



November 30, 2015

Board of Commissioners of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

**Attention: Ms. Cheryl Blundon,
Director of Corporate Services and Board Secretary**

Dear Ms. Blundon:

RE: Newfoundland and Labrador Hydro's Amended 2015 Cost Deferral Application

On November 12, 2015 Hydro submitted an amended application for a 2015 cost deferral account ("Amended Application"). According to the Amended Application (para. 8), Hydro filed a 2015 Cost Deferral Application on July 23, 2015 requesting a cost deferral amount of \$20.2 million. In the Amended Application, Hydro is seeking Board approval of (from cover letter to Amended Application):

- A cost deferral of \$60.5 million to reduce Hydro's forecast 2015 net income deficiency;
- The deferral of Hydro's 2015 GRA costs for 2015 with recovery to be determined in a future order of the Board; and
- The GRA Settlement Agreement dated August 14, 2015 on an interim basis pending a final order from the Board in relation to Hydro's 2013 GRA.

This letter includes the Consumer Advocate's submission on Hydro's Amended Application for a 2015 cost deferral account to reduce its forecast net income deficiency for 2015.

Normally, the Consumer Advocate would not object to the creation of a cost deferral account provided that creation of the account does not in any way represent an endorsement of any amounts to be recovered in the account except those that are explicitly vetted and approved by the Board at a General Rate Application (GRA), in this case the Amended 2013 GRA. However, in this Amended Application, there are a number of considerations, as follows:

1. Hydro recently filed an application for interim rates, and the Board's Order No. P.U. 14(2015) granted Hydro interim rate increases effective July 1, 2015 as follows:
 - a. 8% for Newfoundland Power;
 - b. 50% of the proposed increase for Government Diesel Customers; and
 - c. 10% for Island Industrial Customers (reduced to an effective rate increase of 2.7% after an RSP rate adjustment).
2. The interim rate increase of 8% for Newfoundland Power granted in the Board's Order No. P.U. 14(2015) compares to the rate reduction of 4.8% proposed by Hydro in the 2013 GRA, and a rate increase of 4.1% proposed by Hydro in the Amended 2013 GRA (see Table 1, page 1.6R of Amended 2013 GRA). Newfoundland Power is by far Hydro's largest customer, accounting for about 78% of Hydro's total revenue under proposed rates (Table 4.15, page 4.50 of Amended 2013 GRA).
3. In its original 2015 Cost Deferral Application submitted July 23, 2015, Hydro requested a cost deferral amount of \$20.2 million (Amended Application (para. 8)). In the Amended Application, Hydro is seeking Board approval for a cost deferral amount of \$60.5 million, triple the amount requested four months ago.
4. With respect to this Amended Application, Hydro has "chosen to look for 100 percent recovery of the 2015 revenue deficiency" (November 19, 2015 transcript for Amended 2013 GRA, page 76, lines 19 to 25, and page 77, lines 1 to 4).
5. Hydro's Finance Panel has acknowledged that at the same time rates will be adjusted for the Amended 2013 GRA, Hydro has proposed deferral accounts for collection of an additional \$116 million from customers (November 19, 2015 transcript for Amended 2013 GRA, page 72, lines 12 to 25, and page 73, lines 1 to 6). This includes the \$60.5 million requested in this Amended Application.
6. Hydro has not determined the impact on customers of the \$116 million proposed in the cost deferral accounts, instead indicating that customer impacts will form part of its compliance application (November 19, 2015 transcript for Amended 2013 GRA, page 73).

Consumer Advocate's Position

In the Consumer Advocate's submission, the interim rate increase granted by the Board effective July 1, 2015 fairly addresses Hydro's financial situation in 2015. Although effective only from mid-year, the rate increase granted for Newfoundland Power, far and away Hydro's largest customer, is almost double what Hydro proposes in the Amended 2013 GRA. We also point out that this Amended Application requests a cost deferral amount that is triple that requested only four months ago, and represents roughly half of the \$116 million being requested by Hydro for recovery in cost deferral accounts in the Amended 2013 GRA. Hydro has not indicated what impact these cost

deferral accounts will have on customers, but it can be safely assumed that it will be significant. Such large variations in costs lend little confidence in Hydro's forecasting ability.



In summary, the Consumer Advocate recommends that the Board reject Hydro's Amended Application for a 2015 Cost Deferral Account. The Consumer Advocate would not object however to a cost deferral amount of \$20.2 million as originally requested by Hydro in its July 23, 2015 application, filed just four months ago. The Consumer Advocate's submission does not serve as recognition that 2015 costs included in Hydro's present application have been prudently incurred.

Please contact the undersigned if you have any questions.

Yours very truly,

O'DEA, EARLE

A handwritten signature in blue ink, appearing to read 'T. Johnson', written over the printed name.

THOMAS JOHNSON, Q.C.

TJ/cel

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