

December 11, 2014

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 - Amended General Rate Application – Island Industrial Customer Rates, effective January 1, 2015

In its Amended General Rate Application filed on November 10, 2014, Hydro requested, among other things, an Order of the Board approving revised interim Island Industrial Customer rates and RSP rules effective January 1, 2015. On December 4, 2014, the Board filed a letter stating that Hydro is seeking early consideration of these rates and rules changes to allow implementation effective January 1, 2015, so the process for review of the Application must be compressed. The Board's letter indicates that there will be no requests for information or filing of additional evidence, and the Application will be considered based on the evidence filed by Hydro and any submissions that may be filed. In addition to any other areas of interest, the Board asks that submissions address whether Hydro's proposals are consistent with Government direction in OC2013-089. This letter represents the Consumer Advocate's submission in response to the Board's request.

1. **OC2013-089 (as it pertains to IC Rates and amended to incorporate revisions outlined in OC2013-207)**
 - 1) *Effective September 1, 2013, Island Industrial customer rates will no longer be frozen. Effective on this date rate increases for Island Industrial customers will be phased in over a three year period, with funding for this phase-in to be drawn from the January 1, 2007 to August 31, 2013 accumulated Load Variation (the Rate Stabilization Plan Surplus) component of the Rate Stabilization Plan and credited to the Island Industrial customer Rate Stabilization Plan effective August 31, 2013;*
 - 2) *On August 31, 2013 the Island Industrial customer's Rate Stabilization Plan will be credited with \$49 million, the estimated Rate Stabilization Plan amount required to phase-in Industrial Customer rates, based on Newfoundland and Labrador Hydro's General Rate Application. The remaining balance in the Rate Stabilization Plan Surplus on August 31, 2013, will be transferred to the credit of Newfoundland Power's Rate Stabilization Plan. No future adjustments will be made to these amounts credited. Effective September 1, 2013 all Island*

Industrial customers, with the exception of Teck Resources, will be subject to the same standard industrial rate, equivalent to the existing base rate but excluding the Rate Stabilization Plan adjustment currently in place;

- 3) *Teck Resources rate increase will be phased in, to a reasonable degree, in three equal annual percentage increases and at the end of the phase-in period Teck Resources will be subject to the standard industrial rate;*
- 4) *Over the three year Island Industrial rate phase in period, the shortfall in Newfoundland and Labrador Hydro's revenues when compared to revenue at the Board of Commissioners of Public Utilities-approved Island Industrial customer rates, shall be funded from the Island Industrial Customer Rate Stabilization Plan; and*
- 5) *Notwithstanding Items 1) through 4) above, effective January 1, 2014, the Island Industrial customers will be subject to Rate Stabilization Plan rate changes in accordance with the Board of Commissioners of Public Utilities-approved methodology.*

2. Industrial Customer Rates Phase-in Update

- Consistent with OC2013-089, as amended, \$49 million was transferred to the Island Industrial customer Rate Stabilization Plan on August 31, 2013 by Order No. P.U. 26(2013).
- Consistent with OC2013-089, as amended, Phase 1 of the Industrial Customer rate phase-in took place on September 1, 2013 with an adjustment to the RSP rider for Teck Resources and the removal of the RSP adjustment for the other Industrial Customers. The rate impacts were 22.4% increase for Teck Resources and 19.1% average increase for the other Industrial Customers (Amended GRA, page 4.32, lines 8 to11).
- In its Second Interim Rates Application, "Hydro proposed to implement on an interim basis a fuel rider relative to 2007 Test Year fuel costs to move IC rates closer to an average rate that would be more reflective of the cost of providing service. However, the Board rejected Hydro's Application in Order No. P.U. 39(2014), stating there was "uncertainty as to whether the Application proposals are consistent with Government direction" (Amended GRA, page 4.32, lines 1 to 5).
- In the Amended GRA, Hydro states (page 4.33, lines 12 to 18) "The IC RSP Adjustment rate was suspended effective January 1, 2014 in accordance with Board Order P.U. 40(2013) and thus rates were not increased to include the fuel rider to recover the approximate \$50 per barrel increased cost of fuel relative to 2007 Test Year. With no RSP rate recovery in place, there has been a substantial increase in the RSP balance to be recovered from the Island IC primarily resulting from higher fuel costs, increasing from \$0.6 million on December 31, 2013 to a forecast of \$8.3 million on December 31, 2014".

