

June 13, 2017

The 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 Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro – 2013 General Rate Application – Compliance Application - Order No. P.U. 14(2017) and P.U. 16(2017) – Grant Thornton Report - Reply

Following is Newfoundland and Labrador Hydro's (Hydro) reply with respect to the above noted Report.

1.0 Background

On May 18, 2017, Newfoundland and Labrador Hydro filed its Compliance Rates Application, in compliance with Order No. 14(2017) and Order No. P.U.16(2017). On June 6, 2017, the Board's financial consultant, Grant Thornton LLP (Grant Thornton) filed its financial review of Hydro's application. On June 13, 2017, Grant Thornton filed a revision to its report.

2.0 Intervenors Comments

The Island Industrial Customer Group, Vale Newfoundland and Labrador Limited, and the Consumer Advocate all filed correspondence indicating that they did not have any comments on Grant Thornton's report.

Newfoundland Power Inc. (Newfoundland Power) commented on two specific matters:

- i) Hydro's proposed continued segregation of the load variation component of the Rate Stabilization Plan (RSP), and
- ii) An indication in the Grant Thornton Report that the calculation of Hydro's 2017 revenue deficiency will not necessarily be based on the forecast amount shown in the Compliance Rates Application. Newfoundland Power submits that continued segregation of the load variation component from the normal operation of the RSP is unnecessary, since the matters which provided the basis for segregation have now been resolved. Newfoundland Power also submitted that, based on Hydro's

Compliance Rates Application and Grant Thornton's June 6, 2017 report, it is not clear to why the 2017 deficiency amount to be recovered through the RSP should differ from the forecast amount of \$804,000 indicated in the Compliance Rates Application.

3.0 Hydro's Reply to the Grant Thornton Report

Currently, the proposed RSP adjustments for the Island Industrial Customers are being considered separately by the Board. Part of that process will involve a determination as to whether the balance in RSP load variation component should be used to mitigate rates for the Island Industrial Customers. As of March 31, 2017, there remains a credit balance of \$3.2 million in the segregated load variation component which is allocated to the Island Industrial Customers.

Hydro has not yet proposed a change in the RSP rules to discontinue the segregation of the RSP load variation component as the process for determining the disposition of the \$3.2 million credit balance has not yet concluded. If the Board determines 100% of the \$3.2 million credit balance in the load variation component should be transferred to the RSP Current Plan balance to mitigate the July 1, 2017 Island Industrial Customer rate impacts, then Hydro will propose RSP rule changes to discontinue the segregation of the load variation component. However, if the Board does not approve this rate mitigation option, Hydro will be required to propose revised RSP rules to continue to segregate the Island Industrial Customers portion of load variation credit balance as of March 31, 2017 and discontinue segregation of balances in the load variation component subsequent to March 31, 2017.

With respect to Newfoundland Power's request for clarification regarding the 2017 deficiency to be recovered through rates, Hydro submits that the 2017 revenue deficiency amount to be recovered through the RSP does not differ from the forecast amount of \$804,000 indicated in the Compliance Rates Application. Hydro also notes that Grant Thornton's revised report filed on June 13, 2017, removed the following sentence from page 11, lines 24-27 of the original report:

Based on discussions with Hydro, the 2017 revenue deficiency that will be debited to the Plan on June 20, 2017 will be the actual calculated deficiency, not necessarily the forecast amount of \$804,000 included in this Compliance Rates Application.

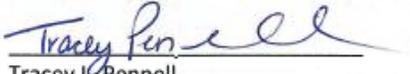
Ms. C. Blundon
Public Utilities Board

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Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Tracey L. Pennell
Senior Counsel, Regulatory

TLP/vc

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Thomas J. O'Reilly, Q.C. - Cox & Palmer
Genevieve M. Dawson – Benson Buffett
ecc: Larry Bartlett – larry.bartlett@teck .com

Dennis Browne, Q.C. - Consumer Advocate
Yvonne Jones, MP Labrador
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