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Via Electronic Mail and Courier

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

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

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro - Amended Interim Rates Compliance Application filed June 5, 2015

These are the submissions of the Island Industrial Customers Group or IIC Group (Corner Brook Pulp and Paper Limited, North Atlantic Refining Limited and Teck Resources Limited) regarding the Hydro's Application for implementation of interim rates, pursuant to the direction provided by the Board's Order No. P.U. 14 (2015), for, *inter alia*, Hydro's island industrial customers.

The interim rates are intended to be effective July 1, 2015, pursuant to the direction provided by Order No. P.U. 14 (2015) issued by the Board on May 8, 2015.

Deficiencies in Hydro's original Interim Rates Compliance Application

Hydro's original Interim Rates Compliance Application was filed on May 27, 2015. The Compliance Application included three new elements that could not have been anticipated based on the direction provided by P.U. No. 14 (2015):

1. a proposed 10% increase to Specifically Assigned Charges (SAC), in addition to a 10% increase to the firm demand and energy base rate components;

2. the apparent proposal to terminate the Teck Rider (confirmed by Hydro's correspondence of June 2, 2015 but of which there had not been prior notice); and

3. the proposal for a 2015 Revenue Deficiency Deferral Account.

By correspondence dated June 3, 2015, the Board directed Hydro to fix the above identified "deficiencies" (in the Board's words) in its Interim Rates Compliance Application, to bring it into compliance with the direction of Order No. P.U. 14 (2015).

The Board stated the following with respect to the first above identified deficiency:

> "The Board states on page 16 of Order No. P.U. 14(2015) that "The *Board agrees with the Industrial Customer Group that changes to the specifically assigned charges for the Island Industrial Customers should not be addressed in advance of the general rate application.*" The Board did approve a 10% base rate increase for Island Industrial customers which should not be applied to any other rate components such as the specifically assigned charges or RSP adjustments. It is an approved base rate increase only and not a 10% increase in revenue from the Island Industrial customers."

The Board stated the following with respect to the second above identified deficiency:

> "The Board also states on page 17 of Order No. P.U. 14(2015) that "*The Board will approve, effective July 1, 2015, ... (iv) changes to the RSP rules to allow a transfer from the IC RSP Surplus and to implement an IC RSP rate so that there is an effective interim increase of 2.7% in Island Industrial customer rate, including Teck,*". The omission of a separate RSP adjustment for Teck Resources as contained in the Application has not been approved by the Board."

With respect to the third above identified deficiency, the Board also noted that a deferral account had not been approved by the Board, and directed that Hydro file a separate application on that issue.

Hydro's revised Interim Rates Compliance Application remains non-compliant

Hydro's revised Interim Rates Compliance Application, filed on June 5, 2015, continues to be in non-compliance with P.U. 14 (2015).

Hydro's revised proposal for interim rates, illustrated in Table 1 below, results in two of the industrial customers, Corner Brook Pulp and Paper Limited and Teck Resources Limited, both incurring effective rate increases that are greater than the 2.7% directed by the Board. This is essentially due to the following factors:

- In Hydro's proposal, despite the rate increase being to both the demand and energy components, the RSP Surplus Adjustment is only applied to the energy component. This would cause different percentage rate impacts to the industrial customers under the same rate class due to load characteristics of each industrial customer (some industrial customers have a higher or lower load factor, i.e. relatively more demand use compared to energy). The mismatch arises as the 10% demand rate increase is offset by a -7.3% RSP credit, but the RSP credit is being refunded on the energy component of the bill, so it is not always reaching the correct customers who faced the 10% increase on their demand charges.

- for Teck, the non-compliant effective rate increase impact is exacerbated by the new proposal to terminate the Teck Rider.

Table 1. Interim Rate Impact to Island Industrial Customers at 2015 Test Year Billing Determinants (excluding revenues from Specifically Assigned Charges) [1]

Customer	Revenues at Existing Rates (including Teck Rider) - excluding SAC revenues	Revenues at Hydro's June 5, 2015 Proposed Interim Rates Effective July 1, 2015 - excluding SAC revenues	Rate Impact
	($)	($)	%
	A	B	C=B/A-1
CBPP	2,368,288	2,449,160	3.4%
NARL	10,591,608	10,871,310	2.6%
Teck	803,820	1,062,480	32.2%
Vale	13,587,392	13,968,240	2.8%
Praxair	2,377,776	2,435,820	2.4%
	29,728,884	30,787,010	3.6%

It is submitted that the proposed rates by IIC Group as provided in Table 2 below comes as close as is possible, given the difference in the weighting of demand versus energy components in the effective rates paid by individual industrial customers, to compliance with the Board's direction in P.U. 14 (2015).

