

1 Q. **Reference: Grant Thornton, Financial Consultants Report – Newfoundland and Labrador**
2 **Hydro Compliance Application, August 23, 2019, Page 12, Lines 35 - 38.**

3 “We have reviewed the 2019 Test Year revenue requirement for rate setting included in the
4 Compliance Application and reviewed the calculation to ensure orders contained in the
5 GRA Order were appropriately reflected in the revised 2019 Test Year revenue requirement
6 for rate setting and did not identify any discrepancies.”
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8 In the response to Request for Information NP-NLH-004, Hydro indicates that the forecast
9 No. 6 fuel expense for 2019 would be approximately \$20 million less than what is included
10 in the Compliance Application if Hydro were to use the actual No. 6 fuel price for January to
11 June and an updated fuel forecast for July to December. Given this circumstance, please
12 explain how Hydro's 2019 Test Year revenue requirement continues to remain appropriate
13 for determining customer rates.

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16 A. Newfoundland and Labrador Hydro (“Hydro”) notes that this question does not appear to
17 relate to the Grant Thornton Financial Consultants report. Rather, this Request for
18 Information references another Request for Information from Newfoundland Power, NP-
19 NLH-004. However, in the interests of transparency, clarity, and in order to contribute to
20 the timely conclusion of the “2017 GRA Compliance Application,” Hydro’s response is as
21 follows.

22

23 Hydro believes its 2019 Test Year revenue requirement for No. 6 fuel continues to be
24 appropriate for determining customer rates. The cost of No. 6 fuel has been determined in
25 accordance with the “Supplemental Settlement agreement” dated July 16, 2018
26 (“Supplemental Settlement Agreement”),¹ approved in Order No. P.U. (16)2019,² and has

¹ Item 19 of the supplemental settlement agreement states:

The Parties agree that the 2019 Test Year cost of No. 6 fuel to be used in Hydro’s “2017 GRA Compliance Application” filing shall be set based on the most current fuel rider forecast (either March or September). To deviate from the forecast cost of No. 6 fuel as suggested by Newfoundland Power would contravene the Supplemental Settlement Agreement as agreed to by the Parties.

² Order No. P.U. 16(2019), p. 19/22-24: The settlement proposal that the 2019 Test Year cost of No. 6 fuel be set based on the most current fuel rider forecast is accepted. The forecast 2019 diesel and gas turbine fuel costs should also reflect the most current price forecast for those fuels.

1 been confirmed by the Board of Commissioners for Public Utilities' ("Board") financial
2 consultants in their report dated August 23, 2019.

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4 Modification of the fuel forecast as suggested by Newfoundland Power would be a
5 contravention of both the Supplemental Settlement Agreement and Board Order No. P.U.
6 (16)2019.

7 8 **The Proposed Rate Stabilization Plan Current Plan Adjustment**

9 Exhibit 6, Appendix A, Page A-1 of Hydro's "2017 GRA Compliance Application" provides the
10 calculation of Newfoundland Power's updated Current Plan Adjustment. The starting point
11 of this calculation is the Utility Customer Current Plan Balance as at March 31, 2019, of
12 \$14.6 million.

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14 The detailed calculation of this balance can be found in Exhibit 12, page 7. This calculation
15 shows that savings between actual No. 6 fuel costs and Hydro's proposed 2019 Test Year
16 costs fuel savings (column B) to the end of March 2019 have already been reflected in
17 Newfoundland Power's updated Current Plan Adjustment. Were Hydro to set its 2019 Test
18 Year revenue requirement in accordance with the forecast as set out in NP-NLH-004 an
19 increase to Newfoundland Power's Current Plan Adjustment would be required to offset
20 the decreased fuel expense included in base rates.

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22 By using the March 2019 Rate Stabilization Plan ("RSP") Current Plan balances, Hydro's
23 approach in the "2017 GRA Compliance Application" is providing customers with \$17.0
24 million of the \$20.2 million, or 84% of the fuel savings identified in Hydro's response to NP-
25 NLH-004.³

26 27 **RSP Fuel Rider**

28 By using the March 2019 No. 6 fuel price forecast, Hydro's proposed base rates reflect the
29 forecast price of No. 6 fuel to June 2020. As a result, Newfoundland Power's proposed RSP

³ The total fuel savings from January, February, and March from NP-NLH-004 is \$17.0 million.

1 Fuel Rider is 0.000 cents/kWh. This is consistent with normal operation of the RSP which
2 will not result in another rate change for Newfoundland Power until July 1, 2020.

3
4 Hydro is to set its 2019 Test Year revenue requirement in accordance with the forecast as
5 set out in NP-NLH-004, the forecast price of No. 6 fuel would be below the forecast price
6 for the period from January to June 2020. As a result, an RSP Fuel Rider would be required
7 for the difference between the NP-NLH-004 forecast and the \$105.90 or a large balance
8 could accumulate in the RSP in 2020.

9
10 **Conclusion**

11 Hydro believes that its 2019 Test Year revenue requirement for No. 6 fuel is appropriate for
12 setting customer rates. It is in accordance with the Supplemental Settlement Agreement, as
13 well as Board Order No. P.U. (16)2019, and has been confirmed by the Board's Financial
14 Consultant.

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16 The reduction in fuel cost identified in Hydro's response to NP-NLH-004 will be provided to
17 customers through normal operation of the RSP through updates to the RSP Current Plan
18 Adjustment and the RSP Fuel Rider. There is no basis for a revision to the 2019 fuel cost
19 forecast to further adjust for fuel cost variations.