

August 2, 2018

**Via Email & Courier**

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 of Corporate Services & Board Secretary**

Dear Ms. Blundon:

**Re: 2017 General Rate Application (GRA) – Additional information related to Supplemental Evidence filed on July 20, 2018**

Enclosed with this letter please find one (1) original plus thirteen (13) copies of Hydro's response to the Board's July 26, 2018 letter requesting further information related to the Supplemental Evidence filed by Hydro on July 20, 2018.

In its letter, the Board requested that Hydro file a revision to its 2017 General Rate Application (2017 GRA) to update part B, Hydro's proposals. Further, the Board requested that Hydro provide a table similar to Tables 5-7 and 5-8 in its 2017 GRA setting out the impact of Hydro's updated proposals on rates for each customer class in 2018 and 2019.

As such, the attached provides:

- Hydro's part B of its 2017 GRA, updated to reflect the settlement agreements and supplemental evidence;
- A revised Table 5-7 showing 2018 revenue deficiencies/excess revenues by customer class; and
- A revised Table 5-8 showing 2019 billing impacts by customer class.

If you have any questions, please contact the undersigned.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**



Geoffrey P. Young  
Corporate Secretary & General Counsel  
GPY/sk

cc: Gerard Hayes - Newfoundland Power  
Paul Coxworthy - Stewart McKelvey  
Denis J. Fleming - Cox & Palmer  
ecc: Van Alexopoulos - Iron Ore Company  
Senwung Luk - Olthuis Kleer Townshend LLP

Dennis Browne, Q.C. – Brown Fitzgerald Morgan & Avis  
Dean Porter - Poole Althouse  
Benoît Pepin - Rio Tinto



**Newfoundland and Labrador Hydro  
2017 General Rate Application  
Proposals Updated to Reflect Settlement Agreements and Supplemental Evidence**

**B. Hydro's Proposals:**

1. Hydro makes this Application under the *Electrical Power Control Act, 1994* and under the *Act*, and specifically under Sections 58, 64, 70, 71, 75, 76, 78 and 80 of the *Act*, and requests:

Revenue Requirement

- (1) a) that Hydro's proposal to have its 2018 and 2019 Test Year revenue requirements, and resulting rates, reflect the expected supply of power to the Island Interconnected System from both off-island power purchases and existing Island generation as described in the Additional Cost of Service Information filed in compliance with Board Order No. P.U. 2(2018), and agreed to in section 14 of the Supplemental Settlement Agreement dated July 16, 2018, be approved; and
- b) that a revised definition to the Energy Supply Cost Variance Deferral Account to include variances in both price and volume of off-island power purchases, as provided in Appendix L of the Additional Cost of Service Evidence filed in compliance with Board Order No. P.U. 2(2018) and agreed to in section 18 of the Supplemental Settlement Agreement dated July 16, 2018, be approved effective January 1, 2018;

- (2) That for the purposes of calculating Hydro's 2018 Test Year, subject to change following the Board's final order and Hydro's Compliance Application:
- a) an estimated 2018 Test Year revenue requirement of \$545,140,266 be approved;
  - b) an estimated 2018 forecast average rate base of \$2,251,655,000 be approved; and
  - c) an estimated rate of return on rate base of 5.70% in a range of 5.50% to 5.90% be approved;
- (3) that for the purposes of calculating Hydro's 2019 Test Year, subject to change following the Board's final order Hydro's Compliance Application:
- a) An estimated 2019 Test Year revenue requirement of \$593,831,533 be approved;
  - b) an estimated 2019 forecast average rate base of \$2,340,287,000 be approved; and
  - c) a rate of return on rate base of 5.68% in a range of 5.48% to 5.88% be approved;
- (4) a) that Hydro's forecast capital structure for 2018, as set out in Chapter 4 of the evidence in support of this Application, with a weighted average cost of capital of 5.73%, be approved; and
- b) that Hydro's forecast capital structure for 2019, as set out in Chapter 4 of the evidence in support of this Application, with a weighted average cost of capital of 5.68%, be approved;

- (5) that pursuant to Order in Council OC2009-063, for purpose of calculating Hydro's return on rate base for 2018 and 2019, the return on equity last approved by Order No. P.U. 18(2016) as a result of Newfoundland Power's general rate application, of 8.5 %, be approved;
- (6) that the Holyrood conversion rate of 583 kWh per barrel for the 2019 Test Year, as agreed to in section 16 of the Supplemental Settlement Agreement dated July 16, 2018, be approved;
- (7) that Hydro's revenue requirement including the cost of Capacity Assistance agreements, consistent with section 22 of the Supplemental Settlement Agreement dated July 16, 2018, be approved;
- (8) that Hydro's revenue requirements reflecting vacancies in full time equivalents of 55, as agreed to in section 10 of the Settlement Agreement dated April 11, 2018, be approved;
- (9) that Hydro's costs and expenses related to the Business Systems Transformation Project described in the Application be deferred in a separate account with recovery subject to a further order of the Board, as agreed to in section 11 of the Settlement Agreement dated April 11, 2018, be approved;
- (10) that the Debt Guarantee Fee be included in Hydro's revenue requirement in accordance with section 12 of the Settlement Agreement dated April 11, 2018, be approved;
- (11) that Hydro's 2018 Test Year fuel expense, power purchase expense, the Rate Stabilization Plan, Energy Supply Cost Variance Deferral Account, Holyrood

