

DELIVERED BY HAND

December 15, 2016

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 – 2016 Cost Deferral Application

A. Background

In Order No. P.U. 49 (2016) (the “Order”), the Board of Commissioners of Public Utilities (the “Board”) made a number of determinations on proposals contained in, and matters arising from, Newfoundland and Labrador Hydro’s (“Hydro”) Amended 2013 General Rate Application (the “GRA”).

In the Order, the Board approved a number of supply related cost deferral accounts. This included an Isolated Systems Supply Cost Variance Deferral Account, an Energy Supply Cost Variance Deferral Account and a Holyrood Conversion Rate Deferral Account (collectively, the “supply cost deferral accounts”). The supply cost deferral accounts were approved effective January 1, 2015.

The Order also included a number of other determinations, such as (i) approval of 2014 and 2015 cost deferrals, (ii) cost disallowances in respect of those deferrals and (iii) cost disallowances associated with the 2015 test year revenue requirement for ratemaking purposes.

Newfoundland Power Inc.

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6
PHONE (709) 737-5859 • FAX (709) 737-2974 • palteen@newfoundlandpower.com

B. The 2016 Cost Deferral Application

On December 9, 2016, Hydro made an application (the “Application”) proposing a cost deferral account (the “2016 Cost Deferral Account”) to provide Hydro the opportunity to earn a reasonable return on rate base in 2016. According to Hydro, the delay in final implementation of the Order until 2017 will result in a material revenue deficiency for Hydro in 2016. Without relief, Hydro is forecasting a net loss for 2016 of \$14.9 million.

In the Application, Hydro proposes, in effect, to record transactions associated with the supply cost deferral accounts for 2015 and 2016 in the 2016 Cost Deferral Account. This would provide Hydro with a 2016 cost deferral of \$38.8 million. With this deferral, Hydro forecasts (i) a return on rate base of 6.63%, or 7 basis points higher than its mid-point 2016 return on rate base of 6.56% and (ii) a return on common equity of 7.19%, or 131 basis points lower than its return on equity for ratemaking purposes of 8.50%. No explanation of this return forecast is included in the evidence supporting the Application.

Hydro does not propose to record any other transactions associated with the Order as part of the 2016 Cost Deferral Account. However, it appears the forecast net loss for 2016 is due in part to Hydro recording cost disallowances associated with the Order based on accounting standards.¹ The extent to which the cost disallowances, and other aspects of the Order, have been recorded is unclear.²

By correspondence dated December 12, 2016, the Board requested that any comments regarding the Application be submitted to the Board by December 15, 2016.

C. Newfoundland Power’s Comments

In the Order, the Board approved, with certain revisions, Hydro’s proposed supply cost deferral accounts, effective January 1, 2015. From Newfoundland Power’s review of the Application, it appears Hydro has appropriately recorded expenditures associated with supply costs in determining the amount of \$38.8 million in respect of these accounts. The Application does not,

¹ See page 3, lines 6-9 of the Application where Hydro states “...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”.

² For example, see Hydro’s Application, page 4, **Section 5: Compliance Filing** where Hydro states “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”.

however, provide any meaningful evidence indicating that these expenditures were consistent with the least cost, reliable operation of the power system.³

It also appears other transactions as a result of the Order have been recorded by Hydro without the requirement of a further order from the Board. According to Hydro, these transactions were recognized based on the accounting standards requiring cost recognition in 2016. In its evidence in support of the Application, Hydro does not describe the transactions that were recorded as a result of the accounting standards. Further, Hydro does not provide evidence why the accounting standards require a further order from the Board to record transactions associated with the supply cost deferral accounts.

It is unclear to Newfoundland Power why an order in respect of the Application is required to record only the expenditures associated with the supply cost deferral accounts in 2016. So, while Newfoundland Power believes it reasonable that Hydro record the transactions as proposed in the Application, it is equally reasonable that any other transactions that can be estimated as a result of the Order in 2016 also be indicated to provide reasonable context for decision-making on the Application.

Finally, the Application indicates that the recovery of the balance in the 2016 Cost Deferral Account will be subject to the Board's review in Hydro's compliance filing in respect of the Order. According to the Order, the recovery of the balances associated with the supply cost deferral accounts will be addressed in the annual application for disposition of the balances in the respective accounts. Newfoundland Power submits that, for clarity, the Board should order Hydro to file evidence indicating that the expenditures concerned are consistent with the least cost, reliable operation of the power system with either (i) Hydro's annual application for disposition of the balances in the supply cost deferral accounts (as indicated in the Order); or (ii) Hydro's compliance filing (as indicated in Hydro's evidence filed in support of the Application).

Yours very truly,



Peter Alteen, QC
Vice President,
Regulation & Planning

Enclosures

³ In Hydro's evidence on the general rate application, it was indicated that evidence of when standby units were run would, at some point, be placed before the Board. (see, for example, Mr. Goulding, Transcript, October 20, 2015, page 137, line 23 to page 140, line 17).

Newfoundland Power Inc.

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6
PHONE (709) 737-5859 • FAX (709) 737-2974 • palteen@newfoundlandpower.com

- c. Tracey Pennell
Newfoundland and Labrador Hydro
- Paul Coxworthy
Stewart McKelvey
- Genevieve Dawson
Benson Buffett
- Yvonne Jones, MP
Labrador
- Dennis Browne, QC
Browne Fitzgerald Morgan & Avis
- Thomas O'Reilly, QC
Cox & Palmer
- Larry Bartlett
Teck Resources Limited
- Senwung Luk
Olthius, Kleer, Townshend LLP