

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

AN ORDER OF THE BOARD

NO. P.U. 54(2016)

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

7 **IN THE MATTER OF** an application by
8 Newfoundland and Labrador Hydro for approval
9 of revisions to the Rate Stabilization Plan rules.
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12 **The Application**
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14 On October 21, 2016 Newfoundland and Labrador Hydro ("Hydro") filed an application with
15 the Board requesting approval of revisions to the Rate Stabilization Plan (the "RSP") rules (the
16 "Application"). The Application explained that the revisions were intended to reflect a change
17 in the terms of Hydro's fuel purchase contract, the approval of the RSP Surplus Customer
18 Refund Plan and the removal of the section related to Historical Plan Balances.
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20 The Application stated that Section C of the RSP rules currently specifies that the fuel price
21 projections for both Newfoundland Power and Island Industrial customers must be based on
22 the forecast average No. 6 fuel purchase price, determined from forecast oil prices, reduced by
23 the test year contract discount. The Application explained that Hydro executed a new fuel
24 contract effective September 23, 2015 which reflected the new fuel oil specification
25 recommended by its consultant, Stantec in its report, *Holyrood Thermal Generating Station*
26 *Fuel Oil Specification Review*. According to the Application the new contract price includes a
27 premium and results in a material difference in the forecast price of No. 6 fuel.
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29 The Application also stated that Section E of the RSP rules, "Historical Plan Balances"
30 references historical balances which are no longer relevant for the purpose of calculating RSP
31 adjustments.
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33 Further the Application proposed revisions to the RSP Surplus section of the rules to reflect the
34 approval of Hydro's Customer Refund Plan in Order No. P.U. 36(2016).
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36 The Application was copied to: Newfoundland Power Inc. ("Newfoundland Power"); the
37 Consumer Advocate, Mr. Dennis Browne; Corner Brook Pulp and Paper Limited and NARL
38 Refining Limited Partnership (the "Industrial Customer Group"); Teck Resources Limited;
39 Vale Newfoundland & Labrador Limited; and Praxair Canada Inc.

1 **Submissions**

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3 Newfoundland Power stated in its submission that the proposed revisions to the RSP rules
4 appear reasonable. Newfoundland Power requested that Hydro clarify the extent to which the
5 proposed revised RSP rules supersede the proposals made in Hydro's general rate application
6 and whether the RSP rule proposals in the general rate application are no longer necessary.

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8 The Industrial Customer Group submitted that the Application raises a number of issues. The
9 Industrial Customer Group argued that the change in the fuel purchase contract results in a
10 material difference in the forecasted costs of No. 6 fuel and the evidentiary basis for approval is
11 not present in the filed materials. The Industrial Customer Group noted that the fuel oil contract
12 provides for further premium increase in years three through five and it is difficult to assess the
13 prudence of future purchases without information about options that may exist at that time.

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15 The Industrial Customer Group also noted that the Application seeks approval no later than
16 December 31, 2016 but the proposed rules are stated to be effective January 1, 2016, which the
17 Industrial Customer Group characterizes as a retroactive rate approval. Further the Industrial
18 Customer Group submitted that it is not clear whether there were deliveries under the new
19 contract in 2015 and whether Hydro is seeking to recover the premium paid from customers via
20 the RSP. In addition the Industrial Customer Group stated that it is not clear how the RSP
21 changes in the Application reconcile with the proposed RSP changes in Hydro's general rate
22 application.

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24 The Board did not receive any other comments on the Application.

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26 In its submission Hydro stated that the Application includes revisions to the RSP rules that are
27 not related to its general rate application. Hydro submitted that it is appropriate to incorporate
28 the proposed RSP rule changes in advance of the general rate application compliance filing
29 rather than increase the complexity of the compliance filing. Hydro also submitted that it is
30 appropriate to implement the proposed changes prior to January 1, 2017 as one of the proposed
31 changes relates to the application of a fuel rider for Industrial customers and, given the delay in
32 the implementation of final rates flowing from the general rate application, the Board may
33 consider it reasonable to implement a RSP fuel rider to apply to Industrial customer rates in
34 advance of the implementation of new base rates.