Conversion Rate Deferral Account, and the Isolated Systems Cost Variance Deferral account reflecting the 2015 Test Year factors and values, including a No. 6 fuel cost of \$64.41 per barrel and a conversion rate of 618 kWh per barrel, among other factors as approved in the 2015 Test Year, be approved;

Regulatory Accounting

- (12) that Hydro's continued use of the working capital methodology, as agreed to in section 14 of the Settlement Agreement dated April 11, 2018, be approved;
- (13) that Hydro's proposed average rate base methodology, as agreed to in section 13 of the Settlement Agreement dated April 11, 2018, be approved;
- (14) that Hydro's proposed depreciation rates and methodology, as agreed to in section 9 of the Settlement Agreement dated April 11, 2018, be approved;
- (15) that Hydro's proposal in relation to an automatic adjustment mechanism for its target return on equity to reflect any changes to Newfoundland Power's approved target return on equity for rate setting, as agreed to in section 24 of the Settlement Agreement dated April 11, 2018, be approved;
- (16) that Hydro's proposal to amortize and recover general rate and cost of service hearing costs over a three period commencing in 2018, as agreed to in section 22 of the Settlement Agreement dated April 11, 2018, be approved;
- (17) that Hydro's proposal to recover its 2018 revenue deficiency or revenue excess over a 20-month period commencing January 1, 2019, as agreed to in sections 20

and 21 of the Supplemental Settlement Agreement dated July 16, 2018, be approved;

- (18) that Hydro's proposal to include its 2018 revenue deficiency or revenue excess in rate base, as set out in Chapter 4 of the evidence in support of this Application, be approved;
- (19) that Hydro's excess earnings account definition, as agreed to in section 23 of the Settlement Agreement dated April 11, 2018, be approved;
- (20) that Hydro's proposed accounting treatment and methodology for calculation of Employee Future Benefits in the 2018 and 2019 Test Years, as agreed to in section 7 of the Settlement Agreement dated April 11, 2018, be approved;
- (21) that Hydro's proposed accounting treatment and calculation of Asset Retirement Obligations in the 2018 and 2019 Test Years, as agreed to in section 8 of the Settlement Agreement dated April 11, 2018, be approved;

#### Cost of Service Methodology

- (22) that the generation credit service agreement between Hydro and Corner Brook Pulp and Paper, which was approved on a pilot basis by the Board in Order No. P.U. 4(2012), and as agreed to in section 8 of the Supplemental Settlement Agreement dated July 16, 2018, be approved to continue on a pilot basis;
- (23) that Hydro's proposal to allocate operating and maintenance expenses for specifically assigned assets by customer be based on the determination of test year transmission asset values via Handy-Whitman indexes, and as per Hydro's

report dated December 21, 2017, as agreed to in section 15 of the Settlement Agreement dated April 11, 2018 and section 7(c) of Supplemental Settlement Agreement dated July 16, 2018, be approved;

- (24) that wind energy purchases classified as 100% energy-related, as agreed to in section 7(a) of the Supplemental Settlement Agreement dated July 16, 2018, be approved;
- (25) that the continued allocation of the frequency converter specifically assigned to Corner Brook Pulp and Paper Limited, as agreed to in section 7(b) of the Supplemental Settlement Agreement dated July 16, 2018, be approved;
- (26) that the functionalization of TL267 as 100% demand, as agreed to in section 7(d) of the Supplemental Settlement Agreement dated July 16, 2018, be approved;
- (27) that the revenue requirement method to allocate the rural deficit between Newfoundland Power and the Labrador Interconnected system approved by Order No.P.U.49 (2016), as agreed to in section 16 of the Settlement Agreement dated April 11, 2018, for use in the 2018 and 2019 Test Years, be approved;
- (28) that a filing date of no later than November 15, 2019 for Hydro's Cost of Service and Rate Design Methodology Review, as agreed to in the section 25 of the Settlement Agreement dated April 11, 2018, be approved;



