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February 1, 2019

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

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Ladies and Gentlemen:

Re: Newfoundland and Labrador Hydro – 2017 General Rate Application

Please find enclosed the original and 13 copies of Newfoundland Power's Submission in relation to the above-noted Application.

For convenience, the Submission is provided on three-hole punched paper.

A copy of this letter, together with enclosures, has been forwarded directly to the parties listed below.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,

A handwritten signature in blue ink, appearing to read "Gerard M. Hayes".

Gerard M. Hayes
Senior Counsel

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**Newfoundland and Labrador Hydro
2017 General Rate Application**

**Written Submissions
of Newfoundland Power**

February 1, 2019

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1 **A. INTRODUCTION**

2 **A.1 The Application**

3 On July 28, 2017, Newfoundland and Labrador Hydro (“Hydro”) filed a General Rate
4 Application (the “Application”) seeking, among other proposals, approval by the Board of:
5 (i) interim customer rates, effective January 1, 2018, based on a 2018 Test Year; and (ii) final
6 customer rates, effective January 1, 2019, based on a 2019 Test Year.

7
8 At the time of application, the projected wholesale rate impact for Newfoundland Power was an
9 increase of 9.7% in 2018 and an additional increase of 9.4% in 2019. The projected rate impact for
10 end consumers was an average increase of 6.6% in 2018 and an additional average increase of
11 6.4% in 2019.

12 **Reference:** *Application, Schedule 5-III, Page 1 of 8; Schedule 5-IV, Page 1 of 8.*

13
14 Following public notice of the Application, the Board issued Order No. P.U. 30 (2017) on
15 September 25, 2017. The Order set out the schedule of dates and procedures for hearing the
16 Application. In accordance with established Board practice, the Order provided for: (i) review of
17 the Application by Grant Thornton, the Board’s financial consultants; (ii) written interrogation of
18 the Application by intervenors; (iii) filing of evidence by intervenors; (iv) Board-facilitated
19 settlement discussions; and (v) a public hearing.

20
21 **A.2 Application Revisions and Additions**

22 Over the period September 15, 2017, to July 4, 2018, Hydro filed with the Board 5 separate
23 revisions to the Application. The 1st revision to the Application included the addition of

1 supplemental evidence related to a proposed Off-Island Purchases Deferral Account. Subsequent
2 revisions included changes to depreciation and cost of service-related evidence, the proposed
3 rates for certain customer classes, and various operations and financial data throughout the
4 Application.

5
6 On March 29, 2018, Hydro filed for approval to defer the 2015, 2016 and 2017 balances in the:
7 (i) Isolated Systems Supply Cost Variance Deferral Account; (ii) Energy Supply Cost Variance
8 Deferral Account; and (iii) Holyrood Conversion Rate Deferral Account. In correspondence
9 dated April 9, 2018, the Board indicated that, in the interests of regulatory efficiency,
10 consideration of these balances would be brought into the Application.

11

12 **A.3 Applications for Interim Rates**

13 On October 4, 2017, Hydro proposed to delay the implementation of interim customer rates
14 beyond January 1, 2018.

15

16 On February 9, 2018, Hydro filed an application with the Board for approval of interim Island
17 Industrial customer rates and Labrador Industrial Transmission rates, effective April 1, 2018.

18 The Board approved interim rates for Island Industrial customers in Order No. P.U. 7 (2018).

19 Proposed interim Labrador Industrial Transmission rates were not approved.

20

21 On April 13, 2018, Hydro filed an application with the Board for approval of interim wholesale
22 rates for Newfoundland Power and changes to the Rate Stabilization Plan (“RSP”) rules and rate

23 adjustments. The application proposed an overall average rate increase to end consumers of

1 7.5%, effective July 1, 2018. The Board approved the proposed wholesale rates on an interim
2 basis in Order No. P.U. 15 (2018).

3
4 On October 26, 2018, Hydro filed an application with the Board for approval of certain cost
5 deferral matters and updated interim customer rates for Island Industrial customers, effective
6 January 1, 2019. Following the issuance of OC2018-213, revised evidence was filed by Hydro
7 on November 14, 2018, to remove reference to cost deferrals associated with the Labrador-Island
8 Link (“LIL”) and Labrador Transmission Assets (“LTA”). In Order No. P.U. 48 (2018), the
9 Board approved the updated Island Industrial customer rates and the remaining cost deferral
10 matters.

11

12 **A.4 Development of Expected Supply Scenario**

13 The Application proposed 2018 and 2019 Test Year revenue requirements based on the
14 continued use of on-island generation sources to supply the Island Interconnected System (the
15 “Deferral Account Scenario”). The proposed 2018 and 2019 Test Year revenue requirements did
16 not reflect Hydro’s actual expected supply costs using off-island purchases (the “Expected
17 Supply Scenario”). Variances between test year and actual supply costs were proposed to be
18 recorded in an Off-Island Purchases Deferral Account (“OIPDA”).

19

20 On January 4, 2018, the Consumer Advocate filed a request to delay the Application, citing the
21 need for Hydro to file additional information relating to the Deferral Account Scenario and the
22 Expected Supply Scenario. Following comments from Hydro and intervenors, the Board issued
23 Order No. P.U. 2 (2018) on January 26, 2018. The Order directed Hydro to file 2018 and 2019

1 Test Year revenue requirements and cost of service studies based on the Expected Supply
2 Scenario.

3

4 On March 22, 2018, Hydro filed *Additional Cost of Service Information* in compliance with
5 Order No. P.U. 2 (2018). The information included a revised Deferral Account Scenario, based
6 on a revised fuel forecast, and an Expected Supply Scenario. The revised Deferral Account
7 Scenario indicated a 3.6% wholesale rate increase to Newfoundland Power in 2018 and an
8 additional increase of 3.6% in 2019. The Expected Supply Scenario indicated a 1.0% wholesale
9 rate increase to Newfoundland Power in 2018 and a 4.7% decrease in 2019.

10 **Reference:** *Additional Cost of Service Information, Page 4, Table 3; Page 10, Table 6.*

11

12 On April 5, 2018, the Consumer Advocate applied to the Board for determination with respect to
13 a number of jurisdictional questions. Among the issues in the Consumer Advocate's application
14 was whether the OIPDA conformed to Order in Council OC2013-343, which governs recovery
15 of Muskrat Falls Project costs. Order in Council OC2013-343 specifically prohibits the recovery
16 of LIL costs until the project is "commissioned or near commissioning." The OIPDA, as
17 proposed in the Application as initially filed, specifically provided for recovery of Nalcor Energy
18 operating and maintenance ("O&M") costs associated with the LIL in 2018 and 2019. The Board
19 found there was insufficient evidence on the record to make a determination on this jurisdictional
20 issue.

21 **Reference:** *Order No. P.U.17 (2018)*

1 On July 16, 2018, the parties executed the Supplemental Settlement Agreement. In the
2 Supplemental Settlement Agreement, the parties agreed, among other things, that the Expected
3 Supply Scenario as presented in the Additional Cost of Service Information, and not the Deferral
4 Account Scenario, would be used as the basis for Hydro’s revenue requirement for the 2018 and
5 2019 Test Years.

6 **Reference:** *Consent 3, Paragraph 14.*

7

8 The Expected Supply Scenario, as presented in the *Additional Cost of Service Information*,
9 continued to provide for the recovery of operations and maintenance costs associated with the
10 LIL and the LTA in 2019.

11 **Reference:** *Summary Report - Additional Cost of Service Information, March 22, 2018, page*
12 *9, lines 4-13.*

13

14 On October 25, 2018, the Provincial Government issued Order in Council OC2018-213, which
15 directed the Board, upon application from Hydro, to adopt a policy that the O&M costs of the
16 LIL and the LTA prior to full commissioning of the Muskrat Falls Project be placed in a deferral
17 account to be addressed following further application by Hydro.

18 **Reference:** *Order in Council OC2018-213.*

19

20 On October 26, 2018, Hydro filed the *2018 Cost Deferral and Interim Rates Application* (the
21 “2018 Cost Deferral Application”). The 2018 Cost Deferral Application sought approval of: (i)
22 deferral of the O&M costs of the LIL and the LTA prior to full commissioning of the Muskrat
23 Falls Project from Hydro’s 2018 and 2019 Test Year revenue requirements; (ii) updated interim
24 customer rates for Island Industrial Customers; and (iii) a cost deferral for 2018. The 2018 Cost

1 Deferral Application was revised on October 30, 2018 to correct a number of errors. On
2 November 14, 2018, Hydro filed a second revision of the 2018 Cost Deferral Application, which
3 removed the request for approval of the deferral of the O&M costs of the LIL and the LTA prior
4 to full commissioning of the Muskrat Falls Project. Hydro indicated that a separate application
5 addressing that matter would be filed in due course.

6 **Reference:** *2018 Cost Deferral and Interim Rates Application – Revision 2, November 14,*
7 *2018; Hydro letter to the Board, November 14, 2018.*

8

9 **A.5 Process**

10 Five intervenors participated in the hearing process for the Application. Hydro received over
11 1,200 requests for information from the Board and intervenors. Responses to requests for
12 information were received from Hydro over the period October 17, 2017 to January 11, 2019.

13

14 The public hearing of the Application commenced on April 16, 2018 and concluded on
15 August 16, 2018 with a total of 15 hearing days.

16

17 During the course of the public hearing, Hydro witnesses undertook to respond to 99 questions
18 they could not immediately answer or for which information was not readily available.

19 Responses to the undertakings given by Hydro witnesses were completed by November 7, 2018,
20 approximately 12 weeks after the conclusion of witnesses' testimony.

21

1 **A.6 Settled Issues**

2 On April 11, 2018, a Settlement Agreement with respect to certain matters raised in the
3 Application was reached between Hydro, the Consumer Advocate, Newfoundland Power, the
4 Industrial Customer Group, and Board staff.

5

6 The settled issues included: (i) certain matters related to the 2018 and 2019 Test Year revenue
7 requirements and Hydro's rate base; (ii) a number of rate design and cost of service issues;
8 (iii) changes to regulations; (iv) deferral to a future proceeding of whether information on the
9 rural deficit should be included on customers' bills; (v) recovery over 3 years of certain external
10 regulatory costs; (vi) a proposed definition of the Excess Earnings Account; and (vii) certain
11 matters relating to the flow-through of Hydro's return on equity.

