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Via Electronic Mail and Courier

Newfoundland and Labrador Board
of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, NL A1A 5B2

**Attention: Ms. G. Cheryl Blundon, Director of Corporate Services
and Board Secretary**

Dear Ms. Blundon:

Re: Amended General Rate Application of Newfoundland and Labrador Hydro

Please find enclosed the original and twelve (12) copies of the Final Submissions of the Island Industrial Customers Group in the above Application.

We trust you will find the enclosed to be in order.

Yours truly,

Stewart McKelvey

Paul L. Coxworthy

PLC/kmcd

Enclosure

- c. Geoffrey P. Young, Senior Legal Counsel, Newfoundland and Labrador Hydro
- Thomas J. Johnson, Consumer Advocate
- Gerard Hayes, Newfoundland Power
- Thomas J. O'Reilly Q.C., Cox & Palmer
- Dean A. Porter, Poole Althouse
- Dennis M. Browne Q.C., Browne Fitzgerald Morgan & Avis
- Senwung Luk, Olthuis, Leer, Townshend LLP
- Genevieve M. Dawson, Benson Buffett

IN THE MATTER OF the *Electrical Power Control Act*, R.S.N.L. 1994, Chapter E-5.1 (the *EPCA*) and the Public Utilities Act, RSNL 1990, Chapter P-47 (the "*Act*"), as amended, and regulations thereunder;

AND IN THE MATTER OF a General Rate Application filed by Newfoundland and Labrador Hydro on July 30, 2013;

AND IN THE MATTER OF an amended general rate application filed by Newfoundland and Labrador Hydro on November 10, 2014.

WRITTEN SUBMISSIONS ON THE AMENDED 2013 HYDRO GENERAL RATE APPLICATION OF THE ISLAND INDUSTRIAL CUSTOMERS GROUP

TABLE OF CONTENTS

Introduction – Overview of the interests of the IIC Group as Hydro customers.....	1
New Energy Supply Cost Variance Deferral Account.....	3
Holyrood station service fuel efficiency factor	11
Debt Guarantee Fee	14
Cost of Capital and Debt Cost Impact.....	16
Use of the 2015 Load Forecast for Cost of Service Study.....	18
Allocation of the post September 2013 load variation balance	24
The O&M component of Specifically Assigned Charges (SAC).....	26
Corner Brook Pulp and Paper Limited – Agreements with Hydro and Water Rights.....	42
The Matrix organization model and non-regulated activities charged in to Hydro.....	44
Costs	52

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AND IN THE MATTER OF a general rate application filed by Newfoundland and Labrador Hydro on July 30, 2013;

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1 **WRITTEN SUBMISSIONS ON THE AMENDED 2013 HYDRO GENERAL RATE**
2 **APPLICATION OF THE ISLAND INDUSTRIAL CUSTOMERS GROUP**

3 These are the submissions of the Island Industrial Customers Group (Corner Brook Pulp and
4 Paper Limited, NARL Refining Limited Partnership and Teck Resources Limited), hereinafter
5 referred to as the IIC Group, in relation to the above Application.

6 **Introduction – Overview of the interests of the IIC Group as Hydro customers**

7 NARL Refining and Corner Brook Pulp and Paper have been and remain substantial industrial
8 customers of Hydro, and have a keen and very substantial interest in how issues with respect to
9 the interim rates they are paying now and with respect to their future rates are addressed in this
10 General Rate Application.

11 Teck Resources is phasing down as an industrial customer of Hydro, but retains an interest at
12 least to the extent that there are legacy issues to be addressed with respect to interim rates it
13 has paid and continues to pay, and to the extent it will be continuing to purchase power (granted
14 in greatly diminished amounts) as an industrial customer. NARL Refining and Corner Brook
15 Pulp and Paper (as was Teck Resources) are in the business of producing in this Province
16 commodities that are sold in very competitive international markets. Both of them (as was Teck

1 Resources) are substantial employers and substantial contributors to the overall economic
2 welfare of the communities and regions in which they are located, and to the Province as a
3 whole.

4 It has been over 8 years since the last General Rate Application by Hydro. This is an
5 unprecedented length of time between GRAs in the period since Hydro's regulation by this
6 Board was instituted. While we do not propose to revisit, in these submissions, all of the
7 reasons behind the extended period of time that has elapsed between this GRA and the last
8 one, the Island Industrial Customers Group do wish to underline the high degree of uncertainty
9 arising from being subject to interim rates for almost all of this 8 year period. They were
10 exposed to the possibility of very dramatic re-adjustment of rates, and consequent liabilities
11 therefore, and with uncertainty as to even what rules would apply to that re-adjustment. Rates
12 which have attached to them such a degree of uncertainty, over such a long period of time,
13 cannot be said to be reasonable. Retail customers would not be expected to tolerate such
14 uncertainty about electrical rates. It is no more reasonable to expect industrial customers to do
15 so.

16 The Island Industrial Customers Group acknowledges that, to a significant extent, this rate
17 uncertainty was mitigated by the direction given by the Provincial Government to the Board in
18 the Fall of 2013. However, while that Government direction drew a line under any continuing
19 rate uncertainty for the period prior to September 2013, the industrial customers still confront
20 considerable uncertainty about rates, and the possibility of rate shock, in respect of interim rates
21 in place since September 2013 and future rates.

22 This continuing uncertainty about how much industrial customers will ultimately have to pay for
23 electrical power, as an integral vital input for their operations, is plainly not conducive to
24 budgeting and future planning for their operations. Evidence does not need to be called for the

1 Board to take notice that prices for commodities, such as those produced by the Industrial
2 Customers, have endured wide and rapid fluctuations in recent months and years. Uncertainty
3 about Hydro rates can only compound the difficulties faced by the Industrial Customers in this
4 turbulent economic climate.

5 It is also important to note that although the rate pressures in this GRA have been mitigated
6 substantially since the first filing July 30, 2013 (mostly due to fuel prices not under Hydro's
7 control), it is still projected that, absent beneficial changes arising from the Board's upcoming
8 Orders, industrial customer rates will increase more than 35% through this GRA .¹

9 The Island Industrial Customer Group respectively request that the Board consider the negative
10 impact of rate uncertainty and potential rate shock when deciding upon the various issues in this
11 General Rate Application which will impact upon the rates that industrial customers will pay.

12 **New Energy Supply Cost Variance Deferral Account**

13 This issue was raised in the InterGroup Pre-Filed Testimony.²

14 As noted in the InterGroup Pre-Filed Testimony, the original 2013 GRA filing had proposed that
15 the energy supply cost impacts that are now intended to be captured within the new deferral
16 account were originally intended to be addressed within the RSP. By its response to CA-NLH-
17 312, Hydro refused to contemplate in this GRA a revised RSP design that would include the fuel
18 costs intended to be captured in the new deferral account. Further to the settlement agreements
19 proposed for the Board's approval in this GRA, it is proposed that the RSP be subject to
20 thorough review in 2016. In the submission of the IIC Group, it would be most appropriate and
21 prudent for the manner in which energy supply cost risks and benefits should be tracked and

¹ Per CA-NLH-001 in the 2016 Interim Industrial Rates proceeding, comprised of 19.2% at August 31, 2013, a further 2.6% at July 1, 2015, and a further 15.0% at September 1, 2016.

² Pre-Filed Testimony P. Bowman and H. Najmidinov, pp. 48-49.

1 allocated to Hydro versus its customers to be addressed in a 2016 RSP review, as the GRA
2 record leaves a number of uncertainties and questions as to how the new deferral account
3 would operate in conjunction with the RSP.

4 As also noted in the InterGroup Pre-Filed Testimony, any variation in respect of the prices of
5 power purchased by Hydro (as forecast in Schedule VI of the Regulated Activities section of the
6 Amended 2013 GRA) do not fall into the category of material, uncontrollable, set-by-external
7 forces, such as commodity markets for fuel and weather for hydrology.

8 The price variability in the Power Purchase Agreements with third party suppliers (the IIC Group
9 distinguishes Nalcor from this category, as it is not a third party vis-à-vis Hydro) arises only from
10 a Consumer Price Index (CPI) escalator, a provision freely contracted by Hydro with those
11 suppliers, and as such hardly falls within the category of an unstable factor out of Hydro's
12 forecasting ability. As noted by InterGroup, inflationary pressures impact all aspects of Hydro's
13 operations which are not stabilized or deferred, so it is not apparent why it should have special
14 protection in the case of this aspect of its Power Purchase Agreements. Moreover, based on the
15 last 5 years experience with the CPI, there is no evidence of CPI increases being a material
16 factor in the prices Hydro has contracted to pay for this power.³

17 There is no reasonable expectation of variability in the price paid by Hydro to Nalcor for Exploits
18 power. It is reasonable to expect that the price will continue to be fixed at 4 cents per kilowatt-
19 hour through 2016, when transfer of the Exploits hydraulic generation assets to Hydro is
20 expected. Moreover, the IIC Group would submit that prices fixed by Hydro's shareholder Nalcor
21 (or ultimately by Nalcor's shareholder, the government of the Province) are not properly
22 considered as arising from external forces akin to commodity markets or the weather. It is clear
23 from PUB-NLH-8, where Hydro has produced correspondence from Nalcor's shareholder, that

³ Undertaking 169.

1 the intention of the price set for Exploits power is to provide income benefits to Hydro and
2 sufficient funding to Nalcor to maintain the facilities, until the facilities can be transferred to
3 Hydro. Mr. Henderson in his GRA testimony could not identify any drivers for a price increase
4 for Exploits power, while acknowledging that Hydro would be consulted on any price increase.⁴
5 Finally, there is uncertainty as to how the deferral account would work in any event if the Nalcor
6 purchases were replaced by a rate base asset that has to be owned, financed, depreciated,
7 operated and maintained by Hydro, so that one single purchase price per kW.h is no longer
8 easily identifiable.

9 As also noted in the InterGroup Pre-Filed Testimony, any variation in respect of the volumes of
10 power purchased by Hydro (as forecast in Schedule VI of the Regulated Activities section of the
11 Amended 2013 GRA) and supplied from other Hydro thermal sources (including the new
12 Holyrood 100 MW combustion turbine) should be considered appropriate for stabilization or
13 deferral, but within the bounds of the RSP.

14 Since the filing of the InterGroup Pre-Filed Testimony, further evidence adduced through the
15 GRA hearing has made evident that there are a number of uncertainties and incompletely
16 answered questions as to how Hydro manages the volumes of power sourced from non-Hydro
17 sources or from the new CT (which is also part of this account), and intended to be captured in
18 the proposed Energy Supply Cost Variance Deferral Account. It is not at all apparent that any
19 material variance in these volumes is due to factors outside of Hydro's control.

20

⁴ GRA Hearing Testimony of R. Henderson, pp. 148-153

1 With respect to Exploits power purchases, Hydro has advised that it is not obligated to purchase
2 any minimum or maximum amount.⁵ Hydro's purchases from Exploits generation have steadily
3 increased, and are forecast to continue to increase.⁶ This is consistent with evidence in the
4 GRA hearing which confirms that recent years, including 2015, have been "high water" years for
5 hydraulic generation⁷, as is also general confirmed by the substantial hydraulic surplus to the
6 benefit of Hydro's customers in the RSP.

7 However, the RSP is reporting disconcerting monthly reversals in the expected trend in the
8 hydraulic balance (resulting in erosion of the expected benefits to Hydro's customers in a high
9 water year) in recent months.⁸ So, while purchases of Exploits hydraulic generated power have
10 increased, there has been a decline in use of Hydro's own hydraulic resources.

11 Hydro's Manager of Rates and Regulation, Mr. Kevin Fagan, in his GRA testimony, attempted to
12 explain the reasons for this reversal in the expected trend of positive hydraulic balances in the
13 RSP. The explanation given was, with respect, unclear but appeared to be highly contingent on
14 factors within Hydro's control, such as the volume of purchases from Nalcor of Exploits Power
15 and the operation of Holyrood for "reliability purposes".⁹ Mr. Fagan's explanation included the
16 following statement:

17 Now in our current test year, all the savings as a result of Nalcor purchase and say wind
18 purchases being less than the cost of Holyrood are now reflected in the test year, but the
19 mechanics of the RSP are still the same with regard to the assumption that the difference

⁵ Response to Undertaking 166.

⁶ Schedule VI, Section 2 Regulated Activities of Hydro's Amended 2013 GRA.

⁷ GRA Hearing Testimony of K. Fagan, October 5, 2015, p. 108 (starting from line 18) to p. 109; October 6, 2015, pp. 146-147.

⁸ June, July and August 2015, per Consent # 3, August 2015 Rate Stabilization Report; the September 2015 RSP report, not put into evidence in the GRA hearing but filed by Hydro with the Board, shows that this reversal in the expected monthly hydraulic balances favourable to Hydro's customers has extended into September 2015.

