newfoundland labrador hydro
a nalcor energy company

Hydro Place. 500 Columbus Drive.
P.O. Box 12400. St. John's. NL
Canada A1B 4K7
t. 709.737.1400 f. 709.737.1800
www.nlh.nl.ca

December 9, 2016

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

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

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro – Application by Newfoundland and Labrador Hydro approval of a proposed cost deferral account to provide Hydro the opportunity to earn a reasonable return on rate base in 2016

Enclosed please find the original plus 12 copies of Hydro's Application for a cost deferral account to provide Hydro the opportunity to earn a reasonable return on rate base in 2016.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

Tracey Pennell

Tracey L. Pennell
Senior Counsel, Regulatory

TLP/bs

c cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Thomas J. O'Reilly, Q.C. – Cox & Palmer
Genevieve M. Dawson – Benson Buffett
Dennis Browne, Q.C.– Consumer Advocate
Yvonne Jones, MP Labrador
Senwung Luk – Olthuis, Kleer, Townshend LLP

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

IN THE MATTER OF a general rate application by Newfoundland and Labrador Hydro filed on July 30, 2013; and

IN THE MATTER OF an amended general rate application filed by Newfoundland and Labrador Hydro on November 10, 2014; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro for approval of a proposed cost deferral account to provide Newfoundland and Labrador Hydro the opportunity to earn a reasonable return on rate base in 2016 (2016 Cost Deferral Application).

TO: The Board of Commissioners of Public Utilities (the Board)

THE 2016 COST DEFERRAL APPLICATION OF NEWFOUNDLAND AND LABRADOR HYDRO (HYDRO) STATES THAT:

A. Background

1. Hydro is a corporation continued and existing under the *Hydro Corporation Act*, is a public utility within the meaning of the *Act*, and is subject to the provisions of the *Electrical Power Control Act, 1994*.

2. On November 10, 2014, Hydro filed its Amended General Rate Application (the Amended GRA).

3. The Amended GRA proposed the implementation of interim rates to become effective January 1, 2015 for Island Industrial Customers and Labrador Industrial Customers, as well as interim rates to become effective February 1, 2015 for Newfoundland Power Inc. (Newfoundland Power) and Hydro Rural customers.

4. Interim rates for Newfoundland Power, Hydro Rural customers and Island Industrial Customers became effective July 1, 2015 in accordance with Order Nos. P.U. 17(2015), P.U. 19(2015) and P.U. 21(2015).

5. On December 1, 2016, the Board issued Order No. 49(2016) providing its decisions and direction on Hydro's Amended GRA for 2014 and 2015 Test Years (the 2013 GRA Order).

6. Hydro will be filing its compliance application to reflect the 2013 GRA Order in January 2017. As a result of the timing of the 2013 GRA Order, and the corresponding compliance filing, it is not possible for the implementation of customer rates reflecting the 2013 GRA Order to occur in 2016.

B. 2016 Revenue Deficiency

7. The delay in final implementation of the 2013 GRA Order until 2017 will create a material revenue deficiency for Hydro in 2016 and will impede Hydro's ability to earn a reasonable return in 2016. Schedule 1 to this 2016 Cost Deferral Application

sets forth the evidence as to why the interim rates, approved by the Board to be effective July 1, 2015, do not provide Hydro an opportunity to earn a reasonable return in 2016.

8. Hydro reported a net loss at the end of the 3rd quarter 2016 of $2.7 million. At the date of filing this Application, the forecast net loss for 2016 is expected to be approximately $14.9 million. Hydro is incurring a net loss in 2016 primarily because of increased fuel expense resulting from Rate Stabilization Plan adjustments and increased supply costs. The increased net loss relative to prior months reflects the recognition of certain items outlined in the Board's decision which are required to be recorded in 2016.

9. In the 2013 GRA Order, the Board approved supply cost deferrals to be implemented effective January 1, 2015, specifically, the Isolated Systems Supply Cost Variance Deferral, the Energy Supply Cost Variance Deferral, and the Holyrood Conversion Rate Deferral. However, the supply cost deferral account definitions have not yet been approved by the Board as Hydro is required to make minor modifications to the account definitions to reflect the Board's decisions.

10. Implementation of the supply cost deferral accounts approved by the Board in the 2013 GRA Order for 2015 and 2016 would provide Hydro an additional $38.8 million in cost recovery. The forecast supply cost deferral account balances for 2015 and

2016 reflect supply costs that have been prudently incurred in the provision of service to customers.

11. Hydro proposes that the 2016 Cost Deferral be set to equal $38.8 million which represents the under-recovery of supply costs for the period 2015 and 2016. Approval of the proposed 2016 Cost Deferral Account result in a forecast net income of $23.9 million in 2016. Schedule 2 to this Application provides Hydro's proposed 2016 Cost Deferral Account definition.