12 **Reference:** *Consent 1.*

13

14 Following commencement of the public hearing, a Supplemental Settlement Agreement was
15 agreed by the parties in July 2018. The Supplemental Settlement Agreement included agreement
16 on the majority of remaining cost of service and rate design issues, as well as certain matters
17 relating to capacity assistance agreements and deferred supply costs. Parties also agreed to the
18 use of the Expected Supply Scenario to establish 2018 and 2019 Test Year revenue requirements,
19 with the recovery or disposition of any 2018 revenue deficiency or surplus by customer class.

20 **Reference:** *Consent 3.*

21

22 On November 14, 2018, Hydro filed evidence that provided updated forecast customer rate
23 impacts and proposals that reflect the most up-to-date off-island purchases forecast and the

1 settlement agreements, among other issues. The revised evidence indicates a wholesale rate
2 increase of 6.3% to Newfoundland Power, effective July 1, 2019, as a result of the revised
3 proposals. This equates to a 4.0% increase to end consumers.

4 **Reference:** *2018 Cost Deferral and Interim Rates Application – Revision 2, Schedule 1,*
5 *Page 57 of 81.*

1 **B. REGULATORY POLICY AND PROCESS**

2 **B.1 General Policy Framework**

3 The regulatory policy framework under which Hydro is regulated by the Board is established
4 primarily by the *Electrical Power Control Act, 1994* and the *Public Utilities Act*. That regulatory
5 policy framework requires the Board to balance the interests of Hydro and its customers in its
6 consideration of the Application.

7

8 The *Public Utilities Act* defines the Board's powers in the regulation of public utilities in its
9 jurisdiction, including Hydro. In addition, the *Public Utilities Act* sets out the obligations and
10 rights of Hydro as a public utility providing a regulated service.

11

12 The *Public Utilities Act* provides for the Board's general supervision of Hydro's utility
13 operations (s.16) and, amongst other things, requires the Board to specifically approve rates
14 (s.70), capital expenditures (s.41) and the issue of securities (s.91).

15

16 Hydro has an obligation under the *Public Utilities Act* to provide service to all who require it
17 (s.54) and to ensure that its service and facilities are reasonably safe and adequate (s.37). This
18 obligation is commonly referred to as the "obligation to serve".

19

20 Section 80 of the *Public Utilities Act* entitles Hydro to the opportunity to earn annually a just and
21 reasonable return on its rate base in addition to recovering its reasonable and prudent operating
22 expenses.

1 The *Electrical Power Control Act, 1994* sets out the electrical power policy of the province.

2 The electrical power policy of the province deals specifically with rates (s. 3(a)) and

3 management of utility resources (s.3(b)).

4

5 Section 3 (a) of the *Electrical Power Control Act, 1994* provides, in part, as follows:

6 “3. *It is declared to be the policy of the province that*

7 (a) *the rates to be charged, either generally or under specific contracts,*
8 *for the supply of power within the province*

9 (i) *should be reasonable and not unjustly discriminatory,*

10 (ii) *should be established, wherever practicable, based on forecast*
11 *costs for that supply of power for 1 or more years,*

12 (iii) *should provide sufficient revenue to the producer or retailer of*
13 *the power to enable it to earn a just and reasonable return as*
14 *construed under the Public Utilities Act so that it is able to*
15 *achieve and maintain a sound credit rating in the financial*
16 *markets of the world....”*

17

18 Section 3 (b) of the *Electrical Power Control Act, 1994* provides, in part, as follows:

19 “3. *It is declared to be the policy of the province that*

20 (b) *all sources and facilities for the production, transmission and*
21 *distribution of power in the province should be managed and operated*
22 *in a manner*

23 (i) *that would result in the most efficient production, transmission*
24 *and distribution of power,*

25 (ii) *that would result in consumers in the province having equitable*
26 *access to an adequate supply of power,*

27 (iii) *that would result in power being delivered to consumers in the*
28 *province at the lowest possible cost consistent with reliable*
29 *service....”*

30

31 The electrical power policy of the province encapsulates the interests of both Hydro and the

32 consumers of Hydro’s electricity service, which the Board must balance in its consideration of

33 the Application. On the one hand, the electrical power policy entitles Hydro to charge rates that

34 will provide it with an opportunity to earn a just and reasonable return. On the other hand, it

1 obliges Hydro at all times to operate efficiently, so it is able to provide a reliable supply of power
2 to all of its customers consistent with the “least cost” standard.

3

4 **B.2 Regulatory Balance**

5 The balance contained in the regulatory policy framework in this province has been recognized
6 by the Board on a number of occasions including in Order No. P.U. 32 (2007), where the Board
7 observed:

8 *“The real challenge for the Board, in keeping with its legislative mandate, is to*
9 *balance oftentimes competing objectives within the regulatory environment to*
10 *ensure a set of sound and reasoned decisions serving the interests of both*
11 *customer and utility alike.”*

12

13 **Reference:** *Order No. P.U. 32 (2007), Appendix A, Page 8.*

14

15 **B.3 Evidentiary Considerations**

16 The Board is legally required to determine issues on the basis of the evidence before it. In this
17 proceeding, the onus is on Hydro to prove that its management of its facilities has been prudent
18 and that the costs it seeks to recover from customers through rates are reasonable. Hydro has
19 acknowledged and accepted that burden of proof.

20 **Reference:** *Hydro 2013 GRA as amended, Transcript, September 23, 2015, Page 112, Line*
21 *23 to Page 113, Line 21.*

22

23 The size of the record of this proceeding, as well as the fundamental changes in the Application
24 since the initial filing, presents challenges for review. Firstly, the extensive body of evidence
25 before the Board presents numerous instances of inaccurate or erroneous information, which
26 necessitated a number of revisions of the Application. This raises concerns as to the reliability of

1 the evidence. In addition to errors and inconsistencies in the record, evidence presented during
2 the public hearing raised significant concerns regarding the reasonableness of Hydro's test year
3 forecasts of operating costs, including a marked departure from historical operating cost levels
4 and a failure to improve productivity and cost efficiency. This raises questions regarding the
5 reasonableness of Hydro's test year forecasts.

6
7 Hydro acknowledged that the utility is at the risk of variances between test year costs and actual
8 costs when actual costs are higher. This is consistent with the principle that the utility is not
9 entitled to recover from customers any costs not proven to be reasonable.

10 **Reference:** *Transcript, October 7, 2015, Page 96, Lines 10-24.*

11
12 Hydro is the custodian of its financial information and accounting resources. It is accountable
13 for the evidence it presents and for its conduct of the Application. Where substantial questions
14 arise as a result of conflicting evidence on the record, such questions should be resolved in
15 favour of Hydro's customers.

16

17 **B.4 Context of the Application**

18 **B.4.1 General**

19 In its consideration of the Application, the Board's principal task is to determine whether the
20 substantial increases in Hydro's costs since 2017 are reasonable based on the evidence presented,
21 and whether they provide a reasonable basis for regulatory decision making. The Board's
22 determinations will be made against a backdrop of the impending completion of the Muskrat

1 Falls Project and interconnection to the North American grid, and in the context of concern
2 regarding anticipated customer rate impacts.

3
4 Since the hearing of Hydro's 2013 GRA, Hydro has undergone yet another major organizational
5 change, principally related to an effort to separate the operations of Hydro from Nalcor Energy
6 ("Nalcor"). Not only has this second reorganization added further to Hydro's costs, it has
7 complicated efforts to assess the reasonableness of the significant forecast increases in Hydro's
8 test year operating costs.

10 ***B.4.2 Interconnection with the North American grid***

11 The completion of the Muskrat Falls Project and the interconnection of the island of
12 Newfoundland with the North American grid will fundamentally change how the Island
13 Interconnected system is supplied, as well as the costs of supply.¹ While completion of the
14 Muskrat Falls hydroelectric generating plant has been delayed, the Labrador-Island Link ("LIL")
15 and the Labrador Transmission Assets ("LTA") appear capable of providing access to some
16 lower-cost supply for the Island Interconnected system before Muskrat Falls power is available.
17 The Maritime Link was commissioned in 2018, and may also enable some lower-cost power
18 purchases.

19
20 The size of the overall rate increase resulting from the Application will be materially affected by
21 the forecast availability of off-island purchases in the test years.

¹ Order No. P.U. 2(2018), page 6.

1 **B.4.3 The Changing Organizational Structure**

2 From 2005 through 2016, Nalcor and Hydro shared personnel through a matrix organizational
3 model, which provided for the sharing of costs and resources among Hydro, Nalcor and Nalcor's
4 non-regulated lines of business. Hydro's management decision-making in the context of this
5 matrix organizational model was a prominent focus of the public hearing of Hydro's 2013 GRA.

6
7 In its final written submissions in the 2013 GRA, Newfoundland Power submitted that the
8 evidence in that proceeding related to lines of authority and accountability at Hydro lacked
9 clarity. Newfoundland Power further submitted that the coincidence of this lack of clarity with
10 major increases in Hydro's costs and worsening service reliability indicated that management
11 performance should continue to be a focus of the Board's regulatory supervision of Hydro.

12 **Reference:** *Newfoundland Power Written Submissions, Hydro 2013 GRA, Page B-5 to B-6.*

13
14 In 2016, Hydro and Nalcor undertook to implement organizational structure changes at Hydro
15 intended to provide "the requisite executive structure required to operate Hydro as an
16 independent, standalone regulated utility." Hydro has referred to this as a "distinct change" from
17 the matrix model.

18 **Reference:** *PUB-NLH-24.*

19
20 As a result of the organizational structure changes initiated in 2016, responsibility for certain
21 shared services previously provided by Nalcor to Hydro, and vice versa, has shifted. In addition,
22 numerous employee transfers have taken place between Hydro and Nalcor.

23 **Reference:** *Application, Volume I (5th Revision), Page 1.12, Line 17 to Page 1.14, Line 9;*
24 *Undertaking 28; NP-NLH-171; NP-NLH-176.*

1 The changes in the organizational structure of Hydro and its relationship to Nalcor make
2 comparisons of the costs of Hydro before and after the change difficult. Hydro did not undertake
3 an analysis of the cost-effectiveness of the 2016 corporate reorganization before it was
4 undertaken.

