



NEWFOUNDLAND AND LABRADOR  
**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**  
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2015-06-11

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Dear Sirs/Madams:

**Re: Newfoundland and Labrador Hydro – 2015 Interim Rates Compliance Application  
– Grant Thornton Report**

Enclosed you will find a copy of the above-referenced report. The report was filed with the Board late yesterday afternoon. If any party requires additional time for the filing of submissions as a result of this report, submissions must be filed with the Board no later than noon on Monday, June 15, 2015.

Yours truly,



Sara Kean  
Assistant Board Secretary

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June 10, 2015

1

2 Dear Mr. Byrne,

3 **Re: Newfoundland & Labrador Hydro – 2015 Interim Rates Application**  
4 **(Compliance Application) for Interim rates effective July 1, 2015**

5 We have completed our review of the Compliance Application filed by Newfoundland &  
6 Labrador Hydro ("Hydro") on June 5, 2015 requesting approval of the interim rate increases  
7 that were ordered by the Board of Commissioners of Public Utilities ("the Board") in P.U. 14  
8 (2015). This Application also included the information required to approve the Rate  
9 Stabilization Plan ("RSP") rates to be charged to Newfoundland Power Inc. ("NP") effective  
10 July 1, 2015 on an interim basis pursuant to Section 70 (1) of the Public Utilities Act. Our  
11 review was conducted in accordance with our engagement letter dated June 5, 2015. The scope  
12 of our review is detailed as follows:

- 13 1. Ensure the interim rates for Newfoundland Power, Island Industrial Customers, Island  
14 Isolated Government Departments, Labrador Interconnected System and Labrador  
15 Isolated Government Departments included on the rate schedules in the Compliance  
16 Application dated June 5, 2015 are in accordance with Board Order P.U. 14(2015).
- 17 2. Ensure the calculations for the RSP adjustment rate, which includes the fuel price  
18 projection rider and the recovery rate for the March 31, 2015 RSP balance in Schedule  
19 A, are in compliance with Board Orders, specifically Board Orders P.U. 40 (2003), P.U.  
20 8 (2007), P.U. 11 (2008), P.U. 22 (2009), P.U. 39 (2010), P.U. 1 (2011), P.U. 26 (2013),  
21 P.U. 29 (2013), P.U. 32 (2013), P.U. 34 (2013), P.U. 40 (2013) and P.U. 18 (2014).

22 Based on our review we present the following comments and findings:

## 23 **Interim Rate Increase (Base Rates)**

### 24 Newfoundland Power

25 In P.U. 14 (2015), the Board ordered an interim base rate increase of 8.0% for Newfoundland  
26 Power. We recalculated the increase in the monthly demand and energy rates included in  
27 Schedule 1, page 4 of 31, of the Compliance Application to ensure it represented an 8%  
28 increase in comparison to the existing monthly demand and energy rates currently being

1 charged to Newfoundland Power. We checked the accuracy of the calculations and vouched  
 2 data to supporting documentation where appropriate.

3 We conclude that the interim rates included on Schedule 1, page 4 of 31, of the June 5, 2015  
 4 Compliance Filing represents an 8% increase in the monthly demand and energy rates in  
 5 comparison to the rates currently being charged to Newfoundland Power.

6 Island Industrial Customers

7 In P.U.14 (2015), the Board ordered the following in relation to the Island Industrial  
 8 customers:

- 9 • an interim base rate increase of 10.0%;
- 10 • an interim RSP rate adjustment which will result in an effective 2.7% rate increase
- 11 for all Island Industrial customers;
- 12 • a transfer from the IC RSP Surplus to fund the difference between the approved
- 13 10.0% base rate increase and the effective 2.7% increase; and
- 14 • a transfer from the IC RSP Surplus to fund the full amount of the 2014 year-end
- 15 IC RSP current balance.

16  
 17 In its Compliance Application, Hydro is proposing to apply the 10% increase equally to the  
 18 demand charge and the energy charge (excluding RSP adjustments). We recalculated the  
 19 increase in the monthly demand and energy rates included in Schedule 1, page 6 of 31, to  
 20 ensure it represented a 10% increase in comparison to the existing monthly demand and energy  
 21 rates currently being charged to Island Industrial customers. We checked the accuracy of the  
 22 calculations and vouched data to supporting documentation where appropriate.

