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May 3, 2017

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: NLH Amended General Rate Application - Compliance Application - Order No. P.U. 49(2016) RSP – Fuel Price Projection Update – Board Request

1.0 Background

By letter dated May 2, 2017, the Board of Commissioners of Public Utilities (the Board) requested that Newfoundland and Labrador Hydro (Hydro) provide "*...further information on available options to mitigate the expected rate increases arising from the operation of the Newfoundland Power RSP in 2017, as well as the combined rate impacts for Newfoundland Power and retail customers for identified options and new rates arising from the general rate application.*"

In addition the Board requested *"...an update of estimated outstanding balances and Hydro's plans for disposition, for all deferral accounts and any other recoveries for each customer class, as well as any offsetting credit balances that may be available to offset these liabilities."*

2.0 Supply Cost Deferral Accounts

The Board, in Order No. P.U. 56(2016), approved a deferral of $38.8 million of Hydro's prudently incurred supply costs for 2015 and 2016. This $38.8 million was calculated using 2015 actual results and forecast 2016 results.[1] Hydro has updated these calculations to reflect 2016 actual results for 12 months, as shown in Table 1.

[1] Filed with the Board on December 9, 2016 with actual costs to October 31, 2016 and forecast costs for November and December 2016.

Table 1
Updated Supply Cost Deferral Balances

Line No.	Particulars ($000s)	2015	2016	Total
1	Isolated Systems	-	(2,186)	**(2,186)**
2	Energy Supply	14,200	24,463	**38,663**
3	Holyrood Conversion	3,582	2,151	**5,733**
4	**Total**	**17,782**	**24,427**	**42,210**

The increase in deferred supply costs to $42.2 million is primarily attributable to the Energy Supply Cost Variance Deferral (ESCVD) being updated for actual results in November and December 2016. Specifically, the variance is primarily due to increased actual production at the Holyrood Combustion Turbine when compared to forecast. Further, Hydro incurred increased No. 6 fuel expenses as a result of lower power purchase volumes when compared to forecast. Hydro will provide greater detail with respect to these supply costs upon application for disposition later in 2017.

Hydro will propose that the deferred supply costs be allocated on the basis of energy consumption, consistent with existing practice for Rate Stabilization Plan (RSP) balances, with the exception of the Isolated Systems deferral. The Island Industrial Customers do not contribute to the Rural Deficit therefore; Hydro proposes that the Isolated Systems Deferral be allocated based on the test year rural deficit allocation.[2] Assuming this methodology, 2015 and 2016 supply costs (excluding isolated systems) would be allocated as noted in Table 2.

Table 2
Energy Supply and Holyrood Conversion Allocation[2,3]

Line No.	Customer	2015 Energy (kWh)	2015 Energy (%)	Allocation of Rural (%)	Total (%)
1	Newfoundland Power	6,072,134,676	86.2%	6.5%	92.6%
2	Island Industrial	497,961,116	7.1%	0.0%	7.1%
3	Hydro Rural	476,600,929	6.8%	-6.5%	0.3%
4	**Total**	**7,046,696,721**	**100.0%**		**100.0%**
	Customer	**2016 Energy (kWh)**	**2016 Energy (%)**	**Allocation of Rural (%)**	**Total (%)**
5	Newfoundland Power	5,844,734,737	85.6%	6.7%	92.3%
6	Island Industrial	505,383,547	7.4%	0.0%	7.4%
7	Hydro Rural	476,456,642	7.0%	-6.7%	0.3%
8	**Total**	**6,826,574,926**	**100.0%**		**100.0%**

[2] 95.6% of Rural Costs have been allocated to Newfoundland Power, consistent with the Rural Deficit allocation in the 2015 Test Year.
[3] The 0.3% allocated to Hydro Rural represents the Labrador Write Off, based on the 2015 Test Year.

Using these allocation percentages, the deferred supply costs of $42.2 million would be allocated as follows:

Table 3
Allocation of Supply Cost Deferral Balances

Line No.	Particulars ($000s)	2015 Supply Costs Newfoundland Power	Island Industrial	Labrador Write Off	Total
1	Isolated Systems	-	-	-	-
2	Energy Supply	13,155	1,003	42	14,200
3	Holyrood Conversion	3,318	253	11	3,582
4	**Total 2015**	**16,473**	**1,257**	**53**	**17,782**
	Particulars ($000s)	**2016 Supply Costs Newfoundland Power**	**Island Industrial**	**Labrador Write Off**	**Total**
5	Isolated Systems	(2,090)	-	(96)	(2,186)
6	Energy Supply	22,577	1,811	75	24,463
7	Holyrood Conversion	1,985	159	7	2,151
8	**Total 2016**	**22,472**	**1,970**	**(14)**	**24,428**
9	**Total 2015 & 2016**	**38,945**	**3,227**	**38**	**42,211**

Table 3 shows that under this proposed methodology, Newfoundland Power and the Island Industrial Customers would be allocated $38.9 million and $3.2 million of supply costs respectively. Hydro would absorb the Labrador Write Off portion.

3.0 Available RSP Balances

As noted in its correspondence of April 26, 2017, Hydro submits that use of the RSP Load Variation balance in the RSP to offset the supply costs incurred in 2015 and 2016 is appropriate, taking into account future rate changes and intergenerational equity. However, there will be excess funds remaining in Newfoundland Power's RSP Load Variation balance even after disposition of 2015 and 2016 supply costs, as illustrated in Table 4.