5 **Reference:** *Transcript, April 17, 2018, Page 6, Line 23 to Page 8, Line 16.*

6

7 It is unclear, based on the evidence on the record of this proceeding, whether the organizational
8 changes initiated in 2016 are consistent with Hydro's obligation to provide least-cost reliable
9 service to its customers. Hydro's test year forecasts of its operating costs continue to far exceed
10 inflation.

11

12 **B.4.4 Operating Efficiency**

13 The Application contains proposals for the recovery of costs from Hydro's customers, including
14 Newfoundland Power. Hydro's executives and management maintain that the 2018 and 2019
15 test year proposals are reflective of Hydro's "renewed focus and commitment to cost control".

16 The evidence is not consistent with that assertion.

17 **Reference:** *Application, Volume I (5th Revision), Page 3.34, Table 3-17; Evidence, Page 3.34,*
18 *Lines 7-8.*

19

20 Hydro is obligated under the *Electrical Power Control Act, 1994* to manage and operate its
21 facilities in a manner that results in power being delivered to customers of the province at the
22 lowest possible cost consistent with reliable service. Hydro's President acknowledged this
23 obligation in his testimony before the Board.

24 **Reference:** *Transcript, April 17, 2018, Page 35, Line 20 to Page 36, Line 15.*

1 Although Hydro has stated that it aims to maintain operating costs within inflationary levels,
2 increases in Hydro's operating costs have typically exceeded inflation.

3 **Reference:** *Transcript, April 17, 2018, Page 45, Line 24 to Page 46, Line 10.*

4

5 In the 2013 GRA, the Board reduced Hydro's proposed revenue requirement for the 2015 test
6 year from \$139.6 million to \$132.7 million. At the same time, the Board stated that a failure to
7 implement efficiency measures prior to Hydro's next general rate application could result in the
8 imposition of a productivity allowance.

9 **Reference:** *Application, Volume I (5th Revision), Page 3.34, Table 3-17; Order No. P.U. 49*
10 *(2016), Page 53, Lines 35-38.*

11

12 In consideration of the Application, the Board must determine whether the increases in costs
13 indicated by Hydro's 2018 and 2019 revenue requirements are reasonable and consistent with
14 those of an efficiently-run electrical utility. In Newfoundland Power's submission, Hydro has
15 not presented evidence of this.

16

17 **B.5 Regulatory Balance and the Application**

18 Hydro should recover only those costs, forecast or otherwise, which have been tested and proven
19 to be reasonable in accordance with accepted regulatory principles.

20

21 In assessing the entirety of the evidence and the submissions of the parties, the Board must
22 balance the interests of the utility and electricity consumers within the regulatory policy
23 framework described above.

1 In this proceeding, as a result of cooperation of Hydro and the other participants, and the
2 encouragement of the Board, significant agreement was achieved regarding a number of issues
3 that might otherwise have resulted in a protracted hearing. As a result of the agreements
4 achieved in the Settlement Agreement and the Supplemental Settlement Agreement, the need to
5 hear the testimony of a number of regulatory and cost of service experts was avoided, and the
6 length of the hearing was significantly reduced.

7

8 In Newfoundland Power's view, negotiated settlement of issues contributes to regulatory
9 efficiency, and the Board should continue to support and encourage negotiated settlements in
10 regulatory proceedings.

11

12 Notwithstanding the efficiencies achieved through negotiated settlement in this proceeding,
13 however, Hydro's approach to the initial filing, and the number of corrections, revisions and
14 updates has resulted in a voluminous and confused record which, to a degree, has hindered a
15 satisfactory understanding of Hydro's costs. Further, ongoing changes in the supply outlook
16 make it difficult to assess the extent to which any rate change is necessary at this time.

17

18 The entitlement of a utility to earn a just and reasonable return has been described by the
19 Newfoundland and Labrador Court of Appeal as follows:

20 *"[23] This statutory entitlement of the utility to earn a "just and reasonable"*
21 *return is the linguistic touchstone for the balancing exercise. This phrase*
22 *emphasizes the fairness aspect, both to the utility, in earning sufficient revenues*
23 *to make its continued investment worthwhile and to maintain its credit rating in*
24 *financial markets, and to the consumer, in obtaining adequate service at*
25 *reasonable rates. It also emphasizes the need for a tempering of each interest*
26 *group's economic imperative by consideration of the interests of the other.*

1 *[24] Having said that, the entitlement of the utility to a fair return on its*
2 *investment is always regarded as of fundamental importance...*"

3 **Reference:** *Stated Case, Page 16, paragraphs 23 and 24.*

4

5 Highlighting the balance inherent in utility regulation, the Supreme Court of Canada in a recent
6 judgment determined that the entitlement of a public utility to a fair return is not absolute in all
7 circumstances. In upholding a decision of the Ontario Energy Board to disallow certain
8 operating costs of Ontario Power Generation ("OPG"), a public utility, the Court stated as
9 follows:

10 *"I have noted above that it is essential for a utility to earn its cost of capital in the*
11 *long run. The Board's disallowance may have adversely impacted OPG's ability to*
12 *earn its cost of capital in the short run. Nevertheless, the disallowance was*
13 *intended "to send a clear signal that OPG must take responsibility for improving*
14 *its performance". (Board Decision, at p. 86). Such a signal may, in the short run,*
15 *provide the necessary impetus for OPG to bring its compensation cost in line with*
16 *what, in the Board's opinion, consumers should justly expect to pay for an*
17 *efficiently provided service. Sending such a signal is consistent with the Board's*
18 *market proxy role and its objectives under s. 1 of the Ontario Energy Board Act,*
19 *1998."*

20

21 **Reference:** *Ontario (Energy Board) v. Ontario Power Generation Inc., 2015 SCC 44,*
22 *at paragraph 120.*

23

24 Newfoundland Power believes that the financial integrity of Hydro benefits customers. For that
25 reason, Hydro's entitlement to an opportunity to earn a just and reasonable return should always
26 be a fundamental consideration for the Board. The Board's decisions in this proceeding must
27 balance that consideration against the customers' interest in receiving an efficiently provided
28 service.

1 In Order No. P.U. 49(2016), the Board articulated a clear expectation that Hydro implement
2 improved processes in relation to identifying, establishing and documenting efficiency measures
3 before the filing of its next general rate application. The evidence does not demonstrate that this
4 expectation has been met.

5 **Reference:** Order No. P.U. 49(2016), Page 53, Lines 26-38.

6

7 These written submissions contain Newfoundland Power's assessment of the evidence. In
8 Newfoundland Power's submission, it is appropriate that costs not proven on the evidence to be
9 reasonable should not be recovered from customers.

10

11 On the basis of the Supreme Court of Canada's 2015 statement of the law, it is within the
12 Board's authority to order cost disallowances or adjustments to proposed revenue requirements
13 that could have an adverse impact on Hydro's ability to earn its allowed rate of return *in the*
14 *short term* if such disallowance or adjustment, in the Board's opinion, constitutes an appropriate
15 signal that Hydro must take responsibility for improving its performance.

1 **C. SETTLED ISSUES**

2 **C.1 General**

3 The Settlement Agreement and Supplemental Settlement Agreement reflect the reasoned
4 consensus of the parties on a variety of issues raised by Hydro's Application. Newfoundland
5 Power's submissions on these settled issues are presented in this Section C.

6
7 In Newfoundland Power's view, the Settlement Agreement and Supplemental Settlement
8 Agreement are reasonable and consistent with the existing regulatory framework and legislation,
9 including the power policy of the province as set out in Section 3 of the *Electrical Power*
10 *Control Act, 1994*.

11
12 **C.2 SUBMISSIONS**

13 **C.2.1 Supply Costs**

14 In the Supplemental Settlement Agreement, it is agreed that, the Expected Supply Scenario as
15 presented in Hydro's Additional Cost of Service Information dated March 22, 2018 (the
16 "Expected Supply Scenario"), and not the Deferral Account Scenario, will be used as the basis
17 for Hydro's revenue requirement for the 2018 and 2019 Test Years.

18 **Reference:** *Consent 3, Paragraph 14.*

19
20 *Submission*

21 Newfoundland Power submits that, in accordance with the Supplemental Settlement Agreement,
22 the Board should determine Hydro's 2018 and 2019 Test Year revenue requirements based on
23 the Expected Supply Scenario.

1 C.2.2 Holyrood Production

2 In the Supplemental Settlement Agreement, it is agreed that, the Holyrood conversion rate for the
3 2019 Test Year used in setting rates is 583 kWh per barrel, and that the 2019 Test Year cost of
4 No. 6 fuel to be used in Hydro's Compliance Application shall be set based on the most current
5 fuel rider forecast (either March or September).

6 **Reference:** *Consent 3, Paragraphs 16 and 19.*

7 Submission

8 Newfoundland Power submits that, in accordance with the Supplemental Settlement Agreement,
9 the Board should order that the 2019 Test Year cost of No. 6 fuel to be used in Hydro's
10 Compliance Application be set based on the most current fuel rider forecast (either March or
11 September), and that the Holyrood conversion rate for the 2019 Test Year be set at 583 kWh per
12 barrel.
13

14 C.2.3 Capacity Assistance Agreements

15 At the time the Application was filed in July 2017, Hydro had 5 capacity assistance agreements
16 in place with its Industrial Customers: 2 with CBPP, 2 with Vale, and 1 with Praxair.

17 **Reference:** *Application, Volume I (5th Revision), Page 3.25, Lines 20-22.*

18
19
20 At the time the Supplemental Settlement Agreement was signed in July 2018, Hydro was not
21 planning to renew its capacity assistance agreements with Vale and Praxair. Accordingly, it was
22 agreed in the Supplemental Settlement Agreement that the 2019 Test Year revenue requirement

1 would be *reduced* by approximately \$600,000 to reflect the capacity assistance agreements that
2 were not being renewed.

3 **Reference:** *PUB-NLH-178; Consent 3, Paragraph 22.*

4

5 In November 2018, Hydro filed applications for approval of the following capacity assistance
6 agreements for the 2018-19 Winter Season: (i) a 2018 Load Curtailment Agreement with Vale;
7 and (ii) an Amended and Restated Capacity Assistance Agreement with CBPP. The Board
8 approved both applications.

