

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P.U. 16(2017)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1
3 (the “*EPCA*”) and the *Public Utilities Act*, RSNL
4 1990, Chapter P-47, as amended (the “*Act*”), and
5 regulations thereunder; and
6

7 **IN THE MATTER OF** a general rate
8 application filed by Newfoundland and
9 Labrador Hydro on July 30, 2013; and
10

11 **IN THE MATTER OF** an amended general
12 rate application filed by Newfoundland and
13 Labrador Hydro on November 10, 2014; and
14

15 **IN THE MATTER OF** Order
16 No. P.U. 49(2016); and
17

18 **IN THE MATTER OF** an application filed
19 by Newfoundland and Labrador Hydro on
20 January 27, 2017 with revised proposals
21 related to the general rate application to
22 reflect Order No. P.U. 49(2016); and
23

24 **IN THE MATTER OF** Order
25 No. P.U. 14(2017).
26
27

28 **Background**
29

30 In Order No. P.U. 49(2016) the Board set out its findings and determinations in relation to the
31 general rate application filed by Newfoundland and Labrador Hydro (“Hydro”) on July 30, 2013,
32 which was amended on November 10, 2014. In this order Hydro was directed to file revised
33 proposals to incorporate the findings and determinations of the Board.
34

35 On January 27, 2017 Hydro filed an application setting out revised proposals based on the findings
36 and determinations of the Board in Order No. P.U. 49(2016) (the “Compliance Application”).
37

38 The Compliance Application was circulated to: Newfoundland Power Inc. (“Newfoundland
39 Power”); the Consumer Advocate, Dennis Browne, Q.C.; a group of Island Industrial customers:
40 Corner Brook Pulp and Paper Limited and NARL Refining Limited Partnership (the “Industrial

1 Customer Group”); Teck Resources Limited; Vale Newfoundland and Labrador Limited; the Innu
2 Nation; the Towns of Labrador City, Wabush, Happy Valley-Goose Bay and North West River ;
3 Nunatsiavut Government; and Yvonne Jones, MP Labrador.

4
5 The Compliance Application proposed the implementation of revised rates effective April 1, 2017
6 which included a revised RSP Fuel Rider. The proposed forecast fuel price of \$68.50 per barrel
7 (\$Cdn) was based on the September 2016 fuel rider forecast, as compared to the 2015 test year
8 forecast of \$64.41 per barrel (\$Cdn).¹ Subsequent to the filing of the Compliance Application
9 Hydro acknowledged that in the circumstances, it would be preferable to have one rate change
10 occur on July 1, 2017 to reflect both the findings of the Board on the Compliance Application as
11 well as the annual July 1 RSP adjustments.²

12
13 On April 12, 2017, in accordance with the RSP Rules, Hydro filed the annual RSP fuel price
14 projection to be reflected in the annual RSP adjustment on July 1, 2017. Hydro filed an updated
15 RSP fuel price projection on April 18, 2017 to reflect the updated currency exchange rate as well
16 as the fuel price. The revised forecast average No. 6 fuel price for the July 2017 to June 2018
17 period was \$81.40 per barrel (\$Cdn), which was significantly higher than the forecast of \$68.50
18 per barrel (\$Cdn) set out in the Compliance Application.

19
20 On April 19, 2017 the Board wrote the parties in the general rate application with respect to the
21 RSP fuel price projection filed by Hydro. The Board noted the significant increase in the forecast
22 fuel rider and asked that Hydro provide the current expected percentage rate impacts for
23 customers. The Board also advised that the parties may file comments on the fuel price projection
24 and its impact on rates for the consideration of the Board.

25
26 In response to the Board’s request, on April 21, 2017 Hydro provided an estimate of the rate
27 impacts associated with i) the Compliance Application, ii) the updated RSP Fuel Rider, and iii)
28 the updated Current Plan RSP Recovery Rate Adjustments. Hydro advised that, as a result of
29 these adjustments, Hydro’s rate to Newfoundland Power was forecast to increase by 27.6% on
30 July 1, 2017, with an estimated average end customer impact of 18.6%. Hydro also provided
31 information related to rate impacts for Industrial customers. The Board advised on April 21, 2017
32 that the issues related to the Industrial Customer RSP would be addressed in a subsequent order
33 of the Board.

34
35 On April 25, 2017 Newfoundland Power and the Industrial Customer Group filed comments for
36 the consideration of the Board. On April 26, 2017 Hydro filed reply comments.

37
38 The Board issued Order No. P.U. 14(2017) on May 1, 2017 setting out its findings in relation to
39 the Compliance Application. The Board found that the information provided was insufficient to
40 reach a determination on the July 1, 2017 RSP adjustment for Newfoundland Power and whether
41 measures should be adopted to address the projected significant rate increases. The Board decided
42 that the RSP rate adjustment for Newfoundland Power would be addressed in a subsequent order
43 of the Board.

