

February 18, 2015

VIA COURIER and ELECTRONIC MAIL

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

Attention: Ms. G. Cheryl Blundon
Board Secretary

Dear Ms. Blundon:

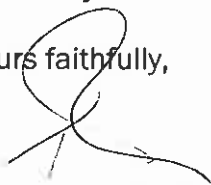
RE: Newfoundland and Labrador Hydro's Application for 2015 Interim Rates for March 1, 2015

Enclosed are the original and twelve (12) copies of Vale's Written Submissions in respect of the above-noted Application.

We have provided a copy of this correspondence together with enclosures to all concerned parties.

We trust you will find the enclosed satisfactory.

Yours faithfully,



Thomas J. O'Reilly, Q.C.

TJOR/js
Encl.

c.c. Geoffrey P. Young, Senior Legal Counsel, Newfoundland & Labrador Hydro
Gerard Hayes, Senior Legal Counsel, Newfoundland Power
Thomas J. Johnson, O'Dea Earle
Paul Coxworthy, Stewart McKelvey
Edward M. Hearn, Q.C., Miller & Hearn
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IN THE MATTER OF the *Electrical Power Control Act, 1994*, R.S.N.L. 1994, Chapter E-5.1 (the EPCA) and the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47 (the Act) and regulations thereunder;

AND IN THE MATTER OF an application by Newfoundland and Labrador Hydro, pursuant to Sections 70 and 75 of the Act, for the approval of customer electricity rates, rules and regulations on an interim basis to become effective March 1, 2015 (the “2015 Interim Rates Application”).

TO: The Board of Commissioners of Public Utilities (“the Board”)

1 WRITTEN SUBMISSIONS OF VALE NEWFOUNDLAND & LABRADOR LIMITED

2 The following are the submissions of Vale Newfoundland and Labrador Limited (“Vale”)
3 in relation to Newfoundland and Labrador Hydro’s (“Hydro”) Application before the
4 Board seeking an Order for interim rates for, among others, Island Industrial
5 Customers effective March 1, 2015. Vale’s submissions will address the following
6 issues:

- 7 i) The Industrial Customer interim rates requested by Hydro;
- 8 ii) Hydro’s proposed recovery of the \$6.8 million balance in the Industrial
- 9 Customer RSP Fuel Component from the Industrial Customer’s portion of the
- 10 RSP Load Variation Component and the Industrial Customer RSP Surplus;
- 11 iii) The phase-in of industrial customer rates; and

1 iv) Costs.

2 Issue i): Interim Rates

3 Vale accepts that Hydro requires some form of interim rate relief subject to Hydro
4 demonstrating through evidence filed as part of Hydro's Amended 2013 General Rate
5 Application (the "GRA") that the interim rates reasonably reflect the Cost of Service.
6 Without interim rates, there is a significant risk that the current rates will not be
7 sufficient for Hydro to recover its cost of service. A discrepancy between current rates
8 and cost of service will result in a revenue deficiency being created in 2015 by Hydro's
9 2015 customers that Hydro will seek to recover from its 2016 (and future year)
10 customers. If the Island Industrial Customer Class were to remain stable over time,
11 this would not be an issue. However, the makeup of the Island Industrial Customer
12 Class is changing radically over time with (a) Vale ramping up into production in a
13 manner that will make it Hydro's largest industrial customer within a short period of
14 time and (b) to the best of Vale's knowledge, Teck Resources, which is benefiting from
15 current rates, closing its operations in 2015. As such, if present day deficiencies are
16 recovered from future customers, there will inevitably be intergeneration inequity in
17 that the changing dynamic within the Island Industrial Customer Group:

- 18 i) will result in a customer responsible for contributing a small percentage to the
19 accumulating deficiency repaying the largest percentage of that deficiency; and
20 ii) could result in an industrial customer that benefited from the rates that created
21 the deficiency ceasing operations before its portion of the deficiency is repaid
22 through a rate rider.

1 For the reasons stated, Vale submits that Hydro should be granted interim rates to
2 reduce the potential for intergenerational inequity created by changes within the Island
3 Industrial Customer Group. As the evidence supports Hydro's submission that a
4 revenue deficiency is accumulating, fairness dictates that an Order for interim rates
5 should become effective at the earliest possible date. As discussed in detail in
6 response to TIR-CA-NLH-0001, maintaining generational equity is one of the factors
7 demonstrating a need for interim rates.