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36 Hydro explained that the purpose of the new fuel oil specification reflected in the new fuel
37 contract was to avoid operational and maintenance problems with the Holyrood fuel system
38 equipment. Hydro submitted that properly specified fuel is essential to the operational
39 performance of the Holyrood Thermal Generating Station, which is critical in providing
40 reliable service to customers. Hydro stated that the new fuel oil specification recommended by
41 its consultant gives rise to the premium over market price. Hydro submitted that the additional
42 cost is prudently incurred in the provision of reliable service.

43

44 Hydro also stated that it has been incurring fuel costs in accordance with the new contract since
45 the third quarter of 2015 and that, because the forecast fuel price in the RSP fuel rider does not
46 reflect the current fuel purchase contract, any cost variance resulting from the fuel price
47 premium is reflected in a higher recovery factor to be applied to customer rates in the
48 subsequent year. Hydro submitted that the delay in recovery of costs has the potential to create

1 intergenerational inequity due to the lag between when the costs are incurred and when the
2 costs are included in customer rates.

3
4 According to Hydro the proposed revision to the RSP rules in relation to the fuel price
5 projection will not impact the total fuel costs to be recovered from customers. Hydro stated that
6 the revision will result in a more accurate forecast fuel cost to be used in the calculation of the
7 RSP adjustment. Hydro submitted that approval will ensure that the fuel costs recovered
8 through customer rates reasonably reflect the current fuel costs incurred in providing service.

9 10 **Board Findings**

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12 The Board accepts that the evidence filed by Hydro demonstrates that the No. 6 Holyrood fuel
13 oil premium is reasonable in the circumstances. In particular the Board notes Hydro's contract
14 with its fuel oil supplier as well as the report of Hydro's consultant recommending a new fuel
15 oil specification, which was filed with the Board in December 2014. The Board notes that the
16 report was filed in compliance with Order No. P.U. 4(2014) which approved the deferral of
17 expenses associated with the repair of the Holyrood Fuel Oil System and required Hydro to
18 report on actions taken to ensure reasonable fuel quality. The Board finds that the new fuel oil
19 specification is reasonable and that the associated costs should be recovered by Hydro. The
20 Board notes that the proposed revisions to the RSP rules will not affect the total fuel costs to be
21 recovered from customers but rather will affect the timing of the collection of these costs. The
22 Board is satisfied that it is reasonable for these costs to be recovered in the RSP fuel rider to
23 allow for the timely recovery.

24
25 In relation to the other proposed revisions to the RSP rules, the Board finds that the proposed
26 RSP Refund Plan revisions are consistent with the Board's findings in Order No. P.U.
27 36(2016) and should be approved. The Board notes that the proposed revision to remove
28 reference to the Historical Plan Balance has already been accepted by the Board in Order No.
29 P.U. 49(2016). Further Hydro was directed to file revised RSP rules for the approval of the
30 Board to reflect this revision as well as the other revisions approved in Order No. P.U.
31 49(2016).

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33 The Application requests approval no later than December 31, 2016 and the proposed rules set
34 out an effective date of January 1, 2016. It is notable that the Application does not propose a
35 new fuel rider. The Board is satisfied that the proposed RSP revisions should be approved so
36 that when the fuel rider is next established it will reflect the forecasted fuel costs. Given that
37 Hydro's general rate application is ongoing the Board believes that the revisions should be
38 implemented at the same time as the new rates, rules and regulations and new RSP rules. In the
39 circumstances the Board believes that the revisions proposed in the Application should be
40 reflected in the revised RSP rules which are to be filed by Hydro in accordance with Order No.
41 P.U. 49(2016).

1 **IT IS THEREFORE ORDERED THAT:**
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- 3 1. The proposed revisions to the Rate Stabilization Plan rules are accepted to be effective
4 with the implementation of new rates arising from Hydro's general rate application.
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6 2. Hydro shall include the proposed revisions in the revised Rate Stabilization Plan rules to be
7 filed in accordance with Order No. P.U. 49(2016).
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9 3. Hydro shall pay all expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador, this 21st day of December, 2016.



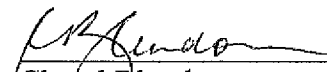
Andy Wells
Chair & Chief Executive Officer



Darlene Whalen, P.Eng.
Vice-Chair



Dwanda Newman, LL.B.
Commissioner



Cheryl Blundon
Board Secretary