3. Hydro's Proposed IC Rates Phase-in

In the Amended GRA (page 4.32, lines 14 to 20) Hydro proposes to complete the IC rate phase-in by September 1, 2016 using the IC RSP balance to limit rate impacts. Hydro proposes that IC base rates derived in the 2015 cost of service study become effective for all ICs on January 1, 2015 with an offsetting RSP credit adjustment on January 1, 2015 that would be reduced for the period September 1, 2015 to August 31, 2016, and eliminated on September 1, 2016. The RSP Surplus Credit Adjustment effective January 1, 2015 would be set at 85% of each customer's bill increase resulting from the base rate change, meaning 85% of the customer's monthly bill impact resulting from implementation of new base rates would be recovered from the RSP Surplus. On September 1, 2015, the RSP Surplus Credit Adjustment would reduce to 35%, and on September 1, 2016, the RSP Surplus Credit Adjustment would be reduced to zero

(Amended GRA, page 4.33, lines 1 to 6). The forecast balance in the IC RSP Surplus is effectively eliminated by August 31, 2016 (about \$37,000 remaining according to Table 4.9 on page 4.33 of the Amended GRA).

The RSP Adjustment Rate balance on January 1, 2015 is approximately \$8.3 million. This represents an IC rate increase of about 27% independent of the base rate phase-in directed by Government in OC2013-089 (Amended GRA, page 4.33, lines 20 to 22). Owing to the magnitude of the rate increase, Hydro proposes a phase-in mechanism to recover the outstanding amount over a two-year period rather than the usual one-year period. The IC Recovery rate effective January 1, 2015 is currently estimated to be 0.7 cents/kWh, but would be determined based on actual year-end balances filed with the Board in January 2015 (Amended GRA, page 4.34, lines 2 to 9).

Consistent with Government directives, the increases for Teck Resources are set to be implemented equally, but take into consideration customer impacts (Amended GRA, page 4.34, lines 11 to 13).

Customer impacts based on Hydro's proposed rates are shown in Tables 4.10 and 4.11 (Amended GRA, page 4.35), and repeated below.

	IC Billings (excluding Teck) (\$millions)			
	Existing Rates	1-Jan-15	1-Sep-15	1-Sep-16
Base Rates Billing	29.4	41.0	41.0	41.0
RSP Recovery Phase-In	-	4.3	4.3	4.3
Total Revenue and RSP	29.4	45.4	45.4	45.4
RSP Surplus Credit	-	(9.8)	(4.1)	-
Total Billing ¹	29.4	35.5	41.3	45.4
Rate Increase		20.7%	16.3%	9.8%

¹ Calculations are based upon 2015 billing determinants.

	Teck Billings (\$millions)			
	Existing Rates	1-Jan-15	1-Sep-15	1-Sep-16
Base Rates Billing	1.2	1.6	1.6	N/A
RSP Recovery Phase-In	-	0.1	0.1	-
Total Revenue and RSP	1.2	1.8	1.8	N/A
RSP Surplus Credit	-	(0.3)	(0.1)	-
RSP Teck Adjustment	(0.2)	(0.2)	(0.2)	
Total Billing ¹	1.0	1.2	1.4	N/A
Rate Increase ²		20.7%	16.3%	N/A

¹ Calculations are based upon 2015 billing determinants.

² Teck Resources is forecast to close operations in 2015.

Hydro believes that its proposed IC rates are consistent with the Government Directive OC2013-089, as amended (Amended GRA, page 4.35, lines 3 to 5).

4. Hydro's Original Proposal for the IC Rates Phase-in

Hydro's original proposal for bringing Industrial Customer rates up to the full cost of service consistent with OC2013-089, as amended, is outlined in the July 2013 Rate Stabilization Evidence submitted with its Application for Approval of the Rate Stabilization Plan Rules and Components of the Rates Charged to Industrial Customers (submitted to the Board on July 30, 2013). A summary of Hydro's original proposal for the Industrial Customer rate phase-in is provided below.

- Hydro states (page 10, lines 5 to 7): "Based upon the direction provided by the Government, Hydro is proposing that effective September 1, 2015, all IC will be charged the base rates approved by the Board. Additionally, the RSP rates in effect at that time will apply". In other words, Hydro proposed that IC rates be brought up to the full cost of supply (as determined by a Board Order on the 2013 GRA) in three steps beginning September 1, 2013, and ending on September 1, 2015. The second step of the rate phase-in was proposed for September 1, 2014. Consistent with OC2013-089, Hydro proposed that the RSP would start functioning consistent with the Board-approved methodology on January 1, 2014.
- Hydro states (page 10, lines 9 to 11): "The IC RSP surplus will be used to phase in these proposed rates. The difference between Hydro's revenue at these Phase-in rates and the base rates approved by the Board will be the monthly adjustment applied to the IC RSP Surplus". In other words, the phase-in of IC rates was to be funded by the IC RSP surplus.

