

April 21, 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 April 19, 2017, the Board of Commissioners of Public Utilities (the Board) requested that Newfoundland and Labrador Hydro (Hydro) provide “...*the current expected percentage rate impacts for both Newfoundland Power and the Island Industrial Customers as a result of the compliance application and the fuel price projection update.*” The Island Industrial Customers also requested that the current expected percentage rate impacts be provided for each of the Island Industrial Customers, as well as the average impact for the Island Industrial Customers as a class.

2.0 Factors Affecting Rates

Hydro's GRA Compliance Application and the updated fuel price projection are not the only variables that will affect customer rates on July 1, 2017. In order to provide a comprehensive response to the Board's request and provide the total expected rate impacts for July 1, Hydro must also determine the impact of updating the Current Plan Rate Stabilization Plan (RSP) Recovery Rate Adjustments and discontinuing the RSP Surplus Adjustments for the Island Industrial Customers.

2.1 GRA Compliance Application

The result of the proposed change in Hydro's base rates is a 0.5% decrease in the Utility rate (approximate 0.3% average decrease to the end consumer) and a 0.2% average decrease to Island Industrial Customers. The average rate change for each Island Industrial Customer varies materially depending on whether the customer is impacted by the Board's approved changes in specifically assigned charges.

2.2 RSP Adjustments

Newfoundland Power

Section D of the RSP Rules requires Hydro to calculate a new Current Plan Balance commencing July 1.¹

Table 1 provides the change in the RSP adjustments for Newfoundland Power, forecast to be effective July 1, 2017.

Table 1
Newfoundland Power RSP Adjustments

Line No.	Particulars	Units	Existing	New
1	RSP - Current Plan	<i>cents/kWh</i>	(1.213)	(0.117)
2	RSP - Fuel Rider	<i>cents/kWh</i>	(0.023)	0.672
3	Total RSP Rate		(1.236)	0.555

The updated RSP Recovery Adjustment rate results in a rate increase of 1.096¢ per kWh to Newfoundland Power. The existing RSP Recovery Adjustment rate of -1.213¢ per kWh contributed to a material rate decrease to Newfoundland Power's customers in July 2016 (i.e., 9.5% average decrease related to the 2016 RSP update) which primarily reflected a reimbursement to customers of No. 6 fuel savings from the previous year. The increase in the RSP Recovery Adjustment rate effectively reflects a conclusion of this reimbursement. Details of the calculation of the RSP Current Plan Recovery Adjustment rate of -0.117¢ per kWh are provided in Appendix A.

The Newfoundland Power RSP fuel rider of 0.672¢ per kWh reflects the revised RSP fuel price projection of \$81.40 per barrel that Hydro provided to the Board on April 18, 2017. The proposed RSP fuel rider is calculated based on the difference between the proposed \$81.40 per barrel price of No. 6 fuel and the approved 2015 Test Year No. 6 fuel cost of \$64.41 per barrel.

Island Industrial Customers

Table 2 provides a comparison of the existing and proposed RSP Adjustments to be effective July 1, 2017, for the Island Industrial Customers.²

¹ The Newfoundland Power RSP Current Plan Recovery Adjustment rate has been calculated in accordance with the RSP Rules provided in Exhibit 14 of Hydro's GRA Compliance filing using the 2017 RSP Current Plan balance based on the use of 2015 Test Year.

² The RSP Current Plan rate adjustment for Island Industrial Customers was calculated based on the RSP Current Plan balance at December 31, 2016. Please refer to Hydro's GRA Compliance Application, Exhibit 4, Appendix D.

