

June 15, 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 – 2015 Interim Rates Compliance Application**

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Following a review of the Newfoundland and Labrador Hydro's ("NLH") 2015 Interim Rates Application (revised), dated June 5, 2015 and the Grant Thornton report dated June 10, 2015, Vale Newfoundland and Labrador ("Vale") submits that Hydro's Application is not in compliance with P.U. 14(2015).

Specifically, Hydro's proposal for Industrial Customer ("IC") rates calculates the effective rates based on the 2.7% revenue increase for demand, energy and specific allocated (Evidence, page 5, Table 4, calculation E). In the Board's letter to NLH dated June 3, 2015, the Board was clear in pointing out in deficiency (2) that the 10% increase in IC base rates was to be for demand and energy only. The Board further emphasized that the Order was for a 10% rate increase and not a 10% revenue increase for NLH. In deficiency (3), the Board noted "..... that there is an effective interim increase of 2.7% in Island Industrial Customer rate (sic), including Teck". Again, the Board ordered a 2.7% increase in rates; not in revenue. In its report, Grant Thornton prepared a chart that calculates the 2.7% increase based on demand and energy only (reference: report page 3, line 10).

Vale submits that the proper method of implementing the IC rate increase ordered in P.U. 14(2015) is to increase both the demand and energy rate components by 10% and then apply an adjustment from the IC RSP Surplus to reduce the increase to each of the demand and energy rates to 2.7%. This rate design will ensure that, as stated in section 2.iii.b of P.U. 14(2015), each member of the IC Group receives a 2.7% increase as opposed to the IC

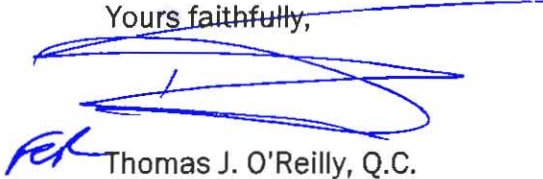
**Thomas J. O'Reilly, Q.C.** | Partner

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class of customers collectively receiving a combined 2.7% increase.<sup>1</sup> The rate design requested by Hydro in the current Application would not achieve this result as the rate increase will vary between members of the IC group based on their individual load factors. Creating a rate structure that results in an effective 2.7% increase to each of the demand and energy rates could be established by rewording the RSP using the same methodology that NLH proposed in its January 28, 2015 Application for interim rates.<sup>2</sup>

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'TJO', is written over a horizontal line. Below the signature, the name 'Thomas J. O'Reilly, Q.C.' is printed.

TJOR/js

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  
Dennis Browne, Q.C., Browne Fitzgerald Morgan & Avis  
Nancy Kleer, Olthuis, Leer, Townshend LLP  
Yvonne Jones, MP Labrador  
Genevieve M. Dawson, Benson Buffett

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<sup>1</sup> Reference: In the evidence, Hydro acknowledges a 2.7% increase to the IC class this when they refer to "..... the average customer rate increase ....." (evidence, page 6, lines 18-19).

<sup>2</sup> Reference: January 28, 2015 Interim Rate Application, Rate schedule RSP, page RSP-7, Section E.1.1, "Industrial Customer RSP Surplus Credit Adjustment". The same method was proposed by Hydro in the 2013 industrial RSP application (evidence page 9, section 4.3, lines 19-24, as well as appendix F and the response to IC-NLH-1 from the IC RSP application)