

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P.U. 7(2018)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1
3 (the “*EPCA*”) and the *Public Utilities Act*,
4 RSNL 1990, Chapter P-47 (the “*Act*”), as
5 amended, and regulations thereunder; and
6

7 **IN THE MATTER OF** a general rate
8 application by Newfoundland and Labrador
9 Hydro to establish customer electricity rates
10 for 2018 and 2019; and
11

12 **IN THE MATTER OF** an application by
13 Newfoundland and Labrador Hydro for approval,
14 on an interim basis, of Island Industrial customer
15 rates and Labrador Industrial Transmission rates,
16 effective April 1, 2018.
17
18

19 **Application**
20

21 On February 9, 2018 Newfoundland and Labrador Hydro (“Hydro”) filed an application for
22 approval of proposed interim Island Industrial customer rates and Labrador Industrial
23 Transmission rates to be effective April 1, 2018 (the “Application”). Hydro stated that, further to
24 its ongoing general rate application, without interim relief in 2018 it would not have the
25 opportunity to earn a just and reasonable return during its 2018 fiscal year.¹ As a part of its general
26 rate application Hydro had requested approval of interim rates effective January 1, 2018, but
27 subsequently proposed that the implementation of interim rates be delayed to allow the general
28 rate application to proceed in an efficient manner.²
29

30 The Application requested that the Board approve:

- 31 a) Hydro’s proposed demand and energy rates for the Island Industrial customers as set out
32 in Schedule D of the Application on an interim basis effective April 1, 2018, and
33 specifically:
34 i) a revised Demand rate of \$9.95 per kW per month;
35 ii) the existing Firm Energy rate of 3.971 cents per kWh;

¹ Hydro’s letter, dated February 9, 2018.

² Hydro’s letter, dated October 4, 2017.

- 1 iii) a revised RSP Fuel Rider of (0.024)¢ per kWh;
- 2 iv) a revised RSP Current Plan Adjustment of (0.285)¢ per kWh;
- 3 v) the conclusion of the RSP rate mitigation adjustment rate approved in P.U. 24(2017);
- 4 and
- 5 b) The proposed Labrador Industrial Transmission rate of \$1.40 per kW apply to the existing
- 6 definition of billing demand, as set out in Schedule D of the Application, on an interim
- 7 basis effective April 1, 2018.

8
9 The Application stated that since Hydro's general rate application hearing has been delayed there
10 is uncertainty as to when revised rates will be implemented. The Application submitted that the
11 evidence in the general rate application shows that Hydro has a material revenue deficiency in
12 2018 and if it is not provided rate relief in 2018 its earnings will be below the bottom of the
13 approved range of return on rate base as well as the range proposed in the general rate application.
14 The Application explained that the continuation of 2015 Test Year base rates in 2018 is forecast
15 to result in a revenue deficiency of \$53.3 million relative to the forecast 2018 Test Year revenue
16 requirement. This would result in a 2018 net loss of approximately \$10.7 million and a return on
17 rate base of 3.84%, below the lower end of the range of return on rate base approved in Order No.
18 P.U. 22(2017) of 6.41%. The Application stated that, even considering the projected savings from
19 off-island power purchases in 2018, Hydro's return on rate base would be 4.38%, below the
20 forecast 2018 Test Year rate of return on rate base of 5.73%. The Application submitted that
21 approval of Hydro's proposals would permit partial recovery of the increased cost of servicing
22 industrial customers in 2018, would reduce the 2018 revenue deficiency to be recovered in
23 customer rates in 2019 and 2020, and would contribute to customer rate stability. The Application
24 stated that, if the proposed rates are approved, it would provide a recovery of approximately 68%
25 of the projected increase in 2018 Test Year costs for both the Island Industrial customers and
26 Labrador Industrial Transmission customers.

27
28 For Island Industrial customers the Application proposed an average interim rate increase of 1.2%,
29 with increases for individual customers ranging from 0.6% to 3.0%. The proposed changes
30 include: i) interim base rates; ii) an updated RSP Fuel Rider; and iii) an updated RSP Current Plan
31 Adjustment. The proposed interim base rates reflect an increase in the demand charge, no change
32 in the base firm energy charge and no changes to the specifically assigned charges. The proposed
33 RSP rates reflect the continued operation of the RSP relative to the 2015 Test Year with a new
34 RSP Fuel Rider to reflect the No. 6 fuel price projection for 2018, and a new RSP Current Plan
35 Adjustment calculated in accordance with the RSP rules and the elimination of the RSP rate
36 mitigation adjustment approved in Order No. P.U. 24(2017).

