

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P.U. 35(2015)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1 (the
3 "*EPCA*") and the *Public Utilities Act*, RSNL 1990,
4 Chapter P-47 (the "*Act*"), as amended, and regulations
5 thereunder; and
6

7 **IN THE MATTER OF** a general rate application
8 filed by Newfoundland and Labrador Hydro on
9 July 30, 2013; and
10

11 **IN THE MATTER OF** an amended general rate
12 application filed by Newfoundland and Labrador
13 Hydro on November 10, 2014; and
14

15 **IN THE MATTER OF** an application by
16 Newfoundland and Labrador Hydro for the
17 approval of interim Island Industrial customer rates,
18 tolls and charges and Rate Stabilization Plan rules,
19 effective January 1, 2016.
20

21
22 **The Application**
23

24 On October 28, 2015 Newfoundland and Labrador Hydro ("Hydro") filed an application for
25 approval of, in advance of the conclusion of its general rate application, interim Island Industrial
26 customer electricity rates to be effective January 1, 2016 (the "Application"). The Application
27 requests approval of a revised Schedule of Rates, Tolls and Charges for Island Industrial
28 customers as well as revised Rate Stabilization Plan ("RSP") rules. The Application, if approved,
29 will not impact the amount paid by customers as the proposed 3.7% increase in Island Industrial
30 customer base rates would be fully offset by the proposed RSP Surplus adjustments.
31

32 The Application was circulated to the parties in Hydro's general rate application: Newfoundland
33 Power Inc. ("Newfoundland Power"); the Consumer Advocate, Mr. Thomas Johnson (the
34 "Consumer Advocate"); Corner Brook Pulp and Paper Limited, NARL Refining Limited
35 Partnership and Teck Resources Limited (the "Industrial Customer Group"); Vale Newfoundland
36 and Labrador Limited ("Vale"); Innu Nation; Nunatsiavut Government; Towns of Labrador City,
37 Wabush, Happy Valley-Goose Bay and North West River; and Yvonne Jones MP, Labrador.

1 Requests for information were filed by the Industrial Customer Group, the Consumer Advocate,
2 and Newfoundland Power. Hydro filed responses to the requests for information on November
3 16, 2015.

4
5 Submissions were filed by the Industrial Customer Group, Newfoundland Power, the Consumer
6 Advocate and Vale on November 19 and 20, 2015. Hydro filed a submission on November 23,
7 2015.

8
9 On November 26, 2015 Hydro filed a clarification in relation to the service provided to Teck
10 Resources Limited. The parties did not provide further comments.

11 12 **Background**

13
14 On July 30, 2013 Hydro filed a general rate application proposing, among other things, revised
15 rates for its customers. On the same date Hydro filed a separate application for approval of,
16 among other things, changes to Island Industrial customer rates and the RSP rules, effective
17 September 1, 2013. Both of these applications were filed in accordance with direction of
18 Government issued on April 4, 2013 pursuant to section 5.1 of the *EPCA*, as subsequently
19 amended.¹ The direction of Government set out that rate increases for the Island Industrial
20 customers should be phased in over three years and should be funded from the RSP Surplus.

21
22 On August 30, 2013 the Board issued Order No. P.U. 26(2013) approving, among other things,
23 Island Industrial customer rates which continued the existing base rates and eliminated the RSP
24 rate in accordance with the direction of Government. On September 30, 2013 the Board issued
25 Order No. P.U. 29(2013) which, among other things, continued the existing Island Industrial
26 customer rates on an interim basis, except that a new RSP rate was established for Teck
27 Resources Limited.

28
29 On November 18, 2013 Hydro filed an application seeking interim rate relief in advance of the
30 conclusion of the general rate application. Hydro requested implementation of interim rate
31 changes effective January 1, 2014 for most of its customers, including the Island Industrial
32 customers, or, in the alternative, a deferral and recovery mechanism for a 2014 revenue shortfall.
33 On December 13, 2013 the Board issued Order No. P.U. 40(2013) deferring consideration of
34 Hydro's proposals for interim rate changes pending resolution of the issues and concerns raised
35 in the interim rate application and approving an amendment to the RSP rules to suspend the
36 January 1, 2014 RSP adjustment for Island Industrial customers.

37
38 On February 11, 2014 Hydro filed an amended application requesting interim rates for its Island
39 Industrial customers and a deferral mechanism for any 2014 revenue shortfall between interim
40 and final rates for other customers. On April 25, 2014 the Board issued Order No. P.U. 13(2014)
41 denying the application, stating that Hydro had not filed an application with supporting evidence
42 setting out a comprehensive, unambiguous set of proposals.

43
44 On May 12, 2014 Hydro filed a further application for interim relief requesting approval, on an
45 interim basis, of Island Industrial customer rates, effective January 1, 2014, and approval to

¹ OC2013-089, OC2013-090, OC2013-091, OC2013-207 and OC2013-208

1 recognize \$29.4 million as revenue in 2014. On June 6, 2014 Hydro provided notice by letter that
2 it would be amending its general rate application in the fall of 2014. As a result, the hearing of
3 the general rate application which had been scheduled to begin on July 9, 2014 was postponed.
4 On September 17, 2014 the Board issued Order No. P.U. 39(2014) denying the application for
5 interim relief.