1 The bill impacts are calculated based on 2015 Test Year billing determinants as provided in response to IC-NLH-028 Rev1. Column A is the total revenue estimate at the existing rates as of June 2015; column B is the total revenue estimate at Hydro's June 5, 2015 proposed interim rates which includes only kW.h RSP adjustment and no Teck Rider.

Table 2. Existing and Proposed Interim Rates for Island Industrial Customers

	Rates			
	Energy	**Teck Rider (applicable only to Teck)**	**Demand**	**Specifically Assigned Charges (SAC)**
	(cents/kW.h)	(cents/kW.h)	($/kW)	($/year)
Existing Rates	3.676	-1.111	6.68	684,312
CBPP				*347,167*
NARL				*150,976*
Teck				*186,169*
Vale				*0*
Praxair				*0*
Hydro's Proposed Interim Rates (June 5, 2015)				
Proposed Rates (10% increase, excluding SAC)	4.044		7.35	684,312
CBPP				*347,167*
NARL				*150,976*
Teck				*186,169*
Vale				*0*
Praxair				*0*
RSP Surplus Adjustment	-0.349			
IIC Group Proposed Interim Rates				
Proposed Rates (10% increase, excluding SAC)	4.044		7.35	684,312
CBPP				*347,167*
NARL				*150,976*
Teck				*186,169*
Vale				*0*
Praxair				*0*
RSP Surplus Adjustment	-0.269	-1.111	-0.49	

Table 3 below illustrates the rate impact of the interim rate structure proposed above by the IIC Group.

Table 3. Interim Rate Impact to Island Industrial Customers at 2015 Test Year Billing Determinants (excluding revenues from Specifically Assigned Charges) [2]

Customer	Revenues at Existing Rates (including Teck Rider) - excluding SAC revenues	Revenues at IIC Group Proposed Interim Rates Effective July 1, 2015 - excluding SAC revenues	Rate Impact
	($)	($)	%
	A	B	C=B/A-1
CBPP	2,368,288	2,432,080	2.7%
NARL	10,591,608	10,876,890	2.7%
Teck	803,820	831,576	3.5%
Vale	13,587,392	13,953,368	2.7%
Praxair	2,377,776	2,441,820	2.7%
	29,728,884	30,535,734	2.7%

Table 3 demonstrates that the IIC proposed rates would yield a precise 2.7% rate impact on industrial customers (on the portion of their bills excluding specifically assigned charges) with the exception of Teck. The only reason for the Teck difference is that Teck's impact in the above table is being measured as a percentage of the bill after the unique Teck RSP credits. The impact on Teck's base bill (not counting RSP credits) is precisely the same as the other industrial customers, at 2.7%.

Comment on Grant Thornton report dated June 10, 2015

We have had the opportunity to review and consider the June 10, 2015 report of Grant Thornton to the Board, on Hydro's Compliance Application. In particular, we have reviewed and considered, with the input of the IIC Group consultant InterGroup, the following comments of Grant Thornton:

"...we can confirm that the interim rates included on Schedule 1 of the June 27 5, 2015 Compliance Filing are in accordance with P.U. 14(2015) with the exception of the following observations:

2 The bill impacts are calculated based on 2015 Test Year billing determinants as provided in response to IC-NLH-028 Rev1. Column A is the total revenue estimate at the existing rates as of June 2015; column B is the total revenue estimate at IIC Group proposed interim rates which includes both kW.h and kW RSP Surplus adjustment and Teck Rider at current rate of -1.111 cents/kW.h.

