

WHENEVER, WHEREVER,
We'll be there.



DELIVERED BY HAND

May 5, 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 2013 General Rate Application – Compliance Application – Order No P.U. 49 (2016) – RSP – Fuel Price Projection Update

A. General

This letter provides Newfoundland Power's comments on Newfoundland and Labrador Hydro's ("Hydro") letter of May 3, 2017 on this matter.¹

B. General

Balances Available to Mitigate Impacts

In its letter of May 3, 2017, Hydro proposes that a \$26.7 million Newfoundland Power customer credit balance in Hydro's rate stabilization plan (the "RSP") associated with variations in hydraulic production (the "Hydraulic Variation Balance") also be used to reduce customer rate impacts on July 1, 2017.

The Hydraulic Variation Balance of \$26.7 million and the Load Variation Balance of \$50.7 million², taken together, provide a total of \$77.4 million in potential rate mitigation for Newfoundland Power's customers.

¹ Table 7 of this letter was revised by Hydro on May 5, 2017.

² The \$50.7 million Newfoundland Power credit balance for Load Variation is found at Table 4 of Hydro's letter of May 3, 2017. The approximately \$1.8 million increase from the \$48.9 million in Newfoundland Power's letter of April 25, 2017 is a result of Hydro's updating the balance from December 31, 2016 to March 31, 2017. The increase in the Load Variation Balance would increase the rate reductions indicated in Appendix A to Newfoundland Power's letter of April 25, 2017.

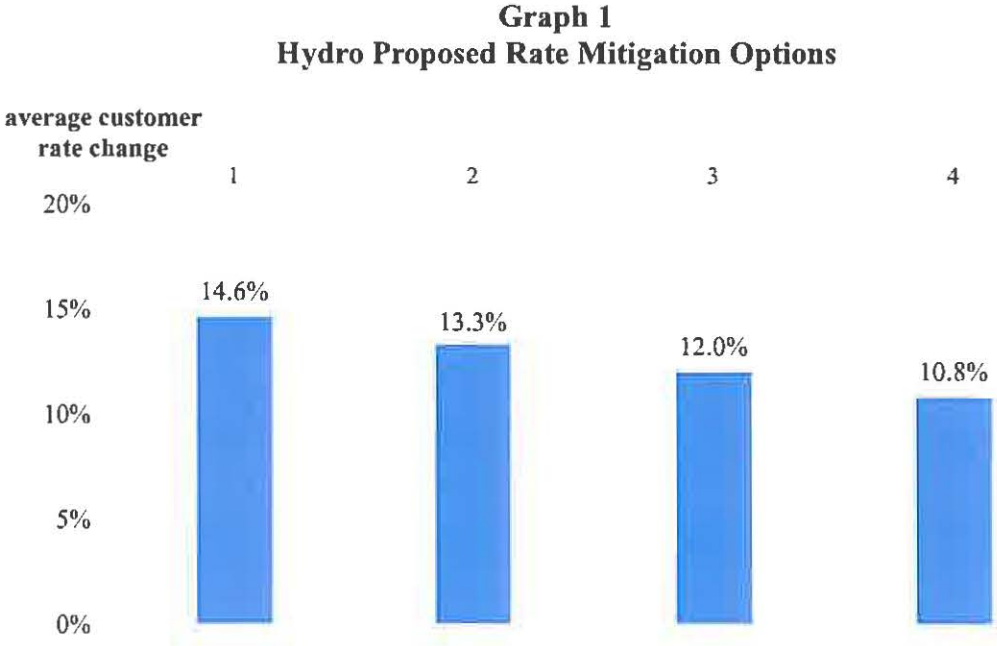
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Hydro’s Proposed Options

Graph 1 shows the July 1st rate change options described in Hydro’s letter of May 3, 2017.