8 Vale also supports Hydro's proposed method of calculating interim rates by adjusting
9 the forecast cost of No. 6 fuel to \$65.63 per barrel from the 2015 test year cost of
10 \$93.32 per barrel. This adjustment has the benefit of reducing the potential for rate
11 shock and ensures that interim rates are based on the most up to date data on fuel
12 cost.

13 **Issue ii): Recovery of the \$6.8 Million Balance in the IC RSP Fuel Component**

14 In its application, Hydro has proposed recovery of the \$6.8 million balance in the
15 Industrial Customer's RSP Fuel Component by:

- 16 i) dividing the current balance on the RSP Load Variation Component (\$37.6
17 million) based on energy ratio allocation and applying the Industrial Customer's
18 portion (\$2.1 million) to reduce the balance in the Industrial Customer's RSP
19 Fuel Component to \$4.7 million; and
- 20 ii) taking the remaining \$4.7 million balance in the Industrial Customer's RSP Fuel
21 Component from the Industrial Customer RSP Surplus (\$10.9 million) with the

1 remaining balance of the Industrial Customer RSP Surplus being used to phase
2 in Industrial Customer rates.

3 Vale supports Hydro's proposed method for recovery of the \$6.8 million balance in the
4 Industrial Customer's RSP Fuel Component. By using current RSP balances owing to
5 customers to offset balances currently owing to Hydro, Hydro reduces or eliminates the
6 potential for intergeneration inequity created by the use of future rate riders to recover
7 past balances. Vale submits that the use of future rate riders to collect balances
8 owing to the utility should be a measure of last resort and only approved in limited
9 circumstances.

10 Issue iii): Phase in of Industrial Customer Rates

11 Hydro has provided two alternatives for the use of the Industrial Customer Surplus to
12 phase in Industrial Customer rates. Under the first alternative, the Industrial Customer
13 Surplus would be used to offset 85% of industrial customer base rates (which include
14 firm energy charges, demand charges and specifically assigned charges) increases
15 from March 1, 2015 to December 31, 2015 and 60% of base rate increases from
16 January 1, 2016 to September 1, 2016. Under the second alternative, the Industrial
17 Customer Surplus would be used to offset a flat 73% of base rate increases from
18 March 1, 2015 to September 1, 2016. Hydro has recommended that the Board
19 accept the first alternative on the basis that it limits the maximum impact of any one
20 rate change to approximately 10%.

1 Vale submits that alternative two is preferable to alternative one as it reduces the
2 number of rate changes experienced by industrial customers over an 18 month period
3 from three (under alternative one) to two. The increased rate stability provided by
4 alternative two is preferable for industrial customer's budgeting purposes. The only
5 downside to alternative two is that the maximum rate impact increases from 10.2%
6 under scenario one to 12.7% under scenario two [see Table 2, page 9 of Hydro's
7 Evidence]. Vale submits that the difference in rate impact is marginal and is offset by
8 the benefit of the increased rate stability that results from alternative two.

9 Issue iv): Costs

10 Vale requests that the Board award Vale its costs on the within Application on the
11 same basis as any award of costs made in favor of the Consumer Advocate and/or the
12 Industrial Customer Group. An award of costs in favor of Vale is justified based on the
13 fact that:


- 14 i) Vale's energy consumption is steadily increasing with time and, when Vale's
15 Long Harbour processing facility completes production ramp up, Vale will be
16 the single largest industrial customer of Hydro. As such, Vale had a
17 significant interest in participating in the within Application; and
- 18 ii) Vale's interests in the within Application are discreet from the interests of
19 the Industrial Customer Group.

20 The within Application was made necessary by the complexity of and delays in the
21 general rate application process as a result of the fact that Hydro elected to allow

- 1 seven years between GRAs. For this reason, Vale submits that all or a significant
- 2 percentage of the costs of the within Application should be borne by Hydro and should
- 3 not form part of Hydro's rate base.

DATED at St. John's, in the Province of Newfoundland and Labrador, this 18th day of February, 2015.

COX & PALMER

Per: 
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