

DELIVERED BY HAND

May 7, 2018

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

Attention: G. Cheryl Blundon  
Director of Corporate Services  
and Board Secretary

Ladies and Gentlemen:

**Re: Newfoundland and Labrador Hydro (“Hydro”) – 2018 Utility Customer Interim Rates Application (the “Application”)**

#### **A. Background**

On April 13, 2018, Hydro filed the Application, which proposes (i) revised Rate Stabilization Plan (“RSP”) rules, and adjustments to the wholesale rate charged to Newfoundland Power (the “Utility Rate”) associated with the normal annual operation of Hydro’s RSP, (ii) a revised CDM Cost Recovery Adjustment, and (iii) an increase in the base rate component of the Utility Rate, on an interim basis, to provide for “partial recovery of the increased cost of servicing Newfoundland Power in 2018.” The rate changes proposed in the Application are to take effect on July 1, 2018.

The total impact of the proposed July 1, 2018 rate adjustment on Newfoundland Power’s customers is an estimated rate increase of 7.5%.<sup>1</sup> This compares to Hydro’s August 23, 2017 forecast of 2018 rate changes, not including fuel price impacts, of 14.8%.<sup>2</sup>

By letter dated April 18, 2018, the Board set today as the deadline for comments on the Application. These are Newfoundland Power’s comments.

#### **B. Annual Rate Adjustments**

##### *RSP Adjustments*

Hydro’s RSP provides for, among other things, annual adjustments to the Utility Base Rate to smooth customer rate impacts associated with changes in hydraulic production, customer load and the price of No. 6 fuel consumed at the Holyrood Thermal Generating Station (“Holyrood”). The existing

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<sup>1</sup> Hydro Evidence (revised April 20, 2018), page 11, Table 2, and page 12, Table 3.

<sup>2</sup> Hydro’s letter to the Board dated August 23, 2017, *Re: Board’s Request for Further Information regarding Newfoundland and Labrador Hydro’s 2017 General Rate Application*, page 4, Table 1.

#### **Newfoundland Power Inc.**

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RSP adjustments applicable to the Utility Base Rate were approved by the Board in Order No. P.U. 22 (2017).

The proposed RSP adjustments for 2018, and the associated customer rate impacts, are as follows:

1. A proposed RSP Fuel Rider for 2018 of 0.423 cents/kWh, replacing the existing RSP Fuel Rider of 0.672 cents/kWh, resulting in a 3.5% decrease in the Utility Base Rate and an estimated 2.4% decrease in Newfoundland Power customer rates;
2. A revised RSP Current Plan Adjustment for 2018 of (0.296) cents/kWh, replacing the existing RSP Current Plan Adjustment of (0.132) cents/kWh, resulting in a 2.3% decrease in the Utility Base Rate and an estimated 1.6% decrease in Newfoundland Power customer rates; and
3. Conclusion of the RSP Current Plan Mitigation Adjustment of (0.911) cents/kWh approved in Order No. P.U. 22(2017), resulting in a 12.9% increase in the Utility Base Rate and an estimated 8.7% increase in Newfoundland Power customer rates.

#### *CDM Cost Recovery Adjustment*

In addition to the RSP annual adjustments, the Application proposes a revised CDM Cost Recovery Adjustment of 0.022 cents/kWh, replacing the existing adjustment factor of 0.019 cents/kWh.<sup>3</sup>

#### *RSP Rule Change*

The Application also proposes a change in the test year number of barrels of No. 6 fuel used in the calculation of the RSP Fuel Rider. The proposed change is intended to reflect a forecast reduction in Hydro's consumption of No. 6 fuel due to reduced production at Holyrood resulting from anticipated off-island power purchases during the July 1, 2018 to June 30, 2019 period.<sup>4</sup>

The net impact of the annual rate adjustments proposed in the Application is a 7.1% increase in the Utility Base Rate, and an estimated 4.7% increase in Newfoundland Power customer rates. Without a change in the number of barrels of No. 6 fuel used in the calculation of the RSP Fuel Rider, the RSP rate adjustments for 2018 would result in a 13.2% increase in the Utility Base Rate and an estimated 8.9% increase in Newfoundland Power customer rates.<sup>5</sup>

In Order No. P.U. 11(2008), the Board approved a similar reduction in the 2007 test year number of barrels of No. 6 fuel to be used in calculating the fuel rider to reflect a change in Island Industrial load.

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<sup>3</sup> The CDM Cost Recovery Adjustment was approved by the Board in Order No. P.U. 22 (2017). The CDM Cost Recovery Adjustment provides for recovery of Hydro's conservation and demand management (CDM) program costs, which are not included as an expense in the determination of Hydro's revenue requirement.

<sup>4</sup> Hydro estimates that off-island power purchases in the July 1, 2018 to June 30, 2019 period will reduce No. 6 fuel consumption at Holyrood by 1.3 million barrels.

<sup>5</sup> Hydro Evidence (revised April 20, 2018), page 8, lines 5-8.

