

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

**AN ORDER OF THE BOARD**

**NO. P.U. 48(2018)**

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*,  
4 RSNL 1990, Chapter P-47 (the “*Act*”), as  
5 amended, and regulations thereunder; and  
6

7 **IN THE MATTER OF** a general rate  
8 application by Newfoundland and Labrador  
9 Hydro to establish customer electricity rates  
10 for 2018 and 2019; and  
11

12 **IN THE MATTER OF** an application by  
13 Newfoundland and Labrador Hydro for approval,  
14 on an interim basis, of changes to Island Industrial  
15 customer rates, and to establish a cost deferral  
16 account for 2018 in relation to a proposed change  
17 in depreciation methodology.  
18  
19

20 **Application**

21  
22 On October 26, 2018 Newfoundland and Labrador Hydro (“Hydro”) filed an application  
23 proposing:

- 24 (i) deferral of the operating and maintenance costs for the Labrador-Island Link and the  
25 Labrador Transmission Assets;  
26 (ii) interim Island Industrial customer rates to be effective January 1, 2019; and  
27 (iii) a cost deferral for 2018 to provide Hydro an opportunity to earn a reasonable rate of  
28 return in 2018 (the “Application”).  
29

30 Subsequent to the filing of the Application the Board received Order in Council OC2018-213  
31 which directs that the all costs, expenditures and payments incurred by Hydro for the term of the  
32 interim Transmission Funding Agreements for the Labrador-Island Link and the Labrador  
33 Transmission Assets be placed into a deferral account. On November 16, 2018 Hydro revised the  
34 Application to remove the proposal for the deferral of the operating and maintenance costs for the  
35 Labrador-Island Link and the Labrador Transmission Assets.<sup>1</sup> (the “Revised Application”).

---

<sup>1</sup> Hydro filed a separate application with the Board to address OC2018-213 on November 20, 2018.

1 In relation to the Island Industrial customer rates, the Revised Application stated that the Rate  
2 Stabilization Plan (“RSP”) rules require an update to the Industrial Customer RSP Current Plan  
3 Adjustment on January 1, 2019 to recover the balance in the Industrial Customer RSP balance at  
4 December 31, 2018. The Revised Application stated that Hydro is projecting an Industrial  
5 Customer RSP Current Plan balance owing from Island Industrial customers at year-end 2018  
6 which would require an RSP Current Plan adjustment of 0.312 cents per kWh. In the Revised  
7 Application Hydro proposed, on an interim basis, to:

- 8
- 9 (i) update the firm demand charge and the firm energy charge based on the 2019 Test  
10 Year Cost of Service study; and
  - 11 (ii) revise the specifically assigned charges to reflect the methodology accepted in the  
12 Supplemental Settlement Agreement.
- 13

14

15 Hydro proposed implementing these rate changes at the same time as the implementation of the  
16 updated RSP Current Plan Adjustment rate and the elimination of the RSP fuel rider to reduce the  
17 rate increase for Island Industrial customers on January 1, 2019.

18

19 In relation to the proposed 2018 cost deferral, the Revised Application explained that the  
20 Settlement Agreement included a revised approach to Hydro’s depreciation methodology which  
21 would become effective for the 2018 Test Year upon issuance of the final general rate application  
22 order. Without a final general rate application order in 2018 Hydro is required to use the current  
23 depreciation methodology. It is estimated that the 2018 depreciation cost would be \$15.0 million  
24 higher under the existing depreciation methodology than it would be using the depreciation  
25 methodology accepted in the Settlement Agreement. Hydro proposed a 2018 cost deferral account  
26 to defer this differential in the 2018 the projected depreciation expense. The Revised Application  
27 stated that, in the absence of a general rate application order in 2018, Hydro’s forecast 2018 net  
28 income is \$9.9 million which equates to a return on rate base below the range of return on rate  
29 base for the 2018 Test Year. The Application stated that approval of the proposed 2018 cost  
30 deferral account would provide Hydro the opportunity to earn a rate of return on rate base for 2018  
31 that is within the projected range.

32

33 The Application was circulated to Newfoundland Power Inc. (“Newfoundland Power”); the  
34 Consumer Advocate, Dennis Browne, Q.C. (“the Consumer Advocate”); a group of Island  
35 Industrial customers: Corner Brook Pulp and Paper Limited, NARL Refining Limited Partnership,  
36 Vale Newfoundland and Labrador Limited (the “Industrial Customer Group”); Iron Ore Company  
37 of Canada (“IOC”), and the communities of Sheshatshiu, Happy Valley-Goose Bay, Wabush, and  
38 Labrador City (the “Labrador Interconnected Group”).

39

40 The Board, Newfoundland Power, the Consumer Advocate, IOC and the Industrial Customer  
41 Group issued Requests for Information (“RFIs”) which were answered by Hydro on November  
42 19, 2018.

