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May 23, 2017

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: NLH Amended General Rate Application – Compliance Application – Order No. P.U. 49(2016) Recovery of Revenue Deficiencies from Island Industrial Customer Load Variation Component Credit Balance - Hydro's Reply

This letter provides Hydro's reply to the May 17, 2017 submission of Corner Brook Pulp & Paper Limited (CBPP) and NARL Refining Limited Partnership (NARL) (the IIC Group) with respect the mitigation of the proposed 16.8% average increase for the Island Industrial Class as provided in Exhibit 4 to Hydro's Compliance Rates Application filed May 18, 2017. Vale Newfoundland & Labrador Limited (Vale) also submitted a letter on May 17, 2017 supporting the proposal of the IIC Group.

The IIC Group submission requests that the impact of rate increases to island industrial customers on July 1, 2017 be mitigated in the same manner as ordered by the Board for the rate increases to Newfoundland Power (and consequently to its customers) in Order No. P.U. 16(2017). Hydro does not object to applying the same mitigation approach to Island Industrial Customers as was approved by the Board to apply to Newfoundland Power. However, the scenario provided by the IIC Group in their submission is not the same as was approved to apply to Newfoundland Power.

The rate mitigation approved for Newfoundland Power resulted in a transfer of available funds from the RSP Load Variation Component to the Newfoundland Power RSP Current Plan to compute a rate mitigation adjustment in addition to the normal Current Plan RSP recovery adjustment. The scenario provided by the IIC Group appears to contemplate a reduction in the fuel rider and provides different annualized customer impacts than if the approach implemented for Newfoundland Power is adopted.

Applying the same approach to Island Industrial Customers, assuming the Board accepts the IIC Group's proposal on recovery of the IIC GRA revenue deficiency of \$1.53 million, would result in a rate mitigation rider of (0.313)¢ per kWh effective July 1, 2017. The rate mitigation rider would become effective July 1, 2017, along with the normal RSP Recovery adjustment of

(0.373)¢ per kWh proposed in Hydro's Compliance Rates Application. Attachment 1 provides a calculation of the rate mitigation adjustment for Island Industrial Customers.

Table 1 provides a comparison of the customer impacts of the proposed July 1, 2017 rates with and without the rate mitigation adjustment for Island Industrial Customers calculated in the same manner as was approved for Newfoundland Power.

Table 1

Projected Island Industrial Customer Rate Impacts, July 1, 2017

Customer	Without Mitigation	With Mitigation	
СВРР	30.6%	25.6%	
NARL	12.3%	6.0%	
Vale	16.6%	10.3%	
Praxair	13.0%	6.4%	
Teck Resources	38.2%	31.9%	
Total Class	16.8%	10.5%	_

The supporting calculations for the Island Industrial Customer billing impacts reflecting the RSP Adjustments in accordance with the current RSP rules are provided in Attachment 2 to this letter.

We trust the foregoing and enclosed are found to be in order. If you have any questions regarding Hydro's reply, please contact the undersigned at your convenience.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

Tracey L. Pennell

Senior Counsel, Regulatory

TPL/Imb

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Thomas J. O'Reilly, Q.C. - Cox & Palmer
Genevieve M. Dawson – Benson Buffett
ecc: Larry Bartlett – larry.bartlett@teck.com

Dennis Browne, Q.C. - Consumer Advocate Yvonne Jones, MP Labrador Senwung Luk – Olthuis, Kleer, Townshend LLP

Newfoundland and Labrador Hydro Rate Stabilization Plan Recovery Adjustment with Rate Mitigation

Industrial Customers

Line					
No	Calculation of Industrial Customer RSP Rate		Amount	Comments	
	Current Plan				
1	December Balance		\$ (1,817,842)	December RSP 2016 ⁽¹⁾	
2	Mitigation Adjustment		\$ (1,546,433)	Transfer on March 31, 2017	(2)
3	December Balance		\$ (3,364,275)	Line 1 plus Line 2	
4	Forecast Financing Costs to December 31, 2017		\$ (103,242)	Line 22	
5	Total		\$ (3,467,517)	Line 3 plus Line 4	
6	12 months to date (Jan - Dec) Industrial Customer Sales (kWh)	divided by	505,383,547	December RSP 2016(1)	
7	Total RSP Recovery Adjustment rate (¢ per kWh)		(0.686)	Line 5/Line 6*1000	
8	IC Mitigation Adjustment		(0.313)	Line 7 - Line 9	
9	RSP Recovery Adjustment rate (¢ per kWh)		(0.373)	Compliance Rates Application	n