9 **Reference:** *Application for Approval of a 2018 Load Curtailment Agreement with Vale*
10 *Newfoundland and Labrador Limited, filed November 14, 2018; Application for*
11 *Approval of an Amended and Restated Capacity Assistance Agreement with*
12 *Corner Brook Pulp and Paper Limited, filed November 2, 2018; Order Nos. P.U.*
13 *40 (2018) and P.U. 44 (2018).*

14

15 Hydro is proposing an *increase* in the 2019 Test Year revenue requirement of approximately
16 \$240,000 to include the costs associated with the additional capacity assistance agreements it has
17 entered into for the 2018/2019 Winter Season.

18 **Reference:** *PUB-NLH-178.*

19

20 *Submission*

21 Newfoundland Power submits that, consistent with the Supplemental Settlement Agreement, the
22 Board should direct Hydro to reflect the capacity assistance agreements in effect for the
23 2018/2019 Winter Season in its Compliance Application.

24 **Reference:** *Consent 3, Paragraph 22.*

1 C.2.4 Pilot Agreement with Corner Brook Pulp and Paper Limited

2 The generation credit agreement between Hydro and Corner Brook Pulp and Paper Limited
3 (“CBPP”) was approved on a pilot basis by the Board in Order No. P.U. 4 (2012). The
4 agreement allows CBPP to exceed its firm demand level without paying for interruptible energy.
5 In return, CBPP’s generation has been used to reduce the requirement for Holyrood generation
6 and to provide additional capacity to the Island Interconnected System, when available.

7
8 In the Application, Hydro proposed to discontinue the pilot generation credit agreement.
9 Subsequent to filing the Application, Hydro indicated it had not had an opportunity to discuss the
10 establishment of a new agreement with CBPP and, therefore, supports the continuation of the
11 existing agreement until conclusion of its next General Rate Application.

12 **Reference:** *Application, Volume I (5th Revision), Page 5.7, Line 15 to Page 5.8, Line 17;*
13 *CA-NLH-319.*

14

15 Submission

16 Newfoundland Power submits that, in accordance with the Supplemental Settlement Agreement,
17 the Board should approve continuation of the generation credit agreement between Hydro and
18 CBPP on a pilot basis.

19 **Reference:** *Consent 3, Paragraph 8.*

20

21 C.2.5 Vacancy Factor

22 It is Hydro’s practice to include a vacancy adjustment in test year costs to reflect forecast

1 vacancies. In the Application, Hydro made an adjustment in each of the 2018 and 2019 Test
2 Years to reflect 40 full-time equivalent (“FTE”) vacancies.

3 **Reference:** *PUB-NLH-063.*

4

5 *Submission*

6 Newfoundland Power submits that, in accordance with the Settlement Agreement, the Board
7 should approve a vacancy adjustment of 55 FTEs in Hydro’s operating costs for the 2018 and
8 2019 Test Years, and reduce Hydro’s 2018 and 2019 Test Year operating labour costs
9 accordingly. Hydro currently estimates the associated labour cost reduction at \$1.3 million in
10 each of the 2018 and 2019 Test Years.

11 **Reference:** *Consent 1, Paragraph 10; Supplemental Evidence - Customer Impacts Reflecting*
12 *2017 GRA Settlement Agreements, August 3, 2018, Page 7, Table 4.*

13

14 **C.2.6 Employee Future Benefits and Asset Retirement Obligations**

15 In the Settlement Agreement, it is agreed that Hydro’s proposed accounting treatment and
16 methodology for calculation of Employee Future Benefits and Asset Retirement Obligations for
17 the 2018 and 2019 Test Years be approved.

18 **Reference:** *Consent 1, Paragraphs 7 and 8.*

19

20 *Submission*

21 Newfoundland Power submits that, in accordance with the Settlement Agreement, the Board
22 should approve Hydro’s proposed accounting treatment and methodology for calculation of
23 Employee Future Benefits and Asset Retirement Obligations in the 2018 and 2019 Test Years.

1 **C.2.7 Intercompany Charges-Business Systems Transformation Program**

2 In the Application, Hydro described the Business Systems Transformation Program (the “BST
3 Program”), a shared program led by Nalcor that would involve replacing many of Hydro’s core
4 business systems and implementing new business systems. The stated purpose of the BST
5 Program was “to address technical and functional concerns with current processes and systems
6 not meeting the evolving needs of each of Nalcor’s subsidiary companies, including
7 Hydro.”

8 **Reference:** *Application, Volume I (5th Revision), Page 3.41, Line 5 to Page 3.42, Line 2;*
9 *Corporate Business Systems Transformation Program Justification Report,*
10 *June 22, 2018, Page 4, Lines 5-9.*

11
12 Hydro did not seek the approval of the Board for its proposed expenditure on the BST Program
13 through the Board’s normal capital budget approval process. Recovery of Hydro’s allocated
14 share of the costs was provided for in a cost allocation from Nalcor through the Business System
15 Fee.

16 **Reference:** *Application, Volume I (5th Revision), Page 3.38, Table 3-20.*

17
18 In the Settlement Agreement, it is agreed that all costs and expenses related to the Business
19 Systems Transformation Project described in the Application shall be removed from the Revenue
20 Requirements in the test years and set aside in a deferral account, with recovery to be determined
21 by further order of the Board. A separate review process is now ongoing before the Board.

22 **Reference:** *Consent 1, Paragraph 11.*

1 *Submission*

2 Newfoundland Power submits that, in accordance with the Settlement Agreement, the Board
3 should order that the costs and expenses related to the Business Systems Transformation Project
4 described in the Application be removed from Hydro's 2018 and 2019 revenue requirements and
5 set aside in a deferral account. Hydro currently forecasts the related costs and expenses to be
6 \$2.54 million in 2018 and \$3.04 million in 2019.

7
8 Newfoundland Power further submits that, for large capital projects led by Nalcor or an affiliate
9 for which significant costs are to be allocated to Hydro, the Board should direct that, before
10 Hydro may recover the associated costs from its customers, Hydro shall be required to
11 demonstrate the value of such projects for Hydro's customers in accordance with the Board's
12 Capital Budget Application Guidelines.

13
14 **C.2.8 Depreciation**

15 In the Settlement Agreement, the parties agreed to changes in Hydro's depreciation methodology
16 as proposed in the Application. It was agreed that:

- 17 (i) Hydro will continue to use the Average Service Life Group methodology applied
18 on a deemed cost basis for assets put into service in 2015 and earlier and a whole
19 life basis for assets put in service after 2015 to calculate depreciation expense in
20 the test years.
- 21 (ii) The proposed updated estimates of service lives of assets included in the
22 Application, including the revised truncation date for the Holyrood Plant, are
23 appropriate and should be used in the calculation of depreciation expense in the
24 test years.
- 25 (iii) Net salvage costs and asset removal costs for assets where assets are not replaced
26 in the same location should be included in depreciation rates. For the calculation
27 of the appropriate asset removal costs to be included in depreciation rates the
28 units of property listed in Schedule A attached should not be included and the
29 removal costs to be included in depreciation expense associated with the units of
30 property listed in Schedule B should be at the rate of - 5%.

1 (iv) Gains/losses on retirements will be recovered through accumulated amortization
2 and not recorded on the Income statement.

3 **Reference:** *Consent 1, Paragraph 9.*

4
5 Hydro's 2018 Cost Deferral and Interim Rates Application – Revision 2, proposed that the Board
6 approve a 2018 Cost Deferral Account Definition providing for the deferral of the 2018
7 depreciation expense differential between Hydro's existing depreciation expense methodology
8 and the depreciation methodology as provided for in the Settlement Agreement (the "2018 Cost
9 Deferral Account"). This was proposed as an interim measure to allow Hydro to earn a just and
10 reasonable return for 2018 while the finalization of the Application is pending.

11 **Reference:** *2018 Cost Deferral and Interim Rates Application - Revision 2 dated November*
12 *14, 2018, Paragraphs 40 to 47.*

13
14 Hydro stated that, upon approval of the depreciation methodology as provided for in the
15 Settlement Agreement, the proposed 2018 Cost Deferral Account would be eliminated.
16 Consequently, approval of the 2018 Cost Deferral Account would have no impact on Hydro's
17 customers or customer rates. The Board approved the 2018 Cost Deferral Account.

18 **Reference:** *PUB-NLH-011, Page 3 of 3, Lines 16-21 of the 2018 Cost Deferral and Interim*
19 *Rates Application; Order No. P.U. 48 (2018).*

20
21 *Submission*

22 Newfoundland Power submits that, in accordance with the Settlement Agreement, the Board
23 should approve Hydro's depreciation methodology as described in this Section C.2.8, and reduce
24 Hydro's 2018 and 2019 Test Year revenue requirements accordingly. Hydro currently estimates

1 the associated revenue requirement reduction at approximately \$10.1 million in the 2018 Test
2 Year and \$8.9 million in the 2019 Test Year.

3 **Reference:** *Consent 1, Paragraph 9.*

4

5 It is further submitted that, if the settled depreciation methodology is approved, the Board should
6 order that the 2018 Cost Deferral Account be eliminated.

7

8 **C.2.9 Rate Base**

9 In the Settlement Agreement, it is agreed that Hydro shall continue to use its currently approved
10 method to determine rate base, including beginning-of-year and end-of-year averaging for capital
11 assets in service. If Hydro chooses to seek a different treatment of significant capital additions, it
12 is required to apply to the Board on a case-by-case basis.

13 **Reference:** *Consent 1, Paragraph 13.*

14

15 In the Settlement Agreement, it is agreed that Hydro shall continue to use the currently approved
16 working capital methodology with the updated net lag days proposed in the Application.

17 **Reference:** *Consent 1, Paragraph 14.*

18

19 *Submission*

20 Newfoundland Power submits, in accordance with the Settlement Agreement, that the Board
21 should approve Hydro's (i) average rate base methodology and (ii) working capital methodology
22 as agreed in the Settlement Agreement.

1 C.2.10 Debt Guarantee Fee

2 Hydro pays an annual fee to the provincial government to guarantee its debt. In Order No.
3 P.U. 49 (2016), the Board found that “the Government guarantee provides a benefit to ratepayers
4 and therefore it is appropriate to include an amount in the 2015 Test Year revenue requirement
5 which reflects the reasonable costs and benefits associated with the guarantee.” The Board
6 found, based on the evidence, that it is reasonable to include a guarantee fee in the 2015 Test
7 Year revenue requirement based on a 50/50 apportionment of the calculated cost savings.