⁹ GRA Hearing Testimony, October 6, 2015, K. Fagan, pp. 154-157.

1 from the hydraulic cost of service, hydraulic production it's an assumption that it's all
2 shifting to a Holyrood cost.¹⁰

3 In other words, if due to Hydro's purchasing or use of energy supply sources (the very ones
4 intended to be captured in the energy supply cost variance deferral account) instead of available
5 (in a high water year) Hydro hydraulic generation, hydraulic "production" as recorded in the RSP
6 declines, then this is interpreted within the RSP as increasing the use Holyrood No. 6 fuel, even
7 if this is not actually the case. This is an effect which, if not otherwise fully accounted for, is to
8 the unfair detriment of Hydro's customers and undermines confidence in the RSP as currently
9 designed as providing a transparent mechanism to understand how Hydro is managing its
10 energy supply portfolio.

11 Although again it is not as clear as it should be, given that it is Hydro which has the onus of
12 supporting the need for an energy supply cost variance deferral account, it appears that a large
13 measure of the displacement of Hydro's hydraulic production has been due to increased use of
14 the 100 MW combustion turbine (CT) at Holyrood. Mr. Fagan in his GRA testimony indicated
15 that this increased use of the 100 MW CT is a significant driver for this new deferral account:

16 For example, in the energy supply cost deferral for the Island Interconnected system, now
17 the Holyrood gas turbine is a very expensive unit to run, so that cost is a new cost that
18 wasn't there back in 2007 and it's been required to run fairly frequently. So, initially
19 when there was a discussion of the energy supply cost variances, a lot of discussion
20 around we purchase from Nalcor at four cents, but if water levels go up or down, then
21 we've got to replace it with Holyrood fuel. So you're dealing with the four cents versus
22 the 15 cents. So which is similar to the way the rate stabilization plan works.

23 Now it's been commented that -- I think by Mr. Patrick Bowman, that we should have
24 just put it in the RSP and we actually -- it was talked about, but the RSP is so complicated
25 now, we thought it would be easier to just set it aside as its own item for now and when
26 we review the supply cost mechanisms going forward, we'd look at some aggregation of
27 where supply cost variances should be. But so for purposes of transparency in looking at
28 what's new proposed for the Board, it was presented as a -- these were all presented as

¹⁰ GRA Hearing Testimony, October 6, 2015, K. Fagan, p. 157, lines 14-23.

1 single items so that the Board could look at them in that light, but the energy supply cost
2 variance on the Island Interconnected system, the combustion turbine cost variances,
3 which may be, you know, 30 cents a kilowatt hour when you're running that, it's not so
4 much an issue of the price variability of No. 2 fuel, but the volume of running No. 2 fuel -
5 - using No. 2 fuel that can cause a big impact on Hydro's financials.

6 So, when it was initially discussed at Hydro, we were talking about the difference
7 between the four cents of purchases from Nalcor versus the 15 cents, and now it's
8 transitioned into both a combination of shift in the levels, shifting costs that are also the
9 Holyrood combustion turbine as well as the purchases from Nalcor. And it's not just
10 about risk for Hydro with respect to purchases from Nalcor. If water levels are up and we
11 get more purchases from Nalcor, then there's fuel savings. So similar to the hydraulic
12 component of the RSP, those savings would be passed back to customers. So it's more
13 consistent with a rate stabilization aspect, although it's been set aside in a separate
14 account, than just strictly a risk of Hydro.¹¹

15 One is left with the impression that the Nalcor purchases from Exploits could have been readily
16 integrated into the RSP (as was the intention in the original GRA filing), instead of being "set
17 aside in a separate account". It appears that there was a change in thinking arising from Hydro's
18 relatively new pattern of usage of the 100 MW CT. The GRA testimony of Mr. Goulding provided
19 further information about that new pattern of usage. The 2015 use of all Hydro's gas turbines
20 (100 MW CT, as well as Hardwoods and Stephenville) was only forecast at 11.4 gigawatt
21 hours.¹² However, actual 2015 usage of the 100 MW CT alone, up to September 2015, was
22 24.5 gigawatt hours.¹³

23 It also appears that the actual pattern of usage of the 100 MW CT goes beyond what was
24 contemplated in Hydro's Amended 2013 GRA evidence in support of the energy supply cost
25 variance deferral account:

26 Other variances, both quantity and price, in Island Interconnected supply costs result
27 when diesel and/or gas turbine production varies from the Test Year assumption. These
28 sources of generation are not normally called upon to meet normal energy requirements

¹¹ GRA Hearing Testimony, October 6, 2015, K. Fagan, pp. 93-95.

¹² Amended 2013 GRA, Section 2 Regulated Activities, Schedule V.

¹³ Information #15; GRA Hearing Testimony of K. Goulding, October 20, 2015, pp. 127-128.

1 of energy as they are used primarily for system peaking, area supply requirements, or
2 energy requirements in the event of system generation constraints or outages.¹⁴

3 Mr. Goulding's testimony was that greater, apparently anticipatory running of the 100 MW CT
4 was one of the Hydro's "learnings" from the March 4, 2015 power outage/voltage collapse.¹⁵ In
5 the context of considering the greater usage of the 100 MW CT following the March 4, 2015
6 events, it is of concern that Hydro has chosen not to respond in any substantive way to Liberty's
7 report on those events. While the IIC Group intend to address at greater length Hydro's
8 response to the March 4, 2015 event in its separate submission on that issue, in the context of
9 the present submission, the IIC Group would submit that Hydro's lack of substantive response
10 raises a reasonable question as to whether its new pattern of usage of the 100 MW CT is an
11 appropriate response to the March 4, 2015 events, and whether Hydro's customers should be at
12 risk, through the proposed deferral account, of bearing the costs of this new pattern of usage, as
13 well as incurring negative impacts in the RSP. [NOTE: The foregoing submissions were
14 prepared prior to Hydro's filing on December 22, 2015 (the day prior to the due date of this GRA
15 submission) of a Final Submission on the March 4, 2015 outage. While the IIC Group's legal
16 counsel had previously understood that Hydro did not intend to make any further response on
17 the March 4, 2015 outage beyond its correspondence to the Board of November 17, 2015 (and
18 the November 30, 2015 Hydro clarification elicited by the Board's specific inquiry), the IIC Group
19 would acknowledge that the December 22, 2015 Submission is substantive and in the brief
20 opportunity they have had to review it, appears, with one exception, to be a reasonable
21 response. As such, the IIC Group do not intend to make any submission on the March 4, 2015
22 Outage event, other than to the extent it may be put forward as justification for a new pattern of
23 usage of the 100 MW CT. In that regard, the IIC Group are of the view that the comments made

¹⁴ Amended 2013 GRA, p. 3.49.

¹⁵ GRA Hearing Testimony of K. Goulding, October 20, 2015, pp. 131-132.

1 on page 5, paragraph 7 of the December 22, 2015 Hydro submission do not provide sufficient
2 explanation to assess the new pattern of usage of the 100 MW CT.]

3 Undertaking 171 is not reassuring on this issue. Firstly, it begs the question of whether Hydro,
4 in a high water year, could opt to displace its own (available) hydraulic generation for Nalcor
5 purchases, causing the \$4.5 million impact on customers described in this Undertaking
6 response; there is no disincentive or control on Hydro doing so. Moreover, what if, instead of
7 Hydro's own (available) hydraulic generation being displaced by Nalcor purchases, it is instead
8 being displaced by greater use of the Holyrood 100 MW CT (as appears to be at least part of
9 the explanation for the reversal in the trend of customer-favourable monthly RSP hydraulic
10 balances in June, July, August and September 2015)¹⁶? None of these effects are accounted for
11 in the RSP, and will be left to be accounted for by a deferral account which is not presently
12 governed by any rules as to disposition of balances other than Hydro having to file an
13 application with the Board for that purpose before the 1st of March each year. Customers have
14 no guarantee that the large amounts (\$15.4 million) that Hydro attempts to show in Undertaking
15 171 as equal and offsetting would in fact be offsetting in any given time period of recovery.

16 The impacts of an energy supply costs variance deferral account, as proposed by Hydro, are at
17 best uncertain and need to be further reviewed. The IIC Group submit that this is an issue which
18 can only be fully considered in the context of the proposed 2016 RSP review. For the 2015 Test
19 Year, and until the 2016 RSP review is completed, Hydro should not be approved for deferral of
20 supply cost variances.

¹⁶ Consent # 3, August 2015 Rate Stabilization Report; the September 2015 RSP report, not put into evidence in the GRA hearing but filed by Hydro with the Board, shows that this reversal in the expected monthly hydraulic balances favourable to Hydro's customers has extended into September 2015

1 **Holyrood station service fuel efficiency factor**

2 This issue was raised in the InterGroup Pre-Filed Testimony.

3 While the IIC Group has accepted as reasonable Hydro's proposal to use 650 kW.h/bbl gross
4 fuel efficiency for Holyrood for the 2015 Test Year¹⁷, there are material concerns with respect to
5 the adjustments assumed by Hydro for the Holyrood station service power requirements.

6 Hydro is proposing a factor of 6.61% (43 kW.h/bbl) of gross generation as an estimate of
7 Holyrood station service.¹⁸ The IIC Group submit that 5.0% (28 kW.h/bbl) is more supportable
8 on all of the evidence.

9 There are essentially two grounds for the IIC Group's submissions on this issue.

10 The first is that Hydro has derived its station efficiency value based on the average over a 5-
11 year period (June 2009 to May 2014) which is unrepresentative of higher load forecasts (and
12 consequent higher Holyrood generation) for 2015 and 2016. Higher Holyrood generation levels
13 give rise to a better station efficiency value. InterGroup's analysis demonstrates that past
14 experience at the higher load levels forecast for 2015 and 2016 alone support that the
15 reasonable value for station efficiency for the 2015 Test Year would be 5.85% (36 kW.h/bbl).¹⁹

16 Indeed, while arriving at a more reasonable valuation of station service may be achieved by
17 analysing the historical experience of load levels forecast for 2015 and 2016, a further factor
18 which supports a station service factor even lower than 5.85% (36 kW.h/bbl) is Hydro's capital
19 projects in relation to Holyrood since 2007 which have been supported, at least in part, as a

¹⁷ InterGroup Pre-Filed Testimony, p. 24, lines 8-15.

¹⁸ See InterGroup Pre-Filed Testimony, p. 22, lines 15-18, and p. 25, lines 6-7, for a detailed explanation of Hydro's derivation of the station service requirements.

¹⁹ NP-NLH-188 (Rev 1); InterGroup Pre-Filed Testimony, pp. 25-26; GRA Hearing Testimony of P. Bowman, September 30, 2015, pp. 156-163, including GRA Exhibit 2, pp. 8-10.

1 means to improve net fuel efficiency.²⁰ As an example, Hydro's Variable Frequency Drive
2 project alone was supported as a cost beneficial project based on projected increases to
3 Holyrood efficiency of 8 kW.h/bbl.²¹ This project was scheduled to be completed by late 2014 or
4 early 2015; two of the VFD units were installed as of the end of 2014, but the third has been
5 inexplicably delayed to Fall 2015²². Hydro's customers ought not to be penalized by this delay
6 by omitting to include this efficiency improvement in the 2015 Test Year, as Hydro's customers
7 are expected to pay the capital cost of the project in their rates.

8 Mr. Henderson, in his Hearing evidence, indicated that he did not believe that Hydro's past
9 experience of a correlation between high annual loading and higher Holyrood efficiency would
10 hold for 2015 and going forward. Mr. Henderson was asked the following question (by
11 Newfoundland Power's counsel):

12 So we've got a calculated fuel conversion forecast here for 2015 at 607. I understand that
13 based on at least the evidence that's been filed, that the higher the Holyrood production,
14 the higher the fuel conversion factor generally.²³

15 Mr. Henderson's answer to this question was that this was not correct. He went on to explain:

16 MR. HENDERSON:

17 A.

18 And you got a certain production out of it in that period of time. While in 2015 and going
19 forward, the Holyrood plant is expected to be on all year round for reliability purposes
20 and as a result, you're getting more production but at a lower average unit load.

21 MR. O'BRIEN:

22 Q. Unit load. So the unit load is the key factor?

²⁰ IC-NLH-064 Rev 1, IC-NLH-093, IC-NLH-138, NP-NLH-191 Rev 1; InterGroup Pre-Filed Testimony, p. 26, lines 8-15; p. 27, lines 3-7.

²¹ IC-NLH-064 Rev 1, p. 2, lines 16-21; NP-NLH-191 Rev 1, p. 2.

²² NP-NLH-191 Rev. 1; NP-NLH-192 Rev. 1.

²³ GRA Hearing Testimony, September 23, 2015, R. Henderson, pp.83-84.

