

October 8, 2014

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:

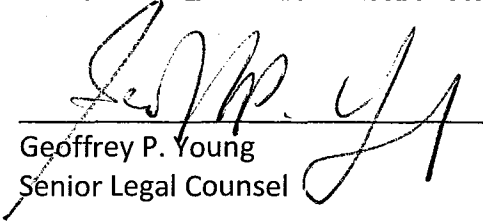
Re: An Application by Newfoundland and Labrador Hydro for the approval of the deferral and recovery of expenses associated with the increased capacity-related supply costs on the Island Interconnected System in 2014.

Please find enclosed the original and twelve (12) copies of the an Application seeking an Order approving the deferral and recovery of \$9,650,000 in additional 2014 capacity-related supply costs that were incurred in the first quarter of 2014. Also enclosed are supporting affidavit, evidence and draft order.

Please contact the undersigned should you have any questions.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Geoffrey P. Young
Senior Legal Counsel

GPY/jc

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Sheryl Nisenbaum – Praxair Canada Inc.

Thomas Johnson – Consumer Advocate
Thomas O'Reilly, QC – Cox & Palmer

IN THE MATTER OF the *Electrical Power Control Act, 1994*, RSNL 1994, Chapter E-5.1 (the *EPCA*) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the *Act*) and regulations thereunder;

AND IN THE MATTER OF an Application by Newfoundland and Labrador Hydro, pursuant to Sections 78 and 80 of the *Act*, for approval of the deferral and recovery of expenses associated with the increased capacity-related supply costs on the Island Interconnected System in 2014 (the Application).

TO: The Board of Commissioners of Public Utilities (the Board)

THE APPLICATION OF NEWFOUNDLAND AND LABRADOR HYDRO (Hydro) STATES

THAT:

Background

1. Hydro is a corporation continued and existing under the *Hydro Corporation Act, 2007*, is a public utility within the meaning of the *Act*, and is subject to the provisions of the *Electrical Power Control Act, 1994*.
2. Section 80(1) of the *Act* states that: "A public utility is entitled to earn annually a just and reasonable return as determined by the board on the rate base as fixed and determined by the board..." and Section 80(2) of the *Act* states: "The return shall be in addition to those expenses that the board may allow as reasonable and prudent and properly chargeable to operating account..."

3. Section 3(1)(a) of the *EPCA* declares it to be the policy of the province that “the rates to be charged, either generally or under specific contracts, for the supply of power within the province... (iii) should provide sufficient revenue to the producer or retailer of the power to enable it to earn a just and reasonable return as construed under the *Public Utilities Act* so that it is able to achieve and maintain a sound credit rating in the financial markets of the world...”
4. Managing system capacity constraints for the period January to March required Hydro to incur a \$9,650,000 increase in capacity-related supply costs during the first quarter of 2014.
5. These additional supply costs have a material impact on Hydro’s ability to earn a reasonable return in 2014 because the costs are not included in the Test Year forecast used to determine existing rates and the current regulatory mechanism in place to deal with supply cost variances primarily deals with recovery of Holyrood No. 6 fuel cost variances.
6. The Evidence shows that Hydro incurred \$9,650,000 in additional capacity-related supply costs in the first quarter of 2014 to minimize the impact of the system capacity constraints on service to customers.

7. The additional capacity-related supply costs resulted from (a) the short-term purchase arrangement established with Corner Brook Pulp and Paper to provide the necessary capacity to support the Island Interconnected System from January to March 2014, and (b) the requirement to use additional diesel and gas turbine generation, plus the costs incurred for requesting that Newfoundland Power run its thermal generation to meet Hydro's system load requirements, during the January to March 2014 period.
8. In this Application, Hydro seeks an Order approving the deferral and recovery of \$9,650,000 in additional 2014 capacity-related supply costs that were prudently incurred by Hydro in the first quarter of 2014.

Reason for Approval

9. In Board Order No. P.U. 31(2008), the Board stated:

"Generally Accepted Accounting Principles (GAAP) would require that these operating costs be recognized as expenses in the fiscal year in which they are incurred unless an alternative treatment is approved by the Board. The Board has in the past acknowledged that it is appropriate in certain circumstances to defer certain major extraordinary repairs. The Board has accepted that it is appropriate to consider whether an expense is an extraordinary repair cost if it meets the minimum threshold of \$500,000 and would cause a rate shock or a shock in Hydro's earnings that is considered unreasonably high. This approach was accepted by the Board based on a Peat Marwick report completed for Hydro in July of 1991, "Accounting for Major Plant Replacement and Repairs".

