

Ms. Cheryl Blundon
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May 2, 2018

1 Dear Ms. Blundon,

2 **Re: Newfoundland and Labrador Hydro**
3 **Application for Deferral of 2015, 2016 and 2017 Supply Costs**

4 We have completed our review relating to Newfoundland and Labrador Hydro's (the
5 "Company's") Application for Deferral of 2015, 2016 and 2017 Supply Costs (the
6 "Application") as it pertains to the calculation of the 2015, 2016 and 2017 deferral accounts
7 related to the Isolated System Deferral, Energy Supply Deferral and Holyrood Conversion
8 Deferral accounts.

9 Our procedures with respect to verifying the calculations of the 2015, 2016 and 2017 Isolated
10 System Deferral, Energy Supply Deferral and Holyrood Conversion Deferral were directed
11 towards the verification of the data incorporated in the calculations and the deferral account
12 formula used by the Company. Specifically, the procedures which we performed included the
13 following:

- 14 • agreed component data (actual and test year data) to supporting documentation, i.e.:
15 quarterly regulatory reports; the Company's general ledgers; 2015 test year data; and,
16 board orders;
- 17 • checked the clerical accuracy of the deferred account calculations for 2015, 2016 and
18 2017; and,
- 19 • reviewed the formula used in the calculations of the deferral accounts for 2015, 2016
20 and 2017 to ensure in compliance with account definitions as approved in Order No.
21 P.U. 22 (2017).

22 The procedures undertaken in the course of our financial analysis do not constitute an audit of
23 the Company's financial information and consequently, we do not express an opinion on the
24 financial information.

25 Pursuant to Order No. P.U. 49 (2016) (“GRA Order”), the Board of Commissioners of Public
26 Utilities (the “Board”) approved the Company’s proposal to create three new supply cost
27 deferral accounts to be become effective January 1, 2015: the Isolated Systems Supply Cost
28 Variance Deferral Account; the Energy Supply Cost Variance Deferral Account; and the
29 Holyrood Conversion Rate Deferral Account. In the GRA Order, the Board also directed
30 Hydro to file revised account definitions for each account, which were approved in Order No.
31 P.U. 22 (2017).

32 On October 11, 2017, the Company applied for recovery of approximately \$42.2 million in
33 supply costs incurred in 2015 and 2016. In Order No. P.U. 39 (2017), the Board dismissed the
34 Company’s application noting the following in the Board Findings section of the Board Order:

- 35
- 36 • “...the information provided does not adequately address the costs and benefits of
Hydro’s approach to generation dispatch and the alternatives which may be available”.

 - 37 • Regarding the proposed recovery approach through the Hydraulic Variation Account
38 of the RSP, the Board noted that “... this transfer is inconsistent with the normal
39 operation of the Hydraulic Variation Account ...”.

40 Order No. P.U. 39 (2017) did note that “... Hydro may file a further application with additional
41 information related to generation dispatch and available alternatives for recovery of the costs”.
42 In addition, the Board noted that in its “... view the general rate application may be the most
43 convenient forum to address the issues related to the recovery of the supply costs”.

44 On March 29, 2018, Hydro filed its ‘Application for Approval to Defer the 2015, 2016 and
45 2017 Balances in i)the Isolated Systems Supply Cost Variance Deferral Account; ii) the Energy
46 Supply Cost Variance Deferral Account; iii) the Holyrood Conversion Rate Deferral Account’.
47 The Company noted it is “proposing that recovery of any amount approved in this Application
48 be dealt with through Hydro’s 2017 General Rate Application”.

49 The Company noted in its Application evidence that it has addressed the Board’s previous
50 concerns noted in Order No. P.U. 39 (2017) with respect to the costs and benefits of the
51 company’s approach to generation dispatch. Details around the Company’s operational
52 philosophy were contained in Section 2 of the Application evidence. A detailed review of this
53 documentation to determine if the concerns noted in Order No. P.U. 39 (2017) were
54 adequately addressed was beyond the scope of this engagement.

55 A summary of the deferral accounts for 2015, 2016 and 2017 included in the Application is as
56 follows:

57

Deferral Accounts	2015 (iii)	2016 (iii)	2017	Total
Isolated Systems Deferral	\$ - (i)	\$(2,186,570)	\$(1,106,821)	\$(3,293,391)
Energy Supply Deferral	\$14,200,429	\$24,462,996	\$20,134,732	\$58,798,157
Holyrood Conversion Deferral	\$3,582,048	\$2,150,665	\$4,163,799	\$9,896,512
Total	\$17,782,477	\$24,427,091	\$23,191,710	\$65,401,278 (ii)

58 (i) As the balance of the Isolated Systems Deferral did not exceed the \$500,000 Deadband in 2015, the
59 Company will not recover any of the 2015 supply cost variance.

60 (ii) The net balance of the Deferral Accounts represents a balance due from customers.

61 (iii) The deferral account balances for 2015 and 2016 are consistent with amounts included in the application
62 filed on October 11, 2017.

63 **CONCLUSION**

64 Based on our review and procedures conducted on the Application, nothing has come to our
65 attention that the amounts reported, as summarized above, are not in accordance with account
66 definitions as approved in Order No. P.U. 22 (2017). Specifically, we conclude the following:

- 67 • Component data outlined in the calculation of the deferred account balances agree to
68 supporting documentation (ie: quarterly regulatory reports; the Company's general
69 ledger; 2015 test year data; and board orders);
- 70 • No errors were noted in the clerical accuracy of the deferred account calculations for
71 2015, 2016 and 2017; and,
- 72 • The formulas used in the calculation of the deferred account balances are consistent
73 with the account definitions approved in Order No. P.U. 22 (2017).

74 We note that the balances in the proposed deferred accounts are material, in particular as it
75 relates to the Standby Generation Costs included in the proposed Energy Supply Cost Variance
76 Deferral Account. It is our understanding that these costs resulted from changes in the
77 Company's operational philosophy, in part as a response to the 2013, 2014 and 2015 power

78 outages. As noted above, the Company is proposing that the recovery of approved balances be
79 addressed as part of its 2017 General Rate Application. As part of this process, it would be
80 useful for the Company to comment on efforts to improve forecasting of energy supply costs
81 for the 2018 and 2019 test years, particularly as it relates to standby generation costs.

82 I trust this is the information you requested. If you have any questions, please contact me.

83 Yours sincerely,
84 **Grant Thornton LLP**



85 Steve Power, CPA, CA
86 Partner
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