

August 23, 2017

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: Board's Request for Further Information regarding Newfoundland and Labrador Hydro's 2017 General Rate Application (GRA)

This letter provides the additional information with respect to Hydro's 2017 GRA, as requested in the Board's correspondence dated August 14, 2017.

1.0 Hydro's proposals with respect to final rates for 2018

Hydro's 2017 GRA proposes increases in customer rates on an interim basis effective January 1, 2018, and final customer rates to become effective January 1, 2019. With respect to the finalization of customer rates for 2018, Hydro proposes that the interim customer rates that are in effect for 2018 be approved as final on conclusion of the GRA.¹ Hydro is proposing to recover any revenue deficiency for 2018 through the final rates proposed to become effective January 1, 2019.

For the operation of the Rate Stabilization Plan (RSP), Hydro proposes the RSP operate for 2018 based on the 2015 Test Year inputs. As Hydro is proposing final customer rates based on 2019 Test Year costs, the operation of the RSP for 2019 would reflect the 2019 Test Year inputs.

2.0 Estimated Impact of the Conclusion of the RSP Rate Mitigation Adjustments

RSP rate mitigation adjustments were approved effective July 1, 2017, for both Newfoundland Power and the Island Industrial Customers.² The rate mitigation adjustments were determined based on a transfer of credit balances in the RSP Segregated Load Variation component to the Current Plan balances and used to compute rate adjustment credits for each class based on 12 month kWh sales.³

¹ The proposed interim rates would be subject to the annual RSP updates.

² Order No. P.U. 16(2017) and Order No. P.U. 24(2017).

³ The approved rate mitigation adjustments were (0.911)¢ per kWh for Newfoundland Power and (0.313)¢ per kWh for Island industrial Customers.

The projected customer rate impacts resulting from the discontinuance of the RSP rate mitigation adjustments are an 11.7% increase for Newfoundland Power (7.9% for its retail customers), and a 5.4% increase for the Island Industrial Customers.⁴

In accordance with the RSP rules, the Newfoundland Power RSP adjustment update is scheduled for July 1, 2018, and the Island Industrial Customer RSP adjustment update is scheduled for January 1, 2018. However, the Island Industrial Customer rate mitigation adjustment was calculated to provide disposition of approximately \$1.5 million over a 12 month period. Given that the disposition started July 1, 2017, Hydro believes it is reasonable to continue the RSP rate mitigation adjustment for Island Industrial Customers until June 30, 2018.

Attachment 1 to this letter provides the calculation of the projected customer impacts as a result of the discontinuance of the RSP rate mitigation adjustments effective July 1, 2018.

2.1 Normal RSP Adjustments

Hydro recognizes that rate impacts from the conclusion of the rate mitigation adjustments are material. However, to consider the rate impacts from the conclusion of the rate mitigation adjustments in isolation of the normal RSP adjustments would present an incomplete picture of the final rate impacts to customers. While there is material uncertainty in what the rate impact of updating the normal RSP adjustments will be for 2018, the recent downward trend in No. 6 fuel cost may result in offsetting RSP adjustments to reduce the projected customer billing impacts from implementing the proposed interim rates and the conclusion of the RSP rate mitigation adjustments.

The RSP Current Plan adjustments are required to be updated effective January 1, 2018 for Island Industrial Customers and effective July 1, 2018 for Newfoundland Power. The RSP fuel riders are also updated at the same time.⁵ The fuel riders reflected in current customer rates are based on a forecast cost of No. 6 fuel of \$81.40 per barrel.⁶ The actual No. 6 fuel price for the month of July 2017 was \$67.39 per barrel.⁷

The recent No. 6 fuel forecasts project a continuation of lower cost No. 6 fuel for the remainder of 2017 and for 2018 than that used in establishing the current fuel riders.⁸ If actual No. 6 fuel costs continue to be lower than forecast, the fuel savings will be credited to the RSP Current Plan balance, potentially reducing customer rate impacts in 2018.⁹ Further,

⁴ This change is relative to Hydro's proposed 2018 interim rates, as filed.

