

April 18, 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: Rate Stabilization Plan – Fuel Price Projection Update

Section C of the Rate Stabilization Plan (RSP) rules includes a provision which requires that Hydro, by the 10th working day of April each year, report its RSP Fuel Price Projection for Newfoundland Power to the Board of Commissioners of Public Utilities (Board), Newfoundland Power and the Island Industrial Customers. The RSP Fuel Price Projection is used to determine a fuel rider to be included in the Utility Rate charged to Newfoundland Power effective July 1 each year.

The Board is in the process of concluding its review of Hydro's General Rates Application (GRA) Compliance Application with the expectation that new customer base rates will also become effective July 1, 2017. Section D of the RSP rules requires that when new Test Year base rates come into effect, if a fuel rider forecast (either March or September) is more current than the Test Year fuel forecast, a fuel rider must be included in the rates charged to both Newfoundland Power and the Island Industrial Customers at the time of implementation of new base rates. The new fuel rider must reflect the current fuel forecast and the new Test Year values. This letter and attached Schedule A provide the fuel riders that Hydro proposes to apply to Newfoundland Power and the Island Industrial Customers concurrent with the implementation of GRA base rates resulting from Hydro's Amended GRA. Please note that the attached fuel riders are based on the March 2017 fuel price forecast and replace those which were filed in Exhibit 4, Appendix A of Hydro's GRA Compliance Application (which were based on the September 2016 fuel price forecast).

In Order No. P.U. 54(2016), the Board approved revisions to the RSP rules to become effective with the implementation of new rates arising from the GRA Order (Order No. P.U. 49(2016)). These revisions include revised wording of the RSP rules for use in the calculation of the fuel rider. Exhibit 14 to Hydro's GRA Compliance Application provides Hydro's proposed revised RSP Rules. Hydro has reflected the revised RSP rules in its calculation of the proposed fuel riders.

In its March 25, 2017 report on Hydro's GRA Compliance Application, Grant Thornton questioned whether the U.S. to Canada exchange rate used in the determination of the fuel rider would be considered a component of the fuel price forecast. Hydro clarified that the fuel price forecast provided by PIRA is in U.S. currency and does not include a foreign exchange rate. Therefore, for the

purposes of implementation of a Test Year fuel rider, Hydro considered it appropriate to use the foreign exchange rate which is consistent with the values approved for the 2015 Test Year. As such, in its GRA Compliance Application, Hydro proposed to use an exchange rate of 1.3267, as it is consistent with the exchange rate used in determining the cost of No. 6 fuel for the 2015 Test Year.

However, as noted in Hydro's Reply Submission to the GRA Compliance Application dated April 13, 2017, Hydro accepts the alternate approach as suggested by Grant Thornton in its GRA Compliance Report (page 65). This alternate approach requires Hydro use foreign exchange rates which are consistent with the month of the most recent fuel forecast in the calculation of the Fuel Price Projection. The attached Schedule A reflects this change, using a foreign exchange rate of 1.3388 from the month of March, 2017.

The Board approved the use of a \$64.41 per barrel fuel cost (\$Can) for the 2015 Test Year based on a 2016 fuel price forecast which was filed on October 28, 2015. As shown on Schedule A, page 1 of 3, the forecast average No. 6 fuel price for the period July 2017 to June 2018 is \$81.40 per barrel (\$Can). This forecasted fuel price reflects an increase of \$16.99 per barrel (\$Can) from the approved 2015 Test Year fuel cost.

As shown in Schedule A, pages 2 and 3, the estimated fuel rider for Newfoundland Power is 0.672¢/kWh and the estimated fuel rider for the Island Industrial Customers is 0.625¢/kWh. Hydro will include these fuel riders in its proposed rate schedules reflecting the Board's decision on Hydro's GRA Compliance Application.