- Table 3 (page 11) summarizes IC rates under Hydro’s proposal. Table 4 (page 12) shows individual IC rate impacts, and is repeated below:

Industrial Customer Rate Impacts with Phase-In			
Customer	Sept 1, 2013	Sept 1, 2014	Sept 1, 2015
Corner Brook Pulp and Paper	14.7%	18.5%	20.1%
North Atlantic Refining	19.2%	18.5%	10.3%
Teck Resources	29.7%	29.7%	29.7%
Vale	63.6%	18.5%	36.9%
Praxair	25.4%	18.5%	13.3%
Total	22.4%	20.0%	17.8%

5. Differences between Hydro’s Original and Current Proposals for the IC Rates Phase-in

The Consumer Advocate believes that Hydro’s original proposal put forward in its Application for Approval of the Rate Stabilization Plan Rules and Components of the Rates Charged to Industrial Customers and summarized in Section 4 above is consistent with the wording and intent of the Governments Directives (OC2013-089, as amended). The rate impacts are high, but reflect the extremely low starting point brought on by a freeze on Industrial Customer rates following the 2006 GRA where IC rates were not allowed to increase according to the approved RSP rules. The Government Directives eliminated the rate freeze effective September 1, 2013 and requires that IC rates be increased to the full cost of service over a three-year period beginning September 1, 2013.

The primary differences between Hydro’s original proposal and what it proposes now in the Amended GRA follow:

- 1) Hydro is now proposing four steps to phase-in IC rates, rather than three steps as originally proposed, meaning it will take an additional year to bring IC rates up to the full cost of service.
- 2) The second step in the rate phase-in is proposed to commence on January 1, 2015 rather than September 1, 2014 as originally proposed by Hydro.
- 3) The RSP was not allowed to operate as originally proposed by Hydro. As a result, the total shortfall in the IC RSP is now estimated to be \$8.3 million (an additional \$7.7 million shortfall built up in the IC RSP account between January 1, 2014 and December 31, 2014), representing a 27% increase in IC rates. Hydro now proposes that this \$8.3 million shortfall be collected over two years, and that the RSP be allowed to operate according to the Board’s approved methodology on January 1, 2015, rather than January 1, 2014 as originally proposed by Hydro.

In summary, owing to rate freezes, Industrial Customer rates are far below the cost of service, and have been for quite some time now (probably since 2008). OC2013-089, as amended, corrects this inequity by requiring that Industrial Customer rates be brought up to the full cost of service over a three year period beginning September 1, 2013 with funding of the rate phase-in being drawn from the Industrial Customer Rate Stabilization Plan. In its December 4, 2014 letter, the Board requests that in addition to any other areas of interest, submissions should address whether Hydro's proposals are consistent with Government direction in OC2013-089. The Consumer Advocate believes that Hydro's current proposal is reasonably consistent with the wording and intent of the Government Directive while taking into consideration customer rate impacts to the extent possible. The Consumer Advocate recommends that the Board approve the Industrial Customer rate phase-in as proposed by Hydro in the Amended GRA.

Please contact the undersigned if you have any questions.

Yours very truly,

O'DEA, EARLE



THOMAS JOHNSON, Q.C.

TJ/cel

cc: Newfoundland & Labrador Hydro
P.O. Box 12400
500 Columbus Drive
St. John's, NL A1B 4K7
Attention: Geoffrey P. Young, Senior Legal Counsel

Newfoundland Power
P.O. Box 8910
55 Kenmount Road
St. John's, NL A1B 3P6
Attention: Gerard Hayes, Senior Legal Counsel

Vale Newfoundland and Labrador Limited
c/o Cox & Palmer
Suite 1000, Scotia Centre
235 Water Street
St. John's, NL A1C 1B6
Attention: Thomas J. O'Reilly, Q.C.



Corner Brook Pulp & Paper Limited,
c/o Stewart McKelvey
Cabot Place, 100 New Gower Street
P.O. Box 5038
St. John's, NL A1C 5V3
Attention: Paul Coxworthy

Miller & Hearn
PO Box 129
450 Avalon Drive
Labrador City, NL A2V 2K3
Attention: Ed Hearn, Q.C.

Olthuis, Kleer, Townshend LLP
250 University Avenue, 8th Floor
Toronto, ON M5H 3E5
Attention: Senwung Luk

House of Commons
Confederation Building, Room 682
Ottawa, ON K1A 0A6
Attention: Yvonne Jones, MP Labrador/Christian von Donat