12. The forecast net income in 2016 of $23.9 million translates to a 7.2% return on equity and a 6.63% return on rate base. A 6.63% return on rate base is within the forecast allowed rate of return on rate base as reflected in the 2013 GRA Order.

13. Therefore, Hydro now makes application that the Board make an Order approving:

    a) a 2016 cost deferral account in the amount of $38.8 million; and

    b) the account definition for the proposed cost deferral as provided in Schedule 2 to this 2016 Cost Deferral Application;

DATED at St. John's in the Province of Newfoundland and Labrador this 9th day of December 2016.

NEWFOUNDLAND AND LABRADOR HYDRO

Tracey L. Pennell
Counsel for the Applicant
Newfoundland and Labrador Hydro
500 Columbus Drive, P.O. Box 12400
St. John's, NL A1B 4K7
Telephone: (709)-778-6671
Facsimile: (709) 737-1782

SCHEDULE 1

A REPORT TO

THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

NEWFOUNDLAND AND LABRADOR HYDRO

2016 Cost Deferral Application Evidence

December 9, 2016

newfoundland labrador hydro
a nalcor energy company

TABLE OF CONTENTS

1.0 INTRODUCTION

On December 1, 2016, the Board of Commissioners of Public Utilities (the Board) issued Order No. 49(2016) providing its decisions on Newfoundland and Labrador Hydro's (Hydro) Amended General Rate Application (Amended GRA) for 2014 and 2015 Test Years (the 2013 GRA Order). As a result of the timing of the 2013 GRA Order, it is not possible for the implementation of customer rates reflecting the 2013 GRA Order to occur in 2016.

This Application (the 2016 Cost Deferral Application) includes a proposal to approve a 2016 Cost Deferral Account. Without approval of the 2016 Cost Deferral Account, the delayed implementation of the 2013 GRA Order will impede Hydro's ability to earn a reasonable return in 2016. This Evidence provides support for the proposed 2016 Cost Deferral Application.

2.0 RATE STABILIZATION PLAN OPERATION

The operation of the Rate Stabilization Plan (RSP) during 2015 and 2016 reflects RSP Adjustments based on the 2007 Test Year as the 2015 Test Year will not be approved until the implementation of customer rates reflecting the 2013 GRA Order. As a result, the RSP adjustments for 2015 and 2016 do not accurately reflect the fuel costs incurred to provide service in 2015 and 2016.

The use of the 2007 Test Year RSP in 2015 and 2016, while awaiting approval of a new 2015 Test Year, results in Hydro reporting higher fuel costs in its financial results for 2015 and 2016 than would be reported if the RSP had operated based on the 2015 Test Year forecast. This fuel cost difference results from the use of different RSP Test Year forecasts of: fuel price; load requirements; financing costs; Holyrood fuel conversion rate; and differences in hydraulic production levels.

This relationship between the RSP Test Year and fuel costs is illustrated in the following example. Hydro's Island Industrial Customer load forecast in the 2015 Test Year is significantly

lower than that of the 2007 Test Year. The reduced load results in lower sales revenues and lower fuel costs. The reduction in fuel costs is greater than the reduction in revenues resulting in a savings which is credited to the RSP.

The net effect of the lower Island Industrial Customer load, relative to the 2007 Test Year, results in a credit to the RSP load variation component of approximately $13 million for each of 2015 and 2016.[1] This RSP load variation credit reduces Hydro earnings in both 2015 and 2016 through an increased fuel expense. If the 2015 Test Year had been approved for use in 2015, the fuel costs recorded and the fuel costs incurred would be aligned in 2015 and 2016 and the $13 million increased fuel expense would not be recorded.

Hydro will be updating the RSP balances in its compliance filing to reflect the 2015 Test Year. The updating of the RSP balances will occur in combination with the determination of base rates reflecting approved 2015 Test Year costs for rate making purposes. This process, in addition to reflecting proposals for recovery of deferred revenue deficiencies, will be used to determine what rate adjustments are required on a prospective basis.

The continued operation of the RSP based on the 2007 Test Year has resulted in increased fuel costs which offsets the additional revenue approved for Hydro through the implementation of interim customer rates effective July 1, 2015. This situation has contributed to reduced earnings for Hydro in 2015 and 2016 as a result of the delay in final implementation of the 2013 GRA Order. It also contributes to the requirement for a cost deferral in 2016 to provide Hydro an opportunity to earn a reasonable return in 2016.

[1] The 2015 Test Year load forecast for Island Industrial Customers is 270 GWh less than the 2007 Test Year load forecast. The net savings of approximately 4.8¢ per kWh for load reductions, relative to the 2007 RSP load forecast, multiplied by the 270 GWh load reduction provides a credit to the RSP load variation component of approximately $13 million for 2016. This RSP credit and the resulting higher fuel costs was also incurred in 2015.

