Q. **Re: IN-NLH-261**

"Hydro accepts PIRA's [September 22, 2014] forecasts as reasonable. If actual fuel costs vary from the forecast Test Year No. 6 fuel costs on the Island Interconnected System, the repercussions are rate changes to customers through the operation of the Rate Stabilization Plan."

Does the RSP make it immaterial whether or not the fuel price forecasts underlying the GRA are reasonable? Please explain your responses in detail. In your response, please present a detailed example comparing the effect on ratepayers of a hypothetical decline in oil prices to $40 a barrel a) as the base case for the GRA, and b) under the RSP, if the GRA had assumed an oil price of $60 a barrel.

A. No, the RSP does not make it immaterial whether or not the No. 6 fuel price forecasts underlying the GRA are reasonable. It is desirable that base customer rates reflect a reasonable fuel price forecast for purposes of establishing an appropriate price signal and avoiding unnecessary price volatility as a result of fuel price variations.

The fuel price forecast not only serves as a basis for pricing but is also an important element in evaluating energy conservation, load forecasting and capital project evaluation. Therefore, Hydro strives to use the best information available in establishing a fuel forecast. Hydro's source of fuel forecasts is PIRA Energy Group. PIRA is an international energy consulting firm specializing in global energy market analysis. PIRA provides services to more than 500 entities across more than 60 countries.

Scenario (a): An assumed No. 6 oil price of $40 a barrel compared to the fuel cost of $93.32 per barrel reflected in the Amended Application would reduce the No. 6 fuel cost by approximately $139 million. Using a high level, energy ratio split (and ignoring the impact of the rural deficit) between Newfoundland Power (NP) and the Island Industrial Customers (IIC), the rate impacts would change to a 22.8% decrease for NP and a 1.3% decrease for the IIC (versus 4.1% increase for NP and 39.1% increase for IIC in Hydro's Amended Application).

Scenario (b): An assumed GRA No. 6 oil price of $60 a barrel compared to the fuel cost reflected in the Amended Application would reduce the No. 6 fuel cost by approximately $87 million. Using a high level, energy ratio split (and ignoring the impact of the rural deficit) between NP and the IIC, the rate impacts would change to a 12.7% decrease for NP and a 13.8% increase for the IIC (versus 4.1% increase for NP and 39.1% increase for IIC in Hydro's Amended Application). If an RSP fuel rider was subsequently implemented for NP and IIC based upon $40 per barrel relative to the $60 per barrel reflected in the GRA (i.e., $52 million fuel savings), the rate impacts would result in a 10.1% decrease for NP and a 15.1% decrease for IIC.

The estimated impacts for NP in the above scenarios ignore the fact that price of diesel fuel would also be anticipated to materially decrease if the price of No. 6 fuel declined materially. This fuel price reduction would impact the allocated rural deficit to be recovered from the customers of NP and customers on the Labrador Interconnected System. The combined effects of change in the cost of No. 6 fuel and the reduced rural deficit would impact the rate changes for the end-consumers. Without an assumed diesel cost which corresponds to the No. 6 fuel price decrease, Hydro cannot provide an estimate of the end-consumer rate impacts resulting from the requested scenarios.