

February 8, 2019

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 of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: 2017 General Rate Application – Rebuttal

Enclosed, please find the original plus thirteen copies of Newfoundland and Labrador Hydro's Rebuttal in relation to the 2017 General Rate Application.

If you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Geoffrey P. Young, Q.C.
Corporate Secretary & General Counsel
GPY/kd

Encl.

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

Dennis Browne, Q.C., – Browne Fitzgerald Morgan & Avis
Dean Porter – Poole Althouse

Benoît Pépin – Rio Tinto

IN THE MATTER OF the *Electrical Power Control Act*, 1994, SNL 1994, Chapter E-5.1 and the *Public Utilities Act*, RSN, 1990, Chapter P-47 (the “Act”);

IN THE MATTER OF a General Rate Application (the “Application”) by Newfoundland and Labrador Hydro to Establish customer electricity rates for 2018 and 2019

Newfoundland and Labrador Hydro

**2017 General Rate Application
Rebuttal**

February 8, 2019

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1 **1. Introduction**

2 Newfoundland and Labrador Hydro’s (“Hydro”) submissions in this rebuttal are confined to the issues
3 raised in the Intervenor’s submissions. In some cases, issues raised by the Intervenor have been
4 addressed in Hydro’s Closing Submission;¹ therefore, Hydro has not revisited or reiterated those issues
5 here. For that reason, Hydro’s silence on an issue in this submission should not be taken as acceptance
6 of a position or argument that has been proffered by an Intervenor.

7
8 **2. Hydro’s Organizational Structure**

9 Newfoundland Power Inc.’s (“Newfoundland Power”) final submission in this 2017 General Rate
10 Application (“GRA”) states:²

11
12 *“It is unclear, based on the evidence on the record of this proceeding, whether the*
13 *organizational changes initiated in 2016 are consistent with Hydro’s obligation to*
14 *provide least-cost reliable service to its customers.”*
15

16 Hydro submits that the organizational changes were designed to ensure organizational independence
17 related to operations management, financial management, performance accountability, regulatory
18 activities, and control and accountability for shared services.

19
20 It is important to consider the history of this issue. In Newfoundland Power’s final submission on
21 Hydro’s Amended 2013 GRA, it stated that the matrix structure within Nalcor resulted in a lack of clarity
22 regarding Hydro’s lines of authority and accountability.³ In 2016, Hydro created an organizational model
23 and executive structure with a view towards operating Hydro as an independent, standalone regulated
24 utility.

25
26 As noted in Hydro’s final submission, the structure for the separate and dedicated executive team was
27 informed by: (i) recommendations of the Newfoundland and Labrador Board of Commissioners of Public
28 Utilities’ (the “Board”) external consultant, The Liberty Consulting Group (“Liberty”); (ii) a review of

¹ “Newfoundland and Labrador Hydro Closing Submission,” February 1, 2019.

² “Newfoundland and Labrador Hydro 2017 General Rate Application Written Submissions of Newfoundland Power,” February 1, 2019, at p. B-7/ 7-10.

³ “Amended 2013 GRA, Final Submission of Newfoundland Power,” December 23, 2015, at p. B-6/1-7.

1 Hydro’s pre-2007 structure; and (iii) a review of the structure of other regulated utilities across Canada,
2 including Newfoundland Power.

3 Hydro submits that its revised organizational structure is reasonable and strikes the appropriate balance
4 between cost and reliable service to customers. As demonstrated in Hydro’s evidence, significant work
5 has been completed and continues to enhance organizational effectiveness in delivering safe, reliable,
6 least-cost service to customers.