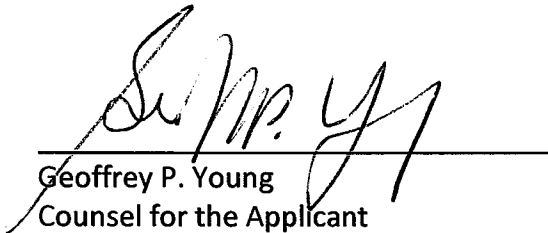
Based on this accepted approach the Board will, in appropriate circumstances, allow the deferral of costs incurred in relation to a Major Extraordinary Repair. This determination depends on the

circumstances and will not necessarily be made in every case of a non-capital repair costing more than \$500,000. The Board notes that the Holyrood Thermal Generating Station is an aging plant and as such more of these types of unexpected repairs may be seen in the future. The Board does not believe that it is appropriate to routinely consider each non-capital expense which is greater than \$500,000 as a Major Extraordinary repair to be deferred. Each case has to be brought to the Board for consideration based on the circumstances.”

10. While the capacity-related supply costs incurred by Hydro in the first quarter of 2014 did not result in the replacement of major components, the additional capacity-related supply costs materially exceeded \$500,000. Further, the capacity-related supply costs of \$9,650,000 would “cause a rate shock or a shock in Hydro’s earnings that is considered unreasonably high” were they to be expensed in the year in which they were incurred.
11. The Evidence shows that Hydro is forecasting a net loss in 2014 assuming the Board approves the Application.
12. The Evidence also shows that regulatory mechanisms that permit recovery of energy supply costs by utilities are common in Canadian regulatory practice.
13. Newfoundland Power is permitted recovery of fuel costs incurred when it operates its thermal generation in accordance with the approved Rate Stabilization Clause in its Schedule of Rates, Rules and Regulations.

14. Hydro submits that the unanticipated capacity-related supply costs incurred in 2014 of \$9,650,000 were necessary to provide reasonably safe and adequate and just and reasonable service to its customers, as required by Section 37 of the Act. Although these costs were incurred outside the existing regulatory framework for recovery of fuel costs as provided for in either Hydro's existing rates or the RSP, Hydro was required to incur these extraordinary and unexpected costs to limit customer outages during 2014.
15. Therefore, Hydro is proposing that the additional capacity-related supply costs of \$9,650,000 incurred in the first quarter 2014 be treated as an extraordinary expense in accordance with the approved policy and that the expenses be deferred for recovery over a period of five years beginning in 2015.

DATED AT St. John's in the Province of Newfoundland and Labrador this 8th day of October, 2014.


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IN THE MATTER OF the *Electrical Power Control Act*, R.S.N.L. 1994, Chapter E-5.1 (the *EPCA*) and the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47 (the *Act*) and regulations thereunder;

AND IN THE MATTER OF an Application by Newfoundland and Labrador Hydro, pursuant to Sections 78 and 80 of the *Act*, for approval of the deferral and recovery of expenses associated with the increased capacity-related supply costs on the Island Interconnected System in 2014 (the Application).

AFFIDAVIT

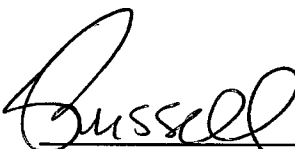
I, Carla L. Russell, Certified Accountant, of St. John's in the Province of Newfoundland and Labrador, make oath and say as follows:

1. I am General Manager Finance, Newfoundland and Labrador Hydro, the Applicant named in the attached Application.
2. I have read and understand the foregoing Application.
3. I have personal knowledge of the facts contained therein, except where otherwise indicated, and they are true to the best of my knowledge, information and belief.

SWORN at St. John's in the)
Province of Newfoundland and)
Labrador, this 8th day of October)
2014, before me:)



Barrister – Newfoundland and Labrador



Carla L. Russell, CA

EVIDENCE
APPLICATION FOR DEFERRAL AND RECOVERY OF
2014 CAPACITY-RELATED SUPPLY COSTS

NEWFOUNDLAND AND LABRADOR HYDRO

October 2014



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1 **1.0 BACKGROUND**

2 To minimize impact of the system capacity constraints on service to customers this past
3 winter, Newfoundland and Labrador Hydro's (Hydro) negotiated a capacity assistance
4 agreement with Corner Brook Pulp and Paper (CBPP). The high customer loads also required
5 Hydro to utilize for extended periods its combustion turbines, diesel generation and request
6 Newfoundland Power to operate its thermal generation.