Hydro trusts that this letter and the attached Schedule A satisfies Hydro's obligations regarding the computation and communication of the RSP Fuel Price Projection and fuel riders under Sections C and D of the RSP rules. Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Grant Outerbridge
Team Lead, Rates & Regulatory
GMO/bs

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Sheryl Nisenbaum – Praxair Canada Inc.
ecc: Larry Bartlett – Teck Resources Limited

Dennis Browne, Q.C. – Consumer Advocate
Thomas J. O'Reilly, Q.C. – Cox & Palmer

NEWFOUNDLAND AND LABRADOR HYDRO
Rate Stabilization Plan Fuel Price Projection Rider
Utility Customer

Line No	Customer Allocation	Amount	Comments
1	March 2017 Fuel Price Projection	\$ 81.40	From Page 3
2	2015 Test Year Fuel Forecast Cost	\$ 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	90.85%	From Line 8
7	Utility Customer Allocation	\$ 39,787,205	Line 5 x Line 6

Calculation of Customer Allocation		kWh	Percent of Total	Allocation of Rural	Total
8	2015 Test Year Utility Sales Forecast	5,924,100,000	84.52%	6.33%	90.85%
9	2015 Test Year Industrial Customer Sales Forecast	621,400,000	8.87%	0.00%	8.87%
10	2015 Test Year Bulk Rural Energy Sales Forecast	463,900,000	6.62%	-6.62%	0.00%
11	Total	7,009,400,000			

Calculation of Utility Customer RSP Rate		Amount	Comments
<u>Fuel Rider</u>			
12	Utility Allocation	\$ 39,787,205	From Line 7
13	2015 Test Year Utility Sales Forecast	5,924,100,000	From Line 8
14	Fuel Projection Rider (cents per kWh)	0.672	Line 12/Line 13 x 1000

NEWFOUNDLAND AND LABRADOR HYDRO
Rate Stabilization Plan Fuel Price Projection Rider
Industrial Customers

Line No	Customer Allocation	Amount	Comments		
1	March 2017 Fuel Price Projection	\$ 81.40	From Page 3		
2	2015 Test Year Fuel Forecast Cost	\$ 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	Industrial Customer Allocation Ratio	8.87%	From Line 9		
7	Industrial Customer Allocation	\$ 3,884,563	Line 5 x Line 6		
Calculation of Customer Allocation		kWh	Percent of Total	Allocation of Rural	Total
8	2015 Test Year Utility Sales Forecast	5,924,100,000	84.52%	6.33%	90.85%
9	2015 Test Year Industrial Customer Sales Forecast	621,400,000	8.87%	0.00%	8.87%
10	2015 Test Year Bulk Rural Energy Sales Forecast	463,900,000	6.62%	-6.62%	0.00%
11	Total	<u>7,009,400,000</u>			
Calculation of Industrial Customer RSP Rate		Amount	Comments		
<u>Rate Rider</u>					
12	Industrial Allocation	\$ 3,884,563	From Line 7		
13	2015 Test Year Industrial Customer Sales Forecast	621,400,000	From Line 9		
14	Fuel Projection Rider (cents per kWh)	<u><u>0.625</u></u>	Line 12/Line 13 x 1000		

NEWFOUNDLAND AND LABRADOR HYDRO
Rate Stabilization Plan Estimated Fuel Price Projection Rider - New Fuel Contract

Hydro Forecast US \$/bbl ⁽¹⁾	Forecast US \$/bbl (a)	Premium / (Discount) US \$/bbl (b)	Landed Forecast Price US \$/bbl (c) = (a) + (b)
2017 July	51.35	3.23	
August	52.22	3.23	
September	52.63	3.23	
October	55.18	5.03 ⁽³⁾	
November	57.46	5.03	
December	57.91	5.03	
2018 January	58.75	5.03	
February	60.58	5.03	
March	57.24	5.03	
April	56.33	5.03	
May	56.62	5.03	
June	<u>58.22</u>	<u>5.03</u>	
Average Holyrood Forecast Landed Price (\$US/bbl)	56.21	4.58	60.79
\$Cdn/\$US Noon Exchange Rate ⁽⁴⁾			<u>1.3388</u>
NLH Fuel Price Projection (\$Cdn/bbl) ⁽²⁾			<u>\$81.40</u>

Notes:

- (1) \$US pricing: New York Harbour price forecast, March 2017.
- (2) Price per barrel is rounded to the nearest \$0.05.
- (3) Year 3 of Hydro's current No. 6 fuel contract is effective September 23, 2017.
- (4) Monthly average of the Bank of Canada \$Cdn/\$US Noon Exchange Rate for the month of March 2017, rounded to 4 decimal places.