

1 Q. In Order No. P.U. 39(2017) the Board stated:

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3 *The Application proposed that the \$42.2 million balance in these accounts be*  
4 *transferred to the Hydraulic Variation Account of the RSP. This transfer would*  
5 *provide immediate recovery to Hydro but would deplete the balance in the*  
6 *Hydraulic Variation Account and create a negative balance in the account to be*  
7 *recovered from customers over a number of years through the annual RSP*  
8 *adjustment. The Board is concerned that this transfer is inconsistent with the*  
9 *normal operation of the Hydraulic Variation Account and may serve to defeat the*  
10 *purpose of this account, which is to smooth out the impacts of annual variances in*  
11 *system inflows and storage levels over a number of years. The proposed approach*  
12 *is especially concerning given recent reports in relation to aggregate reservoir*  
13 *storage levels on the Island Interconnected system.*

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15 Please explain how Hydro's current proposal to apply the balance in the Hydraulic Variation  
16 component of the RSP addresses the concerns expressed by the Board in Order No. P.U.  
17 39(2017).

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20 A. Newfoundland and Labrador Hydro's ("Hydro") proposal in the 2017 GRA Compliance  
21 Application ("Application") differs from the proposal described in Board Order No. P.U.  
22 39(2017). Hydro submits that these differences address the Board of Commissioners of  
23 Public Utilities' ("Board") concerns from 2017 noted above.

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25 **Differences in Hydro's Proposals**

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27 Hydro's proposal in the Application seeks to apply the credit balance from the Rate  
28 Stabilization Plan ("RSP") Hydraulic Variation Account to reduce the deferred supply costs  
29 to be recovered from Newfoundland Power and the Island Industrial Customers through  
30 the 2017 GRA Cost Recovery Rider, thereby bringing that account to a zero balance as of  
31 March 31, 2019. The proposal referenced in Board Order No. P.U. 39(2017) referred to a  
32 large debit balance transfer to the RSP Hydraulic Variation Account thereby placing it in a  
33 position whereby customers had a balance owing to the RSP. Hydro submits that its current  
34 proposal to use the deferred fuel credit balance in the Hydraulic Account and bring it to

1 zero as at March 31, 2019, to offset other deferred fuel cost balances owing, and thus  
2 reduce the rate impact to customers, differs materially from placing the RSP Hydraulic  
3 Variation Account in a position where a balance is owed from customers, as was proposed  
4 in 2017.

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6 As noted in Board Order No. P.U. 39(2017), the purpose of the RSP Hydraulic Variation  
7 Account is to smooth out the impacts of annual variances in system inflows and storage  
8 levels over a number of years. Hydraulic production has exceeded test year forecast levels,  
9 resulting in a balance in the RSP Hydraulic Variation Account representing No. 6 fuel savings  
10 which have accrued to customers. Hydro believes it is appropriate, consistent with the  
11 intent of the RSP, and consistent with intergenerational equity to use historical No. 6 fuel  
12 savings which have accumulated in the RSP Hydraulic Variation Account to offset historical  
13 fuel costs which have accumulated through the Supply Cost Deferral Accounts<sup>1</sup> and,  
14 ultimately, reduce the October 2019 rate impact to customers.

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16 While the balance in the RSP Hydraulic Variation Account is calculated monthly and  
17 hydraulic production varies, the account is currently trending towards increased hydraulic  
18 production over test year levels. As of June 30, 2019, without the proposed transfer, the  
19 RSP Hydraulic Variation Account has a credit balance of \$47.9 million based on operation  
20 for the 2019 Test Year. If Hydro's request in the 2017 GRA Compliance Application to  
21 transfer \$36.3 million is approved, a forecast balance of \$11.6 million would remain in the  
22 RSP Hydraulic Variation Account owing to customers.

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24 Finally, commissioning of the Muskrat Falls project is expected in 2020. This new source of  
25 supply, combined with the additional interconnections through the Labrador-Island Link  
26 and Maritime Link, is a material change from 2017. Based on forecast average production  
27 and Hydro's current entitlement under Schedule 2 of the Muskrat Falls Power Purchase  
28 Agreement, Hydro will have access to more energy than it requires to supply forecast  
29 native load beginning in 2021. In addition, the RSP will need to be concluded after the next

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<sup>1</sup> Includes Energy Supply Cost Variance Deferral Account, Holyrood Conversion Rate Deferral Account and the Isolated Systems Cost Variance Deferral Account.

1 General Rate Application and the creation of a new deferral account will be required to  
2 deal with supply cost variances reflecting Hydro's new source of supply. Hydro submits that  
3 these changes support the use of the RSP Hydraulic Variation Account balance to reduce  
4 customer rate increases at this time.

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6 **Need for Rate Mitigation**

7 Hydro acknowledges that the use of the funds in the RSP Hydraulic Variation Account is  
8 unusual; however, it is not without precedent. As noted by the Board in Board Order No.  
9 P.U. 14(2017):

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11 The annual rate impacts for retail customers associated with the operation of  
12 the RSP have historically been the range of +/-10 %, however, the estimated  
13 impact in July 2017 is much larger, with an estimated rate increase for retail  
14 customers in the order of 18-19%. The Board is very concerned about increases  
15 of this magnitude which are well outside of the normal range. The Board  
16 acknowledges that the estimated rate increase is a result of the normal  
17 operation of the RSP that the last two annual RSP adjustments resulted in  
18 material decreases. However the estimated rate increase for July 2017 is such a  
19 significant increase that it may be argued that it would cause rate shock, despite  
20 the earlier rate decreases. In addition such a significant rate increase in one year  
21 after the two material rate decreases may raise concerns as to whether the RSP  
22 is appropriately smoothing fuel price variations in the circumstances.

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24 Given the estimated customer impacts (from the conclusion of the 2017 General Rate  
25 Application before any mitigation) are above 10%, Hydro felt it was appropriate to use to  
26 the RSP for its originally intended purpose — to smooth the impact of fluctuations in  
27 historical fuel costs for customers.