

1 Q. At paragraph 10 of Hydro's Application, Hydro states that if the lease costs for the
2 diesel unit lease solution are expensed in the year they are incurred, those costs
3 would cause an undue impact on Hydro's return. Provide a detailed explanation as
4 to how the impact would be "undue" as compared to Hydro's annual returns since
5 the last general rate application.

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8 A. Order in Council OC2009-063 dated March 17, 2009 directed that the target return
9 on equity for Hydro would be the same as set for NP. In its response to IR-NP-NLH-
10 010 (included as IC-NLH-015 Attachment 1), Hydro explained why it has not sought
11 to incorporate the Government directed return on equity in its rates prior to 2014.
12 Hydro filed its GRA on July 30, 2013 which reflected the new target ROE and in its
13 Interim Rates Application filed on November 18, 2013, Hydro requested interim
14 rates effective January 1, 2014 in order to have the opportunity to earn a return on
15 rate base that is closer to that which results from the Government directed ROE for
16 the 2013 Test Year.

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18 The impact on a utility's ability to earn an appropriate return has been a
19 consideration used by the Board, both in 2010 and 2011, in determining NP's
20 recovery of costs between GRAs. In its Order No. P.U. 22(2011), regarding NP's
21 deferred cost recovery, the Board states as follows:

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23 *WHEREAS the Board is satisfied that, as was found in Order No. P. U.*
24 *30(2010), regulatory relief is necessary to allow Newfoundland Power to*
25 *have a reasonable opportunity to earn a just and reasonable return in*
26 *2012 and Newfoundland Power's proposal to defer recovery of costs in*

1 *2012 of \$2,363,000 arising from the expiry of the Amortizations is*
2 *appropriate and should be approved.*

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4 It is Hydro's position that expensing the lease costs for the diesel unit lease solution
5 will have a material effect upon Hydro's earnings and a negative impact upon
6 Hydro's opportunity to earn a return on rate base that is closer to that which
7 results from the Government directed ROE for the 2013 Test Year. On this basis,
8 Hydro has applied for the deferral of these costs.

1 Q. In Hydro's response to Request for Information CA-NLH-061 it is indicated that
2 Hydro's achieved rate of return on average rate base from 2009 through 2012
3 ranged from 6.29% to 7.46%. The Interim Rates Evidence refers to the government
4 direction in 2009 that Hydro's return on equity be established at a rate equal to
5 Newfoundland Power's.

6 Please explain why Hydro has not sought to incorporate the government directed
7 return on equity in its rates prior to 2014.
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10 A. Order in Council OC2009-063¹ dated March 17, 2009 directed that the target return
11 on equity for Hydro would be the same as was set for NP. This occurred at a time
12 when a significant balance of \$16.1 million as at March 31, 2009, had accumulated
13 in the IC RSP as a result of a reduction in IC load because of production shutdowns
14 in the provincial pulp and paper sector. On June 30, 2009, Hydro filed an
15 application related to this matter which subsequently resulted in Order No P. U.
16 25(2010) dated August 26, 2010. Hydro, Newfoundland Power and the Consumer
17 Advocate appealed the decision of the Board, regarding its jurisdiction over the
18 disposition of amounts in the RSP, to the Supreme Court of Newfoundland and
19 Labrador, Court of Appeal, which heard the appeal in December, 2010. In a
20 decision of the Court dated June 19, 2012, the Court ruled that the Board did have
21 jurisdiction to deal with the RSP matter.
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23 At the time that the RSP matter described above was occurring, the Board and
24 Hydro were subject to a number of Government directives commencing with
25 OC2011-116². This Order in Council directed the Board to "defer all matters

¹ Refer to CA-NLH-024, Attachment 4.

² Refer to CA-NLH-024, Attachment 6

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1 currently before the Board pertaining to Industrial Customer rates and rate
2 adjustments and to consider those matters in the context of the General Rate
3 Application process.” Also on April 19, 2011, OC2011-115³ was issued directing
4 Hydro to file a General Rate Application before the end of 2011. Subsequent
5 Government directives included in response to CA-NLH-024⁴ resulted in Hydro’s
6 GRA filing being deferred. On April 4, 2013, Government issued OC2013-089,
7 subsequently amended by OC2013-207, which directed the Board on a number of
8 matters relating to the January 1, 2007 to August 31, 2013 accumulated RSP load
9 variation, the phase-in of IC rate increases and the NP RSP Surplus. On July 30,
10 2013, Hydro filed its RSP and IC Rates Application and a GRA. In its filing, Hydro
11 incorporated the target return on equity as last set for NP.

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13 As outlined on page 3.2 of the Finance Evidence, commencing in 2008 Government
14 took action which improved Hydro’s net income by waiving the debt guarantee fee
15 until 2011 at which time it was reinstated, however at a reduced rate. Also in 2011,
16 Government allowed Hydro access to Exploits Generation at a rate of 4¢/kWh.
17 Presently, as outlined above, Government has directed rates policy in the province
18 regarding the long standing RSP issue and has further ordered Hydro to file its GRA.
19 At this time, Hydro requests interim rates in order to have the opportunity to earn a
20 return on rate base that is closer to that which results from the Government
21 directed ROE for the 2013 Test Year.

³ Refer to CA-NLH-024, Attachment 5

⁴ Refer to CA-NLH-024, Attachments 6, 8, 9, 10, 12, 13 and 14.