

May 4, 2018

**Via Email & Courier**

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: Application of Newfoundland and Labrador Hydro (Hydro) regarding a Motion for the Deferral of Cost of Service Methodology Issues raised in the 2017 General Rate Application to the Cost of Service Methodology Review Hearing – Hydro's Reply**

**Background**

On April 4, 2018, Newfoundland and Labrador Hydro (Hydro) filed an application with the Board (the Application) for an Order defining the scope of the cost of service methodology issues to be addressed in the 2017 General Rate Application (2017 GRA). The Application arises in the context of cost of service methodology issues raised by the Consumer Advocate in the 2017 GRA, specifically (i) the classification of TL267 between demand and energy, and (ii) the marginal cost signal to be reflected in Newfoundland Power's wholesale rate design as a result of the interconnection with the North American grid. It is Hydro's position that these issues should be deferred to the Cost of Service Methodology Review Hearing scheduled for later in 2018.

The Labrador Interconnected Group, the Island Industrial Customer Group, The Iron Ore Company of Canada (IOC), Newfoundland Power, and the Consumer Advocate filed submissions in response to the Application. The following is Hydro's Reply to the Parties' Submissions.

**Scope of 2017 GRA as regards Cost of Service Methodology**

In each of the respective submissions, the Labrador Interconnected Group, the Island Industrial Customer group, the IOC and the Consumer Advocate have each questioned the scope of the 2017 GRA as regards the cost of service methodology that Hydro is seeking to have the Board confirm through the Application. For clarity, the Application does not seek (i) to foreclose debate on any methodological matters other than those described in paragraph 17 of the Application, nor (ii) to replace substantive debate with a terminological one around whether matters are "methodological" in nature. Rather, the Application is solely intended to defer the cost of service methodology issues raised by the Consumer Advocate, as summarized at

paragraph 12 of the Application, to the Cost of Service Methodology Review Hearing. If other methodological issues other than those identified by Hydro or the Consumer Advocate are subsequently identified in the course of the 2017 GRA, the Parties will have opportunity to make submissions on whether they should either properly be addressed in the GRA or deferred to the generic cost of service hearing.

### **The Regulatory Calendar and Regulatory Efficiency**

As noted in Newfoundland Power's reply submission, the near-term regulatory agenda is crowded.<sup>1</sup> Hydro's 2017 GRA is currently before the Board, and includes recovery of 2015, 2016, and 2017 Supply Costs, as well as an interim rate request and RSP update for Hydro's Utility Customer Rates. In addition to the 2017 GRA, Hydro's and Newfoundland Power's 2019 Capital Budget Applications are scheduled to be filed this summer; Newfoundland Power is scheduled to file its next General Rate Application on or before June 1, 2018; Hydro has agreed to file its 2018 Cost of Service Application on or before November 15, 2018; and Hydro anticipates filing its next General Rate Application in 2019. These matters are in addition to the 2017 Automobile Insurance Review also taking place in 2018.

Given the pressure placed on the regulatory calendar by these proceedings, Hydro submits that it is incumbent on all parties to ensure an efficient hearing for Hydro's 2017 GRA. The Consumer Advocate appears to be concerned that there is no guarantee that the Board will have time to hear Hydro's cost of service application due to the length of the 2017 GRA.<sup>2</sup> However, Hydro submits that bringing additional issues into the 2017 GRA will only serve to increase the length of the hearing and increase schedule pressures on the 2018 Cost of Service hearing.

Hydro submits that the Cost of Service issues raised in the Bowman Evidence would be most efficiently addressed in a discrete cost of service hearing. The Consumer Advocate's proposal to address these issues twice,<sup>3</sup> once for the pre-commissioning of the Muskrat Falls Project, and again post-commissioning, will only serve to exacerbate existing schedule concerns and would be contrary to the principle of regulatory efficiency.

Further, this proposal by the Consumer Advocate increases the risk that final rates from the 2017 GRA will be delayed, which would result in intergenerational equity concerns. Hydro submits that increased intergenerational inequity promotes neither the fairness nor equality espoused by the Consumer Advocate's submission.

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<sup>1</sup> Reply submission of Newfoundland Power dated April 30, 2018, page 2.