7

8 Managing the system capacity constraints for the period January to March required Hydro
9 to incur a material increase in supply costs during the first quarter of 2014. These additional
10 supply costs have a material impact on Hydro's ability to earn a reasonable return in 2014
11 because (1) the costs are not included in the test year forecast used to determine existing
12 rates; and (2) the current regulatory mechanism in place to deal with supply cost variances
13 does not provide recovery of the additional supply costs incurred.¹

14

15 Due to the material nature of the supply costs variances combined with the fact that the
16 costs were incurred to provide service to customers in dealing with extraordinary
17 circumstances, Hydro is proposing the Board approve the deferral and recovery of these
18 costs from customers.

¹ The Rate Stabilization Plan (RSP) primarily deals with recovery of cost variances related to No. 6 fuel costs at Holyrood.

1 **2.0 2014 CAPACITY-RELATED SUPPLY COSTS**

2 **2.1 Overview**

3 During the first quarter of 2014, Hydro incurred material increases in fuel and purchased
4 power supply costs to deal with capacity constraints (Capacity-Related Supply Costs) on the
5 Island Interconnected System. Table 1 provides a summary of the additional Capacity-
6 Related Supply Costs for the first quarter of 2014.

Table 1
Capacity-Related Supply Cost Variances – First Quarter 2014
(\$000s)

	January	February	March	Total
Purchases – CBPP	5,680	103	343	6,126
Generation – Gas Turbines and Diesels	2,235	2,074	1,224	5,533 ²
Holyrood Fuel Savings	(1,309)	(343)	(357)	(2,009) ³
Total	6,606	1,834	1,210	9,650

7 Table 1 shows that Hydro incurred approximately \$10 million in additional Capacity-Related
8 Supply Costs in the first quarter of 2014. These additional costs were not included in the
9 2007 Test Year assumptions that were used to determine Hydro’s existing rates and are not
10 subject to RSP recovery.

11

12 **2.2 CBPP Capacity Assistance Purchase Costs**

13 In late December 2013, Hydro determined that there may be difficulty supplying the
14 required customer demand based on the available generation capacity, weather and short-

² Note \$545,000 of this amount relates to additional costs that were incurred as a result of requesting that Newfoundland Power run its thermal generation to meet capacity requirements.

³ The fuel cost savings were updated to \$2,009,000 from the \$1,703,000 provided in the Second Interim Application filed in May 2014. The change was due to a revision in the kWh production at Hardwoods to reflect the correction of a metering problem.

1 term daily customer load forecasts. This concern led to the pursuit of a specific short-term
2 interruptible arrangement with CBPP that would be available for the winter of 2014.⁴

3
4 Hydro was able to negotiate a short-term interruptible arrangement with CBPP to access
5 capacity up to 60 MW to use in providing service to customers. The arrangement, which
6 was initially finalized on December 31, 2013 and was later extended through to March 31
7 2014, allowed Hydro to call on progressively increasing blocks of capacity from CBPP's 60 Hz
8 generation (20 MW, 40 MW and 60 MW). These blocks were made available in four-hour
9 periods through load curtailment at the CBPP mill.

10
11 CBPP was requested to provide up to 60 MW of capacity through load curtailment at the
12 CBPP mill to support the Island Interconnected System for 148 hours during the period
13 January to March, 2014.⁵ The vast majority of the requests occurred in early January 2014.
14 The ability to obtain capacity from CBPP was critical to system integrity and materially
15 reduced the requirement for customer outages to deal with capacity constraints.⁶

16
17 In the first quarter of 2014, Hydro was required to call on the capacity assistance agreement
18 with CBPP for varying blocks of capacity on eight separate days: January 1, 2, 4, 6, 8, and 10,
19 February 4, and March 5. A detailed breakdown of the total costs of \$6,126,000 based on
20 the capacity assistance provided is provided in Appendix A to this evidence.⁷

21
22 Table 2 provides the hours of capacity requests and the energy provided by month.

⁴ In response to PUB-NLH-002 in the Island Interconnected System Supply Issues and Power Outages process, Hydro provided a detailed explanation of the circumstances which led to the short-term interruptible arrangement with CBPP.

⁵ Hydro also called upon CBPP for capacity assistance for eight hours in December 2013.

⁶ Hydro provided an explanation of the interruptible arrangements with CBPP in response to PUB-NLH-048 in the Island Interconnected System Supply Issues and Power Outages process.