1 MR. HENDERSON:

2 A.

3 The unit load is the key factor that influences the efficiency of the unit, and so that
4 average unit load will change depending on your hydraulic conditions, depending on your
5 customer demand, and they would be the two components. So, the system operator makes
6 a decision as to when the unit needs to be on and that will depend on what else is
7 happening on the system and what customer demand is.²⁴

8 However, Mr. Henderson's evidence is not persuasive on this point, when considered in the
9 context of the weight of the evidence, including that of other Hydro witnesses. He himself
10 referred to the Systems Operations Panel as being the better source of evidence on this issue.²⁵
11 The evidence of Mr. Goulding from that Panel (on cross-examination by IIC Group counsel) was
12 that his concern with InterGroup's analysis was in respect of factors that had not yet been
13 analysed by Hydro.²⁶ It was Mr. Goulding's evidence that the atypical low loading use of
14 Holyrood that Mr. Henderson expressed concern about (in terms of correlation between higher
15 annual load and Holyrood efficiency) only occurred in 2 months (June and July 2015), and he
16 was unable to quantify the impact in terms of overall Holyrood efficiency for the year.²⁷ Hydro
17 has also identified that it has adopted a protocol to call upon Hardwoods and then the new 100
18 MW CT at Holyrood to address low load situations when otherwise one of the three main
19 Holyrood turbine units might need to be operated at (relatively inefficient) low load.²⁸ With this
20 new protocol, many of the low load hours on Holyrood thermal will be reduced, leading to a
21 higher average loading consistent with the improved Station Service factor.

²⁴ GRA Hearing Testimony, September 23, 2015, R. Henderson, p. 85.

²⁵ GRA Hearing Testimony, September 23, 2015, R. Henderson, p.82, line 17-19.

²⁶ GRA Hearing Testimony, October 21, 2015, K. Goulding, pp. 100-102.

²⁷ GRA Hearing Testimony, October 21, 2015, K. Goulding, pp. 111-112.

²⁸ GRA Hearing Testimony, September 23, 2015, R. Henderson, pp. 98-99; Hydro's Application for Approval of 12 MW of Diesel Generation at Holyrood, Section 3.2 Benefit: Fuel Savings

1 Mr. Goulding's hearing evidence is that Hydro's preliminary information confirms that the
2 Variable Frequency Drive project has improved Holyrood efficiency by 4-5 kWh./bbl for 2015,
3 even with the late installation of one of the three new VFD units.²⁹ Mr. Goulding conceded that
4 he expected to see a revised, improved Holyrood net efficiency factor filed before the end of the
5 GRA process.³⁰ It is reasonable to expect based on Mr. Goulding's evidence that Hydro's
6 revised station service factor will be improved by at least 4-5 kW.h/bbl, but it should be borne in
7 mind that this improvement will not reflect full availability of the third VFD unit due to its delayed
8 installation.

9 The IIC Group submit that, absent a Hydro analysis, well supported by the most current actual
10 experience in 2015 and taking into appropriate consideration the 2015 experience should be
11 adjusted (to the benefit of Hydro's customers) to take into account the late installation of one of
12 the three VFD units, which demonstrates otherwise, the InterGroup analysis is to be preferred.
13 The cost to Hydro's customers of accepting Hydro's unsupported higher station efficiency factor
14 is significant³¹, and it would be unfair to visit this higher cost upon Hydro's customers absent a
15 thorough analysis by Hydro demonstrating that (as Hydro asserts) the historical relationship
16 between load and efficiency should not be relied upon for a Test Year and given the substantial
17 Hydro capital expenditures justified by reason of projected improvements to Holyrood fuel
18 efficiency.

19 **Debt Guarantee Fee**

20 Grant Thornton, in their June 12, 2015 report, concluded that based on their analysis, further
21 examination was required to determine an appropriate methodology to apportion the benefit of
22 the debt guarantee fee between Hydro and the Province. Grant Thornton's analysis indicates

²⁹ GRA Hearing Testimony, October 21, 2015, K. Goulding, pp. 120-121

³⁰ GRA Hearing Testimony, October 21, 2015, K. Goulding, pp. 124-125

³¹ PUB-NLH-50

1 that the present apportionment does not sufficiently benefit Hydro, to the extent of taking away
2 much of the benefit for Hydro of the debt guarantee.³²

3 Grant Thornton has recommended that the Board advise Hydro to propose an equitable
4 methodology to apportion this benefit. Hydro has not made any such proposal, nor provided any
5 of the additional evidence that might have allowed Grant Thornton to further their analysis.³³

6 Hydro has acknowledged that there is no government direction binding on the Board with
7 respect to the cost of debt guarantee fee being recoverable from Hydro's customers, and that
8 the onus is on Hydro to demonstrate that what is being proposed is reasonable.³⁴

9 One of Hydro's primary rationale's for the payment of the debt guarantee fee is that Hydro
10 Quebec also pays a guarantee fee, and that fee is included in Hydro Quebec's rates. In support,
11 Hydro provided an extract from a decision of the Regie de l'energie Quebec (Undertaking 38).
12 However, the noted Undertaking makes no mention of the concept of appropriate benefit
13 sharing, as was raised by Grant Thornton, having been addressed in any way by the Regie.

14 Hydro's response to Undertaking 139 indicates that a change of apportionment, along the lines
15 that Grant Thornton's analysis indicates may be more equitable, would result in a significant
16 reduction in Hydro's 2015 test year interest expense.

17 In light of Grant Thornton's expressed concerns about the current apportionment, it is surprising
18 that Hydro has not put forward any expert evidence to update and further the 2013 Scotiabank
19 analysis so that it would provide answers and evidence in respect of those concerns.

³² June 12, 2015 Grant, Thornton Report, p. 20.

³³ IC-PUB-022.

³⁴ GRA Hearing Testimony, November 16, 2015, S. Pelley, p. 17, lines 3-13; November 17, 2015, pp. 174 (starting from line 12) -175.

1 The IIC Group submit that Hydro has not met its onus in demonstrating that the debt guarantee
2 fee, as currently proposed, is reasonable and is consistent with providing least cost service to
3 Hydro's customers. Hydro has had ample opportunity to address Grant Thornton's concerns
4 and has chosen not to. In the circumstances, the best evidence of what would constitute a more
5 equitable apportionment of the benefit of the debt guarantee fee is Hydro's response to
6 Undertaking 139.

7 **Cost of Capital and Debt Cost Impact**

8 As will be noted from the Pre-filed Evidence (June 4th, 2015) of Messrs. P. Bowman and
9 Najmidinov, they are of the opinion that the proposed revenue requirement of Hydro should be
10 reduced at an appropriate time by approximately (\$5 million) to reflect the refinancing of \$160
11 million of the current RSP balance (representing solely the resolution of the Newfoundland
12 Power refundable amounts plus the segregated load variation) from a WACC (RSP interest
13 rate) of 6.817% to a new long-term debt issuance interest rate of 3.6%.³⁵

14 Though Hydro maintains that it has not made any decision on how the refund of the
15 Newfoundland Power RSP Surplus will be financed,³⁶ P. Bowman and N. Najmidinov maintain
16 that it is probable that this will be accomplished by promissory notes and long-term debt.³⁷

17 Mr. Bowman notes that this is "consistent with the values in NP-NLH-020 (Rev.1) which shows
18 the cost of debt financing rate base dropping from \$89.3 to \$84.5 million from the year 2015 to
19 the year 2016 as the RSP balance is paid out and new financing assumed".³⁸

³⁵ Pre-filed Evidence of P. Bowman and H. Najmidinov (June 4th, 2015), pages 28-29.

³⁶ IC-NLH-052.

³⁷ Pre-filed Evidence of P. Bowman and H. Najmidinov (June 4th, 2015), page 29.

³⁸ GRA Exhibit #2 at page 12.

1 As such, P. Bowman and N. Najmidinov have proposed that this Board give consideration to
2 setting the GRA rates based on a deemed debt rate and equity ratio below that proposed in the
3 GRA.³⁹

4 To identify the issue, P. Bowman noted the following in his Pre-Filed evidence:

5 "Most notably, Hydro's total capital for financing rate base, on a mid-year basis, in 2015
6 is approximately \$1.78 billion. However, this capital is financing a mid-year rate base
7 (assets) of \$1.80 billion plus Capital Work in Progress averaging \$0.14 billion (which is
8 also financed by Hydro long-term capital). The result is approximately \$160 million more
9 in assets than in available capital. The largest part of this difference is the RSP balance.
10 In effect the RSP is functioning as an additional form of financing for rate base, or as a
11 form of loan to Hydro, at the average WACC, increasing the required return from
12 customers as part of base rates."⁴⁰

13 Further, in direct examination, Mr. P. Bowman added the following to clearly outline his concern
14 with respect of this RSP balance:

15 "If it's owed to customers, it's like a loan from customers, and you'll see in the RSP
16 accounts every month there's an interest paid to the RSP for the funds that Hydro is
17 hanging on to at the weighted average overall cost of capital, and that's been in place for
18 a long time. The net result is Hydro doesn't need to borrow this money at the current time
19 because it's sitting on an amount owed, a payable. As soon as it pays that out, it's going
20 to have a need to generate that cash. There's some RFIs that refer to this. I think we can
21 probably go to the next slide now, Ms. Gray. There's some RFIs that refer to this, but as
22 soon as it pays that out, it's going to need to finance that cash that it lays out, and
23 currently in financing of the rate base, you'll see around this 160 million dollars,
24 financed at about a 6.8 percent cost. As soon as that's paid out, you'll end up going
25 down to something more like a new long term debt costing about 3.6 percent. It's about a
26 5 million dollar difference. That'll happen as soon as those balances are paid out, and we
27 have some cross-references there to some forecast that Hydro provided which similarly

³⁹ Pre-filed Evidence of P. Bowman and H. Najmidinov (June 4th, 2015) at page 29.

⁴⁰ Pre-Filed Evidence of P. Bowman and H. Najmidinov (June 4th, 2015) at page 28.

1 shows its cost going down, and the result is that if there isn't some adjustment done, that
2 is an item that would go to reduce Hydro's cost in a future year, not a test year. Rate
3 payers wouldn't see the benefit until the next GRA if there's no adjustment done today,
4 and we know it's going to occur."⁴¹

5 It is recognized that these amounts, in particular the Newfoundland Power refundable amounts,
6 are now not scheduled to be paid out until 2016. However, this is only due to delays related to
7 the regulatory process and does not reflect any uncertainty as to whether these amounts will be
8 paid out in the near-term. Hydro has had the option (since before 2015) of transferring these
9 amounts out of the RSP (a high cost location to host large payables) to an alternative short-term
10 mechanism, and financing this amount with low cost capital such as promissory notes thereby
11 reducing the costs for Return on Rate Base in 2015 (and the amount of interest credited to the
12 refundable amounts). The Revenue Requirement for 2015 should not be adversely affected by a
13 Return on Rate Base that is approximately \$5 million higher than required due to delays in
14 seeking lower cost financing or in paying these amounts out to NP customers. As such, the IIC
15 Group submit that it would be reasonable to reduce Hydro's revenue requirement by \$5 million
16 to account for the lowering of the cost of capital for 2015 which would have been available to
17 customers had Hydro operated on a least-cost basis for setting the Revenue Requirement.

18 **Use of the 2015 Load Forecast for Cost of Service Study**

19 The Consumer Advocate's consultant has argued that the 2015 Load Forecast is not
20 appropriate for use in the 2015 Test Year due to forecast industrial customer (Vale and Praxair)
21 load growth in 2016 and 2017.⁴² In his Pre-Filed Testimony, the Consumer Advocate's
22 consultant acknowledged that, if an adjustment to the cost of service study was to be made to
23 reflect the forecast load growth in 2016 and 2017, then "this will require an adjustment in
24 Hydro's costs, which will in turn result in different cost allocations to customer classes in the

⁴¹ GRA Hearing Testimony of P. Bowman, September 30th, 2015, at pages 108-110.

⁴² Pre-Filed Testimony of D. Bowman, pp. 23-24

1 cost of service study.”⁴³ The Consumer Advocate’s consultant offered no detailed analysis of
2 what would be the outcome of his proposal, and ultimately appeared to be recommending, at
3 that time, that Hydro should use a test year other than 2015 (presumably, 2016 or 2017) for its
4 cost of service study.⁴⁴

5 Hydro’s cost of service expert, in his GRA hearing testimony (on cross-examination by the
6 Consumer Advocate), clearly expressed his opinion (1) that an increase in IC load in 2016 and
7 2017 would result in an increase in revenue earned by Hydro (and greater allocation of
8 Holyrood fuel costs to the ICs), thereby still resulting in appropriate cost of service allocation to
9 the ICs based on a 2015 test year cost of service study and (2) that it would not be appropriate
10 to change just one variable in the 2015 Test Year cost of service study – the forecast IC load –
11 without in effect running what would be tantamount to a new Test Year in the cost of service
12 study, and that this would not be a simple matter of a taking a “short cut approach”.⁴⁵

13 In his GRA hearing evidence, the Consumer Advocate’s consultant, as presaged by the
14 Consumer Advocate’s cross-examination of Hydro’s cost of service expert, appeared to modify
15 the argument made by his Pre-Filed Testimony. The Consumer Advocate’s consultant now
16 supported a “short cut approach” (warned against by Hydro’s cost of service expert) by
17 “changing the allocators”.⁴⁶ However, when asked to provide his opinion of Hydro’s response to
18 the Consumer Advocate’s request for Undertaking 41, which was intended to illustrate how the
19 “changing the allocators” approach would work, the Consumer Advocate’s consultant demurred
20 on expressing his opinion on whether Hydro’s response accurately set out the effects of his

⁴³ Pre-Filed Testimony of D. Bowman, p. 24, lines 12-15.