37
38 For the proposed Labrador Industrial Transmission rate the Application stated that the average
39 increase in regulated costs for these customers is 13.0%. The Application proposed an interim rate
40 using the existing rate design and noted that Hydro had adjusted the 2018 Test Year Labrador
41 Transmission revenue requirement downward to reflect material reductions in expenditures
42 associated with two capital projects - the Circuit Breaker project and the Muskrat Falls to Happy
43 Valley-Goose Bay Interconnection project.

44
45 The Application was circulated to Newfoundland Power Inc. ("Newfoundland Power"); the
46 Consumer Advocate, Dennis Browne, Q.C.; a group of Island Industrial customers: Corner Brook

1 Pulp and Paper Limited, NARL Refining Limited Partnership, Vale Newfoundland and Labrador
2 Limited (the “Industrial Customer Group”); Iron Ore Company of Canada (“IOC”), and the
3 communities of Sheshatshiu, Happy Valley-Goose Bay, Wabush, and Labrador City (the
4 “Labrador Interconnected Group”).

5

6 On February 16, 2018 IOC filed comments in relation to the Application.

7

8 On February 20, 2018 the Industrial Customer Group filed comments in relation to the Application.

9

10 On February 23, 2018 Hydro filed a reply submission.

11

12 **Submissions**

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14 *Island Industrial Customer Rate Proposals*

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16 The Industrial Customer Group filed comments in relation to the Application explaining that the
17 group sees benefit in new interim rates being established effective April 1, 2018 to address the
18 update of the RSP Fuel Rider, the conclusion of the RSP mitigation adjustment rate and the
19 proposed change in O&M methodology for specifically assigned charges. The Industrial Customer
20 Group did not object to the proposed interim Demand rate and supported the proposed Industrial
21 Customer RSP Fuel Rider and Current Plan adjustment, including the conclusion of the existing
22 RSP mitigation adjustment, on the basis that a deferral account in relation to specifically assigned
23 charges is implemented. The Industrial Customer Group proposed the implementation of a deferral
24 account, effective April 1, 2018, to track for each customer that portion of current specifically
25 assigned charges paid by a customer that would not be charged to that customer if the new O&M
26 methodology is approved. The Industrial Customer Group stated:

27

28 The IIC Group submit that Hydro’s interim rate proposals, if supplemented with the SAC
29 deferral account proposed above, would likely avoid the need for any further adjustments for
30 island industrial customers for the remainder of 2018, and would promote rate stability and rate
31 predictability.³

32

33 Hydro acknowledged in its reply that the intention of the deferral account proposed by the
34 Industrial Customer Group is reasonable but expressed concerns in relation to the proposed
35 approach. Hydro stated that implementation of the proposed deferral account would require Hydro
36 to record a portion of its interim base rate billings on its balance sheet, thereby reducing the 2018
37 cost recovery from approximately 68% to 48%. According to Hydro the difference in specifically
38 assigned charges under both the existing and proposed methodologies is approximately \$500,000.
39 Hydro submitted that placing funds in a deferral account as suggested by the Industrial Customer
40 Group is not necessary given that Island Industrial customer rates have been interim since January
41 1, 2018 pursuant to Order No. P.U. 44(2017). According to Hydro, should a modified approach to
42 determining specifically assigned charges be approved at the conclusion of Hydro’s general rate
43 application, the Board would have the authority to modify the interim specifically assigned
44 charges. As an alternative Hydro proposed that when it files its compliance filing at the conclusion
45 of the general rate application the 2018 revenue deficiency (or sufficiency) could be calculated

³ Industrial Customer Group Submission, page 2.

1 separately for common costs and specifically assigned costs. Hydro would then be able to recover
 2 from (or refund to) each Island Industrial customer an amount so that their specifically assigned
 3 charges for 2018 equal that approved for each customer in the final 2018 Test Year Cost of Service
 4 Study.

5
 6 *Labrador Industrial Transmission Rate Proposals*
 7

8 IOC opposed the Application pointing out that the proposed increase in the Labrador Industrial
 9 Transmission rate from \$1.19 to \$1.40 per kW would be an 18% increase and that this rate is 97%
 10 of the rate proposed in the general rate application. IOC explained that it would be significantly
 11 affected by this increase as it is one of only two customers subject to this rate and currently uses
 12 99.9% of the service provided under this rate. IOC estimated that it would face additional costs of
 13 \$618,156 if the proposed rate is approved. Further IOC pointed out that since it is responsible for
 14 almost all of the service under this rate and the rate is currently closed to new customers,
 15 intergenerational equity is not an issue. IOC also argued that this project proposes a transmission
 16 line on the Labrador East system which does not serve IOC and the Application does not propose
 17 a rate increase for the customers in that area.

