

HAND DELIVERED

April 15, 2015

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

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

Ladies and Gentlemen:

**Re: Newfoundland and Labrador Hydro's Amended General Rate Application –  
Requests for Information**

Please find enclosed the original and 12 copies of Newfoundland Power's Requests for Information NP-NLH-361 to NP-NLH-418 in relation to the above-noted Application.

For convenience, the Requests for Information are provided on three-hole punched paper.

A copy of this letter, together with enclosures, has been forwarded directly to the parties listed below.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,



Peter Alteen, QC  
Vice President,  
Regulation & Planning

Enclosures

c. Geoffrey Young  
Newfoundland and Labrador Hydro

Paul Coxworthy  
Stewart McKelvey

Ed Hearn, QC  
Miller & Hearn

Nancy Kleer  
Olthuis, Kleer, Townshend LLP

Thomas Johnson, QC  
O'Dea Earle Law Offices

Thomas O'Reilly, QC  
Vale Newfoundland and Labrador Limited

Yvonne Jones, MP  
Labrador

Genevieve Dawson  
Nunatsiavut Government

**IN THE MATTER OF** the Public  
Utilities Act, R.S.N. 1990, Chapter P-47  
(the Act), and

**IN THE MATTER OF** a General Rate Application  
(the Amended Application) by Newfoundland and  
Labrador Hydro for approvals of, under Sections 70  
and 75 of the Act, changes in the rates to be charged  
for the supply of power and energy to Newfoundland  
Power, Rural Customers and Industrial Customers; and  
under Section 71 of the Act, changes in the Rules and  
Regulations applicable to the supply of electricity to  
Rural Customers.

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**Requests for Information by  
Newfoundland Power Inc.**

**NP-NLH-361 to NP-NLH-418**

**April 15, 2015**

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**Requests for Information**

- NP-NLH-361 Hydro's Amended GRA, Volume I, Regulated Activities, Schedule I (Revision 1, Mar 24-15):
- Please explain in detail the adjustments made from the initial Schedule I submitted with Hydro's Amended Application on November 10, 2014 and the revised Schedule I (Revision 1, Mar 24-15). In the explanation, please include the reasons for (i) lowering Finance costs by approximately \$0.9 million and (ii) lowering amounts allocated to non-regulated customer by \$0.9 million.
- NP-NLH-362 Please update the response to Request for Information NP-NLH-307 to include 2014 actual financial results.
- NP-NLH-363 Further to the response to Request for Information NP-NLH-307:
- Does Hydro intend to update its GRA for 2014 actuals rather than 2014 forecast figures? If so, when does Hydro intend to provide this update? If not, why not?
- NP-NLH-364 Further to the response to Request for Information NP-NLH-307:
- Please provide a comparison of the 2014 forecast data contained in Volume I, Regulated Activities Schedule I, with 2014 actual data, providing an explanation for variations in each line item.
- NP-NLH-365 Further to the response to Request for Information NP-NLH-312:
- Please provide the 2014 standby generation costs included in the 2014 Test Year.
- NP-NLH-366 Further to the response to Request for Information NP-NLH-322:
- Please update the table in Attachment 1 to include consulting payments from January 1, 2014 to December 31, 2014.
- NP-NLH-367 Further to the response to Request for Information NP-NLH-322:
- Please provide the names of any third party consultants that Hydro has engaged, or expects to engage in 2015, and the amounts paid, or expected to be paid, to each.

