

February 23, 2018

The 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 Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro's 2018 Industrial Customer Interim Rates Application

Following is Newfoundland and Labrador Hydro's ("Hydro") reply to the parties' submissions with regard to Hydro's 2018 Industrial Customer Interim Rates Application.

1.0 2018 Industrial Customer Interim Rates Application Background

On February 9, 2018, Hydro filed an Application for i) 2018 interim base rates for Island Industrial Customers; ii) updated Island Industrial Customers Rate Stabilization Plan ("RSP") riders; and iii) 2018 interim base rates for Labrador Industrial Customers, all effective April 1, 2018.

Hydro's 2018 Industrial Customer Interim Rates Application seeks interim rates for Island and Labrador Industrial Customers which provide Hydro with approximately 70% recovery of Hydro's projected increased costs for the 2018 Test Year for these customer classes.

1.1 Island Industrial Customer Group Comments

On February 20, 2018, the Island Industrial Customer Group submitted its comments with respect to the 2018 Industrial Customer Interim Rates Application. The Island Industrial Customers state that they see a benefit in new interim rates being established, they support updating the Industrial Customer RSP fuel rider, and they consider it appropriate to conclude the RSP mitigation adjustment effective April 1, 2018.

The Island Industrial Customer Group also state that it would be reasonable for Hydro to track, by industrial customer, the difference in specifically assigned charges under both the existing and proposed methodologies and that these funds (approximately \$500,000) should be placed in a deferral account effective April 1, 2018 until further direction is received from the Board of Commissioners of Public Utilities ("Board").

1.2 Iron Ore Company of Canada Comments

The Iron Ore Company of Canada (“IOC”) submitted its comments on Hydro’s 2018 Industrial Customer Interim Rates Application on February 16, 2018. IOC does not support approval of the 2018 Industrial Customer Interim Rates Application and indicates approval would effectively require IOC to “pre-pay” for electricity service.

Further, IOC states that IOC is significantly impacted by the 2018 Industrial Customer Interim Rates Application and the interim rate requested represents 97% of the originally proposed rate. IOC states the interim increase is largely due to the Muskrat Falls to Happy Valley (“MF-HVY”) capital project which IOC believes will be delayed, “has been rejected by the Board”, and will not benefit IOC as the project “is on the Labrador East system and does not serve IOC”. IOC submitted that Hydro should remove the entire project cost from its 2018 Test Year rate base.

2.0 Hydro’s Reply

2.1 Specifically Assigned Charges for Island Industrial Customers

The Island Industrial Customer Group’s submission on specifically assigned charges is aimed to mitigate points of contention that may arise subsequent to the Board’s ruling on the specifically assigned charge methodology.¹ Hydro acknowledges that the intention of the deferral account proposal presented by the Island Industrial customers is reasonable. However, Hydro has concerns with the proposed approach.

Hydro submits that placing funds in a deferral account as suggested by the Island Industrial Customer Group is not necessary. The Island Industrial Customer Group’s rates have been interim since January 1, 2018, in accordance with Order No. P.U. 44(2017). As stated by the Newfoundland and Labrador Court of Appeal in the *RSP Appeal*, paragraph 61 (tab 2) of its decision:

[61] The power of the Board to authorize interim rates is granted in s. 75 of the PUB Act. That section allows the board to set rates expeditiously without full evidence and submissions, such rates being subject to review and possible modification in the final order of the Board, as is expressly provided for in subsections 75(2) and (3). Depending on the nature of the final order of the board it may have a retroactive or retrospective effect.
[Emphasis added]

Hydro submits that should a modified approach to determining specifically assigned charges be approved by the Board at the conclusion of the 2017 GRA, the Board would also have the authority to modify the interim specifically assigned charges that had previously been in effect in 2018. As such, Hydro submits that a new deferral account is not necessary.

¹ See lines 39-41, page 2 of Island Industrial customers submission.

As an alternative, Hydro proposes that in its 2017 GRA Compliance filing, subsequent to the 2017 GRA Order, the 2018 revenue deficiency (or sufficiency) for the Island Industrial Customer Group be calculated separately for common costs and specifically assigned costs. Hydro would then be able to recover from (or refund to) each Island Industrial Customer an amount so that their specifically assigned charges for 2018 equal that approved for each customer in the final 2018 Test Year Cost of Service Study. The 2018 common costs revenue deficiency for the Island Industrial Customer class would then be recovered from the entire class based on the 2018 Test Year approved demand and energy billing determinants.

Hydro's proposed approach would also permit Hydro to recognize all interim base rate billings as revenue in its 2018 financial results. The approach suggested by the Island Industrial Customer Group would require Hydro to record a portion of its interim base rate billings on its balance sheet, thereby reducing the 2018 cost recovery from that proposed in its 2018 Industrial Customer Interim Rates Application (i.e., from 68% to 48%).

2.2 IOC Rate Impacts

In their comments, IOC states that raising the Labrador Transmission rate to \$1.40 per kW is an increase of 18%. While the percent change in the transmission demand rate is approximately 18%,² Hydro notes the regulated billing impact on Labrador Industrial Customers, including the generation demand cost recovery, is 13%.³ Further, Hydro notes that regulated costs account for only 12% of IOC's total forecast 2018 billings. The remaining 88% is related to non-regulated energy charges. In order to fairly compare the billing impact of the proposed interim Labrador Industrial rate increase with the billing impact of Island Industrial Customers, both demand and energy charges must be taken into account. On this basis, Hydro's proposed 2018 interim rate increase represents an increase of approximately 1.4% for Labrador Industrial Customers. Hydro submits that such a rate increase is reasonable and comparable with the 1.2% increase sought from Island Industrial Customers.

IOC also states that Hydro's 2018 Industrial Customer Interim Rates Application seeks interim rates which represent 97% of the originally proposed rate in the 2017 GRA. Hydro notes that the proposed 2018 interim rates for Labrador Industrial Transmission customers in its 2017 GRA filing were designed to recover 70% of the increase in its 2018 cost of service,⁴ hence the similarity in the rates proposed in Hydro's 2018 Industrial Customer Interim Rates Application and the 2017 GRA.

² $(\$1.40 - \$1.19)/\$1.19 = 17.6\%$

³ Schedule A, Appendix A, Page A7.

⁴ 2017 GRA, Chapter 5, Page 5.37, lines 8 and 9 read *"The proposed interim rate provides recovery of 70% of the additional transmission revenue requirement for the 2018 Test Year from the Labrador Industrial Transmission class."*