

1 Q. Please list each proposal that has been changed in the Interim Rates Application  
2 from the Amended General Rate Application filed on November 10, 2014, explain in  
3 detail each change and provide details of how each change impacts customers'  
4 rates.

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7 A. The modified proposals from Hydro's Amended Application are provided below:

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9 **1.0 2015 Test Year Fuel Costs**

10 ***Proposal***

11 Hydro's Amended Application was based upon an average No. 6 fuel cost of \$93.32  
12 per barrel. Based upon the most recent fuel forecast provided by PIRA, the average  
13 fuel cost for 2015 is forecast to be \$65.63 per barrel.

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15 Hydro's Amended Application was based upon \$18.8 million forecast cost of No. 2  
16 fuel in 2015 for Hydro's Isolated Diesel Systems. In the 2015 Interim Rates  
17 Application, the forecast cost of No. 2 fuel in 2015 for Hydro's Isolated Diesel  
18 Systems is \$15.6 million.

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20 ***Customer Impacts***

21 Table 1 provides a comparison of the average customer impacts under both the  
22 Amended Application and the Interim Rates Application. These impacts resulted  
23 from the revised fuel forecast reflected in the 2015 Interim Rates Application. The  
24 Island Industrial Customer (IC) impact reflects the customer rate impact of the  
25 proposed change in the base rate. The impact of the phase-in proposals are not  
26 reflected in Table 1.

<b>Table 1</b> <b>2015 Proposed Customer Rate Impacts<sup>1</sup></b>		
	<b>Amended Application</b>	<b>2015 Interim Application</b>
<b>Island Interconnected System</b>		
Newfoundland Power – Wholesale rate	4.1%	(9.3%)
Estimated end consumers rate impact	2.8%	(6.3%)
Estimated rural consumers rate impact	2.8%	(6.3%)
Industrial Customers	39.2%	18.1%
<b>Island Isolated Systems</b>		
Domestic	7.1%	(6.3%)
General Service 0-10	18.5%	(6.3%)
General Service Over 10 kW	19.2%	(6.3%)
Street and Area Lighting	2.8%	(6.3%)
<b>Island Isolated - Government Departments</b>		
General Service 0-10	24.7%	16.6%
General Service Over 10 kW	25.4%	16.9%
Street and Area Lighting	27.5%	27.5%
<b>Labrador Interconnected System</b>		
Domestic	1.9%	1.9%
General Service 0 – 10	1.9%	1.9%
General Service 10 - 100 kW	1.9%	1.9%
General Service 110 - 1000 kVA	1.9%	1.9%
General Service 1000 kVA and Over	1.9%	1.9%
Street and Area Lighting	17.5%	17.5%
<b>Labrador Isolated Systems</b>		
Domestic	7.1%	(6.3%)
General Service 0-10	18.5%	(6.3%)
General Service Over 10 kW	19.2%	(6.3%)
Street and Area Lighting	2.8%	(6.3%)
<b>Labrador Isolated - Government Departments</b>		
Domestic	21.5%	14.0%
General Service 0-10	24.7%	16.6%
General Service Over 10 kW	25.4%	16.9%
Street and Area Lighting	27.5%	27.5%
<b>L'Anse au Loup System</b>		
Domestic	2.8%	(6.3%)
General Service 0-10	2.8%	(6.3%)
Street and Area Lighting	2.8%	(6.3%)

<sup>1</sup> Exclude the effects of the Northern Strategic Plan which applies to customers on isolated systems in Labrador.

**2.0 RSP Load Variation Component**

***Proposal***

The Amended Application proposes that the RSP rules related to the allocation of the load variation component be modified such that the year-to-date net load variation for both Newfoundland Power (NP) and IC is allocated among the customer groups based upon energy ratios. This proposal is also reflected in the 2015 Interim Rates Application. However, the 2015 Interim Rates Application also proposes disposition of the RSP load variation component effective December 31, 2014 based upon the proposed energy ratio allocation.<sup>2</sup>

***Customer Impacts***

Disposition of the \$35.5 million credit balance in the segregated load variation component effective December 31, 2014 results in a credit of \$2.1 million to the IC RSP current balance. The effect of the proposal is to reduce the \$6.8 million RSP current balance due from IC to \$4.7 million.

The remainder of the \$35.5 million segregated RSP load variation balance would flow through the RSP for disposition to retail customers. The current RSP rules would allocate the portion related to Hydro Rural Interconnected between NP and customers on the Labrador Interconnected System. Approximately \$33.3 million would be credited to NP customers and flow through the RSP for disposition.

