

August 7, 2015

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL
A1A 5B2

ATTENTION: Ms. Cheryl Blundon
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: An Application by Newfoundland and Labrador Hydro for the approval of a proposed cost deferral account to reduce Hydro's forecast net income deficiency for 2015 until the Board tests 2015 Test Year costs – Submission

Please find enclosed the original and twelve (12) copies of Hydro's Submission in relation to the above-noted matter.

In its 2015 Interim Rates Application, Hydro requested that the proposed customer rates be approved on an interim basis effective March 1, 2015, in advance of completing its General Rate Application ("GRA"). This approach would reduce the amount of 2015 costs deferred for future recovery from customers. Hydro also proposed revised Rate Stabilization Plan ("RSP") Rules to become effective on an interim basis effective March 1, 2015, to permit the continued phase-in of the Island Industrial Customer ("IIC") rates.

In Order No. P.U. 14(2015) (the 2015 Interim Rates Order), the Board directed Hydro to file a revised Schedule of Rates, Tolls and Charges and RSP Rules to become effective July 1, 2015. The Board approved interim customer rates which became effective July 1, 2015 in Order Nos. P.U. 17(2015) and P.U. 21(2015). On July 23, 2015, Hydro filed an application seeking an Order approving the creation of a cost deferral account in the amount of \$20 million to reduce Hydro's forecast net income deficiency for 2015 until the Board has had the opportunity to fully test Hydro's 2015 Test Year costs (the "2015 Cost Deferral Application"). Please accept the following submission as Hydro's Reply to the submissions of Newfoundland Power, the Consumer Advocate, and the IIC with regard to the Application.

1.0 Application Background

The Amended Application, filed on November 10, 2014, is based on a 2015 Test Year for the purpose of setting new base rates for customers to become effective in 2015. Based on existing rates, Hydro would achieve a return on rate base of 3.33% in 2015. The Amended Application proposed to implement interim IIC rates and start the next stage of the IIC rate phase-in beginning January 1, 2015. The Amended Application also proposed to implement proposed rates for Newfoundland Power Inc. ("NP") and retail customers on an interim basis effective February 1, 2015 with the financial impact of delayed implementation set aside in a deferral account for future recovery. Hydro's proposals for the early implementation of interim rates in 2015 intended to minimize the amount of 2015 costs to be recovered from customers in future years.

In a letter to Hydro, dated December 24, 2014, the Board advised that it was unable to make a determination with respect to the proposed revised interim IIC rates prior to January 1, 2015. The Board directed Hydro to file a comprehensive and complete application setting out proposals for interim rates for NP and IIC to be effective March 1, 2015, and setting out the implications of these proposals for Hydro Rural Customers. Hydro filed its 2015 Interim Rates Application on January 28, 2015.

Hydro's 2015 Interim Rates Application stated that delayed implementation to March 1, 2015 would provide a net income deficiency of approximately \$20 million in 2015. The evidence also stated that a further delay to a July 1, 2015 implementation date may result in a forecast net loss for 2015. The 2015 Interim Rates Order approved rate increases to become effective July 1, 2015.

2.0 Forecast Financial Impacts of 2015 Interim Rates Order

The evidence to the Revised Interim Rates Application filed June 5, 2015 in compliance with Board Order No. P.U. 14(2015) (provided in Tab B of Schedule 2 to the 2015 Cost Deferral Application) shows that the approval of interim rates effective July 1, 2015 provides additional \$26 million in forecasted revenue for 2015. However, even with this additional revenue approved for 2015, there remains a forecast 2015 net income deficiency of \$41.8 million based upon the updated 2015 Test Year which reflects a forecast net loss of approximately \$8.6 million in 2015. The forecast net income deficiency for 2015 of \$41.8 million results from the delayed rate implementation in 2015.

The Board's approval of interim rates in 2015 provides Hydro with the opportunity to recover approximately 38% of the forecast 2015 net income deficiency based upon existing rates (\$26 million additional revenue divided by \$67.8 million). The implementation of interim rates effective July 1, 2015 does not provide Hydro a reasonable opportunity to earn a fair return in 2015. As noted in Hydro's reply submission to its 2015 Interim Rates Application dated February 25, 2015, and attached as Tab E of Schedule 1 to this Application, a higher proportion of cost recovery is common in regulatory decisions on interim rates in Alberta and Manitoba, with recovery in the range of 60 to 70%.

Approval of the 2015 Cost Deferral Application would provide a forecast net income of \$11.4 million based on the 2015 Test Year. This amount is \$21.8 million less than the proposed 2015 Test Year net income of \$33.2 million. However, Board approval of Hydro's 2015 Cost Deferral Application would provide approximately 68% reduction in Hydro's forecast net income deficiency for 2015.

3.0 Intervenor Submissions

In its written submission on this matter, the Consumer Advocate and Vale have indicated that they do not object to the creation of the cost deferral account on the condition that this agreement does not represent an endorsement of any amounts to be recovered except those approved by the Board during Hydro's GRA. Newfoundland Power submits that Hydro's application is premature given that Hydro's GRA is scheduled to commence on September 9, 2015. The IIC Group indicated that they are satisfied to have the Board make its decision based on the submissions made to date.

4.0 Hydro's Position

Hydro submits that the 2015 Cost Deferral Application provides the Board the opportunity to reduce Hydro's forecast 2015 net income deficiency on an interim basis to a recovery level more consistent with regulatory practice in dealing with interim rates applications in other Canadian jurisdictions. Further, Hydro submits that customers will not be disadvantaged by approval of the 2015 Cost Deferral Application as the Board's final GRA order will determine the costs to be recovered from customers.

Hydro submits that it is appropriate for the Board to approve the creation of the proposed deferral account and set aside the issue of recovery of tested 2015 costs upon conclusion of Hydro's GRA. This would be consistent with the approach taken by the Board in Order No. P.U. 58(2014).

5.0 Relief Sought

In summary, Hydro requests that the Board approve the creation of the proposed 2015 Net Income Deficiency Deferral Account provided in Schedule 3 to the 2015 Cost Deferral Application to reduce Hydro's 2015 forecast net income deficiency, which has resulted from delayed implementation of the rates proposed in its 2013 GRA.

Please contact the undersigned should you have any questions.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Tracey L. Pennell
Legal Counsel

TLC/bs

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Thomas J. O'Reilly, Q.C. – Cox & Palmer
Dennis Browne, Q.C. – Browne Fitzgerald Morgan & Avis

Thomas Johnson, QC – Consumer Advocate
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