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HAND DELIVERED

September 5, 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 GRA Compliance Application

Introductory

On July 28, 2017, Newfoundland and Labrador Hydro (“Hydro”) submitted a general rate application for the approval of its 2018 and 2019 test years (“Hydro’s 2017 GRA”). On May 7, 2019, the Board issued Order No. P.U. 16 (2019) setting out its determinations with respect to Hydro’s 2017 GRA (the “2017 GRA Order”). On July 11, 2019, Hydro submitted an application in compliance with the 2017 GRA Order (the “2017 GRA Compliance Application”).

On August 23, 2019, Grant Thornton’s Financial Consultants Report in relation to the 2017 GRA Compliance Application (the “Grant Thornton Report”) was distributed to the parties to Hydro’s 2017 GRA. By correspondence dated August 23, 2019, the Board set Friday, September 6, 2019, as the deadline for comments from the parties.

These are Newfoundland Power’s comments.

The Grant Thornton Report

The Grant Thornton Report noted two exceptions in relation to Hydro’s proposed operation of the Rate Stabilization Plan (“RSP”) for 2019 as reflected in the 2017 GRA Compliance Application.

The first exception relates to an error in the interest rate used within the 2019 Test Year RSP, which was based on Hydro’s 2015 Test Year weighted average cost of capital (“WACC”) of 6.61%, rather than the 2019 Test Year WACC of 5.43%. According to the Grant Thornton Report, this was attributed to “a formula error in the operation of the 2019 RSP”, and resulted in

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the overstatement of RSP balances owing to customers included in the 2017 GRA Compliance Application by approximately \$240,000.¹

The second exception relates to Hydro's use of a flat monthly fuel cost to calculate the monthly Test Year No. 6 Fuel Cost for purposes of the fuel cost variation formula in the 2019 Test Year RSP. This differs from the calculation used in previous test years, which was based on a monthly series of fuel prices.²

Hydro's Response

Hydro has indicated that addressing the error in the RSP interest rate by filing a revised 2017 GRA Compliance Application would not result in a change in the percent rate change impacts originally proposed. According to Hydro, however, the time necessary to file such a revision, coupled with the time for further review, would jeopardize the ability to have final customer rates in effect for October 1, 2019.³

Hydro proposes to correct the interest rate error through a one-time adjustment to each customer group's RSP current plan, effective April 1, 2019. According to Hydro, the proposed adjustment would have no effect on the rates and transfers included in the 2017 GRA Compliance Application, and would result in the cumulative RSP Current Plan balances being calculated in accordance with the approved RSP rules and included in the 2020 RSP Current Plan Adjustment factors.⁴

The Grant Thornton Report indicates that Hydro chose the modified approach to calculating the RSP monthly fuel variations in order to eliminate seasonal variations in Hydro's earnings resulting from forecast volatility in the monthly fuel prices which, in Hydro's view, are counter to the original intent of the RSP.⁵ According to Hydro, using the monthly Test Year No. 6 fuel costs in the calculation instead of the annual average Test Year No. 6 fuel cost would not result in forecast customer rate increases effective October 1, 2019 that differ from those proposed in the 2017 GRA Compliance Application.⁶

The Grant Thornton Report includes a recommendation that the Board direct Hydro to propose a revision in the RSP rules to reflect the modified approach to calculating the RSP fuel cost variations.⁷ In response to the Board's request, Hydro has provided a proposed revision to the RSP rules.⁸

¹ Grant Thornton Report, page 26, lines 1-12.

² Grant Thornton Report, page 27, lines 4-6.

³ Grant Thornton Report, page 26, lines 23--28.

⁴ Responses to Requests for Information PUB-NLH-008, PUB-NLH-009 and PUB-NLH-010.

⁵ Grant Thornton Report, page 27, lines 8-21.

⁶ Response to Request for Information PUB-NLH-012.

⁷ Grant Thornton Report, page 27, lines 29-32.

⁸ Response to Request for Information PUB-NLH-013.

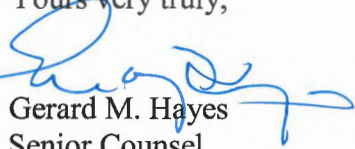
Newfoundland Power's Submission

Based on the Grant Thornton Report and the information subsequently provided by Hydro, Newfoundland Power submits that the Board should approve Hydro's 2017 GRA Compliance Application. To address the exceptions identified in the Grant Thornton Report, the Board should also approve the one-time RSP adjustment proposed by Hydro to correct the interest rate error identified in the Grant Thornton Report, and the proposed revision to the RSP rules relating to the calculation of RSP monthly fuel cost variations.

In Newfoundland Power's view, it is in the best interest of its customers, and consistent with regulatory efficiency, to resolve the issues identified in the Grant Thornton Report in this manner, thereby avoiding the additional time and expense associated with the submission of a revised application.

We trust this is satisfactory. If there are any questions with respect to this submission, please contact the undersigned.

Yours very truly,



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