⁴⁴ Pre-Filed Testimony of D. Bowman, p. 24, lines 18-21.

⁴⁵ GRA Hearing Testimony, September 23, 2015, R. Greneman, pp. 57-62; p. 66.

⁴⁶ GRA Hearing Testimony, September 30, 2015, D. Bowman, pp. 70-71.

1 proposed approach, and ultimately deferred to Mr. Kevin Fagan, Hydro's Manager of Rates and
2 Regulation, to explain Undertaking 41.⁴⁷

3 Prior to Mr. Fagan's testimony, Hydro's response to Undertaking 44 was circulated, as a
4 refinement upon Undertaking 41. Mr. Fagan's testimony was unequivocal, and on cross-
5 examination, clear that a cost of service study based on a 2015 Test Year (and 2015 forecast IC
6 load) would generate the appropriate increase in Hydro revenue from the ICs if that class' load
7 increased as forecast in 2016 and 2017, as well as generating fair rates throughout the period.

8 Mr. Fagan noted:

9 MR FAGAN:

10 So, that basically, to me, means that as their load increases, they're paying their share
11 because there's stability in the demand charge that's coming out of that table.

12 So, as -- because the new customers coming on the system have similar load factor to the
13 existing Industrial Customers, the demand charge coming out of the cost of service study
14 should be fairly stable from year to year, and so this reallocation of bringing the load
15 back into 2015 test year, that basically conflicts with what one would expect for a rate
16 design perspective.⁴⁸

17 Mr. Fagan further explained that the Undertaking 41/44 approach advocated by the Consumer
18 Advocate's consultant would result in over recovery from industrial customers, in both the 2015
19 Test Year and in 2016 and 2017:

20 MR. CASS:

21 Q. Now Mr. Doug Bowman, the expert for the Consumer Advocate, has brought up the
22 concept of normalization of the 2015 test year to reflect future load requirements of Vale
23 and Praxair. What are your comments on this?

24

⁴⁷ GRA Hearing Testimony, September 30, 2015, D. Bowman, pp. 75-78.

⁴⁸ GRA Hearing Testimony, October 5, 2015, K. Fagan, pp. 104 (from line 22) – 105.

1 MR. FAGAN:

2 A. The proposed firm demand rate, firm energy rate for the Industrial Customers, in
3 combination with the operation of the RSP, are reasonable for recovering the cost of
4 serving the Industrial Customer class for the period of 2015 to 2017. As the Industrial
5 Customer load increases, the new customers will pay increased demand costs as a result
6 of their increased demand requirements. The customers will also pay increased energy
7 charges based on the firm energy rate approved by the Board coming out of the GRA,
8 plus the additional RSP charges to recover additional fuel costs due to their load
9 growth. Normalization to reflect higher future loads in the allocation of the 2015 test
10 year revenue requirement will result in reflecting future costs of serving Industrial
11 Customers in the current rates. Allocation of a higher proportion of costs to Industrial
12 Customers based on 2017 forecast will have the effect of materially increasing the rates
13 to be charged to Industrial Customers and result in over recovering the cost of serving
14 Industrial Customers in both the test year and in future years. The load forecast reflected
15 in the 2015 test year includes Vale and Praxair as high load factor customers and
16 therefore no normalization is required.⁴⁹

17 Mr. Fagan's last cited comment is important to bear in mind, given the repeated assertion made
18 by the Consumer Advocate's consultant that his proposed "normalization" of the 2015-2017 IC
19 load forecast was no different than what the IIC Group had themselves proposed by IC-NLH-
20 140 in the original 2013 GRA filing, when 2013 and not 2015 was Hydro's proposed test year.
21 The Consumer Advocate's consultant was incorrect, however, as in 2013, Vale and Praxair
22 were not yet high load factor customers, so that Hydro's proposed treatment of IC load in a
23 2013 cost of service would have imposed costs on the industrial customers for which there was
24 insufficient IC load; the IC-NLH-140 approach "normalized" the 2013 load within the 2013 Test
25 Year (and not by reaching forward to future years' forecast loads, as the Undertaking 41/44
26 approach does).⁵⁰ Mr. Patrick Bowman further explained this concept under cross-examination,
27 noting how the proposed "normalization" would in practice result in an allocation of costs related
28 to larger future industrial loads as a mismatch to today's loads on which the costs have to be
29 recovered. This may appear to have benefits to the customer's whose share of the fixed cost pie

⁴⁹ GRA Hearing Testimony, October 5, 2015, K. Fagan, pp. 98 (from line 25) – 100.

⁵⁰ GRA Hearing Testimony, October 5, 2015, K. Fagan, pp. 105-106.

1 may shrink slightly, but this shrinkage is only a mathematical artifact of pretending there is some
2 other load in 2015 or 2016 to pay for the remainder of the pie:

3 MR. PATRICK BOWMAN:

4 There will be good news as Vale load grows, if only that load growth - the upside, if only
5 that load growth didn't come with other costs, and that should be upside for
6 Newfoundland Power's customers, it should be upside for Corner Brook's customers - or
7 Corner Brook as a customer, it should be upside for North Atlantic as a customer. The
8 problem is we can't come along now and say in 2015 we're going to shove those costs to
9 Vale because they don't have the load to pay for it. If they're happy to pay for it, that's
10 fine, but I don't think that's consistent with the Order the Board says. So when the load is
11 there to carve up the pie a different way to share those fixed costs across a greater
12 number of units, then there should be some benefit. Unfortunately, that load takes enough
13 years to come on line that the cost - I think Hydro's cost you'll see will also grow during
14 that period, but load growth, the shared fixed costs across, is generally good news for
15 existing customers. We agree on that point. The only question is whether that benefit can
16 be captured in 2015 before the load arises to pay for it. We can't go along and say let's
17 assign industrial customer costs as if they're a bigger share of the system, 11 percent of
18 the system, when they're only 9. They're going to be 11. Great, when they're 11, we can
19 assign costs to them when it's 11 because then they have the load to pay for; otherwise,
20 who's paying for those units. That's what I'm saying, it's the exact opposite problem of
21 what we were trying to address in the evidence we filed. You can't allocate cost to a class
22 before there's load to pay for, and this method, if we're not careful, is saying we want to
23 capture upside that will come down the road and try to put it into today's rates.⁵¹

24 Vale and Praxair having transitioned to a high load factor mode of operation in the 2015 Test
25 Year obviating the need for normalization of IC load was identified in the Pre-Filed Evidence of
26 Messrs. Bowman and Najmidinov in 2013.⁵² The lack of a need for, and distorting effects, of the
27 "normalization" approach to forecast 2016 and 2017 IC load proposed by the Consumer
28 Advocate's consultant, as testified to by Mr. Fagan in the passage cited above and elsewhere in

⁵¹ GRA Hearing Testimony, October 1, 2015, P. Bowman, pp. 33-34.

⁵² Pre-Filed Testimony of P. Bowman/H. Najmidinov, p. 4.

1 his GRA testimony of October 5-6, 2015,⁵³ was also addressed in detail by the GRA hearing
2 testimony of Mr. Patrick Bowman.⁵⁴

3 IIC Group submit that the evidence and testimony of Messrs. Greneman, Fagan and Patrick
4 Bowman is to be preferred to the normalization proposal of the Consumer Advocate's
5 consultant. Messrs. Fagan's and Patrick Bowman's evidence is grounded in detailed analyses
6 of the actual impact of the normalization proposal of the Consumer Advocate's consultant; with
7 respect, the Consumer Advocate's consultant has not presented any detailed analysis to
8 support his position. The testimony of Messrs. Greneman, Fagan and Patrick Bowman clearly
9 remained unimpugned by the cross-examination of the Consumer Advocate and, it is
10 respectfully submit, is the evidence on which the Board should rely on this issue.

11 A further complication with the proposals of the Consumer Advocate's consultant arises in
12 respect of updated load information that was presented late in the hearing.

13 The GRA load forecast was based on an industrial load in 2015 of 621.4 GW.h. This was
14 expected to grow to 777.9 GW.h in 2016 and 873.5 GW.h in 2017.

15 The load forecast changed materially late in the hearing. Specifically, the updated industrial load
16 shown in IC-NLH-3 from the 2016 Interim Industrial Rates Application showed material
17 reductions in industrial load, as shown in the following table:

Industrial Load Forecast (GW.h)	2015	2016	2017
Original GRA forecast	621.4	777.9	873.5
Updated Load Forecast from IC-NLH-003	501.4	534.0	593.1

⁵³ GRA Hearing Testimony, October 5, 2015, K. Fagan, pp. 98 – 106; October 6, 2015, K. Fagan, pp. 114-134 and pp. 144-146.

⁵⁴ Exhibit #2 (Powerpoint presentation), pp. 23-26; GRA Hearing Testimony, October 1, 2015, P. Bowman, pp. 13-37.

1 The effect of the noted table is to completely eliminate the factual basis for the Consumer
2 Advocate's consultant's proposal. That is, the form of normalization proposed by the Consumer
3 Advocate's consultant was based on the premise that 2016 and 2017 industrial loads would
4 exceed the 2015 Test Year loads and require consideration in sharing of the Test Year Cost of
5 Service. As the 2015 Test Year value remains 621.4 GW.h, it is apparent that 2016 and 2017
6 industrial loads are now expected to in fact be below the 2015 Test Year level. In short, along
7 with the proposed approach by the Consumer Advocate's consultant being incorrect and
8 unsupported, the "problem" the Consumer Advocate's consultant is seeking to address no
9 longer exists in the most recent forecasts.

10 **Allocation of the post September 2013 load variation balance**

11 The Consumer Advocate's consultant, in his Pre-Filed Testimony, stated the following:

12 *The Board was obliged to crystalize this cross-subsidy in Order No. P.U.*
13 *26(2013) which transferred \$49 million of RSP funds to the Island Industrial*
14 *Customer RSP account, of which \$37.6 million rightfully belonged to*
15 *Newfoundland Power customers. The Board was obliged to make this transfer*
16 *owing to Government Directive OC2013-089. However, there is an opportunity*
17 *for the Board to acknowledge the unfairness of this decision it was obliged to*
18 *make. The balance in the Island Industrial Customer load variation component of*
19 *the RSP that accumulated from September 1, 2013 through year-end 2014 is*
20 *\$1.85 million (CA-NLH-311). While this balance is far less than the cross-*
21 *subsidy transferred to the Island Industrial Customers through Order No. P.U.*
22 *26(2013); an Order transferring this balance from the Island Industrial Customer*
23 *RSP account to Newfoundland Power's RSP account, although symbolic, would*
24 *at least allow the Board to recognize the violation of cost of service and rate*
25 *design principles that arose as a result of OC2013-089.⁵⁵ [underlining added]*

26 The above-cited Pre-Filed Testimony encourages the Board to accept, as a given, that
27 propositions that were very much being contested prior to the Orders-in-Council would, but for
28 those Orders-in-Council, have been decided entirely in accordance with the Consumer
29 Advocate consultant's conception of fairness. The IIC Group submit that given the colourful

⁵⁵ Pre-Filed Testimony of C. Douglas Bowman, pp. 13-14.

1 language the Consumer Advocate's consultant chooses to use, his conception of fairness can
2 only be taken as one that is heavily biased against the Island Industrial Customers.

3 However, whatever arguments may have been available (and which may or may not have
4 prevailed, in the absence of the Orders-in-Council) must now be tempered by the legal fact that
5 Government has given comprehensive direction on the allocation of the pre-September 2013
6 load variation balance. With the greatest respect, it is not open for the Board to make decisions
7 based on an express, or implied, finding by the Board that the Government direction was unfair
8 or in "violation of cost of service and rate design principles"; however, this is a finding that the
9 Consumer Advocate's consultant invites the Board to make, and his argument could only
10 succeed based on such an *ultra vires* finding by the Board.

11 Moreover, the Consumer Advocate consultant's argument, if accepted, would not only require
12 the Board to make a finding that the Government direction is unfair, but would go further to, in
13 effect, undermine that Government direction.