43

44 On November 26, 2018 Newfoundland Power and the Industrial Customer Group filed comments  
45 in relation to the Revised Application. On the same date IOC advised it had no comments on the  
46 Revised Application. On November 28, 2018 the Consumer Advocate filed comments.

47 On November 28, 2018 Hydro filed a reply submission.

## 1 Submissions

2  
3 The Industrial Customer Group accepted Hydro's proposals for new interim rates for January 1,  
4 2019 as reasonable in the context that final rates resulting from Hydro's general rate application  
5 would not be implemented by January 1, 2019. The Industrial Customer Group stated that it should  
6 be clear that their acceptance of the interim rate proposal for January 1, 2019 does not mean that  
7 they accept: i) Hydro's premise that it is probable that final rates from the general rate application  
8 will not become effective until July 1, 2019; and, ii) Hydro's projections of a further rate increase  
9 for the Industrial Customer Group effective July 1, 2019. The Industrial Customer Group had no  
10 comment on the proposed 2018 cost deferral account other than to note that any recovery will be  
11 subject to further submissions by the parties and a further determination of the Board.  
12

13 Newfoundland Power advised that it has no objection to the implementation of interim Island  
14 Industrial customer rates as proposed in the Revised Application. Newfoundland Power stated that  
15 its acceptance of the proposed interim rates should not be taken as a concession that its customers  
16 should bear any responsibility for any portion of the accumulated amortization related to the  
17 retirement of the Corner Brook Frequency Convertor and its transfer to Corner Brook Pulp and  
18 Paper Limited.<sup>2</sup> Newfoundland Power stated that it also has no objection to the proposed 2018 cost  
19 deferral account as Hydro has indicated that its approval will have no impact on Hydro's customers  
20 or customer rates. Newfoundland Power noted that Hydro's forecast difference of \$15.0 million in  
21 2018 depreciation expense may reflect the \$4.1 million in loss on retirement incurred as a result  
22 of the transfer of the frequency convertor. Newfoundland Power stated that its acceptance of the  
23 2018 cost deferral account should not be taken as a concession that its customers should bear any  
24 portion of those costs in future rates.  
25

26 The Consumer Advocate advised that he does not object to the interim rates proposed for the Island  
27 Industrial customers to be implemented January 1, 2019 provided it does not impact the rates of  
28 Newfoundland Power and other customers in the province. The Consumer Advocate also advised  
29 that he does not object to the proposed 2018 cost deferral account to allow Hydro to earn a just  
30 and reasonable return in 2018 subject to the decision of the Board on the depreciation methodology  
31 and what the Board has determined to be a prudently incurred cost that is allowed for recovery in  
32 the revenue requirement.  
33

34 In its reply submission Hydro noted that the parties did not object to the interim rates proposed for  
35 the Island Industrial customers or to the proposed 2018 cost deferral account and requested that  
36 the Board approve the Revised Application as submitted.  
37

## 38 Board Findings

### 39 *Island Industrial Customer Interim Rates*

40  
41  
42 The RSP rules require an update to Island Industrial customer rates on January 1 of each year to  
43 reflect the annual operation of the RSP. In the Revised Application Hydro proposed to implement  
44 changes to the Island Industrial customer rates to reduce the rate impact from the RSP change for

---

<sup>2</sup> In Order No. P.U. 26(2018) the Board approved the sale of the Frequency Convertor but did not address the issues related to the \$4.1 million loss on retirement. A separate process has been established by the Board to review this matter.

1 January 1, 2019. Hydro proposed, on an interim basis, changes to the firm demand and firm energy  
2 charge and to the specifically assigned charges as agreed to in the Supplemental Settlement  
3 Agreement in the general rate application. The Industrial Customer Group advised that they accept  
4 that Hydro's interim rate proposals for January 1, 2019 are reasonable in the circumstances. No  
5 objections were filed to these interim rate proposals.  
6

7 In each of Hydro's last two general rate applications the Board has considered applications for  
8 interim rates. The Board stated in relation to these applications:  
9

10 In exercising its discretion in relation to an interim rate application the Board balances the  
11 interests of the utility and consumers, considering the provisions of the EPCA which set  
12 out that rates should be reasonable and not unjustly discriminatory and should enable a  
13 utility to earn a just and reasonable return so that it is able to achieve and maintain a sound  
14 credit rating. The Board is directed to apply tests which are consistent with generally  
15 accepted sound public utility practice, which would include consideration of principles  
16 such as fair return, rate stability, rate shock, predictability, certainty, fair cost  
17 apportionment, appropriate price signals and intergenerational equity.<sup>3</sup>  
18

