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DELIVERED BY HAND

April 25, 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**

By letter of April 21, 2017, Newfoundland and Labrador Hydro (“Hydro”) filed a fuel price projection together with forecast impacts on customer rates to be implemented on July 1, 2017 (collectively “Hydro’s Forecast”).

In its letter of April 19, 2017 and email of April 21, 2017, the Board, in effect, permitted parties to this proceeding until noon on Tuesday, April 25, 2017 to comment upon Hydro’s Forecast.

This letter provides Newfoundland Power’s comments.

**B. Assessing Rate Impacts**

***Forecast Rate Impacts***

Hydro’s Forecast estimates an average Newfoundland Power customer rate increase of 18.6% on July 1, 2017.

The rate increase is substantially the result of the operation of Hydro’s rate stabilization plan (the “RSP”). The RSP exists to smooth fluctuations in Hydro’s cost of supply.

Hydro’s Forecast indicates that base rates arising from Hydro’s recently concluded general rate application have a modest decreasing influence (-0.3%) on Newfoundland Power’s customer rates.

***The Load Variation Balance***

Commencing in 2007, Hydro experienced lower than expected overall electricity use. This resulted in lower fuel costs at Hydro’s Holyrood Thermal Generating Station (“Holyrood”). The lower fuel consumption at Holyrood, in turn, created large credit balances in the RSP. An RSP credit balance of

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approximately \$141.7 million, which accrued during the period January 1, 2007 through August 31, 2013, has already been approved for refund to customers.<sup>1</sup>

Since September 1, 2013, a credit balance has continued to accrue in the RSP as a result of lower than forecast Holyrood fuel costs. This balance (the “Load Variation Balance”) has been segregated from ordinary RSP operation pending further order of the Board.<sup>2</sup>

As at December 31, 2016, the segregated balance in favour of Newfoundland Power’s customers was approximately \$48.9 million.<sup>3</sup>

***Use of the Load Variation Balance***

In Order No. P.U. 49 (2016), the Board indicated that use of credit balances in the RSP to offset Hydro revenue deficiencies “...*may be appropriate*...” A part of the assessment of appropriateness was indicated by the Board to be clarity as to “...what portion of these balances should be used to ensure that *the RSP will continue as an effective mechanism for smoothing material fluctuations in the costs of supply.*”<sup>4</sup>

The 18.6% average customer rate increase for July 1, 2017 indicated in Hydro’s Forecast is the result of material fluctuations in Hydro’s costs of supply. Accordingly, application of the Load Variation Balance to offset part of this increase would be consistent with the essential purpose of the RSP.

***Pro Forma Impacts***

Newfoundland Power has estimated the *pro forma* impacts of application of the Load Variation Balance to the July 1, 2017 customer rate increase described in Hydro’s Forecast.

Table 1 indicates the *pro forma* impact upon the forecast July 1, 2017 18.6% customer rate increase which would result from application of 25%, 50%, 75% or 100% of the Load Variation Balance to the rate change.

**Table 1**  
***Pro Forma Average Rate Impacts***

	<b>Load Variation Balance Used</b>			
	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>
Customer Rate Impacts (%)	(2.0)	(3.9)	(5.9)	(7.9)

Application of between 25% and 100% of the December 31, 2016 Load Variation Balance to the July 1, 2017 rate change will reduce the amount of the increase in rates for Newfoundland Power’s customers by between 2% and 7.9%.

<sup>1</sup> See Order Nos. P.U. 35 (2016) and P.U. 36 (2016).

<sup>2</sup> See Order No. P.U. 29 (2013).

<sup>3</sup> See Exhibit 9, page 2, Hydro’s evidence in application in compliance with Order No. P.U. 49 (2016).

<sup>4</sup> See Order No. P.U. 49 (2016), page 129, lines 32 to 38.

The calculation details associated with these estimates are set out in Appendix A to this letter.

**C. Newfoundland Power's Comments**

In historical terms, the customer rate increase indicated in Hydro's Forecast is large. Over the past 20 years, July 1 customer rate changes, which includes operation of Hydro's RSP, have ranged from -7.9% (2016) to +9.9% (2004).

Use of the Load Variation Balance to mitigate the impact of the forecast average Newfoundland Power customer rate increase of 18.6% on July 1, 2017 is a reasonable approach to these extraordinary circumstances. In addition, such regulatory action would be consistent with the underlying purpose of the RSP – to smooth fluctuations in Hydro's cost of supply.

The Board should direct Hydro to apply the Load Variation Balance against the July 1, 2017 customer rate increase indicated in Hydro's Forecast. Given the extraordinary circumstances, application of 100% of the Load Variation Balance would, in Newfoundland Power's view, be justified.

**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

c. Tracey Pennell  
Newfoundland and Labrador Hydro

Paul Coxworthy  
Stewart McKelvey

Yvonne Jones, MP  
Labrador

Genevieve Dawson  
Benson Buffett

Dennis Browne, QC  
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Thomas O'Reilly, QC  
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Olthuis, Kleer, Townshend LLP

Larry Bartlett  
Teck Resources Ltd.

**Newfoundland Power Inc.**

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***Pro Forma* Estimated Average Rate Impacts**  
(\$000s)

		<b>Load Variation Balance Used</b>			
		<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>
Segregated Load Variation Balance <sup>1</sup>	<b>A</b>	(12,217)	(24,434)	(36,651)	(48,868)
Existing Customer Billings <sup>2</sup>	<b>B</b>	619,786	619,786	619,786	619,786
<b><i>Pro Forma</i> Estimated Average Rate Impact</b>	<b>C = A / B</b>	<b>(2.0%)</b>	<b>(3.9%)</b>	<b>(5.9%)</b>	<b>(7.9%)</b>

<sup>1</sup> The Load Variation balance - Utility Customer as of December 31, 2016 is \$48,868,339. See Exhibit 9, page 2 of Hydro's evidence filed with its application in compliance with Order No. P.U. 49 (2016).

<sup>2</sup> Per Newfoundland Power's application in compliance with Order No. P.U. 18 (2016), *Schedule 2 - Proposed Customer Rates, Rules and Regulations to be effective July 1, 2016*, Appendix F, line 15.