14 The passage from Order-in-Council 2013-089 cited below was subsequently amended in
15 respect to the dollar amounts and effective date, but otherwise expressed the Government
16 direction as ultimately given:

17 2) On June 30, 2013 the Island industrial customers' Rate Stabilization
18 Plan will be credited with \$56.5 million, the estimated Rate
19 Stabilization Plan amount required to phase-in industrial customer
20 rates, based on Newfoundland and Labrador Hydro's General Rate
21 Application. The remaining balance in the Rate Stabilization Plan
22 Surplus on June 30, 2013, will be transferred to the credit of
23 Newfoundland Power's Rate Stabilization Plan. No future adjustments
24 will be made to these amounts credited. [underlining added]

25

1 The Consumer Advocate's consultant's argument is not based on any "unfairness" that has
2 occurred since September 2013, but rather is based on the premise that more of the pre-
3 September 2013 load variation surplus should have been allocated to Newfoundland Power's
4 RSP than was directed by Government. This is nothing more than an argument to in effect
5 retroactively adjust the respective amounts credited to the Island Industrial Customers' RSP and
6 Newfoundland Power's RSP, and would be in plain violation of the Government's direction.

7 Finally, it cannot be allowed to pass unremarked that the Consumer Advocate's consultant
8 stated that his proposal, if accepted, would have a mere "symbolic" effect. With respect, it is
9 submitted that a regulator charged with statutory duties should look with great skepticism at
10 invitations to act in a symbolic manner, given the unlikelihood that symbolic acts will further its
11 regulatory mandate.

12 **The O&M component of Specifically Assigned Charges (SAC)**

13 As noted by Hydro in the Application, specifically assigned charges ("S.A.C.") seek to "recover
14 costs incurred for assets that are in service solely for each Island I.C." and include operating
15 and maintenance costs, depreciation and return on the specifically assigned assets".⁵⁶

16 Table 4.8, found at page 4.29 of the Application, highlights the magnitude of the increase in the
17 S.A.C. of CBPP and Teck (as well as Vale) as proposed by Hydro at the time of the filing of the
18 Application.⁵⁷

19 Though some of the issues addressed by Patrick Bowman and Hamid Najmidinov in their
20 updated Pre-filed Testimony dated June 4th, 2015 with respect to the S.A.C. of CBPP related to
21 the Corner Brook Frequency Converter have been resolved in the Settlement Agreement of

⁵⁶ Amended GRA, Section 4 Rates and Regulations, page 4.28.

⁵⁷ Amended GRA, Section 4 Rates and Regulations, page 4.29.

1 September 28th, 2015, the Parties denoted that they specifically did not agree upon the
2 methodology for determining the test year operating and maintenance ("O. & M.") costs to be
3 recovered through the specifically assigned charges to the industrial customers.⁵⁸

4 As the Board is aware, Hydro had proposed an increase in the O. & M. charge of each of the IIC
5 Group members as follows:

- 6 • CBPP from \$.140 million to \$.328 million (134%) increase);
- 7 • NARL from \$.047 million to \$0.052 million (12% increase);
- 8 • Teck from \$.163 million to \$0.199 million (22% increase).⁵⁹

9 With regard to the O. & M. charges which Hydro had proposed for Corner Brook Pulp and Paper
10 Limited ("CBPP"), the IIC Group questioned the reasonableness of the proposed increase to the
11 O. & M. component of the S.A.C. attributed to the Frequency Converter and whether this Board
12 has been provided any evidence justifying the increases sought by Hydro (or any increase
13 beyond simple inflation).

14 Mr. Patrick Bowman, during his testimony of September 30th, 2015 noted the following:

15 "The last item that we had a recommendation for change was the specifically assigned
16 charge, O. & M., and it's my understanding the rest of the facts associated with the
17 specifically assigned charges have been negotiated or agreed to or put off for the time
18 being. The question is the operating and maintenance costs and allocation, and the
19 mechanics behind Hydro's cost of service study are such that when an asset is
20 specifically assigned to a customer, the cost of service study does an allocation of O&M
21 costs, everything from direct maintenance people all the way up to head office and
22 administrative costs to that asset, which is then charged to the customers as part of their
23 specifically assigned costs, and that's been done for a long time. The allocation is based
24 on the gross plant cost of that asset ... but they're not calculated with reference to any

⁵⁸ Settlement Agreement, September 28th, 2015, Consent #2.

⁵⁹ IC-NLH-087, Attachment 1, (Rev. 1, Dec. 9-14).

1 type of analysis of what it actually costs to operate and maintain the asset in question. It's
2 just a mathematical exercise done (unintelligible) by saying, I'll put this big piece of
3 cost, I've got an extra set here, I'll put extras into the cost to that asset. The standard
4 ratio is reasonable. Typically it's used in lots of parts of the allocation of cost of service
5 studies, but any of these type of allocations have to also be tested for reasonableness,
6 fairness on the ground, if you like, that does it pass a smell test when you're done or have
7 you just simply gone through a bunch of mathematics and the end result doesn't make
8 any sense. That's our concern with Corner Brook's specifically assigned charge in this
9 hearing. Corner Brook's O&M component is proposed to increase from 140,000 a year,
10 which was the value from 2006, up to 352,000 a year which is the new value. The reason
11 that goes up is because they've built some new things in Corner Brook. They've added--
12 rewound the unit, they've done a few capital projects and the like. One of the
13 interrogatories we asked was can you show us anything on the time sheet study or how
14 much time staff spend there, or anything that sort of gives a reasonable basis, any
15 evidence to justify the 352,000 is reasonable other than just some math that somebody
16 can run on a spreadsheet, and we didn't get any useful response, I would say, nothing that
17 we found helpful."⁶⁰

18 . . .

19 "We can't see on the ground evidence that there's a reason for this huge increase in the
20 charge. It's only being driven by the fact that new capital was spent, some of that capital
21 is actually designed to reduce cost, and as a result, I don't think the evidence supports
22 increasing that charge from 140 to 352,000."⁶¹

23 Mr. Bowman continued on October 1st, 2015:

24 "It was Corner Brook that was seeing increases that raised a red flag because they were
25 proposed to increase by about 150 percent or something in that order, from 140 to 328,
26 and so that didn't pass that a reasonableness test."⁶²

27 The Board will note from Hydro's response to IC-NLH-144 that Hydro does not specifically
28 budget staff positions or supplies directly to the Corner Brook Frequency Converter and that the
29 maintenance positions for the Frequency Converter are included within the business unit for

⁶⁰ GRA Hearing Testimony, September 30th, 2015, P. Bowman, pages 118-120.

⁶¹ GRA Hearing Testimony, September 30th, 2015, P. Bowman, page 121.

⁶² GRA Hearing Testimony, October 1st, 2015, P. Bowman, page 52.

1 Terminal Stations, while supplies are included within the Generation Interconnected Business
2 Unit (that also includes the Stephenville and Hardwoods Gas Turbines).⁶³

3 Further, from IC-NLH-145 (Rev. 1, Nov. 28-14), the Board will note that there has been “no
4 change in the maintenance staff F.T.E.’s in the Terminal Station business unit” (the only
5 increases would have been related to general wage increases) and that the increase in the cost
6 of the maintenance material and supplies for the entire Generation Interconnected business unit
7 for 2007 and 2015 test year budget would be negligible (\$16,400 increase)⁶⁴.

8 Interesting to note from IC-NLH-087, Attachment 2 (Rev. 1, Dec. 9-14)⁶⁵, is that on top of the
9 \$164,400 in salaries for maintenance positions for the Corner Brook Frequency Converter,
10 Hydro adds a loading factor of almost 100% (\$164,303) to account for “administration and
11 general overhead charges” (\$136,146) and “Transmission Other” (\$28,159).

12 Based on the above, the IIC Group do not believe that an increase in the range of 134% (from
13 \$140,472 to \$328,703)⁶⁶ for O. & M. charges relating to the Frequency Converter could be
14 justified based on the evidence before the Board as it cannot, in the IIC’s submission, determine
15 that the proposed increase (or any increase) is reasonably justified. The IIC Group do not
16 believe that an O. & M. charge which includes 50% for overhead and administrative charges
17 could simply be accepted as being reasonable and should be considered by this Board unless
18 greater substantiation is provided by Hydro at the Cost of Services hearing (scheduled for
19 2016).

⁶³ IC-NLH -144.

⁶⁴ IC-NLH-145 (Rev. 1, Nov. 28-14).

⁶⁵ IC-NLH-087, Attachment 2 (Rev. 1, Dec. 9-14) Page 3 of 6.

⁶⁶ IC-NLH-087, Attachment 1 (Rev. 1, Dec. 9-14) Page 1 of 1.

1 The IIC Group submits that this is particularly troubling when viewed in light of the contention of
2 the IIC Group (echoed by Vale) that they had not been provided sufficient information by Hydro
3 personnel regarding how the O. & M. charge would be calculated or applied to them to allow
4 them to anticipate (and plan for) an increase in the O. & M. component of the S.A.C. to the
5 magnitude of that sought in the Application.

6 Mr. Anthony Lye, Manager of Customer Services at Hydro, in response to questioning by Mr.
7 Paul Coxworthy as to whether communicating with the industrial customers regarding the
8 calculation of specifically assigned charges and how those changes would affect the costs that
9 the industrial customers were being billed fell within his area of responsibility, admitted that the
10 "communication area is one that needs some work and we need to improve here," while
11 confirming that he was not "communicating their cost."⁶⁷

12 On the issue of communications relating to O. & M. charges for Vale, which has echoed the
13 concerns of the IIC Group with regard to a lack of concise communication, Mr. Robert
14 Henderson, VP of Hydro, noted the following upon questioning by the Consumer Advocate:

15 "JOHNSON, Q.C.:

16 Q. And do you know, Mr. Henderson, and some of this you mightn't know and
17 that's fair, but do you know if when Hydro undertook construction of the Vale
18 connection facilities, an estimate of the specifically assigned capital and O & M cost
19 would have been provided to Vale?

20 MR. HENDERSON:

21 A. What I know is that when we were reviewing the power contract with Vale, they
22 had questions regarding what was involved with the specifically assigned charge, and we
23 would have provided to them – our folks who work in our rates department who
24 understand the details of the calculation to explain it to them, I don't know what detail
25 they were given in terms of estimates, but I would expect that they were given an
26 explanation so that they understood what was involved with coming up with the
27 specifically assigned charge, and, you know, that the specifically assigned charge gets set

⁶⁷ GRA Hearing Testimony, November 24th, 2015, Anthony Lye, page 74.

1 at a general rate application, and it would be fixed then for a period of time until the next
2 general rate application.”⁶⁸

3 Unfortunately, it appears clear that the “folks who work in the rate department” likely do not
4 undertake any such detailed explanation and leave the industrial customers with the basic
5 understanding that O. & M. charges will be simply calculated in accordance with Board
6 approved methodology.

7 Upon questioning of Mr. Kevin Fagan, Manager of Rates and Regulations with Hydro, by the
8 Consumer Advocate on the issue of communication with the industrial customers regarding O. &
9 M. charges, the following exchange occurred:

10 “JOHNSON, Q.C.:

11 Q. Okay, But to you knowledge, part of Hydro’s procedure in dealing with the Teck
12 or a Vale would be to actually say “now, listen, this is how O & M costs are calculated
13 and this is what they would likely be”? Would that be your understanding?

14 MR. FAGAN:

15 A. Well, the customers are certainly informed that they’ve got to pay O & M. With
16 regard to the detail of the calculation of O & M, it’d never get into the detail of whether it
17 would have been based on the original cost versus the real dollars aspect of it. So, the
18 principle of the specifically assigned charges is that they’re going to be paying it. The
19 customers are aware of that.

20 JOHNSON, Q.C.:

21 Q. And they would be told that it would be in accordance with Board approved
22 methodology? Would they be told that?

23 MR. FAGAN:

24 A. Oh, I expect so, yes.”⁶⁹

25

⁶⁸ GRA Hearing Testimony, October 8th, 2015, Robert Henderson, pages 160-161.

⁶⁹ GRA Hearing Testimony, October 6th, 2015, Kevin Fagan, pages 65-66.

1 Further, upon direct questioning of the Systems Operations Group (which has the direct
2 accountability for the liaison with the industrial customers of Hydro⁷⁰), the issue of
3 communications with industrial customers regarding O. & M. charges was again raised. Mr.
4 Kevin Goulding, Systems Operations Engineering Manager at Hydro (who was previously the
5 plant manager at Deer Lake Power for six (6) years prior to rejoining Hydro in his current
6 position⁷¹), who in his role is responsible for interfacing with the industrial group operationally,
7 could not advise the Board as to what went into the O. & M. charge relating to the Corner Brook
8 Frequency Converter, noting that he could not "speak to the specifics of the calculation," but that
9 he understood there was "an O. & M. component and there was probably a depreciation
10 component as well."⁷²

11 Upon, further questioning, Mr. Goulding noted:

12 "MR. PORTER:

13 Q. Are outside your scope. Okay, is there any explanation given to the industrial
14 customers to your knowledge, because your group has the direct accountability to liaise
15 with the industrial customers, that would explain this in any form that they might
16 understand? Is that done at present to your knowledge?