18
 19 IOC noted that the proposed increase largely results from a single proposed capital expenditure -
 20 the Muskrat Falls to Happy Valley-Goose Bay Interconnection project, which is not yet approved
 21 by the Board. IOC suggested that the project has been delayed and only a few months delay would
 22 prevent cost recovery in 2018. IOC submitted that Hydro does not face a revenue deficiency in
 23 2018 as the Muskrat Falls to Happy Valley-Goose Bay Interconnection project should not be
 24 included in its 2018 rate base. IOC does not believe that it is appropriate to support an interim rate
 25 application with a transmission project that is contested and has been delayed. According to IOC
 26 until this project is approved it should be excluded from rate base and from the calculation of
 27 interim rates. IOC argued that, since an application for interim rates allows little opportunity for
 28 ratepayers to test the evidence, cost recovery should be limited to amounts that appear to be
 29 strongly rooted in uncontested evidence. IOC submitted that based on its estimates the 2018
 30 revenue deficiency does not require the Board's intervention as Hydro will have the opportunity
 31 to earn a just and reasonable return without this project. IOC stated:

32
 33 As a policy matter, it would be imprudent for the Board to grant the relief sought and
 34 inappropriate to grant interim rates on such *de minimis* impacts.⁴
 35

36 In its reply Hydro acknowledged that the proposed percentage change in the Labrador Industrial
 37 Transmission demand rate is approximately 18% and that the regulated billing impact on Labrador
 38 Industrial Transmission customers, including the generation demand cost recovery, is 13%.
 39 However Hydro argued that regulated costs account for only 12% of IOC's total forecast 2018
 40 billings, with the remaining 88% relating to non-regulated energy charges, and that to fairly
 41 compare the billing impact both demand and energy charges should be taken into account. On this
 42 basis Hydro calculated that the proposed rates represent an increase of 1.4% for Labrador Industrial
 43 Transmission customers which Hydro argued is reasonable and comparable to the 1.2% increase
 44 sought from Island Industrial customers. Further Hydro reiterated that the proposed rates were

⁴ IOC Submission, page 4.

1 designed to recover 70% of the increase in the 2018 cost of service, similar to its proposals for the
2 Island Industrial customers.

3
4 In relation to the costs associated with the Muskrat Falls to Happy Valley-Goose Bay
5 Interconnection project Hydro explained that this project is necessary in order to meet customer
6 load requirements in the winter of 2018/2019 and that the scheduled in-service date for this project
7 is not at risk and therefore the inclusion of this project in rate base in 2018 and 2019 is appropriate
8 and in accordance with the requirements of the *Act* and the asset rate base method. Hydro submitted
9 that IOC appears to imply that it should not be responsible for revenue requirement arising from
10 transmission investment in Labrador East but according to the Board's findings in Order No. P.U.
11 14(2004) the transmission costs on the Labrador Interconnected system must be treated as common
12 for recovery from all customers on the Labrador Interconnected system.

13 14 **Board Findings**

15
16 As the Board stated in relation to Hydro's application for interim rates during its last general rate
17 application:

18
19 In exercising its discretion in relation to an interim rate application the Board balances the
20 interest of the utility and consumers, considering the provisions of the EPCA which set out that
21 rates should be reasonable and not unjustly discriminatory and should enable a utility to earn a
22 just and reasonable return so that it is able to achieve and maintain a sound credit rating. The
23 Board is directed to apply tests which are consistent with generally accepted sound public utility
24 practice, which would include consideration of principles such as fair return, rate stability, rate
25 shock, predictability, certainty, fair cost apportionment, appropriate price signals and
26 intergenerational equity.⁵

27
28 The Board further clarified that it would consider the rate proposals for each customer class
29 balancing the interest of the utility and consumers so that the rates, to the extent practical in the
30 circumstances, allow the utility the opportunity to earn a fair return and ease rate shock and
31 contribute to rate stability and intergenerational equity.⁶

32
33 The Board acknowledges Hydro's argument that if it is not provided rate relief in 2018 its earnings
34 will be below the bottom of both the existing approved range of return on rate base and the
35 proposed range of return on rate base. Further the Board acknowledges that approval of Hydro's
36 proposals would permit partial recovery of the proposed increased cost of servicing Industrial
37 customers in 2018 and would reduce the 2018 revenue deficiency which may be sought to be
38 recovered in customer rates in 2019 and 2020.

