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Board of Commissioners of Public Utilities Newfoundland and Labrador Hydro

2013 General Rate Application

Financial Consultants Compliance Rates Application Report

June 6, 2017

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1 Introduction and Scope

2
3 On January 27, 2017, Newfoundland and Labrador Hydro (“the Company”) (“Hydro”) submitted
4 *Compliance Application to Order No. P.U. 49 (2016)* (“the Compliance Application”) to the Board of
5 Commissioners of Public Utilities (“the Board”) with respect to its 2013 General Rate Application
6 (the “GRA” or “Application”). On May 18, 2017, Hydro submitted *Compliance Rates Application to*
7 *Order No. P.U. 14 (2017)* (“the Compliance Rates Application”) to the Board with respect to its 2013
8 GRA which reflects the orders included in Board Order No. P.U. 14 (2017) and Order No. P.U. 16
9 (2017) that were issued by the Board on May 1, 2017 and May 12, 2017 respectively.

10
11 Grant Thornton LLP (“Grant Thornton”) has undertaken a review of the Compliance Rates
12 Application focusing on the changes to Hydro’s 2014 and 2015 test years’ forecast revenue
13 requirement, 2014-2017 revenue deficiencies, and a review of proposals for recovery of revenue
14 deficiencies for Newfoundland Power, Labrador Interconnected Customers, and the Labrador
15 Industrial Transmission Customers. The review also included Hydro’s calculation of rates, tolls and
16 charges to be implemented July 1, 2017. This includes the calculation of the proposed RSP
17 adjustments, CDM recovery adjustment and customer rate impacts. In conducting our review, we
18 have performed the following procedures:

- 19
- 20 • reviewed the Compliance Rates Application, including the exhibits thereto containing certain
21 Finance Schedules, to assess whether the orders contained in P.U.14 (2017) and P.U.16 (2017)
22 are appropriately reflected in the Compliance Rates Application;
- 23 • confirmed that revisions to the 2014 and 2015 test year revenue requirements and 2014-2017
24 revenue deficiencies were made in accordance with P.U. 14 (2017);
- 25 • confirmed that the transfer of the Newfoundland Power RSP Load Variation balance was
26 transferred to the Newfoundland Power RSP Current Plan in accordance with P.U. 16 (2017);
- 27 • reviewed and agreed the allocated revenue requirement by customer class to the revised test
28 year cost of service filed by the Company in the Compliance Rates Application;
- 29 • verified and ensured the calculation of the revenue deficiency included in Exhibit 3 reconciled
30 to the calculation of the revenue requirement in Exhibit 2 and to the revised test year cost of
31 service;
- 32 • confirmed that the Company’s schedule of rates, tolls and charges as set out in Exhibit 4 of
33 the Compliance Rates Application incorporates the changes approved in P.U. 14 (2017) and
34 P.U. 16 (2017), including a review of the calculation of the proposed RSP adjustments and
35 CDM recovery adjustment; and,
- 36 • verified the calculation of the proposed rates necessary to meet the forecast revenue
37 requirement in the 2015 test year as set out in the Compliance Rates Application.
- 38

39 The procedures undertaken in the course of our financial analysis do not constitute an audit of the
40 Company’s financial information and consequently, we do not express an audit opinion on the
41 financial information.
42

1 **Revenue Requirements**

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Our procedures with respect to the revisions of the revenue requirement for determining revenue deficiencies for 2014, 2015, and 2016 were directed towards reviewing the adjustments ordered by the Board in Hydro’s Compliance Rates Application to ensure they were in compliance with P.U. 14 (2017). Where appropriate we also made enquiries and obtained additional documentation to support the adjustments.