3.0 2016 FINANCIAL IMPACT

Hydro's net loss at the end of the 3rd quarter 2016 was $2.7 million.[2] The 2016 net loss is primarily a result of increased fuel expense resulting from RSP adjustments and increased supply costs.

As of the date of this filing, Hydro's forecast net loss at the end of 2016 is expected to be $14.9 million.[3] The increased net loss relative to prior months reflects the recognition of additional costs based on the accounting standards requiring cost recognition in 2016 to reflect the Board's decisions in the 2013 GRA Order.[4]

Appendix B to this report provides an updated financial forecast for 2016.

4.0 APPROVAL OF SUPPLY COST DEFERRALS

In the 2013 GRA Order, the Board approved the implementation of three supply cost deferrals effective January 1, 2015.[5] The proposed cost deferral account definitions have not yet been approved by the Board as Hydro is required to make minor modifications to the account definitions to reflect the Board's decisions. As such, these accounts will not be approved for implementation until the Board approves Hydro's compliance application, which will be filed in 2017. For the purpose of this 2016 Cost Deferral Application revised deferral account definitions, reflecting the Board's direction in the 2013 GRA Order are attached as Appendix C to this Evidence. Appendices D, E, and F to this Evidence provide the computation of the projected deferral account balances for each supply cost deferral account.[6]

[2] See page 1 of Hydro's Quarterly Regulatory Report for the quarter ended September 30, 2016 attached as Appendix A to this Evidence
[3] See Appendix B to this Evidence
[4] Hydro's analysis of the Board Order and the accounting standards is ongoing.
[5] These include the Isolated Systems Supply Cost Variance Deferral Account, the Energy Supply Cost Variance Deferral Account and the Holyrood Conversion Rate Deferral Account. See Board Order No. P.U. 49(2016) pages 116, 119, and 122.
[6] The calculations reflect actual costs up to the end of October and forecast costs for November and December.

Hydro has calculated the impacts of each supply cost deferral for 2015 and 2016 in accordance with the 2013 GRA Order. Table 1 provides the forecast balances for 2015 and 2016 for each approved supply cost deferral account.

Table 1 –Supply Cost Deferral Activity ($millions)

	2015 Activity	2016 Forecast Activity	Total
Isolated Systems	-	(2.1)	**(2.1)**
Energy Supply	14.2	21.2	**35.6**
Holyrood Fuel Conversion	3.6	1.9	**5.5**
Total	**17.8**	**21.0**	**38.8**

Hydro believes it is appropriate for the 2016 Cost Deferral to be approved for $38.8 million, which represents the under-recovery of supply costs for 2015 and 2016.

5.0 COMPLIANCE FILING

Hydro's compliance filing reflecting the direction and decisions of the Board will require several weeks to finalize. Hydro must determine and document the impacts of updating the RSP as well as the revised revenue deficiency by year and by customer class. Hydro must also develop proposals for recovery of the revised net income deficiencies and design customer rates for implementation in 2017. Hydro considers it premature to propose revisions to the approved cost deferrals for 2014 and 2015 until all impacts of the GRA Order have been considered through the compliance application.

6.0 2016 COST DEFERRAL PROPOSAL

Inclusion of the amount of the forecast supply cost deferral for 2015 and 2016 in the proposed 2016 Cost Deferral Account would provide Hydro an opportunity to earn a reasonable return in 2016.

Hydro proposes that the 2016 Cost Deferral be set to equal $38.8 million (i.e., the total of the forecast supply cost deferrals for 2015 and 2016). Recovery of the balance in the 2016 Cost Deferral Account will be subject to the Board's review of Hydro's 2013 GRA compliance filing.

The forecast supply cost deferral account balances for 2015 and 2016 proposed for inclusion in the 2016 Cost Deferral have been calculated on a basis consistent with the Board's directions in the 2013 GRA Order, and reflect supply costs that have been prudently incurred in the provision of service to customers. Based on Hydro's current financial forecast for 2016, approval of the proposed 2016 Cost Deferral Account will enable Hydro to earn a net income of $23.9 million in 2016. This translates to a forecast return on equity of 7.19% and a forecast return on rate base of 6.63%. These forecast returns compare to an approved return on equity for 2016 of 8.5% for rate setting purposes and a forecast mid-point for the estimated allowed range of return on rate base rate of 6.56%.

Schedule 2 to Hydro's application provides the proposed 2016 Cost Deferral Account.