39
40 In relation to the proposed Island Industrial customer rates the Board accepts that Hydro's
41 proposals may promote rate stability and rate predictability. The Industrial Customer Group
42 supported Hydro's proposals with the addition of a deferral account to track, for each customer,
43 that portion of current specifically assigned charges paid by Island Industrial customers that will
44 not be charged to the customer if the new O&M methodology is approved. The Board

⁵ Order No. P.U. 14(2015), page 12.

⁶ *Ibid.*, page 15.

1 acknowledges Hydro's argument that this deferral account is unnecessary on the basis that the
2 Board has the authority at the conclusion of Hydro's general rate application to modify the interim
3 specifically assigned charges. Nevertheless the Board believes that in the interest of certainty the
4 proposed deferral account should be established to ensure that the amounts which are paid by each
5 customer are set aside to be addressed at the conclusion of the general rate application. Given that
6 the affected customers support the proposed rates and in the interests of rate stability and
7 predictability, the Board will approve the proposed interim rates and will require that Hydro
8 establish a deferral account to track for each Island Industrial customer, beginning on April 1,
9 2018, the difference between the approved specifically assigned charges and the amount that
10 would be charged if the O&M methodology for specifically assigned charges proposed in the
11 general rate application is approved.

12
13 In relation to the Labrador Industrial Transmission rate the Board notes that the proposed rate is
14 18% higher than current rates and results in a regulated billing impact of 13%. Further, the financial
15 impact on IOC, the largest customer using this rate, is estimated to be \$618,156. The Board
16 believes that the proposed increase in the Labrador Industrial Transmission rate is so high as to
17 raise concerns in relation to rate shock. While Hydro suggested that the Board consider that
18 regulated costs account for only 12% of IOC's total forecast 2018 billings, the Board does not
19 believe that it is appropriate to include unregulated energy charges in the rate impact analysis. The
20 Board has no oversight of these charges and has no information as to whether these charges have
21 recently changed or will change in the future.

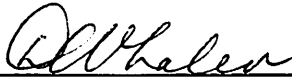
22
23 Further, while Hydro submitted that the proposed rates are supported on the basis that the rates
24 were designed to recover 70% of the increase in the 2018 cost of service similar to the proposals
25 for the Island Industrial customers, the largest driver of the proposed increase in costs is the
26 Muskrat Falls to Happy Valley-Goose Bay Interconnection project. This project has not yet been
27 approved by the Board and has been contentious in both the general rate application and in the
28 capital budget application. If this project does not proceed in 2018 the Board believes that the
29 proposed Labrador Industrial Transmission rate may not be justified based on the costs on the
30 Labrador Interconnected system. The Board also notes that, given that IOC uses 99.9% of the
31 service provided under this rate and there is no opportunity for new customers to avail of this rate
32 without a further Order of the Board, there are no concerns in relation to intergenerational equity.
33 In the circumstances the Board finds that approval of the proposed Labrador Industrial
34 Transmission rate has not been justified.

35
36 In relation to the Industrial Customer Group's claim for an award of costs in this Application, the
37 Board acknowledges the group's argument that their submissions were necessary, and that they
38 reflect their unique and particular interests and were aimed at mitigating points of contention and
39 facilitating the rate-making process. Nevertheless the Board believes that the costs associated with
40 this Application should be assessed at the end of the general rate application process. This approach
41 would assist in the assessment of the issue of costs at the end of the general rate application in that
42 all costs for the matter can be included and assessed in the context of all of the circumstances. The
43 Board notes that IOC did not make a claim for costs and, similar to the Industrial Customer Group,
44 these costs may be included in any claim for costs filed at the end of the general rate application.


IT IS THEREFORE ORDERED THAT:

- 1
- 2
- 3 1. The Island Industrial customer rates to be effective on all electrical consumption on and after
- 4 April 1, 2018, as set out in Schedule A to this Order, are approved on an interim basis.
- 5
- 6 2. Hydro shall establish a deferral account to track for each Island Industrial customer beginning
- 7 on April 1, 2018, the difference between the approved specifically assigned charges and the
- 8 amount that would be charged if the O&M methodology for specifically assigned charges
- 9 proposed in the general rate application is approved.
- 10
- 11 3. The proposed Labrador Industrial Transmission rates are not approved.
- 12
- 13 4. Hydro shall pay all expenses of the Board arising from this Application.


DATED at St. John's, Newfoundland and Labrador, this 14th day of March, 2018.