17 MR. GOULDING:

18 A. Well I can't--I don't recall any specific correspondence, like I know in the
19 service agreements there is a clause there that says that the specifically assigned charges
20 are calculated according to approved Board -

21 MR. PORTER:

22 Q. Methodology.

23 MR. GOULDING:

24 A. - methodology.

⁷⁰ GRA Hearing Testimony, September 24th, 2015, Darren Moore, page 166.

⁷¹ GRA Hearing Testimony, October 21st, 2015, Kevin Goulding, page 158.

⁷² GRA Hearing Testimony, October 21st, 2015, Kevin Goulding, page 160.

1 MR. PORTER:

2 Q. Right, but in terms of what that Board methodology is, certainly when you were
3 at Deer Lake Power, would you have understood that there is, you know, some
4 calculation such as this that -

5 MR. GOULDING:

6 A. I would have understood, you know, that the maintenance component of it wasn't
7 necessarily tied to actual experience.

8 MR. PORTER:

9 Q. Okay.

10 MR. GOULDING:

11 A. And the fact that there was a new plant being installed, that that was going to
12 correlate into a lower O&M component."⁷³

13 The IIC Group submit that not only does this passage reflect the lack of detail with which the O.
14 & M. charges are discussed with the IIC Group, it is inaccurate according to current
15 methodology (though initially one would reasonably expect, as related by Mr. Goulding, that the
16 installation of new plant might translate into lower O. & M. charges).

17 It is the hope of the IIC Group that clarity and transparency on this (and other) issues which
18 impact the IIC Group will be greatly enhanced should Hydro carry through with its stated plan to
19 integrate a "single point of contact for key customers such as industrial customers",⁷⁴ something
20 the Industrial Customers have been asking for.⁷⁵

⁷³ GRA Hearing Testimony, October 21st, 2015, Kevin Goulding, pages 168-169.

⁷⁴ GRA Hearing Testimony, November 24th, 2015, Andrew Lye, page 75.

⁷⁵ GRA Hearing Testimony, November 24th, 2015, Andrew Lye, page 76.

1 Unfortunately, despite Mr. Lye's hope that this would be achieved for the beginning of 2016,⁷⁶
2 Mr. Robert Henderson did not exude confidence that the plan was well progressed upon
3 questioning by Paul Coxworthy:

4 "MR. COXWORTHY:

5 And so starting with Mr. Henderson, can you tell me what your state of knowledge is
6 about whether there's any work being done to develop key account teams, dedicated to
7 particular Industrial customers?

8 MR. HENDERSON:

9 A. I've discussed this with the vice-president of corporate relations who has the
10 accountability for developing this and so we've talked about the need to look at how we
11 will execute this... So that is done there and so myself and the vice-president of corporate
12 relations have talked about how we might transition that perhaps to bring in another
13 position within the customer relations or customer services' group that would have a
14 focus on larger customers and the Industrial customers, you know, the day-to-day
15 activities would continue to have to be co-ordinated through system operations, but it's a
16 matter of having a person who is very clear to the customers this is who you go to if you
17 have issues and they would maintain a regular contact with the customers, perhaps an
18 enhancement, I would say, from where we are today with the way that has been
19 happening."⁷⁷

20 "MR. COXWORTHY:

21 Q. If we could turn back to Mr. McDonald's evidence and it's at page 27 now from
22 September 15th. So I put that same question to Mr. McDonald as I just put to you, you
23 know, what did he know about the initiative and what he knew certainly is in line with
24 what you just told us. But he does speak to it having been and it's line 6, "identified as a
25 key focus area for us last year" and what you've described to us so far, Mr. Henderson, is
26 that you've had some conversations with the VP of corporate communications about this.

27 MR. HENDERSON:

28 A. Yes.

29 MR. COXWORTHY:

30 Q. Has it progressed beyond discussions with the VP of corporate communications in
31 terms of –

⁷⁶ GRA Hearing Testimony, November 23rd, 2015, Andrew Lye, page 19.

⁷⁷ GRA Hearing Testimony, September 24th, 2015, Robert Henderson, pages 173-174.

1 MR. HENDERSON:

2 A. Well I'll say that it's been part of our budget discussions for 2016 and the
3 requirement for an additional position to be able to have somebody dedicated to this, so
4 it's been part of that discussion is where it is right now ... With respect to the Industrials,
5 there hasn't been any specific item that I am aware of that has happened to date, other
6 than, you know, what has been happening in the past, which would be the manager of
7 system operations, as well as the contact that I've had."⁷⁸

8 As such, the IIC Group submit that Hydro has provided insufficient evidence to this Board to
9 substantiate the reasonableness of any increase to the O. & M. charges in the range Hydro had
10 sought in this GRA (or any increase beyond simple inflation), particularly in light of the lack of
11 meaningful dialogue Hydro have maintained with the IIC Group to date. Based solely on
12 inflation, at 2% per year, CBPP would only expect an increase from \$0.140 million to \$0.160
13 million (or 17%).

14 If the Board determines that some change in O. & M. charges is warranted, one option available
15 to it would be to adopt the approach proposed by Mr. Mel Dean in this proceeding.

16 As noted by Mr. Dean:

17 "The specific assigned operating and maintenance (O&M) for lines, terminals and other
18 is determined by prorating the OM&A expense on the basis of the original cost of plant in
19 service (see V-NLH-066 rev. 1, V-NLH-067 rev. 1 and V-NLH-069 REV.1). The specific
20 assigned charge for administrative and general is largely determined by the same
21 method (see V-NLH-068 rev.1).

22 The prorating of O&M costs using plant in service without accounting for the time value
23 of money has the potential to achieve inequitable results. This possibility is heightened
24 with an electrical system consisting of new and old assets as one is comparing vastly
25 different original costs. The current island system is comprised of "more than 40,000
26 assets with in-service years ranging back to the 1960's (see V-NLH-083). As such, the
27 total of Vale's plant in service measured in 2012 dollars is being prorated against plant in
28 service values that are based on 1960's dollars."⁷⁹

29 . . .

⁷⁸ GRA Hearing Testimony, September 24th, 2015, Robert Henderson, pages 175-176.

⁷⁹ Pre-filed evidence of Mel Dean, June 4th, 2015, page 4.

1 "The overall concept is to use a method that will result in an equitable classification and
2 allocation of OM&A specific assigned charges. The ideal method would be to restate the
3 original plant in service costs to constant year dollars. Hydro is reluctant to restate the
4 costs of each of the more than 40,000 assets on its system. An alternative approach,
5 however, is to restate the function or sub-function original costs in constant year dollars.
6 This proposed option is to list, by function or sub-function, the original cost each year
7 since the earliest in-service date, calculate the annual change, and restate each annual
8 change in 2015 dollars. The next step is to add the restated annual changes in order to
9 obtain the plant in service costs in 2015 dollars for each function or sub-function. The
10 classification and allocation of specifically allocated plant and in turn specific allocate
11 charges are then calculated using the restated costs. Although some assumptions are
12 required, the end result is expected to be very close to that which would be obtained by
13 individually escalating the cost of each of the more than 40,000 assets."⁸⁰

14 . . .

15 "To summarize, I recommend that the Board adopt this procedure in order to restate the
16 original plant in service costs to 2015 dollars and then use the restated cost to allocate
17 the specifically assigned expense. While it may not be as precise as individually
18 restating the cost of each asset in current or constant year dollars, it would however go a
19 long way to eliminate the inequity in the current methodology employed by Hydro. As
20 mentioned above, Hydro has specifically allocated \$436,715 of OM&A expense to Vale.
21 Taking into account the ten-fold escalation in construction costs, as this procedure does,
22 the appropriate OM&A charge to Vale is \$87,742. The current methodology is
23 inequitable and overcharges Vale almost \$350,000 each and every year."⁸¹

24 Table 4, V-NLH-083 (Rev. 1, June 23rd, 2015)⁸², provides a summary of the total O. & M.
25 variance by industrial customer if Mr. Dean's suggested approach was adopted by the Board.

26 Upon questioning by the Consumer Advocate on October 6th, 2015, Mr. Fagan noted the
27 following on Hydro's originally proposed approach to O. & M. charges, as well as his thoughts
28 on Mr. Dean's proposal:

29 "So it wasn't ... I think it was probably not reviewed closely enough with regard to the
30 components and whether it was a reasonable number up front, but I think Hydro
31 recognizes that it's probably not really a fair approach with respect to specifically
32 assigned charges."⁸³

33 . . .

⁸⁰ Pre-filed Evidence of Mel Dean, June 4th, 2015, page 8.

⁸¹ Pre-filed Evidence of Mel Dean, June 4th, 2015, page 10.

⁸² V-NLH-083 (Rev. 1, June 23rd, 2015), page 5 of 6.

⁸³ GRA Hearing Testimony, October 6th, 2015, Kevin Fagan, pages 58-59.

1 "When Mr. Dean identified his concern in his evidence, I looked at it, and I said "oh, I've
2 seen that before" because I recalled the CIAC policy issue that we recognized the
3 problem and made the change back in 1997. So, I saw the merits of his position at that
4 time, but I wasn't close – I wasn't involved with regard to the original filing with respect
5 to the standard approach, so it wasn't looked at closely before Hydro filed its application.
6 I think what he's provided is a reasonable thing, a reasonable certainly starting point and
7 if we want to look at it further in the cost of service methodology review, we've actually
8 put that in our scope of our review."⁸⁴

9 Further, Mr. Fagan noted the following in response to the Consumer Advocate:

10 "Johnson, Q.C.:

11 Q. But let me just get this right now. To answer my question, Mr. Fagan is Hydro
12 now in favour in this proceeding of having the Board make a change to the specifically
13 assigned cost methodology such as suggested by Mr. Dean?

14 MR. FAGAN:

15 A. Hydro believes Mr. Dean's approach would be a good approach to start with until
16 it can be further reviewed in the cost of service methodology hearing, and so change the
17 approach now and use that until it's further reviewed in the cost of service methodology
18 hearing."⁸⁵

19 . . .

20 "So, I think from a principle perspective, starting with this, like if -- here's my struggle.
21 Vale doesn't pay a specifically assigned charge right now. So you're starting them out
22 with a \$436,000 specifically assigned charge on a methodology which you really can't
23 support because it's based on a presumption that because they've got new assets which
24 are higher costs than the original cost of the assets that are there for 20 or 30 years that
25 they should pay a higher O&M charge, and it's really hard to defend that. I mean, to me,
26 being able to explain the rationale of a rate to a customer and say "okay, this is why this
27 rate makes sense" is an important component of communicating with the customer. If you
28 can't defend your approach to the charge, I'd have a hard time proposing it."⁸⁶

29 "Johnson, Q.C.:

30 Thank you, Mr. Chairman. Just a slight revisitation on O. & M. for a second or a few 2
31 minutes, Mr. Fagan. I guess, you know, the application that we have in front of us that
32 we've been dealing with is that Hydro has been proposing specifically assigned charges
33 as set out in its rate schedule at page six of 46. So, I guess, Mr. Fagan, we don't know

⁸⁴ GRA Hearing Testimony, October 6th, 2015, Kevin Fagan, page 69.

⁸⁵ GRA Hearing Transcript, October 6th, 2015, K. Fagan, page 70

⁸⁶ GRA Hearing Testimony, October 6th, 2015, K. Fagan, page 76.

1 exactly now what methodology Hydro is now proposing and the details of how it will be
2 implementing, the customer impacts and those type of things. We had an RFI reply. We
3 had a bit of evidence from Greneman on the stand, Mr. Greneman on the stand. Like is
4 Hydro going to be amending the application to set out these details, the customer impacts,
5 how this is supposed to be implemented, you know, the basis for it?

6 MR. FAGAN:

7 A. Well, Vale-083 presents the shift, I will call it, from the change in the approach in
8 the application to the recommendation of the methodology of Mr. Dean. So the
9 specifically assigned charges would be what's reflected in -- for O&M would be what's
10 reflected in that particular document."⁸⁷

11 Hydro subsequently formerly confirmed it was supporting Mr. Dean's approach in
12 correspondence to the Board in the 2015 Interim Rates Application dated November 26th,
13 2015.⁸⁸

14 Other experts called during the Cost of Service component of the GRA also supported Mr.
15 Dean's proposed approach. As the Board is aware, Mr. Larry Brockman, the expert called by
16 Newfoundland Power, stated the following of Mr. Dean's proposition:

17 "O'REILLY, Q.C.:

18 Q. But you do understand the point that Mr. Dean was making with respect to the
19 specifically assigned charges with respect to O&M?

