

1 Q. (Reference response to CA-NLH-126) What are Hydro’s latest forecasts of monthly
2 No.6 fuel purchase prices for 2018 and 2019? Please provide the reference sources
3 for those forecasts.

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6 A. Please refer to CA-NLH-203, Attachment 1, which includes Hydro’s most recent
7 forecast price of No. 6 fuel for 2018, previously filed with the Board on October 16,
8 2017. This price forecast was prepared in accordance with Rate Stabilization Plan
9 (RSP) Rules, Section C1.

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11 Please refer to Table 1 that provides Hydro’s latest forecast of monthly No.6 fuel
12 purchase prices for 2019. Please note that the 2019 price forecast is an annual price
13 expressed for all months. The fuel price forecasts are based on a US dollar fuel price
14 forecast provided by the PIRA Energy Group and a Canada-US exchange rate
15 forecast which is a composite of exchange forecasts prepared by the five major
16 Canadian banking institutions based on the Conference Board of Canada
17 methodology.

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Table 1 2019 Monthly No. 6 Fuel Purchase Price Forecast (\$/bbl)

Month	Purchase Price
January	63.50
February	63.50
March	63.50
April	63.50
May	63.50
June	63.50
July	63.50
August	63.50
September	63.50
October	63.50
November	63.50
December	63.50



Hydro Place, 500 Columbus Drive,
P.O. Box 12400, St. John's, NL
Canada A1B 4K7
t. 709.737.1400 f. 709.737.1800
www.nlh.nl.ca

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Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Ms. Cheryl Blundon
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Rate Stabilization Plan Fuel Price Projection – Island Industrial Customers

Order No. P.U. 14(2007) states that by the 10th working day in October, Hydro shall provide to the Board, its Industrial Customers, and to Newfoundland Power an estimate of the Industrial Customer fuel rider that will become effective January 1 of the coming year. Pursuant to Order No. P.U. 31(2017), the attached fuel price projection is based on the monthly average Bank of Canada exchange rate.

A. Fuel Price Projection Update

Hydro's current No. 6 fuel contract requires fuel oil specifications in accordance with Stantec's Holyrood Thermal Generating Station Fuel Oil Specification Review filed with the Board on December 23, 2014. In order to meet the recommendations for fuel oil specifications, Hydro pays a premium on the Platt's Monthly Average Price for its purchases of No. 6 fuel.

On June 6, 2017, Hydro executed a contract extension with its existing supplier of No. 6 fuel. Through this extension, Hydro was able to reduce the fuel premium from \$5.03 US \$/bbl to \$4.13 US \$/bbl for deliveries effective on or after October 18, 2017. The contract extension and corresponding fuel price premium are in effect until October 2020.

The attached Schedule A provides the calculation of the estimated fuel rider relative to the 2015 Test Year fuel price using the forecast price of \$63.75 Cdn \$/bbl reflecting the new fuel oil purchase contract and based upon 12 months-to-date kWh sales to the end of September 2017. As is shown in Schedule A, page 1 of 2, the estimated fuel rider for the Industrial Customers is (0.025) cents/kWh. This forecast fuel rider reflects a decrease of \$0.66/bbl (\$Can) over the 2015 Test Year No. 6 fuel price of \$64.41 Cdn \$/bbl.

The estimated customer rate impact of updating the fuel rider alone is a rate decrease of approximately 12% effective January 1, 2018. However, there are other items that will influence the actual rate change to be experienced by the customer.

Ms. C. Blundon
Public Utilities Board

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B. Other Considerations

The RSP Current Plan adjustment will also be updated January 1, 2018 and will reflect the normal activity in the RSP for 2017, in addition to the transfer of the debit balance in the Industrial Customer RSP Surplus account to the Industrial Customer RSP Current Plan.¹ Hydro has also applied for recovery of its 2015 and 2016 deferred supply costs through the RSP Hydraulic Variation Account² with the resulting proposed transfer to the RSP Current Plan balances to occur December 31, 2017. The Board's decision on the deferred supply cost recovery application will also impact the RSP Current Plan balance to be used in determining the updated Industrial Customer recovery rider to become effective January 1, 2018.

In Order No. P.U. 24(2017), the Board directed Hydro to transfer the remaining Industrial Customer RSP Load Variation balance to the Industrial Customer RSP Current Plan to mitigate the July 1, 2017 RSP Adjustment rate increase. The expiry of the RSP Current Plan Mitigation credit is scheduled to occur on June 30, 2018, and result in a rate increase to Island Industrial Customers. Given the material rate reduction resulting from the impact of the lower fuel forecast on the fuel rider, it may be reasonable to blend the conclusion of the rate mitigation with the updating of the RSP factors to become effective January 1, 2018.