8 **Reference:** *Order No. P.U. 49 (2016), Pages 58 to 60.*

9
10 Hydro has included forecast debt guarantee fees of \$3.7 million in the 2018 Test Year and \$4.1
11 million in the 2019 Test Year. The proposed fees represent 50 per cent of the forecast total debt
12 guarantee fee. This is in keeping with the Board’s direction in Order No. P.U. 49(2016) that the
13 debt guarantee fee reflect a 50/50 apportionment of the calculated cost savings.

14 **Reference:** *Application, Volume I (5th Revision), Schedule 4-II, Page 8 of 9.*

16 Submission

17 Newfoundland Power submits that, in accordance with the Settlement Agreement, the Board
18 should order that Hydro reduce the amounts included in the test years related to the debt
19 guarantee fee paid to the Government of Newfoundland and Labrador to:

- 20 (i) Adjust the fee on long-term debt issues to be consistent with the recovery of such
21 fee approved in Hydro's 2013 Amended General Rate application proceeding
22 which results in a reduction of \$567,000 in the 2018 Test Year and \$672,000 in
23 the 2019 Test Year revenue requirements; and
24 (ii) Reduce interest costs to reflect savings of \$515,000 in the 2018 Test Year and
25 \$529,000 in the 2019 Test Year associated with Hydro borrowing from the
26 Government and not in the capital markets as forecast in the Application.

27 **Reference:** *Consent 1, Paragraph 12(a).*

1 **C.2.11 Excess Earnings Account**

2 In accordance with Order No. P.U. 49 (2016), Hydro filed a revised excess earnings account
3 definition to reflect a range of rate of return on rate base of +/- 20 basis points.

4 **Reference:** *Application, Volume I (5th Revision), Page 4.17, Lines 1-16.*

5
6 In the Settlement Agreement, it is agreed that the definition of the Excess Earnings Account
7 proposed in the Application should be approved.

8 **Reference:** *Consent 1, Paragraph 23.*

9
10 *Submission*

11 Newfoundland Power submits that, in accordance with the Settlement Agreement, the Board
12 should approve the Excess Earnings Account proposed in the Application.

13
14 **C.2.12 Automatic Return on Equity Adjustment**

15 In Order No. P.U. 49 (2016), the Board directed Hydro to file a proposal in relation to an
16 automatic adjustment mechanism for its target return on equity to reflect any future changes to
17 Newfoundland Power's approved target return on equity ("ROE") for rate setting. Hydro filed
18 the requested report in the Application.

19 **Reference:** *Order No. P.U. 49 (2016); Application, Volume I (5th Revision), Page 4.16;*
20 *Volume II (5th Revision), Exhibit 12, Automatic Return on Equity Adjustment*
21 *Report.*

22
23 In the Settlement Agreement, it is agreed that:

24 (i) The methodology proposed in Exhibit 12 of the Application should be accepted
25 for determining revenue requirement adjustments to flow-through by customer

- 1 class as a result of changes in the ROE between test years for Hydro that result
2 from changes in the ROE for Newfoundland Power.
- 3 (ii) Hydro's excess earnings account definition will be revised to reflect the revised
4 ROE to apply between test years.
- 5 (iii) The revenue requirement adjustments to flow through to customers on the
6 Labrador Interconnected system will occur through rate changes at the same time
7 as the implementation of the Hydro rural rate change reflecting the revised ROE
8 for Newfoundland Power.
- 9 (iv) The revenue adjustments to flow through to customer classes on the Island
10 Interconnected System will be held in a deferral account until disposition through
11 customer rates at the time of rate changes that result from the operation of the
12 RSP. Hydro will file details of this account by May 15, 2018.

13

14 On May 15, 2018, Hydro filed its *Return on Equity (ROE) Rate Change Deferral Account*
15 definition. The filing was in accordance with the Settlement Agreement.

16 **Reference:** *Consent 1, Paragraph 24; Hydro's May 15, 2018 Letter Re: Return on Equity*
17 *(ROE) Rate Change Deferral Account.*

18

19 *Submission*

20 Newfoundland Power submits that, in accordance with the Settlement Agreement, the Board
21 should approve Hydro's Automatic ROE Adjustment mechanism, and *Return on Equity (ROE)*
22 *Rate Change Deferral Account* definition.

23

24 **C.2.13 Regulatory Deferral and Recovery Mechanisms**

25 ***External Regulatory Costs***

26 In the Application, Hydro forecasted approximately \$1.2 million in 2018 in external regulatory
27 costs with respect to the Application, and \$0.5 million in external regulatory costs in 2018 with
28 respect to the planned Cost of Service and Rate Design Methodology Review. Hydro proposed
29 to defer and amortize these costs over a three-year period commencing in 2018.

30 **Reference:** *Application, Volume I (5th Revision), Page 4.11, Lines 1-9.*

1 In the Settlement Agreement, it is agreed that the Board should approve that external regulatory
2 costs related to the Application and the Cost of Service and Rate Design Methodology Review
3 be recovered in customer rates evenly over a three year period, commencing with the 2018 Test
4 Year, with the amount of such costs to be determined by the Board.

5 **Reference:** *Consent 1, Paragraph 22.*

6

7 ***Inventory Allowance***

8 In the Application, Hydro proposed to record \$2.1 million in each of its 2018 and 2019 Test Year
9 revenue requirements as an inventory allowance.

10 **Reference:** *Application, Volume I (5th Revision), Page 4.11, Lines 11-17.*

11

12 In the Settlement Agreement, it is agreed that Hydro's proposal to record an inventory allowance
13 of approximately \$2.1 million in each of the test years shall be withdrawn.

14 **Reference:** *Consent 1, Paragraph 21.*

15

16 ***Energy Supply Cost Variance and Holyrood Conversion Rate Deferral Accounts***

17 In the Supplement Settlement Agreement, it is agreed that the deferred supply costs in the
18 Energy Supply Cost Variance and Holyrood Conversion Rate Deferral Accounts of 2015, 2016
19 and 2017, as approved by the Board for recovery from customers (the "Approved Deferred
20 Supply Costs"), will be allocated between customer classes in a manner consistent with the fuel
21 cost allocation methodology used in the RSP. The allocation percentage will be based on the
22 RSP energy allocators consistent with the year in which the Approved Deferred Supply Costs
23 were incurred. It is further agreed that the Approved Deferred Supply Costs allocated to each of
24 Newfoundland Power and Island Industrial Customers will be recovered through rate riders

1 determined separately for each customer class and computed reflecting a 20 month recovery
2 period beginning with the effective date of the final rates approved by the Board.

3 **Reference:** *Consent 3, Paragraphs 12 and 13.*

4

5 In the *Summary Report – Additional Cost of Service Information* dated March 22, 2018, Hydro
6 presented a revised Energy Supply Cost Variance Deferral Account definition to defer variances
7 between the actual cost of off-island supply and the test years cost of off island supply for future
8 disposition.

9 **Reference:** *Summary Report – Additional Cost of Service Information, March 22, 2018,*
10 *Appendix L.*

11

12 In the Supplemental Settlement Agreement, it is agreed that the proposed Revised Energy Supply
13 Cost Variance Deferral Account, as filed in Appendix L of Hydro's *Additional Cost of Service*
14 *Information* dated March 22, 2018, be implemented, with the effective date to be determined by
15 the Board.

16 **Reference:** *Consent 3, Paragraph 18.*

17

18 ***2018 Revenue Deficiency or Excess Revenue***

19 In the Supplemental Settlement Agreement, it is agreed that, for Newfoundland Power and
20 Industrial Customers, any revenue deficiency or excess revenues arising from the difference
21 between actual rates charged in 2018 and those which recover Hydro's approved 2018 Revenue
22 Requirement by customer class, will be recovered or refunded through rate riders determined
23 separately for each customer class and computed reflecting a 20 month amortization period

1 beginning with the effective date of final rates as approved by the Board in the Compliance
2 Application.

3 **Reference:** *Consent 3, Paragraph 20.*

4

5 ***Isolated Systems Deferral Account***

6 In the Supplemental Settlement Agreement, it is agreed that Newfoundland Power's portion of
7 the credit balance of the Isolated Systems Deferral Account as of December 31, 2017 should be
8 calculated based on the proportion of the 2018 Test Year Rural Deficit allocated to
9 Newfoundland Power, and that the Newfoundland Power credit would be applied to reduce the
10 expected 2018 Revenue Deficiency to be recovered from Newfoundland Power.

11 **Reference:** *Consent 3, Paragraphs 10 and 11.*

12

13 Hydro's *2018 Cost Deferral and Interim Rates Application – Revision 2*, provides an estimate of
14 customer rate impacts based on the Expected Supply Scenario and reflecting the impact of the
15 Settlement Agreement and the Supplemental Settlement Agreement. In the determination of the
16 customer rate impacts, Hydro calculated the Isolated Systems Deferral Account credit based
17 upon the 2015 Test Year rural deficit allocation, and not the 2018 allocation as agreed.

18 **Reference:** *2018 Cost Deferral and Interim Rates Application – Revision 2, Schedule 1,*
19 *Page 15 of 81, Table 5.*

20

21 ***Submission***

22 Newfoundland Power submits that, in accordance with the Settlement Agreement and the
23 Supplemental Settlement Agreement, the Board should approve all of the settled regulatory

1 deferral and recovery mechanisms described in this Section C.2.13 for use in determining 2018
2 and 2019 Test Year revenue requirements.

3
4 Hydro should ensure that the Isolated Systems Deferral Account credit is calculated based upon
5 the 2018 Test Year Rural Deficit allocation as agreed in the Supplemental Settlement
6 Agreement.

8 **C.2.14 Cost of Service**

9 The Settlement Agreement and the Supplemental Settlement Agreement recommended certain
10 cost of service methodologies for use in determining 2018 Test Year cost of service and 2019
11 Test Year cost of service.

12 In the Settlement Agreement, it is agreed that:

- 13 (i) The assignment of assets as common or specifically assigned as proposed in the
14 Application and amended by a report from Hydro dated December 21, 2017, with
15 the exception of the assignment of the frequency converter as specific, should be
16 approved.
- 17 (ii) The revenue requirement method to allocate the rural deficit between
18 Newfoundland Power and the Labrador Interconnected system approved by
19 Order No. P.U.49 (2016) should continue to be applied.