9 **Revenue Requirement for Revenue Deficiencies**

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In P.U. 14 (2017) the Board directed Hydro to file a revised 2014 and 2015 test year revenue requirement for purpose of determining the revenue deficiencies based on the findings of the Board. The table below provides a summary of adjustments which are required to derive Hydro’s revised test year revenue requirements for revenue deficiency purposes as a result of P.U. 14 (2017):

16 **Table 1: Summary of Revenue Requirements for 2014 to 2016 Revenue Deficiency**

17
18

(000's)	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenue Requirement, per Compliance Application	<u>\$ 555,046</u>	<u>\$ 539,619</u>	<u>\$ 544,382</u>
P.U. 14 (2017) Impacts			
Amortization	<u>(400)</u>	<u>(400)</u>	<u>-</u>
Revenue Requirement, per Compliance Rates Application	<u>\$ 554,646</u>	<u>\$539,219</u>	<u>\$ 544,382</u>

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Hydro was required to reduce its 2014 and 2015 test year revenue requirement for revenue deficiency calculation by \$0.4 million to reflect the depreciation expenses associated with the capital projects that were carried over into 2015. As seen in the table above, Hydro applied this order to impact both 2014 and 2015, with 2016 having no change.

We have reviewed the 2014, 2015, and 2016 test year revenue requirement for revenue deficiency included in the Compliance Rates Application and the calculation to ensure orders contained in P.U. 14 (2017) were appropriately reflected in the revised balances.

1 Revenue Deficiencies

2 Hydro was ordered by the Board in P.U. 14 (2017) to revise their proposed recovery of the revenue
 3 deficiencies for 2014 to 2017 to include Labrador Interconnected and Labrador Industrial
 4 Transmission customers. Below is a summary of the revenue deficiencies proposed by Hydro for the
 5 period 2014-2017 in compliance with P.U. 49 (2016) and P.U. 14 (2017):

6
 7
 8

Table 2: Summary of Revenue Deficiencies

(000's)	2014	2015	2016	2017	Total
Newfoundland Power					
Compliance Application	\$ (35,462)	\$ 9,611	\$ 31,604	\$ (5,050)	\$ 703
Compliance Rates Application	(35,015)	9,988	31,604	(804)	5,773
Difference	447	377	-	4,246	5,070
Island Industrial Customers					
Compliance Application	(3,260)	(413)	2,076	(34)	(1,631)
Compliance Rates Application	(3,233)	(389)	2,075	20	(1,527)
Difference	27	24	(1)	54	104
Labrador Interconnected Hydro Rural					
Compliance Application	-	-	-	-	-
Compliance Rates Application	541	(118)	75	(31)	467
Difference	541	(118)	75	(31)	467
Labrador Industrial Transmission					
Compliance Application	-	-	-	-	-
Compliance Rates Application	-	333	179	97	609
Difference	-	333	179	97	609
Total					
Compliance Application	(38,722)	9,198	33,680	(5,084)	(928)
Compliance Rates Application	(37,707)	9,814	33,933	(718)	5,322
Difference	\$ 1,015	\$ 616	\$ 253	\$ 4,366	\$ 6,250

9
 10

1 **2014 Revenue Deficiency**

2
 3 Below is a reconciliation that illustrates the total revenue requirement from the finance schedule to
 4 the cost of service study:

5
 6 **Table 3: Reconciliation to the Revenue Requirement (\$ millions)**

7

Total Revenue Requirement per finance schedules	\$ 554.6
Less Expense Credits	(2.5)
Add IOCC Cost Recovery	1.9
Add RSP adjustments	82.1
Total Revenue Requirement per cost of service	\$ 636.1

8
 9
 10 In order to determine the 2014 revenue deficiency for Newfoundland Power, the Rural Deficit needs
 11 to be allocated to Newfoundland Power and Labrador Interconnected customers.

12
 13 Table 4 presents a summary by customer group of 2014 existing revenues based on test year loads
 14 compared to the revised 2014 test year cost of service before the Rural Deficit allocation:

15
 16 **Table 4: 2014 Revenues versus Costs**

17
 18

(000's)	2014 TY Revenues (A)	2014 TY Cost (B)	Difference (A)-(B)
Customer Group			
Newfoundland Power	\$ 483,433	\$ 460,001	\$ 23,432
Island Industrial Customers	26,833	30,066	(3,233)
Labrador Interconnected	19,730	17,026	2,704
Other Hydro Rural	66,455	127,065	(60,610)
Labrador Industrial Transmission	1,936	1,936	-
Total	\$ 598,387	\$ 636,094	\$ (37,707)

19
 20
 21 We noted during our review that the 2014 test year cost of service study filed in Exhibit 7 was revised
 22 appropriately for the discrepancy we noted on the return on rate base in the Compliance Application
 23 filed January 27, 2017 of approximately \$60,000 between Newfoundland Power's revenue
 24 requirement and Labrador Interconnected System revenue requirement.