- NP-NLH-368 Further to the response to Request for Information NP-NLH-322:
- Please categorize each third party consulting cost in Attachment 1 as per the categories used in the response to Request for Information CA-NLH-108 (Revision 1, Nov 28-14). These categories include (i) outage inquiry, (ii) CDM, (iii) environmental work and safety and health related, (iv) condition assessments, (v) engineering related initiatives, (vi) environmental remediation at Sunnyside, (vii) GRA and Board related costs and (viii) software.
- NP-NLH-369 In the response to Request for Information NP-NLH-324, Hydro states:
- “Hydro filed its GRA in July 2013. Due to delays experienced in the GRA process, Hydro updated its financial forecast in Q2 2014 and based on that information, revisions to the GRA filing were deemed to be necessary to update the financial information in order to provide a more current and relevant basis for rate setting purposes”.*
- Please describe each of the delays referred to that were experienced in the GRA process and indicate the source(s) and nature of each delay, together with a quantification of the period of each delay.
- NP-NLH-370 Given the requirement in the *Electrical Power Control Act, 1994* that rates should be based on forecast costs wherever practicable, please explain in detail why Hydro chose, in the amended GRA filed in November 2014, to use 2014 and 2015 as Test Years for rate setting purposes. In the response, please address specifically why 2016 was not chosen by Hydro to be a Test Year for rate setting purposes.
- NP-NLH-371 In the response to Request for Information NP-NLH-324 Hydro states:
- “A meeting was held with General Manager Finance, VP Finance/CFO and VP Hydro where the revised forecast was discussed and recommendation to file an amended GRA with a 2014/2015 Test Year was presented and agreed upon by those in the meeting. A subsequent meeting was then held with the same people and the information was presented to the President and CEO for approval. The decision to amend the GRA was approved at that meeting and then a letter was prepared to notify the Board.”*
- Please provide the dates that each meeting took place and any meeting minutes that were kept.

- NP-NLH-372 In the response to Request for Information NP-NLH-324, Hydro describes a summary of events and decisions which led to a decision to amend the GRA. Please provide a timeline of the events following the decision up to the November 10, 2014 filing of the amended GRA. In the timeline, include any relevant interactions between Nalcor/Hydro and its shareholder.
- NP-NLH-373 In the response to Request for Information NP-NLH-357, Hydro states:  
*“Rates charged to customers in 2014, and now potentially 2015, will not accurately reflect the costs associated with the service provided in that period. This places an increased burden on future customers to fund recovery of costs incurred in previous years estimated at \$113.7 million”.*  
  
Given that it is unlikely that final rates will be in place in 2015, please comment on the degree to which Hydro considered the gap between costs and customer rates in its 2<sup>nd</sup> quarter 2014 decision-making to amend its GRA.
- NP-NLH-374 Further to the response to Request for Information NP-NLH-359:  
  
When does Hydro typically commence and conclude its annual budget processes? In the response, please describe the typical annual budget process, together with significant milestones.
- NP-NLH-375 Further to the response to Request for Information NP-NLH-332:  
  
Please confirm that there is no financial incentive for Hydro to optimize the fuel conversion factor if Hydro’s proposed deferral account and recovery method is approved.
- NP-NLH-376 Further to the response to Request for Information NP-NLH-329:  
  
Please confirm that Hydro’s specification for the heating value of No. 6 fuel oil has not changed since 1997.
- NP-NLH-377 Regulated Activities Evidence, page 2.74, lines 27-29:  
  
Please provide any third party evidence upon which Hydro will rely in this proceeding that shows how heating content for No. 6 fuel decreases as a direct result of decreased sulphur content.

NP-NLH-378 Further to the response to Request for Information NP-NLH-329:

Please complete the following table:

<b>Holyrood No. 6 Fuel Heating Content (2001-2014)</b>			
<b>Time Frame</b>	<b>Sulphur Content</b>	<b>Average Heating Content (BTU/US gal)</b>	<b>% Difference in Average Heating Content (%)</b>
January 2001 to December 2005 (A)	2.0%		0%
January 2006 to January 2009 (B)	1.0%		(B/A) x 100%
February 2009 to December 2014 (C)	0.7%		(C/A) x 100%

NP-NLH-379 Further to the response to Request for Information NP-NLH-338:

Please expand the table to include the Average Annual Running Heat Content (BTU/bbl), Holyrood Production (Net) (GWh), and Fuel Conversion Factor (kwh/bbl) to include each of the years 2001 to 2006.

