

June 17, 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

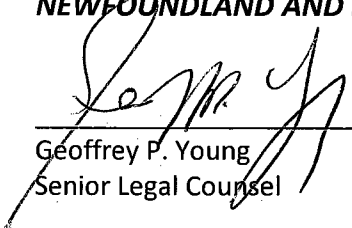
Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro – Interim Rates Revised Compliance Application

Enclosed please find an original plus 12 copies of Hydro's final submission and reply regarding the Revised Compliance Application.

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
Dennis Browne, Q.C. – Browne Fitzgerald Morgan & Avis

Thomas Johnson – Consumer Advocate
Yvonne Jones, MP Labrador
Senwung Luk – Olthuis, Kleer, Townshend LLP
Genevieve M. Dawson – Benson Buffett

**SUBMISSION AND REPLY OF
NEWFOUNDLAND AND LABRADOR HYDRO
Revised Compliance Application**

June 17, 2015

1 **IN THE MATTER OF** the *Public*
2 *Utilities Act*, R.S.N. 1990, Chapter
3 P-47 (the “Act”); and
4

5 **IN THE MATTER OF** a general rate
6 application by Newfoundland and Labrador
7 Hydro to establish customer electricity rates
8 for 2015; and
9

10 **IN THE MATTER OF** a revised application (the “Revised
11 Compliance Application”) by Newfoundland
12 and Labrador Hydro for approval of:
13 (i) customer rates, tolls and charges reflecting
14 the determinations set out in Order No. P.U. 14(2015)
15 and (ii) a revised Rate Stabilization Plan adjustment
16 to apply to the Utility Rate for the period
17 July 1st, 2015 to June 30th, 2016.
18
19

20 **TO: The Board of Commissioners of Public Utilities (the Board)**
21

22 **SUBMISSION AND REPLY OF NEWFOUNDLAND AND LABRADOR HYDRO**

23 The following is Newfoundland and Labrador Hydro’s (Hydro) submission and its reply to
24 the parties’ submissions with regard to the above-noted application.
25

26 **1.0 Application Background**

27 On July 30, 2013, Hydro filed its General Rate Application (GRA) seeking approval of rates
28 for January 1, 2014, based on a 2013 Test Year, in accordance with a government directive.
29 Hydro subsequently filed two applications for interim relief recognizing that delayed rate
30 implementation would deprive Hydro of the opportunity to earn a just and reasonable
31 return on rate base for 2014. Both of these applications were denied. On June 6, 2014,
32 Hydro notified the Board of Commissioners of Public Utilities (the Board) and the Parties
33 that it would be filing an amended GRA in the fall of 2014 based on updated financial
34 information. It became apparent to Hydro that because of changes in its forecast costs since

1 filing the 2013 GRA, the prudent course of action was to update the evidence in its 2013
2 GRA to derive rates based upon 2015 forecast costs. The stipulation in the Order in Council
3 which required the use of a 2013 Test Year for the GRA was rescinded effective October 30,
4 2014.

5
6 On November 10, 2014, Hydro filed its Amended General Rate Application (the Amended
7 Application) with the Board. In its Amended Application, Hydro requested that the
8 proposed customer rates be approved on an interim basis in advance of completing the
9 GRA. Hydro also proposed revised Rate Stabilization Plan (RSP) Rules to become effective on
10 an interim basis on January 1, 2015 to permit the continued phase in of the Island Industrial
11 Customer (IIC) rates.

12
13 On November 28, 2014, Hydro filed an application requesting approval of the deferral and
14 recovery of \$45.9 million in revenue deficiency for 2014. The creation of a deferral account
15 to address Hydro's 2014 revenue deficiency of \$45.9 million was approved by the Board. In
16 addition, Hydro's application regarding deferral of increased capacity-related supply costs
17 of \$9.6 million, dated October 8, 2014, was approved for deferral by the Board.

18
19 On December 24, 2014, Hydro was directed by the Board to file a comprehensive and
20 complete interim rates application for rates to be charged effective March 1, 2015. In
21 accordance with this direction from the Board, Hydro filed its 2015 Interim Rates
22 Application on January 28, 2015, for an interim order from the Board as to rates to be
23 charged to Hydro's IIC, Newfoundland Power (NP) and Hydro's Rural Customers, as well as
24 changes to the RSP Rules to implement the phase in of changes to the IIC rates.

25
26 Order No. P.U. 14(2015) (the 2015 Interim Rates Order) directed Hydro to file a revised
27 Schedule of Rates, Tolls and Charges and RSP Rules to become effective July 1, 2015 with
28 evidence showing the impacts on consumers and Hydro incorporating the findings in the
29 2015 Interim Rates Order. On May 27, 2015, Hydro filed an application in response to the

Board's findings in the 2015 Interim Rates Order. The Board provided correspondence by letter on June 3, 2015 stating that the 2015 Interim Rate Compliance Application did not comply with the 2015 Interim Rates Order and directed Hydro to amend and re-file the application. On June 5, 2015, Hydro filed a Revised Compliance Application to comply with the Board's direction. This submission is filed in response to other parties comments on the Revised Compliance Application.