7

8 **3. Revisions to Evidence**

9 Newfoundland Power noted issues with the record in the application:

10

11 *“Notwithstanding the efficiencies achieved through negotiated settlement in this*
12 *proceeding, however, Hydro’s approach to the initial filing and the number of*
13 *corrections, revisions and updates has resulted in a voluminous and confused record*
14 *which, to a degree, has hindered a satisfactory understanding of Hydro’s costs.”⁴*
15

16 Hydro submits that revisions to General Rate Applications are not uncommon for utilities in this
17 jurisdiction, with Newfoundland Power having filed revisions in each of its past four General Rate
18 Applications.⁵ Hydro notes that most of the evidence revisions did not impact the proposed 2018 and
19 2019 revenue requirements for Newfoundland Power.⁶ The cumulative effect of Hydro’s revisions to its
20 2017 GRA was 0.03% for the 2018 Test Year revenue requirement for Newfoundland Power and 0.001%
21 for the 2019 Test Year revenue requirement for Newfoundland Power. Hydro does not agree that these
22 minor revisions “confused the record, which to a degree, has hindered a satisfactory understanding of
23 Hydro’s costs.”

24

25 The only costs challenged by Newfoundland Power in its final submission were related to Hydro’s
26 operating costs. Hydro provided responses to 346 requests for information from Newfoundland Power

⁴ “Newfoundland and Labrador Hydro 2017 General Rate Application Written Submissions of Newfoundland Power,” February 1, 2019, at p. B-9/12-15.

⁵ Newfoundland Power 2010 GRA Amended Application filed September 28, 2009, Revision 2 filed September 30, 2009. Newfoundland Power 2013/2014 GRA Revision 1, filed November 23, 2012, Revision 2, filed January 24, 2013. Newfoundland Power 2016/2017 GRA Revision 1, Filed March 8, 2016. Newfoundland Power 2019/2020 GRA Revision 1, filed November 19, 2018.

⁶ The first and second revisions had no revenue requirement impact and were primarily related to Hydro providing an additional chapter of evidence related to its proposed Off-Island Purchases Deferral Account and an updated Depreciation Study from Hydro's depreciation expert. The fifth and final revision of Hydro's 2017 GRA evidence was read into Hydro's GRA on the first day of hearing. It had no revenue requirement impact and was filed to ensure administrative consistency.

1 during the 2017 GRA process (of which approximately 70 pertained to operating and maintenance
2 costs). Hydro has not revised its proposed Test Years’ operating costs during the GRA process.
3 Therefore, Hydro considers Newfoundland Power’s characterization of a “confused” record with respect
4 to Hydro’s proposed Test Year costs to be misleading and unfounded.
5

6 **4. 2015 to 2017 Deferred Supply Costs**

7 Newfoundland Power was the only party to comment in final submissions on Hydro’s 2015 to 2017
8 deferred supply costs. Newfoundland Power states that it has not challenged the reasonableness of the
9 2015 to 2017 gas turbine operating costs.⁷ However, Newfoundland Power submits that the incremental
10 reliability improvements associated with the higher spinning reserve criteria do not appear to fully
11 justify the high operating cost of Hydro’s gas turbines.⁸
12

13 Hydro submits that the manner in which it operates its assets to provide safe, reliable service to
14 customers is consistent with good utility practice, as confirmed by the Liberty Report.⁹ Further, Hydro
15 submits that Newfoundland Power has not provided any evidence contrary to Hydro’s position nor has it
16 suggested an alternative approach to the dispatch of Hydro’s standby generation. As noted in
17 Newfoundland Power’s submission, Hydro continues to discuss this and other operational matters with
18 Newfoundland Power. Hydro submits that its deferred 2015, 2016, and 2017 supply costs should be
19 approved for recovery.
20

21 **5. 2017 GRA Load Forecast for Newfoundland Power**

22 The Island Industrial Customer Group (“IIC Group”) submits that:
23

24 *“...the Hydro load forecast in respect of NP for 2019, for the purposes of establishing*
25 *Revenue Requirement and rates in Hydro’s GRA, should be adjusted to 5,794.2 GWH for*
26 *NP purchases, consistent with NP’s latest regulatory forecast of their purchases from*
27 *Hydro.”¹⁰*

⁷ “Newfoundland and Labrador Hydro 2017 General Rate Application Written Submissions of Newfoundland Power,” February 1, 2019, at p. E-3/22-23.

⁸ “Newfoundland and Labrador Hydro 2017 General Rate Application Written Submissions of Newfoundland Power,” February 1, 2019, at p. E-4/2-5.