1 The table below presents the 2014 revenue deficiency to be recovered by customer group after the
 2 Rural Deficit allocation:

3
 4 **Table 5: 2014 Revenue Deficiency Allocation**

5

(000's)	2014 Existing		2014 TY Costs		Difference
Customer Group	Revenues (A)		Revenue Def. (B)		(A)-(B)
Newfoundland Power	\$	483,433	\$	518,448	\$ (35,015)
Island Industrial Customers		26,833		30,066	(3,233)
Labrador Int. - Hydro Rural		19,730		19,189	541
Labrador Industrial Cost Recovery		1,936		1,936	-
Total	\$	531,932	\$	569,639	\$ (37,707)

6
 7
 8 The amounts are equal to the difference between the 2014 existing revenues and the revised 2014 test
 9 year costs with the Rural Deficit allocated based on the revenue requirement methodology as
 10 approved in P.U. 49 (2016).

11
 12 As a result of the allocation of the revenue deficiency, Newfoundland Power and the Island
 13 Industrial Customers have revenue deficiencies of \$35.0 million and \$3.2 million respectively. There
 14 is excess revenue of \$0.5 million from the Labrador Interconnected System. There was an overall
 15 revenue deficiency for 2014 of \$37.7 million.

1 **2015 Revenue Deficiency**

2
 3 Below is a reconciliation that illustrates the total revenue requirement from the finance schedule to
 4 the cost of service study:

5
 6 **Table 6: Reconciliation to the Revenue Requirement (\$ millions)**

7

Total Revenue Requirement per finance schedules	\$ 539.2
Add IOCC Cost Recovery	1.4
Less Expense Credits	(2.5)
Total Revenue Requirement per cost of service	\$ 538.1

8
 9
 10 Table 7 presents a summary by customer group of 2015 existing revenues based on test year loads
 11 compared to the revised 2015 test year cost of service before the Rural Deficit allocation:

12
 13 **Table 7: 2015 Revenues versus Costs**

14

(000's)	2015 Revenues (A)	2015 TY Cost (B)	Difference (A)-(B)
Customer Group			
Newfoundland Power	\$ 429,323	\$ 363,665	\$ 65,658
Island Industrial Customers	32,182	32,571	(389)
Labrador Interconnected	20,093	17,528	2,565
Other Hydro Rural	60,879	119,232	(58,353)
Labrador Industrial Transmission	5,411	5,078	333
Total	\$ 547,888	\$ 538,074	\$ 9,814

15
 16
 17 The table below presents the 2015 revenue deficiency to be recovered by customer group after the
 18 Rural Deficit allocation:

19
 20 **Table 8: 2015 Revenue Deficiency Allocation**

21

(000's)	2015 Existing Revenues (A)	2015 TY Costs Revenue Def. (B)	Difference (A)-(B)
Customer Group			
Newfoundland Power	\$ 429,323	\$ 419,335	\$ 9,988
Island Industrial Customers	32,182	32,571	(389)
Labrador Int. - Hydro Rural	20,093	20,211	(118)
Labrador Industrial Transmission	5,411	5,078	333
Total	\$ 487,009	\$ 477,195	\$ 9,814

22
 23
 24 The amounts are equal to the difference between the 2015 existing revenues and the revised 2015 test
 25 year costs with the Rural Deficit allocated based on the revenue requirement methodology as
 26 approved in P.U. 49 (2016).

1 As a result of the allocation of the revenue deficiency, Newfoundland Power incurred revenue in
2 excess of allocated costs of \$10.0 million and \$0.3 million for Labrador Industrial Transmission.
3 There was an approximate \$0.4 million revenue deficiency for the Island Industrial Customers and
4 \$0.1 million for Labrador Interconnected. There was an overall revenue in excess of allocated costs
5 of \$9.8 million for the 2015 year.

1 **2016 Revenue Deficiency**

2

3 To determine revenue deficiency for 2016, Hydro compared its revenues for 2016 based on
 4 approved interim rates applied to the 2015 test year load forecast with the 2015 test year revenue
 5 requirement for rate-setting reflecting \$55.40 per barrel price of No. 6 fuel, which was agreed by the
 6 Board in P.U. 14 (2017).