20 MR. BROCKMAN:

21 A. Yes.

22 O'REILLY, Q.C.:

23 Q. And the idea that to make the assignment of costs equitable across that some
24 recognition should be had for the cost of --

25 MR. BROCKMAN:

26 A. I think theoretically that's correct.

⁸⁷ GRA Hearing Testimony, October 6th, 2015, K. Fagan, page 99.

⁸⁸ Correspondence of November 26th, 2015 from Hydro to Board, 2016 Interim Industrial Rates Application.

1 O'REILLY, Q.C.:

2 Q. Yeah, you'd agree with that?

3 MR. BROCKMAN:

4 A. Yes.”⁸⁹

5 30. Further, Mr. Robert Greneman, Hydro's own Cost of Service expert, stated the
6 following of the proposition:

7 “O'REILLY, Q.C.:

8 Q. Okay. I want to take you to - I wonder can we bring up Vale 083, Revision 1. Are
9 you familiar with this document, Mr. Greneman?

10 MR. GRENEMAN:

11 A. I would like to read it, if I can.

12 O'REILLY, Q.C.:

13 Q. Yes.

14 MR. GRENEMAN:

15 A. Can you page down a little bit lower.

16 MS. GLYNN:

17 Q. Mr. Greneman, the paper copy of the RFI is behind you as well.

18 MR. GRENEMAN:

19 A. Thank you. Yes, I'm familiar with it.

20 O'REILLY, Q.C.:

21 Q. You're familiar with it.

22 MR. GRENEMAN:

23 A. Yes.

24 O'REILLY, Q.C.:

⁸⁹ GRA Hearing Testimony, September 29th, 2015, Mr. Brockman, page 172.

1 Q. Are you in agreement with Hydro's approach to this issue as outlined in its
2 response to that RFI?

3 MR. GRENEMAN:

4 A. Yes.

5 O'REILLY, Q.C.:

6 Q. Pardon me?

7 MR. GRENEMAN:

8 A. Yes, I am."⁹⁰

9 Finally, Mr. Patrick Bowman noted the following of Mr. Dean's proposed treatment of O. & M.
10 charges upon questioning by Counsel for Vale:

11 "O'REILLY, Q.C.:

12 Q. Okay. I also understood you to say that if the spreadsheet method is being used,
13 there is no reason to wait until a cost of service methodology hearing to use indexing for
14 the calculation. Is that correct?

15 MR. PATRICK BOWMAN:

16 A. Yes.

17 O'REILLY, Q.C.:

18 Q. I understood you. Now the second method that you described would involve
19 conducting an asset by asset review to determine what portion of the O&M costs should
20 be assigned to that asset. Is that correct?

21 MR. PATRICK BOWMAN:

22 A. Yes.

23 O'REILLY, Q.C.:

24 Q. And I also understood you to say that this method is something that could be
25 considered at a cost of service methodology hearing.

26

⁹⁰ GRA Hearing Testimony, September 28th, 2015, R. Greneman, at pages 111-112.

1 MR. PATRICK BOWMAN:

2 A. I probably said it ought be considered because it should be a normal part of
3 testing whether your cost of service study is yielding reasonable results.”⁹¹

4 Mr. P. Bowman further related the following on the issue:

5 “So I think if anything what Mel’s suggesting, Mel Dean is suggesting is probably an
6 improvement if you’re going to specifically assign O&M, it is an improvement as a
7 matter of fact, but I don’t know that it solves the entire problem. And I say that in light of
8 the fact that you have to recognize and this is in evidence, there are clients in our group
9 that would actually pay a bit more as a result of applying that method, they’re not just let,
10 so it’s not just a matter of getting the rate down, but the approach is an improvement, it
11 doesn’t end the need to do a reasonableness check.”⁹²

12 . . .

13 “I would suggest that the record in this proceeding and basic understanding of economics
14 is that what Mr. Mel Dean has suggested it is preferable, is a preferable to the method
15 that Hydro has been using and that should be applied, and on top of that, a reasonableness
16 check should be applied to see if that does address the issue or not. I can tell you that
17 when Corner Brook looks at the result, when one looks at the results from Corner Brook
18 where the O&M charges are more than double in this rate change, in this proposal that
19 Hydro has provided, the application of Mr. Dean’s method would reduce that
20 significantly to the point where you may look at it and say the charges, the O&M charges
21 have gone up but it hasn’t gone up by that much more than inflation and so we don’t need
22 to spend a whole bunch more time assessing Hydro’s proposal and whether the evidence
23 supports it. The evidence that a charge goes up by inflation is pretty, you know, is
24 reasonable on the face of it at least. So I think, no, I think it’s an improvement to do what
25 Mr. Dean is suggesting and I think that then there’s a need to also do a cross-check and I
26 think frankly it’s on Hydro to do it to make sure that the end result distribution.”⁹³

27 In commenting on the advisability of implementing Mr. Dean’s proposal at this time, Mr.

28 Bowman notes the following in response to continued questioning by the Consumer Advocate:

29 “JOHNSON, Q.C.:

30 Q. So it sounds to me that that issue is tailor made for the 2016 review, to get into
31 that sort of level of detail and justification, would you not agree?

⁹¹ GRA Hearing Testimony, October 1st, 2015, P. Bowman, at pages 50-51

⁹² GRA Hearing Testimony, September 30th, 2015, P. Bowman, at pages 150-151.

⁹³ GRA Hearing Testimony, September 30th, 2015, P. Bowman, at pages 152-153.

1 MR. PATRICK BOWMAN:

2 A. I think the refinements we're talking about could be part of that, but as I said, the
3 current method, Mr. Dean's method I think on the merits, Mr. Dean's approach is better
4 because it addresses one known problem with the current method which is the date of
5 implementation of the costs and inflationary pressures over that period."⁹⁴

6 As such, if this Board is inclined to alter the O. & M. charges of the IIC Group in response to the
7 Application, the IIC Group would endorse the approach proposed by Mr. Mel Dean, with the
8 result being that the O. & M. charge for each IIC would be as shown in Table 4 of V-NHL-083
9 (Rev. 1, June 23-15), page 5 of 6, with an Order that the reasonableness of the entire O. & M.
10 expense charged to each IIC would be subject to a full review at the 2016 Cost of Service
11 review.

12 **Corner Brook Pulp and Paper Limited – Agreements with Hydro and Water Rights**

13 As the Board will note, Mr. Doug Bowman, the expert presented by the Consumer Advocate,
14 took issue with the Corner Brook Pulp and Paper Generation credit at Section 14 of his Pre-filed
15 Evidence.⁹⁵ In his evidence, Mr. Bowman requested that Hydro be ordered to file a study of the
16 CBPP supply agreement in its entirety, taking into consideration the new capacity assistance
17 agreements, the "subsidy" being received by the Island Industrial Customers owing to the rate
18 phase-in, the reduced value of energy following commissioning of Muskrat Falls, the
19 requirement to purchase energy from the CBPP co-generator whenever it is available and the
20 CBPP water rights.⁹⁶

⁹⁴ GRA Hearing Testimony, September 30th, 2015, P. Bowman, at page 156.

⁹⁵ Pre-filed Evidence of Doug Bowman, June 1st, 2015, pages 35-41.

⁹⁶ Pre-filed Evidence of Doug Bowman, June 1st, 2015, pages 40-41.

1 As a result of the Settlement Agreement, the Generation Credit Agreement has now been
2 continued on a pilot basis until the 2016 Cost of Service Hearing⁹⁷ and as a result the IIC's
3 submit that Mr. Bowman's request is rendered unnecessary and without benefit at this time.

4 Further, specifically on the issue of the CBPP co-generator purchases, the Board would be
5 aware that the Newfoundland and Labrador Hydro-Corner Brook Pulp and Paper Limited
6 Exemption Order (O.C. 2000-489 and O.C. 2000-491) provides, *inter alia*, that:

7 "2(1) Newfoundland and Labrador Hydro is exempt from the application of the *Electrical*
8 *Power Control Act, 1994* and the *Public Utilities Act* for all aspects of its activities
9 pertaining to the purchase from Corner Brook Pulp and Paper Limited of electrical power
10 and energy from a 15 megawatt cogeneration project at Corner Brook."⁹⁸

11 "Activities" in that Order, are broadly defined to include:

12 "(a) planning and engineering new electrical power and energy generation and
13 supply;

14 (b) negotiating and executing all contracts necessary or incidental to any activity
15 described in this exemption; and

16 (c) acquiring and paying from its operating account, to be recovered through its
17 rates, all amounts to be paid for the supply of this electrical power and energy
18 under those contracts."⁹⁹

⁹⁷ Settlement Agreement at page 4.

⁹⁸ Newfoundland & Labrador Hydro – Corner Brook Pulp and Paper Limited Exemption Order.
(O.C. 2000-489 and O.C. 2000-491), Section 2(1).

⁹⁹ Corner Brook Pulp and Paper Limited Exemption Order (O.C. 2000-489 and O.C. 2000-491), Section
2(2).

1 As such, the purchases of energy from CBPP's co-generator (and the amounts to be paid
2 therefor), as well as the Cogeneration Agreement with CBPP, are all fully outside the scope of
3 this GRA and beyond the perview of the Board.

4 Finally, as to the issue of CBPP's water rights, the IIC Group submit that such a legal issue
5 would be an unwarranted "fishing expedition" into a matter which is far beyond the scope of this
6 GRA hearing and outside the jurisdiction of this Board. As per Undertaking 38, the CBPP water
7 rights are granted by the Government of Newfoundland and Labrador and are a "grant of rights
8 from the Crown". As Hydro is not a party to the agreement or instrument, it has no role in
9 monitoring the activities of CBPP with respect to those water rights.¹⁰⁰ Notably, Mr. Bowman
10 provides no justification for the reason for this request; simply that the issue should be
11 considered.

12 As such, the IIC Group would submit that no grounds have been raised (or in fact exist) for this
13 unnecessary request by the Consumer Advocate and it should be denied.

14 **The Matrix organization model and non-regulated activities charged in to Hydro**

15 There was much evidence during the hearing on the Matrix organization model adopted by
16 Nalcor for itself and its subsidiaries, including Hydro. Much of this evidence was elicited in
17 respect of Hydro's response to PUB-NLH-228, which underwent multiple revisions prior to and
18 during the hearing.

19 The latest revision to PUB-NLH-228, Revision 6, merely adds to the confusion. Why are there
20 wide discrepancies in time charged in to Hydro by various Nalcor officers, from 2014 Forecast
21 (and 2014 Actual) and 2015 Forecast to 2014 and 2015 Test Years, and from 2016 Forecast to
22 2016 Budget?

¹⁰⁰ Undertaking #38.

1 On review of the evidence and testimony, it is hard not to suspect that the allocation of Nalcor
2 officer time to Hydro (and Hydro employee time to Nalcor) is a subjective and arbitrary exercise.
3 While several other examples could be adduced from the GRA hearing testimony, the point is
4 made, sufficiently in the IIC Group's submission, by considering the evidence of various Nalcor
5 and Hydro witnesses on their respective practices in charging in time spent on the work of
6 planning for "integration" of Hydro's Isolated Island System with Muskrat Falls generation and
7 the Labrador-Island and Maritime Links.

8 Mr. Martin offered various testimony on this point, but the following is reasonably illustrative:

9 MR. COXWORTHY:

10 Q.

11 At page 121 of your evidence given on September 9th in this hearing, you were asked
12 about the forecast leadership contribution charges for 2015 and 2016 and what were the
13 reasons for an elevated level compared to what was there before 2014. We know you've
14 explained why the 2014 charges were elevated. I understand the reasons for 2015 and
15 2016 are different. They are in respect of the work that needs to be done to prepare
16 Hydro to receive power over the Labrador Link, and also then the issues that arise in
17 relation to the Maritime Link.

18 MR. MARTIN:

19 A. That's correct, and in addition, you know, other ongoing day to day operational work
20 at this point as well.

21 MR. COXWORTHY:

22 Q. Sure, which didn't go away, absolutely.

23 MR. MARTIN:

24 A. Right.

25 MR. COXWORTHY:

26 Q. The core, I suppose, work that was always there for 2014, I would imagine there's
27 some spill over from 2014 into 2015 as well?

28

1 MR. MARTIN:

2 A. Yes, I agree.

3 MR. COXWORTHY:

4 Q. I think that's a reasonable assumption to make that that's the case, but with that,
5 understanding that a lot of that time in 2015 and 2016 is going to be in relation to what
6 I'll call the-if I can call it the integration piece, the integration of Hydro with the
7 Labrador Link, the Maritime Link, can you offer me and offer the Board a perspective on
8 what contribution the VP Corporate Communications and Shareholders Relations is
9 going to be making to that integration piece?