6
7 On November 10, 2014 Hydro filed an amended general rate application. In the amended general
8 rate application Hydro requested, among other things, an order of the Board approving interim
9 rates for Island Industrial customers, effective January 1, 2015. The Board wrote Hydro and the
10 parties on December 4, 2014 to advise that, given the proposed effective date for these rates, the
11 process for the review of the proposed interim rate changes would have to be compressed. On
12 December 24, 2014, after the filing of submissions in relation to the proposed interim rates, the
13 Board wrote the parties to advise that it could not make a determination prior to January 1, 2015.
14 The Board noted that there were several differing proposals on the record, the record did not
15 clearly reflect the impacts of all of the proposals or the positions of the parties and the schedule
16 did not allow time for further clarification. The Board directed Hydro to file a comprehensive
17 and complete application setting out proposals for interim rates for Island Industrial customers
18 and Newfoundland Power effective March 1, 2015.

19
20 On January 28, 2015 Hydro filed an application seeking interim approval, effective March 1,
21 2015, of rates for its customers including the Island Industrial customers. This application
22 proposed a different phase-in of rate increases for Island Industrial customers than proposed in
23 the amended general rate application. Hydro explained that it modified the proposed phase-in to
24 reflect the updated Holyrood fuel cost forecast in the revenue requirement. Hydro proposed an
25 RSP rate for Teck Resources Limited to provide for the same rate increase to Teck Resources
26 Limited as proposed for the other Island Industrial customers.

27
28 On May 8, 2015 in Order No. P.U. 14(2015) the Board approved, effective July 1, 2015, an
29 interim increase of 10% in the Island Industrial customer base rates with changes to the RSP
30 rules to allow for a transfer from the Industrial Customer RSP Surplus and to implement
31 Industrial Customer RSP adjustments to result in an effective interim increase of 2.7% in Island
32 Industrial customer rates, including Teck Resources Limited. The Board did not approve the
33 proposed 2016 rate increases for the Island Industrial customers on the basis that it was not
34 necessary or appropriate to address how the phase-in of Island Industrial customer rates was to
35 be completed in advance of the general rate application.

36
37 On May 27, 2015 Hydro filed an application, which was revised on June 5, 2015, proposing rates
38 to give effect to the findings of the Board in Order No. P.U. 14(2015). In Order No. P.U.
39 17(2015) the Board denied the proposed Island Industrial customer rates and directed Hydro to
40 file a revised schedule of rates for these customers. On June 26, 2015 Hydro filed an application
41 for approval of Island Industrial customer rates to give effect to the findings of the Board. In
42 Order No. P.U. 21(2015) the Board approved the Island Industrial customer rates proposed by
43 Hydro for electrical consumption on and after July 1, 2015. The approved rates reflected:

- 44
45 i) an interim base rate increase of 10.0%;

- ii) interim RSP rate adjustments resulting in an effective 2.7% base rate increase for each Island Industrial customer, including Teck Resources Limited;
- iii) a transfer from the Industrial Customer RSP Surplus to fund the difference between the approved 10.0% base rate increase and the effective 2.7% base rate increase; and
- iv) a transfer from the Industrial Customer RSP Surplus to fund the full amount of the 2014 year-end IC RSP current balance.

On June 30, 2015 in Order No. P.U. 20(2015) the Board denied an application by Teck Resources Limited for an amendment to the rules and regulations for the provision of electrical service related to the conclusion of its mining and milling operations in 2015 and associated reductions in power on order and power consumption.

Application Proposals

The Application proposes revised interim Island Industrial customer rates to be effective January 1, 2016 and provides for the completion of the Island Industrial customer rate phase-in to full cost rates by September 1, 2016 in compliance with the direction of Government. The Application explains that the proposed rates reflect updated 2015 Test Year No. 6 fuel costs and will result in an average 3.7% increase in base rate revenue from the Island Industrial customers with no customer billing impact as the proposed increase in base rate demand and energy charges are fully offset by revised RSP Surplus adjustments. The Application proposes revised RSP rules to provide for Island Industrial customer RSP Surplus adjustments of (\$1.52) per kW and (0.294¢) per kWh for the period January 1, 2016 to August 31, 2016. In addition the proposed RSP rules set out that the actual balance in the Industrial Customer RSP Surplus at August 31, 2016 be transferred to the Industrial Customer RSP current balance. The Application does not propose unique changes for Teck Resources Limited. Hydro clarified in its November 26, 2015 correspondence that:

Teck ceased its mining and milling activities on June 30, 2015 and the site is now going through the decommissioning process. Accordingly, Teck has reduced its forecast firm demand requirement from 9500 kW in 2015 to 500 kW for 2016. The annual billings to Teck for 2014 were approximately \$3.4 million and the forecast annual billings to Teck for 2016 under existing rates are approximately \$300,000.

The forecast September 1, 2016 base rate impact (i.e. demand and energy charges) to Teck before the impact of specifically assigned charges is \$60,000. This includes the phase-out of the proposed RSP Surplus Adjustments combined with the elimination of the Teck RSP Adjustment.