7

8 Below is a reconciliation that illustrates the total revenue requirement from the finance schedule to
 9 the cost of service study:

10

11 **Table 9: Reconciliation to the Revenue Requirement (\$ millions)**

12

Total Revenue Requirement per finance schedules	\$ 544.3
Less Expense Credits	(2.5)
Add IOCC Cost Recovery	1.4
Total Revenue Requirement per cost of service	\$ 543.2

13

14

15 The table below is a summary of 2016 revenues under interim rates in effect for 2016 based on the
 16 2015 test year load forecast compared to the 2015 test year cost of service for rates setting by
 17 customer group:

18

19 **Table 10: 2016 Revenues versus 2015 Test Year Costs based on 2015 Test Year Load Forecast**

20

(000's)	2016	2015 TY	Difference
	Revenues (A)	Cost (B)	(A)-(B)
Customer Group			
Newfoundland Power	\$ 448,560	\$ 367,659	\$ 80,901
Island Industrial Customers	34,892	32,817	2,075
Labrador Interconnected	20,093	17,651	2,442
Other Hydro Rural	68,217	119,881	(51,664)
Labrador Industrial Transmission	5,410	5,231	179
Total	\$ 577,172	\$ 543,239	\$ 33,933

21

22

1 The following table presents the 2016 revenues at interim rates and 2015 test year costs, including the
 2 allocation of the Rural Deficit:

3
 4 **Table 11: 2016 Revenues versus 2015 Test Year Costs based on 2015 Test Year Load**
 5

(000's)	2016 Existing		2015 TY Costs		Excess
Customer Group	Revenues (A)		Revenue Def. (B)		(A)-(B)
Newfoundland Power	\$	448,560	\$	416,956	\$ 31,604
Island Industrial Customers		34,892		32,817	2,075
Labrador Int. - Hydro Rural		20,093		20,018	75
Labrador Industrial Transmission		5,410		5,231	179
Total	\$	508,955	\$	475,022	\$ 33,933

6
 7
 8 The amounts are equal to the difference between the 2016 test year revenues from rates and the
 9 revised 2015 test year costs with the Rural Deficit allocated based on the revenue requirement
 10 methodology as approved in the GRA order.

11
 12 There was excess revenue of \$31.6 million for Newfoundland Power, \$2.1 million for Island
 13 Industrial Customers, \$0.1 million for Labrador Interconnected and \$0.2 million for Labrador
 14 Industrial Transmission Customers. This accounted for an overall revenue excess of \$33.9 million.

15
 16 **Based on completion of our procedures we did not note any discrepancies in the calculations**
 17 **of the revenue deficiencies for 2014, 2015 and 2016 included in the Compliance Rates**
 18 **Application.**

1 **2017 Revenue Deficiency**

2
3 To determine the revenue deficiency for the first six months in 2017, Hydro compared the forecast
4 revenues for the first six months by applying the proposed base rates in the Compliance Rates
5 Application and the existing rates that will be in effect for the first six months of 2017 using the 2015
6 test year loads.

7
8 Hydro provided the revenue deficiency or sufficiency by class for the first six months of 2017 within
9 Exhibit 3, Table 9 of the Compliance Rates Application. The following revenue deficiencies or
10 sufficiencies on customer classes resulted:

- 11
- 12 • \$804,000 deficiency to Newfoundland Power;
 - 13 • \$20,000 sufficiency to Island Industrial Customers;
 - 14 • \$31,000 deficiency to Labrador Interconnected Customers; and,
 - 15 • \$97,000 sufficiency to Labrador Industrial Transmission Customers.
- 16

17 Our review of the Compliance Rates Application included agreeing the load to 2015 test year support
18 provided by Hydro, the interim rates used to compile the revenue deficiency, and verified the clerical
19 accuracy of the calculations provided in Exhibit 3 for the 2017 revenue deficiencies.

20
21 We noted an error in Exhibit 3, Table 10 in the original filing of the Compliance Rate Application
22 dated May 18, 2017 relating to the calculation of the deficiency of the Labrador Interconnected
23 Customers of \$31,000. The table presented a sufficiency when in fact it was a deficiency of \$31,000
24 which had an impact on customer rates. Subsequently, Hydro filed a revision 2 dated June 2, 2017
25 which corrected this error in Table 10 and the impact on customer rates.