⁷ The \$6,126,000 excludes the costs incurred in December 2013.

Table 2
CBPP Capacity Assistance –
First Quarter 2014

	Hours	kWh
January	136	7,211,674
February	4	91,148
March	8	403,429
Total⁸	148	7,706,251

1 The high number of requests demonstrates the value of the CBPP capacity assistance
2 agreement to customers during the past winter. These costs were prudently incurred to
3 maintain system integrity and reduce the requirement for customer outages to deal with
4 capacity constraints.

5

6 **2.3 Capacity-Related Fuel Costs**

7 The high customer loads relative to available system capacity on the Island Interconnected
8 system during January to March 2014 also required Hydro for extended periods to utilize its
9 combustion turbines, diesel generation and request Newfoundland Power to operate its
10 thermal generation.

11

12 The requirement to use additional diesel and gas turbine generation also materially
13 contributed to the additional Capacity-Related Supply Cost increases in the first quarter.
14 Historically Hydro's test year forecast has not included fuel costs for diesel generation and
15 gas turbines to operate for extended periods. The test year forecast has included only the
16 fuel costs for testing the units to ensure unit availability.

17

18 A combination of factors in the January to March period, including the de-rating of
19 Holyrood Unit 3, required Hydro to rely on increased gas turbine and diesel generation for
20 extended periods resulting in increased fuel costs that were not reflected in existing
21 customer rates and not eligible for cost recovery through the RSP.

⁸ As shown in Appendix A, Hydro also called on CBPP for capacity assistance for eight hours in December 2013.

1 Mechanisms that permit recovery of energy supply costs by utilities are common in
2 Canadian regulatory practice.⁹ Newfoundland Power is permitted to recover its fuel costs
3 resulting from operating its thermal generation to serve its customers through its Rate
4 Stabilization Account.¹⁰ When Hydro requests Newfoundland Power to run thermal
5 generation, Hydro reimburses Newfoundland Power for the incremental fuel cost. However,
6 there is currently no avenue for Hydro to recover these costs from customers.

7

8 Hydro incurred \$5,533,000 additional fuel cost relative to forecast in the first quarter of
9 2014 for the operation on the Island Interconnected System of Hydro's diesels, gas turbines
10 and Newfoundland Power thermal generation.¹¹

11

12 **2.4 Holyrood Fuel Cost Savings**

13 From a budgeting perspective, the additional energy purchased from CBPP and the
14 additional energy provided by diesel and gas turbine generation would have been forecast
15 to be provided by Holyrood.¹² Therefore, because Hydro purchased energy from CBPP and
16 generated energy using diesel and gas turbine generation, Hydro had reduced generating
17 costs at Holyrood of approximately \$2 million.

⁹ Source: Report on Supply Cost Mechanisms filed by Newfoundland Power in 2013/2014 General Rate Application.

¹⁰ See Section II, 1(ii) of the Rate Stabilization Clause on page 15 of Newfoundland Power's Schedule of Rates, Rules and Regulations.

¹¹ As noted in Table 1 above, approximately \$545,000 of this amount relates to additional costs that were incurred as a result of requesting that Newfoundland Power run its thermal generation at times of capacity constraint.

¹² Hydro budgets for all energy production at Holyrood based upon the 2007 Test Year fuel price. Any price variance is addressed through the operation of the RSP.

1 Table 3 provides the derivation of the estimated fuel savings.

Table 3
2014 Estimated Holyrood Fuel Savings

		January	February	March	Total
A	CBPP (kWh)	7,211,674	91,148	403,429	7,706,251
B	Hydro Diesels and Gas Turbines (kWh)	4,354,250	3,345,793	2,893,462	10,593,505 ¹³
C	NP Thermal (kWh)	2,356,952	323,655	574,558	3,255,165
D=A+B+C	Total (kWh)	13,922,876	3,760,596	3,871,449	21,554,921
E	Holyrood Fuel Efficiency (kWh/bbl) ¹⁴	576	600	602	-
F=D/E	Barrels	24,172	6,268	6,431	-
G	Test Year Price/bbl	\$54.17	\$54.73	\$55.46	-
H=F x G	No. 6 Fuel Savings	\$1,309,379	\$343,029	\$356,662	\$2,009,070