⁵ The current fuel riders are 0.625¢ per kWh for Island Industrial Customers and 0.672¢ per kWh for Newfoundland Power.

⁶ These fuel riders reflect the difference between the 2015 Test Year fuel cost of \$64.41 per barrel Cdn and the forecast No. 6 fuel average price of \$81.40 per barrel Cdn for the period July 2017 to June 2018.

⁷ On an annual basis, a \$1 change in the cost of No. 6 fuel will result in an approximate \$2.6 million fuel cost change.

⁸ Hydro's forecast average No. 6 fuel price at the end of July 2017 for the last 6 months of 2017 is approximately \$63 per barrel Cdn.

⁹ The Current Plan balance is also impacted by transfers from the RSP Hydraulic Variation component.

Variations in hydraulic production also impact customer rate changes through the normal operation of the RSP.

given the trend suggested by these more recent fuel forecasts, there is also potential for a reduced RSP Fuel Rider in 2018.¹⁰

Given these uncertainties, Hydro is unable to provide an accurate forecast of the customer impacts of the normal RSP adjustment updates. However, in accordance with the RSP rules, if, at the time of filing updated information,¹¹ the customer impact indicates potential for rate shock, Hydro will provide options to the Board to deal with such a circumstance.

3.0 Hydro's Proposals for Supply Cost Deferral Recovery

In Order No. P.U. 49(2016), the Board approved three supply cost deferral accounts effective January 1, 2015. This permitted Hydro to defer approximately \$42.2 million of supply costs incurred to serve customers during 2015 and 2016.¹² The recovery of the deferred costs is subject to Board approval. Hydro plans to submit an application for recovery in the third quarter of 2017.

The combination of the proposed 2017 GRA rate changes and the discontinuance of the RSP mitigation adjustments will result in material rate increases to customers. Therefore, Hydro is proposing to utilize energy supply costs savings reflected in the RSP Hydraulic Variation balance to reduce the amount of deferred energy supply costs to be recovered from customers through increased rates.

The current RSP Hydraulic Variation Account has a credit balance of approximately \$32.5 million as at July 31, 2017. Hydro is proposing to transfer the approved deferred supply cost balance of \$42.2 million to the RSP Hydraulic Variation Account. The proposed transfer would result in a balance owing from customers of approximately \$9.7 million. Current RSP rules amortize the balance in the RSP Hydraulic Variation Account to be paid by customers at a rate of 25% per year.¹³ If Hydro's application is approved, assuming the current balance in the RSP Hydraulic Variation account continues, the amount owing from customers in 2018 in relation to recovery of the 2015 and 2016 supply deferral costs would be approximately \$2.4 million.¹⁴

The recovery of \$2.4 million annually for four years will increase rates for Newfoundland Power by 0.5% (0.3% end-consumer) and by an average of 0.6% for Island Industrial Customers. Hydro submits that its proposal to apply historical energy supply savings from one supply source to recover historical energy supply cost savings from another supply source is reasonable. Furthermore, Hydro's proposal limits intergenerational equity concerns related to recovery of historical energy supply costs through future customer rates.

¹⁰ The No. 6 fuel forecast at the end of July 2017 for calendar year 2018 is an average of \$61.50 per barrel Cdn.

¹¹ For Industrial Customers, this occurs in October each year, for inclusion with the RSP adjustment effective January 1. For Newfoundland Power, this occurs in April each year, for inclusion with the RSP adjustment effective July 1.

¹² The \$42.2 million reflects the total balance of the three supply cost deferral accounts at the end of 2016.

¹³ RSP Rules, Section A, Part 3.

¹⁴ \$9.7 million x 25% = \$2.4 million.

4.0 Supplemental Evidence in relation to the Off-Island Purchases Deferral Account.

Hydro plans to file its supplemental evidence in support of the proposed Off-Island Purchases Deferral Account no later than September 15, 2017.