44
45 On May 2, 2017 the Board wrote to Hydro to request further information on available options to
46 mitigate the expected rate increases arising from the operation of the Newfoundland Power RSP

¹ Compliance Application, Exhibit 4, Appendix A.

² Hydro, February 20, 2017.

1 in 2017, as well as the combined rate impacts for Newfoundland Power and retail customers for
 2 identified options and new rates arising from the general rate application. The Board also
 3 requested that Hydro provide an update of estimated outstanding balances and Hydro's plans for
 4 disposition, for all deferral accounts and any other recoveries for each customer class, as well as
 5 any offsetting credit balances that may be available to offset these liabilities.

6
 7 On May 3, 2017 Hydro provided the requested additional information in relation to the supply
 8 cost deferral accounts, available RSP balances, and rate mitigation options. Hydro revised this
 9 letter on May 5, 2017. Newfoundland Power, the Consumer Advocate and the Industrial Customer
 10 Group filed further comments on May 5, 2017.

11
 12 Hydro filed another proposal on May 5, 2017 after the other parties had filed their submissions.
 13 The Board provided another opportunity to the parties to comment on this further submission
 14 from Hydro. On May 8, 2017 Newfoundland Power and the Industrial Customer Group filed
 15 further comments.

16
 17 On May 9, 2017 Hydro filed further comments. On May 10, 2017 the Consumer Advocate filed
 18 further comments.³

19
 20 **Hydro's April 21, 2017 Filing - July 1, 2017 Rate Impacts**

21
 22 Hydro advised that, in accordance with the normal operation of the RSP, the following revised
 23 RSP rates would be implemented in the utility rate charged to Newfoundland Power on July 1,
 24 2017:

Newfoundland Power RSP Adjustments⁴
July 1, 2017

Particulars	Existing	New
RSP - Current Plan	(1.213) ¢/kWh	(0.117) ¢/kWh
RSP - Fuel Rider	(0.023) ¢/kWh	0.672 ¢/kWh
Total RSP Rate	(1.236) ¢/kWh	0.555 ¢/kWh

25 Hydro explained that the increase in the RSP Current Plan rate effectively reflects the conclusion
 26 of the reimbursement to customers of No. 6 fuel savings from the previous year. The RSP Fuel
 27 Rider rate is based on the forecast average No. 6 fuel price for the period July 2017 to June 2018
 28 of \$81.40 per barrel (\$Cdn) compared to the 2015 test year forecast of \$64.41 (\$Cdn).

29
 30 Hydro estimated the average end customer rate impacts of the Newfoundland Power adjustments
 31 as follows:

³ The Consumer Advocate's letter was filed on May 10, 2017 but was dated May 11, 2017.

⁴ Hydro, April 21, 2017, Table 1.

Average Newfoundland Power Impacts (%)⁵
July 1, 2017

Particulars	Utility
Hydro Base Rates (Compliance Application Proposed)	-0.5%
RSP - Current Plan	17.2%
RSP - Fuel Rider	<u>10.9%</u>
Total Rate Impact	27.6%
Estimated End Consumer Impact	18.6% ⁶

1 Newfoundland Power submitted that the estimated average customer rate increase for July 1, 2017
 2 is the result of material fluctuations in Hydro's cost of supply.⁷ Newfoundland Power argued that
 3 the forecast customer rate increase is large in historical terms, noting that over the past 20 years,
 4 the annual July 1 customer rate changes have ranged from -7.9% in 2016 to +9.9% in 2004.
 5 Newfoundland Power stated:

6
 7 Use of the Load Variation Balance to mitigate the impact of the forecast average Newfoundland
 8 Power customer rate increase of 18.6% on July 1, 2017 is a reasonable approach to these
 9 extraordinary circumstances. In addition, such regulatory action would be consistent with the
 10 underlying purpose of the RSP – to smooth fluctuations in Hydro's cost of supply.⁸

11
 12 Newfoundland Power estimated the reduction in the forecast rate increase on July 1, 2017 with
 13 the application of various percentages of the RSP Load Variation balance as follows:

Pro Forma Average Rate Impacts⁹
Load Variation Balance Used

	25%	50%	75%	100%
Customer Rate Impacts (%)	(2.0)	(3.9)	(5.9)	(7.9)

14 Newfoundland Power submitted that application of 100% of the RSP Load Variation balance
 15 would be justified in the extraordinary circumstances.

16
 17 The Industrial Customer Group submitted that they are concerned that the estimated rate
 18 adjustments do not yet fully represent to customers the full scope of the rate related impacts and
 19 liabilities to which they are exposed. The Industrial Customer Group requested that more
 20 information be provided by Hydro.¹⁰

21
 22 Hydro submitted in its reply that the forecast impact on Newfoundland Power customers is
 23 primarily a result of the normal operation of the RSP with respect to the amortization of plan
 24 balances and forecasted fuel prices in accordance with the approved RSP Rules. In Hydro's view
 25 approval of the RSP adjustments would be consistent with establishing rates that reasonably

⁵ Hydro, April 21, 2017, Table 3.