2 Hydro has deducted these fuel savings from its cost recovery proposal.

3

4 **2.5 Rate Stabilization Plan**

5 Hydro’s RSP primarily serves to provide recovery of Holyrood fuel cost variations from the
6 test year forecast.

7

8 The RSP regulatory mechanism does not provide for recovery of the Capacity-Related
9 Supply Cost variances incurred by Hydro in the first quarter. In its July 30, 2013 GRA filing,
10 Hydro proposed that an “Energy Supply” provision be created such that any increase or
11 decrease in test year energy supply for the Island Interconnected System be stabilized at a
12 value calculated as the difference between the test year cost of that supply and the test
13 year No. 6 fuel cost of supply.¹⁵ Since this amendment to the terms of the RSP has not yet
14 been considered, Hydro requires specific approval from the Board to recover the additional
15 Capacity-Related Supply Costs that were incurred to serve Hydro’s customers in the first
16 quarter of 2014.

¹³ The 10,593,505 kWh is thermal generation in excess of the 690,000 kWh diesel and gas turbine generation reflected in the 2007 Test Year.

¹⁴ The derivation of fuel savings was computed based upon the actual Holyrood fuel efficiency achieved in each month times the test year monthly price reflected in Hydro’s budget.

¹⁵ Hydro 2013 GRA Evidence, page 4.17, lines 21-24.

1 **3.0 2014 FINANCIAL FORECAST**

2 In its May 12, 2014 evidence, filed in support of the Second Interim Rates Application,
3 Hydro indicated that the GRA forecast net income under existing rates for all of 2014 was
4 estimated to be \$3.8 million.¹⁶ Hydro’s forecast expenses for 2014 have increased
5 materially since the forecast filed in the GRA was prepared, such that Hydro now faces a
6 substantial net loss in 2014, even if it receives approval of the current Application for
7 recovery of the additional Capacity-Related Supply Costs in 2014.¹⁷

8
9 In 2014 Hydro is also incurring additional costs associated with the Island Interconnected
10 System Supply Issues and Power Outages Investigation that is currently ongoing. These
11 incremental costs include external consulting and legal costs for the outage inquiry and
12 incremental non-capital operations and maintenance costs required in 2014 and 2015
13 which are not currently incorporated in Hydro’s existing rates. Hydro will be providing and
14 a proposal with respect to recovery of these additional costs as part of the amended GRA
15 filing that will be provided to the Board this fall.

16
17 Hydro’s updated 2014 financial forecast, included in Appendix B, reflects actual 2014
18 revenues and expenses up to end of May and the most current projections for the
19 remainder of the year. This forecasted statement of income and rate of return on rate base
20 reflects the Board’s denial of Hydro’s interim rate relief for 2014.

21
22 The 2014 forecast shows a net loss of \$15.9 million. The forecast financial statements
23 assume the requested recovery of the 2014 Capacity-Related Supply Costs is approved by
24 the Board. If the additional 2014 Capacity-Related Supply Costs are not approved for

¹⁶ Appendix A to that evidence provided 2014 forecast income statements under the existing and proposed rates based upon the forecast 2014 revenues and costs filed in the GRA.

¹⁷ On September 17, 2014, the Board issued Order No. P.U. 39(2014), denying Hydro’s May 12, 2014 application and its request for \$29.4 million in interim relief.

- 1 recovery, then Hydro's forecast net loss will increase by \$9.7 million for a total forecast
- 2 2014 net loss of approximately \$26 million.

1 **4.0 EXTRAORDINARY EXPENSE**

2 The Board’s past regulatory treatment of Major Extraordinary Repairs is similar to the
3 current situation. In Order Nos. P.U. 2(2005) and P.U. 44(2006), the Board approved the
4 amortization, over a five-year period, of the actual non-capital expenses associated with (1)
5 an asbestos abatement plan; and (2) the Unit 2 boiler repair required at Holyrood, on the
6 basis that the costs would cause a significant shock to Hydro’s earnings if they were to
7 simply be recognized in the year they were incurred. For example, in Order No. P.U. 44
8 (2006), the Board stated as follows:

9 “...The Board has accepted that an expense may be considered an
10 extraordinary repair if it meets the minimum threshold of \$500,000 and
11 would cause a rate shock or a shock in Hydro’s earnings that is considered
12 unreasonably high. The Board is satisfied having reviewed the record that
13 expensing the cost of these repairs in 2006 would have a significant
14 negative impact on Hydro’s earnings. The costs if expensed would almost
15 double Hydro’s forecast loss for 2006. The Board finds that, in the current
16 circumstances, these costs would cause a significant shock to Hydro’s
17 earnings if they were to be recognized in 2006 and should be deferred
18 over a period of time.”¹⁸

19
20 The repairs in that case, together with interest, were estimated to be \$2,666,000, and
21 deferred recovery was approved on the basis that, absent recovery, the costs would almost
22 double Hydro’s forecast loss in 2006. Based on the information provided above, Hydro’s
23 financial situation is expected to be even worse in 2014 than the forecast in 2006 and the
24 magnitude of the increased fuel and purchased power supply costs noted above is much
25 greater than the costs for the Unit 2 boiler repair.