APPENDIX A

Excerpt of Hydro's 2016 3rd Quarter Regulatory Report

1.0 Highlights

HIGHLIGHTS
For the nine months ended September 30, 2016

REGULATED	2016 Actual YTD	2016 Target/ Budget YTD	2015 Actual YTD	2016 Annual Budget
Safety				
Lead:Lag Ratio	423:1	679:1	304:1	750:1
All Injury Frequency Rate	0.97	0.91	1.23	≤0.60
Production				
Quarter End Reservoir Storage (GWh)	2,011	1,039	2,132	1,142 [5]
Hydraulic Production (GWh)	3,165	2,343	2,676	4,604
Holyrood Fuel cost per barrel ($)	43	81	70	93
Holyrood Efficiency Factor (kWh/bbl.)	609	607	599	607
Electricity Delivery				
Sales including Wheeling (GWh)	5,441	5,704	5,613	7,826
Financial [1]				
Revenue ($millions)	409.9	494.2	392.7	681.0
Expenses ($millions)	412.6	477.9	424.9	650.3
Net Operating (Loss) Income ($millions) [2]	(2.7)	16.2	(32.2)	30.7
Current Rate Stabilization Plan (RSP) Balance ($millions)	(343.2)	(96.7)	(305.5)	(79.2)
Hydraulic	(42.3)	(39.5)	(63.9)	(24.0)
Utility	(73.3)	(53.0)	(54.8)	(50.8)
Industrial	(1.2)	(4.2)	1.9	(4.4)
Segregated Load	(84.5)	-	(54.2)	-
Utility Surplus	(140.8)	-	(130.9)	-
Industrial Surplus	(1.1)	-	(3.6)	-
Full Time Equivalent (FTE) Employees [3, 4]				
Regulated	804.7	N/A	810.2 [6]	832.4
Non-Regulated	71.0	N/A	59.2	84.6 [7]

[1] The Regulated Hydro 2016 Budget reflects proposed 2015 Test Year rates effective January 1, 2016 based on General Rate Application evidence filed November 2014.

[2] Does not include any earnings from CF(L)Co.

[3] One FTE is the equivalent of actual paid regular hours - 2,080 hours per year in the operating environment and 1,950 hours per year in Hydro's head office environment.

[4] The 2016 Budget was reduced by 43 FTE's for the transfer of Information Systems employees from Regulated Hydro to Nalcor. The Information System costs are now included in Regulated Hydro as an Admin Fee charge. The Information System labour costs are now charged to Regulated Hydro based on hours worked on behalf of Hydro at established operating bill rates and administration fees which are reviewed and updated annually.

[5] Minimum energy storage target.

[6] Q3 2015 FTEs have been restated for comparison purposes to reflect the transfer of Information System FTEs to Nalcor. This resulted in a reduction of 41.2 FTEs from the previously reported 851.4.

[7] Non-Regulated Hydro budget FTEs updated to reflect 84.6 from the previously reported 107.2.

NOTE: Certain of the comparative figures have been reclassified with presentation adopted during the current reporting period.

APPENDIX B

2016 Forecast Financial Results

Newfoundland and Labrador Hydro
2016 Forecast Financial Results

	Forecast 2016	2016 Cost Deferral	Revised 2016 Forecast
Revenue			
Energy sales	563,998	-	563,998
Other revenue	3,763	-	3,763
	567,761	-	567,761
EXPENSES			
Operating costs	(130,921)	-	(130,921)
Other (income) and expense	(16,876)	38,800	21,924
Fuels	(210,350)	-	(210,350)
Power purchased	(60,933)	-	(60,933)
Amortization	(67,755)	-	(67,755)
Interest	(95,839)	-	(95,839)
	(582,674)	38,800	(543,874)
NET (LOSS) INCOME	**(14,913)**	**38,800**	**23,887**
Return on Rate Base	**4.54%**		**6.63%**
Upper end of the range: 6.56% + 0.20%	6.76%		6.76%
Lower end of the range: 6.56% - 0.20%	6.36%		6.36%
Financial Return on Equity	**-4.77%**		**7.19%**

APPENDIX C

Revised Supply Cost Deferral Account Definitions

Newfoundland and Labrador Hydro
Revised Deferral Account Definitions

In Order No. P.U. 49(2016) the Board of Commissioners of Public Utilities (the Board) approved three of Newfoundland and Labrador Hydro's (Hydro) proposed deferral and recovery mechanisms subject to revised account language. The following is a summary of the Board's findings and Hydro's proposed revised wording, which has been shaded to show the revisions from Hydro's original proposals.

1.0 Isolated Systems Supply Cost Variance Deferral Account

On page 116 of Order No. P.U. 49(2016), the Board stated:

> *To permit full consideration of all of the issues Hydro should revise the account language to provide that Hydro is required to file with its application a detailed report setting out the efforts made during the year to minimize the costs on the Isolated systems and how any variance would be collected/refunded and from which customers.*
> *Hydro will be required to file revised account language for the Isolated Systems Supply Cost Variance Deferral Account to reflect that Hydro is required to file a detailed report with the annual application for disposition of the balance.*

Hydro proposes the following revised account definition is in accordance with the Board's direction as noted above. Hydro has proposed a filing date of no later than March 31st to better align with the filing of the Rural Deficit Report.