⁶ Estimated consumer impact for Newfoundland Power's customers is calculated as 67.5% of the gross Utility rate change.

⁷ Newfoundland Power, April 25, 2017.

⁸ Ibid., page 3.

⁹ Ibid., Table 1.

¹⁰ The Board advised on April 21, 2017 that the Industrial Customer RSP would be addressed in a separate process.

1 reflect the cost of providing service to customers. Hydro acknowledged that the use of the RSP
 2 Load Variation balance would reduce the July 1, 2017 increase to customers of Newfoundland
 3 Power by approximately 7.9% but argued that it would create a number of issues. In particular
 4 Hydro stated:

- 5
- 6 i) The RSP Current Plan would remain materially negative with customer rates recovering
 - 7 less than the cost to serve.
 - 8 ii) The use of the RSP Load Variation balance would mean that a new rate rider would be
 - 9 required to recover the 2015 and 2016 supply costs deferred in Order No. P.U. 56(2016).
 - 10 iii) Reducing the rate increase and shortly thereafter implementing a rate rider to incur
 - 11 previously incurred supply costs from future customers creates intergenerational equity
 - 12 concerns.
 - 13 iv) Deferring rate increases to the future related to current costs is a concern given the other
 - 14 cost drivers that are expected to result in increases in future customer rates. Hydro noted
 - 15 that its next general rate application will reflect the investment of more than \$500
 - 16 million in capital.

17

18 Hydro recognized that the projected rate increases for July 1, 2017 are material but noted that
 19 customers received material rate decreases in both 2015 and 2016 due to the annual July 1 RSP
 20 rate adjustments. Hydro stated:

21

22 Hydro supports approval of the forecast RSP adjustments that ensure that rates will reasonably
 23 reflect the cost to serve existing customers. Deferral of rate increases into the future to recover
 24 current costs while allowing existing customers to pay rates that are materially below cost is not
 25 consistent with the regulatory principle of intergenerational equity.¹¹

26

27 **Hydro's May 3, 2015 Filing - Rate Mitigation Options**

28

29 In response to the Board's request for additional information Hydro provided further information
 30 related to the rate mitigation options, the supply cost deferral account balances, and available RSP
 31 balances.¹² Hydro provided the following updated supply cost deferral balances:

Updated Supply Cost Deferral Balances¹³

Particulars	2015 (000s)	2016 (000s)	Total (000s)
Isolated Systems	-	(\$2,186)	(\$2,186)
Energy Supply	\$14,200	\$24,463	\$38,663
Holyrood Conversion	\$3,582	\$2,151	\$5,733
Total	\$17,782	\$24,427	\$42,210

32 Hydro submitted that it is appropriate to use the RSP Load Variation balance to offset the deferred
 33 supply cost balances, taking into account future rate changes and intergenerational equity.
 34 According to Hydro \$38.9 million of the deferred supply costs would be allocated to

¹¹ Hydro, April 26, 2017, page 4.

¹² Hydro, May 3, 2017 letter which was amended on May 5, 2017.

¹³ Ibid., Table 1.

1 Newfoundland Power. Hydro provided an updated Newfoundland Power RSP Load Variation
 2 balance and calculated the balance that would remain after the allocation of the deferred supply
 3 costs as follows:

Disposition of Segregated Load Variation¹⁴

Particulars	Segregated Load (000s)	Supply Cost Allocation (000s)	Available Balance (000s)
Newfoundland Power	(\$50,737) ¹⁵	\$38,944	(\$11,882)

4 Hydro also advised that there is a credit balance of \$29.0 million associated with the RSP
 5 Hydraulic Production Variation. Hydro stated:

6 Given the magnitude of the potential rate increase on July 1, 2017, the Board may want to
 7 consider transferring 100% of the RSP Hydraulic Production Variation balance to the RSP
 8 Current Plan.¹⁶

9
 10 Hydro calculated that the amount which would be available to mitigate the rate increase for
 11 Newfoundland Power customers based on the credit balance remaining in the RSP Load
 12 Variation, net of the deferred supply costs, plus the RSP Hydraulic Production Variation as
 13 follows:

Available Funds / Outstanding Amounts¹⁷

Particulars	Segregated Load (000s)	Hydraulic Production (000s)	Available Funds (000s)
Newfoundland Power	(\$11,882)	(\$26,721)	(\$38,604)

14 Hydro filed an amended table setting out the impacts of the rate mitigation options for
 15 Newfoundland Power:

¹⁴ Ibid., Table 4.

¹⁵ RSP Load Variation balance as at March 31, 2017 under the 2015 Test Year.

¹⁶ Hydro, May 3, 2017, page 4.

¹⁷ Ibid., Table 6.