Table 4
Disposition of Segregated Load Variation[4]

Line No	Particulars ($000s)	Segregated Load (a)	Revenue Deficiency (b)	Supply Cost Allocation (c)	Available Funds (d) = (a)+(b)+(c)
1	Newfoundland Power	(50,737)	-	38,944	(11,882)
2	Island Industrials	(3,247)	1,631	3,227	1,611

[4] RSP Load Variation Balance as at March 31, 2017 under the 2015 Test Year.

Based on the information presented in Table 4, Newfoundland Power will have a remaining credit balance $11.9 million in their RSP Load Variation balance after disposition of their portion of 2015 and 2016 supply costs. In contrast, the Island Industrial Customers will have insufficient funds to fully cover their portion of supply costs with their RSP Load Variation balance alone, with a remaining amount owing of $1.6 million.

Further, Hydro notes there is a credit balance of $29.0 million in the RSP Hydraulic Production Variation Account.[5] According to current RSP rules, only 25% of the RSP Hydraulic Production Variation is credited or debited to customer's current plan annually.[6] Given the magnitude of the potential rate increase on July 1, 2017, the Board may want to consider transferring 100% of the RSP Hydraulic Production Variation balance to the RSP Current Plan. With this in mind, Hydro has calculated the allocation of the RSP Hydraulic Production Variation balance by customer class based on annual energy usage, consistent with Board Order No. P.U. 8(2007).[7]

Table 5
Allocation of RSP Hydraulic Production Variation Balance[8]

Line No.	Particulars	Energy Sales (kWh)	Energy Sales (%)	Allocated (%)	Balance ($000s)
1	Hydraulic Balance				(28,971)
2	Newfoundland Power	5,868,946,088	85.6%	92.2%	(26,721)
3	Island Industrials	511,539,463	7.5%	7.5%	(2,161)
4	Labrador Write Off	477,768,433	7.0%	0.3%	(89)
5	**Total**	**6,858,253,984**	**100.0%**	**100.0%**	**(28,971)**

The estimated June 30, 2017 balance in the Industrial Customer RSP Surplus balance is $1.3 million debit (owing from customers). Hydro will propose that this balance be transferred to the Industrial Customer RSP Current Plan balance and collected through the Industrial Customer RSP Recovery Adjustment to become effective January 1, 2018. Table 6 provides a summary of the available balances and required recoveries after the use of the RSP Load Variation balance to provide recovery of the deferred supply costs for 2015 and 2016.

[5] As at March 31, 2017 under the 2015 Test Year.
[6] RSP Rules, Section A, number 3.
[7] The Board approved a transfer from the RSP Hydraulic Production Variation balance to reduce customer cost increases.
[8] Hydraulic balance has been allocated using 12 months-to-date energy sales from March 31, 2017.

Table 6
Available Funds / Outstanding Amounts

Line No	Particulars ($000s)	Segregated Load (a)	Industrial Surplus (b)	Hydraulic Production (c)	Available Balance (d) = (a)+(b)+(c)
1	Newfoundland Power	(11,882)	-	(26,721)	(38,604)
2	Island Industrials	1,611	1,310	(2,161)	759

Table 6 shows that there remains a credit balance remaining for Newfoundland Power customers of $38.6 million and an outstanding balance for Island Industrial Customers of $0.8 million.

4.0 Rate Mitigation Options

Given the available credit balances in the RSP (net of 2015 and 2016 Supply Costs), the Board has several options to mitigate retail customer rates for July 1, 2017. Hydro submits the Board may want to consider the use of the excess RSP Load Variation (LV) balance in conjunction with 25%, 50%, 75%, or 100% of the RSP Hydraulic Production Variation balance in order to mitigate the rate increase to Newfoundland Power. These options as well as the estimated end customer impact are presented in Table 7.

Table 7
Newfoundland Power Rate Mitigation Options[9,10]

Line No	Particulars	Option 1 LV + 25% Hydraulic Balance	Option 2 LV + 50% Hydraulic Balance	Option 3 LV + 75% Hydraulic Balance	Option 4 LV + 100% Hydraulic Balance
1	Current Plan Rider (cents/kWh)	(0.450)	(0.570)	(0.690)	(0.810)
2	Fuel Rider (cents/kWh)	0.672	0.672	0.672	0.672
3	RSP Rate Change - Utility (%)	22.8%	20.9%	19.0%	17.1%
4	Base Rate Change - Utility (%)	-1.2%	-1.2%	-1.2%	-1.2%
5	Total Rate Change - Utility (%)	21.6%	19.7%	17.8%	15.9%
6	**Estimated End Customer (%)**	**14.6%**	**13.3%**	**12.0%**	**10.8%**

Table 7 shows that the potential end customer impacts using existing RSP balances range from an increase of 14.6% to an increase of 10.8%.

[9] End customer impact is estimated as 67.5% of the total rate change to Newfoundland Power.
[10] The base rate change to Newfoundland Power of -1.2% differs from Hydro's letter of April 21, 2017 which showed the same change as -0.5%. The -1.2% base rate change represents a preliminary estimate of the revised rates to Newfoundland Power as a result of Order No. P.U. 14(2017).

For the Island Industrial Customers, the $0.8 million recoverable amount provided in Table 6 represents a rate increase of approximately 2.2% over the 2015 Test Year revenue requirement. This assumes that 100% of both the excess RSP Load Variation balance and the March 31, 2017 RSP Hydraulic Production Variation balance are transferred to the RSP Current Plan balances to mitigate customer rate impacts.

5.0 Conclusion

There are sufficient credit balances owing to customers in the RSP reduce the July 1 retail customer impacts to approximately 10.8%. To achieve this reduced rate increase would require the Board to approve the required RSP transfers in response to the Compliance Rates Application.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

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