

April 17, 2017

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 – 2013 General Rate Application – Order No.
P.U. 49(2016) Compliance Application – Second Reply**

Following is Newfoundland and Labrador Hydro's (Hydro) Second Reply with respect to the above noted Application.

1.0 Background

On April 13, 2017, Hydro filed its reply submission in relation to its GRA Compliance Application.

On April 17, 2017, NARL Refining Limited Partnership (NARL) filed additional comments in response to Hydro's reply. This is Hydro's Reply to NARL's additional comments.

2.0 NARL's Additional Comments

NARL's additional comments reiterate their original position, that Hydro's proposed approach to offset the Industrial Customer Class Revenue Deficiency with funds owed to those same customers currently inside the Rate Stabilization Plan (RSP) is "overly simplistic and discriminatory to NARL."¹ NARL submits that they:

...receive[s] no benefit from Hydro's proposal, other than avoiding having to pay for the undercollection of SAC from other Industrial Customers; the contrast with the benefit that would be conferred on all the other ICs by Hydro's proposal – avoid having to pay the GRA-ordered adjusted cost of their own SAC...²

¹ NARL second reply submission dated April 17, 2017, page 2, line 50.

² Ibid., lines 50 through 54.

NARL acknowledges that the RSP credit balances “confer class-wide benefits.”³ NARL appears to suggest that Hydro’s proposal is not just and reasonable and discriminatory.⁴

3.0 Hydro’s Response

Hydro’s position is unchanged based on the additional reply from NARL. As noted in Hydro’s original reply on March 13, 2017:

Hydro submits that NARL is effectively proposing a cost of service approach by individual customer in determining the allocation of revenue deficiency. Hydro does not support this proposed approach and submits that NARL has chosen a single cost component to demonstrate cost differences in an attempt to prove it is being treated unfairly.⁵

In Hydro’s opinion, NARL is suggesting that the revenue deficiency arising from interim rates should be calculated on an individual customer basis while the RSP funds used to offset this same deficiency should remain at the class level. Hydro submits that NARL’s approach is inconsistent with maintaining the RSP credit balance as a “class-wide benefit.”

As noted in Hydro’s April 13 Reply, “most of the load reduction relative to the 2007 Test Year resulted from reduced load requirements to serve the pulp and paper industry.”⁶ Specifically, for the period from 2007 to 2014, more than 90% of the Industrial Customer load reduction relative to the 2007 Test Year can be attributed to reduced load requirements of the pulp and paper industry. Further, more than 90% of the load reduction for 2015 and 2016 is a result of a slower ramp up of operations by Vale than what was contemplated in the 2015 Test Year.

Hydro submits that NARL is effectively suggesting that balances owing (revenue deficiencies) should be calculated on an individual customer basis when other customers owe money, but credit balances that arise from those same customers should be shared among all Island Industrial Customers. Hydro submits that this may not be seen as either just and reasonable or non-discriminatory to the other members of the Island Industrial Customer class.

Further, Hydro submits that the computation of Cost of Service allocations by individual customer, as suggested by NARL, is not consistent with generally accepted sound public utility practice as required by the *Electrical Power Control Act, 1994*.

4.0 Conclusion

Hydro submits that its proposal to use the RSP credit balance to offset the revenue deficiency owing by Island Industrial Customers, on a class basis, is reasonable and is consistent with the historical treatment of the RSP balance as being a class balance.

³ Ibid., line 56.

⁴ Ibid., page 1, lines 16 through 18.

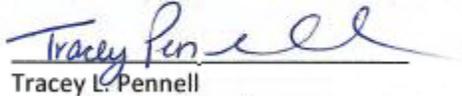
⁵ Hydro reply submission dated April 13, 2017, page 13.

⁶ Ibid.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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