

April 13, 2018

The Board of Commissioners of Public Utilities  
Prince Charles Building  
120 Torbay Road, P.O. Box 21040  
St. John's, NL A1A 5B2

**Attention: Ms. Cheryl Blundon**  
**Director Corporate Services & Board Secretary**

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro - Approval to Defer the 2015, 2016 and 2017 Balances in the Isolated Systems Supply Cost Variance Deferral Account, the Energy Supply Cost Variance Deferral Account and the Holyrood Conversion Rate Deferral Account - Application to form part of NLH 2017 General Rate Application (GRA)**

Hydro received a letter from The Board of Commissioners of Public Utilities (the Board) dated April 9, 2018 with respect to Hydro's Application for approval to defer 2015 through 2017 supply costs. Page two of the Board's letter states that:

*"...before the filing of requests for information, Hydro should provide its proposals in relation to the recovery of the balances in these accounts, setting out the estimated impacts on customers as well as available alternatives."*

This letter outlines Hydro's proposed methods of recovery regarding the \$65.4 million in deferred supply costs.

### **Deferral Account Scenario**

Under the Deferral Account Scenario,<sup>1</sup> Hydro has proposed setting its 2018 and 2019 Test Year revenue requirements and resulting rates to reflect the costs of the continued supply of power to the Island Interconnected System from existing Island generation. Under this scenario, Hydro proposes that the net savings from off-island purchases prior to the Muskrat Falls Project Commissioning be set aside in the proposed Off-Island Purchases Deferral Account for disposition to customers at a later date.

Based on Hydro's production plan assumptions and the expected availability of the Labrador-Island Link starting July 1, 2018, Hydro has forecast an account balance of \$105 million based on a

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<sup>1</sup> The Deferral Account and Expected Supply Scenarios were outlined in Hydro's Additional Cost of Service Information filing of March 22, 2018.

2019 Test Year fuel price of \$63.75 per barrel and \$174 million based on a 2019 Test Year price of \$87.11 per barrel.<sup>2</sup>

Upon conclusion of the 2017 GRA, Hydro has proposed the Board will determine whether the savings from off-island power purchases will be: (i) used to minimize electricity rates during the Muskrat Falls Project pre-commissioning period; (ii) set aside for future use to help mitigate customer rate impacts of post-commissioning Muskrat Falls Project costs; or (iii) used in some combination of rate mitigation during both the pre- and post-Muskrat Falls commissioning.<sup>3</sup>

Should the Board accept the Deferral Account Scenario for setting Hydro's 2018 and 2019 Test Year revenue requirements, Hydro proposes that recovery of the balances in the supply cost accounts be achieved through a means deemed most appropriate by the Board. This could include amortization reflected in customer rates; mitigation through the use of the Off-Island Purchases Deferral Account, as noted above; or another means as proposed by the Board or Parties.

### **Expected Supply Scenario**

Hydro's Additional Cost of Service Information filed on March 22, 2018 showed that, based on the Expected Supply Scenario, the Island Interconnected System will realize a reduction in 2019 Test Year Revenue Requirement relative to the 2018 Test Year Revenue Requirement. It is Hydro's position that if the Board decides the Expected Supply Scenario is appropriate for establishing Test Year Revenue Requirements, then it is reasonable to begin recovery of deferred supply costs through customer rates in 2019 rather than providing a decrease in customer rates.

Should the Board approve the use of the Expected Supply Scenario for setting Hydro's 2018 and 2019 Test Year revenue requirements, Hydro proposes that the deferred balances in the supply cost accounts be recovered through an amortization reflected in customer rates beginning January 1, 2019 for a 20-month period ending August 31, 2020.<sup>4</sup>

### **Customer Rate Impacts**

Customer rate impacts for recovery of the \$65.4 million in deferred supply costs under the Deferral Account Scenario will depend on the level of rate mitigation approved by the Board, as well as rate impacts as a result of the Board's final 2017 GRA Order.

Under the Expected Supply Scenario, the proposed method results in an approximate 5.5% increase in end-consumer rates and an increase of 10.7% for Island Industrial Customers, over and above the rates required to recover 2019 Test Year Revenue Requirements. Hydro acknowledges the significance of the increase for Island Industrial Customers; however, Hydro is forecasting a

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<sup>2</sup> Please see Hydro's responses to NP-NLH-115 and PUB-NLH-110.

<sup>3</sup> Source: Page 6 of Hydro's Supplemental Evidence in the GRA (Chapter 6)

<sup>4</sup> The amortization period assumes customer rates will be required to increase September 1, 2020 to begin recovery of power purchase costs related to the Muskrat Falls Project.

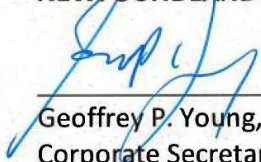
5.2% decrease in rates for this group on January 1, 2019 as a result of the implementation of the 2017 GRA rates under the Expected Supply Scenario. This will result in an overall net rate increase of 5.5% for Island Industrial Customers. Should the forecasted 2017 GRA rate decrease not materialize, this recovery method will need to be revisited to temper the increase to this customer group.

Hydro has developed these recovery alternatives with a view towards balancing customer impacts with the utility's ability to recover prudently incurred supply costs. Hydro is open to other recovery alternatives that the Board or Parties may want to bring forward for consideration.

If you require any further information, please do not hesitate to contact the undersigned.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**



Geoffrey P. Young,  
Corporate Secretary & General Counsel  
GPY/skc

cc: Gerard Hayes - Newfoundland Power  
Paul Coxworthy - Stewart McKelvey  
Denis J. Fleming - Cox & Palmer  
ecc: Van Alexopoulos - Iron Ore Company  
Senwung Luk – Olthius Kleer Townshend LLP

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