

1 Q. Hydro states in Table 5, page 9 of Exhibit 1 that the projected rate impacts effective
2 October 1, 2019 would be 16.3% for Island Industrial Customers (IC) and 10.7% for island
3 retail customers (16.2% wholesale) without any rate mitigation and 11.2% and 7.6% (10.7%
4 wholesale) respectively if the credit balance in the RSP Hydraulic Variation component is
5 applied to offset the proposed increases. Please explain how Hydro determined the
6 amount of mitigation that should be applied and that the proposed rate increases of 11.2%
7 for IC (further reduced by the Specifically Assigned Account credit balance) and 7.6% for
8 retail customers were appropriate.

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11 A. In determining the appropriate amount of mitigation to apply, Newfoundland and Labrador
12 Hydro ("Hydro") referred to Board Order No. P.U.14(2017) which stated:

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14 *The annual rate impacts for retail customers associated with the operation of*
15 *the RSP have historically been the range of +/-10 %, however, the estimated*
16 *impact in July 2017 is much larger, with an estimated rate increase for retail*
17 *customers in the order of 18-19%. The Board is very concerned about increases*
18 *of this magnitude which are well outside of the normal range. The Board*
19 *acknowledges that the estimated rate increase is a result of the normal*
20 *operation of the RSP that the last two annual RSP adjustments resulted in*
21 *material decreases. However the estimated rate increase for July 2017 is such a*
22 *significant increase that it may be argued that it would cause rate shock, despite*
23 *the earlier rate decreases. In addition such a significant rate increase in one year*
24 *after the two material rate decreases may raise concerns as to whether the RSP*
25 *is appropriately smoothing fuel price variations in the circumstances.*

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27 On the basis that the magnitude of the rate increase should be limited to 10%, if possible,
28 Hydro sought a rate mitigation option which would bring customer rate impacts in line with
29 this range. Hydro allocated the full Rate Stabilization Plan Hydraulic Variation Account
30 balance to both customer classes in accordance with the energy allocation approach
31 approved in the Rate Stabilization Plan Rules to determine the proposed customer rate
32 impacts.