

1 **Q. Further to the reply to CA-NP-77 (part (a)), please explain the basis for the**  
2 **Company's current forecast including no change in Rate Stabilization Adjustment**  
3 **for July 1, 2010.**  
4

5 A. The Rate Stabilization Adjustment has two components, the Fuel Rider Adjustment and  
6 the Recovery Adjustment Factor. The Fuel Rider Adjustment is reset annually based on  
7 forecast fuel costs to provide a reasonable matching of rates and costs. The Recovery  
8 Adjustment Factor deals with disposition of historical balances for the next 12 months.  
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10 The Fuel Rider Adjustment is dependent on the Hydro No. 6 fuel forecast that will be  
11 determined in March 2010. Newfoundland Power's forecast assumes the current fuel  
12 rider component will also be reflected in customer rates effective July 1, 2010.  
13

14 The Recovery Adjustment Factor currently reflected in rates is providing a refund to  
15 customers of approximately \$31 million over the period July 1, 2009 to June 30, 2010.  
16 With the conclusion of this refund, customer rates would normally be anticipated to  
17 increase by approximately 5.7% on July 1, 2010.<sup>1</sup> However, there are several factors that  
18 have created uncertainty if this rate increase will occur.  
19

20 (i) The hydraulic component of Hydro's Rate Stabilization Plan ("RSP") has an  
21 outstanding balance of \$32 million owed to customers as of June 30, 2009. The  
22 current RSP rules provide for disposition of 25% of the year-end hydraulic  
23 balance. The degree to which this balance will change prior to year-end is  
24 uncertain as it is dependent upon future precipitation levels.  
25

26 (ii) There is uncertainty with the forecast price of No.6 fuel. While Hydro is  
27 forecasting an average price of 75.95 \$/BBL, the price has varied from a high of  
28 about 103 \$/BBL to low 40 \$/BBL since May 2008 with the current cost of fuel in  
29 Hydro's inventory of 46.4 \$/BBL<sup>2</sup>.  
30

31 (iii) The outcome of Hydro's current application to finalize the RSP components of  
32 the Industrial Customers' rate can have a material impact on the RSP balance  
33 used to determine retail rates on July 1, 2010.  
34

35 (iv) There is uncertainty of the impact on RSP balances of the fuel savings that are  
36 resulting from hydro generation at the former Abitibi Grand Falls mill being  
37 provided to the grid.  
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39 This uncertainty was the basis for forecasting no increase in rates on July 1, 2010  
40 resulting from the annual update to the Rate Stabilization Adjustment.

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<sup>1</sup> 5.7% = \$31 million divided by \$545,312,000 from Exhibit 7 line 27.

<sup>2</sup> From Hydro's June 2009 Rate Stabilization Report, Hydro's Quarterly Regulatory Report for the period ending June 30, 2008, and Hydro's Quarterly Regulatory Report for the period ending December 31, 2008.