Submissions

The Industrial Customer Group states in its submission that it accepts the Board's jurisdiction to approve, on an interim basis, further rate changes in relation to the phase-in of Island Industrial customer rates directed by Government and to grant interim relief to Hydro with respect to an anticipated revenue shortfall. The Industrial Customer Group submits that such relief if granted must be strictly understood to be interim and subject to future adjustment by the Board given the

1 potential impact of fuel cost changes and other uncertainties until the completion of Hydro's
2 general rate application. The Industrial Customer Group states:

3
4 *If the Board sees fit to grant Hydro this interim relief, then the IIC Group support*
5 *Hydro's proposal that the net effective January 1, 2016 rate increase to the Industrial*
6 *Customers should be 0% by virtue of Hydro's proposal to apply the IIC RSP Surplus to*
7 *offset the interim rate increase and by Hydro's proposal to not seek any SAC changes in*
8 *the interim rates. Hydro's proposals in this regard serve the objective of avoiding the*
9 *inclusion of contentious elements in the interim rates.*

10
11 The Industrial Customer Group reserves the right to make further submissions in relation to
12 further rate changes.

13
14 Vale states in its submission that Hydro should be granted interim rates to reduce the potential
15 for intergenerational inequity created by changes within the Island Industrial customer class.
16 Vale supports the calculation of interim rates based on the forecast cost of No. 6 fuel of \$64.41
17 per barrel as well as the RSP Surplus adjustments proposed in the Application. Vale notes that
18 the makeup of the Island Industrial customer class is changing over time with Vale ramping up
19 production. Vale submits that, if present day deficiencies are recovered from future customers,
20 there will inevitably be intergenerational inequity as a customer responsible for contributing a
21 smaller percentage to the deficiency will later repay a larger percentage of that deficiency.

22
23 Newfoundland Power filed a submission stating that it had no comment in relation to the
24 Application based on Hydro's response to NP-NLH-001, confirming that approval of the
25 proposals would have no financial impact on either Newfoundland Power or its customers.

26
27 The Consumer Advocate states in his submission that he does not believe that the Application is
28 justified and recommends that the Board deny the Application. The Consumer Advocate notes
29 that Hydro has made numerous interim rate applications over the past two years and references
30 his February 18, 2015 submission where he stated:

31
32 *The multiple interim rates applications demonstrate the lack of consensus among the*
33 *parties and Hydro on what is required in the way of evidence and supporting*
34 *documentation to afford a proper review of the interim rates application. The Consumer*
35 *Advocate proposes that the Board apply the interim rates test used by the Alberta Utilities*
36 *Commission. The Alberta interim rates test identified below includes two parts. The first*
37 *part of the test relates to quantum and need for the rate increase and the second part of*
38 *the test relates to the general public interest.*

39
40 The Consumer Advocate submits that Hydro has failed to pass the test established by the Alberta
41 Utilities Commission in that the revenue deficiency is neither probable nor material and further,
42 approval is not required to preserve Hydro's financial integrity. The Consumer Advocate states
43 that there is no evidence that Hydro would be unable to continue safe utility operations without
44 the proposed interim rate adjustment. Further the Consumer Advocate submits that the interim
45 rates do not promote rate stability as Hydro forecasts an effective rate increase of 15 percent on
46 September 1, 2015. The Consumer Advocate also submits that it is not evident that it is
47 necessary to approve the proposals in the Application to meet the requirements of the
48 Government directive. The Consumer Advocate submits that the Board can ensure that the Island

Industrial customer rates reflect the full cost of supply on September 1, 2016 in accordance with the direction of Government whether or not the Application is approved.

Hydro states in its submission:

In summary, Hydro's Application provides a reasonable balance of the interests of the utility and customers. The Application: 1) makes another progressive step in the phase-in of IIC rates; 2) limits the 2016 net income deficiency from IIC as a result of delaying final IIC rates beyond January 1, 2016; and 3) gives reasonable consideration to customer impacts of the proposed rates while avoiding contentious issues that are currently being considered by the Board.

Hydro notes that the Application will have no financial impact on either Newfoundland Power or its customers and that Newfoundland Power filed no comments. Hydro acknowledges that the Consumer Advocate does not support the Application but cites the comments of Vale and the Industrial Customer Group in reference to acceptance of the proposals.

Board Findings

The Board notes that the customers affected by the proposals in this Application do not oppose the Application. The Industrial Customer Group accepts the jurisdiction of the Board to approve the proposals and further submits that the proposals avoid the inclusion of contentious elements in the interim rates. Vale submits that Hydro should be granted interim rates to reduce the potential for intergenerational inequity. Newfoundland Power does not oppose the Application given that it and its customers are not affected.

The Consumer Advocate opposes the Application on the basis that it does not meet the test established by the Alberta Utilities Board in relation to interim rates and further that interim rates are not necessitated by the direction of Government.

The Board believes that the primary consideration in relation to this Application is the Government direction rather than the test established by the Alberta Utilities Board. The direction of Government states:

Effective July 1, 2013, Island industrial customer rates will no longer be frozen. Effective on this date rate increases for island industrial customers will be phased in over a three year period, with funding for this phase-in to be drawn from the January 1, 2007 to June 30, 2013 accumulated Load Variation (the Rate Stabilization Plan Surplus) component of the Rate Stabilization Plan and credited to the Island industrial customer Rate Stabilization Plan effective June 30, 2013.²

Government did not direct how the phase-in of Island Industrial customer rates was to occur. In accordance with the direction, the Board approved new rates, effective September 1, 2013 for the Island Industrial customers. No increases were approved in 2014. Effective July 1, 2015 the Board approved an increase of 10% in base rates and an offsetting RSP Surplus adjustment

² OC 2013-090. A subsequent Government direction changed the July 1, 2013 date to September 1, 2013 and the June 30, 2013 date to August 31, 2013(OC 2013-091).