2019 General Rate Proposals

- (29) that, effective January 1, 2019, rates for 2019 for all of Hydro's customers that recover Hydro's 2019 Test Year revenue requirement, be approved on a final basis;
- (30) that, effective January 1, 2019, Newfoundland Power's rates, as agreed to in section 9 of the Supplemental Settlement Agreement dated July 16, 2018, be approved as follows:
- a) Newfoundland Power's demand charge will equal \$5.00 per kW of billing demand;
  - b) The size of Newfoundland Power's first block energy component will be determined in consultation with Newfoundland Power prior to the filing of Hydro's 2017 GRA Compliance filing;
  - c) Newfoundland Power's approved 2019 Test Year revenue requirement not recovered through the demand charge and the end-block energy charge will be used to compute the first block energy charge;
  - d) Newfoundland Power's end-block firm energy rate for use in Hydro's 2017 GRA Compliance filing will be determined based on the most current fuel rider forecast (either March or September) divided by the approved 2019 Test Year Holyrood No.6 fuel conversion rate and expressed on a cent per kWh basis;

- e) The wholesale rate will continue to include the Generation Credit and Curtailable Credit in computation of the billing demand of Newfoundland Power; and,
  - f) The Generation Credit will equal 118,054 kW for the 2018 Test Year and the 2019 Test Year;
- (31) that, effective January 1, 2019, the RSP fuel rider applicable to Newfoundland Power, as approved in Board Order No. P.U. 15(2018), be discontinued;
  - (32) that for Newfoundland Power an additional rate rider to become effective January 1, 2019 and remain in effect for 20 months to recover or refund the forecast 2018 revenue deficiency or revenue excess, as agreed to in section 20 of the Supplemental Settlement Agreement dated July 16, 2018, be approved;
  - (33) that for the Island Industrial Customers an additional rate rider to become effective January 1, 2019 and remain in effect for 20 months to recover or refund the forecast 2018 revenue deficiency or revenue excess, as agreed to in section 20 of the Supplemental Settlement Agreement dated July 16, 2018, be approved;
  - (34) that, effective January 1, 2019, the RSP fuel rider applicable to Island Industrial Customers approved in Board Order P.U. 7(2018), be discontinued;
  - (35) that, effective January 1, 2019, a loss factor of 3.34% be approved for use in calculation of the non-firm Island Industrial energy rate, as set out in Chapter 5 and Exhibit 17 to the evidence in support of this Application, be approved on a final basis;

- (36) that the deferral of consideration of whether information on the rural deficit should be included on customers' bills for inclusion in a separate proceeding or a future Hydro general rate application, as agreed to in section 20 of the Settlement Agreement dated April 11, 2018, be approved;

Deferred Supply Costs

- (37) that Hydro's deferred supply costs be approved as prudent, specifically:
- g) 2015 Isolated Systems Supply Cost Variance Deferral Account balance of \$0.00;
  - h) 2016 Isolated Systems Supply Cost Variance Deferral Account credit balance of \$2,186,570.00;
  - i) 2017 Isolated Systems Supply Cost Variance Deferral Account credit balance of \$1,106,821.00;
  - j) 2015 Energy Supply Cost Variance Deferral Account debit balance of \$14,200,429.00;
  - k) 2016 Energy Supply Cost Variance Deferral Account debit balance of \$24,462,996.00;
  - l) 2017 Energy Supply Cost Variance Deferral Account debit balance of \$20,134,732.00;
  - m) 2015 Holyrood Conversion Rate Deferral Account debit balance of \$3,582,048.00;

- n) 2016 Holyrood Conversion Rate Deferral Account debit balance of  
\$2,150,665.00;
  - o) 2017 Holyrood Conversion Rate Deferral Account debit balance of  
\$4,163,799.00;
- (38) that the allocation of balances from the Isolated Systems Cost Variance Deferral Account based upon the same methodology as that which is approved for the allocation of the Rural Deficit, as agreed to in section 10 of the Supplemental Settlement Agreement dated July 16, 2018, be approved;
- (39) that the allocation of balances in the Energy Supply Cost Variance Deferral and Holyrood Conversion Rate Deferral Account computed by customer class based upon the fuel cost allocation methodology used in the Rate Stabilization Plan, and the allocation percentage be based upon the energy allocators consistent with the year in which the costs were incurred, as agreed to in section 12 of the Supplemental Settlement Agreement dated July 16, 2018, be approved;
- (40) that balances allocated to Newfoundland Power and the Island Industrial Customers be recovered through rate riders to be determined separately for each customer class and computed reflecting a 20 month recovery period effective January 1, 2019, as agreed to in section 13 of the Supplemental Settlement Agreement dated July 16, 2018, be approved;

Rules and Regulations

- (41) that the calculation of the Rural Rate Alteration component to use Test Year data, as agreed to in section 18 of the Settlement Agreement dated April 11, 2018, be approved effective January 1, 2018;
- (42) that the proposed rules and regulations governing service as set out in Chapter 5 and Exhibit 17 to this evidence in support of this Application, as agreed to in section 19 of the Settlement Agreement dated April 11, 2018, be approved effective January 1, 2019; and,
- (43) that upon hearing this Application, the Board grant such alternative, additional or further relief as the Board shall consider fit and proper in the circumstances.