5.0 Conclusion

Table 1 provides a summary of the projected rate changes for 2018 including the impact of the conclusion of the RSP rate mitigation adjustments and the recovery of \$9.7 million deferred supply costs through a 4-year amortization.¹⁵ Table 1 does not include projections for the rate changes that will result from the normal operation of the RSP.

Table 1		
Projected Customer 2018 Rate Changes		
Excluding Fuel Price Impacts		
	January 1, 2018	July 1, 2018
<u>Newfoundland Power</u>		
Hydro GRA Increase	9.7%	0.0%
Rate Mitigation Conclusion	0.0%	11.7%
Recovery of Supply Costs	<u>0.0%</u>	<u>0.5%</u>
Total	9.7%	12.2%
End-Consumer	6.6%	8.2%
<u>Island Industrial Customers</u>		
Hydro GRA Increase	6.2%	0.0%
Rate Mitigation Conclusion	0.0%	5.4%
Recovery of Supply Costs	<u>0.6%</u>	<u>0.0%</u>
Total	6.8%	5.4%

Hydro recognizes that projected customer rate impacts are material. However, the rate impact projections in Table 1 do not include any rate change impacts that will result from the normal operation of the RSP, which may provide offsetting impacts from savings from the reduced cost of No. 6 fuel.

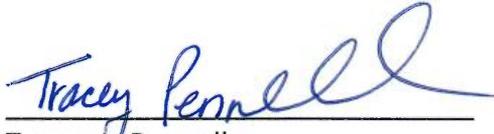
Hydro submits that its 2017 GRA interim rate proposal is reasonable and balances the interests of both customers and the utility. If actual fuel costs increase such that July 1, 2018 customer rate impacts require further consideration of rate mitigation, Hydro will present proposals to address this concern prior to filing applications for approval of revised customer rates. However, if fuel prices continue their recent trend, the projected rate changes for 2018 provided in Table 1 may be lower through savings achieved in the RSP.

¹⁵ The calculations assume \$32.5 million of the credit balance in the RSP Hydraulic Variation Account are used to minimize the amount to be recovered in future customer rates.

Hydro trusts that the foregoing is satisfactory. If you have any questions or comments, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Tracey V. Pennell
Senior Counsel, Regulatory

TLP/vc

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Sheryl Nisenbaum – Praxair Canada Inc.
ecc: Larry Bartlett – Teck Resources Limited

Dennis Browne, Q.C. – Consumer Advocate
Thomas O' Reilly – Cox & Palmer

Newfoundland and Labrador Hydro
Customer Billing Impacts of Proposed Interim Rates & Rate Mitigation Conclusion
Newfoundland Power

	2018 Test		July 1, 2017	Existing Billings	Jan 1, 2018	Proposed	Mitigation	July 1, 2018
	Year		Existing	\$	Proposed	Interim Billings	Conclusion	Mitigation Conclusion
	Billing Units	Unit	Existing		Proposed	Interim Billings	Conclusion	Billings ¹
Demand (kW)	15,164,832	\$/kW/mo	4.75	72,032,952	5.00	75,824,160	5.00	75,824,160
Energy (MWh)	3,000,000	¢/kWh	2.226	66,780,000	3.437	103,110,000	3.437	103,110,000
Energy (MWh)	2,824,500	¢/kWh	10.422	294,369,390	10.422	294,369,390	10.422	294,369,390
Total Base Rate Billings				<u>433,182,342</u>		<u>473,303,550</u>		<u>473,303,550</u>
RSP Recovery Adjustment-Normal	5,824,500	¢/kWh	(0.132)	(7,688,340)	(0.132)	(7,688,340)	(0.132)	(7,688,340)
RSP Mitigation impact	5,824,500	¢/kWh	(0.911)	(53,061,195)	(0.911)	(53,061,195)	0.000	-
RSP Fuel Rider	5,824,500	¢/kWh	0.672	39,140,640	0.672	39,140,640	0.672	39,140,640
CDM Recovery Adjustment	5,824,500	¢/kWh	0.019	1,106,655	0.019	1,106,655	0.019	1,106,655
Total Billings				<u><u>412,680,102</u></u>		<u><u>452,801,310</u></u>		<u><u>505,862,505</u></u>
\$ Change						40,121,208		53,061,195
% Utility Increase						9.7%		11.7%
% End Customer Increase						6.6%		7.9%