1 resulting in an effective 2.7% increase for Island Industrial customers, including Teck Resources
2 Limited. This Application seeks a further 3.7% base rate increase for Island Industrial customers,
3 including Teck Resources Limited, with an offsetting RSP Surplus adjustment so that there is no
4 increase in the rates paid by these customers.

5
6 Considering the Government direction and the position of the parties, the Board believes that the
7 proposed January 1, 2016 increase in base rates and offsetting RSP Surplus adjustment for Island
8 Industrial customers are reasonable and appropriate in the circumstances. The Board notes that
9 the direction of Government also requires the phase-in of rates for Teck Resources Limited, to a
10 reasonable degree, in three equal installments so that by September 1, 2016 all Island Industrial
11 customers pay the same rate. This Application does not propose an increase in the Teck
12 Resources Limited rate to bring it closer to the rates charged to the other Island Industrial
13 customers. The parties do not express an objection to this approach. The Board accepts that
14 Hydro's approach is reasonable in the context of the recent significant change in circumstances
15 in relation to Teck Resources Limited's operations and power consumption.

16
17 The Board does not accept Hydro's proposed changes to the RSP rules to provide for the transfer
18 of the actual balance in the Industrial Customer RSP Surplus at August 31, 2016. The Board
19 believes that given that Hydro's general rate application is expected to be finalized in the first
20 half of 2016 it is not necessary to address this matter in advance of the conclusion of the general
21 rate application.

22 23 **Costs**

24
25 Vale requests an award of costs and submits that all, or a significant portion, of the costs of the
26 Application should be borne by Hydro and should not be included in rate base, as the
27 Application was made necessary by the complexity of and delays in the general rate application
28 process as a result of the fact that Hydro elected to allow seven years between general rate
29 applications.

30
31 The Board finds that Vale has a genuine interest in the outcome of the Application and that it
32 participated in an efficient and meaningful manner and contributed to the Board's understanding
33 of the issues. Therefore the Board will make an award of costs to Vale. Vale should file a
34 detailed claim for the consideration of the Board within 30 days.

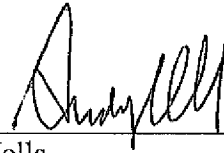
35
36 No other intervenor has filed a claim for costs in this Application. The Board will grant leave for
37 intervenors to apply for an award of costs setting out a detailed claim for costs within 30 days of
38 this Order.

39
40 The Board makes no order at this time in relation to the recovery or treatment of the amounts
41 paid by Hydro in relation to the award of costs in this Application.

IT IS THEREFORE ORDERED THAT:

1. The Schedule of Rates, Tolls and Charges to be effective on all electrical consumption for Island Industrial customers on and after January 1, 2016, as set out in Schedule A to this Order, is approved on an interim basis.
2. The Rate Stabilization Plan Rules, as set out in Schedule B to this Order, are approved on an interim basis.
3. Vale Newfoundland and Labrador Limited is entitled to an award of costs in an amount to be fixed by the Board upon the filing of a detailed cost submission within 30 days of this Order.
4. Leave is granted to the other intervenors to apply for an award of costs setting out a detailed cost submission within 30 days of this Order.
5. Newfoundland and Labrador Hydro shall pay all the expenses of the Board arising from the Application.

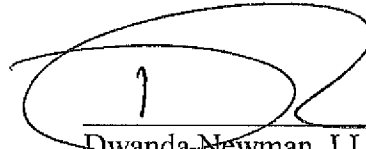
DATED at St. John's, Newfoundland and Labrador, this 8th day of December 2015.



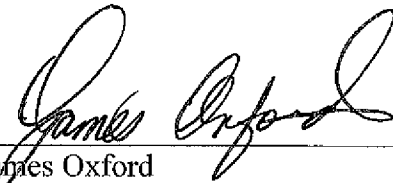
Andy Wells
Chair & Chief Executive Officer



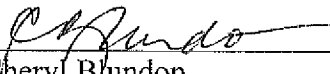
Darlene Whalen, P.Eng.
Vice-Chair



Dwanda Newman, LL.B.
Commissioner



James Oxford
Commissioner



Cheryl Blundon
Board Secretary

NEWFOUNDLAND AND LABRADOR HYDRO
INDUSTRIAL-FIRM-INTERIM

Availability:

Any person purchasing power, other than a retailer, supplied from the Interconnected Island bulk transmission grid at voltages of 66 kV or greater on the primary side of any transformation equipment directly supplying the person and who has entered into a contract with Hydro for the purchase of firm power and energy.

Base Rate*:

Demand Charge:

The rate for Firm Power, as defined and set out in the Industrial Service Agreements, shall be \$8.38 per month per kilowatt of billing demand.