Newfoundland Power Rate Mitigation Options¹⁸
July 1, 2017

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
Normal Current Plan (cents/kWh)	(0.117)	(0.117)	(0.117)	(0.117)
Rate Mitigation Adjustment (cents/kWh)	<u>(0.333)</u>	<u>(0.453)</u>	<u>(0.573)</u>	<u>(0.693)</u>
Revised Current Plan (cents/kWh)	(0.450)	(0.570)	(0.690)	(0.810)
Fuel Rider (cents/kWh)	<u>0.672</u>	<u>0.672</u>	<u>0.672</u>	<u>0.672</u>
Total RSP Rider (cents/kWh)	0.222	0.102	(0.018)	(0.138)
Estimated End Customer Impacts				
Normal RSP Operation (%) ^{19, 20}	18.1%	18.1%	18.1%	18.1%
Rate Mitigation (%)	-3.5%	-4.8%	-6.1%	-7.4%
Revised RSP Operation (%)	14.6%	13.3%	12.0%	10.8%

1 Hydro concluded that there are sufficient credit balances owing to customers in the RSP to reduce
2 the July 1, 2017 retail customer impacts to approximately 10.8%.

3
4 The Consumer Advocate submitted that to burden ratepayers with an 18% to 19% rate increase,
5 which is well outside the normal range, is unacceptable.²¹ In the Consumer Advocate's view the
6 immediate concern is an interim measure to ensure that the rate increase will not surpass the
7 historical increases. The Consumer Advocate submitted that Newfoundland Power's proposal to
8 offset the rate impact appears reasonable:

9
10 The parties seem generally agreeable that the application of the Load Variation Balance could
11 be used as a mitigation option against Hydro's proposed rate increase. It is the shared conclusion
12 of others that the use of the Load Variation Balance would be consistent with the essential
13 purpose of the Rate Stabilization Plan, which was designed at its inception to smooth fuel price
14 variations for domestic consumers.²²

15
16 In relation to future rate increases the Consumer Advocate noted that Nalcor has been promising
17 to offset future rate increase through the 300 MW recall which will be available in 2018.

18
19 The Industrial Customer Group confirmed that they do not object to Hydro's proposal in relation
20 to the allocation of the balances in the supply cost deferral accounts but that other comments in
21 relation to Hydro's plans for disposition of the deferral accounts and any other recoveries and
22 offsetting credit balances will be made in the separate process which has been established with
23 respect to the operation of the Industrial Customer RSP.²³

¹⁸ Amended Table 7 filed by Hydro on May 5, 2017.

¹⁹ End customer impact is estimated as 67.5% of the total rate change to Newfoundland Power.

²⁰ The base rate change to Newfoundland Power is estimated to be -1.2%. This 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).

²¹ Consumer Advocate, May 5, 2017.

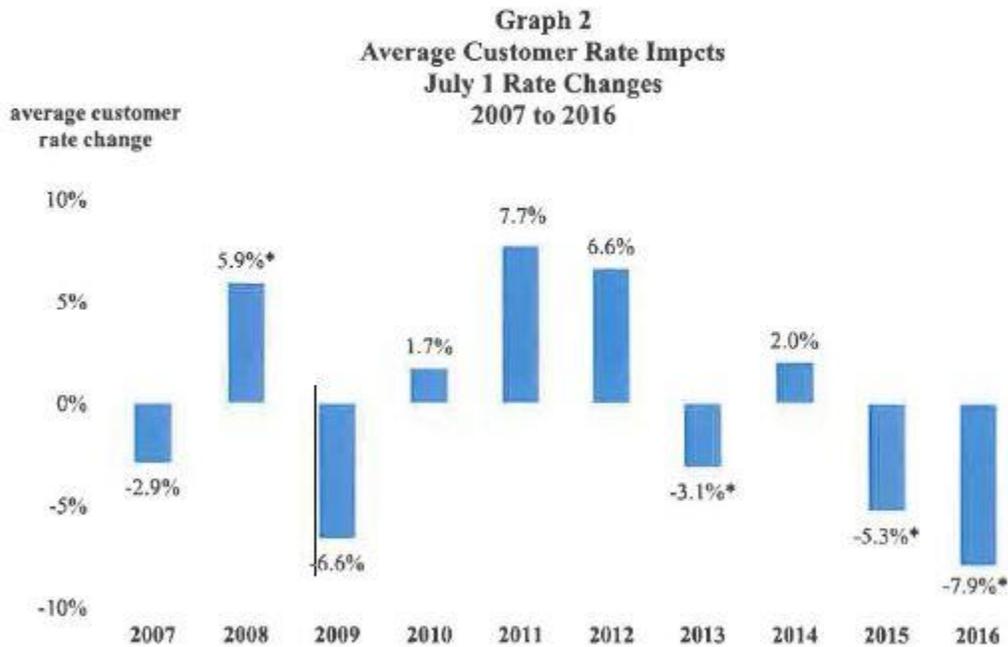
²² Ibid., page 2.