1. The calculation of the customer impact for the conclusion of the RSP rate mitigation adjustments assumed no change in the other RSP adjustments or the CDM Recovery Adjustment.

Newfoundland and Labrador Hydro
Customer Billing Impacts of Proposed Interim Rates & Rate Mitigation Conclusion
Total Island Industrial Customers

	2018 Test		July 1, 2017	Existing Billings	Jan 1, 2018	Proposed	Mitigation	July 1, 2018
	Year		Existing	\$	Proposed	Interim	Conclusion	Mitigation
	Billing Units	Unit	Existing	\$	Proposed	Billing	Conclusion	Conclusion
								Billings¹
Demand (kW)	1,170,000	\$/kW/mo	7.99	9,348,300	8.64	10,108,800	8.64	10,108,800
Energy - Firm (MWh)	726,000	¢/kWh	3.971	28,829,460	3.971	28,829,460	3.971	28,829,460
Energy - Interim (MWh)	726,000	¢/kWh			0.321	2,330,460	0.321	2,330,460
Spec. Assigned		\$	1,639,833	1,639,833	1,005,427	1,005,427	1,005,427	1,005,427
Total Base Rate Billings				<u>39,817,593</u>		<u>42,274,147</u>		<u>42,274,147</u>
RSP: Current Plan	726,000	¢/kWh	(0.373)	(2,707,980)	(0.373)	(2,707,980)	(0.373)	(2,707,980)
RSP: Current Plan Mitigation	726,000	¢/kWh	(0.313)	(2,272,380)	(0.313)	(2,272,380)	-	-
RSP: Fuel Rider	726,000	¢/kWh	0.625	4,537,500	0.625	4,537,500	0.625	4,537,500
CDM Recovery Adjustment	726,000	¢/kWh	0.009	65,340	0.009	65,340	0.009	65,340
Total Billings				<u><u>39,440,073</u></u>		<u><u>41,896,627</u></u>		<u><u>44,169,007</u></u>
\$ Change						2,456,554		2,272,380
% Increase						6.2%		5.4%

1.The calculation of the customer impact for the conclusion of the RSP rate mitigation adjustments assumed no change in the other RSP adjustments or the CDM Recovery Adjustment.

Newfoundland and Labrador Hydro
Customer Billing Impacts of Proposed Interim Rates & Rate Mitigation Conclusion
Praxair

	2018 Test Year		July 1, 2017 Existing	Existing Billings \$	Proposed Interim Rate	Proposed Interim Billing	Mitigation Conclusion	July 1, 2018 Mitigation Conclusion Billings ¹
	Billing Units	Unit	Existing					
Demand (kW)	72,000	\$/kW/mo	7.99	575,280	8.64	622,080	8.64	622,080
Energy - Firm (MWh)	50,800	¢/kWh	3.971	2,017,268	3.971	2,017,268	3.971	2,017,268
Energy - Interim (MWh)	50,800	¢/kWh			0.321	163,068	0.321	163,068
Spec. Assigned		\$		-	-	-	-	-
Total Base Rate Billings				<u>2,592,548</u>		<u>2,802,416</u>		<u>2,802,416</u>
RSP: Current Plan	50,800	¢/kWh	(0.373)	(189,484)	(0.373)	(189,484)	(0.373)	(189,484)
RSP: Current Plan Mitigation	50,800	¢/kWh	(0.313)	(159,004)	(0.313)	(159,004)	-	-
RSP: Fuel Rider	50,800	¢/kWh	0.625	317,500	0.625	317,500	0.625	317,500
CDM Recovery Adjustment	50,800	¢/kWh	0.009	4,572	0.009	4,572	0.009	4,572
Total Billings				<u><u>2,566,132</u></u>		<u><u>2,776,000</u></u>		<u><u>2,935,004</u></u>
\$ Change						209,868		159,004
% Increase						8.2%		5.7%