⁹ “Analysis of Hydro’s Energy Supply Cost Variance Deferral Account,” The Liberty Consulting Group, June 22, 2018, at pp. 1 to 2.

¹⁰ “Written Submissions of the Newfoundland and Labrador Hydro 2017 General Rate Application of the Island Industrial Customers Group,” February 1, 2019, at p. 12/7-10.

1 Variations in energy purchases by Newfoundland Power and IIC Group between test years flow through
2 the Rate Stabilization Plan (“RSP”) for allocation by customer class based on annual energy usage.
3 Therefore, the 39.4 GWh difference between the two Test Year load forecasts will give essentially the
4 same outcome through the RSP as would be the case if the initial load forecast (5,833.6 GWh) was
5 approved as the 2019 Test Year forecast. However, a reduction in Newfoundland Power’s energy
6 forecast with no corresponding reduction in the Newfoundland Power coincident peak demand forecast
7 (as is the case in this circumstance) provides some impact on both system load factor and fixed cost
8 allocations in the 2019 Test Year Cost of Service Study to be used in establishing customer rates.
9 Therefore, Hydro does not object to updating the Newfoundland Power energy purchase forecast and
10 peak demand forecast in its 2017 GRA Compliance Application to reflect the Newfoundland Power load
11 forecast used as a basis for establishing Newfoundland Power customer rates for 2019.
12

13 **6. Test Year Forecast of Off-Island Purchases**

14 Newfoundland Power’s submission states:
15

16 *“Newfoundland Power submits that the Board should direct Hydro to use its most*
17 *reliable forecast of off-island purchases for the test years in its compliance filing, and*
18 *that Hydro should address the reasonableness of its forecast in its compliance filing.”¹¹*
19

20 Hydro agrees with Newfoundland Power’s submission that Hydro should use its most reliable forecast of
21 off-island purchases for the Test Years in its 2017 GRA Compliance Application.
22

23 With respect to the Test Year forecast for off-island purchases, the Consumer Advocate stated: *“Any*
24 *strategy that defers expenses to the period when Muskrat Falls is coming on line is not particularly*
25 *favourable to customers.”¹²*
26

27 Hydro’s proposal for the net savings from off-island purchases for 2018 to be used in the establishment
28 of the 2018 Test Year revenue requirement is provided in Section C.4.2.1 of Hydro’s 2017 General Rate
29 Application Closing Submission where it recommended to “include the increased 2018 supply costs in
30 the 2018 Revenue Deficiency to be addressed in Hydro’s 2017 GRA Compliance Application.”

¹¹ “Newfoundland and Labrador Hydro 2017 General Rate Application Written Submissions of Newfoundland Power,” February 1, 2019, at p. E-2/11-13.

¹² “Consumer Advocate’s Written Submissions,” February 1, 2019, at p. 7/9-10.

1 The Consumer Advocate also stated:

2

3 *“We are unable to quantify the benefits of off-island purchases because we still do not*
4 *have information pertaining to Nalcor energy Marketing’s (NEM’s) purchase strategy or*
5 *the review process for NEM sales/purchases.”¹³*
6

7 The 2017 GRA evidence is clear that Hydro’s off-island purchase strategy is to reduce Holyrood
8 generation. Hydro oversees Nalcor Energy Marketing’s (“NEM”) work to ensure that activities carried
9 out by NEM are to the benefit of Hydro’s customers. Hydro approves weekly production plans prepared
10 by NEM, uses imports when appropriate to reduce costs for customers, and reviews detailed invoices to
11 ensure activities have been executed as per Hydro’s requests.¹⁴
12

13 The Consumer Advocate submitted that the GRA Order should be delayed *“at least until the parties to*
14 *this undertaking have had the opportunity to review the report on NEM’s 2018 sales/purchase activities*
15 *scheduled for filing by the end of the 1st quarter 2019 and make submissions in reference to the same.”¹⁵*
16