23 In Schedule 3, page 5 of the Compliance Application, Table 4 outlines the calculation prepared  
 24 by Hydro to derive the RSP adjustment required to reduce the customer rate impact from the  
 25 approved 10% base rate increase to an effective 2.7% increase. The calculation provided is as  
 26 follows:

**Calculation of IC RSP Surplus Adjustment**

2015 Test Year IIC Revenue at Existing Rates	A	\$ 30,546,755
Less Specifically Assigned Charges at Existing Rates	B	\$ 591,228
Subtotal (Base Rate Revenue = A - B)	C	\$ 29,955,527
10% Increase in Base Rate Revenue (D = C x 10%)	D	\$ 2,995,553
2.7% Increase in Existing Revenue (E = A x 2.7%)	E	\$ 824,762
RSP Surplus Funding (F = E - D)	F	\$ (2,170,791)
2015 Test Year Sales Forecast (kWh)	G	621,400,000
RSP Surplus Adjustment (H = F/G)	H	(0.349) cents/kWh

27 Source: Compliance Application, Schedule 3, Page 5, Table 4

1 In the table above, the 2.7% increase is calculated using the 2015 Test Year Island Industrial  
 2 Customer revenue at existing rates (A), which includes the revenue from the specifically  
 3 assigned charges at existing rates. However, on page 16 of P.U. 14 (2015), starting at line 30,  
 4 the Board noted the following:

5 *“Further, the Board agrees with the Industrial Customer Group that changes to the specifically*  
 6 *assigned charges for the Island Industrial customers should not be addressed in advance of the general*  
 7 *rate application”*

8 If the 2.7% increase is calculated using the 2015 Test Year Island Industrial Customer revenue  
 9 at existing rates, less the specifically assigned charges at existing rates (C). The RSP Surplus  
 10 Adjustment would be calculated as follows:

#### Calculation of IC RSP Surplus Adjustment

2015 Test Year IIC Revenue at Existing Rates	A	\$ 30,546,755
Less Specifically Assigned Charges at Existing Rates	B	\$ 591,228
Subtotal (Base Rate Revenue = A - B)	C	\$ 29,955,527
10% Increase in Base Rate Revenue (D = C x 10%)	D	\$ 2,995,553
2.7% Increase in Existing Revenue (E = C x 2.7%)	E	\$ 808,799
RSP Surplus Funding (F = E - D)	F	\$ (2,186,754)
2015 Test Year Sales Forecast (kWh)	G	621,400,000
RSP Surplus Adjustment (H = F/G)	H	(0.352) cents/kWh

11  
 12  
 13 Depending on whether or not the 2.7% increase in existing revenue calculated above (E )  
 14 should include the specifically assigned charges at existing rates, the RSP Surplus Adjustment  
 15 rate would change:

- 16 • If the 2.7% increase is applied to the 2015 Test Year IIC Revenue at existing rates (A),  
 17 including specifically assigned charges, the RSP Surplus Adjustment would be  
 18 calculated at (0.349) cents/kWh, which agrees to Hydro’s calculation; and
- 19 • If the 2.7% increase is applied to the 2015 Test Year IIC Revenue at existing rates, less  
 20 the specifically assigned charges (C ), the RSP Surplus Adjustment would be  
 21 calculated at (0.352) cents/kWh.

22 The Industrial –Firm interim rates included on Schedule 1, Page 6 of 31, of the Compliance  
 23 Application indicates a RSP Surplus Adjustment of (0.349) cents/kWh.

24 We have checked the accuracy of the calculation included in Table 4 provided by Hydro and  
 25 vouched the data to supporting documentation.

26 The RSP Rules in Schedule 1, Pages 10 to 17, of the Compliance Application have also been  
 27 revised, in accordance with P.U. 14 (2015), to include the transfer from the IC RSP Surplus to  
 28 fund the full amount of the 2014 year-end IC RSP current balance and the implementation of  
 29 the IC RSP Surplus Adjustment rate so there is an effective interim increase of 2.7% to Island

1 Industrial customers on July 1, 2015. The IC RSP Surplus Adjustment rate included in the  
2 rules is (0.349) cents/kWh.

3 The RSP Rules included in Schedule 1 of the Compliance Application have also been revised to  
4 reflect the elimination of the RSP adjustment in effect solely for Teck Resources; and the  
5 removal of the current Section E related to Historical Plan Balances. Neither of these revisions  
6 were included in the Board Order P.U 14(2015).

7 We conclude that the interim rates included in Schedule 1, page 6 of 31, of the June 5, 2015  
8 Compliance Filing represents a 10% increase in the monthly demand and energy rates in  
9 comparison to the rates currently being charged to the Island Industrial customers. However,  
10 depending on the interpretation of the specifically assigned charges in the calculation of the  
11 RSP Surplus Funding that would result in an effective 2.7% rate increase, the RSP Surplus  
12 Adjustment could be either (0.349) cents/ kWh or (0.352) cents/kWh.

