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BY EMAIL AND COURIER

February 16, 2018

Ms. Cheryl Blundon
Director Corporate Services & Board Secretary
Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

email: cblundon@pub.nl.ca

Re: Newfoundland and Labrador Hydro ("NLH") 2018 Industrial Customer Interim Rates Application

Dear Ms. Blundon:

On February 9, 2018, NLH filed an application to set interim industrial rates to take effect on April 1, 2018.

Further to the Board's procedural letter of February 13, last, IOC states its opposition to the NLH 2018 Industrial Customer Interim rates application.

I. Interim Labrador Transmission Rate Application

Pending the determination of final rates in its 2017 General rate application ("**GRA**"), NLH requests the authority to impose an interim Labrador transmission rate from April 1, 2018.

NLH would raise the current Labrador transmission rate of 1.19 $ to 1.40 $/kW-month, an 18% increase[1]. NLH says that "… this Application proposes recovery of 68% of the required Industrial Customer increase relative to Hydro's approved 2015 Test Year base rates."[2] In fact, the propose interim rate of 1.40 $/kW-month is 97% of the originally-proposed rate of 1.44 $/kW-month.[3]

IOC is significantly impacted by this application as it is one of only two customers under the Labrador transmission rate. IOC would face additional costs of 618,156$, the largest single impact on a customer in Newfoundland and Labrador[4]. With a Power on Order of 250,000 kW, IOC currently uses 99.9% of NLH's service under this rate.

NLH justifies its request on the following grounds:

- Without interim rate relief in 2018, NLH would not have the opportunity to earn a just and reasonable return (application §11 and Schedule A – Evidence, p. 1, line 23);

[1] Evidence, p. 3, table 1.
[2] NLH Application cover letter
[3] GRA Volume I, page 5-34 (pdf259/334), line 15
[4] Evidence – Appendix A, p. 7, table A-7.

- Approval of the proposed interim rates in 2018 for Labrador Industrial Customers will:
  - permit partial recovery of the increased cost of servicing industrial customers in 2018 (application §32);
  - reduce the 2018 revenue deficiency (application §33);
  - contribute to customer rate stability (application §33) and mitigate intergenerational equity concerns (Evidence, p. 4, line 4).

II. IOC's opposition

IOC respectfully submits that the evidence does not support the relief sought and that the reasons supporting the application are flawed.

Increased costs to serve Labrador Transmission Customers

The cost increase largely results from a single proposed capital expenditure, the Muskrat to Happy Valley transmission line.

This transmission line has not yet been approved. It has, in fact been rejected by the Board[5]. It is now part of the pending NLH 2018 Capital Budget Application. Objections to this capital project remain, including the lack of long term commitments from customers.

The project has been and will be delayed. The evidence supporting the 2018 Capital Budget Application mentions that some components of the project should be commissioned at the end of 2018 and others at the end of 2019. If only for the time required for the normal regulatory review, the project schedule will slip. Only a few months' delay will not allow NLH to recover the cost of the project in 2018. If the Board allows the addition to the rate base once the project is completed, the rate impact cannot be felt before 2019.

> *"The Muskrat Falls to Happy Valley Interconnect project proposal was submitted as part of Hydro's 2018 Capital Budget Application (CBA), which is currently before the Board. Subject to Board approval, the project will commence in January 2018."* (GRA, IOC-NLH-038, p. 3, line 16, footnote omitted)

Furthermore, there is no causality between the relief and the costs to recover. This line, on the Labrador East system does not serve IOC. It only serves other customers in Labrador, whose rate NLH does not propose to increase on an interim basis.

Revenue deficiency & just and reasonable return

According to the evidence in the present 2018 Industrial Customer Interim Rates Application as well as in the 2017 GRA, it is IOC's position that NLH does not face a revenue deficiency. NLH's calculation includes the Muskrat Falls – Happy Valley line in rate base. It "adjusts" the value only by $3.9 million to reflect a change in the forecast cost, when in fact it should remove the entire project cost of $23.9 million from 2018 rate base. A recalculation of the 2018 interim revenue deficiency shows that on an interim basis there is no revenue deficiency for the Labrador Industrial Rate:

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[5] Order P.U. 43 (2017), pp. 11-13.

