

May 11, 2018

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

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

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro's 2018 Utility Customer Interim Rates Application

Following is Newfoundland and Labrador Hydro's (Hydro's) reply to the parties' submissions with regard to Hydro's 2018 Utility Customer Interim Rates Application (the Application).

1.0 Background

On April 20, 2018, Hydro filed a revised Application for (i) a change to the Rate Stabilization Plan (RSP) Rules to permit the use of a reduced number barrels of No. 6 fuel for use in calculation of the RSP Fuel Rider; (ii) an update to the RSP Fuel Rider and the RSP Current Plan adjustment (including conclusion of Newfoundland Power's RSP Mitigation Adjustment); (iii) an update to the CDM Cost Recovery Adjustment; (iv) implementation of 2018 interim base rates for Newfoundland Power; (v) all to be effective July 1, 2018.

2.0 Submissions from Parties

On May 7, 2018, both the Consumer Advocate and Newfoundland Power filed submissions with respect to Hydro's Application. The Consumer Advocate supports some of Hydro's proposed changes to the RSP, but only on the condition that they are applied consistently to both Newfoundland Power and Island Industrial Customers. The Consumer Advocate opposes any interim base rate increase for Hydro on the basis that additional information on Hydro's proposed costs and revenue requirement is still required.

In contrast, Newfoundland Power's submission states that they consider Hydro's proposals with respect to the RSP are reasonable and that Hydro's request for an interim base rate increase is not unreasonable and appears to take a measured approach to recovery of the 2018 Revenue Deficiency.

3.0 Submission of the Consumer Advocate

RSP Rule Changes

The Consumer Advocate's submission only supports the change to the number of barrels used in the calculation of Newfoundland Power's fuel rider if "*it is made consistently, meaning that the same change is incorporated in the interim rates for the Island Industrial Customers.*"¹ The Consumer Advocate's submission provides no evidence as to why this change is required, or why it must be applied

¹ Reply submission of the Consumer Advocate, dated May 7, 2018, page 2.

at the same time for both Newfoundland Power and the Island Industrial Customers. Further, it is noted in the Consumer Advocate's submission that this change is small, and will result in a change of only 0.1% for Island Industrial Customers.

Hydro notes that differences in the RSP rules between Newfoundland Power and Island Industrial Customers currently exist and operate without issue; these include differences in the implementation date of changes (January 1 versus July 1) as well as the date of the fuel price forecast used in the calculation of the Fuel Rider (currently \$63.75 CDN/bbl versus \$85.55 CDN/bbl). These existing rule differences both have a materially larger impact than the 0.1% difference with which the Consumer Advocate has taken issue.

Newfoundland Power and the Island Industrial Customers have discrete Current Plan accounts in the RSP which ensure each customer group's charges and credits are tracked separately, regardless of any differences in RSP riders. The consequence of not using an updated projection of barrels of No. 6 fuel for establishing the RSP fuel rider for the Island industrial Customers in 2018 is that the Island Industrial Customer RSP Current Plan will be approximately \$57,000 different than it would otherwise be. This impact would flow through the RSP recovery adjustment update to Island Industrial Customer rates in 2019. Therefore, there is no cumulative impact on Island Industrial Customers by accepting Hydro proposed approach for calculating the July 2018 fuel rider for Newfoundland Power.

As such, Hydro submits that no change is required at this time to the existing Island Industrial Customers rates as a result of approving the proposed change to the RSP Rules to become effective July 1, 2018. Hydro notes that the proposed RSP Rule change would permit the proposed approach to be used in determining the RSP fuel rider for Island Industrial Customers to become effective January 1, 2019.

Hydro's Interim Base Rate Increase

The Consumer Advocate's submission states that *"We are not convinced that Hydro needs a rate increase at all, let alone an interim rate increase."*² Hydro notes that this position appears to be directly contrary to the Board's finding in P.U. 7(2018):³ *"The Board acknowledges Hydro's argument that if it is not provided rate relief in 2018 its earnings will be below the bottom of both the existing approved range of return on rate base and the proposed range of return on rate base."*

Hydro has invested approximately \$500 million in capital in the electrical system since its last General Rate Application (GRA). These new investments, including TL 267, are used and useful in the provision of electrical service to customers in 2018; meanwhile, Hydro is not currently recovering this increased cost of service from Newfoundland Power and other island rural customers.