1.1 Revised Isolated Systems Supply Cost Variance Deferral Account Definition

This account shall be charged or credited with the amount by which Hydro's Isolated Systems Supply Cost Variance exceeds the Supply Cost Variance Threshold in a calendar year.

The ***Isolated Systems Supply Cost Variance*** will be determined by the following formula:

$$A \times (B-C)$$

Where:

A = Total actual supply produced and purchased (kWh) on Hydro's isolated systems.

B = (Total actual cost of No. 2 fuel used to provide energy plus the total actual cost of purchases) divided by the total of the (actual kWh production and the actual kWh purchases) in $/kWh.

C = (Total Test Year cost of No. 2 fuel used to provide energy plus the total Test Year cost of purchases) divided by the (total of the Test Year kWh production and the Test Year kWh purchases) in $/kWh.

The ***Supply Cost Variance Threshold*** equals ±$500,000 in a calendar year.

Disposition of any Balance in this Account
Hydro shall file an Application for the disposition of any balance in this account with the Board no later than the 31st day of March each year. This Application shall detail the proposed method of collection or refund and from which customer class(s), and the efforts made by Hydro during the proceeding year to minimize costs on the Isolated systems.

2.0 Energy Supply Cost Variance Deferral Account

On page 119 of Order No. P.U. 49(2016), the Board stated:

> *Hydro will be required to file revised account language for the Energy Supply Cost Variance Deferral Account to remove variances associated with the price of power purchases and to clearly set out the supply sources.*

Hydro proposes the following revised account definition is in accordance with the Board's direction as noted above. Hydro has proposed a filing date of no later than March 31st.

2.1 Revised Energy Supply Cost Variance Deferral Account Definition

This account shall be charged or credited with the Energy Supply cost variance incurred by Hydro on the Island Interconnected System that is in excess of the Cost Variance Threshold in the calendar year.

Variations resulting from both the price and volume of the following thermal generation sources shall be charged or credited to this account:

- Holyrood Combustion Turbine;
- Hardwoods Gas Turbine;
- Stephenville Gas Turbine;
- St. Anthony Diesel Plant; and
- Hawkes Bay Diesel Plant.

Variations resulting from the volume of the following power purchases shall be charged or credited to this account:

- Nalcor Exploits;
- Star Lake;
- Rattle Brook;
- CBPP Cogeneration;
- St. Lawrence wind; and
- Fermeuse wind.

Energy Supply costs will be determined by the following formula:

A + B + C

A = Test Year Thermal Generation Variances resulting from both price and volume;

Where:

A = (Actual Thermal Generation Cost – Test Year Thermal Generation Cost)

B = Test Year Power Purchase Variances resulting from volume;

Where:

B = (Actual kWh Purchases – Test Year kWh Purchases) x (Test Year Purchase Cost in $/kWh)

C = Fuel costs or savings resulting from the variance in generation at the Holyrood Thermal Generating Facility (Holyrood TGS);

Where:

C = D/E x F

D = Holyrood TGS Test Year average annual fuel cost per barrel;

E = Test Year fuel conversion factor (kWh/bbl); and

F = [(Actual kWh Thermal Generation + Actual kWh Power Purchases) -
(Test Year kWh Thermal Generation + Test Year kWh Power Purchases)] for all defined sources.

The ***Cost Variance Threshold*** equals ±$500,000 in a calendar year.

Disposition of any Balance in this Account
Hydro shall file an Application for the disposition of any balance in this account with the Board no later than the 31st day of March each year.

3.0 Holyrood Conversion Rate Deferral Account

On page 122 of Order No. P.U. 49(2016), the Board stated:

> *Hydro will be required to file revised account language for the Holyrood Conversion Rate Deferral Account to include a cost variance threshold of + $500,000.*

Hydro proposes the following revised account definition is in accordance with the Board's direction as noted above. Hydro has proposed a filing date of no later than March 31st.

3.1 Revised Holyrood Conversion Rate Deferral Account Definition

This account shall be charged or credited with the Conversion Rate Cost Variance incurred by Hydro on the Island Interconnected system, in excess of the Cost Variance Threshold in the calendar year, which results from variations from the Test Year fuel conversion rate at the Holyrood thermal generating station.

The ***Conversion Rate Cost Variance*** will be determined monthly by the following formula:

$$(A - B) \times C$$

A = Actual quantity of No. 6 fuel consumed (bbl);

B = Calculated quantity of No. 6 fuel consumed using the Cost of Service fuel conversion rate (bbl); and

C = Test Year Cost of Service No. 6 fuel cost ($/bbl).

Where:

$$B = D/E$$

D = Actual net Holyrood production (kWh); and

E = Test Year Cost of Service fuel conversion rate (kWh/bbl).

