

1 Q. Reference: Rate Schedule, Section E: RSP Surplus, page 14 of 47

2 Reference: Section 4: Rates and Regulation, Section 4.6 Rate Stabilization Plan,
3 Page 4.16

4 It is understood that prior to Jan 1, 1986 a fuel adjustment charge (FAC) was used
5 instead of the RSP. Please explain how the FAC functioned and comment on
6 whether it stabilized revenue for Hydro or stabilized rates for customers.

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9 A. On June 30, 2006 Hydro filed, with the Board, the report "Review of the Operation
10 of the Rate Stabilization Plan for the Period January 1, 2004 to December 31, 2005"
11 (RSP Report). This report was included as Appendix B in Hydro's RSP and IC Rates
12 filing on July 30, 2013. Page 2 of the RSP Report states as follows:

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14 *Hydro's RSP was first established in 1986 for Newfoundland Power (NP) and*
15 *the Island Industrial customers (IC) to smooth rate impacts for certain*
16 *variations between actual results and test year Cost of Service (COS)*
17 *estimates for: (i) hydraulic production, (ii) No. 6 fuel cost used at Hydro's*
18 *Holyrood generating station, and (iii) customer load (NP and IC). It was*
19 *developed primarily in response to customer complaints of high electricity*
20 *bills in the winter, caused [by] monthly rate adjustments through the fuel*
21 *adjustment clause of Hydro's rate schedule. Through this clause, customers*
22 *were charged monthly variances in fuel costs in the following month. When*
23 *there were large fuel cost increases in the winter, customers' rates could*
24 *increase substantially at the same time they were experiencing high*
25 *consumption. The RSP replaced this clause and also Hydro's water*
26 *equalization provision, used to balance out Hydro's costs for varying*
27 *hydraulic production.*

1 The fuel adjustment clause ensured that Hydro recovered its fuel expense in
2 the following month. Both Hydro's revenue and customers' rates experienced
3 volatility.