17 In response to CA-NLH-340, Hydro indicated it will provide the Board with a report on activities carried
18 out through 2018 by NEM on Hydro’s behalf by the end of the first quarter of 2019. Hydro will meet this
19 commitment.
20

21 Forecast savings as a result of off-island purchases are estimated to be \$9.8 million for the 2018 Test
22 Year and \$107.5 million for the 2019 Test Year.¹⁶ While there remains uncertainty in 2019 forecast
23 savings from off-island purchases, there is no benefit to stakeholders to further delay the 2017 GRA
24 Order as an update will be provided in Hydro’s 2017 GRA Compliance Application.
25

26 **7. Business Systems Transformation Project – Capital Budget Application** 27 **Guidelines**

28 With regard to the Business System Transformation Project, Newfoundland Power states in its
29 submission:

¹³ “Consumer Advocate’s Written Submissions,” February 1, 2019, at p. 7/1-3.

¹⁴ CA-NLH-340.

¹⁵ “Consumer Advocate’s Written Submissions,” February 1, 2019, at p. 7/14-17.

¹⁶ PUB-NLH-176.

1 “. . . before Hydro may recover the associated costs from its customers, Hydro shall be
2 required to demonstrate the value of such projects for Hydro’s customers in accordance
3 with the Board’s Capital Budget Applications Guidelines.”¹⁷
4

5 Hydro submits that this approach is not required for the proper and full regulatory review of a utility’s
6 expenditures of this type.
7

8 Hydro agrees that the value received and the amounts paid should be fully investigated. Where there is
9 a choice to be made as to whether the service will be self-supplied or contracted in, this factor enters
10 into the Board’s assessment. The costs and benefits of the choice over the life cycle of the asset or
11 service contract, as the case may be, can be included in that assessment. This principle applies whether
12 the service is provided by an affiliate or by an arms-length third party.
13

14 There are some process differences under the *Act*. Under subsection 41(3), the Board is empowered to
15 either approve or deny the right to commence a capital project. Then, under subsection 41(4), public
16 utilities report annually to the Board on the amounts spent on capital projects. Section 64 sets out the
17 means by which the Board determines the value of assets, which can include a review of the condition
18 and value of the assets and whether they are “used and useful in providing or supplying a particular
19 service to the public.” Under section 78 of the *Act*, the Board then sets the utility’s rate base which
20 includes an assessment of the value of the utility’s tangible assets.
21

22 If a public utility obtains value and service from a third party’s assets, the Board is not required to set a
23 value for the provider’s assets; rather it looks to whether the public utility is getting appropriate and
24 prudent value from the operating expenses it incurs for the service transaction. Then, under subsection
25 80(2) of the *Act*, the Board determines the amount of those operating expenses that it will permit to be
26 recovered in rates.
27

28 While the two prescribed approaches for evaluating capital assets and operating expenses differ, the
29 goal and result are the same: the Board brings its judgment to bear on the information it receives and
30 makes determinations as to whether the utility has provided reliable service at least-cost. Hydro advises
31 against Newfoundland Power’s proposal to treat Hydro’s affiliate’s capital projects as if they were

¹⁷ “Newfoundland and Labrador Hydro 2017 General Rate Application Written Submissions of Newfoundland Power,” February 1, 2019, at p. C-7/9-12.

1 Hydro’s capital projects. It is unnecessary to hypothesize about those outcomes when the Board already
2 has ample ability to test the value of the services to the customer determined directly from the methods
3 set out in the *Act*.

4 5 **8. The Applicability of the OPG Case**

6 Newfoundland Power suggests that the 2015 Supreme Court of Canada decision in the “OPG case”¹⁸
7 permits a regulator to temporarily adversely impact a utility’s ability to earn its cost of capital.
8 Newfoundland Power argues that the decision applies to the present circumstances and allows the
9 Board to make an order designed to provide a lower rate of return in the short term. With respect,
10 Hydro disagrees and states that there is a factor in the present circumstance which renders that decision
11 distinguishable and inapplicable.

