

DELIVERED BY HAND

June 12, 2017

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 - Amended General Rate Application -  
Compliance Application - Order No. P.U. 14 (2017) and Order No. P.U. 16 (2017) -  
Grant Thornton Expert Report**

### **Introductory**

On May 18, 2017, Newfoundland and Labrador Hydro ("Hydro") submitted an application proposing, among other things, customer rates, rules and regulations to become effective July 1, 2017 (the "Compliance Rates Application"). On June 7, 2017, the Board's financial consultants, Grant Thornton LLP ("Grant Thornton") filed with the Board a report of its financial analysis of the Compliance Rates Application (the "Grant Thornton Report"). By letter dated June 7, 2017, the Board requested that any comments regarding the Compliance Rates Application and the Grant Thornton Report be submitted to the Board by today's date.

This letter provides Newfoundland Power's comments.

### **General**

Newfoundland Power wishes to comment on two specific matters, neither of which affects the calculation of rates proposed to be effective July 1, 2017. These matters are: (i) Hydro's proposed continued segregation of the load variation component of the Rate Stabilization Plan ("RSP"), and (ii) an indication in the Grant Thornton Report that calculation of Hydro's 2017 revenue deficiency will not necessarily be based on the forecast amount shown in the Compliance Rates Application.

**Newfoundland Power Inc.**

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### **Segregation of Load Variation in the RSP**

The Compliance Rates Application proposes RSP rules to be effective July 1, 2017. Section B of the proposed RSP rules includes rules for activity, allocation and disposition of the load variation component of the RSP.

Paragraph 2 of section B.2 of the proposed RSP rules states, in part:

*“Each month, the load variation will be held in a separate account in the Plan, until disposition is ordered by the Board of Commissioners of Public Utilities”<sup>1</sup>*

Effectively, the Application proposes continued segregation of the load variation component of the RSP.

Newfoundland Power submits that continued segregation of the load variation component from the normal operation of the RSP is unnecessary, since the matters which provided the basis for segregation have now been resolved.

The Board approved segregation of the load variation component in Order No. P.U. 29 (2013). At that time, amongst other things, the Board approved Hydro’s proposal that the accumulated load variation balance *to August 31, 2013* be segregated to facilitate its future disposition in accordance with Government’s directions respecting the surplus balance that had accumulated in the RSP prior to September 1, 2013 as a result of a reduction in the load of certain industrial customers on the Island Interconnected system (the “RSP Surplus”). The Board also approved that amounts accumulating in the RSP on account of load variation *on and after September 1, 2013* should be segregated pending resolution, in Hydro’s 2013 General Rate Application, of the issue of the proper allocation methodology of the load variation component.

In Order Nos. P.U. 35 (2016) and P.U. 36 (2016), respectively, the Board approved Newfoundland Power’s and Hydro’s Customer Refund Plans. These orders effectively addressed disposition to customers of the pre-September 1, 2013 load variation balance.

In the GRA Order, the Board approved Hydro’s proposal that amounts accumulating in the load variation component be allocated between Newfoundland Power and the Industrial Customers on the basis of energy ratios. In Order No. P.U. 16 (2017), the Board ordered Hydro to use the post-September 1, 2013 Newfoundland Power RSP Load Variation balance, as of March 31, 2017, of \$50.7 million to mitigate the July 1, 2017 rate increase. These orders effectively resolved the remaining issues underlying segregation of the load variation component of the RSP.

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<sup>1</sup> See Hydro’s Revised Compliance Application, Exhibit 9, page RSP-3.

In Newfoundland Power's submission, load variation activity in the RSP post-March 31, 2017 should no longer be segregated and should be included in the normal operation of the RSP.

### **2017 Revenue Deficiency**

The Compliance Rates Application shows a 2017 revenue deficiency for Newfoundland Power of \$804,000.<sup>2</sup> In the Compliance Rates Application, Hydro proposes to transfer that amount to Newfoundland Power's RSP Current Plan balance, effective June 30, 2017.<sup>3</sup>

The Grant Thornton Report states that, based on discussions with Hydro, the 2017 revenue deficiency that will be transferred to Newfoundland Power's RSP Current Plan as of June 30, 2017 will be "the actual calculated deficiency, not necessarily the forecast amount of \$804,000 included in [the] Compliance Rates Application."<sup>4</sup>

The 2017 revenue deficiency of \$804,000 is computed using pre-determined inputs, consisting of 2015 test year load, existing interim rates, and proposed compliance rates based on Hydro's Revised Compliance Application. It is not clear to Newfoundland Power why the 2017 deficiency amount to be recovered through the RSP should differ from the forecast amount of \$804,000 indicated in the Compliance Rates Application.

In Newfoundland Power's submission, based on the evidence before the Board, the forecast 2017 revenue deficiency amount of \$804,000 indicated in the Compliance Rates Application is an appropriate input to the calculation of the balance of Newfoundland Power's RSP Current Plan as of June 30, 2017.

### **Concluding**

In Newfoundland Power's submission, the rates proposed in the Compliance Rates Application to take effect on July 1, 2017 should be approved.

For the reasons indicated above, Newfoundland Power submits that continued segregation of the load variation component of the RSP is no longer required, and the forecast 2017 revenue deficiency amount of \$804,000 is appropriate for determination of the June 30, 2017 transfer to Newfoundland Power's RSP Current Plan.

We trust this is in order. If further clarification is required, please contact the undersigned.

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<sup>2</sup> See Hydro's Revised Compliance Application Exhibit 3, table 9, page 9.

<sup>3</sup> See Hydro's Revised Compliance Application Exhibit 3, page 11, lines 3 to 7.

<sup>4</sup> See the Grant Thornton report, page 11, lines 22 to 27.

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Yours very truly,



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Senior Counsel

Enclosures

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