²³ Industrial Customer Group, May 5, 2017.

1 Newfoundland Power submitted that, while Hydro provided a range of rate mitigation options
 2 which would result in rate increases of 10.8% to 14.6%, the range of July 1 customer rate changes
 3 over the last ten years has been +7.7% to -7.9%.²⁴ Newfoundland Power provided the following
 4 graph of the July 1st average customer rate changes approved by the Board for the decade ending
 5 2016:

Mid-Year Rate Changes Over Past Decade

Graph 2 shows the July 1st average customer rate changes approved by the Board for the decade ending 2016.



* Also includes the impact of an order arising from a General Rate Application.

6 Newfoundland Power submitted that considering the deferred supply cost variation balances as
 7 proposed by Hydro is premature and unnecessarily complicates this matter and therefore all of
 8 the options presented by Hydro in respect of Newfoundland Power's customers should be
 9 rejected. Newfoundland Power referenced its proposal to use the outstanding RSP Load Variation
 10 balance to mitigate the large customer rate increase forecast for July 1, 2017, stating:

11
 12 Simply put, past customer overpayments in respect of Holyrood fuel would be used to partially
 13 offset the July 1, 2017 rate increase driven by variations in the cost of Holyrood fuel. This
 14 proposal was a balanced, simple and conceptually sound regulatory approach to the
 15 extraordinary circumstances presented by Hydro's forecast of an 18.6% average customer rate
 16 increase on July 1, 2017.²⁵

17
 18 Newfoundland Power explained that its proposal to use the updated RSP Load Variation balance
 19 would significantly reduce the July 1, 2017 rate increase to Newfoundland Power customers to

²⁴ Newfoundland Power, May 5, 2017.

²⁵ Ibid., page 4.

1 approximately 9% to 10%, which in Newfoundland Power's view is a reasonable regulatory
2 outcome.

3

4 **Hydro's May 5, 2017 Filing - Further Rate Mitigation Alternative**

5

6 Hydro filed another rate mitigation proposal on May 5, 2017 suggesting that the Board may want
7 to consider eliminating the RSP Fuel Rider on July 1, 2017. According to Hydro this would reduce
8 the July 1, 2017 rate increase to 11%. Hydro noted, however, that with no fuel rider in place,
9 should the forecast fuel price of \$81.40 materialize, the base rates charged to Newfoundland
10 Power customers would not recover this cost. Hydro submitted that the increased fuel costs would
11 accumulate in the RSP and credit balances in the RSP Load Variation and Hydraulic Production
12 Variation could be used to offset this under-recovery at a future date.

13

14 Hydro stated:

15

16 Hydro is largely indifferent as to which option the Board selects to mitigate customer rates;
17 however, given the Island Industrial Customer's inability to comment on the proposed options
18 and the need for the timely and orderly establishment of July 1, 2017 rates, Hydro submits that
19 the elimination of the fuel rider presents the best option given the current circumstances and time
20 constraints.²⁶

21

22 Newfoundland Power submitted that Hydro's proposal to eliminate the fuel rider should be
23 rejected given the compressed timeframes and the time required to assess this option.²⁷

24 Newfoundland Power stated:

25

26 The complexities of the operation of Hydro's RSP practically require that the potential impact of
27 any changes be fully considered prior to implementation. This is due to the significant potential
28 consequences for customers' rates. The accumulation of very large balances in Hydro's RSP
29 which were funded by customer rates since 2007 is a recent indication of the potential magnitude
30 of these consequences.²⁸

31

32 Newfoundland Power stated that Hydro did not address the potential longer term consequences
33 of eliminating the fuel rider or how the comments of the Industrial Customer Group are relevant
34 to the elimination of the fuel rider for Newfoundland Power. Newfoundland Power reiterated its
35 suggestion that the Board direct Hydro to apply the outstanding RSP Load Variation balance to
36 the July 1, 2017 rate change. Newfoundland Power submitted that using the RSP Load Variation
37 balance, which has already been segregated from the normal RSP operation, would not have
38 unforeseeable consequences for future customer rates.

39

40 The Industrial Customer Group clarified that it was premature to provide full comments on the
41 rate mitigation options and that its comments would be made on RSP when the submissions are
42 due in relation to the separate process for the Industrial customer issues.²⁹ The Industrial
43 Customer Group stated that it did not object to Hydro's proposal to eliminate the RSP Fuel Rider
44 on July 1, 2017 for both Newfoundland Power and Industrial customers, provided that this does
45 not resolve the issues in respect of general rate application compliance implementation and

²⁶ Hydro, May 5, 2017, page 3.

²⁷ Newfoundland Power, May 8 2017.

²⁸ Ibid., page 2.

²⁹ Industrial Customer Group, May 8, 2017.