Firm Energy Charge:

Base Rate@ 4.069 ¢ per kWh

RSP Adjustment:

Current Plan@ 0.000 ¢ per kWh

Fuel Rider.....@ 0.000 ¢ per kWh

Total RSP Adjustment – All kilowatt-hours.....@ 0.000 ¢ per kWh**

**** Exceptions:**

Teck Resources Limited RSP Adjustment@ (1.141) ¢ per kWh

RSP Surplus Adjustment:

Demand@ (1.52) ¢ per kW

Firm Energy@ (0.294) ¢ per kWh

Net Demand Rate@ \$6.86 per month

Net Energy Rate@ 3.775 ¢ per kWh***

***** Exceptions:**

Teck Resources Limited Net Energy Rate@ 2.634 ¢ per kWh

NEWFOUNDLAND AND LABRADOR HYDRO
INDUSTRIAL-FIRM-INTERIM

Specifically Assigned Charges:

The table below contains the additional annual specifically assigned charges for customer plant in service that is specifically assigned to the Customer.

	Annual Amount
Corner Brook Pulp and Paper Limited	\$ 347,167
North Atlantic Refining Limited	\$ 150,976
Teck Resources Limited	\$ 186,169

***Subject to RSP Adjustments:**

RSP Adjustments refers to all applicable adjustments arising from the operation of Hydro's Rate Stabilization Plan, which levelizes variations in hydraulic production, fuel cost, load and rural rates and also provides for disposition of the Industrial Customer RSP Surplus.

Adjustment for Losses:

If the metering point is on the load side of the transformer, either owned by the customer or specifically assigned to the customer, an adjustment for losses as determined in consultation with the customer prior to January 31 of each year shall be applied.

General:

Details regarding the conditions of Service are outlined in the Industrial Service Agreements. **This rate schedule does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND AND LABRADOR HYDRO
INDUSTRIAL-FIRM-INTERIM

Availability:

Any person purchasing power, other than a retailer, supplied from the Interconnected Island bulk transmission grid at voltages of 66 kV or greater on the primary side of any transformation equipment directly supplying the person and who has entered into a contract with Hydro for the purchase of firm power and energy.

Rate:

Non-Firm Energy Charge (¢ per kWh):

Non-Firm Energy is deemed to be supplied from thermal sources. The following formula shall apply to calculate the Non-Firm Energy rate:

$$\{(A \div B) \times (1 + C) \times (1 \div (1 - D))\} \times 100$$

- A = the monthly average cost of fuel per barrel for the energy source in the current month or, in the month the source was last used
- B = the conversion factor for the source used (kWh/bbl)
- C = the administrative and variable operating and maintenance charge (10%)
- D = the average system losses on the Island Interconnected grid for the last five years ending in 2005 (2.68%).

The energy sources and associated conversion factors are:

1. Holyrood, using No. 6 fuel with a conversion factor of 630 kWh/bbl
2. Gas turbines using No. 2 fuel with a conversion factor of 475 kWh/bbl
3. Diesels using No. 2 fuel with a conversion factor of 556 kWh/bbl.

Adjustment for Losses:

If the metering point is on the load side of the transformer, either owned by the customer or specifically assigned to the customer, an adjustment for losses as determined in consultation with the customer prior to January 31 of each year shall be applied.

General:

Details regarding the conditions of Service are outlined in the Industrial Service Agreements. **This rate schedule does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND AND LABRADOR HYDRO
INDUSTRIAL-WHEELING-INTERIM

Availability:

Any person purchasing power, other than a retailer, supplied from the Interconnected Island bulk transmission grid at voltages of 66 kV or greater on the primary side of any transformation equipment directly supplying the person and who has entered into a contract with Hydro for the purchase of firm power and energy and whose Industrial Service Agreement so provides.

Rate:

Energy Charge:

All kWh (Net of losses)*@ 0.384 ¢ per kWh

* For the purpose of this Rate, losses shall be 2.68%, the average system losses on the Island Interconnected Grid for the last five years ending in 2005.

General:

Details regarding the conditions of Service are outlined in the Industrial Service Agreements. **This rate schedule does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND AND LABRADOR HYDRO
RATE STABILIZATION PLAN (INTERIM)

The Rate Stabilization Plan of Newfoundland and Labrador Hydro (Hydro) is established for Hydro's Utility customer, Newfoundland Power, and Island Industrial customers to smooth rate impacts for variations between actual results and Test Year Cost of Service estimates for:

- hydraulic production;
- No. 6 fuel cost used at Hydro's Holyrood generating station;
- customer load (Utility and Island Industrial); and
- rural rates.

The formulae used to calculate the Plan's activity are outlined below. Positive values denote amounts owing from customers to Hydro whereas negative values denote amounts owing from Hydro to customers.

Section A: Hydraulic Production Variation

1. Activity:

Actual monthly production is compared with the Test Year Cost of Service Study in accordance with the following formula:

$$\{(A - B) \div C\} \times D$$

Where:

- A = Test Year Cost of Service Net Hydraulic Production (kWh)
- B = Actual Net Hydraulic Production (kWh)
- C = Test Year Cost of Service Holyrood Net Conversion Factor (kWh /bbl.)
- D = Monthly Test Year Cost of Service No. 6 Fuel Cost (\$Can /bbl.)

2. Financing:

Each month, financing charges, using Hydro's approved Test Year weighted average cost of capital, will be calculated on the balance.

3. Hydraulic Variation Customer Assignment:

Customer assignment of hydraulic variations will be performed annually as follows:

$$(E \times 25\%) + F$$

Where:

- E = Hydraulic Variation Account Balance as of December 31, excluding financing charges
- F = Financing charges accumulated to December 31

The total amount of the Hydraulic Customer Assignment shall be removed from the Hydraulic Variation Account.