NP-NLH-380 Further to the response to Request for Information CA-NLH-287:

Please quantify the value of the savings related to the CBPP demand credit contract after the Muskrat Falls interconnection.

NP-NLH-381 Further to the response to Request for Information CA-NLH-312:

Please explain in detail why Hydro considers it appropriate to propose 3 new supply cost variance deferral accounts, provided that, as stated by Hydro:

- (i) Significant changes in system costs are on the horizon with Muskrat Falls and associated transmission;
- (ii) Hydro will not be conducting a full review of the RSP until 2016; and
- (iii) Hydro is not proposing any material changes to the RSP at this time.

NP-NLH-382 In the response to Request for Information CA-NLH-320 Hydro states:

*“A customer satisfaction survey is not planned for 2015.”*

In light of major system events and customer disruptions in 2014 and 2015, why does Hydro believe a customer satisfaction survey in 2015 is not necessary?

NP-NLH-383 In the response to Request for Information CA-NLH-327 Hydro states:

*“Upon completion, the proposed operating budget of \$138.2 million was presented to Hydro’s leadership and subsequently approved”.*

Please indicate which positions on Nalcor/Hydro’s leadership approve annual operating and capital budgets. Please provide the full title of each position, together with a clear indication if the position is a Nalcor position or a Hydro position.

NP-NLH-384 Further to the response to Request for Information CA-NLH-328:

Please confirm that Hydro has not included a specific allowance for productivity in its 2015 Test Year operating expenses.

NP-NLH-385 In the response to Request for Information CA-NLH-328, Hydro states:

*“Since 2007, operating labour costs have increased by just 0.01¢/kWh on an inflation-adjusted basis from 0.83¢/delivered kWh in 2007 to 0.84¢/delivered kWh in the 2015 Test Year.”*

In the response to Request for Information NP-NLH-314, Hydro states:

*“The percentage increase [in gross salaries] on an inflation-adjusted basis is 43.3%.”*

Please indicate in detail how these 2 indicators of labour productivity might be reconciled by the Board in its consideration of whether Hydro’s regulated operations are managed and operated in an efficient manner as required by the *Electrical Power Control Act, 1994*. In the response, Hydro should specifically address the degree to which it uses each indicator in its management of its utility operations.



- NP-NLH-386 In the response to Request for Information CA-NLH-328, Hydro states:  
*“The 2015 Test Year includes...a challenging reduction in overtime expenses from historic levels.”*
- Please indicate the amount of overtime expenses that were incurred as a result of the January 2013 and January 2014 outages and any follow up maintenance or repair work that resulted.
- NP-NLH-387 Further to the response to Request for Information IC-NLH-024, Attachment 1 (Rev 1, Dec 12-14), footnote 5:
- Please explain why an increase in Finance salaries and benefits of \$0.9 million was considered required in the 2014 Test Year compared to the 2013 actual amounts. In the response, please specifically address any change to the allocation of finance salaries and benefits costs to non-regulated customers that results from the increased charges to regulated operations.
- NP-NLH-388 Further to the response to Request for Information PUB-NLH-360:
- Please provide a breakdown of the \$2.1 million in Operating and Maintenance costs in the column “Outage Regulatory and Consulting Costs” listed in Attachment 1.
- NP-NLH-389 Further to the response to Request for Information PUB-NLH-383:
- What is the annual amount of government funding that has been used to offset the cost increases reflected in the 2007 Test Year for domestic and general service diesel customers since 2007?
- NP-NLH-390 In the response to Request for Information PUB-NLH-383, Hydro states:  
*“These rate changes were not implemented as the revenue requirement effects of the cost increases reflected in the 2007 Test Year for Domestic and General Service diesel customers have been offset by Government funding. This funding was to be discontinued upon new rates being approved upon conclusion of the current GRA.”*
- In the GRA currently before the Board, is government funding still being used to offset the cost increases for domestic and general service diesel customers? If yes, please provide the amount. If no, please indicate from which customers these costs are being recovered.