20 **Reference:** *Consent 1, Paragraphs 15 and 16.*

21

22 In the Supplemental Settlement Agreement, it is agreed that:

- 23 (i) Wind energy purchases shall be classified as 100% energy related.
24 (ii) The Corner Brook frequency converter shall be specifically assigned to Corner
25 Brook Pulp and Paper (CBPP) Limited.¹

¹ On June 18, 2018, Hydro filed an application with the Board requesting approval of the sale of the Corner Brook Frequency Converter to CBPP for a nominal value of \$1 and the abandonment of the Corner Brook Frequency Converter assets. The application was approved in Order No. P.U. 26(2018). In the short term, the frequency converter will remain in service with ongoing operations and maintenance becoming the responsibility of CBPP.

1 (iii) The test year operating and maintenance costs to be recovered through
2 specifically assigned charges to Industrial Customers shall be determined in
3 accordance with the methodology proposed in the Application.

4 (iv) The TL 267 transmission assets shall be classified as 100% demand-related.

5 **Reference:** *Consent 3, Paragraph 7.*

6

7 In the Supplemental Settlement Agreement, it is agreed that the cost of service methodology
8 proposed in the Expected Supply Scenario should be used to allocate costs to customer groups
9 for the 2018 and 2019 Test Years.

10 **Reference:** *Consent 3, Paragraph 15.*

11

12 The cost of service methodology proposed in the Expected Supply Scenario is based on Hydro's
13 cost of service methodology proposed in the Application, modified as follows:

14 (i) All off-island test year power purchase costs incurred to reduce Holyrood fuel
15 costs are classified as energy.

16 (ii) The Holyrood capacity factor used in classification of fixed assets, which was
17 formerly based on the currently approved historical 5-year average, is reduced to
18 reflect the forecast reduced role of Holyrood in providing energy during 2018 and
19 2019.

20 (iii) The Holyrood conversion rate is based on the forecast production of Holyrood for
21 each year in the Expected Supply Scenario.

22 **Reference:** *Summary Report - Additional Cost of Service Information, March 22, 2018,*
23 *Page 9, Lines 4-23.*

24

25 In the Supplemental Settlement Agreement, it is agreed that the Holyrood conversion rate used in
26 setting customer rates for the 2019 Test Year is 583kWh per barrel. The Holyrood conversion
27 rate for the 2018 Test Year, as well as the Holyrood capacity factor for the 2018 and 2019 Test
28 Years, were not specifically agreed upon.

29 **Reference:** *Consent 3, Paragraph 16.*

1 *Submission*

2 Newfoundland Power submits that, in accordance with the Settlement Agreement and the
3 Supplemental Settlement Agreement, the Board should approve all of the settled cost of service
4 methodologies itemized in this Section C.2.14 for use in determining 2018 Test Year cost of
5 service and 2019 Test Year cost of service.

6

7 Newfoundland Power further submits that the Holyrood conversion rate for the 2018 Test Year
8 and the Holyrood capacity factor for the 2018 and 2019 Test Years should be calculated for
9 inclusion in Hydro's Compliance Application in accordance with the cost of service
10 methodologies outlined above.

11

12 **C.2.15 Newfoundland Power Rate Design**

13 In the Supplemental Settlement Agreement, it is agreed that

- 14 (i) Newfoundland Power's demand charge will equal \$5.00 per kW of billing
15 demand;
- 16 (ii) The sizing of Newfoundland Power's first block energy component will be
17 determined in consultation with Newfoundland Power prior to the filing of the
18 Compliance Application.
- 19 (iii) Newfoundland Power's approved 2019 Test Year revenue requirement not
20 recovered through the demand charge and the end-block energy charge will be
21 used to compute the first block energy charge.
- 22 (iv) Newfoundland Power's end-block firm energy rate for use in the Compliance
23 Application will be determined based on the most current fuel rider forecast
24 (either March or September) divided by the approved 2019 Test Year Holyrood
25 No. 6 fuel conversion rate and expressed on a cent per kWh basis.
- 26 (v) The wholesale rate will continue to include the Generation Credit and Curtailable
27 Credit in computation of the billing demand of Newfoundland Power.
- 28 (vi) The Generation Credit will equal 118,054 kW for the 2018 Test Year and the
29 2019 Test Year.

30 **Reference:** *Consent 3, Paragraph 9.*

1 *Submission*

2 Newfoundland Power submits that, in accordance with the Supplemental Settlement Agreement,
3 the Board should approve the details and process for determining Newfoundland Power's
4 wholesale rate design.

5
6 **C.2.16 Rural Rules and Regulations**

7 In the Settlement Agreement, it is agreed that the following changes to the Rules and Regulations
8 governing service to Hydro Rural Customers, as proposed in the Application, should be
9 approved:

- 10 (i) A revision to Section 9(b) to be consistent with Newfoundland Power and remove
11 the requirement for advanced payment of Temporary Connection Fees;
12 (ii) A revision to Section 9(c) to be consistent with Newfoundland Power and remove
13 the requirement for advanced payment for special facilities; and
14 (iii) A revision to Section 16(a)(ii) to apply the approved rate setting approach to the
15 Burgeo School and Library.

16 **Reference:** *Application, Volume I (5th Revision), Page 5.30, Line 21 to Page 5.31, Line 2;*
17 *Volume III (5th Revision), Exhibits 16, Page RR-10 et seq., and Exhibit 17, Page*
18 *RR-10 et seq.; Consent 1, Paragraph 19.*

19

20 *Submission*

21 Newfoundland Power submits that, in accordance with the Settlement Agreement, the Board
22 should approve the proposed changes to Sections 9(b), 9(c) and 16(a)(ii) of the Rules and
23 Regulations for service to Hydro's Rural Customers, effective as of the date new rates are
24 implemented.

1 C.2.17 Rural Rate Alteration

2 The Rural Rate Alteration is a component of the RSP that transfers to Newfoundland Power the
3 changes in Hydro Rural revenues that result from flowing through the Company's rate changes
4 to Hydro Rural customers. The Application proposes to use test year data instead of actual
5 billing data in the monthly calculation of the Rural Rate Alteration component of the RSP. This
6 will reduce administrative efforts in preparing the monthly RSP report and will not have a
7 material impact on RSP transfers.

8 **Reference:** *Application, Volume I (5th Revision), Page 5.23, Lines 1-11.*

9

10 Submission

11 Newfoundland Power submits that, in accordance with the Settlement Agreement, the Board
12 should approve the use of test year data, instead of actual billing data, in the monthly calculation
13 of the Rural Rate Alteration.

14 **Reference:** *Consent 1, Paragraph 18.*

15

16 C.2.18 Identification of Rural Subsidy on Customers' Bills

17 In Order No. P.U. 49 (2016), the Board ordered Hydro to include a report in relation to the
18 identification of the rural subsidy on customers' bills as part of its next general rate application.
19 The report was filed as Exhibit 4 to the Application.

20

21 Submission

22 Newfoundland Power submits that, in accordance with the Settlement Agreement, the Board

- 1 should defer consideration of whether information on the rural deficit should be included on
- 2 customers' bills to a separate proceeding or a future Hydro general rate application.

3 **Reference:** *Consent 1, Paragraph 20.*

1 **D. CONTESTED ISSUES**

2 **D.1 General**

3 The rates proposed in the Application are based on forecasts for 2018 and 2019 Test Years.
4 2018 is complete and 2019 will be substantially complete by the time the Board issues a final
5 rate order. Accordingly, it is possible at this time to assess the reasonableness of Hydro's test
6 year forecast in light of its actual results.

7
8 In its consideration of the Application, the Board must determine whether the evidence presented
9 in support of the Application proves that the costs in Hydro's 2018 and 2019 Test Years are
10 reasonable and consistent with efficient operations. In Newfoundland Power's submission,
11 Hydro has not satisfied the evidentiary burden of demonstrating that electrical power is being
12 delivered to Hydro's customers "at the lowest possible cost consistent with reliable service."

13 **Reference:** *Electrical Power Control Act, 1994, Section 3(b)(iii).*

14
15 In Newfoundland Power's view, adjustments to Hydro's 2018 and 2019 Test Year operating
16 costs, beyond those agreed in the Settlement Agreement, are required. In Newfoundland
17 Power's view the cost increases in the test years are not, when considered in light of recent cost
18 levels, consistent with effective cost management. What is clear from the record is that the
19 forecast test year costs are significantly higher than actual costs for the prior 3 years.

20
21 Since 2016, Hydro's operating costs have risen by multiples of inflation. Changes in Hydro's
22 organizational structure, transfers of FTEs, and overall inconsistencies in the record make
23 comparisons of specific categories of costs on a year-over-year basis quite difficult. For this

1 reason, the appropriateness of adjustments to any one category of costs is difficult to assess. In
2 the circumstances, Newfoundland Power submits it is appropriate that a significant productivity
3 allowance be imposed upon Hydro as an incentive to improve performance in the area of cost
4 management.

5
6 In addition, Newfoundland Power submits that a revenue requirement adjustment is necessary to
7 limit Hydro's recovery of the debt guarantee fee charged by the Provincial Government to
8 amounts which are reasonable and properly authorized under Order in Council OC2017-347.

10 **D.2 Operating Costs Since 2015**

11 In evidence given before the Board in Hydro's 2013 General Rate Application (the "2013
12 GRA"), Hydro executives acknowledged having had difficulty controlling operating costs. In
13 early 2016, Hydro undertook a concerted effort to reduce its costs. This effort commenced prior
14 to the issuance of the Board's final order in the 2013 GRA. It included an operations review
15 which Hydro indicated was aimed at reducing costs in the "short term." This review culminated
16 in actual 2016 operating costs of \$123.9 million, which was \$15.7 million less than the original
17 2016 operating budget. These actual results were 7% below the operating costs later approved
18 for the 2015 Test Year. Hydro confirmed that these reductions were achieved without associated
19 reliability concerns.

20 **Reference:** *Transcript, April 25, 2018, Page 94, Lines 14-25; PUB-NLH-054, Attachment 1;*
21 *Application, Volume I (5th Revision), Page 3.34, Table 3-17; Transcript, April 17,*
22 *2018, Page 65, Lines 7-16.*

1 At the end of 2016, the Board issued Order No. P.U. 49 (2016) relating to Hydro's 2013 GRA.
2 In the Order, the Board found that Hydro's evidence had failed to demonstrate that managers
3 were "challenged to find ways of reducing costs or that there were systematic efforts to improve
4 productivity or implement efficiencies."