<sup>2</sup> Reply submission of the Consumer Advocate, Page 3, Paragraph 6 states "*Further, there is no guarantee that the Board will have time to hear the cost of service application in 2018 given its busy schedule. The current schedule of the 2017 GRA hearing is expected to go through August 2018, and possibly later.*"

<sup>3</sup> Reply submission of the Consumer Advocate, Page 3, Paragraph 5 states "*.. there has been a dramatic change in supply to the Island Interconnected System this year with the addition of new transmission links enabling off-island purchases to displace expensive Holyrood generation. There will be another dramatic change in supply to the Island Interconnected System when Muskrat Falls generation is commissioned, expected late 2020. The cost of service study in the 2017 GRA should reflect the dramatic change in supply during this pre-Muskrat Falls commissioning period to ensure rates are fair and equitable.*"

### **CBPP Generation Credit Agreement**

In its submission dated April 30, 2018, the Island Industrial Customer Group suggested that consideration should be given to deferring the discontinuation of the Corner Brook Pulp and Paper (CBPP) Generation Credit Agreement to the Cost of Service Hearing. Hydro does not take issue with this request and believes that deferring this issue will allow for a more fulsome discussion of this topic through the Cost of Service Hearing and will result in a more efficient 2017 GRA.

### **Other Matters**

The Consumer Advocate's submissions contain errors with respect to the Application and Hydro's intentions in filing it. The Consumer Advocate states that Hydro's Application:

*"... is asking the Board to issue an order that annuls its previous Order No. P.U. 2(2018)"<sup>4</sup>*

and

*"... eliminating discussion on Board jurisdiction and cost recovery of the Muskrat Falls project under OC2013-343."<sup>5</sup>*

With respect, this is untrue and illogical. Paragraph 20 of Hydro's Application clearly states:

*"Hydro therefore seeks a Board order that defines the scope of the cost of service methodology issues to be dealt with in the 2017 GRA."*

Hydro's Application makes no reference to P.U. 2(2018) or the Consumer Advocate's motion on OC2013-343 currently before the Board. Hydro submits that (i) these assertions by the Consumer Advocate are not supported by evidence; (ii) it (Hydro) has already fully complied with the requirements of P.U. 2(2018); and, (iii) it (Hydro) has filed comprehensive submissions in respect of the Consumer Advocate's motion on OC2013-343, discrete from those filed in connection with the Application.

Similarly, the Consumer Advocate's allegations that Hydro's various revisions of the 2017 GRA and other pre-hearing filings are demonstrative of regulatory inefficiency are spurious. Hydro has demonstrated its commitment throughout these proceedings to an efficient determination of the 2017 GRA, including *inter alia* by complying with all timelines set by the Board. The Consumer Advocate's submissions on this point ignore the reality of general rate applications, which by their nature are necessarily processed while operations are ongoing and circumstances evolve, and consequently give rise to revised filings and interim requests. Hydro has reasonably and efficiently met the challenging nature and timelines of these proceedings.

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<sup>4</sup> Reply submission of the Consumer Advocate, Page 4, Paragraph 7.

<sup>5</sup> Reply submission of the Consumer Advocate, Page 4, Paragraph 8.

### **Conclusion**

Hydro's Application seeks direction from the Board on the Cost of Service issues to be addressed through Hydro's 2017 GRA. Hydro submits that the matters raised in the Douglas Bowman Evidence are best left to Hydro's dedicated Cost of Service Hearing, scheduled for later this year. This position was supported by both Newfoundland Power and the Island Industrial Customer Group.<sup>6</sup>

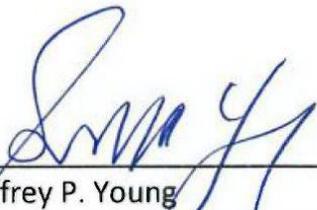
Hydro believes that if it were anticipated that a material revision to Newfoundland Power's rate structure was expected in the 2017 GRA, then Newfoundland Power may have submitted expert evidence in the current proceeding. It is Hydro's position that it is consistent with regulatory efficiency and procedural fairness that modifications to the wholesale rate design to better reflect marginal cost changes resulting from interconnection with the North American grid should be dealt with in the hearing planned to review the cost of service and rate design methodologies.

Hydro submits that the Consumer Advocate's recommendations are not consistent with regulatory efficiency, will result in a protracted 2017 GRA schedule, will increase the risk of schedule delays for other matters before the Board, and will risk delaying final customer rates in 2019, resulting in intergenerational inequity.

Should you have any questions, please contact the undersigned.

Yours truly,

### ***NEWFOUNDLAND AND LABRADOR HYDRO***

  
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Geoffrey P. Young  
Corporate Secretary & General Counsel

GPY/bds

cc: Gerard Hayes - Newfoundland Power  
Paul Coxworthy - Stewart McKelvey  
Denis J. Fleming - Cox & Palmer  
ecc: Van Alexopoulos - Iron Ore Company  
Senwung Luk - Olthius Kler Townshend LLP

Dennis Browne, Q.C. – Brown Fitzgerald Morgan & Avis  
Dean Porter - Poole Althouse

Benoît Pepin - Rio Tinto

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<sup>6</sup> IOC and the Labrador Interconnected Group took no position on Hydro's Application.