

April 26, 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 – Hydro's Reply to comments of April 25, 2017

1.0 Background

In response to a request by the Board, on April 21, 2017, Newfoundland and Labrador Hydro (Hydro) filed a fuel price projection together with forecast impacts on customer rates to be implemented on July 1, 2017.

The forecast increase in the Utility rate is 27.6%, with the end consumer average bill impact estimated to be 18.6%. Hydro notes that the impact on Newfoundland Power customers is primarily a result of the normal operation of the Rate Stabilization Plan (RSP) with respect to amortization of plan balances and forecasted fuel prices in accordance with approved RSP Rules.

The forecast bill impact on Island Industrial Customers is an average 16.6% increase. Hydro notes that the impact on Island Industrial Customers is primarily a result of the normal operation of the RSP and the discontinuance of payment of the RSP Surplus adjustments. The estimated impact of the July 1 change in Hydro's base rates on Island Industrial Customers is an approximate 0.2% average decrease. However, the impact by customer varies materially primarily due to the approved increases in specifically assigned charges.

2.0 Implementation of Cost-based Rates

Hydro considers approval of the new RSP adjustments including the discontinuance of the RSP Surplus adjustments consistent with establishing rates that reasonably reflect the cost of providing service to customers.

Table 1 provides the change in the RSP adjustments for Newfoundland Power, forecast to be effective July 1, 2017.

Table 1
Newfoundland Power RSP Adjustments

Line No.	Particulars	Units	Existing	New
1	RSP - Current Plan	<i>cents/kWh</i>	(1.213)	(0.117)
2	RSP - Fuel Rider	<i>cents/kWh</i>	<u>(0.023)</u>	<u>0.672</u>
3	Total RSP Rate		(1.236)	0.555

The existing RSP Recovery Adjustment rate of (1.213)¢ per kWh primarily reflects a reimbursement to customers of No. 6 fuel savings reflected in the RSP Current Plan balance at March 31, 2016. The increase in the RSP Recovery Adjustment to near zero in July 2017 effectively reflects a conclusion of this reimbursement.

The proposed fuel rider serves to ensure that customer rates, for the 12 month period beginning in July 2017, recover the forecast cost of No. 6 fuel. The total Utility energy rate including the RSP rate adjustment is approximately 0.6¢ per kWh greater than the GRA base rate; this effectively reflects what is required to recover the 2015 Test Year Cost of Service adjusted for the forecast No. 6 fuel cost for the period July 1, 2017 to June 30, 2018.

Table 2 provides a comparison of the existing and proposed RSP Adjustments to be effective July 1, 2017, for the Island Industrial Customers.

Table 2
RSP Adjustments – Island Industrial Customers

	Existing	Proposed	Change
RSP Recovery Adjustment(¢ per kWh)	-	(0.373)	(0.373)
RSP Fuel Rider(¢ per kWh)	-	0.625	0.625
RSP Surplus Energy (¢ per kWh)	(0.294)	-	0.294
Total Class RSP Energy Adjustments (¢ per kWh)	(0.294)	0.252	0.546
Class RSP Surplus Demand Adjustment (\$/kW)	(1.52)	-	1.52
Teck RSP Adjustment(¢ per kWh)	(1.141)	-	1.141

The total RSP rate after the implementation of new GRA base rates will be 0.252¢ per kWh. This rate is less than the proposed 0.625¢ per kWh fuel rider forecast for implementation July 1, 2017. The credit balance in the Industrial Customer Current Plan at December 31, 2016 reflected in the RSP Recovery Adjustment reduces the total Island Industrial rate (including the RSP) to approximately 0.4¢ per kWh less than the 2015 Test Year Cost of Service adjusted for the forecast No. 6 fuel cost for the period July 1, 2017 to June 30, 2018.

3.0 Newfoundland Power Submission

In its submission, Newfoundland Power recommends using the RSP Load Variation Balance to mitigate the impact of the rate increase.

While the use of the RSP Load Variation balance would reduce the July 1 rate increase by approximately 7.9% to the customers of Newfoundland Power, Hydro submits this proposal creates a number of issues:

- (i) The RSP Recovery Adjustment would remain materially negative (approximately 1.0¢ per kWh) with customer rates recovering less than the cost to serve. This approach would delay the rate increase required for customer rates to provide full cost recovery until July 2018;
- (ii) While there is a credit balance in the RSP Load Variation component owing to customers, the Board approved in Order No. P.U. 56(2016) a deferral of \$38.8 million of Hydro's prudently incurred supply costs for 2015 and 2016. The use of 100% of the RSP Load Variation component balance to reduce the July 1, 2017 rate increase will require a new rate rider be implemented to recover these supply costs;
- (iii) Providing existing customers a reduced rate increase through the use of the RSP Load Variation component balance (which allows existing customers to pay rates less than the cost to serve) and shortly thereafter implementing a rate rider to recover previously incurred supply costs from future customers creates intergenerational equity concerns;¹ and
- (iv) Deferring rate increases to the future related to current costs creates an additional concern when there are other cost drivers that are expected to result in increases in future customer rates. Hydro will be filing a GRA in 2017 reflecting 2018 and 2019 Test Years. Hydro has invested more than \$500 million in capital since its 2015 Test Year, including the construction of TL267 with an estimated capital cost of \$291 million. This additional capital investment will be reflected Hydro's rate base for setting future customer rates prompting a requirement for higher customer rates beginning in 2018.

Hydro submits that the implementation of measures, such as the approach proposed by Newfoundland Power, to reduce the rate increase at this time will result in customers paying rates that recover less than the forecast cost to provide service for the period July 2017 to June 2018. Hydro submits that following such an approach will result in larger rate increases in the future.

¹ For example, Vale's load was relatively low when the deferred energy supply costs were incurred by Hydro in 2015 and 2016. However, the growth in Vale's load in future would contribute to Vale paying a higher proportion of the deferred supply costs to be recovered in the future. The use of fuel costs savings in the RSP load variation component to offset deferred supply costs already incurred is consistent with the principle of intergenerational equity and avoids the impact illustrated by the Vale example.

4.0 Island industrial Customer Submission

The Island Industrial Customers expressed concern that the customer impacts of the rate adjustments do not fully reflect the proposals with respect to the balances in the new supply cost deferral accounts approved by the Board in the GRA Order.

Hydro has not yet received final approval of the wording of the proposed deferral accounts and as a result has not yet filed an application for disposition of the account balances. However, in its GRA Compliance filing, Hydro supported continued segregation of the RSP Load Variation component balance to be available to provide for recovery of the deferred supply costs to limit customer impacts. Hydro's considers this approach consistent with intergenerational equity and will file an application once final approval of the deferral accounts is granted.

5.0 Summary

Hydro recognizes that the projected rate increases for July 1, 2017 are material. However, Hydro notes that retail customers received material rate decreases in both 2015 and 2016 due to annual RSP rate adjustments.

Hydro supports approval of the forecast RSP adjustments that ensure that rates will reasonably reflect the cost to serve existing customers. Deferral of rate increases into the future to recover current costs while allowing existing customers to pay rates that are materially below cost is not consistent with the regulatory principle of intergenerational equity.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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