The ***Cost Variance Threshold*** equals ±$500,000 in a calendar year.

Disposition of any Balance in this Account
Hydro shall file an Application for the disposition of any balance in this account with the Board no later than the 31st day of March each year.

APPENDIX D

2015 and 2016 Isolated Systems Supply Cost Variance Account Calculations

2015 Isolated Systems Supply Cost Variance Account
December 31, 2015

Particulars	Diesel	HQ Purchases	Other [1]	Total
A - 2015 Actual Supply Produced & Purchased (kWh)	51,676,533	24,578,740	599,400	76,854,673
B - 2015 Actual Cost / 2015 Actual Produced & Purchased ($/kWh) [B1 / B2]	0.3140	0.1090	0.2607	0.2480
C - 2015 Test Year Cost / 2015 Test Year Produced & Purchased ($/kWh) [C1 / C2]	0.3001	0.1181	0.2941	0.2475
Isolated Supply Costs [A x (B-C)]				41,850
Cost Variance Threshold				500,000
Isolated Systems Supply Cost Deferral Balance				-
B1 - 2015 Actual Cost of No. 2 Fuel + Purchases ($)	16,226,822	2,678,557	156,282	19,061,661
B2 - 2015 Actual Supply Produced & Purchased (kWh)	51,676,533	24,578,740	599,400	76,854,673
C1 - 2015 Test Year Cost of No. 2 Fuel + Purchases ($)	17,122,665	2,767,721	173,500	20,063,886
C2 - 2015 Test Year Supply Produced & Purchased (kWh)	57,048,141	23,435,400	590,000	81,073,541

[1] Other consists of purchases of Wind Generation at Ramea.

2016 Isolated Systems Supply Cost Variance Account
Forecast to December 31, 2016[2]

Particulars	Diesel	HQ Purchases	Other [1]	Total
A - 2016 Forecast Supply Produced & Purchased (kWh)	51,518,381	26,008,790	663,135	78,190,306
B - 2016 Forecast Cost / 2016 Forecast Produced & Purchased ($/kWh) [B1 / B2]	0.2770	0.0908	0.2203	0.2146
C - 2015 Test Year Cost / 2015 Test Year Produced & Purchased ($/kWh) [C1 / C2]	0.3001	0.1181	0.2941	0.2475
Isolated Supply Costs [A x (B-C)]				(2,571,789)
Cost Variance Threshold				(500,000)
Isolated Systems Supply Cost Deferral Balance				**(2,071,789)**
B1 - 2016 Forecast Cost of No. 2 Fuel + Purchases ($)	14,271,434	2,361,047	146,080	16,778,561
B2 - 2016 Forecast Supply Produced & Purchased (kWh)	51,518,381	26,008,790	663,135	78,190,306
C1 - 2015 Test Year Cost of No. 2 Fuel + Purchases ($)	17,122,665	2,767,721	173,500	20,063,886
C2 - 2015 Test Year Supply Produced & Purchased (kWh)	57,048,141	23,435,400	590,000	81,073,541

[1] Other consists of purchases of Wind Generation at Ramea.

[2] Reflects actual results to October 31, 2016 and forecast for November and December.

APPENDIX E

2015 and 2016 Energy Supply Cost Variance Account Calculations

Energy Supply Cost Variance Deferral Account
December 31, 2015

Line No.	Particulars	Holyrood Combustion Turbine	Hardwoods Gas Turbine	Stephenville Gas Turbine	St. Anthony Diesel	Hawkes Bay Diesel	Total
1	2015 Actual Fuel Costs ($)	11,406,709	2,067,100	1,135,250	112,135	21,264	14,742,458
2	2015 Test Year Fuel Costs ($)	1,977,306	1,089,250	407,134	55,917	31,223	3,560,830
3	**A - Thermal Generation Cost Variance ($) [Line 1 - Line 2]**						**11,181,628**

	Particulars	Nalcor Exploits	Star Lake	Rattle Brook	CBPP Cogen	St. Lawrence Wind	Fermeuse Wind	Total
4	2015 Actual Power Purchases (kWh)	559,495,357	135,319,578	13,475,222	62,489,005	94,784,871	87,213,249	
5	2015 Test Year Power Purchases (kWh)	633,500,000	142,180,000	15,000,000	51,070,000	104,800,000	84,410,000	
6	2015 Test Year Cost ($/kWh)	0.0400	0.0400	0.0836	0.2013	0.0656	0.0694	
7	**B - Power Purchase Variance ($) [(Line 4 - Line 5) x Line 6)]**	**(2,960,186)**	**(274,407)**	**(127,471)**	**2,298,782**	**(657,099)**	**194,477**	**(1,525,905)**
8	**C - Holyrood TGS Fuel Costs/(Savings) ($) [(D/E)*F]**							**5,044,603**
9	**Energy Supply Cost Variance ($) [A+B+C]**							**14,700,326**
10	**Cost Variance Threshold ($)**							**500,000**
11	**Energy Supply Cost Variance Deferral ($)**							**14,200,326**
12	D - 2015 Test Year Holyrood Average Fuel Cost (bbl)							64.41
13	E - 2015 Test Year Fuel Conversion Factor (kWh/bbl)							618
14	F - Annual kWh variance - Actual vs. Test Year (kWh) (G1-G2)							48,401,874
15	G1 - 2015 Test Year Consumption (kWh)							1,042,340,000
16	G2 - 2015 Actual Consumption (kWh)							993,938,126

