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Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL
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ATTENTION: Ms. Cheryl Blundon
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Update on 2015 Test Year Fuel Costs

Hydro's No. 6 fuel cost forecast was approximately \$245 million in the Amended Application. There has been a material reduction in fuel costs since Hydro filed its Amended Application. In testimony during the GRA, Mr. Kevin Fagan informed the Board that Hydro would update its forecast fuel costs for the 2015 Test Year to reflect the 2016 fuel forecast used as a basis for the projected Island Industrial Customer (IIC) RSP fuel rider for 2016. Hydro filed the update to the No. 6 fuel price forecast with the Board on October 15, 2015.

The revised 2015 Test Year forecast No. 6 fuel cost per barrel reflecting the 2016 forecast fuel price is \$64.41 (\$Cdn). This cost is based on an average of the forecast 2016 No. 6 fuel price of \$69.40 per barrel (\$Cdn)¹ and the forecast 2015 year-end average inventory cost of \$55.35 per barrel (\$Cdn). The lower fuel price forecast for 2016 would also impact the 2015 Test Year No. 2 fuel cost forecast.

Table 1 provides a comparison between the 2015 Test Year fuel costs in the Amended Application and the 2015 Test Year fuel costs based on the current 2016 fuel price forecast.² The cost changes in Table 1 only reflect fuel price changes as the 2015 Test Year load forecast has been held constant.

Table 1 also provides an update to the forecast No. 2 fuel cost based on the updated fuel price forecast applied to the 2015 Test Year load forecast for Hydro Rural Isolated Systems.

¹ The forecast No. 6 fuel price of \$69.40 per barrel differs from the \$69.15 per barrel provided in the IIC RSP fuel rider calculation filed October 15, 2015 because the forecast fuel price for 2016 is based on a forecast conversion rate from \$US to \$Cdn and the fuel price in the fuel rider calculation requires the use of a historical conversion rate based on approved RSP rules.

² Based on the PIRA fuel price forecast dated September 22, 2015.

The cost of power purchases on the isolated systems is also updated since the purchase contracts are linked to the No. 2 fuel cost.

Table 1: 2015 Test Year Fuel Price Update

	Amended Application	Test Year Revised to 2016 Fuel Price Forecast	Change from Amended Application
Island Interconnected System			
Holyrood Generating Station - No. 6 fuel	\$ 244,913,000 ¹	\$ 169,034,770	\$ (75,878,230)
Number of Barrels	2,624,371 ²	2,624,371	-
Average Cost per barrel	\$ 93.32 ³	\$ 64.41	\$ (28.91)
Isolated Systems			
Diesel Production	\$ 18,592,000 ⁴	\$ 17,099,285	\$ (1,492,715)
Volume (litres)	16,953,100	16,953,100	
Average Cost per litre	\$ 1.10	\$ 1.01	
Purchases	\$ 3,287,000 ⁴	\$ 2,860,297	\$ (426,703)
kWh Purchases	24,225,400	24,225,400	
Average Cost per kWh	\$ 0.1357	\$ 0.1181	
Total Isolated Systems	\$ 21,879,000 ⁴	\$ 19,959,582	\$ (1,919,418)

¹ Source: Schedule V of Regulated Activities in Amended Application.

² Source: Schedule V of Regulated Activities in Amended Application.

³ The 2015 Test Year forecast average cost is based on an average of the forecast 2015 No. 6 fuel price of \$90.85 per barrel (\$Cdn) and the forecast 2014 year-end average inventory cost of \$97.65 per barrel (\$Cdn).

⁴ Source: Schedule VIII of Regulated Activities in Amended Application.

Table 1 shows that updating the 2015 Test Year fuel costs to reflect the 2016 fuel forecast will reduce the 2015 Test Year revenue requirement by approximately \$78 million.

Table 2 provides a comparison of the forecast 2015 Test Year revenues and RSP charges reflecting the 2016 fuel price update to the forecast 2015 Test Year revenues under the approved July 1, 2015 interim rates.