10 MR. MARTIN:

11 A. A couple of comments there. You mentioned - I want to make it clear again that - you
12 mentioned the largest portion, I think you mentioned, would be going to this integration
13 piece. I wouldn't necessarily agree with that comment, so I just wanted to clarify that.
14 The reason being is that the ongoing operations that are occurring at Hydro, supported by
15 these people, as I mentioned earlier, a lot of the work is impacting other pieces of the
16 business. While they don't get charged in here, there's a lot of - I think I mentioned as
17 well there's a lot of obviously late hours and some weekends and those types of things
18 aren't charged in here as well.¹⁰¹

19 [....]

20 MR. COXWORTHY:

21 Q. Because I do feel a need to point out in relation to the VP Corporate Communications
22 and Shareholders Relations that, you know, compared to the 2012 year, which is the first
23 year in which the position was created in 2011, so it's the first year we would expect any
24 time to be charged in, in any event, but there's been quite a dramatic increased forecast
25 for 2015 and 2016 in the role. So is all of that increase or most of that increase
26 attributable to the VP Corporate Communications and Shareholders Relations work on
27 the integration piece?

28 MR. MARTIN:

29 A. I think we're at a stage I'm going to have to refer you to Mr. McDonald.

30 MR. COXWORTHY:

31 Q. Mr. McDonald can help me on that?

32

¹⁰¹ GRA Hearing Testimony, September 11, 2015, E. Martin, pp. 75 (from line 12) – 77 (to line 16).

1 MR. MARTIN:

2 Yes.

3 MR. COXWORTHY:

4 Q. Thank you, and I assume Mr. McDonald can help me on the reasons for his own
5 forecast increases in his charges?

6 MR. MARTIN:

7 A. Most definitely he'll be able to answer that question.¹⁰²

8 Mr. McDonald's evidence on "integration" work and his own charging in (as a Nalcor officer) of
9 his time to Hydro was as follows:

10 MR. COXWORTHY:

11 Q. So is that still involvement with the secondment for the outage on your part, Mr.
12 McDonald, is it still involvement in the outage and electricity system reviews or are there
13 other reasons why you're still heavily involved in work that's being directly charged into
14 Hydro?

15 MR. MCDONALD:

16 A. Yeah, so I think I described all of that to Mr. O'Brien yesterday, but yes, I guess work
17 continued certainly into 2015 related to the outage inquiry. My particular involvement
18 was very heavily weighted on phase one of that entire process. I had some involvement
19 in phase two as well to the extent that that occurred earlier in the year. The overall review
20 of our electricity system that the Province is conducting with the assistance of a
21 consultant and I'm continuing in a co- ordination role there as well that's ongoing and as
22 I explained yesterday, even last year but certainly to a greater extent than the latter part of
23 last year and going into this year and it continues to a great extent as we speak is my
24 involvement in what we refer to as transition operation planning. I described yesterday,
25 you know, the process we've mobilized to get ourselves organized around planning for,
26 you know, the technical and operations integration of those new assets in 2017 and 2018.
27 So that certainly has increased over the year and that's been charged to Hydro as well. So
28 a continuation of the two major reasons I was seconded in the first place and more that's
29 been added.¹⁰³

¹⁰² GRA Hearing Testimony, September 11, 2015, E. Martin, pp. 78 (from line 16) – 79 (to line 17)

¹⁰³ GRA Hearing Testimony, September 17, 2015, G. McDonald, pp. 198-199.

1 The evidence of Carla Russell, Hydro's General Manager, Finance and Regulatory, provides a
2 different perspective on whether "integration" work is Hydro time or Nalcor time:

3 MS. RUSSELL:

4 A.

5 I can just only add my personal time code. There is one code that I use. I don't have a lot
6 of time to it at all. Over 95 percent of my time is Hydro, but there is one integration code
7 I can speak that there is one because I know that I have one for myself that I would use if
8 I was in any particular meetings on that particular topic.

9 MR. COXWORTHY:

10 Q. And what type of meetings or activities are you involved in that you use that code for?

11 MS. RUSSELL:

12 A. I think Mr. Henderson has termed this "ready for commercial integration", so it's
13 another acronym, RCFI, but that's what it stands for. So there is a code for that, and some
14 of those codes are relating to finance regulatory with the integration. Some of that is the
15 studies that are going on in regulatory with respect to changing and what the next GRA
16 might look like, so some things like that. So I can speak to that there is at least one code
17 because I used it.

18 MR. COXWORTHY:

19 Q. And do you know whether that time when you put it in on the integration code, is that
20 time that gets billed in directly to Hydro?

21 MS. RUSSELL:

22 A. It is a Nalcor code.

23 MR. COXWORTHY:

24 Q. It's a Nalcor code, so it doesn't get billed in to Hydro?

25 MS. RUSSELL:

26 A. No, not the time that I charge to that code, and that would be relating to, as I said, the
27 specific things that I might do which may be more considered to be on the Nalcor side
28 versus the Hydro because 95 percent of my time is Hydro, and there are lots of activities
29 that I would do on a regular basis that would be maybe related to integration when you
30 think of regulatory and the types of things that are all Hydro - in how Hydro is getting
31 ready for this, including the next GRA. So that would be Hydro time.

1 MR. COXWORTHY:

2 Q. But that, you wouldn't use the integration code for that?

3 MS. RUSSELL:

4 A. No, I wouldn't use it for that type of stuff.¹⁰⁴

5 The IIC Group would submit that the above sequence of testimony from Nalcor and Hydro
6 witnesses leaves a great deal of uncertainty about what "integration" work is properly billed to or
7 within Hydro, and what should be billed to or within Nalcor (or one of its other subsidiaries).

8 The IIC Group would acknowledge that Hydro's response to Undertaking 165 – the Attachment
9 1 "Work Orders for Ready for Commercial Integration (RCFI)/Ready for Integration (RFI)" - is a
10 start towards providing some clarity and transparency on this question, although it is not clear:

- 11 • Whether this Attachment 1 document pre-existed the Undertaking response, to provide
12 guidance to Nalcor and Hydro officers and employees, and if not how is this guidance
13 provided;

- 14 • While the work performed under some of the Work Order Descriptions appears self-
15 evident, and some of those Descriptions may provide enough information to distinguish
16 between what work should be charged to Hydro and what should be charged to Nalcor,
17 there are several Descriptions where the answers to these questions are far from clear.
18 Why is LCP Integration work chargeable to Nalcor, but LCP Engineering Review, LCP
19 Telecom and LCP General chargeable to Hydro? How does an individual within the
20 Nalcor or Hydro organizations make the distinction between, for example, LCP work that
21 is "General" versus "Integration"? Why is Maritime Link work considered to be
22 chargeable to Hydro?

¹⁰⁴ GRA Hearing Testimony, November 18, 2015, C. Russell, pp. 95 (from line 7) – 97 (to line 6)

- 1 • Whether the actual worksheets (the actual subject of Undertaking 165) would provide
2 any more information about the work performed under these brief (1 to 4 word)
3 descriptions; the response to Undertaking 164, which on its face provides no more
4 information about the nature or substance of the work being done by Mr. Roberts
5 (Nalcor' s VP Human Resources and Organizational Effectiveness) in respect of "Public
6 Inquiry", suggests that they would not.

7 The IIC Group are not questioning the good faith of Nalcor or Hydro officers and employees in
8 their timekeeping, or in their testimony about it. However, such a paucity of clarity and detail in
9 timekeeping, where work is to be charged to 2 different "clients", would not stand muster in the
10 private sector. The concern is that there appears to be insufficient incentive for Nalcor and
11 Hydro to provide reasonably transparent and detailed guidance to its officers and employees on
12 this subject.

13 It is has been Nalcor's choice to implement a "Matrix organization" where officers and
14 employees of its non-regulated business units charge some of their time to Hydro, and where
15 some Hydro employees are obliged to devote some of their time to Nalcor (ie non-regulated)
16 projects, such as portion of the time spent by Ms. Russell on "integration" which she
17 understands to be Nalcor work. There may or may not be benefits to Hydro and Hydro's
18 customers to the "Matrix organization" model; however, the IIC Group would submit that the
19 choice of using this model does impose a responsibility on Hydro to be reasonably rigorous and
20 vigilant that Hydro and its customers are not bearing any cost burden of non-regulated projects
21 (even if, like Muskrat Falls, they are expected to eventually come under, at least in some
22 respects, the regulated Hydro umbrella).

1 It is instructive in this regard to consider the guidance provided by the Provincial Government by
2 Order-in-Council OC2013-343¹⁰⁵, in relation to the Muskrat Falls Project Exemption Order. The
3 OC, while exempting aspects of the Project from this Board's purview, at the same time places
4 limits on that exemption which are intended to ensure that, where those limits are applicable,

5 *"no amounts paid by Newfoundland and Labrador Hydro described in those*
6 *sections shall be included as costs, expenses or allowances in Newfoundland*
7 *and Labrador Hydro's cost of service calculation or in any rate application or rate*
8 *setting process, and no such costs, expenses or allowances shall be recovered*
9 *by Newfoundland and Labrador Hydro in rates"*

10 The above direction was given in late 2013, in the midst of Hydro's original GRA filing. In the
11 current hearing, it was Hydro's evidence, in respect of whether the Order-in-Council's direction
12 had been complied with in Hydro's amended GRA filing¹⁰⁶, that:

13 MR. COXWORTHY:

14 Q. So you can tell us for certain?

15 MS. RUSSELL:

16 A. Well, I can tell you that our GRA application would have been reviewed by our legal
17 counsel, who is aware of the intricacies of these, and that there were no comments back
18 that there was anything in there that would have caused concern with any of these -

19 MR. COXWORTHY:

20 Q. And that was the question I had, as to whether there had been any review -

21 MS. RUSSELL:

22 A. So there's nothing in this test year - correct, by our counsel.

23

¹⁰⁵ GRA Information #47.

¹⁰⁶ GRA Hearing Testimony, November 18, 2015, pp. 101-105

1 MR. COXWORTHY:

2 Q. On a go forward basis, is there going to be any internal controls that finance is going
3 to be involved to track these costs?

4 MS. RUSSELL:

5 A. Going forward –

6 MR. COXWORTHY:

7 Q. There's going to be another GRA in 2017.

8 MS. RUSSELL:

9 A. Yes, so that's all part of - and that would be all part of what we would be looking at
10 between after this GRA and the next, yes, putting in the controls, looking at the codes,
11 going back to work codes for - so all that stuff absolutely would be considered.¹⁰⁷

12 The IIC Group would respectfully submit that, to provide for a more transparent and efficient
13 review of these issues in the next Hydro GRA, scheduled for 2017, the Board's decision and
14 order in the present GRA include direction to Hydro to prepare and file with the Board a detailed
15 policy on how it will track those "*costs, expenses or allowances*" that as directed by OC2013-
16 343 are not to be recovered from Hydro's customers, and would further submit that Board
17 direction extend to Hydro developing a more detailed policy in respect of what work is properly
18 charged to Hydro and by whom in respect of all aspects of integration of Hydro's Isolated Island
19 System with Muskrat Falls generation and the Labrador-Island and Maritime Links.

20 **Costs**

21 The IIC Group submit that their inquiries in relation to many of the issues raised by Hydro in its
22 Application, both through the issuance of numerous R.F.I.'s and in direct questioning of
23 witnesses at the Hearing, as well as the identification of issues which should be considered by

¹⁰⁷ GRA Hearing Testimony, November 18, 2015, pp. 104 (from line 4) to 105 (to line 7)

1 the Board in its deliberations not otherwise raised by Hydro's filings were essential to ensuring a
2 complete record was before the Board.


3 Further, the IIC Group submit the evidence presented by Mr. Patrick Bowman and Mr. Hamid
4 Najmidinov was both necessary and instructive and reasonably required to both allow the IIC
5 Group to fully comprehend and manage the voluminous evidence presented, and to illustrate
6 the concerns of the IIC Group.

7 The IIC Group respectfully submit that the IIC Group's participation in this Application is fully
8 consistent with the interest of the IIC Group in respect to ensuring they, as industrial customers,
9 are charged fair and reasonable rates while ensuring their fundamental interest in ensuring the
10 reliability of the Island Isolated System. The IIC Group submit that in this context an award of
11 costs in this Application to the IIC Group is reasonable and warranted and therefore request that
12 they be granted an award of costs in an amount to be fixed by the Board upon the filing of a
13 detailed cost submission within thirty (30) days of the date of the Board's Order.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED BY THE ISLAND INDUSTRIAL
CUSTOMERS GROUP.**

DATED at St. John's, in the Province of Newfoundland and Labrador, this 23rd day of
December, 2015.

POOLE ALTHOUSE

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Dean A. Porter

STEWART MCKELVEY

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Paul L. Coxworthy

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