12
13 In the OPG case, the Court reviewed the jurisprudential basis for the requirement to allow a utility to
14 recover its cost of capital over the long run. The Court found it to be based upon the long standing
15 requirement to set fair and reasonable rates:

16
17 [15] This Court has had the occasion to consider the meaning of similar statutory
18 language in *Northwestern Utilities Ltd. v. City of Edmonton*, [1929 CanLII 39 \(SCC\)](#), [1929]
19 S.C.R. 186. In that case, the Court held that “fair and reasonable” rates were those
20 “which, under the circumstances, would be fair to the consumer on the one hand, and
21 which, on the other hand, would secure to the company a fair return for the capital
22 invested” (pp. 192-93).

23
24 [16] This means that the utility must, over the long run, be given the opportunity to
25 recover, through the rates it is permitted to charge, its operating and capital costs
26 (“capital costs” in this sense refers to all costs associated with the utility’s invested
27 capital).

28
29 This finding is consistent with the regulator being given wide discretion as to the rate of return over the
30 longer term. Implicit in this finding is that with the benefit of hindsight and a holistic approach to setting
31 earnings over the longer term, the regulator could in a later year and in another rates application with
32 the same utility, approve higher rates than it might otherwise have done, thereby ensuring a balanced
33 and fair outcome *over the long run*.

¹⁸ *Ontario (Energy Board) v. Ontario Power Generation Inc.* 2015 SCC 44, referred to in the Newfoundland Power Final Submission at p. B-10.

1 In Hydro’s circumstances, that discretion has been removed. Order in Council 2009-063 requires, *inter*
2 *alia*, the Board to apply to Hydro the same return on equity as was most recently set for Newfoundland
3 Power. This basis must be used in setting Hydro’s rate of return on rate base; to do otherwise
4 contravenes the Order in Council. This is not to say that the Board cannot disallow amounts from
5 operating expenses that factor into Hydro’s revenue requirement where the Board finds those amounts
6 to be specifically imprudent and, therefore, not properly chargeable to operating account.¹⁹ However, it
7 would be contrary to the Order in Council for the Board to impose a general disallowance of expenses or
8 a downward adjustment to revenue requirement where it is done with the intention to affect a lower
9 rate of return than would be determined when calculated in accordance with the Order in Council.

11 **9. Operating and Maintenance Costs on Specifically Assigned Assets**

12 The IIC Group submits that:

13
14 *“..Hydro should be directed to continue to investigate the potential of directly charging*
15 *customers for O&M activities performed on SAC asset when they occur, and not using*
16 *the coarse allocation of O&M through the COS study, and to make the results of the*
17 *investigation available for adjudication on this issue in the next general rate application*
18 *(or potentially the ongoing COS review).”²⁰*
19

20 Hydro has implemented internal processes to track operating and maintenance costs related to
21 specifically assigned assets. Hydro plans to make the results available in its next GRA.²¹

23 **10. Hydro’s Communications with Industrial Customers**

24 The IIC Group suggests that Hydro take various measures regarding its Key Accounts Manager,
25 specifically: (i) that he or she must be actively monitored; (ii) that key performance indicators must be
26 set to ensure that his or her job duties permit him or her to spend the time necessary to attend to
27 industrial customer communications; and (iii) that those within Hydro with responsibilities affecting
28 industrial customers must know the Key Accounts Manager’s mandate and include him or her in all
29 discussions that materially affect one or more industrial customers. The IIC Group asks the Board to
30 direct Hydro on these matters in its final order.

¹⁹ The Act, subsection 80(2).

²⁰ “Written Submissions on the Newfoundland and Labrador Hydro 2017 General Rate Application of the Island Industrial Customers Group,” at pp. 17/21 to 18/3.

²¹ PUB-NLH-078.

1 In response, Hydro submits that the record demonstrates that while this is a relatively new position and
2 role, communication has occurred within Hydro about the Key Accounts Manager role²² and the
3 information previously provided through the 2017 GRA proceeding provides a considerable amount of
4 information concerning the expectations and goals of the position.²³ The level of specificity of the
5 reporting requested by the IIC Group regarding the Key Accounts Manager is managerial, not regulatory,
6 in nature. Furthermore, it is unnecessary for the Board to order Hydro to undertake this periodic
7 reporting at this stage — this would be more appropriately reviewed in future GRA proceedings.