1 Hydro's proposal for recovery of revenue deficiencies, Energy Supply Cost Deferral, Holyrood
2 Efficiency Deferral, use of deferred RSP balances, and use of RSP hydraulic balance.

3
4 Hydro filed another submission stating that the implementation of rate mitigation measures will
5 result in customers paying rates that recover less than the forecast cost of service for the period
6 July 2017 to June 2018. Hydro expressed concern that rate mitigation efforts will defer rate
7 increases into the future when rate increases for other reasons are expected.

8
9 The Consumer Advocate opposed Hydro's position and argued that the rate mitigation alternative
10 put forward by Newfoundland Power should be implemented.³⁰ The Consumer Advocate noted
11 that this would bring the resulting rates within the historic range. The Consumer Advocate stated
12 that Hydro does not have the right to set aside ratepayers money to be used for some future
13 purpose. In relation to the potential for other rate increases the Consumer Advocate submitted
14 that Hydro should not assume the results of any future rate application.

15 16 **Board Findings**

17
18 In Order No. P.U. 14(2017) the Board expressed concern in relation to the proposed July 1, 2017
19 rate increase for retail customers. The Board stated:

20
21 The annual rate impacts for retail customers associated with the operation of the RSP have
22 historically been the range of +/-10%, however, the estimated impact in July 2017 is much larger,
23 with an estimated rate increase for retail customers in the order of 18-19%. The Board is very
24 concerned about increases of this magnitude which are well outside of the normal range. The
25 Board acknowledges that the estimated rate increase is a result of the normal operation of the
26 RSP and that the last two annual RSP adjustments resulted in material decreases. However the
27 estimated rate increase for July 2017 is such a significant increase that it may be argued that it
28 would cause rate shock, despite the earlier rate decreases. In addition such a significant rate
29 increase in one year after the two material rate decreases may raise concerns as to whether the
30 RSP is appropriately smoothing fuel price variations in the circumstances.³¹

31
32 The Board notes that the proposed rate increase is primarily the result of the normal operation of
33 the RSP which provides for the recovery of costs associated with the operation of the Holyrood
34 Thermal Generating Station ("Holyrood"). The rates charged to Newfoundland Power on July 1,
35 2017 will reflect an increase in both the RSP Current Plan rate and the RSP Fuel Rider rate. The
36 RSP Current Plan rate reflects the recovery of the balance associated with variances in fuel costs
37 over the period July 1, 2016 to June 30, 2017.³² While the proposed RSP Current Plan rate
38 continues to be a credit to customers it is a much smaller credit than it was in 2016.³³ The proposed
39 RSP Fuel Rider rate is based on the forecast price of fuel over the period July 1, 2017 to June 30,
40 2018, of \$81.40 (\$Cdn) per barrel, as compared to the 2015 test year price of \$64.41 (\$Cdn) per
41 barrel. It will also be significantly higher in 2017 than it was in 2016.³⁴

³⁰ Consumer Advocate's letter filed on May 10, 2017 (dated May 11, 2017).

³¹ Order No. P.U. 14(2017), pages 16-17.

³² The RSP Current Plan rate was calculated using the actual March 31, 2017 balance and a forecast for April, May and June 2017.

³³ The proposed RSP Current Plan rate is (0.117) cents/kWh as compared to the existing rate of (1.213) cents/kWh.

³⁴ The proposed RSP Fuel Rider rate is 0.672 cents/kWh as compared to the existing rate of (0.023) cents/kWh.

1 Hydro argued that if measures are adopted to mitigate the July 1, 2017 rate increase the resulting
2 rates will be below the cost to serve. The Board notes that, while the utility is entitled to recover
3 reasonable costs, the recovery of the cost to serve must be considered in the context of the interests
4 of consumers in rate stability and the avoidance of rate shock. Rate stability was one of the
5 primary reasons for the implementation of the RSP in this jurisdiction in 1986. In Order No. P.U.
6 7(2002-2003) the Board explained:

7
8 The Board agrees with NP and NLH that the RSP provides rate stability to customers and also
9 provides a mechanism to eliminate volatility in NLH's revenue requirement due to events beyond
10 NLH's control. This was the original intent of the RSP and remains so today. Ratepayers benefit
11 from the smoothing of the impact of changing fuel prices on rates and thus eliminating the rate
12 spikes experienced by customers under the previous fuel adjustment charge. The Board believes
13 that the regulatory principle of rate stability and predictability is still important to customers.³⁵
14

15 The Board notes that the estimated average rate change for retail customers on July 1, 2017 of
16 over 18% is well outside of the range of rate increases which have been approved over the last
17 ten years. The largest rate increase associated with July 1 retail rate changes over the ten years
18 2007 to 2016 was 7.7% and the average approved increase was 4.8%. The largest decrease was
19 7.9% with an average decrease of 5.2%. In the circumstances the Board believes that the normal
20 operation of the RSP in 2017 may not provide the intended rate stability to customers.