NEWFOUNDLAND AND LABRADOR HYDRO
RATE STABILIZATION PLAN (INTERIM) (Continued)

4. Customer Allocation:

The annual customer assignment will be allocated among the Island Interconnected customer groups of (1) Newfoundland Power; (2) Island Industrial Firm; and (3) Rural Island Interconnected. The allocation will be based on percentages derived from 12 months-to-date kWh for: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The portion of the hydraulic customer assignment which is initially allocated to Rural Island Interconnected will be re-allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study.

The Newfoundland Power and Island Industrial customer allocations shall be included with the Newfoundland Power and Island Industrial RSP balances respectively as of December 31 each year. The Labrador Interconnected Hydraulic customer allocation shall be written off to Hydro's net income (loss).

Section B: Fuel Cost Variation, Load Variation and Rural Rate Alteration

1. Activity

1.1 Fuel Cost Variations

This is based on the consumption of No. 6 Fuel at the Holyrood Generating Station:

$$(G - D) \times H$$

Where:

D = Monthly Test Year Cost of Service No. 6 Fuel Cost (\$/Can /bbl.)

G = Monthly Actual Average No. 6 Fuel Cost (\$/Can /bbl.)

H = Monthly Actual Quantity of No. 6 Fuel consumed less No. 6 fuel consumed for non-firm sales (bbl.)

1.2 Load Variations

Firm: Firm load variation is comprised of fuel and revenue components. The load variation is determined by calculating the difference between actual monthly sales and the Test Year Cost of Service Study sales, and the resulting variance in No. 6 fuel costs and sales revenues. It is calculated separately for Newfoundland Power firm sales and Industrial firm sales, in accordance with the following formula:

$$(I - J) \times \{(D \div C) - K\}$$

Where:

C = Test Year Cost of Service Holyrood Net Conversion Factor (kWh /bbl.)

D = Monthly Test Year Cost of Service No. 6 Fuel Cost (\$/Can /bbl.)

I = Actual Sales, by customer class (kWh)

J = Test Year Cost of Service Sales, by customer class (kWh)

NEWFOUNDLAND AND LABRADOR HYDRO
RATE STABILIZATION PLAN (INTERIM) (Continued)

K = Firm energy rate, by customer class

Secondary: Secondary load variation is based on the revenue variation for Utility Firmed-Up Secondary energy sales compared with the Test Year Cost of Service Study, in accordance with the following formula:

$$(J - I) \times L$$

Where:

I = Actual Sales (kWh)

J = Test Year Cost of Service Sales (kWh)

L = Secondary Energy Firming Up Charge

1.3 Rural Rate Alteration

- (a) Newfoundland Power Rate Change Impacts:

This component is calculated for Hydro's rural customers whose rates are directly or indirectly impacted by Newfoundland Power's rate changes, with the following formula:

$$(M - N) \times O$$

Where:

M = Cost of Service rate ¹

N = Existing rate

O = Actual Units (kWh, bills, billing demand)

- (b) Rural Labrador Interconnected Automatic Rate Adjustments:

This component reflects the impact of the automatic rate adjustments for Hydro's rural customers on the Labrador Interconnected system, which arise from the phase-in of the application of the credit from secondary energy sales to CFB Goose Bay to the rural deficit.

Monthly adjustments will be subject to revision when a new Test Year Cost of Service is approved by the Public Utilities Board for Hydro. The amount of the automatic rate adjustment is (\$98,295.)

1

- Hydro's schedule of rates for its rural customers not affected by the December 6th, 2006 Government directive.
- For customers affected by the December 6th, 2006 Government directive, the Cost of Service rate equals the phased-in 2007 Forecast Cost of Service Rates for diesel rate classes 1.2D, 2.1D and 2.2D.
- No Rural Rate Alteration will arise from the phase-in of 2007 Forecast Cost of Service rates for the customers affected by the December 6th, 2006 Government directive.

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2. Monthly Customer Allocation: Load and Fuel Activity

Each month, the load variation will be held in a separate account in the Plan, until its disposition is ordered by the Board of Commissioners of Public Utilities.

Each month, the year-to-date total for fuel price variation will be allocated among the Island Interconnected customer groups of (1) Newfoundland Power; (2) Island Industrial Firm; and (3) Rural Island Interconnected. The allocation will be based on percentages derived from 12 months-to-date kWh for: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The year-to-date portion of the fuel price variation which is initially allocated to Rural Island Interconnected will be re-allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study.

The current month's activity for Newfoundland Power, Island Industrials and regulated Labrador Interconnected customers will be calculated by subtracting year-to-date activity for the prior month from year-to-date activity for the current month. The current month's activity allocated to regulated Labrador Interconnected customers will be removed from the Plan and written off to Hydro's net income (loss).

3. Monthly Customer Allocation: Rural Rate Alteration Activity

Each month, the rural rate alteration will be allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study. The portion allocated to regulated Labrador Interconnected will be removed from the Plan and written off to Hydro's net income (loss).

4. Plan Balances

Separate plan balances for Newfoundland Power, the Island Industrial customer class and the segregated load variation will be maintained. Financing charges on the plan balances will be calculated monthly using Hydro's approved Test Year weighted average cost of capital.