The anticipated rate adjustments discussed in this letter exclude any customer impacts as a result of Hydro's proposal to implement interim customer rates in 2018.

C. Concluding

Hydro will file its application in January 2018 for approval of updated RSP adjustments for Island Industrial Customers to become effective January 1, 2018. The most current information on the matters discussed in this letter will be used in developing rate proposals for the Island Industrial Customers at that time. Hydro is open to discussions with the Island Industrial Customers with respect to the preferred approach in dealing with the updating the RSP adjustments and the conclusion the RSP rate mitigation adjustment.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Tracey L. Pennell
Senior Counsel, Regulatory
TLP/bs

cc: Gerard Hayes – Newfoundland Power Inc.
Paul Coxworthy – Stewart McKelvey
ecc: Larry Bartlett – Teck Resources Ltd.

Dennis Browne, Q.C. – Consumer Advocate
Sheryl Nisenbaum – Praxair Canada Inc.
Denis Fleming – Cox & Palmer

¹ This transfer of approximately \$1.3 million to be recovered from Island Industrial Customers was approved to occur September 30, 2017 in accordance with Order No. P.U. 31(2017).

² See Hydro's Application for Recovery of the 2015 and 2016 balances in: 1) the Isolated Systems Supply Cost Variance Deferral Account; ii) the Energy Supply Cost Variance Deferral Account; and iii) the Holyrood Conversion Rate Deferral Account filed with the Board on October 11, 2017.

NEWFOUNDLAND AND LABRADOR HYDRO
Forecast Rate Stabilization Plan Fuel Price Projection Rider
Industrial Customers

Line No	Customer Allocation	Amount	Comments
1	October 2017 Fuel Price Projection	\$ 63.75	From Page 2
2	2015 Test Year Fuel Forecast Cost	\$ 64.41	
3	Forecast Fuel Price Variance	\$ (0.66)	Line 1 - Line 2
4	2015 Test Year No. 6 Barrels Consumed	2,577,657	
5	Forecast Fuel Variance	\$ (1,701,254)	Line 3 x Line 4
6	Industrial Customer Allocation Ratio	8.10%	From Line 9
7	Industrial Customer Allocation	\$ (137,802)	Line 5 x Line 6

Calculation of Customer Allocation at September 30, 2017

	kWh	Percent of Total	Allocation of Rural ⁽¹⁾	Total
8	Utility 12 months-to-date kWh sales	5,869,067,355	84.99%	91.60%
9	Industrial Customer 12 months-to-date kWh sales	559,166,724	8.10%	8.10%
10	Bulk Rural 12 months-to-date kWh sales	477,238,391	6.91%	-6.91%
11	Total	6,905,472,470		

Calculation of Industrial Customer RSP Rate

	Amount	Comments
<u>Rate Rider</u>		
12	Industrial Allocation	\$ (137,802) From Line 7
13	Industrial Customer 12 months-to-date kWh sales	559,166,724 From Line 9
14	Fuel Projection Rider (cents per kWh)	<u><u>(0.025)</u></u> Line 12/Line 13 x 1000

**NEWFOUNDLAND AND LABRADOR HYDRO
Rate Stabilization Plan Estimated Fuel Price Projection Rider**

Hydro Forecast US \$/bbl ⁽¹⁾	Forecast US \$/bbl (a)	Premium / (Discount) ⁽²⁾ US \$/bbl (b)	Landed Forecast Price US \$/bbl (c) = (a) + (b)
2018 January	53.86	4.13	
February	52.63	4.13	
March	49.97	4.13	
April	49.32	4.13	
May	47.32	4.13	
June	45.14	4.13	
July	44.39	4.13	
August	46.47	4.13	
September	46.14	4.13	
October	45.90	4.13	
November	46.60	4.13	
December	45.44	4.13	
Average Holyrood Forecast Landed Price (\$US/bbl)	47.77	4.13	51.90
\$Cdn/\$US Exchange Rate ⁽³⁾			1.2283
NLH Fuel Price Projection (\$Cdn/bbl) ⁽⁴⁾			<u>\$63.75</u>

Notes:

- (1) \$US pricing: New York Harbour price forecast, September 2017.
- (2) Deliveries post October 17, 2017 will be charged US\$4.13/bbl as opposed to the US\$5.03/bbl per the original contract.
- (3) Average of the Bank of Canada \$Cdn/\$US Exchange Rate for the month of September 2017, rounded to 4 decimal places.
- (4) Price per barrel is rounded to the nearest \$0.05.