2.0 Interim Rates Order

The 2015 Interim Rates Order directed Hydro to file:

"a revised Schedule of Rates, Tolls and Charges and RSP Rules, effective July 1, 2015, with evidence showing the impacts on consumers and Hydro, incorporating the findings of the Board in this Order, including:

- i) an interim base rate increase of 8.0% for Newfoundland Power Inc.;
- ii) an interim base rate increase for Government Diesel customers of 50% of the proposed increases; and
- iii) in relation to Island Industrial customers:
 - a) an interim base rate increase of 10.0%;
 - b) an interim RSP rate adjustment which will result in an effective 2.7% rate increase for all Island Industrial customers;
 - c) a transfer from the IC RSP Surplus to fund the difference between the approved 10.0% base rate increase and the effective 2.7% increase; and
 - d) a transfer from the IC RSP Surplus to fund the full amount of the 2014 year-end IC RSP current balance.

3.0 Hydro's Revised Compliance Application

3.1 Utility Rate

In the 2015 Interim Rates Order, the Board approved an 8% increase in the base Utility Rate effective July 1, 2015. Hydro proposed to apply the 8% increase equally to all rate components. The base rate increase is to become effective on July 1, 2015 at the same time as the annual update to the NP RSP rate adjustment. As a result, the Revised Compliance Application also provided the derivation of the RSP Adjustments to apply to NP relative to the 2007 Test Year, in accordance with the approved RSP rules.

1 Grant Thornton confirmed that the interim rates included on Schedule 1 of the Revised
2 Compliance Application represents an 8% increase in the monthly demand and energy rates
3 in comparison to the rates currently being charged to NP.¹

4
5 Grant Thornton also confirmed that the proposed RSP Fuel Rider and the RSP Adjustment
6 Rate based on the March 31, 2015 balance is in accordance with Board Orders.

7
8 Based on the Grant Thornton review, the proposed Utility Rate included in the Revised
9 Compliance Application is in accordance with the Board's direction in the 2015 Interim
10 Rates Order. NP provided no comments on the Revised Compliance Application. The
11 Consumer Advocate submitted that the proposed Utility Rate is compliant with the 2015
12 Interim Rates Order.

13 14 **3.2 Hydro Rural Government Diesel Rates**

15 In the 2015 Interim Rates Order, the Board approved an interim base rate increase of 50%
16 of the increase proposed in the 2015 Interim Rates Application in the rates for Government
17 Diesel Customers effective July 1, 2015. Grant Thornton concluded that the proposed
18 interim rates included in the Revised Compliance Application for this customer group are in
19 accordance with the Board's direction in the 2015 Interim Rates Order.² The Consumer
20 Advocate also submitted that the proposed Utility Rate is compliant with the 2015 Interim
21 Rates Order.

22 23 **3.3 IIC Rates**

24 *Base Rates*

25 The Revised Compliance Application proposed a 10% base rate increase to base demand
26 and energy charges with no proposed change in specifically assigned charges. No party
27 disagreed with the proposed base rates.

¹ See page 4 of Grant Thornton Report filed June 10, 2015.

² See page 5 of Grant Thornton Report filed June 10, 2015.

1 *Calculation of RSP Surplus Adjustment*

2 The Board also approved an interim RSP rate adjustment which will result in an effective
3 2.7% rate increase for all IIC. In the Revised Compliance Application, Hydro computed a
4 proposed RSP Surplus Adjustment based upon a (0.349)¢ per kWh rate that would result in
5 an effective 2.7% increase in billings to IIC based upon the 2015 Test Year forecast.

6

7 Grant Thornton noted that depending on the interpretation of the 2015 Interim Rates Order
8 in the calculation of the required RSP Surplus funding, the RSP Surplus Adjustment could be
9 either (0.349) ¢/kWh or (0.352) ¢/kWh to provide an effective 2.7% rate increase. Hydro
10 notes that page 17 of the 2015 Interim Rates Order stated the Board will approve “an
11 effective interim increase of 2.7% in Island Industrial **customer rates**”.³ The Board did not
12 stipulate an effective 2.7% increase in base rates. Customer rates include all charges to
13 customers including specifically assigned charges and the RSP Adjustment.

14

15 Rate increases expressed as a percentage are generally calculated as the change in
16 customer billings in dollars expressed as a percentage of total customer billings on existing
17 rates.⁴ Therefore, Hydro did not exclude the existing rate revenues from specifically
18 assigned charges in computing the amount of funding required from RSP Surplus
19 Adjustment.⁵

20

21 The IIC Group and Vale submitted the RSP Surplus Adjustment to be implemented as a
22 result of the 2015 Interim Rates Order would include both a demand RSP Surplus credit and
23 an energy RSP Surplus credit to ensure the base rate impacts of the rate change equalled
24 2.7% for each customer. As noted above, the Board did not stipulate a 2.7% increase in

³ See lines 17-18 on page 17 of Order No. P.U. 14(2015).