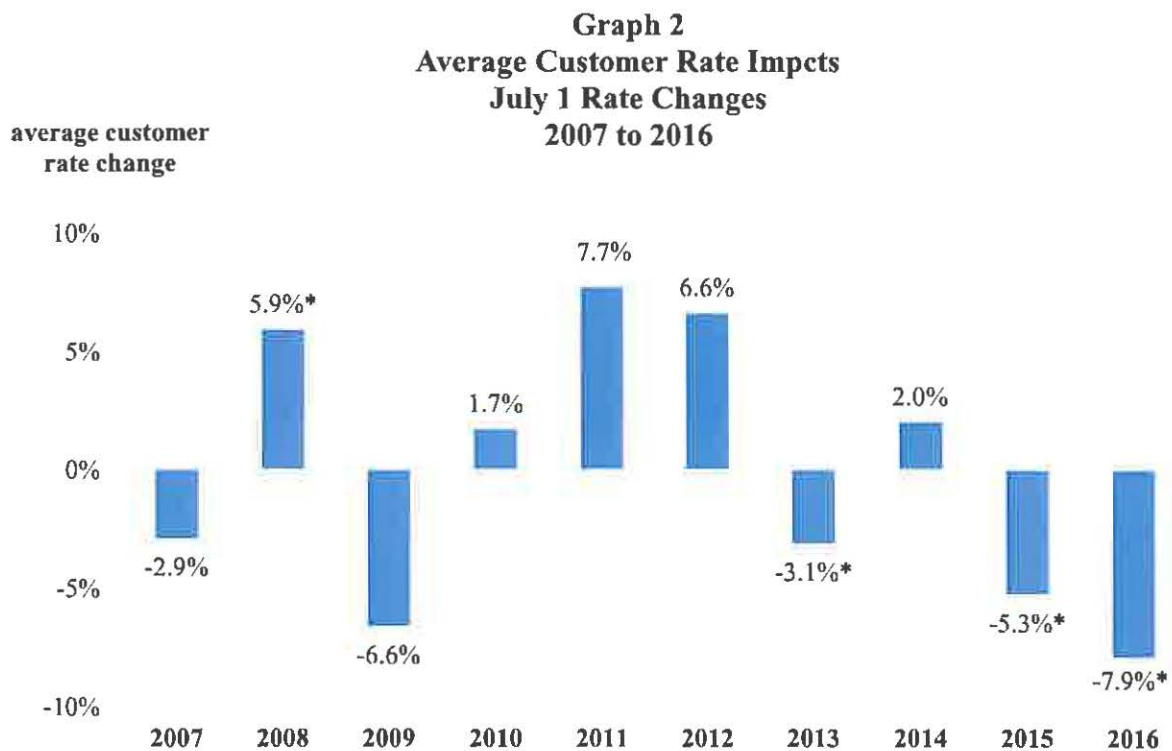


Each of Hydro’s July 1st rate change options is effectively based upon using the total of \$77.4 million in potential rate mitigation to fully defray a debit balance of \$38.9 million in Hydro’s energy supply cost variance deferral account (the “ESCVD Account”) which has been allocated to Newfoundland Power. Only after Hydro is credited with the full \$38.9 million are balances applied against the forecast July 1, 2017 rate increase for Newfoundland Power’s customers. The ESCVD Account provides for deferral of amounts from a variety of sources as approved in Hydro’s longstanding 2013 general rate application.

The Load Variation Balance of \$50.7 million, however, has arisen as a result of overrecovery of fuel costs associated with Hydro’s Holyrood Thermal Generating Station (“Holyrood”) since September 1, 2013. Variations in Holyrood fuel costs are also the source of the large customer rate increase forecast by Hydro for July 1, 2017.

Mid-Year Rate Changes Over Past Decade

Graph 2 shows the July 1st average customer rate changes approved by the Board for the decade ending 2016.



* Also includes the impact of an order arising from a General Rate Application.

The range of July 1st customer rate change over the decade from 2007 to 2016 has been -7.9% to +7.7%.

The range of customer rate change options proposed by Hydro is +10.8% to +14.6%. This is well outside of the range of mid-year rate changes over the past decade.

C. Newfoundland Power's Comments

In Newfoundland Power's letter of April 25, 2017 on this matter, it was proposed that the outstanding Load Variation Balance be used to mitigate the large customer rate increase Hydro had forecast for July 1, 2017. Simply put, past customer overpayments in respect of Holyrood fuel would be used to partially offset the July 1, 2017 rate increase driven by variations in the cost of Holyrood fuel. This proposal was a balanced, simple and conceptually sound regulatory approach to the extraordinary circumstances presented by Hydro's forecast of an 18.6% average customer rate increase on July 1, 2017.

Hydro's letter of May 3, 2017 refers to the increasing balances in Hydro's ESCVD Account in respect of which "*Hydro will provide greater detail....upon application for disposition later in 2017.*" Considering ESCVD Account balances at this point (and in the absence of detailed evidence) is premature and unnecessarily complicates settlement of the July 1, 2017 rate change. Once Hydro has proven its reasonable costs, provision for recovery of these costs can be made. This logic justifies the Board's rejection of *all* of the options presented by Hydro in respect of Newfoundland Power's customers.

Using the Load Variation Balance as proposed by Newfoundland Power would significantly reduce the July 1, 2017 rate increase for Newfoundland Power's customers. Based upon the data contained in Hydro's letter of May 3, 2017, Newfoundland Power estimates the average customer increase would be reduced to approximately 9% to 10% on July 1, 2017. In the circumstances, this appears to Newfoundland Power to be a reasonable regulatory outcome.

D. Concluding

We trust the foregoing is helpful to the Board.

If you have any questions regarding the enclosed, please contact the Company at your convenience.

Yours very truly,



Peter Alteen, QC
Vice President,
Regulation & Planning

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