#### **Newfoundland Power Inc.**

*Submission*

Newfoundland Power is satisfied that the annual rate adjustments proposed in the Application are in accordance with the approved RSP rules and previous Orders of the Board. Accordingly, Newfoundland Power submits the annual rate adjustments proposed in the Application are reasonable, and should be approved.

In light of the significant forecast reduction in fuel consumption at Holyrood, Newfoundland Power's submits that the proposal to revise the 2015 test year number of barrels for purposes of calculating the fuel rider is reasonable in the circumstances, and should also be approved.

**C. Interim Rates**

*Interim Rates Proposal*

The Application proposes a 4.1% increase in the base rate component of the Utility Rate on an interim basis, effective July 1, 2018. It is proposed that the interim rate increase apply to the first block energy charge, with no change to the demand charge or the second block energy charge. The proposed interim rate increase would result in an estimated 2.8% increase in Newfoundland Power customer rates.

The evidence filed in support of the Application (the "Hydro Evidence") indicates that continuation of 2015 test year base rates for Newfoundland Power in 2018 will result in a material revenue deficiency for Hydro under either the Deferral Account Scenario or the Expected Supply Scenario. In either scenario, the forecast 2018 revenue deficiency would result in a return on rate base for Hydro below the lower end of Hydro's approved range of return on rate base.<sup>6</sup>

The interim rates proposed in the Application are forecast to provide for recovery of approximately 35% of Hydro's forecast 2018 revenue deficiency based on the Expected Supply Scenario, and approximately 26% of the revenue deficiency based on the Deferral Account Scenario.<sup>7</sup>

*The GRA*

Hydro's 2018 and 2019 revenue requirements will be established by an order of the Board at the conclusion of the hearing of Hydro's 2017 GRA (the "GRA"). Based on the currently approved hearing schedule, it is conceivable that final rates arising from the GRA may not take effect before January 1, 2019.

Hydro's 2018 and 2019 proposed test year costs appear high to Newfoundland Power, with operating costs forecast at levels well above inflation. Should the Board's determinations in the GRA result in disallowances of a portion of Hydro's proposed test year revenue requirements, Hydro's 2018

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<sup>6</sup> Hydro Evidence (revised April 20, 2018), page 8, lines 10-16.

<sup>7</sup> Hydro Evidence (revised April 20, 2018), page 10, lines 4-8.

revenue deficiency could be materially lower than forecast. However, the *Public Utilities Act* empowers the Board to “true up” in its final GRA order any excess revenue earned by Hydro as a result of the Board’s approval of interim rates.<sup>8</sup>

### *Rate Impacts*

The Hydro Evidence indicates that, if its interim rates proposal is approved, the 2019 rate impact on Newfoundland Power’s customers, based on the test year revenue requirements proposed in the GRA (the Deferral Account Scenario), is an increase of 9.4%. Without the proposed 2018 interim rate increase, the forecast 2019 rate impact on Newfoundland Power’s customers is 13.0%.<sup>9</sup>

If the interim rates proposal is approved, the 2019 rate impact on Newfoundland Power’s customers under the Expected Supply Scenario would be a rate decrease of 0.5%. Hydro’s Evidence proposes, in that scenario, amortized recovery of \$65.4 million of deferred supply costs over 20 months. The net 2019 rate impact on Newfoundland Power’s customers would be an increase of 4.6%.<sup>10</sup>

### *Submission*

Hydro’s test year costs have not been tested in the GRA. However, the interim rates proposal in the Application provides for recovery of only a portion of the forecast 2018 revenue deficiency. This minimizes the risk of costs which are not clearly appropriate for interim rate recovery being borne prematurely by customers. Further, should the Board’s approval of interim rates result in excess revenue being collected from customers, the Board is empowered to remedy that in its final GRA order.

If interim rates are not approved for July 1, 2018, the forecast January 1, 2019 rate impact on Newfoundland Power’s customers under the Deferral Account Scenario could be well above 10%.

The interim rates proposal in the Application appears to take a measured approach to recovery of Hydro’s forecast 2018 revenue deficiency. In light of the potential 2019 rate impact on Newfoundland Power’s customers if interim rates are not approved, Newfoundland Power submits the proposal is not unreasonable in the circumstances.

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<sup>8</sup> The Board’s authority to approve rates on an interim basis is found in Section 75 of the *Public Utilities Act*. Section 75 of the Act provides that, should the Board subsequently determine that an interim rates order had resulted in the utility receiving revenue from rates in excess of its revenue requirement, the Board may remedy the matter by ordering that the excess revenue be refunded to customers or placed in a reserve account for a purpose approved by the Board.

<sup>9</sup> Hydro Evidence (revised April 20, 2018), page 12, Table 3.

<sup>10</sup> Hydro Evidence (revised April 20, 2018), page 11, Table 2.

**D. Concluding**

The annual rate adjustments proposed in the Application are in accordance with the RSP rules and prior Orders of the Board. In Newfoundland Power's submission, it is appropriate that they be approved.

Newfoundland Power submits that the proposal in the Application for an interim increase in the base rate component of the Utility Rate is not unreasonable in the circumstances.

We trust this is in order.

Yours very truly,



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