Section C: Fuel Price Projection

A fuel price projection will be calculated to anticipate forecast fuel price changes and to determine fuel riders for the rate adjustments. For industrial customers, this will occur in October each year, for inclusion with the RSP adjustment effective January 1. For Newfoundland Power, this will occur in April each year, for inclusion with the RSP adjustment effective July 1.

1. Industrial Fuel Price Projection:

In October each year, a fuel price projection for the following January to December shall be made to estimate a change from Test Year No. 6 Fuel Cost. Hydro's projection shall be based on the change from the average Test Year No. 6 fuel purchase price, in Canadian dollars per barrel,

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determined from the forecast oil prices provided by the PIRA Energy Group, and the current US exchange rate. The calculation for the projection is:

$$[(S - T) \times U] - V \times W$$

Where:

- S = the September month-end PIRA Energy Group average monthly forecast for No. 6 fuel prices at New York Harbour for the following January to December
- T = Hydro's average Test Year contract discount (US \$/bbl)
- U = the monthly average of the \$Cdn / \$US Bank of Canada Noon Exchange Rate for the month of September
- V = average Test Year Cost of Service purchase price for No. 6 Fuel (\$Can /bbl.)
- W = the number of barrels of No. 6 fuel forecast to be consumed at the Holyrood Generating Station for the Test Year.

The industrial customer allocation of the forecast fuel price change will be based on 12 months-to-date kWh as of the end of September and is the ratio of Industrial Firm invoiced energy to the total of: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The amount of the forecast fuel price change, in Canadian dollars, and the details of an estimate of the fuel rider based on 12 months-to-date kWh sales to the end of September will be reported to industrial customers, Newfoundland Power, and the Public Utilities Board, by the 10th working day of October.

2. Newfoundland Power Fuel Price Projection:

In April each year, a fuel price projection for the following July to June shall be made to estimate a change from Test Year No. 6 Fuel Cost. Hydro's projection shall be based on the change from the average Test Year No. 6 fuel purchase price, in Canadian dollars per barrel, determined from the forecast oil prices provided by the PIRA Energy Group, and the current US exchange rate. The calculation for the projection is:

$$[(X - T) \times Y] - V \times W$$

Where:

- T = Hydro's average Test Year contract discount (US \$/bbl)
- V = average Test Year Cost of Service purchase price for No. 6 Fuel (\$Can /bbl.)
- W = the number of barrels of No. 6 fuel forecast to be consumed at the Holyrood Generating Station for the Test Year. For the 2007 Test Year, test year barrels are reduced by 589,208 based on the reduction in forecast Island Industrial customer load caused by the shutdown of one of the paper machines at Corner Brook Pulp and Paper and the shutdown of Abitibi Consolidated (Grand Falls).

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- X = the average of the March month-end PIRA Energy Group average monthly forecast for No. 6 fuel prices at New York Harbour for July to December of the current year and for the January to June period of the subsequent year.
- Y = the monthly average of the \$Cdn / \$US Bank of Canada Noon Exchange Rate for the month of March.

The Newfoundland Power customer allocation of the forecast fuel price change will be based on 12 months-to-date kWh as of the end of March and is the ratio of Newfoundland Power Firm and Firmed-Up Secondary invoiced energy to the total of: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy. For the 12 months-to-date (April 2008 - March 2009) Industrial Firm invoiced energy is reduced by 87,991,636 kWh to reflect the forecast reduction in Abitibi Consolidated (Grand Falls) load.

The amount of the forecast fuel price change, in Canadian dollars, and the details of the resulting fuel rider applied to the adjustment rate will be reported to Newfoundland Power, industrial customers, and the Public Utilities Board, by the 10th working day of April.

Section D: Adjustment

1. Newfoundland Power

As of March 31 each year, Newfoundland Power's adjustment rate for the 12-month period commencing the following July 1 is determined as the rate per kWh which is projected to collect:

Newfoundland Power March 31 Balance

less projected recovery / repayment of the balance for the following three months (if any),
 estimated using the energy sales (kWh) for April, May and June from the previous year

plus forecast financing charges to the end of the 12-month recovery period (i.e., June in the
 following calendar year),

divided by the 12-months-to-date firm plus firmed-up secondary kWh sales to the end of March.

A fuel rider shall be added to the above adjustment rate, based on the Newfoundland Power Fuel Price Projection amount (as per Section C.2 above) divided by 12-months-to-date kWh sales to the end of March.

When new Test Year base rates come into effect, if a fuel rider forecast (either March or September) is more current than the test year fuel forecast, a fuel rider will be implemented at the same time as the change in base rates reflecting the more current fuel forecast and the new test year values.

Otherwise, the fuel rider portion of the RSP Adjustment will be set to zero upon implementation of the new Test Year Cost of Service rates, until the time for the next fuel price projection.

NEWFOUNDLAND AND LABRADOR HYDRO
RATE STABILIZATION PLAN (INTERIM) (Continued)

2. Island Industrial Customers

- 2.1 As of December 31 each year, the adjustment rate for industrial customers for the 12-month period commencing January 1 is determined as the rate per kWh which is projected to collect:

Industrial December 31 Balance

plus forecast financing charges to the end of the following calendar year,

divided by 12-months-to-date kWh sales to the end of December.