Hydro's Application seeks an interim base rate increase which results in an estimated end-customer rate increase of 2.8%. An increase of this magnitude will provide Hydro with the opportunity to recover approximately 26% of its increased cost of serving its customers in 2018 under Hydro's proposed Deferral Account Scenario, and approximately 35% under the Expected Supply Scenario championed by the Consumer Advocate. Hydro submits that this level of recovery is not unreasonable.

² Reply submission of the Consumer Advocate, dated May 7, 2018, page 2.

³ P.U. 7(2018), page 6, lines 33 through 35.

The projected 7.5% end-consumer increase is material. However, if the Board does not approve Hydro's proposed 2.8% interim rate change to accompany the projected 4.7% increase required as a result of the RSP update, the end-consumer rate increase required at the conclusion of 2017 GRA could be in excess of 10%. Hydro believes its 2018 Interim Utility Customer Rates Application provides a reasonable balance of utility cost recovery and customer rate impacts.

Other Matters

The Consumer Advocate's submission raises a number of other issues which do not appear relevant to the Application. Specifically, the Consumer Advocate's submission states "...we do not know the ultimate costs that are going to be borne by consumers in relation to the Muskrat Falls Project and its' component parts"⁴ and "the parties and the Board need a clear understanding of rates and revenue needed long term before interim rates are approved."⁵

If Hydro's Application for interim rates is approved, Hydro will still have a material revenue deficiency in 2018.⁶ The Consumer Advocate's position that Hydro should not be granted interim rates in 2018 until rate impacts and revenue requirements are known for a number of future years ("the longer term") is inconsistent with the concept of using interim rates to maintain intergenerational equity (i.e. implementing interim rates to reduce the degree of current year costs to be recovered from future customers) and would contribute to adverse customer rate impacts in 2019. Hydro's evidence and responses to requests for information show that the approval of Hydro's proposed interim rates are consistent with intergenerational equity and contribute to customer rate stability.

4.0 Conclusion

The proposed changes to the RSP rate adjustments and RSP Rules are consistent with past practice of the Board and result in RSP rate adjustments that will reasonably reflect the forecast No. 6 fuel cost variance between test years. Hydro also submits that its request for a 2.8% interim base rate increase is reasonable and gives reasonable consideration to intergenerational equity and customer rate stability.

Newfoundland Power's submission states that they consider Hydro's proposals with respect to the RSP to be reasonable and that Hydro's request for an interim base rate increase is not unreasonable. With respect to the level of recovery sought in the Application, Newfoundland Power states:⁷

Hydro's test year costs have not been tested in the GRA. However, the interim rates proposal in the Application provides for recovery of only a portion of the forecast 2018 revenue deficiency. This minimizes the risk of costs which are not clearly appropriate for interim rate recovery being borne prematurely by customers. Further, should the Board's approval of interim rates result in excess revenue being collected from customers, the Board is empowered to remedy that in its final GRA order.

⁴ Reply submission of the Consumer Advocate, dated May 7, 2018, page 2.

⁵ Reply submission of the Consumer Advocate, dated May 7, 2018, page 3.

⁶ Hydro's forecast revenue deficiency from Newfoundland Power in 2018 under the proposed interim rates is \$15.8 million under the Expected Supply Scenario, and \$23.8 million under the Deferral Account Scenario.

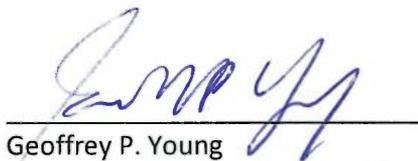
⁷ Reply submission of Newfoundland Power, dated May 7, 2018, page 4.

Hydro submits that the issues raised by the Consumer Advocate are without merit. Based on the evidence before the Board, Hydro's 2018 Utility Customer Interim Rates Application provides a reasonable balance of the interests of the utility and customers. Therefore, Hydro respectfully requests that the Board approve Hydro's 2018 Utility Customer Interim Rates Application, as submitted.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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

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

Dennis Browne, Q.C. – Browne Fitzgerald Morgan & Avis
Dean Porter – Poole Althouse

Benoit Pepin – Rio Tinto