Table 2
Island Industrial Customers RSP Adjustments

Line No.	Particulars	Units	Existing	New
1	RSP - Current Plan	<i>cents/kWh</i>	-	(0.373)
2	RSP - Fuel Rider	<i>cents/kWh</i>	-	0.625
3	RSP - Teck Adjustment	<i>cents/kWh</i>	(1.141)	-
4	RSP - IC Surplus Credit (Energy)	<i>cents/kWh</i>	(0.294)	-
5	Total RSP Energy Rate	<i>cents/kWh</i>	(1.435)	0.252
6	RSP - IC Surplus Credit (Demand)	<i>\$/kW</i>	(1.52)	-

The RSP Recovery Adjustment of -0.373¢ per kWh was calculated based on the Island Industrial Customer RSP Current Plan balance at December 31, 2016. The approach is consistent with Hydro's GRA Compliance Application.

The Island Industrial Customer RSP fuel rider of 0.625¢ per kWh reflects the revised RSP fuel price projection of \$81.40 per barrel that Hydro provided to the Board on April 18, 2017. The proposed RSP fuel rider is calculated based on the difference between the proposed \$81.40 per barrel price of No. 6 fuel and the approved 2015 Test Year No. 6 fuel cost of \$64.41 per barrel.

The proposed July 1, 2017 will reflect the discontinuance of the RSP Surplus Adjustment rates that are currently in place as the Island Industrial Customer's RSP Balance has been fully refunded.³ It is also proposed that the RSP adjustment solely for Teck be discontinued as the phase-in process for Island Industrial Customer rates will be complete.

3.0 Total Customer Impact

Table 3 provides the average customer impacts of: i) Hydro's GRA Compliance Application; ii) the RSP Fuel Rider; iii) updating the Current Plan RSP Recovery Rate Adjustments; and iv) discontinuing the RSP Surplus Adjustments for the Island Industrial Customers.

³ There is currently a debit balance owing from Island Industrial Customers related to overpayment of the Island Industrial Customers RSP Surplus balance. Hydro has proposed this balance be reflected in the calculation of the Current Plan RSP recovery adjustment to be implemented effective January 1, 2018.

Table 3
Average Customer Impacts (%)⁴

Line No.	Particulars	Utility %	Industrial %
1	Hydro Base Rates (Compliance Application Proposed)	-0.5%	-0.2%
2	RSP - Current Plan	17.2%	-7.4%
3	RSP - Fuel Rider	10.9%	12.4%
4	RSP - Surplus Credits	N/A	11.0%
5	RSP - Teck Adjustment	<u>N/A</u>	<u>0.8%</u>
6	Total Rate Impact	27.6%	16.6%
7	Estimated End Consumer Impact	18.6%	Appendix C

The impact of changes to Hydro's base rates is a decrease to both Utility and Island Industrial Customers. However, the fuel rider and RSP adjustments result in an increase in rates to both Newfoundland Power and Island Industrial Customers.

The forecast increase in the Utility rate is 27.6%, with the end consumer average bill impact forecast to be 18.6%. Hydro notes that the impact on Newfoundland Power customers is primarily a result of the normal operation of the RSP with respect to amortization of plan balances and forecasted fuel prices in accordance with approved RSP Rules. The calculation of the customer rate impact is provided in Appendix B.

The forecast bill impact on Island Industrial Customers is an average 16.6% increase. Hydro notes that the impact on Island Industrial Customers is primarily a result of the normal operation of the RSP and the discontinuance of payment of the RSP Surplus adjustments. Impacts by customer, as requested by the Island Industrial Customer Group, are provided in Appendix C.

4.0 Conclusion

The impact of July 1, 2017, rate changes is forecast to be 27.6% for Utility (18.6% for end consumers) and, on average, 16.6% for Island Industrial Customers. Hydro is appreciative of the additional time provided by the Board in order to allow for a fulsome response and discussion with respect to July 1 customer rate impacts.

⁴ Estimated consumer impact for Utility customers is calculated as 67.5% of the gross Utility rate change.