1. The calculation of the customer impact for the conclusion of the RSP rate mitigation adjustments assumed no change in the other RSP adjustments or the CDM Recovery Adjustment.

Newfoundland and Labrador Hydro
Customer Billing Impacts of Proposed Interim Rates & Rate Mitigation Conclusion
Vale

	2018 Test		July 1, 2017		Proposed		Mitigation	July 1, 2018
	Year		Existing	Existing	Interim	Interim	Conclusion	Mitigation
	Billing Units	Unit	Existing	Billings \$	Rate	Billing	Conclusion	Billings ¹
Demand (kW)	624,000	\$/kW/mo	7.99	4,985,760	8.64	5,391,360	8.64	5,391,360
Energy - Firm (MWh)	380,900	¢/kWh	3.971	15,125,539	3.971	15,125,539	3.971	15,125,539
Energy - Interim (MWh)	380,900	¢/kWh			0.321	1,222,689	0.321	1,222,689
Spec. Assigned		\$	480,243	480,243	143,297	143,297	143,297	143,297
Total Base Rate Billings				20,591,542		21,882,885		21,882,885
RSP: Current Plan	380,900	¢/kWh	(0.373)	(1,420,757)	(0.373)	(1,420,757)	(0.373)	(1,420,757)
RSP: Current Plan Mitigation	380,900	¢/kWh	(0.313)	(1,192,217)	(0.313)	(1,192,217)	-	-
RSP: Fuel Rider	380,900	¢/kWh	0.625	2,380,625	0.625	2,380,625	0.625	2,380,625
CDM Recovery Adjustment	380,900	¢/kWh	0.009	34,281	0.009	34,281	0.009	34,281
Total Billings				20,393,474		21,684,817		22,877,034
\$ Change						1,291,343		1,192,217
% Increase						6.3%		5.5%

1. The calculation of the customer impact for the conclusion of the RSP rate mitigation adjustments assumed no change in the other RSP adjustments or the CDM Recovery Adjustment.

Newfoundland and Labrador Hydro
Customer Billing Impacts of Proposed Interim Rates & Rate Mitigation Conclusion
CBPP

	2018 Test Year		July 1, 2017 Existing	Existing Billings \$	Proposed Interim Rate	Proposed Interim Billing	Mitigation Conclusion	July 1, 2018 Mitigation Conclusion Billings ¹
	Billing Units	Unit	Existing					
Demand (kWs)	84,000	\$/kW/mo	7.99	671,160	8.64	725,760	8.64	725,760
Energy - Firm (MWhs)	40,000	¢/kWh	3.971	1,588,400	3.971	1,588,400	3.971	1,588,400
Energy - Interim (MWhs)	40,000	¢/kWh			0.321	128,400	0.321	128,400
Spec. Assigned		\$	870,898	870,898	673,722	673,722	673,722	673,722
Total Base Rate Billings				<u>3,130,458</u>		<u>3,116,282</u>		<u>3,116,282</u>
RSP: Current Plan	40,000	¢/kWh	(0.373)	(149,200)	(0.373)	(149,200)	(0.373)	(149,200)
RSP: Current Plan Mitigation	40,000	¢/kWh	(0.313)	(125,200)	(0.313)	(125,200)	-	-
RSP: Fuel Rider	40,000	¢/kWh	0.625	250,000	0.625	250,000	0.625	250,000
CDM Recovery Adjustment	40,000	¢/kWh	0.009	3,600	0.009	3,600	0.009	3,600
Total Billings				<u><u>3,109,658</u></u>		<u><u>3,095,482</u></u>		<u><u>3,220,682</u></u>
\$ Change						(14,176)		125,200
% Increase						-0.5%		4.0%

1.The calculation of the customer impact for the conclusion of the RSP rate mitigation adjustments assumed no change in the other RSP adjustments or the CDM Recovery Adjustment.

