

March 14, 2014

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Via Electronic Mail and Courier

Newfoundland and Labrador Board
of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, NL A1A 5B2

**Attention: Ms. G. Cheryl Blundon, Director of Corporate Services
and Board Secretary**

Dear Ms. Blundon:

Re: Amended Application by Newfoundland and Labrador Hydro pursuant to Section 70 and 75 of the Public Utilities Act, for approval of customer electricity rates for 2014 on an interim basis, or in the alternative, for a deferral and recovery mechanism

These are the submissions of the Island Industrial Customers (Corner Brook Pulp and Paper Limited, North Atlantic Refining Limited and Teck Resources Limited) in the above Application, as amended by Hydro's February 11, 2014 filing.

Given the current circumstances facing the Board and the parties, the Island Industrial Customers do not object to the implementation of interim rates for the Island Industrial Customers, largely as proposed by Hydro's amended filing but with three main qualifications as discussed below. The overarching principle followed by the ICs in coming to this determination is that interim rates are intended to primarily address impacts on ratepayers and the flow of rates and cash to the utility prior to final GRA decisions; they are not to address concepts like simple accounting entries or transfers that can equally well be addressed at a later date with appropriate certainty.

It is unfortunate that Hydro's General Rate Application was not filed early enough in 2013 to allow for a reasonable opportunity for new, final base rates to have been established by or near to January 1, 2014 (as can be reasonably inferred from the April 2013 Orders in Council was the original expectation), or at least to allow for interim rates to have been established by or near to January 1, 2014 but only after the GRA evidence had been subjected to reasonable scrutiny (as was the case in the making of the interim rates order prior to conclusion of the 2006 Hydro GRA). However, the Island Industrial Customers have no choice but to acknowledge that the directions given by the 2013 Orders in Council also contemplate that the Island Industrial Customers would be subject to Rate Stabilization Plan rate changes in accordance with the Board-approved methodology, effective January 1, 2014.

Hydro's proposed interim rates, and associated interim RSP rules, seek to reconcile the overall spirit and intent of the Orders in Council with the present reality that GRA-tested outcomes will now be delayed until well into 2014. This approach is more reasonable than simply allowing RSP rate changes to have been implemented in accordance with a RSP methodology approved

by the Board in 2007, as was recognized by the Board in P.U. 40 (2013). As stated by the Island Industrial Customers in their December 2013 submission on this issue, the 2013 Orders in Council do not prescribe the Board-approved RSP methodology to be implemented effective January 1, 2014.

Having said this, the Island Industrial Customers' expressed position on Hydro's proposed interim rates, and associated interim RSP rules, are subject to the following qualifications:

As noted in P.U. 40 (2013), at page 2, line 15-16 Hydro has submitted that interim rates are always risk-free to the rate payer. The principle that interim rates must always be risk-free to the rate payer must be the context within which the Hydro's proposed interim rates, and associated interim RSP rules, are understood, now and in the future when the Board and the parties will have to grapple with changes in the rates and RSP rules through the GRA process.

Per IR-PUB-NLH-047, Hydro has estimated a 1.0% increase for Island Industrial Customers (1.2% for Teck) in their Hydro bills, with effect from January 1, 2014, if Hydro's proposed interim rates, and associated interim RSP rules, are approved by the Board. However, Hydro acknowledges in its response to IR-PUB-NLH-047 that this increase may be offset by allocation of the Segregated Load Variation. This amount is the accumulated load variation in the RSP since August 31, 2013, and represents an amount owing to customers. While the precise rules on which this balance will be allocated to the different classes of customers have not been finalized, Hydro has proposed a method for allocation in the GRA, and it is not apparent why this allocation is not being applied on an interim basis, in the same manner as the other interim GRA approvals being proposed by Hydro. The allocation of the Segregated Load Variation could be addressed, on an interim basis, in the current interim rate application. The outcome of applying this approach is shown at RFI IR-IC-NLH-15, resulting in an RSP adjustment rate of negative 0.88 mills for the industrial customers.

Second, the Island Industrial Customers note that conventionally the purpose of interim rates is to secure an initial implementation of GRA increases, prior to the GRA being completed, in order to begin to secure a GRA-related cash flow for the utility, to avoid a later rate shock for customers, and to do this on a basis that is refundable in the event that the later final approvals, which were presumed at the time the interim rates are implemented, are not granted. The alternative to interim rate is a deferral account approach, which provides the utility with a means to later recover amounts which are ultimately confirmed as being due to the utility, but were not recovered through interim rates. The present application is an unusual hybrid; that is, an "interim deferral account". It is not clear that an "interim deferral account" has necessary regulatory purpose. The interim deferral account concept has no impact on cash flows (as the utility does not change what it is collecting from customers). The account balance is of no certainty (as it is subject to later adjustment) and it is, in effect, only an accounting entry. If these amounts are ultimately approved for recovery to Hydro, then the deferral account can be set up by accounting entry at that time. If they are not, then the interim deferral account, if one were to be established, would have to be retroactively adjusted. As such the proposed interim deferral account is only an uncertain accounting placeholder. A placeholder by definition has no inherent value or meaning in the number shown. In this manner, a placeholder of \$0 (as now exists, by way of the GRA filing, without any further approvals) is of no different inherent meaning than a placeholder as requested by Hydro.

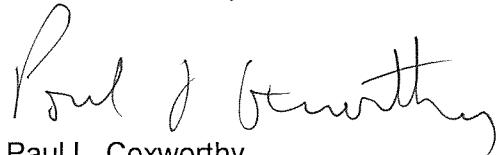
Finally, the Island Industrial Customers' primary interest is to see all outstanding issues resolved in the context of the GRA, in as expeditious a manner possible consistent with due regulatory

scrutiny. To that end, the Island Industrial Customers recommend that the Board avoid making decisions on issues in the context of interim rates, other than those that affect customer rate levels, if it can be reasonably expected that all other issues will be addressed, in a timely manner, by the Hydro GRA. The Island Industrial Customers submit that the objective of timely GRA-tested outcomes would be best served if the Board were to order that the interim rates, and associated interim RSP rules, are to be in effect only until August 31, 2014.

We trust you will find these submissions to be in order.

Yours truly,

Stewart McKelvey



Paul L. Coxworthy

PLC

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- Thomas J. Johnson, Consumer Advocate
- Gerard Hayes, Newfoundland Power
- Dean A. Porter, Poole Althouse
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