- *Depending on the interpretation of the specifically assigned charges in the calculation of the RSP Surplus Funding that would result in an effective 2.7% rate increase, the RSP Surplus Adjustment could be either (0.349) cents/ kWh or (0.352) cents/kWh. Currently, the RSP Surplus Adjustment rate included in the RSP Rules on Schedule 1 is (0.349) cents/kWh."*

With respect, and with reference to the submissions above, the IIC Group submit that the Grant Thornton interpretation of the options for the RSP Surplus Adjustment to IC Interim rates does not take into account the following statement of the Board, in its June 3, 2015 correspondence, regarding the interpretation of P.U. 14 (2015):

"The Board did approve a 10% base rate increase for Island Industrial customers which should not be applied to any other rate components such as the specifically assigned charges or RSP adjustments. It is an approved base rate increase only <u>and not a 10% increase in revenue from the Island Industrial customers</u>."

Grant Thornton's analysis is based on Table 4 of Hydro's Evidence to Revised Compliance Application filed with the Board on June 5, 2015, as reproduced on page 2 of its June 10, 2015 report, and on Grant Thornton's adaptation of that Table, on page 3 of its June 10, 2015 report. The calculations in Hydro's Table 4, and in Grant Thornton's adaptation of it, both derive from a 10% increase in "Base Rate Revenue" (per line D in each Table). This approach is inconsistent with the Board's June 3, 2015 direction reproduced above. The IIC Group respectfully submit that the rate-based approach developed by InterGroup to arriving at "*an effective 2.7% rate increase"* is the correct approach.

Table 4 below provides a reconciliation of the revenues at existing and proposed rates included in IIC Group submission Tables 1 and 3 to the Hydro's calculations in Table 4 of June 5, 2015 submission, as relied upon by Grant Thornton in its submission.

Table 4. Reconciliation of Industrial Customer Revenues at Existing and Proposed Rates [3]

Line No	Table Reference	Revenues at Existing Rates - excluding SAC revenues	Revenues at Hydro's June 5, 2015 Proposed Interim Rates Effective July 1, 2015 - excluding SAC revenues	Revenues at IIC Group Proposed Interim Rates Effective July 1, 2015 - excluding SAC revenues
		A	B	C
1	Table 1 of IIC Group submission	29,728,884	30,787,010	
	Table 3 of IIC Group submission	29,728,884		30,535,734
2	Grant Thornton Report, page 2	29,955,527	30,780,289	
	Grant Thornton Report, page 3	29,955,527		30,764,326
3=1-2	Difference	(226,643)	6,721	(228,592)
	Due to Teck Rider	(226,643)		(226,643)
	Due to rounding of rates (IIC Group calculations are based on rates, not revenues)	-	6,721	(1,949)

Note that Table 4 illustrates that the final effect on Hydro and the industrial class is not materially different between the IIC approach and the Grant Thornton approach shown on page 3 of Grant Thornton's Report. The differences are the effects on individual customers, which are not shown in the Grant Thornton analysis. The Grant Thornton revenue approach yields impacts that differ by customer from the intended 2.7% increase (even though the class overall achieves a 2.7% revenue increase). The IIC Group rates approach achieves the precise 2.7% impact on each customer[4], as well as the class overall.

Hydro's proposed termination of the Teck Rider

As noted above, there was no indication before Hydro's May 27, 2015 filing that the Teck Rider might be being put in issue by Hydro, and no explanation until Hydro's June 2, 2015 correspondence for this proposal. It is apparent that the proposed termination of the Teck Rider cannot be considered or deemed to have been approved by P.U. 14 (2015).

Moreover, Hydro's rationale for the proposed termination of the Teck Rider does not arise from any new developments since P.U. 14 (2015) was issued or indeed since Hydro filed its Interim Rates Application in January 2015. Hydro was aware, when Teck Resources filed, in the Fall of 2014, its Power on Order for 2015 that the Duck Pond operation would have reduced power

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3 The total revenue of $30,780,289 shown in line No 2, column B is sum of $29,955,527 and $824,762 provided in table on page 2 of Grant Thornton's Report. The total revenue of $30,764,326 shown in line No 2, column C is sum of $29,955,527 and $808,799 provided in table on page 3 of Grant Thornton's Report.

4 Teck will have slightly higher rate impact due to Teck Rider impact.

requirements effective July 1, 2015. Indeed, Hydro has been aware since at least the Spring of 2013 that there was a planned 2015 phase down of Duck Pond power requirements.

Hydro's proposal to now terminate the Teck Rider, in Interim Rates being sought in the context of Hydro's Amended General Rate Application (filed November 14, 2014), is in direct contradiction to that Application. At page 11 of the Amended General Rate Application (GRA), Hydro is seeking an order for a distinct Teck Resources RSP Rate, as further indicated at page 6 of 46 of the Rates Schedule filed with the Amended GRA, intended to be effective February 1, 2015.