8
9 With that said, Hydro values the IIC Group’s feedback on these matters and acknowledges that there will
10 be evolution in the function as it matures. The Key Accounts Manager will continue to be an advocate
11 for large key account customers. Hydro will take the IIC Group’s commentary under advisement.

12

13 **11. Reporting Requirement on Reliability Performance**

14 Newfoundland Power submitted that: *“Until the Board is satisfied that Hydro’s reliability performance is*
15 *acceptable, Hydro should remain subject to the detailed reporting requirements imposed by the*
16 *Board.”*²⁴

17
18 The evidence presented during the hearing indicated that the ongoing detailed reporting requirements
19 has contributed to increased salary and benefit costs in Regulatory Affairs over the period 2015 to
20 2019.²⁵ Hydro submits that the ongoing requirement for the detailed reporting requirements to the
21 Board supports the approval of the increase in salary and benefit costs in Regulatory Affairs since 2015.

22
23 In the 2017 GRA, Hydro has not proposed any changes in its reporting requirements to the Board;
24 however, Hydro will continue to comply with the Board’s reporting requirements.

²² Undertaking U-38.

²³ Undertaking U-36.

²⁴ “Newfoundland and Labrador Hydro 2017 General Rate Application Written Submissions of Newfoundland Power,” February 1, 2019, at p. E-5/14-15.

²⁵ See response to NP-NLH-196.

1 **12. Labrador-Island Link/Labrador Transmission Assets/Muskrat Falls Project**
2 **Costs**

3 The IIC Group requested that the Board order Hydro to provide benchmark and other reporting with
4 respect to the operating and maintenance costs associated with the Muskrat Falls generating project
5 and the associated transmission assets. Meanwhile, the IIC Group acknowledged that these same issues
6 may be investigated and analyzed in the Muskrat Falls Rate Mitigation Reference.²⁶ The IIC Group has
7 also acknowledged that Order in Council OC2018-214 requires these costs to be placed in a deferral
8 account so that these matters are, for the purposes of the present GRA, rendered moot.²⁷

9
10 Hydro observes that the issue of the quantum of these costs has been made exempt from the Board’s
11 purview by the Muskrat Falls Exemption Order (OC2013-342) and that the inclusion of these costs in
12 rates to be charged by Hydro is the subject of a directive to the Board in Order in Council OC2013-343.
13 Hydro acknowledges that these matters may be the subject of some of the Board’s investigations in the
14 Muskrat Falls Rate Mitigation Reference. However, from a jurisdictional perspective, in the present
15 proceeding, the Board is not empowered to make disallowances with respect to these costs. Therefore,
16 Hydro submits that it is not appropriate or efficient to order a regimen of benchmarking or other studies
17 or reports arising from the present proceeding and circumstances.

18
19 **13. Productivity Allowance**

20 Newfoundland Power’s submission stated that: “. . . Hydro has not proven through the evidence filed
21 with the Board that the proposed test year costs are consistent with efficient operations.”²⁸

22
23 Hydro reiterates its final submissions with regard to its organizational changes and operations and
24 productivity efforts.²⁹ Changes and advancements have been made in these regards – largely in
25 response to the Board’s comments in Order No. P.U. 49(2016). Hydro has provided evidence on the
26 2016 cost-cutting outcomes and explained that this approach is not conducive to sustainable and

²⁶ “Written Submissions on the Newfoundland and Labrador Hydro 2017 General Rate Application of the Island Industrial Customers Group,” at p. 21/6-7.

²⁷ “Written Submissions on the Newfoundland and Labrador Hydro 2017 General Rate Application of the Island Industrial Customers Group,” at p. 19/4-9.

²⁸ “Newfoundland and Labrador Hydro 2017 General Rate Application Written Submissions of Newfoundland Power,” February 1, 2019, at p. D-6/5-6.