NP-NLH-395 Further to the response to Request for Information PUB-NLH-409:  
  
The chart on page 1 shows an increase in Engineering and Operations net FTEs of 67, from 2013 to 2015 Test Year.

On page 1, Hydro explains this increase, in part, due to:

*“As per Chart 3.7, Engineering and Operations is forecast to increase by 45 and 67 respectively during the 2014 and 2015 Test Years. The changes are predominantly due to hiring more internal resources for maintenance and capital work programs resulting in less contract work.”*

Please provide a full explanation of the costs to regulated Hydro and the benefits to Hydro’s customers, which are expected due to this decision to increase hiring of internal resources.

NP-NLH-396 How much did Hydro spend on its 2014-2015 winter readiness advertising campaign in 2014 and 2015? The response should include and itemize all costs including, without limitation, the cost of campaign preparation and design, media buys (including television, radio, theatre, internet and print), brochure printing costs, postage/delivery costs and internal/external labour costs.

NP-NLH-397 How much of the costs incurred by Hydro for its 2014-2015 winter readiness advertising campaign in 2014 and 2015 has Hydro included in its 2014 and 2015 Test Years? If any such costs are included, please justify why such costs should be borne by customers.

NP-NLH-398 Hydro’s Amended GRA, Volume I, Section 4, page 4.14:

On lines 20 to 22, it states:

*“Hydro is proposing the Rural Deficit commencing January 1, 2014 be allocated by system based upon revenue requirement. Fairness in rates is commonly assessed based on revenue to cost ratios”*

In the 1992 Cost of Service Methodology Order, when the Board approved the rural deficit allocation, it states on page 57:

*“Hydro proposes to allocate the Rural Deficit incurred in serving Rural Customers on the basis of their revenue requirement. Such a method results in the same revenue to cost ratio for all of Hydro's other customers regardless of whether they are served by the Island or Labrador Interconnected Grid. “*

Further, in the 1992 Cost of Service Methodology Order, it states on page 63:

*“Hydro's proposed method of deficit allocation is not in accordance with generally accepted cost of service methodology since the cost bases of the subsidizing classes are not obtained in a uniform manner.”*

Please confirm that Hydro’s current proposal for the rural deficit allocation is no different from its proposal that the Board concluded was not in accordance with generally accepted cost of service methodology in the 1992 Cost of Service Methodology Order.

NP-NLH-399 Hydro’s Amended GRA, Volume I, Section 4, page 4.14:

On lines 20 to 22, it states:

*“Hydro is proposing the Rural Deficit commencing January 1, 2014 be allocated by system based upon revenue requirement. Fairness in rates is commonly assessed based on revenue to cost ratios”*

Would Hydro agree that revenue to cost ratios are typically used after costs have been properly assigned to customer classes?

NP-NLH-400 Hydro’s Amended GRA, Volume I, Section 4, page 4.14:

On lines 20 to 22, it states:

*“Hydro is proposing the Rural Deficit commencing January 1, 2014 be allocated by system based upon revenue requirement. Fairness in rates is commonly assessed based on revenue to cost ratios”*

Please indicate Hydro’s view of the potential hazards created by using revenue to cost ratios as a measure of fairness when costs, which are not properly functionalized and allocated, are used in the determination of the revenue to cost ratios.

NP-NLH-401 Hydro’s Amended GRA, Volume I, Section 4, page 4.14:

On lines 20 to 22, it states:

*“Hydro is proposing the Rural Deficit commencing January 1, 2014 be allocated by system based upon revenue requirement. Fairness in rates is commonly assessed based on revenue to cost ratios”*

Please provide all examples of, which Hydro or its consultants are aware of, similar circumstances where revenue to cost ratios have been used as a measure of fairness in allocating costs which are not part of the cost to serve.