 Darlene Whalen, P. Eng.
 Vice-Chair



 Dwanda Newman, LL.B.
 Commissioner



 James Oxford
 Commissioner



 Cheryl Blundon
 Board Secretary

NEWFOUNDLAND AND LABRADOR HYDRO
INDUSTRIAL – FIRM (INTERIM)

Availability:

Any person purchasing power, other than a retailer, supplied from the Interconnected Island bulk transmission grid at voltages of 66 kV or greater on the primary side of any transformation equipment directly supplying the person and who has entered into a contract with Hydro for the purchase of firm power and energy.

Base Rate*:

Demand Charge:

The rate for Firm Power, as defined and set out in the Industrial Service Agreements, shall be \$9.95 per kilowatt (kW) per month of billing demand.

Firm Energy Charge:

Base Rate @ 3.971 ¢ per kWh

RSP Adjustment:

RSP Adjustment:

Current Plan @ (0.285) ¢ per kWh

Fuel Rider @ (0.024) ¢ per kWh

Total RSP Adjustment – All kilowatt-hours @ (0.309) ¢ per kWh

CDM Cost Recovery Adjustment @ 0.009 ¢ per kWh

NEWFOUNDLAND AND LABRADOR HYDRO
INDUSTRIAL – FIRM (INTERIM)

Specifically Assigned Charges:

The table below contains the additional annual specifically assigned charges for customer plant in service that is specifically assigned to the Customer.

	Annual Amount
Corner Brook Pulp and Paper Limited	\$ 870,898
North Atlantic Refining Limited	\$ 89,293
Teck Resources Limited	\$ 199,399
Vale	\$ 480,243

***Subject to RSP Adjustments and CDM Cost Recovery Adjustment:**

RSP Adjustments refers to all applicable adjustments arising from the operation of Hydro's Rate Stabilization Plan, which levelizes variations in hydraulic production, fuel cost, load and rural rates.

The CDM Cost Recovery Adjustment is updated annually to provide recovery over a seven year period of costs charged annually to the Conservation and Demand Management (CDM) Cost Deferral Account.

Adjustment for Losses:

If the metering point is on the load side of the transformer, either owned by the customer or specifically assigned to the customer, an adjustment for losses as determined in consultation with the customer prior to January 31 of each year shall be applied.

General:

Details regarding the conditions of Service are outlined in the Industrial Service Agreements. **This rate schedule does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND AND LABRADOR HYDRO
INDUSTRIAL – Non-Firm (INTERIM)

Availability:

Any person purchasing power, other than a retailer, supplied from the Interconnected Island bulk transmission grid at voltages of 66 kV or greater on the primary side of any transformation equipment directly supplying the person and who has entered into a contract with Hydro for the purchase of firm power and energy.

Rate:

Non-Firm Energy Charge (¢ per kWh):

Non-Firm Energy is deemed to be supplied from thermal sources. The following formula shall apply to calculate the Non-Firm Energy rate:

$$\{(A \div B) \times (1 + C) \times (1 \div (1 - D))\} \times 100$$

A = the monthly average cost of fuel per barrel for the energy source in the current month or, in the month the source was last used

B = the conversion factor for the source used (kWh/bbl)

C = the administrative and variable operating and maintenance charge (10%)

D = the average system losses on the Island Interconnected grid for the last five years ending in 2013 (3.47%).

The energy sources and associated conversion factors are:

1. Holyrood, using No. 6 fuel with a conversion factor of 618 kWh/bbl
2. Gas turbines using No. 2 fuel with a conversion factor of 475 kWh/bbl
3. Diesels using No. 2 fuel with a conversion factor of 556 kWh/bbl.

Adjustment for Losses:

If the metering point is on the load side of the transformer, either owned by the customer or specifically assigned to the customer, an adjustment for losses as determined in consultation with the customer prior to January 31 of each year shall be applied.

General:

Details regarding the conditions of Service are outlined in the Industrial Service Agreements. **This rate schedule does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND AND LABRADOR HYDRO
INDUSTRIAL - WHEELING (INTERIM)

Availability:

Any person purchasing power, other than a retailer, supplied from the Interconnected Island bulk transmission grid at voltages of 66 kV or greater on the primary side of any transformation equipment directly supplying the person and who has entered into a contract with Hydro for the purchase of firm power and energy and whose Industrial Service Agreement so provides.

Rate:

Energy Charge:

All kWh (Net of losses)* @ 0.423 ¢ per kWh

*For the purpose of this Rate, losses shall be 3.47%, the average system losses on the Island Interconnected Grid for the last five years ending in 2013.

General:

Details regarding the conditions of Service are outlined in the Industrial Service Agreements.
This rate schedule does not include the Harmonized Sales Tax (HST) which applies to electricity bills.