

1 Q. **Re: Proposed RSP Changes**

2 On page 4 and 5 of Mr. Greneman's evidence, he states:

3 "In response to PUB-NLH-24 in this proceeding, Hydro indicated that although it has  
4 not developed any specific proposals, in light of the change in markets and fuel  
5 prices the RSP may need to be substantially modified or replaced and that the  
6 Board may consider ordering development of policies and procedures that reflect:

- 7 • NP being invoiced monthly by Hydro for costs incurred related to fuel and, in  
8 turn, NP dealing directly with their customers on matters of retail price signal  
9 and customer billing and payment options;  
10 • Hydro dealing directly with its IC and giving consideration to such matters as  
11 price signal, and payment options, as well as having RSP amounts become  
12 accounts receivable or accounts payable from/to each IC each month rather  
13 than Industrial class RSP balances which are not tied directly to each customer;  
14 and  
15 • Hydro developing a proposal regarding hydraulic stabilization."

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17 Please explain what changes in market and fuel prices have prompted the need to  
18 change the Retail portion of the RSP as implied in the cited passage.

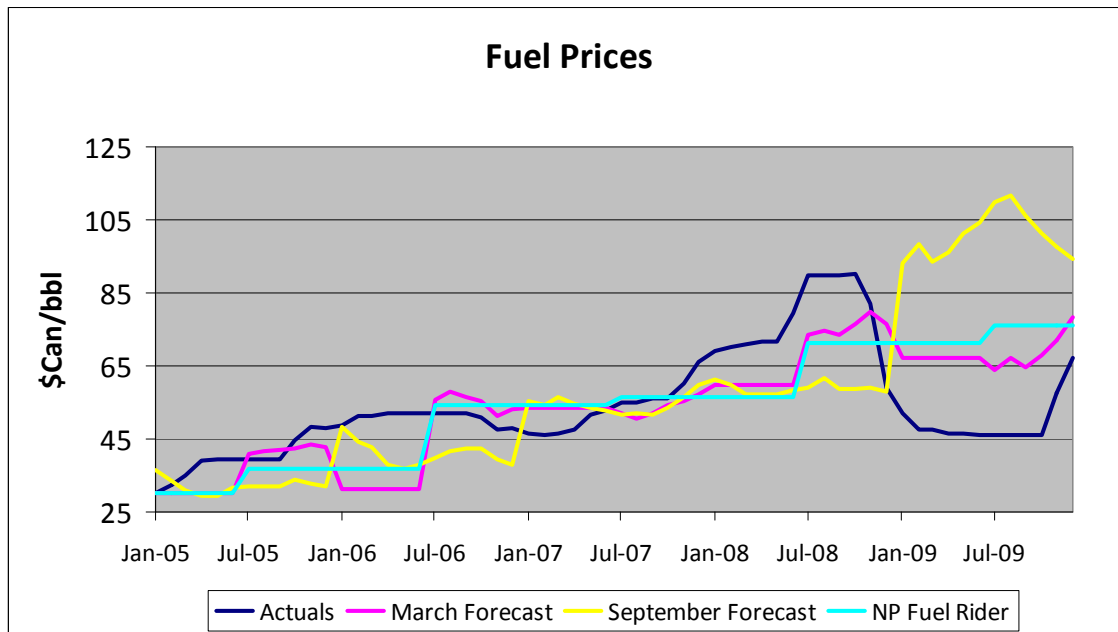
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21 A. The unpredictability and variability of fuel prices, in particular, has prompted the  
22 need to change the Retail portion of the RSP. The chart below outlines a five-year  
23 comparison of the following variables:

- 24 (i) actual fuel prices incurred;  
25 (ii) March PIRA fuel forecast which would have been used annually in  
26 setting the Newfoundland Power fuel rider;

- 1 (iii) September PIRA fuel forecast which would have been used annually in  
 2 setting the Industrial Customer fuel rider; and  
 3 (iv) the Newfoundland Power fuel rider in effect.  
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 6 **Note:** The IC fuel rider has not been shown since IC rates have been frozen since January 1, 2008.

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 8 As shown in the chart, there is a marked divergence in forecast and actual fuel  
 9 prices which commences around January 2008, with actual fuel prices higher than  
 10 forecast, and resulting variances higher than levels seen in the earlier chart data. In  
 11 2009 there is again unprecedented volatility with, in this case, actuals being much  
 12 lower than forecast and in some instances a greater than \$60.00/bbl difference in  
 13 forecast and actual fuel prices.

14  
 15 The report titled "Review of the Rate Stabilization Plan" filed with the Board in May  
 16 2007, and in response to NP-NLH-2 in this current proceeding, outlines on Page 7,  
 17 agreed upon objectives of the RSP. The first objective listed is as follows:

1                    *1. To provide for acceptable levels of rate and revenue stability for customers*  
2                    *and Hydro.*

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4                    With the unprecedented volatility in fuel prices, it is Hydro's opinion that other  
5                    means be explored which would consider rate stability for customers as well as an  
6                    appropriate price signal.

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8                    Additionally, International Financial Reporting Standards, effective in Canada on  
9                    January 1, 2011, may have an adverse impact on the current recognition of  
10                   regulatory assets and liabilities, and hence upon the RSP objective of providing  
11                   revenue or net income stability to Hydro.