Moreover, Hydro's proposal in the Amended GRA for a continuing distinct Teck Resources RSP Rate was contemplated to continue through the whole IC rate phase-in period, into 2016, as indicated by the following provision at page 17 of 47 of the Rate Stabilization Plan (Interim) Schedule to the Amended GRA:

The Teck Resources RSP Adjustment rate will be (1.119) ₵ per kWh for January 1, 2015 <u>to August 31, 2015</u> and (1.131) ₵ per kWh for <u>September 1, 2015 to August 31, 2016</u>.

All of the foregoing was being sought by the Amended GRA in the context of Hydro's knowledge that Teck Resources' power requirements would reduce dramatically in mid 2015, as indicated by the following statement in the Amended GRA, Section 2: Regulated Activities, page 2.61, lines 16-17 that

Beginning in June 2015 it is expected that Teck Resources will no longer require power and energy from Hydro.

It is to be noted that the above Amended GRA statement overstates the change in Teck Resources' power requirements. As indicated by Teck Resources' Power on Order filed in the Fall of 2014 (and as confirmed by Teck Resources' own Application in respect of same filed on May 27, 2015), Teck Resources will continue to be an industrial customer of Hydro, albeit with reduced requirements, for the entirety of the IC rate phase-in period directed by the Provincial Government by OC2013-089.

Hydro's present Application has been explicitly brought to comply with P.U. 14 (2015). The proposed elimination of the Teck Rider is neither an expressly or implicitly necessary to achieve that compliance; indeed, it results in non-compliance with P.U. 14 (2015) by imposing on Teck Resources, per Table 1 above, an effective rate increase of 32.2%, clearly in contradiction with the Board's direction that interim rates be implemented *"so that there is an effective interim increase of 2.7% in Island Industrial customer rate, <u>including Teck</u>".*

It is submitted that, as the Board has directed in relation to the proposed 2015 Revenue Deficiency Deferral Account, the issue of the proposed termination of Teck Rider, if Hydro intends to pursue it, can only be appropriately addressed by a separate Hydro application, explaining why Hydro is departing from its Amended GRA filings in respect of the Teck Rider, and explaining how such a change could be considered to be consistent with the direction of the Provincial Government in OC2013-089 with respect to how the IC rate phase is to be applied to Teck Resources.

Moreover, a separate application in relation to the Teck Rider (should Hydro decide it has grounds to proceed with it) would serve to better assure that there is not an inconsistency and unfairness in result between Hydro's proposal to terminate the Teck Rider (which apparently, but erroneously, is predicated on Teck Resources no longer being a "true" industrial customer) and the result that will be arrived at in the ongoing Application filed by Teck Resources on May 27, 2015 seeking from the Board an order for relief in respect of its 2015 Power on Order (the "Teck Application"). If the relief sought by the Teck Application is not granted, this will in effect mean that Teck Resources will continue to be billed as if its power requirements have not been reduced in the last half of 2015; paradoxically, it is this very reduction in power requirements that Hydro is apparently advancing as the basis for proposing the elimination of the Teck Rider. Eliminating the Teck Rider, in the context of not granting the relief sought by the Teck Application, would be doubly unfair to Teck Resources.

Interim rates effective July 1, 2015

The IIC Group respectfully submit that Hydro should be ordered to implement interim rates as provided in Table 2 of this submission, as the result that comes closest to compliance with the Board's direction in P.U. 14 (2015) that interim rates be implemented *"so that there is an effective interim increase of 2.7% in Island Industrial customer rate, including Teck"*.

Costs

The IIC Group submit that their participation in these proceedings, with the assistance of legal counsel and of their consultants InterGroup, has been necessary. Moreover, the necessity and scope of the IIC Group's participation in this Application should be considered in the context of deficiencies and unexpected elements in Hydro's Interim Rates Compliance Application; this context has only added to the complexity of the information to be reviewed and the issues to be considered. The IIC Group respectfully submit that these considerations merit an order for costs in favour of the IIC Group, in the present Interim Rate Compliance Application, regardless of how the Application may ultimately be disposed of by the Board.

All of which is respectfully submitted.

Yours truly,

Stewart McKelvey

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