5 **Reference:** Order No. P.U. 49 (2016), Page 53, Lines 8-10.
6

7 While the Board did not believe it was appropriate to impose a productivity allowance at that
8 time, the following message was delivered:

9 *"...the Board expects Hydro to implement improved processes in relation to identifying,*
10 *establishing and documenting efficiency measures before the filing of its next general*
11 *rate application. In the absence of such evidence the Board may consider further*
12 *disallowances as well as a productivity allowance."*

13 **Reference:** Order No. P.U. 49 (2016), Page 53, Lines 35-38.
14

15 In testimony, Hydro's executives indicated that Hydro did not implement improved processes in
16 relation to identifying, establishing and documenting efficiency measures, as directed by the
17 Board, before the filing of this Application in July 2017.

18 **Reference:** Transcript, April 17, 2018, Page 90, Lines 12-19.
19

20 Hydro has since taken some steps to identify efficiency opportunities. In that regard, Hydro has
21 established a Productivity and Innovation Team and begun the process of looking for long-term

1 efficiency measures for the organization. The evidence revealed that the team was in the early
2 stages of its review by mid-2018.

3 **Reference:** *Undertaking 93.*

4
5 As initially filed, the Application forecast 2017 operating costs to increase to \$134.3 million.
6 This represented an increase of 8.4% over 2016 actuals. In addition, operating costs for the 2018
7 and 2019 Test Years were forecast to increase to \$142.4 million and \$145.3 million, respectively.
8 When adjusted to reflect the impact of the settlement agreements, the total forecast test year
9 operating costs are \$138.5 million and \$141.0 million, respectively. These are markedly higher
10 than the 2016 actuals of \$123.9 million.

11 **Reference:** *Application, Volume I (5th Revision), Page 3.34, Table 3-17 and Lines 7-8;*
12 *Undertaking-17.*

13
14 In its evidence filed in support of the Application, Hydro measures its 2018 and 2019 Test Year
15 costs against the 2015 Test Year costs as submitted (\$139.6 million). Hydro also notes that its
16 2016 cost reduction campaign was done “without consideration of sustainability” and the actual
17 results were not reflective of “normalized operating cost levels,” essentially suggesting that its
18 2016 actual operating costs were an anomaly.

19 **Reference:** *Application, Volume I (5th Revision), Page 3.34, Lines 2-5 and Footnote 72; PUB-*
20 *NLH-054, Page 1, Lines 8-9.*

21
22 In Newfoundland Power’s submission, Hydro’s 2015 Test Year costs as submitted are not an

1 appropriate gauge by which to measure proposed test year costs. In Order No. P.U.49 (2016), the
2 Board disallowed in excess of \$4.0 million of Hydro’s proposed 2015 Test Year costs.

3 **Reference:** *Order No. P.U.49 (2016), Page 45, Lines 12-13.*
4

5 In Newfoundland Power’s view, assessing test year forecasts without considering historical
6 results is not reasonable. It is appropriate to adjust forecasts for known or foreseeable changes.
7 However, such adjustments to operating cost forecasts, and increases exceeding inflation, should
8 be supported by evidence that demonstrates they are consistent with least-cost service.
9

10 Hydro has not provided convincing evidence that cost reductions achieved in 2016 were not
11 sustainable. Hydro’s actual 2017 operating costs totaled \$130.2 million. This was \$4.0 million
12 lower than Hydro’s forecast, at a time when Hydro states operating costs had returned to
13 “normalized levels.”

14 **Reference:** *Application, Volume I (5th Revision), Page 3.34, Footnote 72.*
15

16 Hydro’s proposed 2018 Test Year operating costs of \$142.4 million represent an increase of
17 \$12.2 million over 2017 actuals. When adjusted to reflect the impact of the settlement
18 agreements, the 2018 Test Year operating costs totaled \$138.5 million. Hydro’s November 2018
19 forecast is \$1.5 million lower than the current 2018 Test Year proposal. With timely
20 implementation of “improved processes in relation to establishing and documenting efficiency
21 measures,” Hydro’s November 2018 forecast may have been even lower.

22 **Reference:** *Application, Volume I (5th Revision), Page 3.34, Footnote 72; Information Item*
23 *1, Schedule 3-IX; PUB-NLH-187, Attachment 1.*

1 In Newfoundland Power's submission, Hydro's current 2018 Test Year operating cost proposal
2 exceeds what is required for 2018.

3

4 **D.3 Productivity Allowance**

5 In Newfoundland Power's view, Hydro has not proven through the evidence filed with the Board
6 that the proposed test year costs are consistent with efficient operations. Because the complexity
7 of the evidentiary record makes year over year cost comparisons problematic, it is difficult to
8 recommend reductions in specific costs. For this reason, Newfoundland Power submits that a
9 reduction in revenue requirement by means of a productivity allowance is appropriate.

10 **Reference:** *Undertaking 93.*

11

12 To address the Board's concerns regarding cost management, Hydro has included "self-imposed"
13 productivity allowances of \$1.0 million in the 2018 Test Year and \$1.1 million in the 2019 Test
14 Year. These allowances have been allocated across Hydro's operating divisions without specific
15 guidelines to staff and represent less than 0.8% of Hydro's total operating costs for these years.
16 The self-imposed productivity allowances include savings of \$0.5 million in 2018 and \$0.7
17 million in 2019 already identified by Hydro's Productivity and Innovation Team. Hydro's
18 productivity allowances do not constitute a sufficient incentive for future cost control.

19 **Reference:** *Application, Volume I (5th Revision), Page 3.38, Table 3-20 and Footnote 78;*
20 *Transcript, July 24, 2018, Page 126, Line 25 to Page 128, Line 2.*

21

22 In Order No. P.U. 7 (2002-2003) the Board imposed a productivity allowance of \$2.0 million on
23 Hydro's controllable "other" operating costs of approximately \$99.3 million to reflect concerns

1 over Hydro's failure to "bring forward performance measures which clearly demonstrate the
2 efficiency of its operations."

3 **Reference:** Order No. P.U. 7 (2002-2003), Page 73.

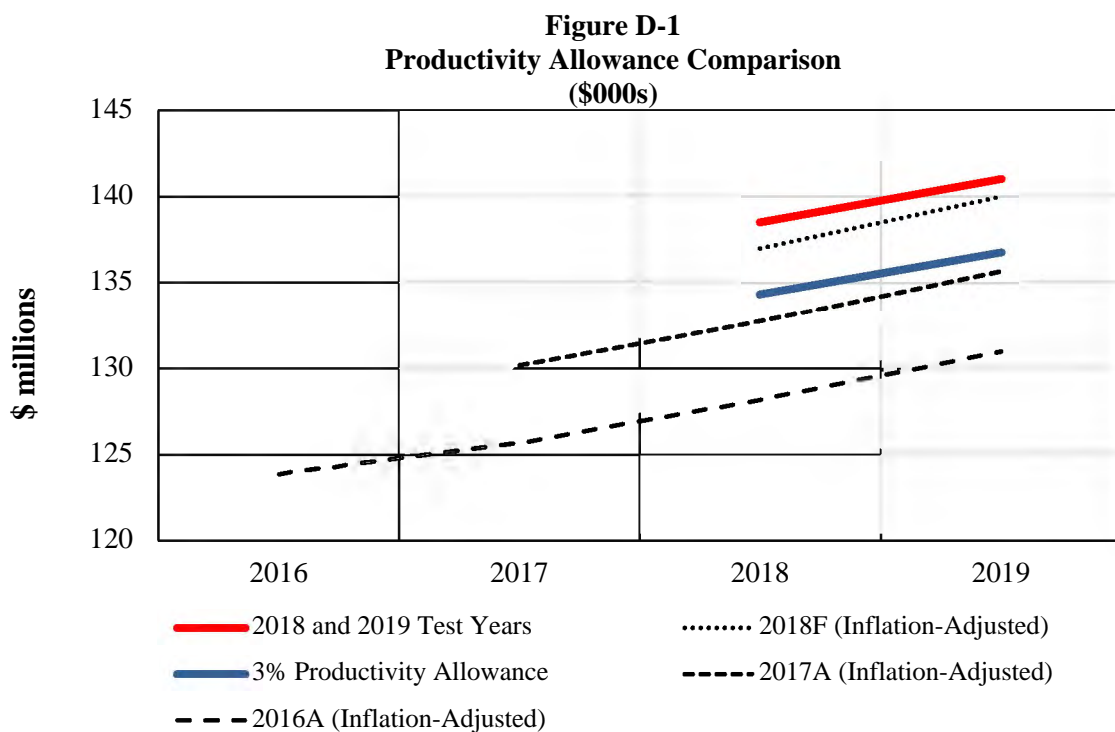
4
5 Newfoundland Power submits that a productivity allowance of at least 3% on Hydro's forecast
6 total operating costs would strike an appropriate balance between the interests of Hydro and the
7 interests of Hydro's customers in receiving an efficiently provided service, while sending an
8 appropriate signal to the utility that it must take responsibility for improving its performance. A
9 productivity allowance of 3% on Hydro's forecast operating costs for the 2018 and 2019 Test
10 Years of \$138.5 million and \$141.0 million, respectively, would result in a revenue requirement
11 reduction in each test year of approximately \$4.2 million.¹

12 **Reference:** Undertaking 17.

13
14 To assess the reasonableness of a 3% productivity allowance, it may be helpful to compare
15 Hydro's proposed test year operating costs with the productivity allowance imposed to the
16 operating costs for each of the last 3 years, adjusted for inflation.

¹ \$138.5 million x 0.03 = \$4.16 million; \$141.0 million x 0.03 = \$4.23 million. Test year operating costs reflect the impact of the settlement agreements.

1 Figure D-1 illustrates a comparison of Hydro’s proposed 2018 and 2019 Test Year forecasts with
 2 and without productivity allowances and operating costs for 2016A, 2017A and 2018F, escalated
 3 for inflation.²



4 Figure D-1 shows that the imposition of a 3% productivity allowance results in 2018 Test Year
 5 operating costs of \$134.3 million and 2019 Test Year operating costs of \$136.8 million. These

² Table D-1 provides the values shown in Figure D-1.