21
22 The Board notes that the last two July 1 adjustments resulted in a combined average decrease in
23 rates for Newfoundland Power customers of 13.2%, with a decrease of 7.9% in 2016 and 5.3% in
24 2015. In addition the Board notes that existing rates are not substantially higher now than they
25 were a decade ago.³⁶ Nevertheless the estimated rate change for Newfoundland Power customers
26 on July 1, 2017, which is on average in excess of 18%, is a significant increase in one year. While
27 the actual impact of the increase would vary for individual customers depending on the class of
28 service and amount of electricity used, it is expected that such an increase would have a material
29 impact on the average customers' bill. The Board believes that the forecast average increase of
30 over 18% would result in rate shock to customers.

31
32 Hydro argued that rate mitigation would defer rate increases into the future when other rate
33 increases are expected. Hydro did not provide information in relation to the timing and amount
34 of the anticipated increases or as to the other circumstances that may be relevant at the time. The
35 Board believes that without this information the possibility of future rate increases should not be
36 considered when assessing whether the proposed rates should be mitigated. The Board is satisfied
37 that, in the interests of rate stability and to avoid rate shock, rate mitigation measures should be
38 adopted in relation to the proposed July 1, 2017 rate increase for Newfoundland Power.
39

40 While Hydro opposed the implementation of any rate mitigation measures, in response to the
41 Board's request, Hydro offered several rate mitigation options. Hydro estimated that the July 1,
42 2017 rate increase could be reduced to between 10.8% and 14.6%, using the available RSP Load

³⁵ Order No. P.U. 7(2002-2003), pages 83-84.

³⁶ The net change in average Newfoundland Power customer rates as a result of the July 1 adjustments over the 2007-2016 period was (1.9%). This total reflects the July 1, 2015 increase of 4.8% associated with approval of interim rates for Hydro in its general rate application, and the July 1, 2013 increase of 4.8% for Newfoundland Power as a result of its general rate application. This total does not reflect the January 1, 2008 increase of 2.8% for Newfoundland Power as a result of its general rate application.

1 Variation balance and a portion, or all of, the RSP Hydraulic Load Variation balance.³⁷ The RSP
2 Load Variation balance would first be used to provide recovery to Hydro with respect to the
3 balances in the deferred supply cost variation accounts, with the excess used to mitigate the July
4 1, 2017 rate increase. While Hydro provided updated information in relation to the balances in
5 the deferred supply cost variation accounts and how these balances would be allocated, the Board
6 notes that no application has yet been filed for the disposition of the balances in these accounts.
7 The Board agrees with Newfoundland Power that considering the balances in the deferred supply
8 cost variation accounts at this point is premature and unnecessarily complicates approval of rates
9 for July 1, 2017. Further, the Board notes that the deferred supply cost variation accounts are
10 distinct from the RSP and include amounts associated with the Isolated systems, the operation of
11 the new combustion turbine and power purchase agreements. It is not clear from the record that
12 leaving the RSP Load Variation balance intact at this time, so that it may be used to offset the
13 balances in these accounts in the future, is appropriate.

14
15 The Board also notes that the alternatives offered by Hydro in its May 3, 2017 letter involve the
16 use of all or a portion of the RSP Hydraulic Variation balance which Hydro opposed in the
17 Compliance Application. Specifically Hydro stated:

18
19 Based on the 2015 Test Year fuel price of \$64.41 per barrel, the \$21 million credit balance in the
20 hydraulic component of the RSP represents approximately 200 GWh in reduced Holyrood
21 generation as a result of the above average hydraulic generation. This represents less than 5% of
22 the normal annual hydraulic production. Hydro's Amended GRA shows that this amount of
23 hydraulic generation variation could occur in a single year. Therefore, Hydro considers it
24 reasonable to maintain the current hydraulic balance for smoothing material fluctuations in the
25 cost of supply and proposes that the revenue deficiency owing from the Island Industrial
26 Customers be recovered from the RSP Load Variation component.³⁸

27
28 The RSP Hydraulic Variation is meant to smooth out the impacts of the natural variations in
29 hydrology. The Board is reluctant to approve the use of the balance in the Newfoundland Power
30 RSP Hydraulic Variation in the absence of further information addressing the potential issues
31 associated with the use of any or all of this balance. The Board is not satisfied based on the
32 information provided that it is reasonable to use all or part of the Newfoundland Power RSP
33 Hydraulic Variation balance to offset the July 1, 2017 rate increases.