26
27 **Based on completion of our procedures we did not note any discrepancies in the calculations**
28 **of the 2017 revenue deficiencies included in the Compliance Rates Application after Revision**
29 **2 was filed.**

1 **Proposal of Recovery of Revenue Deficiencies**

2
3 The Board directed Hydro to file a revised proposed recovery of the revenue deficiencies for 2014 to
4 2017 to include Labrador Interconnected customers and the Labrador Industrial Transmission
5 customers in P.U. 14 (2017).

6
7 In the Compliance Rates Application Hydro has proposed the following recoveries of revenue
8 deficiencies:

9 10 ***Newfoundland Power***

11 In the Compliance Application filed January 2017, Hydro proposed that the revenue sufficiency
12 owing to Newfoundland Power for the period January 1, 2014 to April 1, 2017 would be a credit to
13 Newfoundland Power's RSP Current Plan balance as of December 31, 2016. The amount calculated
14 in the Compliance Application was an amount owing to Newfoundland Power of \$703,000.

15
16 In the Compliance Rates Application, Hydro has included the same proposal but in a two-step
17 process. They are proposing that the revenue sufficiency of \$6.577 million that accumulated for the
18 years 2014 to 2016 would be credited to Newfoundland Power's RSP Current Plan as of January 1,
19 2017 and the forecast revenue deficiency of \$804,000 calculated for 2017 would be a debit to
20 Newfoundland Power's RSP Current Plan as of June 30, 2017 [Total of \$5.773 million].

21
22 Since the RSP Adjustment rate for July 1, 2017 is calculated using the RSP balance as of March 31,
23 2017, the forecast 2017 revenue deficiency of \$804,000 owing from Newfoundland Power will not be
24 factored into Newfoundland Power rates until July 1, 2018. Based on discussions with Hydro, the
25 2017 revenue deficiency that will be debited to the Plan on June 30, 2017 will be the actual calculated
26 deficiency, not necessarily the forecast amount of \$804,000 included in this Compliance Rates
27 Application.

28 29 ***Industrial Customers***

30 In the Compliance Application filed January 2017, Hydro proposed that the revenue deficiency
31 owing from the Industrial Customers for the period January 1, 2014 to April 1, 2017 would be offset
32 by the balance remaining in the segregated load variation account owing to the Industrial Customers.
33 However, in P.U. 14 (2017), the Board noted that North Atlantic Refinery Limited ("NARL") had
34 concerns with Hydro's proposal to offset the revenue deficiency with a transfer from the RSP credit
35 balances.

36
37 According to P.U. 14 (2017), the Board advised Hydro that further information was required before
38 Hydro's proposal could be considered and that the Industrial Customer RSP issues and recovery of
39 the revenue deficiency would be addressed in a separate order of the Board.

40 41 ***Labrador Interconnected System***

42 In the Compliance Rate Application Hydro proposed to provide excess revenues of \$467,000 from
43 Hydro Rural customers on the Labrador Interconnected System by applying a rate reduction which
44 would effectively refund the excess revenues over a 30 month period (i.e., July 1, 2017 to December
45 31, 2019). We have verified the clerical accuracy of the rate reduction applied to the Labrador
46 Interconnected System rates from the 2015 test year cost of service study for rate setting.

- 1 ***Labrador Industrial Transmission Customers***
- 2 In the Compliance Rate Application Hydro proposed to provide the Labrador Industrial
- 3 Transmission customers a refund of approximately \$609,000 in the form of a credit to their bills in
- 4 September 2017.

1 **Rate Stabilization Plan**

2 3 Update for 2015 Test Year

4
5 In Exhibit 6 of its Compliance Rates Application, Hydro has included the Rate Stabilization Plan
6 (“RSP”) report for the period ended March 31, 2017. This report includes the necessary adjustments
7 required to update the operation of the 2015 and 2016 RSP using the 2015 test year inputs that were
8 previously approved by the Board in P.U. 49 (2016). We can confirm that these adjustments are
9 included in the various components of the RSP as of January 1, 2017 and correspond to the
10 calculations that were included in the Compliance Application that was filed January 27, 2017 in
11 response to P.U. 49 (2016).

