

May 5, 2017

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: NLH Amended General Rate Application - Compliance Application - Order No. P.U. 49(2016)
RSP – Fuel Price Projection Update – Board Request

1.0 Background

By letter dated May 2, 2017, the Board of Commissioners of Public Utilities (the Board) requested that Newfoundland and Labrador Hydro (Hydro) provide “...further information on available options to mitigate the expected rate increases arising from the operation of the Newfoundland Power RSP in 2017, as well as the combined rate impacts for Newfoundland Power and retail customers for identified options and new rates arising from the general rate application.”

In addition the Board requested “...an update of estimated outstanding balances and Hydro's plans for disposition, for all deferral accounts and any other recoveries for each customer class, as well as any offsetting credit balances that may be available to offset these liabilities.”

On May 3, 2017 Hydro filed its response to the Board which outlined four options for rate mitigation using a portion of the Segregated Load and Hydraulic Production Variation balances. An update to this response was filed on May 5, 2017.

2.0 Island Industrial Customers Reply

On May 5, 2017 the Island Industrial Customer group replied stating that:

...the IIC Group respectfully submit that it would be premature for them to provide their comments on Hydro's May 3, 2017 Reply, in respect of Hydro's plans for disposition, for all deferral accounts and any other recoveries from the industrial customers, as well as any offsetting credit balances that may be available to offset these liabilities, and that comment on same is appropriately reserved until their submissions are made in the separate process, which submissions are scheduled to be filed on Wednesday, May 10, 2017.

Following is additional information provided by Hydro for the Board's consideration given the reply of the Island Industrial Customers.

3.0 Additional Rate Mitigation Option

Hydro's amended letter of May 5, 2017 provided four options with respect to rate mitigation by using credit balances currently residing in the Rate Stabilization Plan (RSP). Given the Island Industrial Customer's inability to comment on the previously proposed options, there is an additional option to mitigate customer rate impacts which Hydro now wishes to propose to the Board.

Hydro submits that the Board may want to consider eliminating the fuel rider on July 1, 2017 and allow Newfoundland Power's Current Plan to operate normally. This alternative is presented as Option 5 in Table 1. For the purpose of comparison, Options 1 through 4 are show in the table below and remain unchanged from Hydro's previous correspondence.

Table 1
Rate Mitigation Options

Line No	Particulars	Option 1 LV + 25% Hydraulic Balance	Option 2 LV + 50% Hydraulic Balance	Option 3 LV + 75% Hydraulic Balance	Option 4 LV + 100% Hydraulic Balance	Option 5 Elimination of Fuel Rider
1	Normal Current Plan (cents/kWh)	(0.117)	(0.117)	(0.117)	(0.117)	(0.117)
2	Rate Mitigation Adjustment (cents/kWh)	<u>(0.333)</u>	<u>(0.453)</u>	<u>(0.573)</u>	<u>(0.693)</u>	<u>-</u>
3	Revised Current Plan (cents/kWh)	(0.450)	(0.570)	(0.690)	(0.810)	(0.117)
4	Fuel Rider (cents/kWh)	<u>0.672</u>	<u>0.672</u>	<u>0.672</u>	<u>0.672</u>	<u>-</u>
5	Total RSP Rider (cents/kWh)	0.222	0.102	(0.018)	(0.138)	(0.117)
Estimated End Customer Impacts						
6	Normal RSP Operation (%)	18.1%	18.1%	18.1%	18.1%	18.1%
7	Rate Mitigation (%)	-3.5%	-4.8%	-6.1%	-7.4%	-7.1%
8	Revised RSP Operation (%)	14.6%	13.3%	12.0%	10.8%	11.0%

The resulting impact of eliminating the fuel rider is an 11.0% increase to end customers. Hydro notes that this result is very similar to Option 4 as previously presented at 10.8%. Should the fuel price forecast of \$81.40 per barrel¹ materialize, base rates charged to Newfoundland Power's customers would not recover this cost.² However, increased fuel costs would accumulate in the RSP and credit balances in the Segregated Load and Hydraulic Production Variation could be used to offset this under-recovery at a future date.

This approach would also result in a mitigation of the rates charged to Island Industrial Customers. The impact of this proposal is shown in Table 2.

¹ Hydro fuel price projection dated April 21, 2017.

² Base rates from the Amended 2013 General Rate Application include No. 6 fuel cost at \$64.41 per barrel per Order No. P.U. 49(2016).

Table 2
Island Industrial Customer Impact³

Line No	Particulars	Total IICs	Praxair	Vale	CBPP	NARL	Teck
1	Normal Current Plan (cents/kWh)	(0.373)	(0.373)	(0.373)	(0.373)	(0.373)	(0.373)
2	Fuel Rider (cents/kWh)	-	-	-	-	-	-
3	Total RSP Rider (cents/kWh)	(0.373)	(0.373)	(0.373)	(0.373)	(0.373)	(0.373)
Customer Impacts							
4	Normal RSP Operation (%)	16.6%	12.8%	16.4%	30.5%	12.2%	38.0%
5	Rate Mitigation (%)	-12.4%	-13.2%	-12.6%	-10.1%	-12.7%	-12.6%
6	Revised RSP Operation (%)	4.1%	-0.4%	3.8%	20.4%	-0.5%	25.4%

The elimination of the fuel rider would result in varying rate mitigation impacts for Island Industrial Customers, with reductions ranging from 13.2% to 10.1%. Hydro notes that, assuming the allocations as noted in its amended letter of May 5, 2017, the Island Industrial Customers have a forecast balance owing in the RSP, in contrast to Newfoundland Power's credit balance.⁴ As such, should the fuel price forecast of \$81.40 per barrel materialize, any additional fuel costs above the 2015 Test Year price of \$64.41 per barrel would need to be recovered through future rate increases to the Island Industrial Customers.

4.0 Conclusion

Hydro proposed that the Board consider the elimination of the fuel rider on July 1, 2017 in order to mitigate customer rate increases. Hydro is largely indifferent as to which option the Board selects to mitigate customer rates; however, given the Island Industrial Customer's inability to comment on the proposed options and the need for the timely and orderly establishment of July 1, 2017 rates, Hydro submits that the elimination of the fuel rider presents the best option given the current circumstances and time constraints.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO


Geoffrey P. Young
Corporate Secretary & General Counsel

GPY/bs

³ Island Industrial Customer rate impact projections do not include the impact of Order No. P.U. 14(2017).

⁴ Per Table 6 of Hydro's amended letter dated May 5, 2017, Hydro estimates that the Island Industrial Customers would have an outstanding RSP balance of \$0.8 million, after recovery of past revenue deficiencies and supply costs.

Ms. C. Blundon
Public Utilities Board

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cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Thomas J. O'Reilly, Q.C. - Cox & Palmer
Genevieve M. Dawson – Benson Buffett
ecc: Larry Bartlett – larry.bartlett@teck .com

Dennis Browne, Q.C. - Consumer Advocate
Yvonne Jones, MP Labrador
Senwung Luk – Olthuis, Kleer, Townshend LLP