

MILLER & HEARN

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March 11, 2014

VIA XPRESSPOST and ELECTRONIC MAIL

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 & Board Secretary

Dear Ms. Blundon:

Re: Submission by the Towns of Labrador City, Wabush, Happy Valley-Goose Bay, North West River (LWHN)
Submission of Deferral and Recovery Mechanism

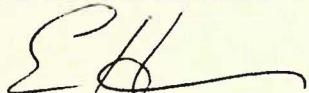
Attached is our submission on behalf of the Towns with respect to Newfoundland and Labrador Hydro's Application for deferral and recovery mechanism for rural customers on Newfoundland and Labrador Hydro's Interconnected System.

We have provided a copy of this correspondence to all concerned parties.

We trust you will find the enclosed satisfactory.

Yours truly,

MILLER & HEARN



Edward M. Hearn, Q.C.
EMH/cc
Enclosure:

March 11, 2014

Newfoundland & Labrador Hydro
P.O. Box 12400
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St. John's, NL A1B 4K7
Attention: Geoffrey Young

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Attention: Thomas Johnson

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Attention: Paul Coxworthy

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229 College Street, 3rd Floor
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Attention: Nancy Kleer

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St. John's, NL A1B 3P6
Attention: Gerard Hayes

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St. John's, NL A1C 1B6
Attention: Thomas O'Reilly, Q.C.

Yvonne Jones, MP Labrador
Ottawa
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Submission of the Towns of Labrador City, Wabush, Happy Valley-Goose Bay and North West River to the PUB regarding NL Hydro's Application for a Deferral and Recovery Mechanism for rural customers on Newfoundland and Labrador Hydro's Interconnected System.

In its February 11, 2014 Amended Application for a deferral and recovery mechanism, Newfoundland and Labrador Hydro requested that the Public Utilities Board approve, among other things, present rates for all classes of Hydro's Rural Customers on an interim basis. Additionally, Hydro requested approval of a deferral and recovery mechanism whereby it would recover any revenue shortfall that would arise from any difference between such interim rates and the final rates that will be approved by the Board in regard to Hydro's 2013 General Rate Application.

As representatives of the Rural Customers on NL Hydro's Labrador Interconnected System, our position is as follows:

- We have no objection to continuing with existing rates, on an interim basis, for these Labrador customers until the PUB has made its decisions with respect to Hydro's 2013 GRA.
- We oppose the implementation of a deferral and recovery mechanism for Hydro's Labrador Interconnected customers.

The reasons for our opposition to a deferral and recovery mechanism for Rural Customers on NL Hydro's Labrador Interconnected System are as follows:

1. Referral and Recovery Mechanism for rural customers on Newfoundland and Labrador Hydro's Interconnected System would be unfair.
2. Such an approach would create uncertainty for customers on the Labrador Interconnected System with respect to their electricity rates.
3. It would not be unduly costly for Newfoundland and Labrador Hydro to forego the deferral and recovery mechanism for customers on the Labrador Interconnected System.

1. Unfairness

In its initial application for Interim Rates (November 18, 2013), NL Hydro requested that the rates proposed in its 2013 GRA be made interim effective January 1, 2014 and continue until the Board had dealt with the GRA. However, NL Hydro specifically asked that its proposed GRA rates for customers on the Labrador Interconnected System not be imposed and that existing rates be continued there until the Board's ruling on the GRA. At the time, NL Hydro did not ask for a deferral and recovery mechanism for the Labrador system in the event that its November proposal for interim rates were to be approved.

When the Board asked about Hydro's exclusion of Labrador Interconnected Customers from the proposed interim rates (IR-PUB-NLH-003), NL Hydro indicated that it had considered the customer impacts. It noted that most other customers would receive a rate decrease but that the Labrador Interconnected Customers were facing large percentage increases in rates. NL Hydro went on to express the view that it felt that the Board would be less inclined to grant such high rate increases prior to a more thorough hearing. Implicit in NL Hydro's reasoning is the sense that imposing substantial percentage increases in rates on an interim basis is unfair or, at least, may be perceived as unfair by regulators. We agree. To be fair to customers, proposals for large increases in rates should be thoroughly assessed before implementation.

