

1 Q. Reference: 2015 Cost of Service Study (29-Jan-2015):

2 Please confirm whether all amounts in the revised cost of service study have been
3 updated to reflect the lower cost of fuels. If not, why not? For any amounts that
4 have not been updated to reflect the lower cost of fuels, please indicate the dollar
5 impact on 2015 revenue requirement if such amounts were updated.
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8 A. Not all amounts in the revised cost of service study have been updated to reflect
9 the lower cost of fuels. The revised cost of service does not reflect rate base and
10 cash flow effects of the revised price of fuel. However, the revenue requirement
11 impacts of these items will be reflected in the final cost of service filed to reflect the
12 Board's final GRA order. The fuel cost forecast for combustion turbine fuel was also
13 not revised (see Hydro's response to TIR-NP-NLH-010). These effects were not
14 considered material for the purpose of estimating the fuel cost reduction for the
15 purposes of the 2015 Interim Rates Application.
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17 The reduction in No. 6 fuel cost reflected in the 2015 Interim Rates Application is
18 equal to approximately 11.8% of the 2015 Test Year revenue requirement for the
19 Island Interconnected System provided in the Amended Application.¹ Given the
20 change in forecast fuel prices, and the magnitude of this change with respect to
21 Hydro's overall revenue requirement and customer rate impacts, Hydro determined
22 this was a material change that warranted updating.
23

24 Hydro's Amended Application was based upon \$18.8 million forecast cost of No. 2
25 fuel in 2015 for Hydro's Isolated Diesel Systems. In the 2015 Interim Rates

¹ 11.8% = \$73 million/\$621 million. The \$621 million is provided in Schedule 1.2, page 2 of 8 in the 2015 Test Year Cost of Service Study (Exhibit 13 to the Amended Application).

1 Application, the forecast cost of No. 2 fuel in 2015 for Hydro's Isolated Diesel
2 Systems is \$15.6 million. Because the change in the diesel fuel cost forecast
3 materially reduced the forecast rate increase for Hydro Rural Isolated Government
4 customers (from approximately 25% to 16%), Hydro also modified the No. 2 fuel
5 cost on the Isolated Diesel Systems for use in the 2015 Interim Rates Application.²

² See response to TIR-PUB-NLH-001.