

1 **Q. Footnote 6, Page 3, Schedule 1: If the Board were to determine that Hydro's general**
 2 **rate application proceedings did not need to conclude before consideration and**
 3 **hearing of Newfoundland Power's general rate application, what impact, if any,**
 4 **would there be on regulatory lag and costs?**

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 6 **A. A. Introductory**

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 8 The wholesale cost of supply from Newfoundland and Labrador Hydro (“Hydro”) accounts for almost 2/3rd of Newfoundland Power’s total cost to serve its customers. All
 9 of Newfoundland Power’s other costs, including its return on rate base, account for the
 10 other 1/3rd of the Company’s total cost to serve its customers.
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 13 To assess the impact on regulatory lag and costs that would result if the Board were to
 14 determine that proceedings on Hydro’s amended general rate application (“GRA”) did
 15 not need to conclude before hearing of Newfoundland Power’s GRA, requires
 16 consideration of impacts associated with each GRA. This simply reflects the fact that
 17 approximately 2/3rd of Newfoundland Power’s total cost to serve its customers is cost of
 18 supply from Hydro.
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 21 **B. Regulatory Lag & Cost Recovery**

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 23 ***Hydro’s Amended GRA***

24 The immediate impact of a Board determination to suspend or delay proceedings on
 25 Hydro’s amended GRA to permit hearing of Newfoundland Power’s GRA would be to
 26 extend the material mismatch which currently exists between Hydro’s rates (including its
 27 utility rate to Newfoundland Power) and Hydro’s costs. This mismatch has not benefitted
 28 the customers of Newfoundland Power.¹ The mismatch has existed since 2007, and is
 29 substantially reflected in the large \$294 million credit balance in Hydro’s Rate
 30 Stabilization Plan at March 31, 2015. The mismatch will not be corrected until Hydro’s
 31 rates and costs are rebalanced at the conclusion of Hydro’s amended GRA.²
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33 Another impact of a Board determination to suspend or delay proceedings on Hydro’s
 34 amended GRA to permit hearing of Newfoundland Power’s GRA would be delay in the
 35 determination of any recovery Hydro is entitled to in respect of almost \$125 million in

¹ This mismatch resulted in the accumulation of large balances in Hydro’s Rate Stabilization Plan (the “RSP”) from 2007 to 2013. These balances will not be distributed in a manner consistent with Board approved allocation methodologies for energy related costs. Instead, the provincial government by OC2013-089 (as amended by OC2013-207), directed the credit of \$49 million (or 30%) of the balance from January 1, 2007, to June 30, 2013, to Hydro’s Industrial Customers. Hydro’s Industrial Customers accounted for less than 10% of system load during the period. This direction effectively reduces the amount of the balance that will flow to Newfoundland Power’s customers.

² At March 31, 2015, the credit balance in Hydro’s Rate Stabilization Plan was approximately \$294 million. This represents an amount due to Hydro’s customers in the future as a result of rates paid which were in excess of Hydro’s approved cost of service.

1 2014/2015 costs. In Order Nos. P.U. 56 and P.U. 58 (2014), the Board approved deferral,
2 but not recovery, of a total of approximately \$56 million in 2014 Hydro costs. These
3 costs are currently subject to the Board's prudency review, which is part of Hydro's
4 amended GRA. Hydro's amended GRA also forecasts a 2015 net income deficiency of
5 approximately \$68 million which is sought to be recovered in the future. The final
6 recovery, if any, of these amounts from customers, including Newfoundland Power
7 customers, will be determined by the Board as part of its considerations on Hydro's
8 amended GRA.
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10 A third impact of a Board determination to suspend or delay proceedings on Hydro's
11 amended GRA to permit hearing of Newfoundland Power's GRA might be the effective
12 deferral of conclusion of Hydro's amended GRA to late 2016 or, possibly, 2017. This, in
13 turn, raises questions concerning the appropriateness of establishing customer rates for
14 implementation in 2017 based upon test years of 2014 and 2015.
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16 ***Newfoundland Power's GRA***

17 If the Board were to determine to suspend proceedings on Hydro's amended GRA to
18 permit hearing of Newfoundland Power's GRA, there should be no material impact of
19 regulatory lag on cost recovery from Newfoundland Power's customers arising from
20 consideration of *Newfoundland Power's GRA*.
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22 However, because approximately 2/3^{ds} of Newfoundland Power's customers' rates
23 reflect supply cost from Hydro, the regulatory lag associated with *Hydro's* amended GRA
24 would still have a material impact on Newfoundland Power's customers.
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26 **C. Regulatory Cost Efficiency**

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29 Practical considerations of regulatory efficiency alone may justify the 2016 deferred cost
30 recovery proposed in the Application as a superior alternative to the Board's hearing
31 Newfoundland Power's GRA before concluding Hydro's amended GRA.
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33 The costs associated with Hydro's amended GRA are increasing.³ While the full extent
34 of this increase is not altogether clear, it is material. Further extension of the process
35 associated with Hydro's amended GRA is only likely to further increase those costs.

³ Refer to the response to Request for Information PUB-NP-002, page 4, line 6, *et. seq.*