Table 2: Comparison of Revenues and RSP				
Existing Rates vs Revised 2015 Test Year Rates based on 2016 Forecast Fuel Price				
	Existing Rates	Revised Rates	Difference	Difference
	(July 1/15)			
Newfoundland Power				
Firm	\$ 448,559,921	\$ 460,629,080	\$ 12,069,159	2.7%
RSP ¹	(10,841,103)	(42,363,239)	(31,522,136)	
Total Firm NP	\$ 437,718,818	\$ 418,265,840	\$ (19,452,978)	-4.4%
Island Industrial				
Island Industrial Firm	\$ 33,542,308	\$ 35,794,539	\$ 2,252,231	6.7%
RSP Adjustment ²	(2,426,082)	(2,426,082)	0	
Island Industrial Total	\$ 31,116,226	\$ 33,368,457	\$ 2,252,231	7.2%
Labrador Industrial				
Transmission	-	\$ 4,050,000	\$ 4,050,000	
Generation Cost Recovery	2,270,848	1,387,390	(883,458)	
Labrador Industrial Total	\$ 2,270,848	\$ 5,437,390	\$ 3,166,542	139.4%
Canadian Forces Base Goose Bay	\$ 932,221	\$ 932,221	\$ -	0.0%
Rural Island Interconnected	49,070,647	47,596,565	(1,474,082)	-3.0%
Rural Isolated Systems	9,023,368	9,594,114	570,746	6.3%
L'Anse au Loup	2,737,350	2,655,120	(82,230)	-3.0%
Rural Labrador Interconnected				
Domestic	11,150,910	11,563,494	412,584	3.7%
GS 2.1 0 - 10 kW	410,227	425,405	15,178	3.7%
GS 2.2 10 - 100 kW	2,342,225	2,428,887	86,662	3.7%
GS 2.3 110 - 1000 kVA	3,071,096	3,184,727	113,631	3.7%
GS 2.4 Over 1000 kVA	2,806,310	2,910,143	103,833	3.7%
Street & Area Lighting	312,471	372,778	60,307	19.3%
Rural Labrador Interconnected	\$ 20,093,239	\$ 20,885,434	\$ 792,195	3.9%
All Rural Systems Total	\$ 80,924,604	\$ 80,731,233	\$ (193,371)	-0.2%
Grand Total	\$ 552,962,717	\$ 538,735,141	\$ (14,227,576)	-2.6%

¹ Revised Rates assume elimination of NP fuel rider on implementation of new base rates.

² Revenue from existing RSP Surplus Adjustments required to phase-in IIC base demand and energy rates. Hydro is proposing updated RSP Surplus Adjustment rates effective January 1, 2016 in its Interim IIC Rates Application, dated October 28, 2015.

Table 3 provides a comparison of (i) the proposed rate impacts under the Amended Application relative to the current rates approved effective July 1, 2015 to (ii) the potential rate changes relative to current rates if the Amended Application was updated to reflect the impact of the reduced 2016 fuel price forecast.³

Table 3: Comparison of 2015 Test Year Rate Impacts¹		
	Amended Application	2016 Forecast Fuel Price
Newfoundland Power - Wholesale	10.3%	-4.4%
Island Industrial	28.8%	7.2%
Island Interconnected Retail	7.0%	-3.0%
Rural Isolated Systems	16.6%	6.3%
L'Anse au Loup	7.0%	-3.0%
Rural Labrador Interconnected Total	2.1%	3.9%

¹ Rate changes relative to July 1, 2015 interim rates.

Table 3 shows that use of the 2016 fuel price forecast in the 2015 Test Year would provide a 4.4% decrease in the Newfoundland Power wholesale rate which would result in an approximate 3% retail decrease to customers on the Island Interconnected and L'Anse Au Loup systems. This compares to a 10.3% wholesale increase and 7.0% Island Interconnected retail increase based on the Amended Application. Table 3 also shows a materially lower rate increase for Island Industrial Customers than the increase based on the Amended Application.

The 3.9% rate increase for customers on the Labrador Interconnected system compares to 2.1% in the Amended Application. The higher increase results from a higher percentage of

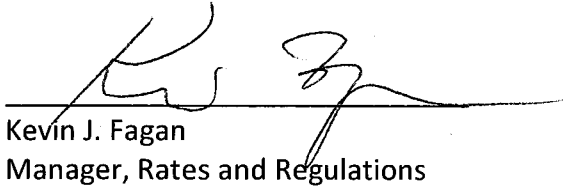
³ Table 3 does not show the impacts for customer groups for which there would be no rate impact. The rate changes resulting from approval of the Amended Application relative to the rates approved July 1, 2015 are provided in Table 1 in response to PUB-NLH-485.

the rural deficit being allocated to the Labrador Interconnected customers as a result of a reduction in the Test Year cost to serve Newfoundland Power.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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Manager, Rates and Regulations

KJF/bs

cc: Gerard Hayes – Newfoundland Power
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