- NP-NLH-402 The Labrador interconnected system is expected to be linked to the Island interconnected system in the foreseeable future. Please explain whether Hydro considers that, following interconnection, the marginal cost of power on both systems will be similar (after consideration of losses and installation of additional equipment).
- NP-NLH-403 Please explain in full the degree to which Hydro, in assessing alternatives for allocating the rural deficit, has considered the impact on consumption of pricing either energy or demand to Labrador interconnected customers above or below marginal costs.
- NP-NLH-404 Please explain in full the degree to which Hydro, in assessing alternatives for allocating the rural deficit, has considered the much lower rates paid by customers served by the Labrador interconnected system as opposed to the Island interconnected system.
- NP-NLH-405 Please explain in full Hydro's view of how each of rate design and cost allocation should be considered in the assessment of alternatives for allocating the rural deficit. Please specifically address whether Hydro believes that rate design should be a separate consideration from cost allocation.
- NP-NLH-406 Please explain in full Hydro's view of whether it is fair to burden certain classes of customers with higher subsidy costs simply because they have higher rates to start with.
- NP-NLH-407 Please explain in full Hydro's view of whether the Board understood the relative impacts of the rural deficit allocation in the 1992 Cost of Service Methodology Order on (i) customers served by the Labrador interconnected system and (ii) the Island interconnected system.
- NP-NLH-408 Please explain in full Hydro's view of the fairness of assigning the rural deficit on an equal unit cost per kWh, kW, and customer as proposed by Mr. Baker in the hearing resulting in the 1992 Cost of Service Methodology Order.
- NP-NLH-409 Please explain in full the research conducted by Hydro into the fairness of allocation of the rural subsidy.
- NP-NLH-410 Please indicate if, to Hydro or its consultants' knowledge, any Canadian electricity consumers pay lower rates than customers served by the Labrador interconnected system.

- NP-NLH-411 Please explain in full Hydro's view of the relative advantages and disadvantages of considering changes to the 1992 Cost of Service Methodology Order in a GRA as opposed to a cost of service methodology proceeding. In particular, address the appropriateness of considering changes to the 1992 Cost of Service Methodology Order in the anticipated proceeding required to address cost of service and rate design implications of the Muskrat Falls interconnection.
- NP-NLH-412 Does Mr. Greneman believe that using revenue to cost ratios as a measure of fairness is appropriate when costs which are not properly functionalized and allocated are used in the determination of the revenue to cost ratios?
- NP-NLH-413 Please explain in full the degree to which Mr. Greneman, in assessing alternatives for allocating the rural deficit, has considered the impact on consumption of pricing either energy or demand to Labrador interconnected customers above or below marginal costs.
- NP-NLH-414 Please explain in full the degree to which Mr. Greneman, in assessing alternatives for allocating the rural deficit, has considered the much lower rates paid by customers served by the Labrador interconnected system as opposed to the Island interconnected system.
- NP-NLH-415 Please explain in full Mr. Greneman's view of how each of rate design and cost allocation should be considered in the assessment of alternatives for allocating the rural deficit. Please specifically address whether Mr. Greneman believes that rate design should be a separate consideration from cost allocation.
- NP-NLH-416 Please explain in full Mr. Greneman's view of whether it is fair to burden certain classes of customers with higher subsidy costs simply because they have higher rates to start with.
- NP-NLH-417 Please explain in full Mr. Greneman's view of the fairness of assigning the rural deficit on an equal unit cost per kWh, kW, and customer as proposed by Mr. Baker in the hearing resulting in the 1992 Cost of Service Methodology Order.
- NP-NLH-418 Please explain in full the research conducted by Mr. Greneman into the fairness of allocation of the rural subsidy. Please include in the response research conducted into potentially analogous matters such as tax policy.

**RESPECTFULLY SUBMITTED** at St. John's, Newfoundland and Labrador, this 15<sup>th</sup> day of April, 2015.



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