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LAWYERS

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Board of Commissions of Public Utilities
120 Torbay Road, P.O. Box 2140
St. John's, NL A1A 5B2

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

Dear Ms. Blundon:

**RE: Newfoundland and Labrador Hydro – Amended 2013 General Rate
Application – Compliance Application – Order No. P.U. 49 (2016) –
RSP – Fuel Price Projection Update**

The Island Industrial Customer Group (the “IIC Group”) submission of April 25, 2017, and Newfoundland Power’s (“NL Power”) submission of April 26, 2017, and the submission of Newfoundland and Labrador Hydro (“Hydro”) of May 3, 2017, have been reviewed. I have also studied the Order of the Board (P.U. 49 (2016)) (the “Order”) dated May 1, 2017.

In issue is Hydro’s proposal for a rate increase of 18% to 19%. Such a rate increase has no precedent and is unacceptable.

Hydro’s proposed rate increase results from the operation of the Rate Stabilization Plan (the “RSP”). To state that there is some confusion within the operation of that plan would be understatement. In the Order the Board opined that Hydro’s next rate application which is to be filed in July 2017 would provide a reasonable opportunity to fully address the design and operation of the RSP. This will come none too soon.

In reference to Hydro’s proposed rate increase, the Board’s comments in the Order are instructive:

The annual impacts for retail customers associated with the operation of the RSP have historically been in the range of +/- 10%, however, the estimated impact in July 2017 is much larger, with an estimated rate increase for retail customers in the order of 18-19%. The Board is very concerned about increases of this magnitude which are well outside of the normal range. The Board acknowledges that the estimated rate increase is a result of the normal operation of the RSP and the last two annual RSP adjustments resulted in material decreases. However, the estimated rate increase for July 2017 is such a significant increase that it may be argued that it would cause rate shock, despite the earlier rate decreases. In addition such a significant rate increase in one year after the two material rate decreases may raise concerns as to whether the RSP is appropriately smoothing fuel price variations in the circumstances. (Page 16)

The parties seem generally agreeable that the application of the Load Variation Balance could be used as a mitigation option against Hydro's proposed rate increase. It is the shared conclusion of others that the use of the Load Variation Balance would be consistent with the essential purpose of the Rate Stabilization Plan, which was designed at its inception to smooth fuel price variations for domestic consumers.

Of immediate concern here is an interim measure to ensure that the rate increase will not surpass the historical increases as stated succinctly in NL Power's submission. In historical terms the range over the past twenty (20) years is -7.9% to +9.9%.

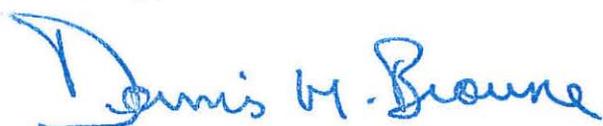
While Hydro has raised other issues which pushes their proposed rate increase into the 18% to 19% range, it is noteworthy that Nalcor has been promising to offset future rate increases through the 300 MW recall which Nalcor says will be available to island customers in 2018.

Conclusion

To burden ratepayers with an 18%-19% rate increase, which is well outside the normal range, is unacceptable. The measure proposed by NL Power to offset the rate impact appears reasonable.

Finally, Hydro is placed on notice that any extraordinary increase in customer rates such as the one proposed by Hydro in this instance will be vigorously opposed.

Yours truly,



Dennis Browne, Q.C.
Consumer Advocate

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