

December 12, 2014

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: Newfoundland and Labrador Hydro's Amended General Rate Application – proposed  
Island Industrial Customer rates and Rate Stabilization Plan ("RSP") rule changes  
effective January 1, 2015**

This letter provides comments on the submissions of Newfoundland Power and the Island Industrial Customer (IIC) Group.

#### **Newfoundland Power's Submission**

Newfoundland Power's letter of December 11, 2014 indicated a lack of clarity in which RSP rules are proposed for implementation January 1, 2015 on an interim basis. Newfoundland Power submitted that Hydro should: (i) specify the revisions to the RSP rules which are required prior to January 1, 2015 to permit the phase-in of Industrial Customer rates beginning January 1, 2015; and (ii) provide information with respect to the implications for Newfoundland Power's customers of the proposed interim revisions.

The implementation of new base rates effective January 1, 2015 to Island Industrial Customers requires a modification to the values used in the operation of the RSP for the period while the interim rates are in effect.<sup>1</sup> Hydro's Amended Application proposes to use 2015 Test Year values for the operation of the RSP under interim rates and to update the RSP balances when the final test year values are approved. The proposed approach provides a consistent test year basis for computation of monthly RSP balances.

Hydro is proposing that the RSP rules included in its Amended Application be implemented January 1, 2015. To avoid any implications on Newfoundland Power's customers of the

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<sup>1</sup> The RSP balances are computed based upon variances from test year forecast. Therefore, the use of a single test year is required in computing RSP balances.

interim changes to the RSP rules, Hydro proposes to defer the RSP update scheduled for July 1, if necessary, until final rates and RSP rules are approved.

**Submission of IIC Group**

Hydro recognizes that the proposed rate increases to the Island Industrial Customers are material. Given the increased cost of Holyrood fuel since the 2007 Test Year, it is not possible to implement cost-based rates for the Island IC without a material increase in customer rates. Hydro's recognition of the material customer impacts are reflected in the Amended Application.

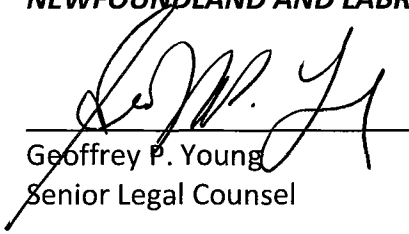
Hydro's Amended Application has proposed to extend the conclusion of the phase-in period to August 31, 2016 from August 31, 2015, as was proposed in its original General Rate Application. Hydro is also proposing an amendment to the recovery period for the forecast 2014 year-end RSP balance from 12 months to 24 months.

Hydro is required to comply with the Government directive on the phase-in of Industrial Customer rates. Hydro's believes its phase-in proposal is reasonable as it balances customer impacts and the requirement to implement rates that recover the cost of providing service.

Please contact the undersigned should you have any questions.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**



Geoffrey P. Young  
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GPY/cp

cc: Gerard Hayes – Newfoundland Power  
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