19 Given that the affected customers support the proposed rates and in the interests of the principles  
20 of fair return, rate stability, predictability and certainty the Board finds that the proposed interim  
21 Island Industrial customer rates should be approved.  
22

### 23 *2018 Cost Deferral Account* 24

25 Hydro explained that the Settlement Agreement includes a revised approach to its depreciation  
26 methodology but, if a general rate application order is not issued in 2018, the use of the current  
27 methodology would result in an additional \$15.0 million in depreciation expense in 2018. Hydro  
28 stated:  
29

30 If the Board were to approve the 2017 GRA Supplemental Settlement Agreement  
31 (including the change in depreciation methodology) in 2019 and does not approve the 2018  
32 Cost Deferral, Hydro would be required to reverse the additional 2018 expense related to  
33 the depreciation methodology in fiscal 2019. This will result in Hydro earning materially  
34 less than the lower end of its allowed rate of return in 2018 due to the use of existing  
35 depreciation methodology. Subsequently in 2019, Hydro's forecast earning would  
36 materially increase above the mid-point of the allowed range of return on rate base due to  
37 the recovery of the \$15.0 million in depreciation expense which would have been already  
38 recognized in 2018.<sup>4</sup>  
39

40 It is now clear that the proposed changes to Hydro's depreciation methodology will not be  
41 addressed in 2018 as Hydro's 2017 general rate application will not be finalized. The proposed  
42 2018 cost deferral account would allow Hydro to defer the difference in the depreciation expense  
43 using the current methodology compared to the depreciation expense using methodology proposed  
44 in the general rate application and which was agreed to by the parties.

---

<sup>3</sup> Order No. P.U. 14(2015), page 12

<sup>4</sup> PUB-NLH-011, page 3

1 In Order No. P.U. 49(2016) the Board commented in relation to the use of deferral accounts:

2  
3 In appropriate circumstances deferral accounts are sound regulatory tools to address  
4 earnings volatility associated with certain costs outside of the utility's control. In the  
5 Board's view deferral accounts can contribute to a stable and predictable regulatory  
6 environment to the benefit of both the utility and its customers.  
7

8 The Board is satisfied that approval of the 2018 cost deferral account is appropriate to provide  
9 Hydro with the opportunity to earn a just and reasonable return in 2018 and issues related to the  
10 balance in the account and disposition of this balance can be addressed in a subsequent order of  
11 the Board. The Board accepts that approval of a 2018 cost deferral account to defer 2018  
12 depreciation expense associated with the change in depreciation methodology accepted in the  
13 Settlement Agreement is appropriate in the circumstances to allow Hydro the opportunity to earn  
14 a just and reasonable return in 2018.  
15  
16

17 **IT IS THEREFORE ORDERED THAT:**  
18

19 1. The proposal to revise Island Industrial customer rates, on an interim basis, to be effective  
20 upon the implementation of the revisions to the RSP adjustments for January 1, 2019 to  
21 reflect:

22  
23 (i) an increase in the firm demand charge from \$9.95 per kW to \$10.90 per kW and a  
24 decrease in the firm energy charge from 3.971 cents per kWh to 3.521 cents per kWh;  
25 and

26  
27 (ii) the following specifically assigned charges per year:

28	Corner Brook Pulp and Paper	\$11,458
29	North Atlantic Refinery Limited	\$104,051
30	Teck Resources Limited	\$50,030
31	Vale	\$144,378

32  
33 is approved.  
34

35 2. The 2018 cost deferral account related to the differential in the 2018 depreciation expense  
36 associated with the proposed change in depreciation methodology, as set out in Schedule A,  
37 is approved.  
38


39 3. Hydro shall pay all expenses of the Board arising from this Application.

**DATED** at St. John's, Newfoundland and Labrador, this 13<sup>th</sup> day of December, 2018.



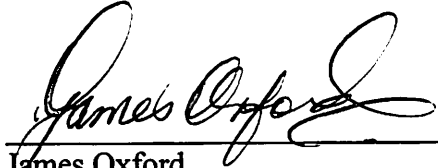
---

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



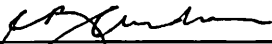
---

Dwanda Newman, LL.B.  
Vice-Chair



---

James Oxford  
Commissioner



---

Cheryl Blundon  
Board Secretary

**Newfoundland and Labrador Hydro  
2018 Depreciation Cost Deferral Account Definition**

This account shall be charged based upon the following formula:

$$A = B - C$$

Where:

A = The amount to be deferred.

B = 2018 depreciation, loss on disposal, disposal proceeds, and removal costs calculated in accordance with Hydro's Board approved depreciation methodology.

C = 2018 depreciation, loss on disposal, disposal proceed, and removal costs calculated in accordance with the depreciation methodology settled through the 2017 General Rate Application.

Disposition of any balance in this account shall be subject to a future order of the Board.