A fuel rider shall be added to the above adjustment rate, based on the Industrial Fuel Price Projection (as per Section C.1 above) amount divided by 12-months-to-date kWh sales to the end of December.

When new Test Year base rates come into effect, if a fuel rider forecast (either March or September) is more current than the test year fuel forecast, a fuel rider will be implemented at the same time as the change in base rates reflecting the more current fuel forecast and the new test year values. Otherwise, the fuel rider portion of the RSP Adjustment will be set to zero upon implementation of the new Test Year Cost of Service rates, until the time for the next fuel price projection.

- 2.2 Notwithstanding paragraph 2.1, as of July 1, 2015 the adjustment rate that provides for disposition of the current RSP balance and the application of the fuel rider to industrial customers will be set to zero until a further Order of the Board. The RSP Surplus Adjustment will include an energy rate of (0.294)¢ per kWh and a demand rate of \$(1.52) per kW, applicable to all industrial customers in accordance with Section F. The RSP Surplus Adjustment will remain in effect until a further Order of the Board.

Section E: Historical Plan Balances:

1. August 2002 Balance:

Newfoundland Power and Island Industrial customer balances accumulated in the Plan as at August 2002 will be recovered over a 5-year collection period, with adjustment rates established each December 31, commencing December 31, 2002. Financing charges on the plan balances will be calculated monthly using Hydro's approved Test Year annual weighted average cost of capital.

Newfoundland Power

The adjustment rate for each year of the five-year adjustment period will be determined as follows:

$$A = (B - C + D) \div E \div F$$

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RATE STABILIZATION PLAN (INTERIM) (Continued)

Where:

- A = adjustment rate (\$ per kWh) for the 12-month period commencing the following July 1.
- B = Balance December 31
- C = projected recovery to the following June 30 (if any), estimated using the most recent energy sales (kWh) for the period January to June.
- D = projected financing charges to the following June 30
- E = number of years remaining in the adjustment period
- F = energy sales (kWh) (firm and firmed-up secondary) to Newfoundland Power for the most recent 12 months ended December 31

Recovery and financing will be applied to the balance each month. At the end of the five-year recovery period, any remaining balance will be added to the plan then in effect.

Island Industrial Customers, excluding Teck Cominco Limited [Exempted pursuant to Order No. P.U.1(2007)]

The adjustment rate for each year of the five-year adjustment period will be determined as follows:

$$G = H \div I \div J$$

Where:

- G = adjustment rate (\$ per kWh) for the 12-month period commencing the following January 1.
- H = Balance December 31
- I = number of years remaining in the adjustment period
- J = firm energy sales (kWh) to Industrial Customers, excluding sales to Teck Cominco Limited, for the most recent 12 months ended December 31

Recovery and financing will be applied to the balance each month. At the end of the five-year recovery period, any remaining balance will be added to the plan then in effect.

2. RSP Balance, December 31, 2003:

Newfoundland Power and Island Industrial customer balances accumulated in the Plan as at December 31, 2003 will be consolidated with the outstanding August 2002 customer balances as of December 31, 2003, and will be included with the Newfoundland Power and Island Industrial customer balances respectively for rate-setting purposes as of December 31, 2003.

NEWFOUNDLAND AND LABRADOR HYDRO
RATE STABILIZATION PLAN (INTERIM) (Continued)

Section F: RSP Surplus:

1. August 31, 2013 Balance:

The net load variation for Newfoundland Power and the Industrial Customers from January 1, 2007 to August 31, 2013, including financing (the RSP Surplus), will be removed from the respective customer class balance, and allocated based upon direction provided by Government in Orders in Council OC2013-089 and OC2013-207. The balances which remain after this amount is removed will form the adjusted August 31, 2013 current plan balances for each customer class.

The Industrial Customer class allocated amount will be used, firstly, to reduce the Industrial Customer class adjusted August 31, 2013 RSP balance to zero. OC2013-089 states that the remaining IC RSP Surplus is to be used to fund a three-year phase-in of rate increases for Island Industrial customers.

The monthly RSP adjustment resulting from the Teck Resources Limited RSP Adjustment rate of (1.141)¢ per kWh determined in accordance with Order No. P.U. 17(2015), will become effective July 1, 2015 and segregated from the other components of the Industrial Customer RSP until its disposition is ordered by the Board of Commissioners of Public Utilities.

1.1 Industrial Customer RSP Surplus Disposition

Effective December 31, 2014, a one-time transfer from the Industrial Customer RSP Surplus will be applied to the Industrial Customer RSP current plan balance to reduce the December 31, 2014 current plan balance to zero. This transfer is in accordance with Order No. P.U. 14(2015).

The Industrial Customer RSP Surplus will be used to fund the difference between the approved base rate and net billing rates that result from the application of the Industrial Customer RSP Surplus Adjustment demand and energy rates set forth in Section D, 2.2.

1.2 Newfoundland Power RSP Surplus Disposition

The Newfoundland Power allocated amount of the RSP Surplus will be segregated held until such time as its disposition occurs in accordance with an Order of the Board of Commissioners of Public Utilities through a refund in accordance with Order in Council OC2013-089.

2. Plan Balances

Separate plan balances for Newfoundland Power and the Island Industrial customer class will be maintained. Financing charges on the plan balances will be calculated monthly using Hydro's approved Test Year weighted average cost of capital.