

August 31, 2018



Dear [REDACTED]:

Re: Your request for access to information under Part II of the *Access to Information and Protection of Privacy Act* (File # NR-113-2018)

On August 14, 2018, the Department of Natural Resources received your request for access to the following records/information:

June 2018 Information Note Overview of Newfoundland Power's 2019-2020 General Rate Application.

I am pleased to inform you that a decision has been made by the Department of Natural Resources, confirmed by the Deputy Minister, to provide access to the requested record. The record is attached.

As set out in section 42 of the Act you may ask the Information and Privacy Commissioner to review the department's decision to provide access to the requested information. A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner. Your request should identify your concerns with the department's response and why you are requesting a review.

The request for review may be addressed to the Information and Privacy Commissioner is as follows:

Office of the Information and Privacy Commissioner
2 Canada Drive
P.O. Box 13004, Stn. A

St. John's, NL. A1B 3V8

Telephone: (709) 729-6309

Toll-Free: 1-877-729-6309

Facsimile: (709) 729-6500

Pursuant to section 52 of the Act, you may also appeal directly to the Supreme Court Trial Division within 15 business days after receiving the department's decision.

Please be advised that responsive records will be published following a 72 hour period after the response is sent electronically to you or five business days in the case where records are mailed to you. It is the goal to have the responsive records posted to the Completed Access to Information Requests website within one business day following the applicable period of time. Please note that requests for personal information will not be posted online.

For further details about how an access to information request is processed, please refer to the Access to Information Policy and Procedures Manual at <http://www.atipp.gov.nl.ca/info/index.html>.

If you have any questions, please feel free to contact me at 709-729-0463 or rhynes@gov.nl.ca.

Sincerely,

A handwritten signature in cursive script that reads "Rod Hynes".

Rod Hynes
ATIPP Coordinator

Information Note
Department of Natural Resources

Title: Overview of Newfoundland Power's 2019-2020 General Rate Application

Issue: To provide an overview of Newfoundland Power's (NP) 2019-2020 General Rate Application (GRA) filed with the Board of Commissioner of Public Utilities (PUB) on June 1, 2018.

Background:

- NP is an investor-owned electricity distribution company that operates in the more populated areas of the Island Interconnected system excluding the Great Northern Peninsula, Baie Verte Peninsula, the south coast, and the isolated diesel powered communities. The GRA notes that in 2017 NP provided electricity to an estimated 266,450 residential (i.e. Domestic Class) and commercial (i.e. General Service Class) customers. These customers represent the vast majority of the 290,000 electricity customers in Newfoundland and Labrador. NP does not service any industrial class customers.
- NP operates under cost of service regulation where NP can recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base is the value of the net assets required to provide electricity service. The rate changes proposed in the application reflect NP's most recent cost of service study. The PUB approved NP's cost of service methodology in 2003.
- NP purchases from Newfoundland and Labrador Hydro (NLH) approximately 93% of the electricity NP delivers to its customers. These purchases are NP's largest cost.
- NP submitted its GRA to the PUB on June 1, 2018 proposing average electricity rate increases of 1.2 percent for residential and commercial customers effective March 1, 2019. The GRA process establishes base electricity rates that utilities can charge their customers in rates to recover costs. Utilities typically submit GRAs every 2-5 years as significant costs change. NP filed its last GRA in 2015.
- NP's GRA indicates the proposed rate changes stem primarily from NP seeking an increase in its return on equity. The application notes that expert evidence filed with the application recommends a "fair return on equity" for NP in 2019 and 2020 is 9.5%. This is higher than the ratemaking return on equity of 8.5% approved by the PUB from 2016 to 2018. NP is explicit that the higher return on equity represents a 1.2% increase in the revenue required from customer rates.
- NP's GRA notes that a higher return is necessary to ensure financial integrity amid future risks facing NP including risk in relation to the Muskrat Falls project. While there are other changes in NP costs detailed in the GRA, those changes negate each other.
- In addition to NP's proposed GRA increase of 1.2% in March 2019, NP also filed a "flow-through" application with the PUB on June 11, 2018 relating to NLH's interim rate increase the PUB approved on May 28, 2018. NP's flow through application showed that NLH's interim rate increase would cause average NP customer rates to increase by 6.8 per cent on July 1, 2018 (6.6% for residential customers and 7.4% for general service customers).

- The July 1st rate increase is not related to NP's GRA proposing a March 2019 increase, and does not affect NP's rate of return.

Analysis:

- The GRA process will include a public hearing where interveners, expert witnesses and the PUB will argue NP's assumptions and proposals. Following the hearing the PUB will issue an Order rejecting or approving the application with or without modifications.
- NP estimates \$1.0 million in costs of the hearing.
- NP rate changes directly impact NLH diesel customers. This stems from the fact that diesel system rates are linked to NP customer rates, rather than the actual cost of diesel generation service, where diesel customers pay the NP Island Interconnected Island rate for their first portion of monthly consumption referred to as the "Lifeline Block", which ranges from 1,000 kWh in winter months to 700kWh in summer. (The effects of any NP rate changes are dampened for Labrador diesel residential customers due to the effect of Government's Northern Strategic Plan subsidy.)
- The PUB assigns the same NP rates to NLH Island Interconnected System (IIS) and L'Anse-Au-Loup customers. Similarly, while NP rates differ from NLH isolated diesel system rates, the amount of rate increases the PUB approves for NP rates also apply to isolated diesel customers.

Action Being Taken:

- NR will continue to monitor the issue and update on recent developments.

Prepared/approved by: Y. Khan/ M. Janes / C. Snook / J. Cowan

Ministerial Approval: Received from Hon. Siobhan Coady

June 18, 2018