015 and 2016 energy
31 consumption.
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33 In support of the Application Hydro filed evidence in relation to the balances in the accounts and
34 the allocation of the balances as well as the required information with respect to its efforts to
35 minimize costs on the Isolated systems.
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37 The Application was copied to: Newfoundland Power; the Consumer Advocate, Dennis Browne,
38 Q.C.; a group of Industrial customers: Corner Brook Pulp and Paper Limited, NARL Refining LP

1 and Vale Newfoundland and Labrador Limited (the “Industrial Customer Group”); Praxair Canada
2 Inc.; and Teck Resources Limited.

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4 On November 3, 2017 Hydro answered requests for information from the Board, Newfoundland
5 Power and the Industrial Customer Group.

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7 On November 3, 2017 the Board’s financial consultants, Grant Thornton, filed a report stating
8 that nothing came to the attention of Grant Thornton in its review of the Application that the
9 amounts reported are not in accordance with the account definitions as approved.

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11 On November 10, 2017 Newfoundland Power filed a written submission. Hydro filed a written
12 reply on November 16, 2017. The Industrial Customer Group, the Consumer Advocate, Praxair
13 Canada Inc. and Teck Resources Limited did not file submissions.

14 15 **Submissions**

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17 In its written submission Newfoundland Power argued that the Board should not approve the
18 Application at this time as the current proceeding did not provide a sufficient opportunity for a
19 full assessment of whether the costs in the deferral accounts were reasonably incurred to provide
20 reliable service. In Newfoundland Power’s view the fact that Hydro’s revised approach to
21 generation dispatch has not been fully considered by the Board, together with the magnitude of
22 the costs proposed for recovery, suggests that further interrogation is appropriate. Newfoundland
23 Power commented that Hydro was not able to provide the information requested in a number of
24 requests for information and that Hydro indicated that it had not evaluated the costs and benefits
25 of utilizing the Holyrood Gas Turbine as non-spinning reserve versus spinning reserve.
26 Newfoundland Power submitted that a technical conference or another process that would
27 provide for a more thorough interrogation of the matter is required.

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29 In reply Hydro submitted that it should recover all of its supply costs that have been reasonably
30 incurred to provide reliable service to the Island Interconnected system and further that there
31 should be no disincentive to the prudent use of Hydro’s generators. According to Hydro there is
32 sufficient evidence on the record to justify the recovery of the \$42.2 million in prudently incurred
33 supply costs. Hydro submitted that all necessary information to enable the Board and the parties
34 to assess the prudence of the expenditures was provided and further that the Board’s financial
35 consultants confirmed Hydro’s calculations. Hydro stated that it filed documentation which
36 detailed the factors leading to the cost variances and provided detail as to the operation of its
37 standby generation units. Hydro submitted that the responses filed to three identified information
38 requests were sufficient. Hydro noted that Newfoundland Power did not provide evidence to
39 demonstrate why Hydro should not be provided recovery and submitted that the discussion of
40 reduced reliability for lower costs should be addressed on a prospective basis not related to costs
41 which have already been incurred to provide greater reliability. Hydro noted that no intervenor
42 objected to the proposed recovery approach and submitted that this approach minimizes customer
43 impacts and provides Hydro recovery in a timely manner.

44 45 **Board Findings**

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47 The Application proposed recovery of \$42.2 million in deferred supply costs for the years 2015
48 and 2016. While Hydro is entitled to recovery of all prudently incurred costs necessary to provide

1 service, it must demonstrate that the costs are reasonable. Hydro filed evidence which detailed
2 the balances in each of the three accounts for each year and the major factors contributing to the
3 balances and further explained the proposed allocation of the costs to customer classes.
4 Newfoundland Power submitted that the costs proposed for recovery reflect a revised approach
5 to the dispatch of Hydro's generation sources and further interrogation is required. The Board is
6 satisfied that Newfoundland Power has raised an issue which requires further review, given the
7 magnitude of the costs and the fact that the information provided does not adequately address the
8 costs and benefits of Hydro's approach to generation dispatch and the alternatives which may be
9 available. While Hydro provided some additional information in response to questions related to
10 generation dispatch, the Board cannot conclude based on the record that the costs reflected in the
11 accounts are reasonable and necessary to provide reliable service.

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13 The Board also has concerns with respect to the proposed approach to the recovery of the
14 balances in the supply cost deferral accounts. The Application proposed that the \$42.2 million
15 balance in these accounts be transferred to the Hydraulic Variation Account of the RSP. This
16 transfer would provide immediate recovery to Hydro but would deplete the balance in the
17 Hydraulic Variation Account and create a negative balance in the account to be recovered from
18 customers over a number of years through the annual RSP adjustment. The Board is concerned
19 that this transfer is inconsistent with the normal operation of the Hydraulic Variation Account
20 and may serve to defeat the purpose of this account, which is to smooth out the impacts of annual
21 variances in system inflows and storage levels over a number of years. The proposed approach
22 is especially concerning given recent reports in relation to aggregate reservoir storage levels on
23 the Island Interconnected system.

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25 The Application explained that Hydro proposed the use of the credit balance in the Hydraulic
26 Variation Account on the basis of the materiality of potential future rate increases associated with
27 other applications before the Board. In the Board's view it is premature to consider potential rate
28 increases which may or may not materialize in relation to other untested applications before the
29 Board. Further the amount proposed to be recovered is material and little information was
30 provided in relation to the available alternatives aside from the use of the Hydraulic Variation
31 Account. The Board notes that recovery of the \$42.2 million balance by way of a rate rider would
32 result in a rate increase of 6.4% for the end customer and 8.2% for Island Industrial Customers.¹

33
34 Hydro requested approval to recover the balances in the supply cost deferral accounts by
35 December 31, 2017 and noted that it is not currently recovering financing costs related to the
36 deferred supply costs. Nevertheless, the Board finds that based on the record Hydro has not
37 demonstrated that the Application should be approved. Hydro may file a further application with
38 additional information related to generation dispatch and available alternatives for recovery of
39 the costs. The Board notes that Hydro's 2017 general rate application is ongoing and settlement
40 discussions are scheduled for early January with the hearing scheduled to begin on January 30,
41 2018. In the Board's view the general rate application may be the most convenient forum to
42 address the issues related to the recovery of the supply costs. This would permit the consideration
43 of the issues in the context of additional information related to generation dispatch, hydrology
44 and the factors affecting rates and account balances through the full range of processes available
45 in a general rate application, including cross examination, and technical and settlement
46 conferences.

¹ PUB-NLH-007 also shows that rates charged to Newfoundland Power would increase by 9.4%.

1 **IT IS THEREFORE ORDERED THAT:**

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1. The Application is dismissed.
2. Hydro shall pay all costs and expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador, this 29th day of November 2017.



Darlene Whalen, P. Eng.
Vice-Chair



Dwanda Newman, LL.B.
Commissioner



James Oxford
Commissioner



Cheryl Blundon
Board Secretary