However, we argue that the amended (February 2014) application's request that there be a deferral and recovery mechanism, with existing rates as interim, is even more unfair than allowing proposed large increases on an interim basis, when it comes to the Labrador system. In general, consumers will adjust to large increases in rates when they see them on their bills, but delaying possible and large increases, means that customers do not fully know the true cost of their current electricity consumption. They will be compelled to pay for past consumption retroactively. In the case of Labrador, the proposed increases are very large, including a more than 25% increase in the rate for domestic customers. Such large increases should not be implemented before a complete regulatory hearing.

In short, large retroactive increases in rates are inherently unfair.

2. Uncertainty for Customers

In its 2013 GRA NL Hydro has proposed substantial rate increases for its Labrador Interconnected Customers. As shown in Hydro's response to IR-LWHN-NLH-005 Attachment 1, the effect of a deferral and recovery mechanism will be to add to those increases. Given the assumptions the rate increases shown in that Attachment are:

Domestic	27.8%
2.1 General Service	31.1%
2.2 General Service	18.0%

2.3 General Service	18.2%
2.4 General Service	23.5%
4.1 Street Lights	46.6%.

These are substantial increases. However, at this stage, they are proposed rates only. In the GRA hearings we will argue that, when all considerations are taken into account, they are unreasonable and unjustly discriminatory and that the appropriate changes in rates will not result in much change from existing rates. We cannot predict how the Board will rule but the circumstances are such that Labrador Interconnected customers are facing considerable uncertainty with respect to their electricity rates. That makes it extremely difficult for them to make appropriate decisions regarding electricity consumption and conservation. A deferral and recovery mechanism means that will not know the price of electricity until after this cold winter is over. To avoid this uncertainty, it should be confirmed to them that current rates will remain in place without any retroactivity.

3. It would not be Unduly Costly to Forego the Deferral and Recovery Mechanism for customers on the Labrador Interconnected System.

It is clear that had NL Hydro's November 2013 request for interim rates been approved then it would still have maintained existing rates for its Labrador Interconnected customers and not have applied a deferral and recovery mechanism to them (See IR-LWHN-NLH-003 and IR-PUB-NLH-003). Thus, Hydro was prepared for the associated negative, but temporary, impact on its revenue requirement due to maintaining existing Labrador rates until the Board's ruling on Hydro's 2013 GRA.

Additionally, according to its response to IR-NP-NLH-003, the impact of not including the Labrador customers in the November 2013 interim rate proposal would have been over \$4 million. However, the \$4 million figure is for the whole year. Thus, assuming resolution in less time implies a cost of possibly much less than \$4 million. Also, Hydro's response to IR-CA-NLH-003 indicates that the impact of excluding the Labrador customers from the proposed November 2013 interim increases would have had only a modest impact on Hydro's return on rate base.

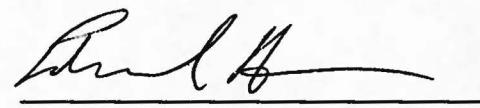
Hydro's response to IR-LWHN-NLH-006, which deals with the impact of not imposing a deferral and recovery mechanism on Labrador customers as proposed in the February amended application, similarly implies only a modest impact on NL Hydro's return on rate base. It puts that figure at 7.3% for 2014. It should be emphasized that this impact would only be temporary, pending the Board's ruling.

Summary

Hydro's 2013 GRA proposed increases in rates for Labrador Interconnected customers that are very substantial. To be fair to customers, such large increases should not be imposed until the Board has heard all the arguments and made its final ruling. It would be unfair to retroactively impose such large increases, which is what a deferral and recovery mechanism does. Compounding this issue is the considerable uncertainty over what the final rates will be, since that is a Board decision. The cost of that uncertainty should be borne by NL Hydro, whose approved rate of return on equity includes an allowance for risk. Finally, if a deferral and recovery mechanism is not implemented for this set of customers, the relative impact on NL Hydro's finances will be modest and temporary.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated: March 11, 2014



Edward M. Hearn, Q.C.