12 13 RSP Fuel Rider

14
15 In accordance with Section D of the RSP rules, when new test year base rates come into effect, if a
16 fuel rider forecast (either March or September) is more current than the test year fuel forecast, a fuel
17 rider must be included in the rates charged to both Newfoundland Power and the Island Industrial
18 Customers at the time of implementation of new base rates.

19
20 In P.U. 49 (2016) the Board approved the use of \$64.41 per barrel fuel cost. When Hydro filed its
21 Compliance Application in January 2017, the proposed fuel riders were based on the September 2016
22 fuel price forecast, however the March 2017 forecast fuel price has since been filed with the Board.

23
24 The RSP fuel rider in the Compliance Rates Application is based on the forecast average No. 6 fuel
25 price for the period July 1, 2017 to June 30, 2018 of \$81.40 per barrel. As indicated in Appendix A of
26 Exhibit 4, the proposed fuel rider for Newfoundland Power is 0.672 cents/kWh and 0.625
27 cents/kWh for Industrial Customers. These fuel riders are included in Hydro’s proposed rate
28 schedules for July 1, 2017.

29
30 In the Compliance Application filed January 2017, the fuel rider was calculated using the monthly
31 average of the Bank of Canada \$Cdn/\$US Noon Exchange Rate for the month of September 2015
32 instead of September 2016. In the Compliance Rates Application, Hydro has used the monthly
33 average of the Bank of Canada \$Cdn/\$US Noon Exchange Rate for the month of March 2017,
34 which is in accordance with the rules. This approach was suggested by Grant Thornton and accepted
35 by Hydro.

36
37 Our review of the Compliance Rates Application, included verifying the clerical accuracy of the
38 calculations provided in Appendix A of Exhibit 4.

39 40 P.U. 16 (2017) - Newfoundland Power Rate Mitigation Order

41
42 In P.U. 16 (2017), the Board ordered the following:

- 43 - *“Hydro shall transfer the balance in the Newfoundland Power Load Variation balance to the*
44 *Newfoundland Power RSP Current Plan to mitigate the proposed July 1, 2017 RSP Adjustment rate*
45 *increase.*
- 46 - *Hydro shall provide with its revised compliance rates application detailed calculations in relation to the*
47 *transfer from the Newfoundland Power RSP Load Variation balance and the resulting impacts on rates.*
- 48 - *Hydro shall set up the proposed RSP Current Plan rate on the Utility Rate Sheet showing i) the RSP*
49 *Current Plan rate, calculated in the ordinary course, and ii) the RSP Current Plan mitigation rate.”*

1 On page 17 of 20 of Exhibit 6, in the Compliance Rates Application, the balance of \$50,737,099 in
2 the Newfoundland Power Load Variation component as of March 31, 2017 is transferred to the
3 Newfoundland Power RSP Current Plan balance (page 11 of 20 of Exhibit 6). This transfer increased
4 the Current Plan balance owing to Newfoundland Power as of March 31, 2017 to \$73,443,479. This
5 is the balance used by Hydro to calculate the RSP Recovery Adjustment rate in Appendix B of
6 Exhibit 3.

7
8 Appendix B of Exhibit 4 of the Compliance Rates Application includes the detailed calculations in
9 relation to the transfer from the Newfoundland Power RSP Load Variation balance and the resulting
10 impacts on rates. Page B-1 provides the calculation of the RSP Recovery adjustment rate of (0.132)
11 cents/kWh which is the rate with “no mitigation”, and page B-2 provides the calculation of the RSP
12 Recovery adjustment rate of (1.043) cents/kWh which is the rate with “with mitigation”. The RSP
13 Mitigation rate as noted on page B-2 is (0.911) cents/kWh ((0.132)-(1.043)).

14
15 Our review of the Compliance Rates Application, included verifying the clerical accuracy of the
16 calculations provided in Exhibit 6 and Appendix B of Exhibit 4.

17
18 On page UT-4 of Exhibit 9 of the Compliance Rates Application, Hydro has presented the RSP
19 Current Plan rate, calculated in the ordinary course, and the Current Plan Mitigation Adjustment rate
20 in accordance with P.U. 16 (2017).