Energy Supply Cost Variance Deferral Account
Forecast to December 31, 2016[1]

Line No.	Particulars	Holyrood Combustion Turbine	Hardwoods Gas Turbine	Stephenville Gas Turbine	St. Anthony Diesel	Hawkes Bay Diesel	Total
1	2016 Forecast Fuel Costs ($)	21,273,751	3,279,021	1,635,187	132,736	90,028	26,410,723
2	2015 Test Year Fuel Costs ($)	1,977,306	1,089,250	407,134	55,917	31,223	3,560,830
3	**A - Thermal Generation Cost Variance ($) [Line 1 - Line 2]**						**22,849,893**

	Particulars	Nalcor Exploits	Star Lake	Rattle Brook	CBPP Cogen	St. Lawrence Wind	Fermeuse Wind	Total
4	2016 Forecast Power Purchases (kWh)	507,585,993	145,516,685	15,368,371	70,044,682	106,038,419	89,868,202	
5	2015 Test Year Power Purchases (kWh)	633,500,000	142,180,000	15,000,000	51,070,000	104,800,000	84,410,000	
6	2015 Test Year Cost ($/kWh)	0.0400	0.0400	0.0836	0.2013	0.0656	0.0694	
7	**B - Power Purchase Variance ($) [(Line 4 - Line 5) x Line 6)]**	**(5,036,560)**	**133,463**	**30,796**	**3,819,830**	**81,254**	**378,666**	**(592,552)**
8	**C - Holyrood TGS Fuel Costs/(Savings) ($) [(D/E)*F]**							**(531,477)**
9	**Energy Supply Cost Variance ($) [A+B+C]**							**21,725,863**
10	**Cost Variance Threshold ($)**							**500,000**
11	**Energy Supply Cost Variance Deferral ($)**							**21,225,863**
12	D - 2015 Test Year Holyrood Average Fuel Cost (bbl)							64.41
13	E - 2015 Test Year Fuel Conversion Factor (kWh/bbl)							618
14	F - Annual kWh variance - Forecast vs. Test Year (kWh) (G1-G2)							(5,099,408)
15	G1 - 2015 Test Year Consumption (kWh)							1,042,340,000
16	G2 - 2016 Forecast Consumption (kWh)							1,047,439,408

[1] Reflects actuals to October 31, 2016 and forecast for November and December.

APPENDIX F

2015 and 2016 Holyrood Conversion Rate Deferral Account Calculations

Holyrood Conversion Rate Deferral Account
December 31, 2015

Particulars		**Efficiency Factor (kWh/bbl)**
A - 2015 Actual quantity of No.6 fuel consumed (bbl)	2,423,336	602
B - Calculated quantity of No. 6 fuel consumed using the 2015 Test Year Cost of Service fuel conversion rate (bbl)[1]	2,359,960	618
C - 2015 Test Year Cost of Service No. 6 fuel cost ($ per bbl)	64.41	
Holyrood Fuel Conversion Rate Variance ($) [(A - B) x C]	4,082,033	
Cost Variance Threshold ($)	500,000	
Holyrood Fuel Conversion Rate Deferral Balance ($)	**3,582,033**	

[1]Calculation of B (D/E):

D - 2015 Actual net Holyrood production (kWh)	1,458,455,118
E - 2015 Test Year Cost of Service fuel conversion rate (kWh/bbl)	618

Holyrood Conversion Rate Deferral Account
Forecast to December 31, 2016[2]

Particulars		**Efficiency Factor (kWh/bbl)**
A - 2016 Forecast quantity of No.6 fuel consumed (bbl)	2,747,026	610
B - Calculated quantity of No. 6 fuel consumed using the 2015 Test Year Cost of Service fuel conversion rate (bbl)[1]	2,709,533	618
C - 2015 Test Year Cost of Service No. 6 fuel cost ($ per bbl)	64.41	
Holyrood Fuel Conversion Rate Variance ($) [(A - B) x C]	2,414,954	
Cost Variance Threshold ($)	500,000	
Holyrood Fuel Conversion Rate Deferral Balance ($)	**1,914,954**	

[1]Calculation of B (D/E):

D - 2016 Forecast net Holyrood production (kWh)	1,674,491,197
E - 2015 Test Year Cost of Service fuel conversion rate (kWh/bbl)	618

[2] Reflects actual results to October 31, 2016 and forecast for November and December.