Table D-1
Productivity Allowance Comparison (\$000s)

	2016	2017	2018	2019
2018 and 2019 Test Years	-	-	138.5	141.0
2018F (Inflation-Adjusted)	-	-	137.0	140.0
3% Productivity Allowance	-	-	134.3	136.8
2017A (Inflation-Adjusted)	-	130.2	132.8	135.7
2016A (Inflation-Adjusted)	123.9	125.7	128.2	131.0

Operating costs for the 2018 and 2019 Test Years were based on information provided in Undertaking 17. Operating costs for 2016A, 2017A and 2018F were based on information provided in PUB-NLH-187. The escalation, or inflation adjustment, was determined based on information provided in NP-NLH-019.

1 are higher than Hydro's 2016 and 2017 actual operating costs, adjusted for inflation, and lower
2 than Hydro's November 2018 forecast operating costs, adjusted for inflation.

3

4 *Submission*

5 Newfoundland Power submits that the evidence before the Board justifies the imposition of a
6 productivity allowance of at least 3% of Hydro's total operating costs for each of the 2018 and
7 2019 Test Years.

8

9 **D.4. Debt Guarantee Fee**

10 Hydro has changed the way it borrows long-term debt. Instead of borrowing in the financial
11 markets, Hydro intends to borrow directly from the Provincial Government, and proposes to pay
12 a fee calculated in the same manner as provided for in OC2011-218.

13 **Reference:** *Transcript, July 25, 2018, Page 131, Line 6 to Page 137, Line 16.*

14

15 In the Settlement Agreement, it is agreed that the inclusion in revenue requirement of a guarantee
16 fee on debt borrowed by Hydro from the Provincial Government is an unresolved issue in the
17 Application.

18 **Reference:** *Consent 1, Paragraph 12(b).*

19

20 Hydro has acknowledged there is a debate as to whether the fee proposed to be paid to the
21 Provincial Government in respect of borrowings by the Provincial Government on Hydro's

1 behalf is truly in respect of a “guarantee.” It is Hydro’s position that the form of the borrowing
2 has changed, but not the substance.

3 **Reference:** *Transcript, July 25, 2018, Page 131, Line 6 to Page 134, Line 1.*

4

5 The requirement for Hydro to pay a fee additional to cost recovery on amounts borrowed directly
6 from the Provincial Government is contained in a letter from the Department of Finance dated
7 March 29, 2018. The purported authority for the requirement of a debt guarantee fee is Order-in-
8 Council OC2017-347. Order-in-Council OC2017-347 authorizes the direct loan of up to \$700
9 million to Hydro “on such terms and conditions as to form, rates of interest, and terms to
10 maturity as the Minister of Finance, as agent of Government, may determine, on a cost recovery
11 basis.”

12 **Reference:** *Transcript, July 25, 2018, Page 137, Line 17 to Page 138, Line 24; Undertaking*
13 *78, Attachment 1; Order-in-Council OC2017-347.*

14

15 Order-in-Council OC2017-347 authorizes the Minister of Finance to determine the form of the
16 loan, rates of interest and terms to maturity on a cost-recovery basis. The terms of OC2017-347
17 neither authorize nor require the payment of a fee over and above cost recovery. Hydro has
18 acknowledged that the fee is in addition to the Provincial Government’s cost of borrowings.

19 **Reference:** *Transcript, July 25, 2018, Page 136, Line 1 to Page 137, Line 3.*

20

21 *Submission*

22 Newfoundland Power submits that a debt guarantee fee on amounts borrowed directly from the
23 Provincial Government is neither authorized nor required, and should therefore not be recovered

- 1 from Hydro's customers. The proposed debt guarantee fee should be reduced by the amount
- 2 attributable to debt directly borrowed from the Provincial Government.

1 **E. OTHER MATTERS**

2 **E.1 General**

3 This Section E presents Newfoundland Power's submissions on certain matters relevant to the
4 Application that were not settled in the settlement agreements, but which are not contested by
5 Newfoundland Power.

6
7 **E.2 Supply Cost Forecast**

8 As noted in section B.4.2 Interconnection with the North American Grid, the availability of the
9 Maritime Link, and the LIL and LTA prior to full commissioning of the Muskrat Falls Project,
10 presents an opportunity to avail of off-island supply, thereby reducing reliance on more
11 expensive island generation (principally, Holyrood fuel).

12
13 Tables E-1 and E-2 present forecast Holyrood production and associated fuel savings under
14 various forecasts of off-island purchases based on information provided by Hydro.

15

Table E-1
2018 Forecast Holyrood Production Savings
Due to Off-Island Purchases

	November 2017 Forecast	July 2018 Forecast	November 2018 Forecast
Holyrood Production (GWh)	388	606	152
Fuel Savings (\$ millions)	40.5	67.4	18.3

Table E-2
2019 Change in Forecast Holyrood Production Savings
Due to Off-Island Purchases

	November 2017 Forecast	July 2018 Forecast	November 2018 Forecast
Holyrood Production (GWh)	919	1016	716
Fuel Savings (\$ millions)	130.0	149.1	113.6

1 **Reference:** *NP-NLH-115, Attachment 1 (Revision 1, November 27, 2017), Rows E and H;*
2 *Supplemental Evidence, Customer Impacts Reflecting 2017 GRA Settlement*
3 *Agreements, July 20, 2018, Table 1 and Table 3; 2018 Cost Deferral and Interim*
4 *Rate Application – Revision 2, Evidence on Customer Rates, Table 1 and Table 3.*

5
6 Tables E-1 and E-2 show that the forecast Holyrood production savings range from \$18.3 million
7 to \$67.4 million for 2018 and between \$113.6 million to \$149.1 million for 2019. The forecast
8 used for rate setting purposes in this proceeding will materially affect the overall rate change.

9
10 *Submission*

11 Newfoundland Power submits that the Board should direct Hydro to use its most reliable forecast
12 of off-island purchases for the test years in its compliance filing, and that Hydro should address
13 the reasonableness of the forecast used in its compliance filing.

14

15 **E.3 2015, 2016 and 2017 Deferred Supply Costs**

16 The Application seeks approval for the recovery of the 2015, 2016 and 2017 balances in the
17 Energy Supply Cost Variance Deferral Account, the Holyrood Conversion Rate Deferral
18 Account, and the Isolated Systems Supply Cost Variance Deferral Account.

19 **Reference:** *2018 Cost Deferral and Interim Rates Application - Revision 2, dated November*
20 *14, 2018, Schedule 1, Pages 76-77 of 81.*

1 Hydro's 2019 Test Year as filed includes an allocation of a total amount of approximately \$65.4
2 million in 2015, 2016 and 2017 deferred fuel supply costs. Of that total, the amount allocated to
3 Newfoundland Power is approximately \$60.1 million, including a credit of \$3.2 million in
4 respect of the Isolated Systems Deferral Account.

5 **Reference:** *2018 Cost Deferral and Interim Rates Application - Revision 2, dated November*
6 *14, 2018, Evidence on Customer Rates, Page 13, Table 5.*

7
8 The balance in the Energy Supply Cost Variance Deferral Account reflects the materially
9 increased generation requirements from higher-cost gas turbines in recent years. To a degree, the
10 increased use of gas turbines is attributable to the requirements of Hydro's Island Interconnected
11 System *Generation Reserves* instruction, including an N-1 spinning reserve target.

12

13 The Liberty Consulting Group stated that assessing the balance of cost and reliability in the
14 operation of Hydro's generation reserves involves "valuing a trade-off of about \$10.9 million per
15 year against an approximately six-minute improvement in restoration times for 5-10 UFLS
16 events per year."

17 **Reference:** *Liberty Consulting Limited, Analysis of Hydro's Energy Supply Cost Variance*
18 *Deferral Account, June 22, 2018, pages 15-16.*

19

20 Newfoundland Power acknowledges that the power outages in 2013 and 2014 put pressure on
21 Hydro to improve its performance and that it may not have been unreasonable for Hydro to take
22 a more conservative approach to reliability. Accordingly, Newfoundland Power has not
23 challenged the reasonableness of the 2015 to 2017 gas turbine operating costs. However, the
24 information provided to date has not shown that the increased cost of maintaining the higher
25 spinning reserve criteria strikes the appropriate balance of cost and reliability.

1 *Submission*

2 In Newfoundland Power's view, the incremental reliability improvements associated with the
3 higher spinning reserve criteria do not appear to fully justify the high operating cost of Hydro's
4 gas turbines. Newfoundland Power will explore this issue further through ongoing dialogue with
5 Hydro.

6

7 **E.4 Service Reliability**

8 Following the supply issues and service interruptions of January 2014, the Board initiated an
9 investigation of the causes of the widespread electricity outages experienced by customers on the
10 Island Interconnected system (the "Supply Issues Investigation").

11

12 The Board's preliminary report on the Supply Issues Investigation concluded that the outages
13 were caused or contributed to by a number of decisions and failures by Hydro.

14 **Reference:** *Investigation and Hearing into Supply Issues and Power Outages on the Island*
15 *Interconnected System, Phase 1 Report dated September 29, 2016.*

16

17 During the course of Phase One of the Supply Issues Investigation, the Board imposed certain
18 detailed reporting obligations on Hydro. The Board continues to require reporting in relation to
19 accuracy of load forecasting and winter readiness. The Supply Issues Investigation is ongoing.

20 **Reference:** *Board letter to Hydro dated August 14, 2015 as to load forecasting accuracy*
21 *reporting, and October 8, 2015 as to winter readiness reporting.*

22

23 Hydro's recent organizational restructuring is intended, in part, to support the delivery of safe,
24 reliable service to its customers.

25 **Reference:** *Application, page 1.3; lines 22 to 25.*

1 On November 16, 2018, Hydro filed with the Board its *Reliability and Resource Adequacy*
2 *Study*. The study addresses Hydro's long-term approach to providing continued least-cost,
3 reliable service for its customers by establishing an action plan to meet customer demand and
4 energy requirements.

5 **Reference:** *Reliability and Resource Adequacy Study, Page i, Lines 3 to 5.*

6

7 Hydro's reliability performance continues to lag behind other Canadian Utilities.

8 **Reference:** *Response to Requests for Information NP-NLH-045 and NP-NLH-187.*

9

10 Phase Two of the Supply Issues Investigation, which is focused on reliability on the Island
11 Interconnected system following the interconnection with Muskrat Falls, has not yet concluded.

12

13 *Submission*

14 Until the Board is satisfied that Hydro's reliability performance is acceptable, Hydro should
15 remain subject to the detailed reporting requirements imposed by the Board.