Newfoundland and Labrador Hydro
Customer Billing Impacts of Proposed Interim Rates & Rate Mitigation Conclusion
NARL

	2018 Test		July 1, 2017		Proposed		July 1, 2018	
	Year		Existing	Existing	Proposed	Interim	Mitigation	Mitigation
	Billing Units	Unit	Existing	Billings \$	Interim Rate	Billing	Conclusion	Conclusion
								Billings ¹
Demand (kW)	384,000	\$/kW/mo	7.99	3,068,160	8.64	3,317,760	8.64	3,317,760
Energy - Firm (MWh)	253,100	¢/kWh	3.971	10,050,601	3.971	10,050,601	3.971	10,050,601
Energy - Interim (MWh)	253,100	¢/kWh			0.321	812,451	0.321	812,451
Spec. Assigned		\$	89,293	89,293	158,052	158,052	158,052	158,052
Total Base Rate Billings				13,208,054		14,338,864		14,338,864
RSP: Current Plan	253,100	¢/kWh	(0.373)	(944,063)	(0.373)	(944,063)	(0.373)	(944,063)
RSP: Current Plan Mitigation	253,100	¢/kWh	(0.313)	(792,203)	(0.313)	(792,203)	-	-
RSP: Fuel Rider	253,100	¢/kWh	0.625	1,581,875	0.625	1,581,875	0.625	1,581,875
CDM Recovery Adjustment	253,100	¢/kWh	0.009	22,779	0.009	22,779	0.009	22,779
Total Billings				13,076,442		14,207,252		14,999,455
\$ Change						1,130,810		792,203
% Increase						8.6%		5.6%

1. The calculation of the customer impact for the conclusion of the RSP rate mitigation adjustments assumed no change in the other RSP adjustments or the CDM Recovery Adjustment.

Newfoundland and Labrador Hydro
Customer Billing Impacts of Proposed Interim Rates & Rate Mitigation Conclusion
Teck

	2018 Test				Proposed		July 1, 2018	
	Year		July 1, 2017	Existing	Proposed	Interim	Mitigation	Conclusion
	Billing Units	Unit	Existing	Billings \$	Interim Rate	Billing	Conclusion	Billings¹
Demand (kW)	6,000	\$/kW/mo	7.99	47,940	8.64	51,840	8.64	51,840
Energy - Firm (MWh)	1,200	¢/kWh	3.971	47,652	3.971	47,652	3.971	47,652
Energy - Interim (MWh)	1,200	¢/kWh			0.321	3,852	0.321	3,852
Spec. Assigned		\$	199,399	199,399	30,356	30,356	30,356	30,356
Total Base Rate Billings				<u>294,991</u>		<u>133,700</u>		<u>133,700</u>
RSP: Current Plan	1,200	¢/kWh	(0.373)	(4,476)	(0.373)	(4,476)	(0.373)	(4,476)
RSP: Current Plan Mitigation	1,200	¢/kWh	(0.313)	(3,756)	(0.313)	(3,756)	-	-
RSP: Fuel Rider	1,200	¢/kWh	0.625	7,500	0.625	7,500	0.625	7,500
CDM Recovery Adjustment	1,200	¢/kWh	0.009	108	0.009	108	0.009	108
Total Billings				<u><u>294,367</u></u>		<u><u>133,076</u></u>		<u><u>136,832</u></u>
\$ Change						(161,291)		3,756
% Change						-54.8%		2.8%

1. The calculation of the customer impact for the conclusion of the RSP rate mitigation adjustments assumed no change in the other RSP adjustments or the CDM Recovery Adjustment.