

1 Q. Given the recent volatility in the price of oil, please explain why Hydro proposes
2 that the RSP adjustment be suspended until July 1, 2016. Provide an explanation of
3 the issues that should be considered if the July 1, 2015 RSP adjustment is not
4 suspended and/or if an RSP adjustment is implemented when rates are finalized
5 with the conclusion of the general rate application.
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8 A. The 2015 Interim Rates Application is proposing there be no RSP rate adjustment
9 for 2015. This is appropriate from a customer perspective and from the
10 perspective of smooth operation of the RSP while interim 2015 Test Year values
11 are in effect. The RSP rules will effectively require the 2016 fuel price forecast,
12 that will be filed in October 2015, to be reflected through a fuel rider in the final
13 customer rates that become effective as a result of the GRA.¹
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15 Section D of the RSP rules for Newfoundland Power (NP) and Island Industrial
16 Customers (IC) states:

17 *“When new test year base rates come into effect, if a fuel rider*
18 *forecast (either March or September) is more current than the test*
19 *year fuel forecast, a fuel rider will be implemented at the same*
20 *time as the change in base rates reflecting the more current fuel*
21 *forecast and the new test year values”*
22

23 Board approval of interim base rates would require a rate change in March or
24 April, 2015. If the NP RSP rate change is not suspended for 2015, an additional

¹ The GRA hearing is scheduled to start in September 2015. As a result, new final 2015 Test Year rates will not be approved until later in the fall. In October 2015, Hydro is required to provide an Island Industrial Customer fuel price projection for the period January to December, 2016 to estimate a change from the test year fuel cost reflected in base rates. The fuel price forecast is based upon a September forecast.

1 rate change will occur in July. As stated above, the RSP rules will require a
2 revised fuel price forecast to be reflected in the final customer rates to be
3 approved later in the fall. If the NP RSP July 2015 update is not suspended, there
4 is currently the potential for three Hydro changes to NP rates in 2015.

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6 The current RSP recovery adjustment effective July 1, 2014 of (0.551)¢ per kWh
7 provides forecast reduced billings for 2015 of \$32 million.² This credit is scheduled
8 to expire on July 1, 2015. However, approval of the proposed disposition of the
9 balance in the RSP segregated load variation balance effective December 31, 2014
10 would result in a credit of approximately \$33 million to the NP RSP current balance.
11 An additional credit balance transfer of \$33 million effective year-end 2014 would
12 permit the existing RSP recovery adjustment to continue until the end of June 2016
13 without resulting in a large RSP balance owing from customers.

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15 The implementation of new base rates on an interim basis requires a modification
16 to the values used in the operation of the RSP for the period while the interim rates
17 are in effect. If the July 1, 2015 NP RSP rate adjustment proceeds, then the July 1,
18 2015 rate change will be based upon balances resulting from the operation of the
19 RSP using the 2015 Test Year forecast. The RSP values and balances for 2015 will be
20 updated upon approval of final customer rates at the conclusion of the GRA.
21 Suspension of the July 2015 NP RSP rate adjustment avoids modifying customer
22 rates based upon interim balances based upon the 2015 Test Year. Suspension of
23 the July rate adjustment permits the RSP to operate on interim rates without any
24 impact on customer rates until final rates are approved.

² See Table 4.15 on page 4.50 of the evidence in Hydro's Amended Application.