

1 Q. If fuel costs or any other costs change materially from the 2015 costs included in
2 the Interim Rates Application, does Hydro intend to propose new rates in the
3 future, prior to the finalization of the General Rate Application? In the response
4 explain why Hydro updated only one of the cost factors in the revenue requirement
5 (fuel, including diesel) from the GRA revenue requirement and not others such as
6 interest?

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9 A. Hydro's reasoning for updating the fuel cost forecast and not updating other cost
10 factors was that of materiality. The reduction in No. 6 fuel cost reflected in the 2015
11 Interim Rates Application is equal to approximately 11.8% of the 2015 Test Year
12 revenue requirement for the Island Interconnected System provided in the
13 Amended Application.¹ Given the change in forecast fuel prices, and the magnitude
14 of this change with respect to Hydro's overall revenue requirement and customer
15 rate impacts, Hydro determined this was a material change that warranted
16 updating.

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18 The change in customer impact of the revised fuel price on Island Industrial
19 Customers (IC) demonstrates the materiality of the revised fuel price forecast. The
20 base rate increase for the Island IC required to recover the 2015 Test Year costs
21 reflected in Hydro's Amended Application is 39.2%. Modifying the revenue
22 requirement to reflect an updated Holyrood fuel cost of \$65.63 per barrel reduces
23 the proposed base rate increase to 18.1%. Hydro did not consider it reasonable to
24 propose a 39.2% increase in 2015 Test Year rates to the Island IC when Hydro's

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 updated forecast indicates that an increase of 18.1% is what is required to recover
2 2015 forecast costs.

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4 Hydro also recognized that No. 6 fuel cost variances also get automatically adjusted
5 through the RSP. Hydro believes it is appropriate to implement a lower base rate at
6 this time rather than proposing to increase rates more than required and later
7 reduce rates through an RSP adjustment.

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9 Please also see Hydro's response to TIR-PUB-NLH-009.