Based upon the proposed Rural Deficit allocation methodology, approximately \$100,000 of the balance would be credited to the Labrador Interconnected System. The disposition of this balance normally accrues to Hydro's net income. However, given 2014 is a test year, it would be appropriate for this balance to be applied to

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<sup>2</sup> The Amended Application provided no recommendation on the timing of the disposition of the 2014 year-end balance of the RSP load variation component.

1       reduce cost recovery related to the net income deficiency from customers on the  
2       Labrador Interconnected System resulting from delayed rate implementation.

### 3       **3.0     Island IC Rate Phase-in**

#### 4       ***Proposal***

5       In Hydro's Amended Application, Hydro proposed that the RSP Surplus Credit  
6       Adjustment be set to 85% of each customer's bill increase resulting from the base  
7       rate change effective January 1, 2015.<sup>3</sup> Effective September 1, 2015, the RSP  
8       Surplus Credit Adjustment would reduce to 35% and on September 1, 2016, the RSP  
9       Surplus Credit Adjustment would be set to zero.

10       In the 2015 Interim Rates Application, Hydro proposes to dispose of \$4.7 million of  
11       the IC RSP Surplus to provide recovery of the adjusted 2014 year-end IC RSP current  
12       balance. Hydro also proposes an RSP Surplus Credit Adjustment of 85% to apply for  
13       the period March 1, 2015 to December 31, 2015 and decrease to 60% for the period  
14       January 1, 2016 to August 31, 2016 and be eliminated on September 1, 2016.

#### 15       ***Customer Impacts***

16       Table 2 provides the forecast annualized customer rate impacts of the phase-in  
17       proposals included in the Amended Application updated for RSP balances at  
18       December 31, 2014.<sup>4</sup> These impacts reflect the combined effect of the base rate  
19       phase-in and the recovery of the 2014 year-end RSP balance over a two-year  
20       period.

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<sup>3</sup> This means that 85% of the customer's monthly bill impact of implementation of new base rates will be recovered from the RSP Surplus.

<sup>4</sup> Table 1 assumes the next stage of the phase-in occurs on March 1, 2015 rather than January 1, 2015 as proposed in Hydro's Amended Application.

Table 2 Amended Application - IC rate impacts			
	March 1, 2015	September 1, 2015	September 1, 2016
Island IC	17.9%	16.7%	10.0%

Table 3 provides the forecast annualized customer rate impacts under the phase-in proposals included in the 2015 Interim Rates Application.

Table 3 Interim Rates Application - IC Rate Impacts <sup>5</sup>			
	March 1, 2015	January 1, 2016	September 1, 2016
Island IC	2.7%	4.4%	10.2%

#### **4.0 July 1 2015 RSP Update**

The Amended Application did not specifically request suspension of the NP RSP adjustment for 2015. However, Hydro proposed that the RSP rules included in its Amended Application be implemented January 1, 2015. The implementation of new base rates in 2015 to Island Industrial Customers requires modification to the values used in the operation of the RSP for the period while the interim rates are in effect.

To avoid any implications on NP's customers of the interim changes to the RSP rules, in a letter dated December 18, 2014, Hydro proposed to defer the RSP update scheduled for July 1, if necessary, until final rates and RSP rules are approved. The 2015 Interim Rates Application is proposing there be no RSP rate adjustment for 2015.

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<sup>5</sup> Teck Resources is scheduled to close operations in 2015.

**5.0 RSP Rules**

The changes in the proposed RSP rules in the 2015 Interim Rates Application relative to the Amended Application are provided below. The customer impacts of the proposed changes have been addressed in the previous sections.

***Revised Proposals***

- (i) The RSP rules in the 2015 Interim Rates Application are modified to provide for disposition of the 2014 year-end RSP segregated load variation balance of \$35.5 million to the respective current RSP plan balances based upon 2014 energy ratios effective December 31, 2014;
- (ii) The RSP rules include a new clause which suspends the NP RSP rate adjustment scheduled for July 1, 2015 until a further Order of the Board;
- (iii) In the Amended Application, Hydro proposed a new Section E: Historical Balance. This section is no longer required under the 2015 Interim Rates Application;
- (iv) The Board is requested to approve a one-time transfer from the IC RSP Surplus balance effective December 31, 2014 to provide recovery of the IC current plan balance;
- (v) The RSP Surplus Credit Adjustment is proposed to be 85% for the period March 1, 2015 to December 31, 2015, decreased to 60% for the period January 1, 2016 to August 31, 2016 and eliminated September 1, 2016. This is a modification to the RSP Surplus Credit Adjustment proposed in the Amended Application; and
- (vi) The Board is requested to approve implementation of an updated Teck Resources RSP Adjustment rate necessary to comply with Government direction.