⁴ This approach is consistent with the calculation of rate increase percentages used by Newfoundland Power. For example, in the case of a Rate Stabilization Adjustment and Municipal Tax Adjustment rate change being implemented by Newfoundland Power, it is not uncommon that no change in the customer charge or demand charge is required. However, the rate increase is still calculated based upon the estimated change in total billings as a percentage of total existing billings (i.e., sum of demand charges, energy charges and customer charges).

⁵ The only RSP Adjustment currently in effect applies to Teck Resources who has indicated to the Board that it will be discontinuing its mining and milling operations prior to the July 1, 2015 rate change implementation.

1 base rates but an effective 2.7% increase in customer rates. The approach proposed by the
2 IIC will not result in a 2.7% increase in IIC rates but will result in a lower percentage increase
3 as no increase is proposed in specifically assigned charges.

4
5 In the 2015 Interim Rates Order, the Board did not stipulate the method for calculating the
6 RSP Surplus Adjustment. However, the current RSP rules provide for RSP adjustments to be
7 calculated on a ¢ per kWh basis. The impacts of RSP rate changes typically impact customer
8 bills differently on a percentage basis depending on their usage characteristics. The
9 implementation of an RSP Adjustment reflects a fuel cost variance which would normally be
10 recovered through energy charges. Given the RSP Surplus has accumulated based upon fuel
11 savings, unless the Board provided direction to take an alternate approach, Hydro believes
12 it was reasonable for Hydro to assume disposition of the RSP Surplus in a manner consistent
13 with the disposition of fuel savings through the RSP (i.e., on a ¢ per kWh basis).

14
15 *Teck RSP Adjustment*

16 The 2015 Interim Rates Order requires the same interim rate increase apply to Teck
17 Resources as approved for the other IIC. This would require maintaining a separate RSP rate
18 for Teck Resources. The application by Teck Resources filed with the Board on May 27, 2015
19 states Teck will be discontinuing its mining and milling operations effective June 30, 2015.
20 The Application also states that Teck will be operating an office type environment beyond
21 June 30, 2015. As a result of Teck's closure of its mining and milling operations, Hydro's
22 Revised Compliance Application proposed to discontinue the Teck Resources RSP
23 adjustment of (1.111)¢ per kWh that has been in effect since September 1, 2013.

24
25 The information from Teck Resources indicates that beyond June 30, 2015, Teck will have
26 materially reduced energy requirements from Hydro. As Teck Resources still requires
27 electrical service, Teck will be required to pay specifically assigned charges; the current
28 specifically assigned charge for Teck is \$186,169 per year. The monthly specifically assigned
29 charge will be a material portion of the Teck monthly bill for electrical service. For the

1 remainder of 2015, Teck is also required to pay demand charges in accordance with their
2 Service Agreement.⁶

3
4 The IIC Group submission shows a 32.2% increase for Teck Resources based upon the
5 calculation of revenues under existing and proposed rates excluding revenues from
6 specifically assigned charges.⁷ Hydro notes that the IIC Group calculation of the percentage
7 increase was based upon energy usage of Teck for the 2015 Test Year. This includes the
8 amount used prior to Teck closing the mining and milling operations. The 32.2% also does
9 not include the specifically assigned charge for which no increase is proposed at this time.
10 As a result, both the dollar impact and the percentage impact presented in the IIC Group
11 submission do not accurately reflect the prospective customer rate impact of Board
12 approval of the Revised Compliance Application.

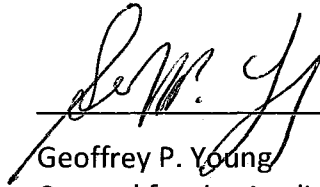
13
14 To limit the percentage rate increase to Teck Resources to 2.7% would require a larger RSP
15 credit adjustment than currently approved (i.e., (1.111)¢ per kWh). The larger credit is
16 required to reduce the rate impact of the 10% increase in demand charges to become
17 effective July 1, 2015. Increasing the RSP credit adjustment at this time for Teck Resources is
18 not consistent with the phase-in of cost based rates. Hydro submits that given the material
19 reduction in Teck Resources load requirements, it is reasonable at this time to phase-out
20 the RSP credit adjustment of (1.111)¢ per kWh which only applies to Teck Resources.
21 Approval of Hydro's proposal would result in all the IIC paying the same customer rates
22 effective July 1, 2015.

23
24 All of which is respectfully submitted.

⁶ There is currently an application before the Board on this matter.

⁷ Source: page 3 of IIC Group submission on June 15, 2015.

1 **DATED** at St. John's, in the Province of Newfoundland and Labrador, this 17th day of June,
2 2015.

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4 _____

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