Industrial Customer Forecast Financing Charges

2016

	2015 Test Year Weighted Average Cost of	f Capital per annum	6.610%		
	Nominal Financing Rate		6.418%		
					Total
		Sales	Financing		To Date
		kWh	Costs	Adjustment	Balance
8	Balance Forward				(1,817,842)
9	January	39,449,999	(9,722)	270,627	(1,556,937)
10	February	39,164,558	(8,327)	268,669	(1,296,596)
11	March	41,340,048	(6,935)	283,593	(1,019,937)
12	Mitigation Adjustment				(1,546,433)
13	April	39,523,430	(13,726)	271,131	(2,308,966)
14	May	44,414,234	(12,349)	304,682	(2,016,633)
15	June	40,713,651	(10,786)	279,296	(1,748,123)
16	July	41,725,504	(17,620)	286,237	(1,479,506)
17	August	46,371,467	(7,913)	318,108	(1,169,311)
18	September	39,352,823	(6,254)	269,960	(905,605)
19	October	46,418,307	(4,843)	318,430	(592,018)
20	November	43,143,243	(3,166)	295,963	(299,222)
21	December	43,766,283	(1,600)	300,237	(586)
22	Total	505,383,547	(103,242)	3,466,931	

⁽¹⁾ Reflects December 2016 RSP balance restated for the 2015 Test Year.

^{(2) \$1,546,433} equals IC RSP Load Variation credit balance at March 31, 2017 of 3,247,433 less recovery of IIC GRA Revenue Deficiency of \$1,527,000 less payment to NARL of \$174,000.

Total Island Industrial Customers

l otal Island Industrial Customers	2015 Test Year	Ulada	Eviation	•	July 1, 2017	•	Percent Change vs
Domand (IdMa)	Billing Units	Unit \$/kW/mo	Existing	\$ 000 004	Forecast	\$ 0.507.750	Existing
Demand (kWs)	1,064,800	φ/kWh	8.38	8,923,024	7.99	8,507,752	
Energy (MWhs) Spec. Assigned	621,400	\$	4.069 684,312	25,284,766 684,312	3.97 1,639,833	24,675,794 1,639,833	
Spec. Assigned		φ	004,312	34,892,102	1,039,033	34,823,379	-0.2%
RSP: Current Plan	621,400	¢/kWh		9-1-12: 1 1-1-2: 2	(0.373)	(2,317,822)	
RSP: Current Plan Mitigation	621,400	¢/kWh	-		(0.313)	(1,944,982)	
RSP: Fuel Rider	621,400	¢/kWh	-	7. Sec 4. 5.	0.625	3,883,750	
RSP: Teck Rate	20,400	¢/kWh	(1.141)	(232,764)	-		
RSP: IC Surplus Credit (Demand)	1,064,800	\$/kW	(1.52)	(1,618,496)	2		
RSP: IC Surplus Credit (Energy)	621,400	¢/kWh	(0.294)	(1,826,916)	-		
Total RSP				(3,678,176)	-	(379,054)	
CDM Recovery Adjustment	621,400	¢/kWh		-	0.009	55,926	
Firm plus RSP			, e	31,213,926	_	34,500,251	10.5%

Praxair

Praxair	2015 Test Year Billing Units	Unit	Existing	\$	July 1, 2017 Forecast	\$	Percent Change vs Existing
Demand (kWs)	72,000	\$/kW/mo	8.38	603,360	7.99	575,280	
Energy (MWhs)	51,600	¢/kWh	4.069	2,099,604	3.971	2,049,036	
Spec. Assigned		\$		-			
				2,702,964	<u> </u>	2,624,316	-2.9%
RSP: Current Plan	51,600	¢/kWh			(0.373)	(192,468)	
RSP: Current Plan Mitigation	51,600	¢/kWh	- H		(0.313)	(161,508)	
RSP: Fuel Rider	51,600	¢/kWh	-	100	0.625	322,500	
RSP: IC Surplus Credit (Demand)	72,000	\$/kW	(1.52)	(109,440)	-		
RSP: IC Surplus Credit (Energy)	51,600	¢/kWh	(0.294)	(151,704)	mark of the first		
Total RSP				(261,144)		(31,476)	
CDM Recovery Adjustment	51,600	¢/kWh		1	0.009	4,644	
Firm plus RSP				2,441,820	40 Mil <u>i</u>	2,597,484	6.4%