Ms. C. Blundon
Public Utilities Board

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Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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NEWFOUNDLAND AND LABRADOR HYDRO
RATE STABILIZATION PLAN FUEL PRICE PROJECTION RIDER
No. 6 0.7% Sulphur Fuel Price Projection
Utility Customer

Line

No	Customer Allocation	Amount	Comments
1	March Fuel Price Projection	\$ 81.40	
2	2015 Test Year Fuel Forecast Price	\$ 64.41	
3	Forecast Fuel Price Variance	\$ 16.99	Line 1 - Line 2
4	2015 Test Year No. 6 Barrels Consumed	2,577,657	
5	Forecast Fuel Variance	\$ 43,794,392	Line 3 x Line 4
6	Utility Customer Allocation Ratio for March	90.85%	From Line 8
7	Utility Customer Allocation	\$ 39,787,205	Line 5 x Line 6

	kWh	Percent of Total	Allocation of Rural	Total	
8	12 months to date (2015 TY) Utility Sales	5,924,100,000	84.52%	6.33%	90.85%
9	12 months to date (2015 TY) Industrial Customer Sales	621,400,000	8.87%	0.00%	8.87%
10	12 months to date (2015 TY) Bulk Rural Energy	463,900,000	6.62%	-6.62%	0.00%
11	Total	7,009,400,000			

	Amount	Comments
12	Utility Allocation March	\$ 39,787,205 From Line 7
13	12 months to date (2015 TY) Industrial Customer Sales	5,924,100,000 From Line 8
14	Fuel Projection Rider (cents per kWh)	0.672 Line 12/Line 13 x 1000

15	March Balance	\$ (21,876,561)	2015 Test Year RSP, March Balance
16	Forecast Financing Costs	\$ (505,320)	From Line 38
17	Forecast Recovery to June 30	\$ 15,530,597	Lines 23 to 25
18	Total to be recovered	\$ (6,851,284)	Lines 15 to 17
19	12 months to date Utility Sales	5,868,946,088	
20	Balance Rate (cents per kWh)	(0.117)	Line 18/Line 19 x 100
21	Total RSP Adjustment Rate (cents per kWh)	0.555	Line 14 + Line 20

Utility Forecast Recovery				
2015 Test Year Weighted Average Cost of Capital per annum 6.610%				
Nominal Financing Rate 6.418%				
	Sales kWh	Financing Costs	Amortization	Total To Date Balance
22	Balance Forward			\$ (21,876,561)
23	April	520,761,236	\$(117,003)	\$ 6,316,834 (15,676,730)
24	May	412,499,270	(83,844)	\$ 5,003,616 (10,756,959)
25	June	347,085,498	(57,532)	\$ 4,210,147 (6,604,343)
26	July	314,644,032	(35,322)	368,134 (6,271,532)
27	August	302,974,620	(33,542)	354,480 (5,950,594)
28	September	327,366,899	(31,826)	383,019 (5,599,400)
29	October	417,952,992	(29,947)	489,005 (5,140,343)
30	November	463,553,443	(27,492)	542,358 (4,625,478)
31	December	701,229,630	(24,739)	820,439 (3,829,778)
32	January	716,800,000	(20,483)	838,656 (3,011,604)
33	February	649,000,000	(16,107)	759,330 (2,268,382)
34	March	652,800,000	(12,132)	763,776 (1,516,738)
35	April	520,761,236	(8,112)	609,291 (915,559)
36	May	412,499,270	(4,897)	482,624 (437,832)
37	June	347,085,498	(2,342)	406,090 (34,083)
38	Total		\$(505,320)	\$ 22,347,798

NEWFOUNDLAND AND LABRADOR HYDRO
Calculation of Customer Billing Impact
Newfoundland Power