²⁹ “Newfoundland and Labrador Hydro 2017 General Rate Application Closing Submission,” February 1, 2019, at pp. 25 to 47.

1 prudent cost management. For those reasons, Hydro fundamentally disagrees with Newfoundland
2 Power’s contention that Hydro has not provided an evidentiary record of efficient service.

3
4 With respect to Newfoundland Power’s submission as to a 3% productivity allowance, Hydro states that
5 it has self-imposed a productivity allowance to provide a target for sustainable cost reductions to be
6 achieved in the 2018 and 2019 Test Years. Through this method and other reductions that occurred
7 through the settlement process, the total forecast Test Year operating costs of \$138.5 million and
8 \$141.0 million, respectively, have already been reduced by \$1.7 million. This amount is comprised of the
9 \$1.1 million productivity allowance³⁰ and Hydro’s \$0.6 million commitment to hold its number of full
10 time equivalents flat – resulting in the absorption of six positions in the Energy Cost Centre.³¹ This is
11 equivalent to an approximate 1.2% productivity allowance. Hydro submits that any proper consideration
12 of productivity allowance should acknowledge these amounts. Hydro submits the amount proposed by
13 Hydro provides an appropriate and sufficient incentive to seek further efficiencies.

14 15 **14. Annual Report on Productivity and Innovation Team**

16 Hydro provided considerable information through the GRA process³² with respect to the work of the
17 Productivity and Innovation Team; this included the team’s terms of reference, execution plan, reports
18 and anticipated areas of immediate savings. The IIC Group has suggested that Hydro make an annual
19 report to the Board as to the cost control goals used and the degree of success obtained, as well as the
20 cost control goals for each coming year.

21
22 The requested reporting is quite granular and specific and would add to Hydro’s already considerable
23 regulatory reporting burden. Hydro submits that the work of the team and the guidance and response of
24 the team are matters of day-to-day management of the company’s operations. It is obvious that cost
25 control will always be an important component of every GRA. With respect, Hydro submits that it should
26 be permitted to carry out and report on the work of the Productivity and Innovation Team in the
27 manner that Hydro determines is appropriate to substantiate its efforts and outcomes.

³⁰ PUB-NLH-128.

³¹ NP-NLH-209.

³² PUB-NLH-122 and Undertakings U-42, U-65, U-66 and U-93. There was also a considerable amount of *viva voce* evidence on the matter.

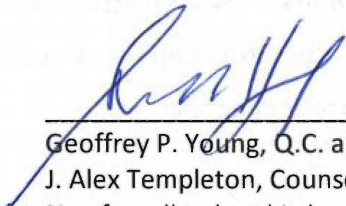
1 **15. Conclusion**

2 Hydro respectfully seeks approval of rates which are consistent with legislation, government directives
3 and regulatory practice.

4
5 In considering the Intervenor's submissions, particularly those respecting cost or productivity
6 disallowances, the Board must consider the applicable legislation and directives. The Board should be
7 cautious in accepting Intervenor's recommendations that are not supported by evidence on the record
8 in the present matter. When considering the reasonable and prudent level of Hydro's operating
9 expenditures, the Board must be mindful of the Board's and Hydro's respective responsibilities to
10 provide service at the lowest cost consistent with the sustainable provision of reliable service.

11
12 Hydro should be provided the opportunity to recover its supply costs in a manner that is consistent with
13 regulatory practice in other Canadian jurisdictions. Such approval will provide Hydro with appropriate
14 funds to operate its system on a reliable, least-cost basis and will ensure that Hydro is not financially
15 disadvantaged for managing and operating the system for the benefit of customers.

ALL OF WHICH IS RESPECTFULLY SUBMITTED on this the 8th day of February, 2019.



Geoffrey P. Young, Q.C. and
J. Alex Templeton, Counsel for the Applicant
Newfoundland and Labrador Hydro
500 Columbus Drive P.O. Box 12400
St. John's, NL A1B 4K7
Telephone: (709) 737-1277
Facsimile: (709) 737-1782
Email: gyoung@nlh.nl.ca
Alex.Templeton@mcinnescooper.com