13 Island Isolated and Labrador Isolated– Government Departments

14 In its Interim Rate Application filed January 28, 2015, Hydro requested the following  
15 percentage increases for the rate classes noted below:

16 Domestic (Labrador Isolated – Government Depts.)	14.0%
17 General Service 0-10kW	16.6%
18 General Service Over 10kW	16.9%
19 Street and Area Lighting	27.5%

20 In P.U. 14(2015), the Board ordered an interim base rate increase for the Government Diesel  
21 customers of 50% of the proposed increases. This would represent the following increases for  
22 the rate classes noted below:

23 Domestic (Labrador Isolated – Government Depts.)	7.00%
24 General Service 0-10kW	8.30%
25 General Service Over 10kW	8.45%
26 Street and Area Lighting	13.75%

27 We recalculated the interim base rate increase in the rates included on Schedule 1, pages 18 to  
28 21, to ensure it represented the percentage increases noted above in comparison to the existing  
29 rates. We checked the accuracy of the calculations and vouched data to supporting  
30 documentation where appropriate.

31 We conclude that the interim rates included in Schedule 1, pages 18 to 21, of the June 5, 2015  
32 Compliance Filing represents an interim base rate increase for Government Diesel customers  
33 (Island Isolated Government Departments and Labrador Isolated Government Departments)  
34 of 50% of the proposed increases included in the Interim Rate Application filed January 28,  
35 2015.

36

1     Labrador Interconnected System

2     In its Interim Rate Application filed January 28, 2015, Hydro requested that the rate increases  
3     for customers on the Labrador Interconnected system that were proposed in the Amended  
4     General Rate Application be approved on an interim basis. However, in P.U. 14(2015), the  
5     Board determined that it was not necessary or appropriate to approve this proposal at this time.

6     Based on our review of the rates disclosed in Schedule 1, pages 22 to 29, of the Compliance  
7     Application, there are no changes to the rates that are currently in place.

8     **2015 Rate Stabilization Plan Adjustments for Newfoundland Power effective July 1, 2015**

9     Our procedures were focused on ensuring the methodology and calculations relating to the  
10    RSP Fuel Rider and the recovery rate for the March 31, 2015 RSP balance are in compliance  
11    with P.U. 40 (2003), P.U. 8 (2007), P.U. 11 (2008), P.U. 22 (2009), P.U. 39 (2010), P.U. 1  
12    (2011), P.U. 26 (2013), P.U. 29 (2013), P.U. 32 (2013), P.U. 34 (2013), P.U. 40 (2013) and  
13    P.U.18 (2014). We also checked the accuracy of the calculations and vouched data to  
14    supporting documentation where appropriate.

15    Based upon the results of our procedures noted above relating to the RSP Fuel Rider and the  
16    RSP Adjustment Rate based on the March 31, 2015 balance, we can confirm the following:

- 17       • Hydro's methodology for its calculation of the 2015 Newfoundland Power RSP mill  
18       rate of (7.15) mills per kWh relating to the balance accumulated in the RSP from April  
19       2014 to March 2015 is in accordance with Board Orders; and
- 20       • Hydro's methodology for its calculation of the 2015 Newfoundland Power RSP Fuel  
21       Price Projection of 5.32 mills per kWh is in accordance with Board Orders.

22    **Conclusion**

23    Based upon the results of our procedures in verifying that the interim rates for Newfoundland  
24    Power, Island Industrial Customers, Island Isolated Government Departments, Labrador  
25    Interconnected System and Labrador Isolated Government Departments included on the rate  
26    schedules in the Compliance Application dated June 5, 2015 are in accordance with Board  
27    Order P.U. 14(2015), we can confirm that the interim rates included on Schedule 1 of the June  
28    5, 2015 Compliance Filing are in accordance with P.U. 14(2015) with the exception of the  
29    following observations:

- 30       • Depending on the interpretation of the specifically assigned charges in the calculation  
31       of the RSP Surplus Funding that would result in an effective 2.7% rate increase, the  
32       RSP Surplus Adjustment could be either (0.349) cents/ kWh or (0.352) cents/kWh.  
33       Currently, the RSP Surplus Adjustment rate included in the RSP Rules on Schedule 1 is  
34       (0.349) cents/kWh; and

35

- 1       • The RSP Rules included in Schedule 1 of the Compliance Application have also been  
2       revised to reflect the elimination of the RSP adjustment in effect solely for Teck  
3       Resources; and the removal of the current Section E related to Historical Plan  
4       Balances. Neither of these revisions were included in the Board Order P.U 14(2015).

5       We also conclude that the 2015 Newfoundland Power RSP Adjustment rates effective July 1,  
6       2015 on an interim basis agrees to Schedule 1, Page 4 of 31, of the June 5, 2015 Compliance  
7       Filing and are in compliance with Board Orders, specifically Board Orders P.U. 40 (2003), P.U.  
8       8 (2007), P.U. 11 (2008), P.U. 22 (2009), P.U. 39 (2010), P.U. 1 (2011), P.U. 26 (2013), P.U. 29  
9       (2013), P.U. 32 (2013), P.U. 34 (2013), P.U. 40 (2013) and P.U. 18 (2014).

10      I trust this is the information you requested. If you have any questions, please contact me.

11      Yours sincerely,  
12      **Grant Thornton LLP**

13



14      Steve Power, CPA, CA  
15      Partner  
16