	<u>2015 TY</u>		<u>Existing</u>	<u>\$</u>	<u>July 1, 2017</u>		<u>Percent Increase</u>	
	<u>Billing Units</u>	<u>Unit</u>			<u>Forecast</u>	<u>\$</u>	<u>Utility</u>	<u>Consumer</u>
Demand (kWs)	15,122,052	\$/kW/mo	4.32	65,327,265	4.75	71,829,747		
Energy (MWhs)	3,000,000	¢/kWh	3.506	105,180,000	2.319	69,570,000		
Energy (MWhs)	2,924,100	¢/kWh	9.509	278,052,669	10.422	304,749,702		
				448,559,934		446,149,449	-0.5%	
RSP: Current Plan	5,924,100	¢/kWh	(1.213)	(71,859,333)	(0.117)	(6,931,197)		
RSP: Fuel Rider	5,924,100	¢/kWh	(0.023)	(1,362,543)	0.672	39,809,952		
Total RSP			(1.236)	(73,221,876)	0.555	32,878,755		
Total				375,338,058		479,028,204	27.6%	18.6%

NEWFOUNDLAND AND LABRADOR HYDRO
Island Industrial Customer Rate Impact

Total Island Industrial Customers

	2015 Test Year				July 1, 2017 Forecast		Percent Change vs Existing
	Billing Units	Unit	Existing	\$		\$	
Demand (kW's)	1,064,800	\$/kW/mo	8.38	8,923,024	7.99	8,507,752	
Energy (MW's)	621,400	¢/kWh	4.069	25,284,766	3.97	24,675,794	
Spec. Assigned		\$	684,312	684,312	1,639,833	1,639,833	
				<u>34,892,102</u>		<u>34,823,379</u>	-0.2%
RSP: Current Plan	621,400	¢/kWh	-	-	(0.373)	(2,317,822)	
RSP: Fuel Rider	621,400	¢/kWh	-	-	0.625	3,883,750	
RSP: Teck Rate	20,400	¢/kWh	(1.141)	(232,764)	-	-	
RSP: IC Surplus Credit (Demand)	1,064,800	\$/kW	(1.52)	(1,618,496)	-	-	
RSP: IC Surplus Credit (Energy)	621,400	¢/kWh	(0.294)	(1,826,916)	-	-	
Total RSP				<u>(3,678,176)</u>		<u>1,565,928</u>	
Firm plus RSP				<u>31,213,926</u>		<u>36,389,307</u>	16.6%

NEWFOUNDLAND AND LABRADOR HYDRO
Island Industrial Customer Rate Impact

Praxair

	2015 Test Year				July 1, 2017 Forecast		Percent Change vs Existing
	Billing Units	Unit	Existing	\$		\$	
Demand (kW)	72,000	\$/kW/mo	8.38	603,360	7.99	575,280	
Energy (MWh)	51,600	¢/kWh	4.069	2,099,604	3.971	2,049,036	
Spec. Assigned		\$		-		-	
				2,702,964		2,624,316	-2.9%
RSP: Current Plan	51,600	¢/kWh	-	-	(0.373)	(192,468)	
RSP: Fuel Rider	51,600	¢/kWh	-	-	0.625	322,500	
RSP: IC Surplus Credit (Demand)	72,000	\$/kW	(1.52)	(109,440)	-	-	
RSP: IC Surplus Credit (Energy)	51,600	¢/kWh	(0.294)	(151,704)	-	-	
Total RSP				(261,144)		130,032	
Firm plus RSP				2,441,820		2,754,348	12.8%

NEWFOUNDLAND AND LABRADOR HYDRO
Island Industrial Customer Rate Impact

Vale

	2015 Test Year				July 1, 2017		Percent Change vs Existing
	Billing Units	Unit	Existing	\$	Forecast	\$	
Demand (kW/s)	488,800	\$/kW/mo	8.38	4,096,144	7.99	3,905,512	
Energy (MWh/s)	280,800	¢/kWh	4.069	11,425,752	3.971	11,150,568	
Spec. Assigned		\$		-	480,243	480,243	
				15,521,896		15,536,323	0.1%
RSP: Current Plan	280,800	¢/kWh	-	-	(0.373)	(1,047,384)	
RSP: Fuel Rider	280,800	¢/kWh	-	-	0.625	1,755,000	
RSP: IC Surplus Credit (Demand)	488,800	\$/kW	(1.52)	(742,976)	-	-	
RSP: IC Surplus Credit (Energy)	280,800	¢/kWh	(0.294)	(825,552)	-	-	
Total RSP				(1,568,528)		707,616	
Firm plus RSP				13,953,368		16,243,939	16.4%

