

December 20, 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 for approval of a proposed cost deferral account to provide Hydro the opportunity to earn a reasonable return on rate base in 2016 – Hydro's Reply to additional comments**

The following is Newfoundland and Labrador Hydro's (Hydro) submission to additional comments received on today's date with regard to the above noted application.

Newfoundland Power suggests the proposed relief in Hydro's 2016 Cost Deferral Application "*may have the practical effect of relieving Hydro from the consequences of the Board's prudence disallowances*". Newfoundland Power's suggestion is a misrepresentation of the facts supporting the application.

Hydro submits that the proposed cost deferral amount is supported by the combined effect on earnings of not being provided the opportunity to recover prudently incurred supply costs over a two-year period, specifically 2015 and 2016. Hydro reported net losses in 2015. The proposed cost deferral for 2016 should not be reviewed as an application for a single year but should also give consideration to related information from prior years.

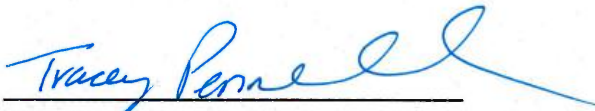
Based on its preliminary review, it is Hydro's assessment that the compliance filing will demonstrate that additional revenue will need to be recognized by Hydro in 2017 as a result of the cumulative impact of updating the 2014 Test Year Revenue Requirement, the 2015 Test Year Revenue Requirements and the 2016 Revenue Deficiency. Hydro does not agree with Newfoundland Power's suggestion that Hydro should be penalized with respect to its 2016 Cost Deferral Application solely as a result of accounting rules applying a different standard in recognition of the negative aspects of the 2013 GRA Order than is required to be applied in considering potential positive results from the same 2013 GRA Order.

Hydro submits that the Board's evaluation of the reasonableness of Hydro's 2016 Cost Deferral Application give consideration to the 2013 GRA Order in its completeness. Hydro also submits that the suggestion by Newfoundland Power that approval of the 2016 Cost Deferral will somehow relieve Hydro from the consequences of the Board's prudence disallowances is in fact baseless and without merit. Hydro is not seeking to avoid any consequences of the Board's prudence findings. The rate implementation order resulting from Hydro's compliance filing will address the consequences of cost recovery of both the Prudence Order and the 2013 GRA Order.

Section 4 of the EPCA directs the Board to apply tests that are consistent with generally accepted sound public utility practice. The Board set out those principles in Order No. P.U. 8(2007). In addition to fair return, cost of service, fair cost apportionment, efficiencies, rate stability and predictability, and practical attributes, the Board also recognized the end result as a fundamental principle that must be used by regulators as a guide to decision-making. As stated by the Board, the end result must be fair, just and reasonable from the perspective of both the consumer and the utility. Hydro's submits the 2016 Cost Deferral Application strikes a reasonable balance of the above regulatory principles.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**



Tracey L. Pennell  
Senior Counsel, Regulatory

TLP/bds

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  
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