26
27 The additional Capacity-Related Supply Costs are not “repairs” in relation to the physical
28 condition and operation of the utility’s plants. However, they are non-capital expenses that
29 are extraordinary in nature as they are not costs that are included in either Hydro’s test
30 year forecast or recoverable through the RSP. In extraordinary circumstances, such as those

¹⁸ Order No. P.U. 44(2006), pages 3-4.

1 that occurred in the winter of 2014 with respect to its ability to meet its system load, it is
2 appropriate for Hydro to be provided the opportunity to recover, on a deferred basis, the
3 necessary costs incurred to provide service to its customers.

4

5 In the current circumstances, denying approval of the proposed deferred recovery of \$9.7
6 million in additional Capacity-Related Supply Costs would cause a significant shock to
7 Hydro's 2014 earnings. Therefore, it is appropriate that the costs be deferred and recovered
8 over a period of time. The use of a five-year recovery period is consistent with the deferral
9 periods and treatment of the unamortized portion of the Major Extraordinary Repair
10 expenses that were previously approved in Order Nos. P.U. 2(2005) and P.U. 44(2006). This
11 length of time also serves to balance the interests of the utility and its customers in terms of
12 the deferred recovery for costs of this magnitude.

1 **5.0 SUMMARY**

2 The evidence demonstrates that Hydro incurred increased costs of \$9,650,000 on account
3 of Capacity-Related Supply Costs in the first quarter of 2014 to minimize customer impacts
4 of capacity constraints. These additional costs were not recovered through revenue from
5 existing rates or by recovery through the RSP.

6

7 Failure to provide deferred recovery of these costs would cause a significant shock to
8 Hydro's financial position if they were to be expensed in 2014 with no recovery from
9 customers. Hydro's proposal is to defer recognition of these costs in 2014 and permit
10 recovery from customers over a five-year period beginning in 2015.

Appendix A

Breakdown of Costs for Capacity Assistance – Winter 2014

**Corner Brook Pulp and Paper Limited
Capacity Assistance - Winter 2013/2014**

Dec-13					
Starting Time	Capacity	No. 4 Hour	Per Unit Block		Period Costs
	Delivered (MW)		Blocks	Costs	
12/29/2013 17:08	20	1	\$	40,000	\$ 40,000
12/30/2013 16:35	20	1	\$	40,000	\$ 40,000
				Subtotal	\$ 80,000
				Standby Fee	\$ -
				Monthly Total	\$ 80,000

Jan-14					
Starting Time	Capacity	No. 4 Hour	Per Unit Block		Period Costs
	Delivered (MW)		Blocks	Costs	
1/1/2014 16:11	20	2	\$	40,000	\$ 80,000
1/2/2014 6:45	60	10	\$	180,000	\$ 1,800,000
1/4/2014 7:55	60	15	\$	180,000	\$ 2,700,000
1/6/2014 20:00	40	1	\$	100,000	\$ 100,000
1/8/2014 7:00	60	3	\$	180,000	\$ 540,000
1/8/2014 19:40	40	1	\$	100,000	\$ 100,000
1/10/2014 5:39	60	1	\$	180,000	\$ 180,000
1/10/2014 19:00	60	1	\$	180,000	\$ 180,000
				Subtotal	\$ 5,680,000
				Standby Fee	\$ -
				Monthly Total	\$ 5,680,000

Feb-14					
Starting Time	Capacity	No. 4 Hour	Per Unit Block		Period Costs
	Delivered (MW)		Blocks	Costs	
2/4/2014 8:10	20	1	\$	40,000	\$ 40,000
				Subtotal	\$ 40,000
				Standby Fee	\$ 63,000
				Monthly Total	\$ 103,000

Mar-14					
Starting Time	Capacity	No. 4 Hour	Per Unit Block		Period Costs
	Delivered (MW)		Blocks	Costs	
3/5/2014 5:30	60	1	\$	180,000	\$ 180,000
3/5/2014 9:30	40	1	\$	100,000	\$ 100,000
				Subtotal	\$ 280,000
				Standby Fee	\$ 63,000
				Monthly Total	\$ 343,000