**2018 Revenue Excess / (Revenue Deficiency) by Customer Class  
2018**

	Revenue from 2018 Rates	2018 Revenue Requirement	Revenue Deficiency / (Excess)
<b>Newfoundland Power</b>	441.5	420.3	21.2
<b>Island Industrial Customers</b>	41.5	36.2	5.3
<b>Labrador Industrial</b>			
Transmission	3.5	3.5	(0.0)
Generation Cost Recovery	1.2	1.4	(0.2)
<b>Labrador Industrial Total</b>	<u>4.7</u>	<u>4.9</u>	<u>(0.2)</u>
<b>Canadian Forces Base Goose Bay</b>	-	-	-
<b>Rural Island Interconnected</b>	49.9	49.9	-
<b>Rural Isolated Systems</b>	8.1	8.1	-
<b>Rural Isolated Government</b>	2.1	2.3	(0.2)
<b>L'Anse au Loup</b>	3.0	3.0	-
<b>Rural Labrador Interconnected</b>	20.2	20.6	(0.4)
<b>All Rural Systems Total</b>	83.3	83.9	(0.6)
<b>Grand Total</b>	<b>571.1</b>	<b>545.3</b>	<b>25.7</b>

<b>Revised Table 5-8 Comparison of 2019 Test Year Billings at 2018 Interim and 2019 Proposed Rates (Revised to Reflect Supplemental Evidence filed on July 20, 2018)</b>				
	<b>2019 Revenue at 2018 Rates</b>	<b>2019 Expected Supply Scenario Revenue Requirement<sup>1</sup></b>	<b>\$ Change</b>	<b>% Change</b>
<b>Newfoundland Power</b>				
Firm	450.8	484.2	33.5	
RSP - Current Plan	(17.3)	(17.3)	-	
RSP - Fuel Rider	24.7	-	(24.7)	
CDM Recovery Rider	1.3	1.3	-	
<b>Total Firm NP</b>	<b>459.5</b>	<b>468.3</b>	<b>8.8</b>	<b>1.9%</b>
<b>Island Industrial</b>				
Island Industrial Firm	42.7	40.0	(2.7)	
Island Industrial Non-Firm	-	-	-	
RSP - Current Plan	(2.1)	2.8	4.9	
RSP - Fuel Rider	(0.2)	-	0.2	
CDM Recovery Rider	0.1	0.1	-	
<b>Island Industrial Total</b>	<b>40.5</b>	<b>42.9</b>	<b>2.4</b>	<b>6.1%</b>
<b>Labrador Industrial</b>				
Transmission	3.5	4.3	0.8	
Generation Cost Recovery	1.2	1.4	0.1	
<b>Labrador Industrial Total</b>	<b>4.7</b>	<b>5.7</b>	<b>1.0</b>	<b>20.6%</b>
<b>Canadian Forces Base Goose Bay</b>				
Rural Island Interconnected	51.0	51.8	0.7	1.2%
Rural Isolated Systems	8.4	8.6	0.1	1.2%
Rural Isolated Government	2.1	2.5	0.5	22.7%
L'Anse au Loup	3.1	3.1	0.0	1.2%
<b>Rural Labrador Interconnected</b>				
Domestic	11.0	11.8	0.8	6.9%
GS 2.1 0 - 10 kW	0.4	0.4	0.0	6.9%
GS 2.2 10 - 100 kW	2.2	2.4	0.2	6.9%
GS 2.3 110 - 1000 kVA	3.4	3.7	0.2	6.9%
GS 2.4 Over 1000 kVA	2.5	2.7	0.2	6.9%
Street & Area Lighting	0.4	0.4	(0.0)	0.0%
<b>Rural Labrador Interconnected Total<sup>2</sup></b>	<b>20.0</b>	<b>21.3</b>	<b>1.4</b>	<b>6.8%</b>
<b>All Rural Systems Total</b>	<b>84.6</b>	<b>87.3</b>	<b>2.7</b>	<b>3.2%</b>
<b>Grand Total</b>	<b>589.3</b>	<b>604.2</b>	<b>14.9</b>	<b>2.5%</b>

<sup>1</sup> 2019 Revenue Requirement reflects recovery of 2018 revenue deficiency and 2015-2017 deferred supply costs

<sup>2</sup> 2019 Revenue Requirement for Rural Labrador Interconnected reflects \$0.2 million balance owing to customers in accordance with Board Order P.U. 22(2017)