21 22 Industrial Customers – RSP Recovery Adjustment and RSP Surplus Energy Credit

23
24 Page B-3 of Appendix B, Exhibit 4 of the Compliance Rates Application includes the detailed
25 calculation of the RSP recovery adjustment rate of (0.373) cents/kWh for Industrial Customers. This
26 rate is calculated using the December 31, 2016 Current Plan balance for Industrial Customers
27 updated for the 2015 test year.

28
29 The proposed July 1, 2017 RSP Adjustment rate for the Industrial Customers also reflects the
30 discontinuance of the RSP Surplus Energy Credits as of June 30, 2017. These credits were drawing
31 down the balance in the Industrial Customers RSP Surplus however according to page 19 of 20 in
32 Appendix 6, this balance was drawn down completely during February 2017 and as of March 31,
33 2017, the RSP Surplus is showing a balance of \$446,585 owing to Hydro.

34
35 In the Compliance Rates Application, Hydro is proposing that the overpayment of the Industrial
36 Customers RSP Surplus balance be reflected in the calculation of the Current Plan RSP recovery
37 adjustment to be implemented effective January 1, 2018.

38
39 Options to potentially mitigate the rate impacts to Industrial Customers are being considered
40 separately by the Board.

41
42 Our review of the Compliance Rates Application, included verifying the clerical accuracy of the
43 calculations provided in Appendix B of Exhibit 4.

44 45 RSP Rules

46
47 In addition to the changes in the RSP rules that were proposed in the 2013 General Rate Application,
48 and approved by the Board in P.U. 49 (2016), Hydro is also proposing revised wording to Section
49 B.4 of the RSP Rules to provide flexibility in adjusting RSP balances when ordered by the Board,
50 such as the transfer of the Newfoundland Power Load Variation balance to the Newfoundland
51 Power RSP Current Plan balance in P.U. 16 (2017).

1 The revised wording proposed by Hydro for the Board's consideration is included on page RSP-4,
2 Exhibit 9. In section B.4 "Plan Balances", Hydro has included the following sentence:

3
4 *"The RSP balances shall be adjusted by other amounts as ordered by the Board."*
5

6 Based on discussions with Hydro it was decided not to make the inclusion specific to the balance
7 transfer ordered in P.U. 16 (2017), but to be make it broader in scope so that the rules will not have
8 to be revised if the Board orders any further transfer of balances included in the RSP.
9

10 **Based on our review, we noted no exceptions in Hydro's methodology and calculations of**
11 **the RSP Fuel Rider, Newfoundland Power Rate Mitigation Order, Industrial Customer RSP**
12 **Recovery Adjustment and RSP Surplus Energy Credit within Exhibit 4 of the Compliance**
13 **Rates Application.**
14

15 **Deferral and Recovery Mechanisms**

16
17 We can confirm that the Company's proposed Deferral Account Report, included in the Compliance
18 Rates Application as Exhibit 5, incorporates the changes ordered by the Board in P.U. 14 (2017).
19

20 **Proposed Revenue from Rates**

21 Within Exhibit 4 of its Compliance Rates Application, the Company has provided the comparison
22 and computation of the existing and proposed rates, including the projected customer billing impacts
23 for implementation of proposed customer rates. Hydro was not required to revise the proposed
24 2015 test year revenue requirement for rate setting purposes as a result of P.U. 14 (2017). However,
25 Hydro updated the 2015 test year cost of service study for the impact of forecast test year revenue
26 from Hydro rural customers which impacts the rural deficit and allocated revenue requirement to
27 Newfoundland Power and the Hydro rural customers on the Labrador Interconnected System. The
28 revised 2015 test year cost of service study was filed in Exhibit 8.

29 Our review of the Compliance Rates Application also included verifying the methodology on pages
30 CDM-1 and CDM-2 of Exhibit 9 and clerical accuracy of the calculations for the CDM Cost
31 Recovery Adjustment provided in Exhibit 4, Appendix C.
32

33 **Based on our procedures, we find that the 2015 revenue requirement for rate setting**
34 **proposed by the Company is calculated based upon the revised Schedule of Rates, Tolls and**
35 **Charges effective July 1, 2017 and the factors proposed in this Compliance Rates Application.**

36


37 St. John's, Canada
38 June 6, 2017

Chartered Professional Accountants