Appendix B

2014 Financial Forecast

Newfoundland and Labrador Hydro
2014 Financial Forecast
Statement of Income and Retained Earnings
(\$000s)

Appendix B
Page 1 of 4

	<u>Forecast</u>
	<u>December, 31 2014</u>
1 Revenue	
2 Energy sales	514,599
3 Other revenue	2,335
4 Total revenue	<u>516,934</u>
5	
6 Expenses	
7 Operating expenses	126,068
8 Other Income	2,068
9 Fuels	192,173
10 Power purchases	66,776
11 Amortization	55,214
12 Accretion of asset retirement obligation	852
13 Interest	89,703
14 Total expenses	<u>532,854</u>
15	
16 Net loss	<u>(15,920)</u>
17	
18 Retained earnings	
19 Balance at beginning of year	231,383
20 Balance at end of year	<u>215,463</u>

Newfoundland and Labrador Hydro
2014 Financial Forecast
Balance Sheet
(\$000s)

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	Forecast
	December, 31 2014
1 Assets	
2 Current assets	
3 Accounts receivable	74,201
4 Current portion of regulatory assets	5,193
5 Inventory	126,297
6 Prepaid expenses	3,342
7	209,033
8	
9 Property, plant, and equipment	1,673,188
10 Sinking funds	220,536
11 Regulatory assets	72,939
12	
13 Total assets	2,175,696
14	
15 Liabilities and shareholder equity	
16 Current liabilities	
17 Promissory notes	162,082
18 Accounts payable and accrued liabilities	67,713
19 Accrued interest	27,468
20 Current portion of long-term debt	8,150
21 Current portion of regulatory liabilities	190,250
22 Due to related parties	413
23 Promissory notes - non-regulated	(8,187)
24	447,889
25	
26 Long-term debt	1,243,892
27 Regulatory liabilities	46,376
28 Asset retirement obligations	24,792
29 Employee future benefits	66,213
30 Contributed capital	100,000
31 Shareholder's equity / retained earnings	215,463
32 Accumulated other comprehensive income	31,071
33	
34 Total liabilities and shareholder's equity	2,175,696

Newfoundland and Labrador Hydro
2014 Financial Forecast
Statement of Cash Flows
(\$000s)

Appendix B
Page 3 of 4

	Forecast
	December, 31 2014
1 Cash provided by (used in)	
2 Operating activities	
3 Net loss	(15,920)
4 Adjusted for items not involving cash flow	
5 Amortization	55,214
6 Accretion of long-term debt	514
7 Accretion of asset retirement obligation	852
8 Employee future benefits	4,660
9 Loss on disposal of property, plant and equipment	2,691
10	48,011
11 Changes in non-cash balances	
12 Accounts receivable	11,182
13 Inventory	(62,323)
14 Prepaid expenses	(600)
15 Regulatory assets	(13,858)
16 Regulatory liabilities	(17,639)
17 Accounts payable and accrued liabilities	917
18 Accrued interest	(1,199)
19 Due to related parties	(318)
20	(35,827)
21 Financing activities	
22 Increase in long-term debt	200,000
23 Decrease in deferred capital contribution	(702)
24 Sinking Fund Retirement	72,219
25 Long-term debt repayment	(72,158)
26 Increase in promissory notes	121,082
27	320,441
28 Investing activities	
29 Additions to property, plant and equipment	(268,023)
30 Settlement of asset retirement obligation	(154)
31 Increase in sinking funds	(23,163)
32	(291,340)
33	
34 Decrease in cash	(6,726)
35	
36 Cash position, beginning of year	6,726
37	
38 Cash position, end of year	-

Newfoundland and Labrador Hydro
2014 Financial Forecast
Rate of Return on Rate Base
(\$000s)

Appendix B
Page 4 of 4

	Forecast
	December, 31 2014
1 Property, plant, and equipment	1,673,188
2 add: accumulated depreciation	193,532
3 add: contributions in aid of construction	16,550
4 less: work in progress	(42,950)
5 Capital assets in service	1,840,320
6 less: asset retirement obligation	(14,442)
7 less: contributions in aid of construction	(16,550)
8 less: accumulated depreciation	(193,532)
9 Capital assets - current year	1,615,796
10 Capital assets - previous year	1,432,533
11 Unadjusted capital assets - average	1,524,165
12 less: Average net assets not in use	(2,941)
13 Capital assets - average	1,521,224
14	
15 Cash working capital allowance	9,396
16 Fuel	66,406
17 Materials and supplies	25,823
18 Deferred charges	71,203
19	
20 Average rate base	1,694,052
21	
22 Unadjusted return on regulated equity	(15,920)
23 add: Cost of service exclusions	336
24 Net interest	89,703
25 Return on rate base	74,119
26	
27 Rate of return on rate base	4.38%