NEWFOUNDLAND AND LABRADOR HYDRO
Island Industrial Customer Rate Impact

CBPP

	2015 Test Year				July 1, 2017		Percent Change vs Existing
	Billing Units	Unit	Existing	\$	Forecast	\$	
Demand (kW/s)	108,000	\$/kW/mo	8.38	905,040	7.99	862,920	
Energy (MWh/s)	44,800	¢/kWh	4.069	1,822,912	3.971	1,779,008	
Spec. Assigned		\$	347,167	347,167	870,898	870,898	
				3,075,119		3,512,826	14.2%
RSP: Current Plan	44,800	¢/kWh	-	-	(0.373)	(167,104)	
RSP: Fuel Rider	44,800	¢/kWh	-	-	0.625	280,000	
RSP: IC Surplus Credit (Demand)	108,000	\$/kW	(1.52)	(164,160)	-	-	
RSP: IC Surplus Credit (Energy)	44,800	¢/kWh	(0.294)	(131,712)	-	-	
Total RSP				(295,872)		112,896	
Firm plus RSP				2,779,247		3,625,722	30.5%

NEWFOUNDLAND AND LABRADOR HYDRO
Island Industrial Customer Rate Impact

NARL

	2015 Test Year				July 1, 2017 Forecast		Percent Change vs Existing
	Billing Units	Unit	Existing	\$		\$	
Demand (kW/s)	354,000	\$/kW/mo	8.38	2,966,520	7.99	2,828,460	
Energy (MWh/s)	223,800	¢/kWh	4.069	9,106,422	3.971	8,887,098	
Spec. Assigned		\$	150,976	150,976	89,293	89,293	
				12,223,918		11,804,851	-3.4%
RSP: Current Plan	223,800	¢/kWh	-	-	(0.373)	(834,774)	
RSP: Fuel Rider	223,800	¢/kWh	-	-	0.625	1,398,750	
RSP: IC Surplus Credit (Demand)	354,000	\$/kW	(1.52)	(538,080)	-	-	
RSP: IC Surplus Credit (Energy)	223,800	¢/kWh	(0.294)	(657,972)	-	-	
Total RSP				(1,196,052)		563,976	
Firm plus RSP				11,027,866		12,368,827	12.2%

NEWFOUNDLAND AND LABRADOR HYDRO
Island Industrial Customer Rate Impact

Teck

	2015 Test Year				July 1, 2017 Forecast		Percent Change vs Existing
	Billing Units	Unit	Existing	\$		\$	
Demand (kW's)	42,000	\$/kW/mo	8.38	351,960	7.99	335,580	
Energy (MWh's)	20,400	¢/kWh	4.069	830,076	3.971	810,084	
Spec. Assigned		\$	186,169	186,169	199,399	199,399	
				1,368,205		1,345,063	-1.7%
RSP: Current Plan	20,400	¢/kWh	-	-	(0.373)	(76,092)	
RSP: Fuel Rider	20,400	¢/kWh	-	-	0.625	127,500	
RSP: Teck Rate	20,400	¢/kWh	(1.14)	(232,764)	-	-	
RSP: IC Surplus Credit (Demand)	42,000	\$/kW	(1.52)	(63,840)	-	-	
RSP: IC Surplus Credit (Energy)	20,400	¢/kWh	(0.294)	(59,976)	-	-	
Total RSP				(356,580)		51,408	
Firm plus RSP				1,011,625		1,396,471	38.0%