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	2015 Test Year Billing Units	Unit	Existing	\$	July 1, 2017 Forecast	\$	Percent Change vs Existing
Demand (kWs)	488,800	\$/kW/mo	8.38	4,096,144	7.99	3,905,512	
Energy (MWhs)	280,800	¢/kWh	4.069	11,425,752	3.971	11,150,568	
Spec. Assigned		\$		0.0	480,243	480,243	
				15,521,896		15,536,323	0.1%
RSP: Current Plan	280,800	¢/kWh			(0.373)	(1,047,384)	
RSP: Current Plan Mitigation	280,800	¢/kWh	-		(0.313)	(878,904)	
RSP: Fuel Rider	280,800	¢/kWh	_		0.625	1,755,000	
RSP: IC Surplus Credit (Demand)	488,800	\$/kW	(1.52)	(742,976)		-	
RSP: IC Surplus Credit (Energy)	280,800	¢/kWh	(0.294)_	(825,552)	<u>.</u>		
Total RSP			61, [1], [4 <u>-</u>	(1,568,528)		(171,288)	
CDM Recovery Adjustment	280,800	¢/kWh			0.009	25,272	
Firm plus RSP				13,953,368		15,390,307	10.3%

CBPP

	2015 Test Year Billing Units	Unit	Existing	\$	July 1, 2017 Forecast	\$	Percent Change vs Existing
Demand (kWs)	108,000	\$/kW/mo	8.38	905,040	7.99	862,920	
Energy (MWhs)	44,800	¢/kWh	4.069	1,822,912	3.971	1,779,008	
Spec. Assigned		\$	347,167	347,167	870,898	870,898	
				3,075,119		3,512,826	14.2%
RSP: Current Plan	44,800	¢/kWh			(0.373)	(167,104)	
RSP: Current Plan Mitigation	44,800	¢/kWh	-		(0.313)	(140,224)	
RSP: Fuel Rider	44,800	¢/kWh	- 1	3	0.625	280,000	
RSP: IC Surplus Credit (Demand)	108,000	\$/kW	(1.52)	(164,160)		-	
RSP: IC Surplus Credit (Energy)	44,800	¢/kWh	(0.294)	(131,712)		· ·	
Total RSP				(295,872)		(27,328)	
CDM Recovery Adjustment	44,800	¢/kWh	-		0.009	4,032	
Firm plus RSP			<u> </u>	2,779,247		3,489,530	25.6%

NARL

NARL	2015 Test Year				July 1, 2017		Percent Change vs
	Billing Units	Unit	Existing	\$	Forecast	\$	Existing
Demand (kWs)	354,000	\$/kW/mo	8.38	2,966,520	7.99	2,828,460	
Energy (MWhs)	223,800	¢/kWh	4.069	9,106,422	3.971	8,887,098	
Spec. Assigned		\$	150,976	150,976	89,293	89,293	
				12,223,918		11,804,851	-3.4%
RSP: Current Plan	223,800	¢/kWh			(0.373)	(834,774)	
RSP: Current Plan Mitigation	223,800	¢/kWh	_		(0.313)	(700,494)	
RSP: Fuel Rider	223,800	¢/kWh		-	0.625	1,398,750	
RSP: IC Surplus Credit (Demand)	354,000	\$/kW	(1.52)	(538,080)		-	
RSP: IC Surplus Credit (Energy)	223,800	¢/kWh	(0.294)	(657,972)	ing series	. 7	
Total RSP				(1,196,052)	13000 100	(136,518)	
CDM Recovery Adjustment	223,800	¢/kWh		-	0.009	20,142	
Firm plus RSP			<u>.</u>	11,027,866		11,688,475	6.0%

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Teck	2015 Test Year Billing Units	Unit	Existing	\$	July 1, 2017 Forecast	\$	Percent Change vs Existing
Demand (kWs)	42,000	\$/kW/mo	8.38	351,960	7.99	335,580	2 10 10 10
Energy (MWhs)	20,400	¢/kWh	4.069	830,076	3.971	810,084	
Spec. Assigned		\$	186,169	186,169	199,399	199,399	
				1,368,205		1,345,063	-1.7%
RSP: Current Plan	20,400	¢/kWh		_	(0.373)	(76,092)	
RSP: Current Plan Mitigation	20,400	¢/kWh			(0.313)	(63,852)	
RSP: Fuel Rider	20,400	¢/kWh	P1.1	90 -	0.625	127,500	
RSP: Teck Rate	20,400	¢/kWh	(1.14)	(232,764)	-	-	
RSP: IC Surplus Credit (Demand)	42,000	\$/kW	(1.52)	(63,840)		-	
RSP: IC Surplus Credit (Energy)	20,400	¢/kWh	(0.294)	(59,976)	- ·	- 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1	
Total RSP			=	(356,580)		(12,444)	
CDM Recovery Adjustment	20,400	¢/kWh	-	-,	0.009	1,836	
Firm plus RSP				1,011,625		1,334,455	31.9%