(DRAFT ORDER)
NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD

NO. P.U. __ (2014)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, R.S.N.L. 1994, Chapter E-5.1 (the
3 “*EPCA*”) and the *Public Utilities Act*, R.S.N.L. 1990,
4 Chapter P-47 (the “*Act*”), and regulations thereunder;

5
6 **AND**

7
8 **IN THE MATTER OF** an Application
9 by Newfoundland and Labrador Hydro,
10 pursuant to Sections 78 and 80 of the *Act*,
11 for approval of the deferral and recovery of
12 expenses associated with the increased
13 capacity-related supply costs on the Island
14 Interconnected System in 2014 (the “*Application*”).

15
16
17 **WHEREAS** Newfoundland and Labrador (“Hydro”) is a corporation continued and
18 existing under the *Hydro Corporation Act, 2007*, is a public utility within the meaning of
19 the *Act* and is subject to the provisions of the *EPCA*; and

20
21 **WHEREAS** Section 80(1) of the *Act* states that: “A public utility is entitled to earn
22 annually a just and reasonable return as determined by the board on the rate base as fixed
23 and determined by the board...” and Section 80(2) of the *Act* states: “The return shall be
24 in addition to those expenses that the board may allow as reasonable and prudent and
25 properly chargeable to operating account...”

26
27 **WHEREAS** Section 3(1)(a) of the *EPCA* declares it to be the policy of the province that
28 “the rates to be charged, either generally or under specific contracts, for the supply of
29 power within the province... (iii) should provide sufficient revenue to the producer or
30 retailer of the power to enable it to earn a just and reasonable return as construed under
31 the *Public Utilities Act* so that it is able to achieve and maintain a sound credit rating in
32 the financial markets of the world...”

33
34 **WHEREAS** while managing system capacity constraints for the period January to March
35 Hydro incurred a \$9,650,000 increase in capacity-related supply costs during the first
36 quarter of 2014.

37
38 **WHEREAS** these additional supply costs have a material impact on Hydro’s ability to
39 earn a reasonable return in 2014 because the costs are not included in the Test Year
40 forecast used to determine existing rates and the current regulatory mechanism in place to

1 deal with supply cost variances primarily deals with recovery of Holyrood No. 6 fuel cost
2 variances.

3
4 **WHEREAS** the additional capacity-related supply costs resulted from (a) the short-term
5 purchase arrangement established with Corner Brook Pulp and Paper to provide the
6 necessary capacity to support the Island Interconnected System from January to March
7 2014, and (b) the requirement to use additional diesel and gas turbine generation, plus the
8 costs incurred for requesting that Newfoundland Power run its thermal generation to meet
9 Hydro's system load requirements, during the January to March 2014 period.

10
11 **WHEREAS** the existing regulatory framework does not provide a mechanism for the
12 recovery in rates of Hydro's fuel and capacity costs through the Rate Stabilization Plan or
13 otherwise, however, Hydro was required to incur extraordinary and unexpected capacity-
14 related supply costs in the amount of \$9,650,000 to limit customer outages in 2014 and to
15 provide reasonably safe and adequate and just and reasonable service to customers, as
16 required by Section 37 of the Act.

17
18 **WHEREAS** the additional capacity-related supply costs of \$9,650,000 incurred in 2014
19 would cause a shock to Hydro's earnings that is considered unreasonably high.

20
21 **WHEREAS** it is therefore reasonable to treat the additional capacity-related supply costs
22 as an extraordinary expense for 2014.

23
24
25 **IT IS THEREFORE ORDERED THAT:**

- 26
27 1. The additional capacity-related supply costs of \$9,650,000 incurred in the first
28 quarter 2014 be treated as an extraordinary expense in accordance with the
29 approved policy and that the expenses be deferred for recovery over a period
30 of five years beginning in 2015 is approved.
31
32 2. Hydro shall pay all expenses of the Board arising from this Application.

33
34
35 **DATED** at St. John's, Newfoundland and Labrador, this day of , 2014.

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46 _____