SCHEDULE 2

Newfoundland and Labrador Hydro
2016 Cost Deferral Account

This account shall be charged with the amount of $38.8 million for 2016. Disposition of the balance in this account will be subject to a further order of the Board.

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

IN THE MATTER OF a general rate application by Newfoundland and Labrador Hydro filed on July 30, 2013; and

IN THE MATTER OF an amended general rate application filed by Newfoundland and Labrador Hydro on November 10, 2014; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro for approval of a proposed cost deferral account to provide Newfoundland and Labrador Hydro the opportunity to earn a reasonable return on rate base in 2016 (2016 Cost Deferral Application).

AFFIDAVIT

I, Kevin Fagan, of St. John's in the Province of Newfoundland and Labrador, make oath and say as follows:

1. I am Manager, Regulatory Affairs, of Newfoundland and Labrador Hydro, the Applicant named in the attached Application.

2. I have read and understand the foregoing Application.

3. I have personal knowledge of the facts contained therein, except where otherwise indicated, and they are true to the best of my knowledge, information and belief.

SWORN at St. John's in the Province of Newfoundland and Labrador, this 9th day of December 2016, before me:

Barrister – Newfoundland and Labrador

Kevin Fagan

(DRAFT ORDER)
NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD

NO. P.U. __ (2016)

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

IN THE MATTER OF a general rate application by Newfoundland and Labrador Hydro filed on July 30, 2013; and

IN THE MATTER OF an amended general rate application filed by Newfoundland and Labrador Hydro on November 10, 2014; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro for approval of a proposed cost deferral account to provide Newfoundland and Labrador Hydro the opportunity to earn a reasonable return on rate base in 2016 (2016 Cost Deferral Application).

WHEREAS Newfoundland and Labrador Hydro ("Hydro") is a corporation continued and existing under the *Hydro Corporation Act, 2007*, is a public utility within the meaning of the *Act*, and is subject to the provisions of the *EPCA*; and

WHEREAS Hydro's Amended General Rate Application ("Amended GRA") proposed the implementation of interim rates to become effective January 1, 2015 for Island Industrial Customers and Labrador Industrial Customers, as well as interim rates to become effective February 1, 2015 for Newfoundland Power Inc. ("Newfoundland Power") and Hydro Rural customers; and

WHEREAS interim rates for Newfoundland Power, Hydro Rural customers and Island Industrial Customers became effective July 1, 2015, in accordance with Order Nos. P.U. 17(2015), P.U. 19(2015) and P.U. 21(2015); and

WHEREAS on December 1, 2016, the Board issued Order No. 49(2016) providing its decisions and direction on Hydro's Amended GRA for 2014 and 2015 Test Years ("2013 GRA Order"); and

WHEREAS Hydro will be filing its compliance filing to reflect the 2013 GRA Order in January 2017. As a result of the timing of the 2013 GRA Order and corresponding compliance application, the implementation of customer rates reflecting the 2013 GRA Order will not occur in 2016; and

WHEREAS the delay in final implementation of the GRA Order until 2017 will impede Hydro's ability to earn a reasonable return in 2016; and

WHEREAS Hydro is forecasting a net loss at the end of 2016 of $14.9 million, primarily because of increased fuel expense resulting from RSP adjustments and increased supply costs; and

WHEREAS in the 2013 GRA Order, the Board approved three supply cost deferrals to be implemented effective January 1, 2015, specifically, the Isolated Systems Supply Cost Variance Deferral, the Energy Supply Cost Variance Deferral, and the Holyrood Conversion Rate Deferral. However, the supply cost deferral account definitions have not yet been approved by the Board, as Hydro is required to make minor modifications to the account definitions to reflect the Board's Decisions; and

WHEREAS implementation of the supply cost deferral accounts approved by the Board in the 2013 GRA Order for 2015 and 2016 would result in a forecast net income of $23.9 million in 2016. The forecast supply cost deferral account balances for 2015 and 2016 reflect supply costs that have been prudently incurred in the provision of service to customers; and

WHEREAS Hydro proposes that the 2016 Cost Deferral be set to equal $38.8 million. Approval of the proposed 2016 Cost Deferral Account would provide Hydro an opportunity to earn a reasonable return in 2016.

IT IS THEREFORE ORDERED THAT:

1. The creation of the 2016 cost deferral account in the amount of $38.8 million is approved;
2. The account definition for the proposed cost deferral as provided in Schedule 2 to this 2016 Cost Deferral Application is approved; and
2. Hydro shall pay all expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador, this __ day of _____, ____.

_____

_____

_____ _____