Newfoundland and Labrador Hydro

2018 Interim Rate Application - Adjusted Revenue Requirement ($000)

	Description		per NLH[6]	per IOC
1	Circuit breaker project (2017)	(a)	($3 172)	($3 172)
2	MF-HVY project (2018)	(b)	($3 917)	($23 895)
3	Rate base reduction	(c) = (a) + (b / 2)	($5 131)	($15 120)
4	Depreciation reduction	(d) = (c) / 40	($128)	($378)
5	Return reduction	(e) = (c) * 5.73%[7]	($294)	($866)
6	Total cost reduction	(f) = (d) + (e)	($422)	($1 244)
7	Labrador industrial allocation	(g)	60%	60%
8	**Rev. requirement adjustment**	(h) = (f) * (g)	**($253)**	**($747)**
9	2018 revenue requirement	(j)	$5 672	$4 247
10	Adjusted rev. requirement	(k) = (j) + (h)	$5 419	$3 500
11	Current revenue	(l)	$4 739	$3 503
12	Increase needed	(m) = (k) - (l)	$679	($2)
13	Recovery percentage	(n)	68%	68%
14	**Increase proposed**	(p) = (m) * (n)	**$462**	**($2)**

It is an undisputed fact that NLH over forecasted its Labrador transmission capital expenditures for 2018.

> *"Due to the materiality of the reduction in the capital expenditure requirements on the Labrador Interconnected System (LIS) as a result of the reduced expenditures in 2017 on the circuit breakers provided in response to a) and the filing of the revised Muskrat Falls to Happy Valley project in the 2018 CBA noted in part b), Hydro will revise its 2018 and 2019 revenue requirements for the LIS in its compliance filing to reflect the reduced capital expenditure adjustments."* (GRA, IOC-NLH-038, p. 4, line 6)

NLH therefore reduced, in relation to the circuit breakers[8] and MF-HVY transmission line[9], the projected required cost recovery. Those two items were the focus of IOC's questions, but over estimation throughout its capital budget should have been reflected.

Furthermore, IOC does not believe it is appropriate to support an interim rate application with a transmission project that is contested, has been and will be further delayed. Until approval by the Board, the transmission line should be excluded from the rate base and from the calculation of interim rates.

[6] Interim Rate Application, Appendix B, Tables B4, B5 and Schedule A, Table 2
[7] NLH's table mentions a rate of 5.37% but the Evidence and calculation refer and use a rate of 5.73% (Evidence – Appendix B, p. B3, table B-4).
[8] Line 1 in the « Adjusted Revenue Requirement » table, above.
[9] Idem, line 2.

Once the capital expenditures are reduced to sums more certain[10], IOC submits that the Labrador revenue requirement of NLH should be reduced by 1 244 000$[11]. The portion of the said amount attributed to Labrador transmission customers (60% per NLH application and Evidence[12]) is 747 000$[13].

IOC calculates the impact on the revenue requirement differently from NLH. Since the transmission rate (1.19 $/kW-month) approved by the Board excludes the generation costs (0.42 $/kW-month), IOC believes that the impact of the NLH's request can only be ascertained in relation to this rate.[14]

NLH revenues from transmission in Labrador are 4,247,000$[15]. The NLH figure of 5,672,000$ includes generation revenues from Labrador industrial customers.

Based on the current billing determinants, as proposed by NLH, it would earn 3,500,400$, just short of its adjusted revenue requirement of 3,502,900$[16].

In IOC's opinion, the difference – a mere 2,500$ – is marginal and does not require the Board's intervention. It will certainly allow NLH to earn a just and reasonable return.

<u>Rate stability and intergenerational equity</u>

As is appears from the record in the NLH 2017 GRA, 99.9% of the Labrador transmission service is subscribed by IOC. Since the Labrador Transmission Rate is presently closed to new customers pending the approval of a network addition polity, intergenerational equity simply does not apply in the current circumstances.

Furthermore, large industrial customers do not seek to "pre-pay" utility services. Customers like IOC prefer to employ their capital to the growth of their operations. Their capital provides greater benefit to their employees, shareholders and communities than in the hands of their electricity transmission provider.

As a policy matter, it would be imprudent for the Board to grant the relief sought and inappropriate to grant interim rates on such *de minimis* impacts.

Regards,

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Rio Tinto Aluminium
Counsel to IOC

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[10] An application for interim rates allows little opportunities for ratepayers to test the evidence. The Board must limit the cost recovery to amounts that appears strongly rooted in uncontested evidence.
[11] Idem, line 6.
[12] Idem, line 7.
[13] Idem, line 8.
[14] The generation rate is not regulated and is simply a pass-through of the cost to NLH.
[15] Idem, line 9.
[16] Since IOC has a Power on Order of 250,000 kW, NLH revenues will increase by an amount of more than 70,000$, more than 25 times more the IOC adjusted revenue requirement.