Q. **Reference: GRA, Vol. I, page 168 pdf**

Citation:

5.7.3 Energy Allocation

Each month, the energy costs will be allocated among the Island Interconnected customer groups of: (i) Newfoundland Power; (ii) Island Industrial Firm; and (iii) Rural Island Interconnected. The allocation will be based on percentages derived from 12 months-to-date kWh for Utility Firm invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy. The portion of the energy costs which are initially allocated to Rural Island Interconnected will be re allocated between Newfoundland Power and regulated Labrador Interconnected System customers in the same proportion as the Rural Deficit is allocated in the most recently approved test year Cost of Service Study.

The current month's activity for Newfoundland Power, Island Industrials, and regulated Labrador Interconnected System customers will be calculated by subtracting year-to-date activity for the prior month from year-to-date activity for the current month. The current month's activity allocated to regulated Labrador Interconnected System customers will be removed from the plan and, in between test years, written off to Hydro's net income (loss) consistent with past practice.

a) Please summarize the reasons why the Rural Deficit is in part allocated to LIS customers, and explain why and to what extent it considers that the same logic should be applied to the LTSCVDA.

b) Given that the LTSCVDA concerns costs associated with the Muskrat Falls Project, please explain why Hydro considers it appropriate to allocate part of the LTSCVDA to Labrador Interconnected System customers.

c) Please estimate the annual dollar magnitude of the LIS allocation of the LTSCVDA and its write-off under a range of plausible variance scenarios.

d) Please explain the ratemaking and accounting rationale for allocating a share of the LTSCVDA to LIS and then writing it off to net income, as opposed to not allocating it to LIS in the first place.

A. **a)** Order in Council OC2003-347 directed the Board of Commissioners of Public Utilities to:

> …continue to fund the financial deficit resulting from providing electrical service to Newfoundland and Labrador Hydro's rural customers through the electricity rates charged to Newfoundland and Labrador Hydro's other electricity customers, including its Labrador interconnected retail customers and Newfoundland Power, but excluding the industrial customers.[1]

The Rural Deficit is allocated between Newfoundland Power Inc. ("Newfoundland Power") (96.6%) and Rural Labrador Interconnected customers (3.4%)[2] based on their allocated share of revenue requirement in the proposed 2027 Cost of Service Study.[3] The Long-Term Supply Cost Variance Deferral Account ("SCVDA") records variances in supply costs on the Island Interconnected System, and a portion of those costs relate to supplying Rural Island Interconnected customers, which is a deficit area. The proposed allocation of the supply variances related to deficit areas is consistent with the allocation of costs in the Cost of Service Study.

The proposed disposition is also consistent with variances recorded in past deferral accounts, such as the Rate Stabilization Plan,[4] Revised Energy Supply Deferral Account and Holyrood Conversion Rate Deferral Account,[5] which recorded supply cost variances related to the Island Interconnected System. The disposition of the current Isolated Systems SCVDA[6]

---

[1] Government of Newfoundland and Labrador, *Order in Council OC2003-347,* July 8, 2003.
[2] Allocations approved in the 2019 Test Year Cost of Service Study are Newfoundland Power (96.1%) and Rural Labrador Interconnected customers (3.9%).
[3] Methodology approved in Board Order No. P.U. 49(2016).
[4] Please refer to Board Order No. P.U. 4(2022) for the Rate Stabilization Plan Rules for Balance Disposition. These rules are consistent with the Rate Stabilization Plan.
[5] Please refer to Board Order No. P.U. 16(2022) for the disposition of the Revised Energy Supply Deferral Account and Holyrood Conversion Rate Deferral Account.
[6] Please refer to Board Order No. P.U. 9(2026).

is also allocated between Newfoundland Power and Rural Labrador Interconnected customers based on the test year Rural Deficit allocation.

b) The costs associated with the Muskrat Falls project are allocated only to customers on the Island Interconnected System. As outlined in part a) of this response, Rural Labrador Interconnected System customers are allocated a portion of the rural deficit resulting from supply cost variances in the Rural Island Interconnected deficit areas, consistent with cost allocation in the Cost of Service Study and past practice for disposition of deferral account balances related to supply costs.

c) There are numerous variables that can impact supply variances in the Long-Term SCVDA in a given year that could result in a positive or negative value allocated to Rural Labrador Interconnected customers. Exhibit 13 of Newfoundland and Labrador Hydro's ("Hydro") 2026 General Rate Application provided an illustrative example of potential variances that could be observed once the 2027 Test Year values are updated. The updating of test year values should result in lower variances than recorded in the current SCVDA, which records variances based on the 2019 Test Year. As an example, in Exhibit 13, a $45.8 million variance results in approximately $0.1 million allocated to Rural Labrador Interconnected customers. In between test years, this balance has historically been written off to Hydro's net income.

d) The allocation of these variances is properly assigned to Rural Labrador Interconnected customers for the reasons described in part a) of this response. The current practice between test years is to write off this portion instead of incorporating it into future rates, as the amounts are typically immaterial and may be either positive or negative from year to year.