

June 2, 2015

The Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, Newfoundland & Labrador
A1A 5B2

Attention: Ms. Cheryl Blundon
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro ("Hydro") – 2015 Interim Rates Application

This is further to Board Order No. P.U. 14(2015) (the "Interim Order"), Hydro its compliance application on May 27, 2015. Based upon recent telephone conversations with Board staff, there are differing interpretations to the Interim Order that can apply in determining the proposed rates for Island Industrial Customers ("IIC"). This letter provides supplemental information to the Board to provide the alternative rates that can be approved if the Board decides to apply a different interpretation than used by Hydro in the compliance application.

In the 2015 Interim Rates Application filed January 28, 2015, Hydro proposed material increases in specifically assigned charges to IIC. In the Interim Order, the Board declined to approve the proposed specifically assigned charges. The Interim Order also stated: "The Board will approve an interim base rate increase for Island Industrial customers, effective July 1, 2015 of 10% and the necessary drawdown from the IC RSP Surplus to fund an effective rate increase of 2.7% for all Island Industrial customers, including Teck."

Hydro interpreted the Interim Order to mean that a 10% rate increase would apply to all rate components including specifically assigned charges and reflected this approach in its compliance application.

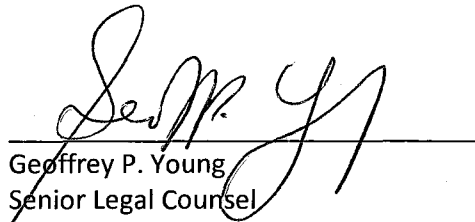
As an alternative to Hydro's interpretation of the Interim Order, Hydro has attached supplemental information providing revised rate sheets with demand and energy charges increased slightly higher than 10% to achieve a 10% increase in revenue from the IIC. The IIC rate schedule reflecting this approach is provided in Attachment 1. Updates to pages 4 and 5 from the evidence to the compliance application reflecting revised rates with no changes in specifically assigned charges are provided as Attachment 2.

The RSP Rules in Hydro's compliance application did not include a separate RSP adjustment for Teck Resources to become effective July 1, 2015 as previous correspondence from Teck Resources indicated closure planned for June 2015. The application by Teck Resources filed with the Board on May 27 2015 confirms that Teck will be discontinuing its mining and milling operations effective June 30, 2015.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Geoffrey P. Young
Senior Legal Counsel

GPY/cp

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Thomas J. O'Reilly, Q.C. – Cox & Palmer
Senwung Luk – Olthuis, Kleer, Townshend LLP

Thomas Johnson – Consumer Advocate
Yvonne Jones, MP Labrador
Ed Hearn, Q.C. – Miller & Hearn
Genevieve M. Dawson – Benson Buffett

NEWFOUNDLAND AND LABRADOR HYDRO**INDUSTRIAL - FIRM (continued) - 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 \$7.36 per month per kilowatt of billing demand.

Firm Energy Charge:

Base Rate* @ 4.051 ¢ per kWh

RSP Adjustment:

Current Plan @ 0.000 ¢ per kWh
 Fuel Rider @ 0.000 ¢ per kWh
 RSP Surplus Adjustment..... @ (0.359) ¢ per kWh

Total RSP Adjustment – All kilowatt-hours@ (0.359) ¢ per kWh

Net Energy Rate @ 3.692 ¢ per kWh

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 Adjustment:**

RSP Adjustment 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.

NEWFOUNDLAND AND LABRADOR HYDRO

INDUSTRIAL - FIRM (continued) - INTERIM

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 (continued) - 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)* @ 0.4224 ¢ 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.

Table 3 Customer Impacts for Domestic Customers Eligible for the NSP		
System	Rate Impact (Excluding NSP)	Bill Impact (Including NSP)
L'Anse au Loup	(5.0%)	(3.4%)
Labrador Isolated ¹	(5.0%)	(2.4%)

3.0 ISLAND INDUSTRIAL CUSTOMERS

3.1 Customer Rates

In the 2015 Interim Rates Order, the Board approved a 10% increase in the base rate for IIC effective July 1, 2015. Hydro has calculated the 10% overall base rate increase by applying a 10.2% increase to base demand and energy charges only, maintaining specifically assigned charges at the current rates. The Board also approved the use of the IIC RSP Surplus: (i) to fund an RSP Surplus adjustment which will result in an effective 2.7% rate increase for IIC effective July 1, 2015; and (ii) to fund the full amount of the 2014 year-end IIC RSP current balance of \$6.8 million.

Table 4 provides the derivation of the RSP adjustment to reduce the customer rate impact from the approved 10% base rate increase to an effective 2.7% increase.

¹ The lesser billing impact of the rate decrease for customers on Labrador Isolated Systems relative to the L'Anse Au Loup System relates to the lower average usage of the customers on the Labrador Isolated Systems. The lower energy usage results in a higher percentage of the customer usage on the Labrador Isolated Systems being billed on the Labrador Interconnected Domestic rate for which no rate change is approved.

Table 4		
Calculation of IC RSP Surplus Adjustment		
2015 Test Year IIC Revenue at Existing Rates ²	A	\$30,546,755
10% Increase in Revenue (A x 10%)	B	\$3,054,676
2.7% Increase in Revenue (A x 2.7%)	C	\$824,762
RSP Surplus Funding (D=C-B) ³	D	(\$2,229,914)
2015 Test Year Sales Forecast (kWh)	E	621,400,000
RSP Surplus Adjustment (F=D/E)	F	(0.359)¢ per kWh

- 1 Table 5 provides a comparison of the existing and proposed IIC rates including both the
2 change in the base rates and the RSP adjustments.
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Table 5				
Island Industrial Customer Rate				
Rate Component	Existing	Proposed	Change	Change (%)
Monthly Demand Charge (\$/kW)	6.68	7.36	0.68	10.2
Monthly Energy Charge (¢/kWh)	3.676	4.051	0.375	10.2
RSP Adjustment (¢/kWh)	0.00	(0.359)	(0.359)	
Net Energy Rate (¢/kWh)	3.676	3.692	0.016	
Specifically Assigned Charges – Annual (\$)				
CBPP	347,167	347,167	-	-
NARL	150,976	150,976	-	-
Teck Resources ⁴	186,169	186,169	-	-
Vale	-	-	-	-
Praxair	-	-	-	-
Wheeling	0.3840	0.4224	0.0384	10.0

² Source: Table 4.15, page 4.50 of Evidence to Hydro's Amended Application.

³ The amount of RSP Surplus funding provided in Table 4 assumes the RSP Surplus Adjustment is in effect for all of 2015. The actual amount of RSP Surplus funding is dependent upon the time period the RSP Surplus Adjustment is in effect.

⁴ Teck Resources is scheduled to close operations June 2015.