34
35 As an alternative to the use of the existing RSP balances, Hydro advised that the rate increases
36 could be mitigated through the elimination of the RSP Fuel Rider.³⁹ Hydro explained that this
37 would reduce the average rate impact to end customers to approximately 11%. While Hydro
38 advised that it was largely indifferent to which mitigation option is chosen Hydro submitted that,
39 considering the Industrial Customer Group's "inability to comment", the elimination of the RSP
40 Fuel Rider presents the best option in the circumstances given the time constraints. The Board
41 notes that the Industrial Customer Group subsequently clarified that they would provide full
42 comments in the separate process addressing the Industrial customer RSP issues. The Board
43 believes that the issues surrounding the Industrial Customer RSP are distinct and should be
44 addressed in the separate process established by the Board. Further, the Board shares the concerns
45 set out by Newfoundland Power in relation to the potential for unintended consequences with the
46 elimination of the RSP Fuel Rider given the complexity of the RSP and the limited time available

³⁷ Hydro, May 3, 2017.

³⁸ Compliance Application, Exhibit 3, page 22.

³⁹ Hydro, May 5, 2017.

1 to assess this late filed option. The Board does not believe that the elimination of the
2 Newfoundland Power RSP Fuel Rider is the best approach in the circumstances.

3
4 The Board agrees with Newfoundland Power and the Consumer Advocate that the use of the RSP
5 Load Variation balance to mitigate the significant increase in rates forecast on July 1, 2017 is
6 reasonable in the circumstances. The Board notes that the Newfoundland Power RSP Load
7 Variation balance of approximately \$50.7 million accumulated as a result of over recovery in
8 relation to the operation of Holyrood since September 1, 2013. The Board believes that it would
9 be consistent with intergenerational equity to credit this balance to customers at the earliest
10 practical opportunity. The Board also believes that it would provide for better matching to use
11 this balance to mitigate the July 1, 2017 rate increase, which is largely the result of increased fuel
12 costs associated with the operation of Holyrood. The Board is satisfied that it is appropriate in the
13 circumstances to use the balance in the Newfoundland Power RSP Load Variation to mitigate the
14 rate impacts associated with the July 1, 2017 RSP rate changes for Newfoundland Power.

15
16 The Board notes that Hydro did not provide detailed calculations in relation to the impact on rates
17 of using all or various portions of the Newfoundland Power RSP Load Variation balance. In its
18 April 26, 2017 correspondence Hydro confirmed that the use of all of the RSP Load Variation
19 balance would reduce the average July 1, 2017 rate increase to customers of Newfoundland Power
20 of approximately 18.6% by 7.9%.⁴⁰ This would result in an approximate rate increase of 10.7%.
21 Newfoundland Power subsequently estimated that, based on the information provided in Hydro's
22 May 3, 2017 letter, the average customer increase after applying the Newfoundland Power RSP
23 Load Variation balance would be approximately 9% to 10%.⁴¹ Newfoundland Power stated that,
24 in its view, this is a reasonable regulatory outcome. The Consumer Advocate supported
25 Newfoundland Power's rate mitigation proposal noting that it would bring the resulting rates
26 within the historic range. Based on the available information if all of the Newfoundland Power
27 RSP Load Variation balance is used, the rate increase for Newfoundland Power customers on July
28 1, 2017 would be reduced from an average of over 18% to approximately 9% or 10%. The Board
29 acknowledges that this is still a significant rate increase but notes that it is in keeping with past
30 increases and further that the rates have decreased by 13.2% since 2015. The Board believes that
31 this approach balances the interests of the utility and customers in that it provides for the recovery
32 of amounts related to increased fuel costs at Holyrood while at the same time significantly reduces
33 the impact on customers through the use of available balances owing to customers.

34
35 To implement the findings of the Board Hydro will be required to transfer the Newfoundland
36 Power RSP Load Variation balance to the Newfoundland Power RSP Current Plan and to provide
37 a detailed calculation in relation to this rate mitigation adjustment and the associated rate impacts
38 for Newfoundland Power as well as end customers. In the interests of transparency, Hydro should
39 detail this mitigation adjustment on the Utility Rate sheet.

⁴⁰ This estimate was based on the RSP Load Variation balance as of December 31, 2016.

⁴¹ This estimate was based on the RSP Load Variation balance as of March 31, 2017.

IT IS THEREFORE ORDERED THAT:

1. Hydro shall transfer the Newfoundland Power RSP Load Variation balance to the Newfoundland Power RSP Current Plan to mitigate the proposed July 1, 2017 RSP Adjustment rate increase.
2. Hydro shall provide with its revised compliance application detailed calculations in relation to the transfer from the Newfoundland Power RSP Load Variation balance and the resulting impacts on rates.
3. Hydro shall set out the proposed RSP Current Plan rate on the Utility Rate sheet showing i) the RSP Current Plan rate, calculated in the ordinary course, and ii) the RSP Current Plan mitigation rate.
4. Hydro shall pay all costs and expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador, this 12th day of May, 2017.

Andy Wells
Chair & Chief Executive Officer

Darlene Whalen, P. Eng.
Vice-Chair

Dwanda Newman, LL.B.
Commissioner

James Oxford
Commissioner

Cheryl Blundon
Board Secretary